

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

April 26, 2015

TO: Honorable Kel Seliger, Chair, Senate Committee on Higher Education

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: SB1735 by Birdwell (Relating to tuition and fee exemptions at public institutions of higher education for certain military personnel and their dependents.), **Committee Report 1st House, Substituted**

The net fiscal implications of the bill cannot be determined at this time. It is estimated that institutions of higher education will see a decrease in tuition and fee revenue each fiscal year from 2016-2020 due to an increase in recipients receiving the exemption from the changes to residency requirements. It is estimated that institutions of higher education will see an increase in tuition and fee revenue each fiscal year beginning primarily in fiscal year 2018 due predominantly to changes to the Legacy Program with a probable increase in the range of \$60.0 million to \$80.0 million each fiscal year.

The overall net change in the waived tuition and fee revenue at institutions of higher education due to changes to the exemption cannot be determined primarily due to the lack of information on the number of students affected by provisions of the bill relating to residency requirements and the limitation on the number of years after active duty discharge that the exemption can be used. Included below is information regarding the estimated fiscal implication.

The bill would amend the Education Code relating to tuition and fee exemptions for certain military personnel and their dependents. Tuition and fee exemptions in this section of the Education Code primarily provide awards for veterans; awards for children and spouses of certain deceased, disabled, or missing in action veterans; and awards through the Legacy Program by which a veteran assigns the exemption to an eligible child. The exemption applies to statutory tuition, designated tuition, and certain fees at public higher education institutions, including general academic institutions, health related institutions, public community/junior colleges, and other two year institutions. Included in this fiscal note are the provisions of the bill that would result in a fiscal impact to institutions of higher education.

The provisions of the bill would remove the fixed point residency requirement of the exemption, which provides that a veteran must have entered the armed service in Texas, declared Texas as his or her home of record, or would have been considered to be a resident of Texas at the time of entry into the armed services. In place of the fixed point residency requirement, provisions of the bill would require that recipients of the exemption have resided in the state continuously for the eight years immediately preceding the first class date of the semester. In addition, provisions of the bill would clarify residency requirements for all exemption recipients.

Exemption recipients born in Texas would not be required to have resided in the state for eight years under provisions of the bill. The change to the residency requirements would begin with

tuition and fees charged for the first academic semester after the effective date of the act, which would either be the summer or fall 2015 semester.

The provisions of the bill prohibit a veteran or legacy recipient from receiving the exemption in a semester in which the first class date is later than the fifteenth anniversary of the date the veteran was honorably discharged from active military service.

Provisions of the bill include the following changes for individuals receiving the exemption as a legacy recipient: a limitation on the number of semester credit hours (SCHs) eligible to be transferred to a legacy recipient to 60 SCHs, a decrease from the current 150 SCHs eligible for transfer; a requirement for a veteran to have served on active military duty, excluding training, for at least six years to transfer SCHs to a legacy recipient, a decrease from the current requirement of 180 days of active military duty; provide that a legacy recipients may use transferred SCHs as an undergraduate student only; and require a legacy recipient to maintain a course load of at least 24 SCHs per academic year and a cumulative grade point average (GPA) of a 2.5 on a four point scale.

Provisions of the bill, other than the change to the fixed point residency requirement, would begin with tuition and fees during the spring 2016 academic semester. Students who received the exemption prior to 2016 spring semester continue to be eligible under the previous requirements of the exemption.

Under current law, it is estimated that the amount of waived tuition and fees from all exemptions to the different recipient types (veterans, spouses, dependents, and legacy) under this code during fiscal years 2016-2020 will be approximately \$1.7 billion across all institutions of higher education. Of this waived tuition and fee revenue, legacy recipients are estimated to account for approximately \$150 million in fiscal year 2016, \$180 million in fiscal year 2017, \$220 million in fiscal year 2018, \$250 million in fiscal year 2019, and \$290 million in fiscal year 2020.

Based on analysis of information provided by the Texas Higher Education Coordinating Board (THECB), Texas Veterans Commission (TVC), The University of Texas System, Texas A&M University System, Texas State University System, University of North Texas System, University of Houston System, and Texas Tech University System, it is estimated that the provisions of the bill relating to the fixed point residency requirement would result in an increase in the number of students receiving the exemption and would therefore result in an increase in the amount of waived tuition and fees from the exemption during fiscal years 2016-2020. While this provision of the bill would result in an increase in waived tuition and fees, the amount of the increase could be partially or wholly offset due to the requirement that an individual live in Texas for eight years prior to using the exemption, that a veteran or legacy recipient must use the exemption prior to the fifteenth anniversary of the veterans' honorable discharge from active military duty, and due to the decline in eligible recipients from other provisions of the bill as described below.

Based on information provided by the institutions of higher education, THECB, and TVC, the most significant reduction in waived tuition and fees from current law would be seen in the Legacy Program. Provisions of the bill would result in institutions of higher education seeing a probable increase in tuition and fee revenue that would have previously been waived through the Legacy Program beginning in fiscal year 2017. There would be a delay in seeing an increase in tuition and fees due to the lag in the implementation of changes to the program. The probable increase in tuition and fees across all institutions of higher education is estimated to reach a range between \$60.0 to \$80.0 million in fiscal year 2018 to fiscal year 2020 from students choosing to remain at institutions of higher education and paying the value of tuition and fees after using the exemption for 60 SCHs. The primary change to the Legacy Program driving the increase in tuition and fee

revenue would be the decrease in SCHs eligible for use, with additional reductions in program usage from changes to service length requirements, the fifteen year time frame for using the program, and GPA and course load requirements.

It is assumed that provisions of the bill could result in additional costs or savings in General Revenue from formula funding for institutions of higher education due to additional students choosing to attend or leave institutions of higher education because of the receipt of the exemption. This change in General Revenue would not be seen until fiscal year 2018 as formula funding is provided to institutions based on student data prior to the biennium that will be funded. As such, formula funding in fiscal years 2016 and 2017 will be based on students that are enrolled during fiscal year 2015.

Based on information provided by TVC, there are approximately 1.7 million veterans residing in Texas. The overall net change in the amount of waived tuition and fee revenue at institutions of higher education would depend on the number of individuals who would be newly eligible or ineligible for the exemption due to provisions of the bill and choose to attend or leave an institution of higher education in Texas. The decrease in tuition and fee revenue at institutions of higher education from changes to the residency requirements could be partially or wholly offset by changes to the time frame in which the exemption can be granted and changes to the Legacy Program. The number of exemption recipients that the provisions of this bill would affect is unknown. Consequently, the fiscal impact to the state in increased formula costs and to institutions of higher education in waived tuition and fee revenue cannot be estimated.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 710 Texas A&M University System Administrative and General Offices, 758 Texas State University System, 769 University of North Texas System Administration, 783 University of Houston System Administration, 768 Texas Tech University System Administration, 403 Veterans Commission, 720 The University of Texas System Administration, 781 Higher Education Coordinating Board

LBB Staff: UP, ED, EMu, DEH, EH