

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 581** HLS 16RS 584

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: March 31, 2016 3:37 PM	Author: STOKES
Dept./Agy.: Office of Student Financial Assistance	Analyst: Matthew LaBruyere
Subject: TOPS Awards	

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

Proposed law requires a student to repay award amounts paid to a postsecondary education institution on his behalf if he fails to meet the requirements for maintaining eligibility or resigns from college; provides that if he fails to meet these requirements or resigns: 1) as a freshman, he shall repay 100% of the amount awarded; 2) as a sophomore, he shall repay 75% percent of the amount awarded; 3) as a junior, he shall repay 50% of the amount awarded; 4) as a senior, he shall repay 25% of the amount awarded. Proposed law requires the administering agency to promulgate rules necessary to implement proposed law, including provision for the following: 1) Collecting amounts owed and interest on unpaid amounts. 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 the following exceptions: a) Parental leave, b) physical rehabilitation program, c) substance abuse rehabilitation program, d) temporary disability, e) permanent disability, f) exceptional educational opportunity, g) religious commitment, h) death of immediate family, i) military service, j) transfer to a selective enrollment program, k) exceptional circumstances.

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. 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 non-payments to the Attorney General or Office of Debt Recovery for collection purposes. **(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 for not maintaining eligibility. 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 and how much would be collected in repayments of TOPS awards. Since the legislation would affect the 2015-2016 graduating class, the first TOPS repayments would not be received until FY 18 from those that do not maintain eligibility. Students would repay a percentage of the award based on their classification as follows: freshman - 100%; sophomore - 75%; junior - 50%; and senior 25%.

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 classification are as follows: 1,943 freshman; 820 sophomores; 587 juniors; and 597 seniors. For illustrative purposes, if the number of award cancellations remains static in future fiscal years, then beginning in FY 18 TOPS repayment amounts owed to the state would be the following:

- FY 18 - \$5.2 M
- FY 19 - \$8.5 M
- FY 20 - \$11 M
- FY 21 - \$12.8 M **(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:

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 and must repay TOPS awards. LOSFA indicates that beginning in FY 18 it would hire 3 Financial Aid Specialists and 1 attorney at a cost of \$288,266 (\$194,184 salary + \$94,082 benefits). Additional costs include operating expenses for each position at \$7,858 and acquisitions \$2,500. The total cost for FY 18 for adding 4 personnel would be \$329,698 (288,266 personnel costs + \$31,432 operating costs + \$10,000 acquisitions).

Beginning in FY 19, LOSFA anticipates the need for 2 accountants for processing and collection activities at a cost of \$157,168 (\$91,920 salaries + \$44,532 benefits + \$15,716 operating expenses + \$5,000 acquisitions). LOSFA anticipates adding 2 accountants for the next two years for a total of 6 accountants by FY 21. For each accountant added, the SGF would increase by \$79,584 (\$46,960 salary + \$22,266 benefits + \$7,858 operating expenses + \$2,500 acquisition).

To the extent all 10 personnel noted above are hired by LOSFA, the total personnel cost in FY 21 will be \$776,194 (697,614 personnel costs + \$78,580 operating expenses).

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 232 in FY 18 to 469 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. To the extent the Attorney General has to hire at least one additional Collector, the cost would be \$70,404. This includes salary and benefits (\$52,704), operating expenses (\$13,100) and acquisitions (\$4,600).

REVENUE EXPLANATION CONTINUED FROM PAGE 1:

This would result in a total of \$37.5 M in TOPS award repayments that would be owed to the state over 4 years of repayments. 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 amounts that will be owed to the state each year are 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. 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 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

13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}

6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}

13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}

6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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