Governor’s FY 2016 Budget: Articles

Staff Presentation to the House Finance Committee
April 14, 2015

Introduction

- Article 2 - Public Debt Management Act Resolution
- Article 6 - Education
- Article 7 - Higher Education Assistance Authority
Article 2 - Public Corporation Debt Management Act (Kushner Act)

- Enacted in 1994
- Subsequently amended to increase Assembly’s approval role
- Ensures that debt with a state tie was not issued without legislative review
- Result of Commission chaired by Rep. Linda Kushner

Act requires Assembly approval of all new non-general obligation debt authorizations except in certain circumstances
- Unless Governor certifies that federal funds will be available to make all payments
- Event after Assembly has adjourned, Governor certifies an action is necessary to protect the physical integrity of an essential public facility
<table>
<thead>
<tr>
<th>Article 2 - Public Corporation Debt Management Act (Kushner Act)</th>
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</thead>
<tbody>
<tr>
<td>- Public Debt Management Act</td>
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<tr>
<td>- Certain quasi-public agencies are exempt:</td>
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<tr>
<td>- Clean Water Finance Agency</td>
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<tr>
<td>- Housing &amp; Mortgage Finance Corporation</td>
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<tr>
<td>- Health &amp; Educational Building Corporation</td>
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<thead>
<tr>
<th>Article 2 - Public Corporation Debt Management Act (Kushner Act)</th>
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<tr>
<td>- $5.1 million from revenue bonds</td>
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<tr>
<td>- URI’s Fraternity Circle Infrastructure</td>
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<tr>
<td>- Improvements to water distribution &amp; storm water management systems, gas, electric, roadways, walkways &amp; parking lots</td>
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<tr>
<td>- Annual debt service = $0.4 million</td>
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<tr>
<td>- Total debt service = $8.1 million</td>
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<td>- Supported by general revenues, tuition and fees</td>
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</table>
Article 6 - Education

- Make three changes
  - Transportation
  - Textbooks
  - Full-day Kindergarten

Article 6 – Education: Transportation

- Funding provided to mitigate excess costs of transporting pupils to out-of-district non-public schools and within regional school districts
- Provided outside of the funding formula
  - As categorical funds
Article 6 – Education: Transportation

- Article 6 removes requirement that municipalities provide transportation for students to non-public schools
  - Essentially shifts responsibility and cost to private schools
  - Municipalities may continue providing transportation, but no longer required

Enacted budget includes $4.4 million
- FY 2016 includes $2.4 million
  - Funding for regionalized districts only
  - $2.0 million less than enacted
- Funding was expected to increase annually as funding formula is phased in
**Article 6 – Education: Transportation**

- Total cost of non-public transportation is almost $5.0 million each year
- State has been increasing its share
  - FY 2014: 30.6%  FY 2015: 49.0% of total
  - Gov. includes no funding in FY 2016
- To fund at the FY 2015 level: restore $2.0 million

**Article 6 – Education: Textbooks**

- Current law requires districts to provide textbooks in certain subjects to all pupils, grade K-12, living in the district
- Currently, state reimburses districts for costs of providing textbooks in some subjects
- $240,000 in FY 2015 enacted budget
Article 6 – Education: Textbooks

- Article 6 eliminates:
  - Requirement to provide textbooks for non-public school students
  - The reimbursements allowed under the program
    - $240,000 from general revenues
- Different from prior proposals
  - Requirement to provide textbooks was unchanged in prior proposals

Article 6 – Education: Full-Day K

- Requires each municipality to offer full-day kindergarten to all eligible students to qualify for any state education aid
  - Beginning August 2016, which is FY 2017
- FY 2016 recommendation includes $1.4 million to fund conversion to full-day K in all districts currently without
Article 6 – Education: Full-Day K

- 7 School districts currently do not offer full-day kindergarten
  - Coventry, Cranston, East Greenwich, Johnston, North Kingstown, Tiverton, and Warwick
- Budget assumes that all implement full-day K in 2015-2016 school year
  - Not certain which districts will implement this year

Governor requested an amendment on April 6
- Adds provision that districts that do not offer full-day K in FY 2016 will be funded as if they had
- Intended to remove any financial obstacles to FY 2017 implementation of mandatory full-day K
- Unclear how this interfaces with existing start up funds
**Article 6 – Education: Full-Day K**

- Governor includes $250,000 for existing full-day Kindergarten start up program
  - One-time funding to assist districts implementing full-day Kindergarten
  - Consistent with FY 2015 enacted level
- Article 6 appears to remove language authorizing the start-up funding
  - Budget does not remove the funding

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**Article 7 - HEAA**

- Dissolves HEAA and transfers its duties, authority & resources
  - Authority and corporate existence ends on July 1, 2015
- Changes state scholarship program
- 2014 Assembly required administration to include a plan to allocate Authority programs to other agencies as part of the FY 2016 budget
HEAA Background

- Authority created by law in 1977
- Governed by nine-member board
  - 8 appointed by governor for 5-year terms:
    - Five members with educational or financial expertise
    - Three members with recommendation of educational associations
  - General Treasurer, ex-officio member
- Acts as guaranty agency under agreements with lenders and U.S. DoE

HEAA Background

- Congress passed legislation ending subsidies to lenders and originating all loans directly with federal government effective July 2010
- Authority continues to manage existing remaining portfolio
  - Current estimation for loan portfolio extinguishment: 2-4 years
HEAA Background

- Paid by federal government for default aversion activities
  - Historically generated enough income to support other agency programs
  - Operating reserves ~ $28 million as of June 2014
- December 2013, federal budget significantly reduced guaranty agency revenue by approximately 50%

HEAA Background

- Authority’s FY 2015 revised and FY 2016 budget requests address declining revenues:
  - Privatize remaining guaranty work
  - Reduce staffing levels to 15.0 FTE from 22.0
    - Retain some staff to administer the contract
- Other states (Colorado, Georgia, and Maine) have transferred their loan portfolios to 3rd parties
HEAA Background

- Scholarship and Grants
  - Need-based student financial assistance
- Tuition Savings
  - CollegeBound fund is a qualified state tuition savings program
- Federal Loans
  - State’s designated guaranty agency
  - Loan guarantees, application processing, repayment management, default aversion and collection, etc.

WaytogoRI - Background

- WaytogoRI: free, Internet-based program to explore educational and career goals
  - Available to all public and many private schools
- HEAA has contract with XAP to host site and provide maintenance
  - Contract expires in June, 2016
  - Funded from federal Guaranty sources
CollegeBoundfund - Background

- Qualified state tuition savings program
- Fees paid primarily by out-of-state participants
  - Fees generated $8.1 million in FY 2014
  - Primarily used to fund scholarships and grants program and administrative expenses
- 20 states have their Office of General Treasurer administer their 529 college savings (CollegeBoundfund) programs

CollegeBoundfund - Background

- At September 25, 2014 meeting, Board approved new CollegeBound Baby Program
- AllianceBernstein pays $100 for every baby born in Rhode Island each year
  - Approximately 11,000 a year
- There is no change to this program proposed in budget - not funded through state budget
Need Based Scholarships and Grants
- Established by statute in 1977; available only to Rhode Island residents
- Eligibility and need determined from information submitted on the FAFSA
- Statutory minimum $250, maximum $2,000
- Board sets maximum
  - $500 for FY 2015
  - Average award is $435

<table>
<thead>
<tr>
<th>Element</th>
<th>Statutory</th>
<th>Board Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formula for calculating need</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Max/Min Award</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Amount of Award</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Type of Institution (in state/out of state)</td>
<td>X</td>
<td></td>
</tr>
</tbody>
</table>

Total funding is subject to appropriation
 Scholarships and Grants - Background

- Awards first come, first served
- In FY 2014:
  - 18,355 students received awards
    - ~75% in-state
    - ~25% out-of-state
  - Average grant award of $664
    - Covers 5% of average student's need
    - 52.2% of eligible recipients received awards
### Scholarship and Grants - Background

<table>
<thead>
<tr>
<th>Institution</th>
<th>FY 2014 Tuition and Fees</th>
<th>Percent Covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community College of Rhode Island</td>
<td>$3,950</td>
<td>16.8%</td>
</tr>
<tr>
<td>Rhode Island College</td>
<td>$7,602</td>
<td>8.7%</td>
</tr>
<tr>
<td>University of Rhode Island</td>
<td>$12,506</td>
<td>5.3%</td>
</tr>
<tr>
<td>Bryant University</td>
<td>$38,199</td>
<td>1.7%</td>
</tr>
<tr>
<td>Providence College</td>
<td>$43,115</td>
<td>1.5%</td>
</tr>
<tr>
<td>Brown University</td>
<td>$47,434</td>
<td>1.4%</td>
</tr>
</tbody>
</table>

Most states do not award grants to students attending out of state schools:
- Vermont is the only other regional state.

Most states do not have reciprocal agreements with other states:
- Rhode Island has agreements with Massachusetts and Pennsylvania.
- Connecticut and Maine do not have reciprocal agreements.
- New Hampshire has no grant program.
<table>
<thead>
<tr>
<th>Article 7 - HEAA</th>
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<tbody>
<tr>
<td>▪ Article 7 replaces state’s need based scholarship and grants program formula and eligibility requirements with a more flexible state grant program under direction of Commissioner of Postsecondary Education</td>
</tr>
<tr>
<td>▪ Budget directs $11.4 million to two new programs</td>
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<thead>
<tr>
<th>Article 7 - HEAA</th>
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</thead>
<tbody>
<tr>
<td>▪ Removes eligibility and formula from law</td>
</tr>
<tr>
<td>▪ Eligibility “shall be determined by Office of the Postsecondary Commissioner”</td>
</tr>
<tr>
<td>▪ Number of awards “contingent upon the funds allocated”</td>
</tr>
<tr>
<td>▪ Office of Postsecondary Commissioner shall promulgate rules and regs.</td>
</tr>
</tbody>
</table>
Article 7 - HEAA

- **Last Dollar Scholarship** - $10.1 million
  - From tuition savings fees & reserve funds
  - Students with academic performance & financial need
- **Dual Enrollment Incentive** - $1.3 million
  - From tuition savings fees
  - For qualified high school students to earn college credit at no cost to the student
- Funding sources not identified in article

<table>
<thead>
<tr>
<th></th>
<th>FY 2015 Enacted</th>
<th>FY 2016 Gov.</th>
<th>Chg. To Enacted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Need-Based Scholarships</td>
<td>$12.1</td>
<td>$-</td>
<td>($12.1)</td>
</tr>
<tr>
<td>Last Dollar</td>
<td>-</td>
<td>10.1</td>
<td>10.1</td>
</tr>
<tr>
<td>Dual Enrollment</td>
<td>-</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$12.1</strong></td>
<td><strong>$11.4</strong></td>
<td><strong>($0.7)</strong></td>
</tr>
<tr>
<td><strong>Sources</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuition Savings Fees</td>
<td>$8.0</td>
<td>$7.4</td>
<td>($0.6)</td>
</tr>
<tr>
<td>Guaranty Agency Reserves</td>
<td>$4.1</td>
<td>$4.0</td>
<td>($0.01)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$12.1</strong></td>
<td><strong>$11.4</strong></td>
<td><strong>($0.7)</strong></td>
</tr>
</tbody>
</table>
Guaranty Agency Operating Reserves

<table>
<thead>
<tr>
<th>Balance as of June 2014</th>
<th>$28.0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Last Dollar Scholarship FY 2016</td>
<td>(4.0)</td>
</tr>
<tr>
<td>FY 2017</td>
<td>(4.0)</td>
</tr>
<tr>
<td>FY 2018</td>
<td>(4.0)</td>
</tr>
<tr>
<td>FY 2019</td>
<td>(4.0)</td>
</tr>
<tr>
<td>FY 2020</td>
<td>(4.0)</td>
</tr>
<tr>
<td>FY 2021</td>
<td>(4.0)</td>
</tr>
<tr>
<td>FY 2022</td>
<td>(4.0)</td>
</tr>
<tr>
<td>Ending Balance FY 2023</td>
<td>$0</td>
</tr>
</tbody>
</table>

Law is silent but initial discussions indicate intent is for grants to go to in-state public institutions only.

Other questions not addressed in proposed legislation:
- How and when will grants be determined?
- Will other types of institutions be eligible for funds?
  - Out-of-state, private
- Resources beyond reserves?
Article 7 - HEAA

- Transfers all powers, duties, authority and resources of HEAA to
  - Council for Postsecondary Education
    - Establishes new Division of Higher Education Assistance
    - $19.1 million and 15.0 full-time positions
  - Treasurer’s Office
- Authority & its corporate existence end on July 1, 2015

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<table>
<thead>
<tr>
<th>Program</th>
<th>Authority/Responsibility</th>
<th>Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Need-based scholarships and grants</td>
<td>OPC</td>
<td>OPC</td>
</tr>
<tr>
<td>Guaranty Agency</td>
<td>OPC</td>
<td>OPC</td>
</tr>
<tr>
<td>CollegeBound fund</td>
<td>Treasurer*</td>
<td>OPC</td>
</tr>
<tr>
<td>WaytogoRI</td>
<td>OPC</td>
<td>OPC</td>
</tr>
</tbody>
</table>

*no funding or positions provided
Article 7 - HEAA

- Amendment requested April 13
  - Governor to appoint members to New England Board of Higher Ed
  - Council on Postsecondary Education will be employer of record for division of higher education assistance
  - Council empowered to hold and operate property formerly held by Authority in trust for state
  - Corrects several typos and drafting errors

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