

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

May 30, 2009

TO: Honorable David Dewhurst , Lieutenant Governor, Senate
Honorable Joe Straus, Speaker of the House, House of Representatives

FROM: John S. O'Brien, Director, Legislative Budget Board

IN RE: HB3452 by Gattis (relating to the establishment of the Texas Armed Services Scholarship.),
Conference Committee Report

Estimated Two-year Net Impact to General Revenue Related Funds for HB3452, Conference Committee Report: a negative impact of (\$2,185,918) through the biennium ending August 31, 2011.
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General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2010	(\$101,292)
2011	(\$2,084,626)
2012	(\$1,063,523)
2013	(\$1,064,272)
2014	(\$1,072,052)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from General Revenue Fund 1
2010	(\$101,292)
2011	(\$2,084,626)
2012	(\$1,063,523)
2013	(\$1,064,272)
2014	(\$1,072,052)

Fiscal Year	Change in Number of State Employees from FY 2009
2010	1.0
2011	1.0
2012	1.0
2013	1.0
2014	1.0

Fiscal Analysis

The bill establishes the Texas Armed Service Scholarship Program. The new program would be administered by the Higher Education Coordinating Board. Under provisions of the bill, a qualified student could receive an annual conditional scholarship grants available for use at any Texas public or

private institution of higher education having a Reserve Officer Training Corps (R.O.T.C.) program, conditioned on certain obligations. The amount of scholarship in each academic year would be the lesser of \$15,000 or the amount available for each scholarship from appropriations that may be used for the scholarships.

The Governor, the Lieutenant Governor, the members of the Texas Senate, and the members of the Texas House of Representative each individually have the power annually to appoint one recipient of Armed Service scholarships who possess the requisite qualifications for the scholarship. In order to qualify for an Armed Services Scholarship, a student must meet minimum college entrance requirements at a Texas public university; and attend, meet and maintain the satisfactory academic progress requirements of the student's Texas public university. In order to fulfill the student's commitments to the Armed Services Scholarship program, the student must: (1) complete four years of ROTC training, and graduate within five years; (2) upon graduation, enter into either a four year commitment to be a member of the Texas Army or Air Force National Guard, or a contract to serve as a commissioned officer with any branch of the armed services of the United States; and (3) meet the physical examination requirements and all other pre-screening requirements off the Texas Army or Air Force Nation Guard, or of the branch of the armed services with which the student enters into a contract. Under provisions of the bill, a recipient of the scholarship who either fails to maintain satisfactory academic progress, withdraws from the scholarship program, or fails to fulfill the student's commitment, for any reason other than a physical inability to meet any of these commitments, all funds advanced to the recipient to that point would become a debt due to the state. The Higher Education Coordinating Board would begin awarding scholarships beginning with the 2010-11 academic year (fiscal year 2011).

Methodology

The 2010-11 General Appropriations Act funds the scholarship program at \$1,000,000 per fiscal year in the upcoming biennium (Article IX, Sec. 17.68). Since the scholarships cannot be awarded until fiscal year 2011, it is assumed that the fiscal year 2010 appropriations will be used in 2011, for a total of \$2,000,000 in fiscal year 2011. For the purpose of this fiscal note it is assumed the total amount appropriated will be used for the scholarships and that the legislature will continue to appropriate \$1,000,000 per year for the scholarships in subsequent fiscal years.

There would be a one-time technology cost for customized programming of \$101,292 in fiscal year 2010 to set up the new program. The remaining costs include an account representative, court filing fees, and loan servicing costs. The Higher Education Coordinating Board indicated that although the industry standard for estimating costs of servicing for student loans is 2% of the loan principal, their estimate is based on a lower servicing percentage, 1% because of the large amount of each award, which is not normally the case for a student's annual student loans. For standard student loans, the majority of borrowers fulfill their agreements by repaying their loans on time and the servicing costs are mostly for producing and mailing monthly billing statements, processing payments, and maintaining the data base. However, additional servicing costs are incurred (1) for the borrowers who need assistance in the form of special payment or deferment arrangements, (2) for loans that are delinquent, and (3) for loans that are in default. Based on these assumptions the servicing costs associated with the program would be \$20,000 in fiscal year 2010 and \$10,000 in subsequent fiscal years.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 720 The University of Texas System Administration, 758 Texas State University System, 769 University of North Texas System Administration, 781 Higher Education Coordinating Board

LBB Staff: JOB, KK, RT, GO