LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

April 14, 2009

TO: Honorable Dan Branch, Chair, House Committee on Higher Education

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

IN RE: **HB335** by Aycock (Relating to stabilizing the amount of tuition charged to certain residents of this state by general academic teaching institutions.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB335, As Introduced: an impact of $0 through the biennium ending August 31, 2011.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2010	$0
2011	$0
2012	$0
2013	$0
2014	$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from *Institutional Funds* 997
2010	$0
2011	($15,470,789)
2012	($43,914,438)
2013	($81,326,902)
2014	($107,694,707)

Fiscal Analysis

Under provisions of the bill, a general academic teaching institution may not charge to a student, for any course in which the student enrolls after the student's freshman year, tuition at a rate that exceeds the rate in effect for that course during the student's freshman year, or for a course that was not offered during the student's freshman year, at a rate that exceeds the rate in effect for an equivalent course during the student's freshman year, except that the institution may adjust that rate for each academic year after the student's freshman year to reflect any average annual percentage increase, expressed in decimal form rounded to the nearest thousandth, in the consumer price index during the most recent 48-month period preceding that academic year for which the information is available when the tuition rates are set.

The provisions begin with students entering in fall 2009 (fiscal year 2010). The tuition rate in effect for freshmen in fiscal year 2010 cannot be increased by the institutions in the following year, 2011, by more than the consumer price index (CPI) increase. As a result the first year the institutions will be impacted will be in fiscal year 2011, when returning fiscal year 2010 students pay stabilized tuition rates.

Methodology

Based on tuition information reported to them by institutions, the Higher Education Coordinating Board determined that designated tuition rates at general academic teaching institutions have increased, on average, by 14% per year for the past 3 years (average of 11.10%, 13.30, and 17.86). However, the Higher Education Coordinating Board believes the rate of increase will slow to about 8.45% (60% of the current rate of increase). The Higher Education Coordinating Board applied the 8.45% increase to the fiscal year 2009 estimated tuition rates and derived estimates for fiscal year 2009-14. During that time, the Higher Education Coordinating Board estimated that designated tuition at general academic teaching institutions would increase from $2,885 in fiscal year 2009 to $4,328 in fiscal year 2014. The Board than calculated the number of students that would be impacted.

In fall 2007, the number of full-time student equivalent (FTSE) resident, freshmen enrolled in general academic teaching institutions was 56,722. The first-time entering freshman retention rate for universities was 86.70%. The Higher Education Coordinating Board multiplied the numbers of freshmen equivalents by the retention rates to derive the number of students impacted by the provisions. They assumed the retention rates decreased by 8% each year and made the same calculation for each year.

In order to derive the amount of tuition revenues lost by the schools they multiplied the number of FTSE freshmen by the persistence rate, and the result of that calculation by the change in designated tuition each student would have paid if rates were held to an increase based on the CPI for each cohort. They subtracted the amount of designated tuition based on the CPI (avg. for 2005-2008 = 3.3%) from the anticipated amount of designated tuition (without regulation). For fiscal year 2010, the estimated tuition rate would be $3,393 and the rate based on the CPI would be $3,078. This difference ($315) was multipled by 49,178 (56,722*.8670) to calculate the lost revenue.

Based on these assumptions the decrease in designated tuition revenue for fiscal year 2010 would be $15.5 million. The revenue losses would continue to increase in the remaining years as more freshman cohorts enter the instititions.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 758 Texas State University System, 768 Texas Tech University System Administration, 781 Higher Education Coordinating Board, 783 University of Houston System Administration

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