

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4620-02  
Bill No.: HCS for HB 1273  
Subject: Higher Education  
Type: Original  
Date: February 19, 2018

---

Bill Summary: This proposal grants authority to the Missouri Higher Education Loan Authority to issue loans to refinance certain public or private student loans, education grants, and certain bonds, notes, or other obligations.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Guaranty Agency Operating Fund	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0 to (Unknown)</b>	<b>\$0 to (Unknown)</b>	<b>\$0 to (Unknown)</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 6 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

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

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## **FISCAL ANALYSIS**

### **ASSUMPTION**

Officials from the **Higher Education Loan Authority of Missouri (MOHELA)** assume this proposal would authorize MOHELA to issue tax-exempt bonds and taxable revenue bonds and to issue loans to eligible borrowers to refinance eligible public or private student loans.

The fiscal impact to MOHELA cannot be determined with certainty until the rules related to the loan program are finalized. The proposed legislation may have no fiscal impact on MOHELA because the bonds authorized under the legislation likely could not be financed by MOHELA. Assuming the legislation anticipates that MOHELA would service the loans, the net impact should be minimal as MOHELA assumes it would be paid a servicing fee sufficient to offset the costs of servicing. Some examples of expenses incurred by MOHELA in servicing student loans include in part the following:

- Loan program system set-up and programming costs,
- On-going monthly servicing system costs,
- Program related webpage development and maintenance,
- Banking fees,
- Expenses relative to regulatory and legal compliance,
- Postage, paper and other related costs to send letters, bills and other correspondence to borrowers and other appropriate parties,
- Telephone costs related to calling borrowers and other appropriate parties,
- Skip-tracing costs, and
- Personnel cost to hire additional staff to support the new program

**Oversight** assumes the servicing fee would be sufficient to offset the cost of servicing the loans.

Officials from the **Department of Higher Education (DHE)** assume the fiscal impact is unknown because, if MOHELA were to refinance any of DHE's loans, they would be the least risky ones in the portfolio. Not only would DHE not be earning account maintenance fees on those loans, but losing the papers would presumably increase DHE's default rate. If the default rate increased too much, it could actually decrease the percentage of reimbursement we receive from the U.S. Department of Education.

**Oversight** notes the Department of Higher Education received \$961,798 in account maintenance fees for FY 2017. If 10% of those fees were no longer collected, the loss of revenue is estimated at \$96,180. Oversight assumes the loss from the account maintenance fees cannot be determined. Oversight will show the fiscal impact to Department of Higher Education as ranging from \$0 (no loss) to an unknown amount as assumed by DHE.

ASSUMPTION (continued)

**Oversight** assumes an increased default rate and any subsequent loss of funds from the U.S. Department of Education would be an indirect or induced effect, and therefore, is not included in this analysis.

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

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.

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
<b>GUARANTY AGENCY OPERATING FUND</b>			
<u>Loss</u> - Department of Higher Education - loss of account maintenance fees	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON GUARANTY AGENCY OPERATING FUND</b>	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>

FISCAL IMPACT - Local Government

FY 2019  
(10 Mo.)

FY 2020

FY 2021

\$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 bill gives the Missouri Higher Education Loan Authority (MOHELA) the authority to issue specified bonds, including bonds that are eligible for federal tax credits, exemptions, or payments and to refinance certain public or private loans when the borrower is eligible (Section 173.385, RSMo).

Beginning January 1, 2019, the authority may refinance an eligible loan as long as the borrower is eligible and the loan does not exceed the outstanding aggregate principal amount of the original loan. The bill describes an eligible borrower as a graduate or parent or guardian of a graduate who received or agreed to pay an education loan on behalf of the graduate. The graduate must have a minimum of an associate's degree from an eligible institution and all borrowers must be residents of Missouri (Section 173.441).

The bill also allows MOHELA to issue tax-exempt bonds, to the extent allowed under the Internal Revenue Code of the United States, if MOHELA finds that such issuance is necessary, is in the public interest, and is in furtherance of the purposes and powers of MOHELA. The interest rate of any bond must not have an interest rate of more than 15% per annum and the bond must mature within 40 years from the issue date, as determined by MOHELA.

MOHELA may issue serial or term bonds. Serial bonds may be issued with or without the reservation of the right to call them for payment and redemption in advance of their maturity, upon notice, and with or without a covenant requiring the payment of a premium in the event of such payment and redemption prior to maturity, as MOHELA determines. Term bonds must contain a reservation of the right to call them for payment and redemption prior to maturity upon given notice and the payment of a premium, if any, as determined by MOHELA. The bonds will be sold at public sale for the best price obtainable but will not be sold for less than 98% of the par value thereof and accrued interest.

FISCAL DESCRIPTION (continued)

The bonds may be sold to the United States of America or to any agency or instrumentality thereof, at a price not less than par and accrued interest, without public sale and without giving notice. Such bonds, when issued and sold, will be negotiable instruments and the interest thereon will be exempt from income taxes under the laws of the state of Missouri (Section 173.443).

After January 1, 2019, MOHELA reports filed with the Department of Higher Education must include information about the loans refinanced under the provisions of Section 173.441 (Section 173.445)..

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  
Higher Education Loan Authority of Missouri  
Office of the Secretary of State  
Joint Committee on Administrative Rules

Ross Strobe



Acting Director  
February 19, 2018