FISCAL SENATE sfa AGENCY

# SENATE FISCAL AGENCY
# MEMORANDUM

**DATE:** June 20, 2019

**TO:** Members of the Appropriations Subcommittee on Talent and Economic Development and Members of the Senate Committee on Economic & Small Business Development

**FROM:** Josh Sefton, Fiscal Analyst

**RE:** Cost Estimates for Senate Bills 267 and 268 (Michigan Opportunity and Reconnect programs)

As part of her recommendation for the fiscal year 2019-20 State budget, Governor Whitmer included two new college scholarship proposals, the Michigan Reconnect program and the Michigan Opportunity Initiative. These two programs were introduced in the Senate as Senate Bill (SB) 268 (Michigan Reconnect) and Senate Bill 267 (Michigan Opportunity). The purpose of this memo is to discuss the fiscal implications of these bills, detail how the estimates were derived, and to discuss potential risks to their validity. The estimates provided should be considered preliminary and are based on the introduced versions of each bill. Changes to the bills could result in potentially significant changes to cost estimates.

## Summary of Fiscal Impacts for Senate Bills 267 and 268

In total, the ongoing annual fiscal impact of SB 267 (Michigan Opportunity) is estimated at $225.7 million per year, and, for SB 268, $44.8 million per year. The table below provides a summary of these estimates on an ongoing basis. Because both programs would provide scholarships over multiple years, there would be some cost phase-in that eventually would reach the estimated levels. Additionally, tuition increases over time gradually would increase the cost of these programs. The estimates provided use today's tuition levels to provide the estimates for ongoing costs, and do not take tuition increases into account.

It also is important to note that both bills specify that the scholarships that each bill would provide would be subject to appropriation. If the Legislature appropriated an amount for these programs that was insufficient to fully fund Reconnect and/or Opportunity awards for a given year, the Department of Treasury presumably would have to prorate awards in some way to ensure that the amounts actually paid stayed within their appropriations.

**Cost Estimates for Michigan Opportunity Initiative and Michigan Reconnect (millions of dollars)**

| Program | Year 1 | Year 2 | Year 3 | Year 4 & ongoing |
|---|---|---|---|---|
| Michigan Reconnect (SB 268) | $27.0 | $38.4 | $41.6 | $44.8 |
| Michigan Opportunity - Phase I (SB 267) | 67.5 | 108.7 | 108.7 | 108.7 |
| Michigan Opportunity - Phase II (SB 267) | 62.5 | 117.0 | 117.0 | 117.0 |
| **TOTAL** | **$157.0** | **$264.1** | **$267.3** | **$270.5** |

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**Estimate Details for the Michigan Reconnect Program (SB 268)**

The cost estimate for Reconnect of $44.8 million is calculated based on a number of assumptions. According to the Integrated Postsecondary Education Data System (IPEDS), there were 9,553 full-time students and 46,451 part-time students over the age of 25 enrolled at a Michigan community college for the fall of 2017. The cost analysis assumes that 100% of full-time students and 74.3% of part-time students are enrolled in a degree-seeking program, a necessary condition to receive a grant award from Reconnect. States with similar programs, such as Oregon and Tennessee, experienced an increase in enrollment following the enactment of their programs of about 17%. Accounting for the percent of students in degree-seeking programs and a likely increase in enrollment, the number of students that could be eligible would be 11,177 full-time students and 42,428 part-time students.

As introduced, the Michigan Reconnect program is a last-payer tuition grant, meaning the State would cover tuition and mandatory fees after all Federal, State, and private sources of scholarships and gift aid have been applied against a student's tuition. It is estimated that the net cost per student after these scholarships is $2,366 per year for full-time students, and $737 for part-time students. These figures result in a total cost of $57.7 million per year if every single student over 25 applied and were eligible for the Michigan Reconnect program. The Tennessee Reconnect program, which is substantially similar to the proposed Michigan Reconnect program, has an application acceptance rate of 57.6%. It is unknown whether this rate would be similar in Michigan, but it almost certainly would be less than 100%, as there are community college students over the age of 25 who would not qualify due to having previously earned an associate's or bachelor's degree, not meeting the residency requirement, not taking the minimum of six credit hours per semester, failing to complete a FAFSA, or simply declining to apply for the program. This analysis also assumes that 25.7% of part-time students would not receive Michigan Reconnect since they are not in a degree-seeking program. It is possible, though, that a number of these students would apply anyway and, therefore, would compose a portion of the percentage of applicants who would not receive the scholarship. Accordingly, the cost estimate for the Michigan Reconnect is derived using Tennessee's application acceptance rate with a 20-percentage-point buffer as a likely maximum, which produces a cost estimate of $44.8 million per year.

**Estimate Details for the Michigan Opportunity Initiative (SB 267)**

The Michigan Opportunity Initiative is projected to have a cost of approximately $225.7 million per year on an ongoing basis, with costs that would increase each year based on increases in tuition and the cost of success coaches for recipients at community colleges. Michigan Opportunity would be split into two phases: Phase I would provide a last-payer scholarship for necessary tuition and fees for recent Michigan high school graduates who attended a community college and participated in the success coaches program that would be established under the bill. It is estimated that that Phase I would cost about $67.5 million in the first year, and $108.7 million in subsequent years. Phase II would provide a scholarship of $2,500 per year to recent Michigan high school graduates who attended a public or private university in Michigan, had a high school grade point average of at least a 3.0, and had a household income of less than $80,000 per year. It is estimated that Phase II would cost about $62.5 million in the first year, and $117.0 million in subsequent years.

Like the estimate for Michigan Reconnect, the cost estimate for the Michigan Opportunity Initiative is based on a number of necessary assumptions. For Phase I, the community colleges portion of the Initiative, the ongoing cost estimate of $108.7 million starts with a universe of all high school graduates, which for 2017 was 102,286 from public schools and an estimate of 6,989 from private schools, for a total of 109,275. According to data from the Center for Educational Performance and Information (CEPI), 27.1% of 2017 high school graduates enrolled in a community college within 12 months of their high school graduation and, of those, 74.4% were enrolled in a degree-seeking program. This yields an annual cohort of 22,018 incoming first year community college students who presumably would be eligible for Phase I. According to data from IPEDS, Michigan community colleges have an average annual retention rate of about 61.0%, so the estimate assumes that 13,431 students from each cohort will return to community college for a second year. Adding new first year students to returning students provides a total of 35,448 students who likely would receive Phase I of the Michigan Opportunity Initiative each year. The cost estimate uses the same cost per full-time student of $2,366 as the Michigan Reconnect, but also adds an estimate of $700 per student per year for the student success coaches program, for a total cost per student per year of 3,066, and a total ongoing program cost of $108.7 million per year.

Phase II provides scholarships at four-year institutions, the ongoing cost estimate of $117.0 million begins with the number of 2018 incoming freshmen at each public university, as reported to the Higher Education Institutional Data Inventory (HEIDI), and an estimate for private institutions based on their total enrollment as reported to IPEDS, multiplied by the average freshmen-to-all-undergraduates ratio of public universities. For 2018, the total number of freshmen at four-year public and private institutions was 41,693.

As introduced, SB 267 specifies that, to be eligible for a scholarship under Phase II of the Michigan Opportunity Initiative, a student would have to maintain a 3.0 grade point average or equivalent, and would need to have a household income of $80,000 per year or less. There are no statewide databases that track grade point averages for either high school or college students, but data from the United States Census indicate that approximately 60% of households in Michigan have an annual income of $80,000 or less. Since there are no reliable grade point average data, this estimate uses only income to restrict the universe of likely scholarship recipients. Once that limit is introduced, the number of likely incoming freshman who would receive the scholarship each year is reduced to 25,016. Since the scholarship would be available for two years, the estimate uses the three-year average student retention rate from IPDES to estimate the number of eligible students who would return for a second year. What is not included in that retention rate are students who move from one four-year university to another, as limited data exist. The estimate assumes that a third of students who transfer out of a university after their freshman year will enroll at another university for their sophomore year and remain eligible for the scholarship. In total, the two-year cohort (e.g. the total number of students who could claim the scholarship at any given time) for public and private four-year institutions is estimated at 46,801 students at a total cost of $117.0 million for Phase II.

**Estimate Risks**

Due to the number of assumptions inherent in producing an estimate for a program such as the Michigan Reconnect, there are risks to the cost estimate that should be discussed. These risks include changes to financial aid receipts, higher-than-estimated scholarship receipt rates, increases in community college enrollment based on changing economic conditions, and tuition increases. The risk estimates discussed below are presented individually; if more than one of these scenarios occurred simultaneously, the additional costs likely would compound upon one another.

The first risk is that the cost per student assumes that future students and new students who otherwise would not have attended a community college would receive the same average level of financial aid per student. According to the 2018 Michigan Community College Data Inventory (MCCDI), community colleges received a total of $641.1 million in tuition and fee revenue, and the most recent IPEDS data indicate the receipt of a total of $355.4 million in total financial aid by community college students in 2018. This would leave about $285.7 million in tuition and fees above financial aid received. Divided among 120,724 full-year equated students (FYES), there is about $2,366 per FYES in tuition and fees above financial aid received that would be covered by the State for students who qualified for Michigan Reconnect. If the total financial aid received by community college students decreased for some reason, that decrease would increase the per-FYES cost of Michigan Reconnect on a dollar-for-dollar basis.

The largest single source of student financial aid for community college students is Federal Pell grants, which would be unlikely to change significantly following the enactment of the Michigan Reconnect. Similarly, unless the Legislature reduced State scholarship programs to help fund the Michigan Reconnect program, receipt of those scholarships by community college students would be unlikely to change. Of the $355.4 million in total financial aid received by community college students in 2018, Pell grants and State scholarship programs comprised a total of $295.2 million in 2018. The remaining $60.2 million in aid is from other sources, including private scholarships, other Federal grants, and institutional aid. The existence of a State last-payer program, such as the Michigan Reconnect could influence the behavior of the institutions that issue these scholarships. In the unlikely scenario that *all* of these other forms of aid would cease to be available to community college students, the cost of Michigan Reconnect would increase by about 21.0%, increasing the cost from $44.8 million to $54.2 million per year. Such a change also would affect Phase I of the Michigan Opportunity Initiative, increasing its cost to $131.5 million, and the total cost of the Initiative to $248.5 million.

Changes in community college enrollment would affect costs for both Michigan Reconnect and Michigan Opportunity. Enrollment in community colleges is economically countercyclical, meaning as the economy improves, students leave community colleges or decline to enroll, presumably because economic opportunities exist that are perceived to be preferable to attending a community college. The opposite also is true; community college enrollment increases as economic conditions deteriorate. In 2010, community college enrollment peaked at 177,277 FYES statewide, compared with 120,724 FYES in 2018. If the economy entered another recession, it would be reasonable to assume that community college enrollment would increase, and more residents would apply for these scholarship programs. The data suggest that this economic variability would primarily affect costs of the Michigan Reconnect, as the decision of recent high school graduates to attend a community college within 12 months of graduation is not as significantly influenced by economic conditions as it is with older students. In terms of the impact on the cost estimate for Michigan Reconnect, if the number of students who received the scholarship were proportionate to increased enrollment, the cost of reconnect could be as high as $65.8 million per year in a weak economy.

Another risk to the estimate for Michigan Reconnect is the use of Tennessee Reconnect's scholarship receipt rate of 57.7%. The Tennessee program is relatively new and only has one year of data. It is possible that the rate for the first year is not indicative of future rates of receipt because applicants and institutions are not yet familiar with the program application, or other reasons that can be associated with new programs with which the public is not yet familiar. While the cost estimate provided in this analysis takes that into account by providing a range using

Tennessee's rate as a minimum, if 100% of applications for Reconnect were approved, the cost of the program would be $57.7 million per year.

The final estimate risk is tuition rates. Federal Pell grants and State scholarships offset a significant portion of what otherwise would be costs incurred by Michigan Reconnect and Opportunity, and they do not necessarily increase when tuition does, if they do at all. This means that tuition increases could increase the costs of the community college portions of Reconnect and Opportunity proportionately; for example, a 5% tuition increase would result in a likely 5% increase in the costs of these programs. According to data collected by CEPI, the average tuition and fee revenue per FYES at community colleges has increased by 58.2% since 2009. Since the four-year institution portion of Michigan Opportunity is not tied to tuition, its cost would not increase with tuition.

**Conclusion**

In total, the Michigan Opportunity Initiative and Michigan Reconnect programs contained in Senate Bills 267 and 268 would have an estimated cost of $225.7 million and $44.8 million, respectively. These estimates are at today's tuition rates and are subject to a number of assumption risks outlined in the last section of this memo. These estimates were created using the as-introduced versions of each bill and likely would change if substantive changes were made to the bills. Finally, these estimates could change as the bills move through the process and new or updated data and information are made available.

/mh

c: Christopher Harkins, Director
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