

- SUBJECT:** Abolishing the Texas B-On-time student loan program
- COMMITTEE:** Higher Education — committee substitute recommended
- VOTE:** 7 ayes — Zerwas, Howard, Alonzo, Crownover, Martinez, Raney, C. Turner
- 1 nay — Morrison
- 1 absent — Clardy
- WITNESSES:** For — None
- Against — Garrett Groves, Center for Public Policy Priorities;
(*Registered, but did not testify:* George Torres)
- On — Joseph Pettibon, Texas A&M University; John Rudley, Texas Southern University; Lisa Blazer, University of Texas at San Antonio;
(*Registered, but did not testify:* Ken Martin, Texas Higher Education Coordinating Board)
- BACKGROUND:** The Texas-B-On-time Loan program, as outlined in Education Code, Title 3, subch. Q, is a no-interest college loan program administered by the Texas Higher Education Coordinating Board. B-On-time loans are forgiven if a student graduates within four or five years, depending on the program, and maintains a 3.0 GPA.
- To be eligible to receive a B-On-time loan, students must meet certain qualifications. For example, they must be eligible for financial aid, but no specific financial need beyond that is required. Loans may be provided to resident baccalaureate students at public or private institutions in Texas. Students may renew B-On-time loans in subsequent semesters or terms as long as they fulfill certain performance measures and other eligibility requirements.
- According to Education Code, sec. 56.011, public higher education

institutions must set aside at least 20 percent of all tuition collected for resident undergraduates that is more than \$46 per semester credit hour to be used for student financial assistance. Education Code, sec. 56.465 further stipulates that 5 percent of the tuition charged to a resident undergraduate student in excess of \$46 per semester credit hour be deposited into the B-On-time student loan account. This 5 percent is considered part of the 20 percent required to be set aside under sec. 56.011.

DIGEST: CSHB 700 would abolish the Texas B-On-time loan program, phasing out the program over the next five years. The bill also would make changes to the tuition set-aside that institutions are required to collect under Education Code, secs. 56.011 and 56.465.

CSHB 700 would direct the Texas Higher Education Coordinating Board to cease making new B-On-time loan awards beginning the fall semester of 2015. The bill would allow renewal of awards received before September 1, 2015, for eligible students until a term before the fall semester of 2020, as long as those students continued to meet eligibility requirements. On September 1, 2020, the Texas B-On-time account from which the loans are made would be abolished.

Following the termination of the B-On-time loan program, any balance left in the Texas B-On-time account would be redistributed to eligible institutions by the coordinating board. The bill would require the coordinating board to develop a formula to fairly allocate these remaining funds to institutions at which the B-On-time program was underutilized. The loan program would be considered underutilized if the institution's percentage of the total tuition set-aside for the program across all institutions was greater than the percentage of students at that institution who received a B-On-time loan for the same period.

CSHB 700 would also abolish the 5 percent tuition set-aside required of institutions for the B-On-time loan program. The percentage each institution would be required to pay as a tuition set-aside would decrease from at least 20 percent of all tuition over \$46 per semester credit hour to

at least 15 percent over that amount. These tuition set-aside changes would take effect the fall semester of 2015.

CSHB 700 would make several technical and conforming changes to the Education Code related to the abolishment of the B-On-time program.

The bill would take effect September 1, 2015.

**SUPPORTERS
SAY:**

CSHB 700 would abolish a financial aid program that has been underutilized, inequitable, and ineffective.

Since the program's inception, millions of dollars in general revenue and tuition set-asides for the B-On-time program have sat unused in a general revenue account. The Sunset Advisory Commission's review of the Texas Higher Education Coordinating Board for the 83rd Legislature revealed that few schools that contributed set-aside funds to the B-On-time program recaptured much or any of the money paid into the account.

Many schools end up paying more into the program in tuition set-asides than the schools can use to help their students. This especially has been true for schools serving larger populations of students who might struggle to graduate with a B average in four years, as required by the program. Such circumstances result in an unfair taking of resources from these schools that is being redistributed to institutions with students who are more likely to take advantage of and succeed in the program.

The tuition set-asides collected for B-On-time and other financial aid programs amount to a tax on certain middle-class families. Those who do not qualify for aid end up paying higher tuition so that schools can redistribute this money to other families. CSHB 700 would abolish this unfair practice by eliminating the 5 percent set-aside for the B-On-time program and reducing the overall tuition set-aside requirement to 15 percent. Although funds that schools could keep by removing the 5 percent set-aside would not have to be used for financial aid purposes, schools are empowered to determine the best use of that money at their specific institution. If an institution favored the B-On-time program, these

funds could be used to create a local version of the fund.

CSHB 700 also would ensure that schools that had been paying into the B-On-time program without receiving much benefit would receive a fair allocation of leftover funds when the account was closed in 2020. These allocations would allow these institutions to use the funds, in addition to the money that otherwise would have been paid into B-On-time, for tailored, institution-specific interventions or incentives to accomplish the original goals of the B-On-time program at their own campuses. The allocation in 2020 to institutions that underutilized the program funding would not simply reward these schools for failing to commit to the success of the program. Rather, it would reflect the reality that the program has not served certain institutions' students well and that the burden of promoting the program outweighed the utility of students knowing about it.

Abolishing the B-On-time program under CSHB 700 would allow the Legislature to focus on programs that serve more students more effectively, such as the TEXAS Grant program, which benefits a larger and higher-need student population.

B-On-time requirements can be difficult for students to understand and meet. Many students change majors, are commuters, take time off, or work part-time while in school and may not complete their degrees under the time and GPA constraints required to have their loans forgiven. Students who do take advantage of the program have not succeeded at the rate desired, and when students do not succeed, these loans have a higher default rate than other loans. Those students who do complete the program risk being stuck paying substantial taxes for the forgiven debt right as they leave school to pursue a career.

Due to federal regulations, schools must follow several burdensome requirements to be able to advertise or promote B-On-time loans. Therefore, many students do not know about the program because it is not promoted. Efforts to change these federal regulations are unlikely to happen anytime soon, while the state grapples with rising tuition costs and

an increased need for college graduates. The program also is not well known because funding over the years has been inconsistent, and many students and schools do not pursue it because they have heard that the program may not be continued. This has resulted in a dwindling number of students being served by B-On-time. While some statistics reflect that students in B-On-time have better graduation rates than students receiving other types of financial aid, the number of students in B-On-time relative to other aid programs is so small that any comparison is unreliable and insignificant.

CSHB 700 would help increase budget transparency, which is a priority for the Legislature this session. Other legislation introduced this session could enable institutions to spend down the funds for the B-On-time account for purposes other than the program. With so many students in need of financial aid, these funds should not be used to certify the budget. Renewal funding to institutions over the next five years would not necessarily be proportionate to what each institution paid into the loan account, but CSHB 700 would demonstrate a commitment by the state to those students currently receiving the loans to see them through the rest of their baccalaureate programs.

The bill would provide a good strategy for abolishing the B-On-time program, phasing out the loans so that students currently receiving the funds would not be left without the aid on which they have come to rely.

**OPPONENTS
SAY:**

CSHB 700 would eliminate a financial aid program that has never been given a real chance to succeed. The concerns about the program could be remedied easily and are not an indication of whether the concept itself is good. The coordinating board could be empowered by the Legislature to redistribute funds differently, or the program could serve a more targeted population. Efforts are underway at the federal level to change restrictions on promoting loan programs like B-On-time.

The B-On-time program has received inconsistent funding over its short existence, hindering its ability to serve large numbers of students and making its future uncertain for many would-be recipients. The outcomes

the program has seen, even without reaching full potential, have been positive. An encouraging percentage of students complete the program successfully. These students also boast higher and more timely graduation rates than those in other financial aid programs. Further, these loans are issued by the state interest-free, so even when students do not complete the program, they receive a great benefit. Rather than abolishing the B-On-time program, the Legislature could commit to funding the program for 10 years, which would give the program a better chance to establish itself, gain popularity, and yield useful data about its efficacy.

CSHB 700 would remove an innovative financial aid program at a time when financial aid has not kept pace with the cost of a college education, Texas has low college graduation rates, and students often take longer to graduate than expected. Texas has an urgent need for college-educated workers. B-On-time is vital for middle-income families, who do not qualify for most need-based aid programs, to access higher education. Abolishing this program would remove an effective tool to combat these issues. While there is hope behind CSHB 700 that institutions would take the funds previously set aside for B-On-time and reinvest them in their own efforts to improve graduation rates and student success, nothing in the bill would require this.

The B-On-time program is one of the only programs in the country to incentivize timely graduation, and it has become a national model. The program is fiscally strategic, requiring students to perform and achieve specific outcomes to receive state funds interest free. Many other state financial aid programs invest money in students only to see them take longer to finish their degrees and accrue more state aid or not finish at all. Rather than eliminating the B-On-time program, the state should use it as a model for all other forms of state financial aid.

OTHER
OPPONENTS
SAY:

The redistribution of B-On-time funds left in the general revenue account as outlined in CSHB 700 would not be effective or equitable. The bill should address specifically how the distribution for renewals should be made. SB 215 by Birdwell, enacted by the 83rd Legislature, allows public universities to receive B-On-time funding proportionate to the amount of

tuition set-asides collected. CSHB 700 would not specify whether the funding for loan renewals during the remaining years of the program would be proportionate to the amount of tuition set-asides collected.

Moreover, the bill's wind up method for the account would use a definition for "underutilized" that unfairly could impact some institutions. While an institution might have had a relatively high number of B-On-time loan recipients compared to other institutions, it still could be allocated only a small percentage of funding compared to what it contributed in tuition set-asides for the program. This allocation method would seem to reward institutions who had not worked hard the past decade to promote and improve the B-On-time program, allocating more of the funds to schools that have had few B-On-time recipients.