HB 605

Department of Legislative Services

Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 605 (Delegate Kaiser, *et al.*)
Ways and Means

State Student Loan Refinancing Program - Market-Specific Consultant Study

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This bill requires the Maryland Health and Higher Educational Facilities Authority (MHHEFA) to engage an outside consultant to conduct a market-specific study to determine the costs of, demand for, and long-term viability of a State student loan refinancing program. If the fiscal 2019 budget does not include $250,000 for the study, then that amount of funding is mandated in fiscal 2020. MHHEFA must review the report and make comments and recommendations to specified committees of the General Assembly. **The bill takes effect June 1, 2018, and terminates June 30, 2020.**

Fiscal Summary

State Effect: The Governor's proposed FY 2019 budget does not include funding for the study. Thus, it is assumed that general fund expenditures increase by $250,000 in FY 2020. Nonbudgeted revenues and expenditures increase as discussed below. **This bill establishes a mandated appropriation for FY 2020.**

(in dollars)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
NonBud Rev.	$0	$250,000	$0	$0	$0
GF Expenditure	$0	$250,000	$0	$0	$0
NonBud Exp.	$0	$250,000	$0	$0	$0
Net Effect	$0	($250,000)	$0	$0	$0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The market-specific study conducted by the consultant must examine all of the areas recommended in an October 2017 student loan refinancing report coauthored by MHHEFA and the Department of Legislative Services (DLS), with assistance from the Maryland Higher Education Commission (MHEC), including:

- a cost analysis;
- a demand analysis;
- an analysis of the competitive landscape of the student loan refinancing marketplace;
- the potential savings borrowers might realize and the potential economic impact on the State; and
- the financial implications of establishing a direct student loan program in addition to a student loan refinancing program.

Within three months of being engaged by MHHEFA to conduct the study, the consultant must report to the authority on each of the areas the study is required to examine. The consultant's report must include (1) information on and analysis of each of the areas the study is required to examine; (2) a description of the methodologies used in the study; and (3) findings and recommendations regarding each of the areas the study is required to examine.

Current Law/Background: Chapter 290 of 2016 required MHEC and MHHEFA, in consultation with DLS and any other appropriate agencies, to study the expansion or creation of an appropriate bonding authority for the refinancing of student loans in Maryland.

The study required by Chapter 290 was anticipated to be completed by a consultant hired by MHEC with access to market-specific data. The fiscal and policy note for the legislation anticipated $50,000 in funding for the consultant, an estimate that has since been increased to $100,000 to $250,000; however, no funding was provided by the Governor. Absent that funding, MHHEFA and DLS undertook the study directly with consultation from MHEC. The study was completed in 2017; however, in the absence of funding for a consultant, the study was unable to determine whether establishing a State student loan refinancing program is advisable. The study can be found on the DLS website.

The study strongly recommends that, if the State wishes to pursue establishing a program, a consultant first be hired to conduct a market demand analysis and determine the costs and viability of establishing a State program. The study made a number of additional recommendations related to the consultant study that are incorporated into the bill, including the agency that should direct it (MHHEFA) and mandated funding.

The study also notes that, even if the consultant study were to determine that a State student loan refinancing program is feasible, it remains a policy decision as to whether establishing a program is the best use of the State's limited financial resources. Preliminary estimates place start-up costs at 25% to 30% of an initial program size, with the majority of this amount being used as a credit enhancement for the bonds issued to fund the program. Additional funding for operating costs, which could range from $0.5 million to $1.0 million annually for several years before a program is self-funding, would also be required. Some or all of the funding for these costs may need to be in the form of a grant and/or a loan from the State.

State Fiscal Effect: The Governor's proposed fiscal 2019 budget does not include funding for the study. Therefore, this analysis assumes that the funding is provided in fiscal 2020. Accordingly, general fund expenditures increase by $250,000 in fiscal 2020 to provide funding for MHHEFA to hire a consultant to conduct the study. To the extent that funds are appropriated or restricted (and used) for the study in fiscal 2019, expenditures do not increase in fiscal 2020. Nonbudgeted revenues and expenditures for MHHEFA increase correspondingly. MHHEFA also frequently uses outside legal and financial services and is likely to do so when evaluating the consultant's report. As the bill does not explicitly authorize the use of the appropriated funding for such services, it is assumed that nonbudgeted expenditures for MHHEFA further increase minimally in fiscal 2020.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Health and Higher Educational Facilities Authority; Department of Budget and Management; Department of Legislative Services

Fiscal Note History: First Reader - February 20, 2018
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