COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1591-01
Bill No.: SB 299
Subject: Education, Higher; General Assembly; Boards, Commissions, Committees, Councils; Higher Education Department
Type: Original
Date: February 23, 2015

Bill Summary: This proposal modifies the eligibility requirements for the Bright Flight Scholarship Program and adds a forgivable loan component.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	($7,305,739)	($12,554,443)	($20,532,095)
Total Estimated Net Effect on General Revenue	**($7,305,739)**	**($12,554,443)**	**($20,532,095)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Higher Education Academic Scholarship Trust *	$0	$0	$0
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

* Transfers in and costs net to zero.

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 13 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	**1 FTE**	**1 FTE**	**1 FTE**

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

A+ Academic Scholarship
Officials at the **Department of Higher Education** (**DHE**) assume that the new definition of "continuous enrollment" will reduce the number of scholarship renewals a student's junior and senior year due to the fact that 5 year graduates are not accumulating credit hours at the rate required by this new provision. While some of these students may increase the number of hours completed as a result of this requirement, it is assumed that some proportion (10%) will not. Starting in FY 2017, at the current award level ($3,000), this would reduce the cost for the scholarship component of the program by approximately $870,000 (6,000 - 1,600 = 4,400 renewals * 0.66 = 2,904 juniors/seniors * 0.1 = 290 ineligibles * $3,000).

A+ Forgivable Loans
Officials at the **DHE** assume this would change the current Bright Flight Program administered by DHE. §173.250.2(7)(d) would require that, in order to be eligible, 2017-2018 high school seniors and all future graduating classes would be required to meet additional eligibility requirements. Those additional eligibility requirements would be to achieve a passing score on the Algebra I and English I end-of-course exams or meet ACT/COMPASS test scores established by the DHE. Second, it would establish a new definition of continuous enrollment (173.250.2(4)). Third, §173.250.11-16 would add a forgivable loan component to the program for any Bright Flight eligible student that has an ACT or SAT score in the top five percent of test takers. Loans are eligible to be forgiven on a year by year basis based on the recipient being employed in Missouri. If the recipient does not fulfill the employment requirement, all remaining loans go into repayment, with interest.

For FY 2014, DHE paid a total of 1,600 freshmen and 1,550 sophomores through the Bright Flight program, constituting payments to the top three percent of test takers. Current projections indicate participation will remain relatively stable. With regard to students in top fourth and fifth percentile, approximately 1,000 students in the class of 2014 achieved an ACT score in this range. It is assumed 70 percent will enroll in a Missouri institution, which is consistent with the proportion of test takers that are eligible within the top 3 percent. This would mean 700 students in the top fourth and fifth percentiles would be eligible for the forgivable loan their freshman year, and approximately 650 would be eligible their sophomore year (after taking into account attrition).

The projected loan maximums are based on the average tuition and fees, as reported to the DHE, for each sector referenced in the proposal (public four-year, community college, independent). For FY 2014, those average tuitions are $7,591 for public four-years, $4,225 for community

ASSUMPTION (continued)

colleges, and $9,415 for independents, which are capped at the University of Missouri -Columbia rate. It is assumed these tuition rates will not change during the fiscal note period. The proposal indicates the maximum loan is the tuition and fees less the amount of the academic scholarship so it is assumed the scholarship amounts will remain the same: $3,000 for the top three percent and $0 for the fourth and fifth percentiles. Consequently, the maximum loan amounts for the students in the top three percent are assumed to be $4,591 for public four-years, $1,225 for community colleges (CC), and $6,415 for independent institutions. For the top fourth and fifth percentiles, the loan maximums are the tuition and fee amounts listed.

It is assumed that 50% of the eligible students will opt to accept the loan and that the loan will be the maximum permitted for the type of institution attended. That equates to 800 students in the top three percent, and 350 more students in the top 4-5%. The table is broken up below, based on the fact that 76% of students who were eligible for Bright Flight went to a 4-year institution, 3% of eligible students attended community college, and 21% went to an independent university:

FY 2016	**4-yrs**	**CC**	**Independent**
Eligible (top 3%)	608	24	168
Max. Loan	$4,591	$1,225	$6,415
Total	$2,791,328	$29,400	$1,077,720
Eligible (4 & 5%)	266	11	73
Max Loan	$7,591	$4,225	$9,415
Total	$2,019,206	$46,475	$687,295

Based on these assumptions, the cost for the initial year (FY 2016) would be $6,651,424 ($3,898,448 for students in the top 3%, and $2,752,976 more for those in the top 4-5%).

FY 2017	**4-yrs**	**CC**	**Ind.**
Eligible (top 3%)	1,197	47	311
Max. Loan	$4,591	$1,225	$6,415
Total	$5,495,427	$57,575	$2,123,365
Eligible (4 & 5%)	513	20	142
Max Loan	$7,591	$4,225	$9,415
Total	$3,894,183	$84,500	$1,336,930

Based on these assumptions, the cost for FY17 would be $12,991,980 ($7,676,367 for students in the top 3%, and $5,315,613 more for those in the top 4-5%).

ASSUMPTION (continued)

It is estimated that the new definition of continuous enrollment will reduce the number of renewal students by approximately 10 percent their junior and senior years. This is based on the fact that approximately 10 to 15 percent of Bright Flight recipients require at least 5 years to graduate. It is likely that these 5 year graduates are not accumulating credit hours at the rate required by this new provision. While some of these students may increase the number of hours completed as a result of this requirement, it is assumed that some proportion (10%) will not and these projections reflect that decrease.

While current projections indicate participation will remain constant at around 6,000 recipients, implementation of ACT census testing for juniors begins this academic year. Increasing the pool of test takers will increase the number of Bright Flight eligible students beginning in Academic Year 2017/2018, and these projections reflect that increase.

FY 2018	**4-yrs**	**CC**	**Ind.**
Eligible (top 3%)	1,919	76	530
Max. Loan	$4,591	$1,225	$6,415
Total	$8,810,129	$93,100	$3,399,950
Eligible (4 & 5%)	821	32	227
Max Loan	$7,591	$4,225	$9,415
Total	$6,232,211	$135,200	$2,137,205

Based on these assumptions, the cost for FY18 would be $20,807,795 ($12,303,179 for students in the top 3%, and $8,504,66 more for those in the top 4-5%).

FY 2019	**4-yrs**	**CC**	**Ind.**
Eligible (top 3%)	2,612	103	722
Max. Loan	$4,591	$1,225	$6,415
Total	$11,991,692	$126,175	$4,631,630
Eligible (4 & 5%)	1,121	44	310
Max Loan	$7,591	$4,225	$9,415
Total	$8,509,511	$185,900	$2,918,650

Based on these assumptions, the cost for FY19 would be $28,363,558 ($16,749,497 for students in the top 3%, and $11,614,06 more for those in the top 4-5%).

ASSUMPTION (continued)

FY 2020	**4-yrs**	**CC**	**Ind.**
Eligible (top 3%)	2,859	113	790
Max. Loan	$4,591	$1,225	$6,415
Total	$13,125,669	$138,425	$5,067,850
Eligible (4 & 5%)	1,226	48	339
Max Loan	$7,591	$4,225	$9,415
Total	$9,306,566	$202,800	$3,191,685

Based on these assumptions, the cost for FY20 would be $31,032,995 ($18,331,944 for students in the top 3%, and $12,701,051 more for those in the top 4-5%).

FY 2021	**4-yrs**	**CC**	**Ind.**
Eligible (top 3%)	3,021	119	835
Max. Loan	$4,591	$1,225	$6,415
Total	$13,869,411	$145,775	$5,356,525
Eligible (4 & 5%)	1,302	51	360
Max Loan	$7,591	$4,225	$9,415
Total	$9,883,482	$215,475	$3,389,400

Based on these assumptions, the cost for FY21 would be $32,860,338 ($19,371,711 for students in the top 3%, and $13,488,627 more for those in the top 4-5%).

ITSD assumes this proposal would require changes to the existing FAMOUS program as well as require design, development and implementation of a brand new loan forgiveness program. It is expected to require an IT Consultant at $75 per hour for 5,999 hours at a cost of $449,955 in FY 2016. Additional updates each year would require $92,241 in FY 2017 and $94,547 in FY 2018. An additional $6,000 in the first year is expected for a developer tool to create the seamless word to pdf/fillable pdf documents required for applicants with $1,200 a year in updates to the forms.

While initial administrative costs relating to program implementation and operation would be minimal, once the loan component of the program becomes fully operational (that is, recipients have graduated and loans begin to be forgiven or go into repayment), there are two possible outcomes. Should the DHE be able to contract out the loan servicing and collection to a third party organization, there would be ongoing costs for the maintenance of the contract in addition to the cost for one Senior Associate and updates to the current IT system to handle the delivery of funds under the forgivable loan aspect of Bright Flight. The current fiscal impact is based upon this assumption. However, should the DHE need to service the loans directly, at least two additional employees at the Research Associate level will need to be hired and IT will need to create a new system that would track all students who have taken out loans and the data necessary for repayment or forgiveness. The IT costs alone would be substantial and the additional staff costs would be ongoing for the life of the program.

Oversight assumes this proposal in §173.250.16 allows DHE to contract for the administration of the loan forgiveness program, not to exceed 2% of the total loan volume amount. Therefore, Oversight will assume that DHE will only need the one Senior Associate FTE for program administration. Additionally, ITSD will only need the computer costs outlined previously. Oversight will assumes the FTE and computer costs will be paid by General Revenue.

Oversight assumes this proposal allows DHE to contract for the administration of the loan program. Oversight will show the administration amount as the 2% of the loan volume allowed per the proposal. Oversight assumes General Revenue would be responsible for the payment of the contract since no funding source was specified in the proposal. The 2% would be $133,028 in FY 2016, $259,840 in FY 2017 and $416,156 in FY 2018.

Officials at the **University of Missouri** assume this proposal would have a positive impact on the university. The exact amount of the impact can not be determined at this time.

In response to similar legislation filed this year, HB 272, officials at the **Missouri State University** assumed this proposal would have a positive impact on the University. The exact amount of the impact could not be determined at this time.

Officials at the **University of Central Missouri** (**UCM**) assumed this would have additional costs due to additional staff support needed to process the loan requirements. Financial Aid would probably need to add a position to administer the state scholarship/loan programs as information regarding the passing of Algebra and the compass is not something that is tracked currently in our system. In addition, the proposal includes the University responding to request by the CBHE to help with the administrative burden of the program, so could involve more staff hours. The proposal is not clear as to the division of administrative labor of additional reporting requirements.

Additionally, UCM may would incur revenue losses if it received less than full reimbursement from the state for tuition and fees not charged to qualifying students, or if reimbursement was significantly delayed. The proposal in unclear as to how and when the university would receive reimbursement, except the comment it would come in “no fewer than two payments.

ASSUMPTION (continued)

Officials at the **Joint Committee on Administrative Rules**, **Office of State Treasurer** and the **State Technical College of Missouri** each assume there is no fiscal impact from this proposal.

Officials at the **State Fair Community College** assume they are unable to determine the fiscal impact at this time.

Officials at the **Metropolitan Community College** assume no significant impact on the College.

In response to similar legislation filed this year, HB 272, officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Officials at the following colleges: Crowder, East Central Community College, Harris-Stowe, Jefferson College, Lincoln University, Moberly Area Community College, Northwest Missouri State University, Southeast Missouri State University, St. Charles Community College, St. Louis Community College, Three Rivers Community College and the Truman State University did not respond to **Oversight's** request for fiscal impact.

FISCAL IMPACT - State Government	FY 2016 (10 Mo.)	FY 2017	FY 2018
GENERAL REVENUE			
Savings - Higher Education - changing definition of continuous enrollment	$0	$870,000	$870,000
Transfer Out - Higher Education Academic Scholarship Trust Fund for forgivable loans	($6,651,424)	($12,991,980)	($20,807,795)
Transfer Out - Higher Education Academic Scholarship Trust Fund for contract services	($133,028)	($259,840)	($416,156)
Costs - Department of Higher Education - computer upgrades and maintenance	($455,955)	($93,441)	($95,747)
Costs - DHE			
Personal Service	($42,980)	($52,092)	($54,207)
Fringe Benefits	($22,352)	($27,090)	($28,190)
Total Costs - DHE	($65,332)	($79,182)	($82,397)
FTE Change - DHE	1 FTE	1 FTE	1 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	**($7,305,739)**	**($12,554,443)**	**($20,532,095)**
Estimated Net FTE Change on General Revenue Fund	1 FTE	1 FTE	1 FTE

FISCAL IMPACT - State Government (continued)	FY 2016 (10 Mo.)	FY 2017	FY 2018
HIGHER EDUCATION ACADEMIC SCHOLARSHIP TRUST FUND			
Transfer In - General Revenue- forgivable loans	$6,651,424	$12,991,980	$20,807,795
Transfer In - General Revenue - for contract services	$133,028	$259,840	$416,156
Revenue - private donations, repayments and penalties	Could exceed $100,000	Could exceed $100,000	Could exceed $100,000
Costs - DHE - forgivable loans granted to Bright Flight students	Could exceed ($6,651,424)	Could exceed ($12,991,980)	Could exceed ($20,807,795)
Costs - DHE - for contract services	($133,028)	($259,840)	($416,156)
ESTIMATED NET EFFECT ON HIGHER EDUCATION ACADEMIC SCHOLARSHIP TRUST FUND	**$0**	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2016 (10 Mo.)	FY 2017	FY 2018
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This act modifies the Higher Education Academic Scholarship Program, commonly known as Bright Flight. For a student who graduates from high school during the 2017-2018 school year and after to be eligible for a Bright Flight scholarship, the student must have achieved a score of proficient or advanced on the Algebra I end-of-course assessment and on the English I end-of-course assessment, unless the student's high school has met all of the Department of Elementary and Secondary Education's waiver requirements. Alternatively, the student may have achieved a qualifying score on the COMPASS exam or ACT. Students with an IEP or Section 504 plan may demonstrate proficiency in mathematics and English by meeting criteria established by the Coordinating Board for Higher Education.

A student must maintain continuous enrollment, which is defined as successful completion of at least twenty-four credit hours during the first twelve month period of enrollment and at least thirty credit hours each subsequent twelve month period of enrollment to receive renewed scholarship benefits. An eligible student who is unable to successfully complete at least twenty-four semester credit hours in a twelve month period may seek a waiver from this requirement due to serious and unusual personal circumstances by appealing to the designated person or committee at the student's institution.

This act expands Bright Flight to include forgivable loans. An eligible student or a renewal student may choose to receive forgivable loans for up to ten semesters or their equivalent. The loan amount must not exceed tuition and required fees, minus the amount of the academic scholarship. In addition, the amount of forgivable loans a student may receive depends on the type of institution a student attends. For a community college, the tuition and required fees will be the out-of-district charge for the highest tuition and required fees as reported each year to the Department of Higher Education by an institution of that sector. At other approved public institutions, the tuition and required fees will be the tuition and required fees reported to the Coordinating Board under the Higher Education Student Funding Act. For an approved private institution or a public vocational technical school, the tuition and required fees will be the same as the tuition and required fees charged by the University of Missouri-Columbia. The loan amount, when combined with all other aid received by the student, must not exceed the standard institutional cost of attendance.

Eligible borrowers may qualify for loan forgiveness through Bright Flight by agreeing to be employed in the state of Missouri within one calendar year of stopping full-time school attendance, including graduate and professional education programs. Eligible borrowers must also enter into a contract with the Coordinating Board and satisfy the terms of the contract to have their loans forgiven.

FISCAL DESCRIPTION (continued)

The Coordinating Board must approve loan forgiveness on an annual basis. Each twelve months of qualifying employment authorizes the forgiveness of the loan or loans received within one academic year. Eligible borrowers that cease to be employed in Missouri and students that elect not to comply with the employment requirements or fail to comply with them, are required to repay all outstanding loan balances with interest.

Each contract between the Coordinating Board and an eligible borrower must include the following: the terms and conditions of the loan and repayment; a stipulation that no interest will be assessed on a forgivable loan while the student is enrolled full time, or part time with approval of the Coordinating Board; a provision that funds for forgivable loans are contingent on an appropriation; and the amount of any interest or penalties assessed if a student fails to maintain eligibility or meet the requirements of the program.

The Coordinating Board has authority to defer interest and principal payments under certain circumstances, including service in any branch of the Armed Forces of the United States.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Higher Education
Joint Committee on Administrative Rules
Metropolitan Community College
Missouri State University
Office of State Treasurer
State Fair Community College
State Technical College of Missouri
University of Central Missouri
University of Missouri

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