

1 **CALENDAR YEAR 2021 LATE REFUND PENALTY RATE**
2 **FOR CAREER SCHOOLS AND COLLEGES**
3 **DISCUSSION PAPER**

4 **Background**

5 Texas Education Code §132.061(e) requires a career school or college to pay student refunds
6 within a 60-day period; failure to do so requires the career school or college to pay a penalty.
7 Section 132.061 also requires that the Texas Workforce Commission annually establish this
8 penalty at a level sufficient to act as a deterrent to the retention of refunds. On September 1,
9 1990, the annual rate of the penalty payment was set at the prime interest rate plus 10 percent.
10 This rate, which was approximately 20 percent at the time, had no discernible impact on the
11 timely repayment of student refunds. Therefore, the rate was increased to 250 percent, effective
12 January 1, 1992. An example of how the late refund penalty rate is calculated follows:

- 13 • \$1,800 refund x 2.5 = \$4,500 annual rate
14 • \$4,500 annual rate / 365 = \$12.33 daily rate (effective the first day after the 60-day
15 refund period)

16 Penalties paid are used to repay any:

- 17 • remaining amount of the student's loans,
18 • tuition and fees paid by the Board, and
19 • cash payments made by the student.

20 Any money remaining (after the above-mentioned payments) is deposited into the Tuition Trust
21 Account for the benefit of all students.

22 The current penalty rate expires on December 31, 2020. The newly established rate will be
23 effective January 1, 2021.

24 **Impact of the Rate**

25 The 250 percent rate has proven effective in encouraging career schools and colleges to pay
26 student refunds in the required timely manner. The sum of late refunds has steadily decreased
27 from approximately \$400,000 in 1991 to a negligible amount in recent years.

28 This provision imposes no additional costs on schools operating in accordance with the law.

29 **Recommendation**

30 For Calendar Year 2021, staff recommend that the penalty rate for late refunds to students
31 remain at the current annual rate of 250 percent. This rate will ensure that career schools and
32 colleges continue to pay student refunds within the 60-day time frame required by statute.