

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION**

**April 13, 2009**

**TO:** Honorable Frank Corte Jr., Chair, House Committee on Defense & Veterans' Affairs

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

**IN RE: HB3452** by Gattis (Relating to creation of the Texas Armed Services Scholarship Program.),  
**As Introduced**

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| <b>Estimated Two-year Net Impact to General Revenue Related Funds</b> for HB3452, As Introduced: a negative impact of (\$16,854,141) through the biennium ending August 31, 2011. |
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**General Revenue-Related Funds, Five-Year Impact:**

| <b>Fiscal Year</b> | <b>Probable Net Positive/(Negative)<br/>Impact to General Revenue Related<br/>Funds</b> |
|--------------------|---|
| 2010               | (\$5,710,818)   |
| 2011               | (\$11,143,323)  |
| 2012               | (\$16,689,705)  |
| 2013               | (\$22,236,088)  |
| 2014               | (\$27,824,194)  |

**All Funds, Five-Year Impact:**

| <b>Fiscal Year</b> | <b>Probable Savings/(Cost) from<br/>General Revenue Fund<br/>1</b> |
|--------------------|--|
| 2010               | (\$5,710,818)  |
| 2011               | (\$11,143,323)   |
| 2012               | (\$16,689,705)   |
| 2013               | (\$22,236,088)   |
| 2014               | (\$27,824,194)   |

| <b>Fiscal Year</b> | <b>Change in Number of State<br/>Employees from FY 2009</b> |
|--------------------|---|
| 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 of up to \$15,000, available for use at any Texas public institution of higher education having a Reserve Officer Training Corps (R.O.T.C.)

program, conditioned on certain obligations.

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 two recipients 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 State Guard or 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 of the Texas State Guard, 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.

### **Methodology**

Since the student will have to meet several requirements to satisfy the conditions of the scholarship program, the amount distributed to the student will be considered a loan for the time period covered by the fiscal note. For purposes of this fiscal note, the Higher Education Coordinating Board assumed that the Governor, Lieutenant Governor, the members of the Texas Senate, and the members of the House of Representatives will each appoint two recipients. This means that a total of 366 recipients will be selected in fiscal year 2010, and an additional 366 new recipients will be added to the previous year's cohort each year. Based on these assumptions and the maximum award of \$15,000, the total cost for the scholarships is \$5,490,000 in fiscal year 2010 and \$10,980,000 in fiscal year 2011 with increased awards in the subsequent years as new cohorts are added to the program.

The remaining costs include an account representative, one time technology costs for customized programming required to add a new loan type with unique characteristics, 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, \$15,000, 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 \$54,900 in fiscal year 2010 and \$109,800 in fiscal year 2011 increasing in the subsequent years as the amount of loans increase.

### **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

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