

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4417-02
Bill No.: HB 2408
Subject: Higher Education
Type: Original
Date: April 16, 2018

Bill Summary: This proposal establishes the “Bright Flight Promise Program” and phases out the Missouri Higher Education Academic Scholarship Program.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented (FY 2023)
General Revenue	(\$662,834)	(Could exceed \$2,731,996)	(Could exceed \$6,111,375)	(Could exceed \$9,744,414)
Total Estimated Net Effect on General Revenue	(\$662,834)	(Could exceed \$2,731,996)	(Could exceed \$6,111,375)	(Could exceed \$9,744,414)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented (FY 2023)
Bright Flight Promise Fund*	\$0	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0	\$0

*Revenue and expenses net to zero.

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 12 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented (FY 2023)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented (FY 2023)
General Revenue	2 FTE	2 FTE	2 FTE	3 FTE
Total Estimated Net Effect on FTE	2 FTE	2 FTE	2 FTE	3 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 2019	FY 2020	FY 2021	Fully Implemented (FY 2023)
Local Government	\$0	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from **Department of Higher Education (DHE)** assume all numbers reflected in this fiscal note for staff or ITSD costs are based upon OA standards or based upon a cost estimate from ITSD for IT systems needed to manage the program changes. DHE assumes two staff will be required to manage the promissory note process for recipients and to manage any loan repayment process going forward. DHE estimated one Research Associate III and one Administration Office Support Assistant (AOSA). Salaries are based upon current DHE/OA standards. Per Office of Administration budget processes, standard equipment, software and office furniture is budgeted for the two positions along with related standard expenses for supplies and DHE staff training.

It is assumed that the current Bright Flight Program would be phased out as the new program would be phased in. The following table shows the costs of the current program scholarships if unchanged and the phase out/phase in costs of the new legislation. The current program and the new program both provide scholarships for students that score in the top 5% of the ACT or SAT, currently, the state has only funded the top 3% of recipients through the budget process. As a result, there are new costs associated with the expansion to 5% assuming it would be fully funded. Also, DHE has been unable to determine the cost savings/revenues the bill would generate by converting some scholarships to loans as provided for in the legislation.

Table 1

Direct Scholarship Projections	2019-2020	2020-2021	2021-2022	2022-2023
Current Bright Flight Program	\$20,132,413	\$21,139,034	\$22,195,985	\$23,305,785
Bright Flight Phase Out	\$20,132,413	\$14,494,923	\$9,461,820	\$0
-Annual Cost Reduction	(\$5,637,490)	(\$5,033,103)	(\$5,033,103)	\$0
BF Old Annual Phase Out	\$14,494,923	\$9,461,820	\$4,428,717	\$0
BF Promise New Increase	\$8,073,060	\$16,549,773	\$24,643,016	\$32,756,441
Total of BF Old & BF New	\$22,567,983	\$26,011,593	\$29,071,733	\$32,756,441
Net Bright Flight Promise Increase	\$2,435,570	\$4,872,559	\$6,875,748	\$9,450,656

Source: DHE

ASSUMPTION (continued)

DHE assumes the proposal would phase out the current Bright Flight program and phase in a new program called Bright Flight Promise. Bright Flight Promise is a scholarship that converts to a loan if the recipient does not graduate or fails to work in Missouri following graduation. The Bright Flight Promise is designed to cover actual tuition and fee costs up to the tuition and fee costs associated with the highest cost public institution, which is currently the University of Missouri - Columbia. The potential award is reduced by any gift aid received by the student that can be applied to tuition and fee costs, including federal aid (Pell Grant), state aid (Access Missouri, A+), institutional aid, and private aid. In addition, the proposed program would make the scholarship available to individuals in the top five percent of test takers, increasing the current pool of funded students that is limited by appropriation to the top three percent.

Because it is not possible to estimate how many students for which the scholarship will convert to a loan, this fiscal projection does not include any consideration for loan repayments that could offset the cost of the program. In addition, it is assumed all students that are eligible to receive the scholarship will accept it as part of their student aid package. This projection also assumes a four-year transition period. Although some students receive awards beyond the fourth year for various reasons, it was not possible to include this issue in these projections given the available data. Finally, the projections for the existing Bright Flight program assume funding will be sufficient to maintain the \$3,000 current maximum award. The information presented below is based on data from the 2016-2017 award year, which is the most recent completed award year for state aid programs. In addition, the initial projections are based on data collected by House and Senate staff from six institutions (Missouri State University, Truman State University, and the four campuses of the University of Missouri system). These institutions enroll the largest number of current Bright Flight students among public institutions.

For the initial projection year (2019-2020), it is assumed the expenditure amount for 2016-2017 is the base amount (\$20,132,413). During the phase in, the current Bright Flight program will be reduced by one grade level per year, starting with entering freshmen in 2019-2020. Based on that expenditure and the proportion of recipients that were initial recipients (28%), the phase out of Bright Flight would reduce the program cost by \$5,637,490 in the first year, leaving a cost to continue of \$14,494,923. For the phase in of Bright Flight Promise, which would be limited to incoming freshmen in its first year of implementation, staff analyzed the actual award data for students at the six institutions for which detailed data were provided with a score of 30 and above. The starting point for this analysis is the reported full-time cost of tuition and fees at each of the reporting institutions. DHE then subtracts all gift aid reported by the institution. Any remaining tuition and fee cost was identified as the award available to the eligible student. In some instances, this resulted in the eligible student receiving a zero award because the student's full tuition and fee amount was covered by existing gift aid. For students that have tuition and fee

ASSUMPTION (continued)

costs remaining, the amount of the potential award ranged from a low of \$56 to a maximum of more than \$10,700. This wide range of award amounts makes estimating projected costs extremely difficult. However, based on the calculation for the six "data" institutions, it is projected that the phase in costs at those institutions would be \$4,925,490.

The majority of the remaining freshmen that would be eligible for the program will be enrolled at non-public institutions. Because no student specific data was available from non-public institutions, projections for those students are extremely difficult to make. However, it was assumed that average awards for these students would closely mirror those at the University of Missouri system (\$4,265), given their higher tuition costs. Based on the proportion of entering freshmen enrolled in the current Bright Flight program at these institutions and the expansion of the program to students with an ACT score of 30, it is assumed that an additional 738 will be paid, resulting in a cost at the "non-data" schools of \$3,147,570. As a result, the total phase in cost for this initial year would be \$8,073,060. Combining this cost increase for Bright Flight Promise with the decrease for the phase out of the existing Bright Flight, results in a total cost for award year 2019-2020 of \$22,567,983.

The projections for the second year of the transition (2020-2021) assume an additional approximately 25 percent of the previous, Bright Flight recipients, for a cumulative total of 53 percent, would transition out of the program. Consequently, the phase out would result in a cost reduction of \$5,033,103 from the previous year cost of \$14,494,923 leaving a cost to continue for Bright Flight of \$9,461,820. For the phase in of Bright Flight Promise, it is assumed the incoming freshmen class would remain essentially unchanged from the prior year. Because the cost of this program is driven by tuition and fee amounts, the only revision is the inclusion of an inflationary factor of 5 percent. Based on that factor, the cost for the entering freshman class would be \$8,476,713 ($\$8,073,060 * 1.05$). For the sophomore class that entered the previous year, it is assumed there would be an attrition rate of approximately 5 percent (that is, only 95 percent of the class would return for the sophomore year) making the cost for this class unchanged from the prior year at \$8,073,060 ($\$8,476,713 * 0.95$). Based on these calculations, the phase in cost for this year would be \$16,549,773. When coupled with the cost reduction from Bright Flight, the total cost for award year 2020-2021 would be \$26,011,593 ($\$9,461,820 + \$16,549,773$).

The projections for the third year of the transition (2021-2022) assume an additional approximately 25 percent of the previous Bright Flight recipients, for a cumulative total of 78 percent, would transition out of the program. Consequently, the phase out would result in a cost reduction of \$5,033,103 from the previous year cost of \$9,461,820 leaving a cost to continue for Bright Flight of \$4,428,717. For the phase in of Bright Flight promise, the same assumptions are applied as in year two, that is an inflation factor of 5 percent to reflect increases in tuition and

ASSUMPTION (continued)

fees and an attrition rate of 5 percent as students move through post-secondary education. Under these assumptions, the incoming freshman class would cost \$8,900,549 ($8,476,713 * 1.05$), the sophomore class would cost \$8,073,060 ($8,476,713 * 0.95$), and the junior class would cost \$7,669,407 ($8,073,060 * 0.95$). Based on these projections, the total phase in cost for this year would be \$24,643,016. Coupled with the cost to continue Bright Flight, the total cost for award year 2021-2022 would be \$29,071,733 ($4,428,717 + 24,643,016$).

The projections for the fourth and final year of the transition (2022-2023), assumes the last remaining students in the Bright Flight program would have graduated or used their full eligibility for the program. Consequently, there are no cost reductions available, as the program would have effectively ended. At this point, the Bright Flight Promise program would be fully implemented with an estimated number of recipients at approximately 7,800. Based on the prior assumptions about inflation and attrition, the cost for the incoming freshman class would be \$9,345,576 ($8,900,549 * 1.05$), \$8,455,521 for the sophomore class ($8,900,549 * 0.95$), \$7,669,407 for the junior class ($8,073,060 * 0.95$), and \$7,285,937 for seniors ($7,669,407 * 0.95$). This results in a total program cost for the 2022-2023 award year of \$32,756,441. This is projected to be the steady state operating level for the program, with the understanding that tuition and fee changes will continue to impact program costs as will test-taking and attendance patterns of students, which are beyond the scope of this projection.

Officials from the **Office of Administration-Information Technology Services Design (ITSD)** assume a total of 8,251 hours at a rate of \$75 per hour for requirements gathering, analysis, design, development, testing, implementation, project management and on-going support for the Bright Flight application. ITSD assumes a cost of \$550,800 in FY 2019, \$180,954 in FY 2020 and \$115,737 in FY 2021.

Officials from the **Office of the State Auditor (SAO)** assume this proposal proposes changes in the current Bright Flight (Higher Education Academic Scholarship) program that changes the program from a purely scholarship basis to a program that grants a scholarship which has strings attached allowing the grant to be re-characterized as a loan if certain graduation, GPA, post-graduation residency and employment requirements are not met. The current program does not have these requirements attached.

The SAO assumes this proposal mandates (i.e. states the auditor shall conduct) an annual audit of the proposed Bright Flight Promise Program, covering new grants awarded each year, renewals each year, and conversions to loans each year. The program also lays out requirements for refunds to the program by schools if a recipient withdraws from school. The SAO would expect an audit of the program to cover processes for validating initial and continuing eligibility,

ASSUMPTION (continued)

correctness of refunds from schools, ongoing documentation to be submitted by program participants to document post-graduation completion of requirements, as well as handling of any repayments of grants converted to loans. While the program would be primarily handled by the Department of Higher Education, it would also rely on significant interactions with numerous qualifying public and private higher education institutions in the state. These interactions would also need to be considered during the course of the proposed audit.

The most recent data readily available to us shows that in 2015, \$18,065,000 was distributed under the current program to 6,283 students. It is unclear if the legislature is considering maintaining a similar level of funding or how many qualifying students might not accept the grants because of the new continuing requirements and possibility of required repayment. Nonetheless, the new requirements could mean that a new student approved for a grant as a freshman could potentially have to be followed for 4 years after graduation to ensure the requirements are met. The program also appears to allow up to a 27 month hiatus of participation while retaining eligibility due to certain qualifying scenarios. Grants converted to loans would extend participation even longer as the repayment period elapses. Based on this, the number of program participants would be growing exponentially each year. Based on the above information, it appears reasonable to assume that undertaking such an audit on an annual basis would require at least the equivalent of 1 FTE.

The SAO did not respond to **Oversight's** request to provide salary, benefit and equipment costs related to the FTE. Oversight used information regarding the salary, benefits and equipment costs provided in response to another proposal. For purposes of this fiscal note, Oversight assumed the FTE would be a Staff Auditor I with annual salary of \$37,996. Oversight assumes the SAO would not need the additional FTE until FY 2022.

Officials from the **Office of the State Treasurer** assume the proposal will have no fiscal impact on their organization. The proposal creates the "Bright Flight Promise Program Fund" which would not be subject to the biennial transfer and would have interest credited back to it.

Officials from **Missouri Western State University** assume this proposal would have a minimal fiscal impact on the university.

Officials from **Missouri State University** assume this proposal will have a negative fiscal impact of an undetermined amount for the university.

Officials from the **University of Missouri System** assume the proposed legislation could have a negative impact of an undetermined amount on their organization.

ASSUMPTION (continued)

Officials from **State Technical College of Missouri** assume a slight impact. The changes to scholarship programs could possibly have a negative impact, but the number of students using Bright Flight at State Tech is low (four in the past two academic years).

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

Oversight assumes this proposal creates the Bright Flight Promise Program Fund. Oversight assumes all funds appropriated for a fiscal year will be used in the year for which they were appropriated.

<u>FISCAL IMPACT -</u> <u>State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021	Fully Implemented (FY 2023)
GENERAL REVENUE				
<u>Savings</u> - DHE - phase-out of Higher Education Academic Scholarship program pages 3-6	\$0	\$5,637,490	\$10,670,593	\$23,305,785

<u>FISCAL IMPACT -</u> <u>State Government</u> (continued)	FY 2019 (10 Mo.)	FY 2020	FY 2021	Fully Implemented (FY 2023)
<u>Cost - ITSD -</u> modifications to the Bright Flight application - page 6	(\$550,800)	(\$180,954)	(\$115,737)	(\$115,737)
<u>Cost - DHE</u>				
Personal Service	(\$57,740)	(\$69,981)	(\$70,681)	(\$70,681)
Fringe Benefits	(\$35,129)	(\$42,360)	(\$42,568)	(\$42,568)
<u>Expense & Equip.</u>	(\$19,165)	(\$3,131)	(\$3,209)	(\$3,209)
Total Cost - DHE	(\$112,034)	(\$115,472)	(\$116,458)	(\$116,458)
FTE Change - pg 3	2 FTE	2 FTE	2 FTE	2 FTE
<u>Cost - SAO</u>				
Personal Service	\$0	\$0	\$0	(\$38,729)
Fringe Benefits	\$0	\$0	\$0	(\$20,264)
<u>Expense & Equip.</u>	\$0	\$0	\$0	(\$2,570)
Total Costs	\$0	\$0	\$0	(\$61,563)
FTE Change - pg 7				1 FTE
<u>Transfer Out - DHE</u> - to Bright Flight Promise Program Fund - pages 3-6	<u>\$0</u>	<u>Could exceed</u> <u>(\$8,073,060)</u>	<u>Could exceed</u> <u>(\$16,549,773)</u>	<u>Could exceed</u> <u>(\$32,756,441)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$662,834)</u>	<u>Could exceed</u> <u>(\$2,731,996)</u>	<u>Could exceed</u> <u>(\$6,111,375)</u>	<u>Could exceed</u> <u>(\$9,744,414)</u>
Estimated Net FTE Change for General Revenue	2 FTE	2 FTE	2 FTE	3 FTE

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021	Fully Implemented (FY 2023)
BRIGHT FLIGHT PROMISE PROGRAM FUND				
<u>Revenue - grants converting to loans</u>	\$0	\$0	Unknown	Unknown
<u>Transfer In - from General Revenue</u>	\$0	Could exceed \$8,073,060	Could exceed \$16,549,773	Could exceed \$32,756,441
<u>Transfer In - gifts, bequests or donations</u>	\$0	Could exceed \$100,000	Could exceed \$100,000	Could exceed \$100,000
<u>Costs - grant awards & administrative costs</u>	<u>\$0</u>	Could exceed <u>(\$8,173,060)</u>	Could exceed <u>(\$16,649,773)</u>	Could exceed <u>(\$32,856,441)</u>
ESTIMATED NET EFFECT ON THE BRIGHT FLIGHT PROMISE PROGRAM FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021	Fully Implemented (FY 2023)
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This bill establishes the "Bright Flight Promise Program," under which eligible Missouri students scoring in the top 5% on the ACT or SAT may be awarded scholarships up to an amount which will cover tuition and fees. Higher Education Scholarship Program (Bright Flight) scholarships shall no longer be awarded to first-time students after July 1, 2019.

Subject to appropriation, the Bright Flight Promise Program will award grants to eligible students who score in the top 5% on the ACT or SAT and promise to live and work in Missouri after graduation for at least four consecutive years.

Eligibility requirements as well as acceptance policies for Bright Flight Promise grants are listed in the bill.

Eligible students may be awarded a grant of an amount up to the actual cost of tuition and fees charged by the institution the student attends. The grant may not exceed the cost of tuition and fees charged to a Missouri resident by the public university with the highest combined tuition and fee cost in the state.

Institutions may not reduce institutional financial aid awards to a student based on the student's receipt of a Bright Flight Promise grant, and the grant will be reduced by the amount of any institutional aid.

The State Auditor shall conduct an annual audit of the Bright Flight Promise Program.

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
Office of the State Auditor
Office of the State Treasurer
Office of the Secretary of State
Joint Committee on Administrative Rules
University of Missouri System

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SOURCES OF INFORMATION (continued)

Missouri Western State University
Missouri State University
State Technical College of Missouri

Ross Strope

A handwritten signature in black ink, appearing to read "Ross Strope". The signature is stylized with a large initial "R" and a long horizontal stroke extending to the right.

Acting Director
April 16, 2018