TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

CORRECTED FISCAL NOTE

HB 2069 - SB 2306

March 15, 2016

SUMMARY OF BILL: Prohibits the Tennessee Board of Regents (TBR) and the University of Tennessee (UT) Board of Trustees from increasing in-state undergraduate tuition or fees at a four-year institution above the rates charged by the institution in FY15-16 until FY18-19. This prohibition shall not apply to student activity fee increases. Requires the TBR and the UT Board of trustees to vote unanimously for an increase in undergraduate tuition or fees at any public four-year institution for FY18-19 and subsequent years if the proposed percentage increase for in-state undergraduate tuition and fees exceeds the most recent annual percentage change in the Consumer Price Index (CPI) by two percent or more. Requires a two-thirds favorable vote by the respective Boards' voting members, if the proposed increase is greater than the most recent annual change in the CPI, but is less than two percent greater than the CPI increase.

Prohibits TBR from increasing in-state tuition and fees at an institution, other than a four-year institution, that enrolls Tennessee Promise Scholarship students for any academic year by more than the most recent percentage increase in the CPI, unless all voting members of the Board of Regents vote for the increase. This prohibition does not apply to four-year institutions that enroll Tennessee Promise Scholarship students.

Establishes a differentiated tuition and fee structure beginning with the incoming in-state undergraduate freshman class of FY18-19 at four-year institutions. Beginning with this class, freshman who meet current eligibility requirements to receive in-state tuition shall pay the same rate throughout their undergraduate careers. Students will continue to pay the tuition and fee rate that was set for their freshman year; provided that such students continue to remain eligible for the tuition-freeze program. An in-state student shall be eligible for a tuition-freeze program only once. If an in-state student ceases to be enrolled as an in-state undergraduate student at a four-year state institution at any time during the years encompassed by the student's tuition-freeze program, then the student will cease to be eligible for the tuition-freeze program. If the student subsequently reenrolls in a state institution, then the student must pay in-state undergraduate tuition at the institution's highest rate. A student who is eligible for an in-state undergraduate tuition-freeze program and who has an approved medical or personal leave of absence from the four-year state institution will continue to be eligible for the tuition-freeze program upon resuming the student's education at the institution so long as the student continues to meet all applicable eligibility requirements. This bill authorizes Tennessee Higher Education Commission (THEC) to promulgate rules concerning the application for and approval of medical or personal leaves of absence and a student's resumption of attendance at a four-year state institution.

ESTIMATED FISCAL IMPACT:

On February 10, 2016, a fiscal note was issued for this bill with an estimated fiscal impact as follows:

> *Forgone State Revenue – $5,402,100/TBR/FY16-17*
> *$10,655,300/UT/FY16-17*
> *$10,412,100/TBR/FY17-18*
> *$21,630,300/UT/FY17-18*
>
> *Increase State Expenditures - $150,000/FY17-18/TBR*
> *$150,000/FY17-18/UT*
>
> *Other Fiscal Impact - In FY18-19 and subsequent years, TBR and UT will increase tuition and fee rates for incoming freshmen classes. Dependent upon each respective Board's action, the increase in tuition and fees may be sufficient to recapture any forgone revenue.*

On March 14, 2016, additional information was received from UT with regard to the one-time computer costs. In addition, Fiscal Review Committee staff determined that the forgone state revenue relative to UT and TBR should be shown in the *Other Fiscal Impact* section of the fiscal note since the current Boards of Trustees of UT and TBR have not taken action on the tuition rate for FY16-17 and subsequent years. As such, the fiscal impact and relative assumptions have been revised. The corrected fiscal impact is as follows:

(CORRECTED)

> **Increase State Expenditures - $150,000/FY17-18/TBR**
> **$121,000/FY17-18/UT**
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> **Other Fiscal Impact - Based on the historical trend of tuition increases at both UT and TBR institutions, it is reasonably estimated that UT and TBR will experience forgone revenue in FY16-17 and FY17-18.**
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> **THEC has adopted a range of zero to three percent for FY16-17 and it is projected there will be a similar range for future years. The forgone revenue for the UT system is estimated to range from zero dollars up to $10,655,300 in FY16-17 and up to $21,630,300 in FY17-18. Forgone revenue for TBR universities is estimated to range from zero dollars up to $5,402,100 in FY16-17 and an amount estimated up to $10,412,100 in FY17-18.**

In FY18-19 and subsequent years, TBR and UT will increase tuition and fee rates for incoming freshmen classes. Dependent upon each respective Board's action, the increase in tuition and fees may be sufficient to recapture any forgone revenue.

General Assumptions Relative to TBR and UT Tuition Rates:

- Only four-year universities within the Tennessee Board of Regents and University of Tennessee systems will be impacted by the proposed tuition freeze. According to TBR, community colleges within the TBR system are estimated to increase tuition in step with the Consumer Price Index; therefore in-state community college tuition and fee revenue is not included in this estimate.
- Based on information from the Tennessee Higher Education Commission, TBR four-year universities have increased tuition every year since 1988, which is as far back as THEC records go.
- Based on information from UT, the last time UT did not increase their tuition rate was 1984.
- Based on information from UT and TBR, in-state undergraduate tuition and fee revenue is estimated to increase by at a minimum of three percent from FY15-16 to FY16-17 in the absence of this bill.
- Due to the anticipation of an increase in tuition revenue and also the historical increase in tuition in each year over the past 30 years, the fiscal impact to tuition revenue is estimated to be forgone revenue to both the TBR and UT systems.
- THEC adopted a range of zero to three percent for tuition increases for the 2016-2017 school year in the fall of 2015.

Assumptions Relative to TBR in FY16-17 and FY17-18:

- Based on information from TBR, the anticipated revenue to be collected from in-state undergraduate tuition and fees for TBR universities in FY15-16 is estimated to be $170,969,622.
- TBR has not yet collected tuition and fee revenue for FY16-17; therefore, any additional revenue that would have been collected above current collections in the absence of this bill is considered forgone revenue.
- Forgone state revenue to TBR is estimated to be $5,402,089 [($170,969,622 x 103.0%) - $170,696,622] in FY16-17.
- Forgone state revenue to TBR is estimated to be $10,412,050 [($170,969,622 x 103% x 103.0%) – 170,969,622)] in FY17-18.

Assumptions Relative to University of Tennessee in FY16-17 and FY17-18:

- According to UT, anticipated revenue to be collected from in-state undergraduate tuition and fees for UT students in FY15-16 is estimated to be $355,178,000.
- UT has not yet collected tuition and fee revenue for FY16-17; therefore, any additional revenue that would have been collected above current collections in the absence of this bill is considered forgone revenue.
- Forgone state revenue to UT is estimated to be $10,655,340 [($355,178,000 x 103.0%) - $355,178,000)] in FY16-17.
- Forgone state revenue to UT is estimated to be $21,630,340 [($355,178,000 x 103.0% x 103.0%) - $355,178,000] in FY17-18.

Assumptions Relative to the Tuition Freeze beginning in FY18-19:

- In FY18-19 and subsequent years, TBR and UT will increase tuition by at least two percent based on the change in the Consumer Price Index.
- Each eligible freshman, as defined by the bill, will be eligible for the tuition freeze program that begins in FY18-19.
- Each subsequent class of freshman in FY18-19 will have a differentiated tuition structure that will be dependent upon when they begin their postsecondary careers and if the Board of Regents and UT Board of Trustees vote to increase tuition above the CPI annually.
- TBR and UT may elect to recapture forgone state revenue, applicable to FY16-17 and FY17-18, in FY18-19 and subsequent years, and may also elect to forgo additional revenue in FY18-19 and subsequent years as each subsequent class of freshman begins their postsecondary career. Any change in tuition and fee revenue cannot be reasonably determined because any such change will be dependent upon the actions of the respective Boards in FY18-19 and subsequent fiscal years.

Assumptions Relative to TBR and UT Information Systems:

- According to TBR and UT, both systems will work directly with their database developer (Banner) to modify their Banner systems in FY17-18 to prepare for the new tuition freeze that will be established for incoming freshman students in FY18-19 and subsequent years.
- Based on the costs for other Banner modifications, UT indicates that the cost for changes to the UT Banner system would be approximately $121,000 ($26,000 UTK + $47,500 UTM + $47,500 UTC). Based on information from TBR for similar changes, TBR indicates that the cost for changes to their Banner system is estimated to be $150,000 ($25,000 x 6 universities). Both systems would require negotiation of a statement of work (SOW) with the vendor to perform this work. The total one-time increase in state expenditures is estimated to be $271,000 ($121,000 + $150,000) in FY17-18.

Historical Trends:

- All historical trends are based on information received from the General Assembly Legislative Budget Office.
- The cumulative increase in in-state undergraduate full-time equivalent enrollment (FTE) at public four-year institutions statewide, from FY01-02 to FY15-16, was 16 percent.
- The cumulative increase in state appropriations to public four-year institutions, from FY01-02 to FY15-16, was 23 percent.
- The cumulative increase in in-state tuition and fee revenue from graduate and undergraduate programs at TBR four-year institutions, from FY01-02 to FY15-16, was 187 percent.
- The cumulative increase in in-state tuition and fee revenue from graduate and undergraduate programs at UT institutions, from FY01-02 to FY15-16, was 202 percent.
- The cumulative increase in in-state tuition and fees revenue from graduate and undergraduate programs across all four-year public institutions statewide, from FY01-FY01-02 to FY15-16, was 193 percent.

CERTIFICATION:

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

Krista M. Lee

Krista M. Lee, Executive Director

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