DEPARTMENT OF AUDITS AND ACCOUNTS

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Honorable Marty Harbin
State Senator
302-A Coverdell Legislative Office Bldg.
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
Senate Bill 268 (LC 33 6958)

Dear Senator Harbin:

The bill would change the HOPE scholarship eligibility requirements for incoming freshmen, eliminating high school grade point average (GPA) and course rigor requirements. Under the bill, no student would be HOPE scholarship eligible immediately after graduating high school. Eligibility would instead be determined once a student has taken 30 semester hours or 45 quarter hours in a postsecondary institution. Those with a 3.0 cumulative GPA would receive a retroactive HOPE scholarship for the 30 semester or 45 quarter hours completed. The bill would also allow students to obtain an interest-free loan equal to the HOPE award amount during their first two semesters, with the loan forgiven if the 3.0 GPA threshold is met at the 30/45 hour checkpoint. Loan recipients with a GPA less than 3.0 would be required to repay the loan. The bill does not change Zell Miller scholarship requirements, which include high school GPA and course rigor.

Data from the Georgia Student Finance Commission (GSFC) and the University System of Georgia (USG) indicates that the bill would have increased FY 2017 HOPE expenditures by \$170.6 million (from \$130.2 million to an estimated \$300.8 million). Approximately \$194.1 million of the expenditures would be subject to repayment by the USG, technical college, and private school students who do not meet the GPA requirement. However, students are typically allowed several years to repay loans once they complete their education.[1] GSFC officials estimate a relatively high default rate on the loans. In addition to the direct loan costs, the significant increase in loans anticipated under the bill would require additional funding for GSFC administration.

[1] The bill does not include loan repayment terms.

Table 1: Estimated Direct Cost of Loans Under SB 268

(Dollars in Millions)	**Amount (USG, TCSG, Private)**
Costs Under Current Law	
Awards to Students <30 semester or 45 quarter hours	$130.2
SB 268 Provisions(1)	
Loan Recipients	
In-state tuition students <30 semester hours (excluding Zell Miller Scholars)	$300.7
One-Year Increase in HOPE Expenditures	**$170.6**
Estimated Loan Repayments	
Receive Retroactive Scholarship/No Repayment	
Did reach 30 semester hours with GPA >=3.0 by Fall 2016	$106.7
No Retroactive Scholarship/Repayment Needed	
Did **NOT** reach 30 semesters by Fall 2016(2)	$101.0
Did reach 30 semester hours but GPA <3.0 by Fall 2016	$93.1
Total students required to repay loan	$194.1
Estimated defaults (30%)	$58.2
Total expected to repay the loan within 10 years	$135.8
Net Increase in HOPE Expenditures after Repayments over 10 Years(2)	**$34.7**

(1) The dollars are based on an analysis of USG students who meet the characteristics (reached 30 hours, met GPA requirement, etc.), with an increase to account for TCSG and private institution students for which student data was not readily available. The amounts were adjusted to reflect current proportions – 90.1% of HOPE scholarship funding is associated with USG students, 9.6% with private institution students, and 1.3% with TCSG students.
(2) The analysis assumes that students who do not reach 30 semester or 45 quarter hours by the end of the fall in the year after entering school (16-17 months) will not meet the GPA requirement.
(3) Amount in current dollars. Inflation will lower the value of the dollars repaid.

Direct Cost of Loans

The net cost of the loans made as a result of the bill are attributable to the increase in the number of students receiving funding, the portion of recipients who meet the requirements to convert the loans into scholarships, and the portion of students who repay the loans.

- **Students Receiving Funding** – The bill would result in a significant increase in the number of students receiving GSFC funding. GSFC provided HOPE scholarship awards to 38,360 students with fewer than 30 semester or 45 quarter hours in fiscal year 2017, costing approximately $130.2 million. Under the bill, all students under these hours would be eligible for a loan equal to the HOPE award amount. In FY 2017, the bill would have made nearly 78,000 USG students eligible for the loan. Including private institution and TCSG students, approximately 87,400 students would be eligible for loans. Loans to these students are estimated at $300.7 million.

- **Students Qualifying for Retroactive Scholarship** – Just over one-third of recipients (approximately 31,000) are expected to have a 3.0 cumulative GPA at the 30 semester hour or 45 quarter hour mark. The analysis assumes that students will complete the required number of courses by the end of their second fall semester. Approximately $107 million of the $300.7 million in loans distributed in a year would be converted into a scholarship. No repayment would be necessary.

- **Students Required to Repay the Loan** – Nearly two-thirds of the recipients (approximately 56,400) are not expected to meet the academic requirements to convert the loan into a scholarship. The students either did not meet the 30 semester hour or 45 quarter hour mark by the end of their second semester or they did not have a 3.0 cumulative GPA at that point. These students would be required to repay $194.1 million.

  According to GSFC officials, the state's Student Access Loan program has a default rate of 24%. In addition, research indicates that students with lower GPAs are less likely to repay than those with higher GPAs. Given that all students that are required to repay the loans under this bill would have a GPA below 3.0, it is not unreasonable that the default rate would match or exceed the SAL default rate. For purposes of the analysis, we assumed a default rate of 30%.

  While the bill notes that the loans are to be interest-free, it does not contain any other terms for repayment. Given that GSFC does not require repayment until up to one year after a student separates from school, we assumed that loans would be repaid over a period of 10 years.

GSFC Administrative Costs

The increased number of loans to be serviced would add approximately $13 million in direct costs each year. In FY 2017, GSFC originated approximately 8,000 loans with direct costs estimated at $2.4 million ($300 per loan). As a result of the bill, GSFC would be expected to originate an additional 87,400 loans in a year. The annual cost is based on GSFC's assumption that economies of scale would decrease the cost per loan by 50%, to $150 each.

Sincerely,

Greg S. Griffin
State Auditor

Teresa A. MacCartney, Director
Office of Planning and Budget

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