

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 104** HLS 16RS 361

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: April 4, 2016 8:28 AM	Author: MACK
Dept./Agy.: Student Financial Assistance	Analyst: Matthew LaBruyere
Subject: Repayment of TOPS Scholarship	

STUDENT/LOANS-SCHOLARSHP OR INCREASE GF RV See Note Page 1 of 2
Provides, under specified circumstances, for repayment of a Taylor Opportunity Program for Students scholarship award

Proposed law requires any student who fails to meet the requirements for maintaining eligibility or fails to complete his academic degree or skill or occupational training within 2 years for TOPS Tech and 8 semesters for TOPS academic awards to repay all award amounts paid to a postsecondary education on his behalf. Proposed law requires the administering agency (the La. Student Financial Assistance Commission) to promulgate rules necessary to implement proposed law, including provision for the following: 1) collecting amounts owed and interest on unpaid amounts, and 2) circumstances under which a student shall be excepted from the proposed law repayment requirements; requires that these rules provide for the definition, certification requirements, and maximum duration of these circumstances, which shall be limited to permanent disability and military service.

EXPENDITURES	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total						
REVENUES	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
State Gen. Fd.	\$0	INCREASE	INCREASE	INCREASE	INCREASE	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	INCREASE	INCREASE	INCREASE	INCREASE	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total	\$0					\$0

EXPENDITURE EXPLANATION

The proposed legislation will result in an increase in state general fund expenditures by the LA Office of Student Financial Assistance (LOSFA) as a result of requiring the repayment of Taylor Opportunity Program for Students (TOPS) awards for not maintaining eligibility or completing the program of study within the time frame provided in law. The exact increase is indeterminable because it is unknown how much programming costs will be to modify the Louisiana Award System and how many positions LOSFA will require to handle repayment status of students.

LOSFA has indicated that to implement the bill TOPS would become a grant/loan program, thus TOPS recipients would be required to sign promissory notes to receive awards. To achieve this, the LA Award System would need modifications to allow for promissory signatures, notifications to begin repayment, when repayment is complete, and any other actions that the system would need to handle. The modifications would be a one-time cost that is expected to cost \$120,000 in FY 17. The estimate is based on 1,000 development hours at a contractor hourly rate of \$120. However, the exact cost will not be known until a Request For Proposals (RFP) is issued for the work.

LOSFA will need additional staff to handle duties such as tracking students that enter repayment status, determining eligibility for deferment, processing and tracking payments, and submitting **(CONTINUED ON PAGE 2)**

REVENUE EXPLANATION

The proposed legislation will result in an increase in state revenue as a result of students repaying TOPS awards. The bill does not specify the means of finance; however, the LFO assumes the revenue to be SGF. The exact increase is indeterminable since it is unknown how many students will not maintain eligibility or not complete a program in the specified time frame and how much would be collected in repayments of TOPS awards. Since the legislation would begin in FY 17, the first TOPS repayments would not be received until FY 18 from those that do not maintain eligibility or complete a program in the specified time frame.

Based on LA Office of Student Financial Assistance (LOSFA) data, there are an average of 3,947 (8.6%) TOPS awards lost annually. Of the 3,947 canceled awards, the average cancellations by year are as follows: 2,348 after the 1st year; 931 after the 2nd year; 525 after the 3rd year. Information provided by the Board of Regents indicates that 29% of TOPS recipients complete a degree within 4 years (the length of the TOPS award). For this analysis, 71% of students remaining in the cohort after year 4 will not have completed a degree and would be subject to full repayment of the award. For illustrative purposes, if the number of award cancellations and the 4 year graduation rate remain static in future fiscal years, then beginning in FY 18 TOPS repayment amounts owed to the state would be as follows:

(CONTINUED ON PAGE 2)

<u>Senate</u>	<u>Dual Referral Rules</u>	<u>House</u>
<input checked="" type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}	<input checked="" type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}	
<input type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}	<input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}	

Evan Brasseaux

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Staff Director

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CONTINUED EXPLANATION from page one:

EXPENDITURE EXPLANATION CONTINUED FROM PAGE 1:

non-payments to the Attorney General or Office of Debt Recovery for collection purposes.

The exact number of additional personnel is indeterminable at this time. However, the total number of personnel hired by LOSFA will depend on the number of students who do not maintain eligibility or complete the program of study within the specified time frame and must repay TOPS awards. LOSFA indicates that beginning in FY 18 it would hire 6 Accountants, 3 Financial Aid Specialists and 1 attorney at a cost of \$697,614 (\$469,944 salaries + \$227,670 benefits). Additional costs include operating expenses for each position at \$7,858 and acquisitions \$2,500. The total cost for FY 18 for adding 10 personnel would be \$801,194 (697,614 personnel costs + \$78,580 operating expenses + \$25,000 acquisitions). Beginning in FY 19, the recurring costs for these positions would be \$776,194.

According to the U.S. Department of Education, the 3 year average loan default rate for Louisiana is 11.9%. To the extent the default rate remains constant and the number of canceled awards remains constant, the number of students defaulting on TOPS repayments would increase from 1,385 in FY 18 to 1,481 in FY 22. Those student accounts that default on TOPS repayments would be turned over to either the Office of Debt Recovery or the Attorney General's Office to be collected. It is possible that the increased workload may result in either office hiring additional personnel to handle debt collection for LOSFA. The exact number of personnel hired will depend on the number of students that default on TOPS repayments. For each 1,000 accounts, the Attorney General would hire one Collector at a cost of \$70,404. This includes salary and benefits (\$52,704), operating expenses (\$13,100) and acquisitions (\$4,600). Based on the potential number of defaults, 2 Collectors would be needed at a cost of \$140,808.

REVENUE EXPLANATION CONTINUED FROM PAGE 1:

- FY 18 - \$37 M
- FY 19 - \$76.4 M
- FY 20 - \$103.7 M
- FY 21 - \$118.4 M

This would result in \$335.5 M in TOPS award repayments that would be owed to the state in 4 years. The amount actually collected by the state would depend on how LOSFA structures the repayment process, how many students continue making payments and the effectiveness of the Office of Debt Recovery or Attorney General's Office to recover final debts sent from LOSFA.

It should be noted that the exact amount that will be owed to the state each year is unknown and will depend on many variables including: the school the student attended while receiving the award (tuition), how many years the student received the award, the number of students that do not maintain eligibility/resign, and the number of students that receive exceptions. LOSFA has indicated that awards received prior to FY 17 would not be subject to repayments because the students did not sign promissory notes. These award amounts prior to FY 17 would not be subject to collection. Furthermore, since the TOPS program would become a grant/loan program, student behavior may change to result in more students maintaining eligibility on an annual basis; however this cannot be determined. The average cost of award includes the cost of 4 year and 2 year schools.

The Office of Debt Recovery or the Attorney General's Office will likely increase statutory dedicated revenue as a result of collecting defaulted TOPS repayments. The exact increase is indeterminable since it is unknown how many students will default on TOPS repayments and how much will be owed at the time of default. However, any amounts collected by either office will be subject to a collection fee not to exceed 25% as authorized by statute.

Senate Dual Referral Rules House

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|--|--|
| <input checked="" type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} | <input checked="" type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S} |
| <input type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H} | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S} |

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