F I S C A L   I M P A C T   R E P O R T

ORIGINAL DATE 2/20/09
SPONSOR Varela **LAST UPDATED** 2/23/09 **HB** 577/aHEC

SHORT TITLE College of Santa Fe Acquisition **SB**

ANALYST Patel

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY09	FY10		
	$0.1	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY10	FY11	FY12	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Instruction and General	$3,000.0 to $7,000.0	$3,000.0 to $7,000.0	$3,000.0 to $7,000.0	$9,000.0 to $21,000.0	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Note: The Higher Education Department's preliminary funding formula estimated a general fund cost impact for the College of Santa Fe for next five fiscal years would be approximately $4 million per year. HED assumed student credit hours ranging from 36 thousand in FY10 to 41 thousand in FY14 and student enrollment of 1,340 to 1,500 during the same time frame, of which approximately 40 percent of students are assumed to be from out-of-state. Also, HED assumes average tuition rates of $6,900 and $1,400 per semester for the out-of state students and in-state students, respectively. In addition, all students would be charged $1,020 per semester fees.

ALTERNATIVE OPERATING BUDGET IMPACT (dollars in thousands)

	FY10	FY11	FY12	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Instruction and General	$5,600.0 to $9,000.0	$5,600.0 to $9,000.0	$5,600.0 to $9,000.0	$16,800.0 to $27,000.0	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Note: The alternative operating budget impact assumes the College of Santa Fe shuts down at the end of the 2009 spring semester, and a state university re-opens in the 2009 fall semester with only 33 percent of 575 out-of-state student enrollment.

SOURCES OF INFORMATION
LFC Files

Responses Received From
New Mexico Highlands University (NMHU)
Department of Finance and Administration (DFA)
Higher Education Department (HED)
Public Education Department (PED)
New Mexico Independent Community Colleges (NMICC)

SUMMARY

Synopsis of the HEC Amendment

The House Education Committee added an emergency section to HB577 to allow this act to take effect immediately.

Synopsis of Original Bill

House Bill 577 authorizes the board of regents of a state university to acquire the property of the College of Santa Fe (CSF) and to establish a campus of that university. The university shall not assume any debt or liabilities and all property shall be conveyed free and clear of any encumbrances or liabilities. The acquisition agreements must be approved by the attorney general as to legal sufficiency and compliance with the constitution of New Mexico and applicable laws, and the agreements should be approved by the state board of finance.

House Bill 577 requires HED to accept proposals from any state university that is interested in acquiring the real and tangible personal property of the College of Santa Fe. The proposal shall include:

- A detailed description of the financing package,
- Educational programming and degrees proposed,
- An estimate of the number of students the campus will serve,
- An estimate of revenues for the next five years, including state funding,
- How the university proposes to work with the other public post-secondary educational institutions to mitigate duplication of programs and degrees.

HED shall convene an ad hoc committee to evaluate the proposals and select the university to acquire the College of Santa Fe. The seven member committee consists of the HED secretary, a representative of the governor, the DFA secretary, state auditor, director of the legislative council service, director of the legislative finance committee, and the mayor of Santa Fe or his representative.

FISCAL IMPLICATIONS

According to DFA, if HB577 passes and a university acquires the College of Santa Fe, there will be a significant impact to the budget of the state university acquiring this property. The higher education funding formula was not designed to cover start-up or acquisition of higher education institutions. HED estimates that the costs to the General Fund to cover operational costs such as providing instruction, plant operation and maintenance, administration, etc., of this acquisition would range between four and seven million dollars until the institution would be able to be sustained through formula dollars. The Executive recommended $7 million for the acquisition in FY10. The $7 million would be recurring for approximately two years until the higher education funding formula would be able to support the College of Santa Fe as a branch of a larger institution.

According to HED if a campus is approved by the legislature, it would require an additional General Fund appropriation to fund instruction and general operation as calculated by the higher education funding formula. The higher education funding formula, provides funding for instruction, student services, administration and plant operations and maintenance, as well as funding for building renewal & replacement. The funding formula takes into account student credit hours, student head count, space utilization, etc., to calculate state support the institutions of higher education. The required amount is unknown.

According to New Mexico Highlands University (NMHU) the fiscal implications of HB577 are indeterminate at this time since the bill depends on the specifics of proposals submitted by the interested state universities. NMHU already has submitted a proposal and business plan for the acquisition and operation of a campus at the College of Santa Fe. The fiscal implications reported here are based on the assumption that NMHU is able to establish a campus by the beginning of the 2009 Fall semester as envisioned in that plan. The NMHU financial plan is based on and sensitive to assumptions related to enrollment, tuition and fees. The enrollment assumptions built into the plan were always uncertain, and the uncertainty grows as the time needed to implement the plan is delayed. Retaining the high proportion of current out-of-state students, who would be charged significantly higher tuition than in-state students, and thus reduce the eventual cost to the state funding formula, will become increasingly difficult if not impossible with any significant delays.

The NMHU plan assumes that in the first year of operation overall enrollment closely resembles current enrollment at the College of Santa Fe. However, the plan, for purposes of fiscal conservatism, assumes that the mix of students changes modestly, with a reduction of 50 out-of-state students and an increase of 50 in-state students. The table below shows the plan's assumptions

	Number of Students	Student Fees	Average tuition per semester	Total Tuition and Fees
Out-of-state	517	$1,020.00	$6,931.00	$8,221,334.00
in-state	825	$1,020.00	$1,392.00	$3,979,800.00
State Support (Instruction and General) Note-1				$4,000,000.00
Total				$16,201,134.00

Note-1: The General Appropriation Act of 2009 tentatively includes $3 million to HED from the separate account of the appropriation contingency fund dedicated for the purpose of implementing requirements of HB577.

Of the $1,020 per semester for fees; $728 of the fee would be dedicated to paying for debt service associated with the cost of acquiring the College of Santa Fe assets. (The cost of acquiring the college's assets is being negotiated based on the assumption that NMHU would pay $1.85 million per year in debt service.) Proposed tuition and fee schedules were developed to provide sufficient revenue to conservatively operate the new campus, pay the debt service, minimize the eventual cost to the state budget, and be price competitive. Total tuition and fees for in-state and out-of-state students would be very close to what is currently charged by the University of New Mexico (UNM). NMHU estimates a budget of $15.5 million in the first year of operation, which could rise if CSF closes. Most of this would be generated by tuition and fees. However, the plan contemplates limited support--$3.98 million from the state. State support was estimated on the basis of what it would cost the state if the new campus were part of the state higher education funding formula. (The funding formula is "backwards looking" and thus funding through the formula will require two years of operation). Budgets in future years are assumed to increase slowly—by 3 percent per year—as enrollment increases.

Once the funding formula possibly in FY12 actually kicks in the cost to the state may be very modest. Out-of-state students may contribute sufficient funding to cover operating costs. Most of the in-state students, in all likelihood, if not going to school at the new campus, will be attending another New Mexico post-secondary institution. On the other hand, we should expect a modest overall increase in college participation as the state increases easier access to students in the Santa Fe area, who otherwise might not go to college. This modest increase in cost also implies benefits as the state increases the quality of its workforce.

According to the preliminary estimate of the funding formula cost for the College of Santa Fe prepared by HED the net formula costs would be approximately $4 million and tuition and fees would generate approximately $11.5 million per year with a total budget of $15.5 million.

According to the College of Santa Fe, its current budget is approximately $30 million and the proposed budget of approximately $16 million by NMHU will not support a quality arts college.

The financial impact to other New Mexico post-secondary institutions resulting from a potential CSF acquisition is unknown at this time. For example, other institutions including NMHU main campus may experience student work load shift of approximately up to 150 students to the Santa Fe campus. Once the higher education funding formula kicks in, the student shift could result in a reduction of NMHU main campus share of state general fund allocated through the formula. Limited general fund allocation for the plant operations and maintenance as well as funding for building and equipment renewal & replacement would have to be shared by current institutions plus CSF campus.

SIGNIFICANT ISSUES

According to NMHU a timely decision is critical to a smooth and successful start to this campus operation. According to NMHU, February 2, 2009, "College of Santa Fe Acquisition Business Plan" the College of Santa Fe (CSF) does not have sufficient resources to operate through the spring 2009 semester. CSF has also incurred approximately $35.3 million in long term debt for which it is unable to make payments. NMHU indicated that their initial step is the planned purchase of tracts of land totaling 20 acres which is currently mortgaged to Laureate University with an outstanding debt of $2.2 million. In addition, NMHU business plan indicates that CSF has $25 million bond debt to the Royal Bank of Canada (RBC) with a swap agreement and two loans totaling $6.1 million from First Community Bank. NMHU is in the process of completing negotiation with CSF's creditors to refinance the long term debt at significant discounts. Debt service payments will be approximately $1.85 million per year and will be funded through an estimated $85 per credit hour fee paid by students attending CSF. If CSF is unable to repay the principle, RBC may make claim against Radian Insurance Company. Radian has threatened to deny the claim which may increase a risk of litigation that may result in CSF closing. CSF has already taken steps to reduce current operating costs, including a reduction in work force and possible work hour and pay reduction for remaining employees. CSF is in a severe economic crisis that may cause it to go out of business if a state institution is not able to take it over. Students and staff will experience disruptions in professional development and employment. There will be an economic impact to the state and the city of Santa Fe.

According to the University of New Mexico's initial assessment of CSF facility, 2004 deferred maintenance study reports approximately $15 million in deferred maintenance. There is a risk that a state university will have to address the facility maintenance issues sooner rather then later.

According to the Public Education Department, CSF is built as a college campus with student housing and specialized studios and laboratories. Once CSF stops providing educational services, the campus and buildings may be vacant. There might be the potential for vandalism, vagrants, and general deterioration of the site.

According to the New Mexico Independent Community Colleges (NMICC), "acquisition and operation of CSF by a state university would result in a substantial recurring expense to the state general fund. The institution would require general fund resources through the operation of the higher education funding formula, which provides funding for instruction, administration and plant operations and maintenance, as well as funding for building renewal & replacement. The new state campus would also compete for state capital outlay revenues from severance tax bonds and general obligation bonds. NMICC is unable to estimate these impacts but, over time, they would likely resemble the funding levels required for other state post-secondary institutions of similar size.".

According to NMICC, New Mexico supports the Santa Fe Community College which provides a wide array of lower division academic and vocational-technical programs. If the acquisition of CSF by a state university is approved, careful attention should be devoted to avoiding duplication of programs between the two institutions. Three state-supported four-year institutions are located within approximately one hour's drive of Santa Fe and at least two (UNM & NMHU) offer some instructional courses in Santa Fe. Another much less expensive model that might be considered would be for the state to fund a "university center" in Santa Fe, perhaps co-located at SFCC that could provide courses and programs offered by all interested New Mexico colleges and universities. This option could meet a major portion of the baccalaureate and graduate program needs of area residents, and would not require the large operational and capital investments that would result from acquisition of an entire college campus.

TECHNICAL ISSUES

House Bill 577 does not include an emergency clause. Given the likelihood that CSF will close if this process is not completed soon, this bill needs to be amended to provide an emergency clause. It should be noted that start-up or re-opening costs would be additional costs if CSF was to shut down after the spring 2009 semester due to inability to recruit and retain both in-state and our-of-state students. Recruiting faculty and staff would also be time consuming and expensive.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

If this bill is not enacted, a state university will not be able to establish a campus on the site of CSF as required by Section 21-1-26.9, NMSA 1978.

MP/mt:svb