

Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE
Revised

House Bill 152 (Chairman, Ways and Means Committee)
(Departmental - Higher Education Commission)

Ways and Means

Higher Education - Repayment Obligations

This departmental bill requires that the interest rate on repayment obligations for scholarships that include a service obligation (Economic Development Student Assistance Grant, Distinguished Scholar grant for teachers, Developmental Disabilities and Mental Health Workforce Tuition Assistance, Maryland Science and Technology Scholarship, Maryland Teacher Scholarship, and the Maryland HOPE Scholarship) be calculated at an interest rate equal to that of the federal Stafford loan. Interest will not accrue prior to notification of a recipient's graduation or termination from an institution of higher education. The repayment obligation commences upon a recipient's graduation or termination from a higher education institution.

The bill applies retroactively to any applicable scholarship recipient who is in good standing under the scholarship program on the bill's July 1, 2000 effective date.

Fiscal Summary

State Effect: General fund revenues from defaulted student service obligation repayments would be reduced. To the extent that the bill causes an increase in the service obligation default rate of the scholarship programs, collection expenditures would increase. The bill is not expected to have a major impact on State finances.

Local Effect: None.

Small Business Effect: The Maryland Higher Education Commission (MHEC) has determined that this bill will have minimal or no impact on small business (attached). Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Current Law: The interest rate on the repayment obligation for scholarships that include a service obligation is the prime rate plus 2%. Interest accrues from the time of the acceptance of the award. The repayment obligation commences at the time of default.

Background: The Economic Development Student Assistance Grant Program provides financial assistance to students who pledge to work in fields of geographic or critical shortage in the State upon completion of their studies. The Governor's proposed fiscal 2001 budget includes \$2,497,837 in general funds for this program.

Under the Distinguished Scholar Program, which provides awards to the State's most outstanding high school students, a recipient pursuing a career in teaching may receive an additional \$3,000 per year. The Governor's proposed fiscal 2001 budget includes \$234,000 in general funds for these additional awards to education students.

The Developmental Disabilities and Mental Health Workforce Tuition Assistance Program provides awards to students enrolled in a degree program in human services who pledge to work in a nonprofit program providing community support services to individuals with developmental disabilities or mental disorders. The Governor's proposed fiscal 2001 budget includes \$1,000,000 in general funds for this program.

The Maryland Science and Technology Scholarship Program provides awards to qualified students who are pursuing a degree in designated fields in computer science, engineering, or technology. The Maryland Teacher Scholarship Program provides scholarships to students pursuing a career in teaching. The HOPE Scholarship Program focuses on fields of study of economic priority to the State. Award amounts for these three programs are \$3,000 for students attending a four-year institution and \$1,000 for students attending a community college. The Governor's proposed fiscal 2001 budget includes \$4,509,502 in general funds for the Science and Technology Scholarship Program; \$5,924,409 in general funds for the Teacher Scholarship Program; and \$2,382,182 in general funds for the HOPE Scholarship Program. Fiscal 2000 is the first year of operation for the Maryland Science and Technology Scholarship Program and the Maryland Teacher Scholarship Program. Fiscal 2001 will be the first year of operation for the HOPE Scholarship Program.

Students receiving a scholarship from any of these programs must pledge to work in the State (or specified area of the State) for a specified amount of time, or repay the funds received

plus interest.

The maximum interest rate for the federal Stafford student loan, one of the major types of federal student financial aid, is currently 8.25%. The prime rate of interest is currently 9%. This bill would change the current repayment rate for recipients of scholarships who default on their service obligation from 11% to 8.25%.

State Fiscal Effect: Revenues from defaulted student service obligation repayments, which revert to the general fund, would be reduced in future years as a result of the bill. The precise amount of any such revenue reduction cannot be determined. The amount would be dependent on factors including future default rates, future interest rates, and future repayment amounts.

To the extent that the bill causes an increase in the service obligation default rate of the scholarship programs, collection expenditures would increase.

MHEC advises that its historical default rate for scholarship programs with service obligations is well below 1%. It is therefore expected that this bill would not have a major impact on State finances.

In making it more attractive for students to accept scholarships with service obligations, the bill could result in more scholarship applicants and/or recipients (without affecting funding levels).

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Higher Education Commission, Department of Legislative Services

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Analysis by: Claire E. Rooney

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510