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State of Rhode Island
Budget
Office
Department of Administration

State Fiscal Note for Bill Number: 2017-H-5143

Date of State Budget Office Approval:

Date Requested: **Friday, March 24, 2017**

Date Due: **Monday, April 03, 2017**

Impact on Expenditures		*Impact on Revenues*	
FY 2017	$0	FY 2017	$0
FY 2018	$0	FY 2018	$0
FY 2019	$3,294,000	FY 2019	$0

Explanation by State Budget Office:

This Act sets forth new RIGL Chapter 16-62.2, entitled "The Get on your Feet Loan Forgiveness Program". This program provides two years (or, in certain cases, more than two years) of last-dollar, state-subsidized student loan forgiveness for students graduating from the following institutions on or after July 1, 2018: (1) The University of Rhode Island; (2) Rhode Island College; (3) The Community College of Rhode Island; or (4) New England Institute of Technology. The other major eligibility requirements include students' participation in (or application for) the Federal "Pay as You Earn" loan repayment program (PAYE), attendance at any of the above-cited schools (or a combination thereof) for a minimum of two years, continued residency in the State for at least two years post-graduation, and gross earnings of less than $50,000 per annum in the corresponding year(s) of program eligibility.

The program shall be administered by the Rhode Island Student Loan Authority (RISLA), which maintains full control over the initial application, review, and approval process, subject to program rules and regulations promulgated under the authority granted in Section 16-62.2-7, entitled "Regulations".

The bill further provides for "continued eligibility" beyond the standard two-year subsidy if the beneficiary in question is employed in a sector deemed an area of "high needs for employment in the state", including (but not limited to) "STEM" fields, specialized health care, and specialized manufacturing. Section 16-62.2-6 of this bill establishes a "State High Needs Council" consisting of the six commissioners/directors (or their designees) of the following state entities: The Rhode Island Student Loan Authority, the Office of Postsecondary Education, the Commerce Corporation, and the Departments of Business Regulation, Elementary and Secondary Education, and Health. The State High Needs Council is charged with annually designating those areas of employment requiring a greater workforce presence in the state for Rhode Island to remain economically competitive vis-à-vis other states. In conjunction with the Student Loan Authority, the Council will review all applications for continued eligibility in the loan forgiveness program.

The bill prescribes a 4-year phase-in of the program, wherein 25 percent of periodic interest and principal loan repayments are subsidized in FY 2018, 50 percent in FY 2019, 75 percent in FY 2020, and 100 percent in FY 2021 and thereafter. Because of this timeframe and the aforementioned requirement that all future beneficiaries must graduate on or after July 1, 2018, the bill contains a minor internal

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inconsistency: assuming no prepayments of outstanding student loans prior to graduation for an otherwise eligible program recipient, there is no FY 2018 financial exposure to the state, regardless of the bill's phase-in parameters. The nonzero fiscal impact therefore commences in FY 2019, with a 50 percent subsidy. It is not clear if this is a bill drafting oversight or actual legislative intent.

Comments on Sources of Funds:

The bill does not explicitly designate a source of funds in support of this program, simply stating that "the State of Rhode Island will pay the difference between what the federal government covers and the individual's periodic loan payment that is due over a set period." Given this context, and no other identifiable fund source, it is assumed that the program will be financed entirely via appropriations of general revenue.

Summary of Facts and Assumptions:

As discussed above, no fiscal impact is presumed in any fiscal year prior to FY 2019. Utilizing data obtained by the Budget Office from RISLA, the estimated FY 2019 fiscal impact is predicated on the following assumptions:

(1) The fiscal impact described herein assumes an annual cohort of 3,000 program participants in each year (the combined population of undergraduates receiving federal student loans during the 2014-2015 school year was approximately 20,000 throughout the four eligible institutions, based on data reported through IPEDS).

(2) Based on Federal PAYE program guidelines, monthly loan repayment amounts are estimated under the assumption of an average post-graduation student debt obligation of $25,000 (principal) within three distinct post-graduation income tranches: $30,000, $40,000, and $50,000. The reported aggregate fiscal impact is based on an unweighted average of the annual repayment schedule assigned for these three income levels, assuming all beneficiaries are PAYE participants.

(3) The following annual repayments amounts, based on PAYE guidelines for a $25,000 student debt liability (at level debt service), are as follows:
(a) $30,000 annual income = $1,224 repayment per year
(b) $40,000 annual income = $2,220 repayment per year
(c) $50,000 annual income = $3,144 repayment per year
(d) Average Repayment = $2,196 per year

(4) Based on the foregoing assumptions, assigning 1000 graduates to each of the three income tiers, the FY 2019 fiscal impact is determined as follows:
1000 X ($1,224 + $2,220 + $3,144) X 0.5 = $3,294,000. [Equivalently, $2,196 X 3000 X 0.5].

Note that the fiscal impact is linearly scalable to the beneficiary population, i.e., should the population double, the fiscal impact also doubles (or trebles, etc.).

Summary of Fiscal Impact:

FY 2017: $0
FY 2018: $0
FY 2019: $3,294,000

Illustrative purposes only:
FY 2020: 1000 X ($1,224 + $2,220 + $3,144) X 0.75 X 2 = $9,882,000
FY 2021 and beyond: 1000 X ($1,224 + $2,220 + $3,144) X 2 = $13,176,000

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