

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

SB 2471 – HB 2491

March 18, 2014

**SUMMARY OF ORIGINAL BILL:** Enacts the “Tennessee Promise Scholarship Act of 2014”. Defines “continuous enrollment”; “eligible high school”; “full-time student”; “gift aid”; “home-school student”; “resident”; and the “Tennessee Student Assistance Corporation (TSAC)”. Requires TSAC to administer the Tennessee Promise Scholarship Program (TPS). The TPS shall be for Tennessee residents who are seeking an associate’s degree, certificate, or diploma from an eligible postsecondary program. To be eligible for the TPS, a student must be admitted and enrolled as a full-time student for the fall term following graduation or obtaining a GED or HiSET diploma. Exceptions to initial enrollment may be made by TSAC in extraordinary circumstances as provided in TSAC TPS rules and regulations. Requires students to apply for the TPS in their initial enrollment and to complete the federal Free Application for Federal Student Aid (FASFA) during each academic year they seek a TPS. TSAC shall promulgate rules and regulations regarding satisfactory academic progress to maintain TPS eligibility. TSAC shall promulgate rules and regulations regarding TPS recipients participation in mentoring and community service. The TPS amount shall be the cost of tuition and mandatory fees at the eligible postsecondary institution attended, once all other gift aid is subtracted from the total cost. The amount of a TPS for students who seek a two-year degree at an eligible four-year public or private postsecondary institution shall be the average cost of tuition and mandatory fees at a public two-year postsecondary institution. Authorizes TPS recipients to take a medical or personal leave of absence without losing eligibility; however, the sum of such leave shall not exceed six months. Sets forth termination criteria for students who take personal or medical leave.

Establishes an endowment for the purpose of funding the TPS. Requires the TPS to be funded from program-generated revenues of TSAC and to be invested as part of the Chairs of Excellence Endowment Fund; the Intermediate-Term Investment Fund; or the State Pooled Investment Fund. In addition to the initial endowment, the TPS shall be funded from an endowment from the Lottery for Education Account (LFEA). Beginning in FY14-15, all funds in the LFEA that exceed \$10,000,000 shall be transferred, on a quarterly basis, to the TPS endowment. Such transfers shall occur after all expenditures have been made for Tennessee Education Lottery scholarship programs, Tennessee Student Assistance awards, administrative expenses, any required deposits into the General Shortfall Reserve. Authorizes funds appropriated for the TPS program, including matching funds or other appropriations made by the General Assembly, to be placed in an endowment fund created solely for the TPS program. The corpus of each endowment created for the TPS shall not be expended. Unexpended funds from each endowment that remain at the end of a fiscal year shall not revert to the state’s General Fund.

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Deletes the definition of “junior” in Tenn. Code Ann. § 49-4-902. Defines “full-time equivalent semester” as any semester that a student is enrolled full-time and receives a Tennessee HOPE scholarship. A semester in which a part-time student attempts six, seven, or eight semester hours and receives a Tennessee HOPE scholarship, shall be counted as one-half of a full-time equivalent semester. A semester in which a part-time student receives a HOPE scholarship attempts nine, ten, or eleven semesters shall be counted as three-fourths of a full-time equivalent semester.

The terminating events for HOPE scholarship eligibility for students who are enrolled in a degree program requiring 120 hours or less shall be when the first of the following events occurs: the student has earned a baccalaureate degree; five years have passed from the date of their initial enrollment at any postsecondary institution; or a student has attempted a total of 120 semester hours or have received a HOPE scholarship for eight semesters, whichever occurs later. The terminating events for HOPE scholarship eligibility for students who are in degree programs that require more than 120 semester hours shall be when the first of the following events occurs: the student has earned a baccalaureate degree or five years have passed from the date of the student’s initial enrollment at any postsecondary institution; or when the latter of the following events has occurred: the student has attempted the number of semester hours needed to earn the degree or has attempted 136 semester hours, whichever is less; or the student has completed eight full-time equivalent semesters. Requires the five year, total full-time equivalent semester and total semester hour limitations for non-traditional students who receive a HOPE scholarship to be based on the sum of the years; total full-time equivalent semesters; or total semester hours attempted while receiving a HOPE scholarship.

Requires the amount of the HOPE scholarship and the HOPE scholarship for non-traditional students for students entering as freshman at an eligible four-year institution in the fall of 2015, and thereafter, to be \$1,500 per semester. Such students shall be awarded a \$1,500 scholarship per semester until the end of their sophomore year. The HOPE scholarship for such students shall be raised to \$2,500 per semester beginning in such students junior and shall continue through the termination of their eligibility. Requires the amount of the HOPE scholarship and the HOPE scholarship for non-traditional students for students entering as freshman at an eligible two-year institution in the fall of 2015, and thereafter, to be \$1,500 per semester.

Authorizes students who receive a HOPE scholarship, HOPE Access grant, or HOPE scholarship for non-traditional students to receive a scholarship or grant during the summer semester. Requires the amount of a HOPE scholarship awarded to a student attending an eligible postsecondary institution that provides on-campus housing to be \$1,500.

Notwithstanding statutory provisions to the contrary, students who first receive a HOPE scholarship or HOPE Access grant in the fall of 2009 or later may receive the scholarship or grant until the first of the terminating events described in Tenn. Code Ann. § 49-4-913(b) and (c). Authorizes students who have previously received a HOPE scholarship and meet eligibility requirements to also receive a Wilder-Naifeh Technical Skills Grant.

Requires Wilder-Naifeh Technical Skills Grants to be awarded to independent students, as determined by the FAFSA, the amount of which shall be the cost of tuition and mandatory fees at a Tennessee College of Applied Technology (TCAT), less all other financial aid. Prohibits the sum of all financial assistance, excluding a Wilder-Naifeh Technical Skills Grant, from exceeding the amount of the institutionally defined cost to attend an eligible postsecondary institution.

**FISCAL IMPACT OF ORIGINAL BILL:**

Increase State Revenue –

\$315,928,500/FY14-15/TPS Endowment

\$26,879,400/FY15-16/TPS Endowment

\$31,657,800/FY16-17/TPS Endowment

Exceeds \$40,886,300/FY17-18 and Subsequent Years/TPS Endowment

Increase State Expenditures – Net Impact -

\$9,581,900/FY15-16/TPS Endowment

\$17,690,200/FY16-17/TPS Endowment

Exceeds \$20,664,600/FY17-18 and Subsequent Years/

TPS Endowment

Increase State Expenditures -

\$300,300,000/FY14-15/Lottery for Education Account

\$10,500,000/FY15-16/Lottery for Education Account

\$14,500,000/FY16-17/Lottery for Education Account

Exceeds \$23,100,000/FY17-18 and Subsequent Years/Lottery for

Education Account

Other Fiscal Impact – Based on information received from the Tennessee Higher Education Commission, changes in enrollment patterns may impact the higher education funding formula. Any impact cannot be reasonably quantified and is dependent upon multiple unknown factors.

**SUMMARY OF AMENDMENTS (013432, 014528, 014529):** Amendment 013432 deletes and rewrites the bill such that the substantive changes are to specify how the principal and interest earnings of the endowment fund is to be established and invested, including the establishment of an investment trust; requires excess Lottery For Education Account funds, interest earned from the Tennessee Promise Endowment, and funding not required by the General Shortfall Reserve to be deposited into a Tennessee Promise Scholarship Special Reserve Account; and establishes a Wilder-Naifeh Reconnect Grant which shall be for independent students who meet and maintain certain minimum requirements.

Amendment 014528 makes changes to the bill as amended by Amendment 013432 which include: changing the definition of continuous enrollment; declaring that the fund shall be an irrevocable trust that shall consist of the Tennessee Promise endowment account and the Tennessee Promise Scholarship Special Reserve Account; making various changes regarding the naming and disbursement of the accounts related to the Tennessee Promise; and requiring the Wilder-Naifeh Reconnect Grant to be the cost of tuition and mandatory fees at a Tennessee College of Applied Technology (TCAT), less all other gift aid.

Amendment 014529 makes changes to the bill as amended by Amendment 013432 which include: requiring a student at an eligible two- or four-year postsecondary institution to maintain a minimum cumulative grade point average of 2.0 to continue their eligibility to receive a Tennessee Promise scholarship; changing the HOPE scholarship amount for students entering as freshman in the fall of 2015 and attending an eligible four-year postsecondary institution to \$1,750 per semester and increasing this award to \$2,250 per semester beginning in such students' junior year; and prohibiting a student who loses their Wilder-Naifeh Reconnect Grant from regaining it.

## **FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:**

### **Increase State Revenue –**

**\$300,300,000/FY14-15/TPS Endowment**  
**\$15,628,500/FY14-15/TPS Special Reserve Account**  
**\$16,379,400/FY15-16/TPS Special Reserve Account**  
**\$17,169,800/FY16-17/TPS Special Reserve Account**  
**Exceeds \$17,473,700/FY17-18 and Subsequent Years/TPS Special Reserve Account**

### **Increase State Expenditures – Net Impact -**

**\$9,314,900/FY15-16/TPS Special Reserve Account**  
**\$17,215,200/FY16-17/TPS Special Reserve Account**  
**Exceeds \$20,050,600/FY17-18 and Subsequent Years/TPS Special Reserve Account**

### **Increase State Expenditures -**

**\$300,300,000/FY14-15/Lottery for Education Account**  
**\$10,500,000/FY15-16/Lottery for Education Account**  
**\$6,800,000/FY16-17/Lottery for Education Account**  
**Exceeds \$9,300,000/FY17-18 and Subsequent Years/Lottery for Education Account**

**Other Fiscal Impact – Based on information received from the Tennessee Higher Education Commission, changes in enrollment patterns may impact the**

**higher education funding formula. Any impact cannot be reasonably quantified and is dependent upon multiple unknown factors.**

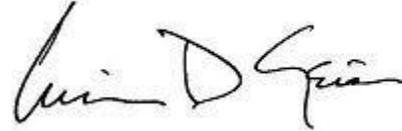
Assumptions for the bill as amended:

- Funding from in the Lottery for Education Account will be transferred to the new endowment fund that will be created to fund the Tennessee Promise Scholarship program.
- According to TSAC, the amount that will be transferred in FY14-15 to form the principal for the new endowment is \$300,300,000. In subsequent fiscal years, excess funding in the Lottery for Education Account will be transferred into the Tennessee Promise Scholarship Special Reserve Account. TSAC estimates that \$10,500,000 will be transferred in FY15-16; \$6,800,000 will be transferred in FY16-17; and an amount exceeding \$9,300,000 will be transferred in FY17-18 and subsequent years.
- Students currently receiving Tennessee Education Lottery Scholarship awards at the end of FY14-15 will not have a reduction in their award.
- Freshman entering a two-year institution in FY14-15 will have an increase in their HOPE scholarship by \$1,000 annually.
- Freshman entering a four-year institution in FY14-15 will have their HOPE scholarship reduced by \$500 annually.
- TSAC estimates interest earnings on the Tennessee Promise Scholarship Endowment Fund will be \$15,628,500 in FY14-15; \$16,379,370 in FY15-16; \$17,169,770 in FY16-17; and will exceed \$17,473,725 in FY17-18 and subsequent years. These earnings will be placed into the Tennessee Promise Scholarship Special Reserve Account.
- Total revenue to the Tennessee Promise Scholarship Endowment Fund in FY14-15 will be \$300,300,000.
- No funds will be expended from the Tennessee Promise Scholarship Endowment Fund in FY14-15.
- TSAC estimates that the Tennessee Promise Scholarship program will cost \$14,270,930 in FY15-16; \$25,636,212 in FY16-17; and exceed \$30,354,611 in FY17-18 and subsequent years. Cost is based off an estimated 12,340 recipients in FY15-16; 20,913 recipients in FY16-17; and a recipient total that exceeds 20,913 in FY17-18 and subsequent years.
- TSAC estimates that changing the HOPE scholarship awards for entering freshman in FY15-16 will save the state an estimated \$4,956,000 in FY15-16; \$8,421,000 in FY16-17; and an amount exceed \$10,304,000 in FY17-18 and subsequent years.
- The net increase in expenditures from the Tennessee Promise Scholarship Special Reserve Account are estimated by TSAC to be \$9,314,930 (\$14,270,930 - \$4,956,000) in FY15-16; \$17,215,212 (\$25,636,212 - \$8,421,000) in FY16-17; and exceeds \$20,050,611 (\$30,354,611 - \$10,304,000) in FY17-18 and subsequent years.

- According to the Tennessee Board of Regents, any increase in enrollment in community colleges can be handled within the existing resources of the facilities.

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "Lucian D. Geise". The signature is written in a cursive style with a large initial "L".

Lucian D. Geise, Executive Director

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