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FISCAL IMPACT REPORT

ORIGINAL DATE 02/08/14
 SPONSOR HAFC LAST UPDATED 02/17/14 HB CS/348/aHAFC
 SHORT TITLE Legislative Lottery Tuition Waiver Act SB _____
 ANALYST Hartzler-Toon

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY14	FY15	FY16		
	Unknown increase	Unknown Increase	Recurring	Lottery Tuition Fund

(Parenthesis () Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY14	FY15	FY16	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		\$150.0	\$150.0	\$300.0	Recurring	General Fund <i>or</i> Lottery Tuition Fund

(Parenthesis () Indicate Expenditure Decreases)

Relates to Appropriation in the General Appropriation Act: Section 4J Higher Education, Higher Education Department, Student Financial Aid

Relates to HB 145, HB 254, HB 263, SB 141, SB 146, SB 150, SB 302, SB 303, SB 327, SB 379, SB 347

SOURCES OF INFORMATION

LFC Files

Responses Received From

Department of Finance and Administration (DFA)
 Higher Education Department (HED)
 Central New Mexico Community College (CNM)
 Eastern New Mexico University (ENMU)
 New Mexico Lottery Authority (NMLA)

SUMMARY

Synopsis of HAFC Amendment

The House Appropriation and Finance Committee amended the substitute by

(1) striking the general fund appropriation identified in Section 8 that would reimburse the Higher Education Department (HED) for costs associated with collecting payments under the loan portion of this bill, and

(2) striking the general fund appropriation of \$150 thousand in Section 12 to the lottery tuition fund for the department's anticipated increase in operational expenditures due to implementing program changes.

Synopsis of Original Bill

The House Appropriations and Finance Committee substitute for House Bill 348 proposes to repeal Sections 21-1-4.3, 21-1-4.4 and 21-16-10.1 NMSA 1978, and establish the Legislative Lottery Tuition Waiver Act, transforming the Legislative Lottery Scholarship Program (LLSP) from a grant program to a conditional tuition waiver (grant-to-loan) program.

The bill generally maintains current LLSP requirements with respect to student eligibility. The student must:

- Attend college full-time;
- Be a New Mexico resident; and
- Completing a high school curriculum at a public or accredited private high school with a minimum 2.5 grade point average (GPA) on a 4.0 scale or upon receiving a graduate equivalent diploma (GED); and
- Enroll in one of the state's public postsecondary institutions.
- Complete
 - a. A form to the institution where the student will attend requesting a legislative lottery tuition waiver. The Higher Education Department (HED) shall develop this form by August 1, 2014,
 - b. And file the Free Application for Federal Student Aid (FAFSA).

However, important differences from current law include:

- Expanding scholarship eligibility to students who enroll in a postsecondary institution within 30 months (2.5 years) after graduating from a New Mexico high school, completing a home school program, or receiving a high school equivalency credential in the state.
- Capping the tuition waiver amount to (1) tuition less all other state and federal scholarships and grants-in-aid awarded and then (2) at the amount available for the entire program that fiscal year. This creates a "payor-of-last resort" approach to the lottery scholarship program.
- Limiting the scholarship term from eight to seven semesters, provided the semesters are completed with five academic years (including summer terms).
- Entering a contract with the Higher Education Department (HED) agreeing to
 - Complete a certificate or degree within five years of initial enrollment at a postsecondary institution.
 - Repaying the entire amount of tuition (total waiver amount) if the student fails to complete a degree within two years after the last date of enrollment.
- Satisfying any other waiver program requirements as determined by HED.

The bill includes a provision allowing for HED to be reimbursed for expenses associated with collecting payments from scholarship recipients who are required to repay their amount of tuition waivers. The department would enter an agreement with the New Mexico Board of Finance to manage these reimbursements.

The committee substitute included a general fund appropriation for \$150 thousand that was stricken by the HAFCS amendment.

The bill includes an emergency clause.

FISCAL IMPLICATIONS

In Section 3, the bill limits the total amount of funding available for the legislative lottery tuition waiver program to funds available in the lottery tuition fund. With no additional revenues, the amount available for each tuition waiver would vary per student, per year, for up to five years per student. Without sufficient data on current legislative lottery scholarships that receive financial aid and the types of financial aid (whether more scholarships/grants than loans), it is unclear the amount of savings resulting in the tuition waiver fund being the “payor-of-last resort.”

In Section 7, the bill recognizes an increase in revenues to the lottery tuition fund.

Should a student not satisfy the program requirements and be forced to repay the total amount of the tuition waiver, revenues from the legislative lottery tuition waiver program would be raised. The bill is silent as to whether student repayments would be directed to the lottery tuition fund or HED’s student financial aid-special programs fund. Based on HED’s qualified annual fiscal audits, it is difficult to calculate the default rate on such a program, how much would be assessed for repayment, and how much could be collected.

The bill requires HED to track individual students with multiple annual agreements and track graduates and students who fail to complete their academic programs. This is a particularly difficult task since students may have been out of school for at least two years before the repayment period can be enforced. To administer the program and implement a thorough repayment and collections program, LFC staff estimate that HED would incur an additional \$150 thousand in operational expenses. The bill includes language that would permit general fund appropriations, if enacted, to HED for these expenses.

SIGNIFICANT ISSUES

Agencies and institutions commented on the challenges to implementing and administering the program. According to CNM, the institutions would need to establish a mechanism for HED and the student to implement contracts. ENMU and others noted the need for a collections agency to be selected or funded given HED’s limited resources and prior history for managing loan-for-service and other waiver programs.

The bill proposes alternate views of financial aid policy. As noted by ENMU, grants and scholarships are not to be repaid, like loans. HB 348 establishes a grant-to-loan program should a student fail to earn a specific credential – a bachelors degree in arts or science. Further, HB 348 shifts away from current LLSP principles of student access and access to all types of institutions to a focus on baccalaureate programs. Currently, LLSP provides scholarships for students pursuing certificates and two-year degrees in high-demand workforce areas (welding, surgical technician, fire sciences), and HB 348 would eliminate support for these students.

ADMINISTRATIVE IMPLICATIONS

HED's qualified financial audits report problems in administering existing loan-for-service and waiver programs, documenting student borrowers and those in default, and collecting on debt where services have not been rendered. HB 348 would establish a program similar to existing aid programs that have proven difficult to administer and account for publicly-funded waivers.

RELATIONSHIP

HB 348 relates to other bills that address LLSP: HB145, HB254, HB263, SB141, SB146, SB150, SB302, SB303, SB327, SB347, and SB379.

TECHNICAL ISSUES

It is unclear how the program would be established and managed for FY15. While the department is not required to announce the appropriation for FY15 by May 1, 2014, this should likely occur for students and institutions to know what amounts would be available.

Also, should the department have the application completed for FY15 by the August 2014 deadline, the date is well after awards would be determined and distributed for the 2014-2015 academic year. LFC staff do not have sufficient information to determine whether institutions could incorporate a paper or electronic application form for the 2014-2015 academic year in existing student records systems, determine tuition waiver amounts in a timely fashion (before the academic year starts).

POSSIBLE QUESTIONS

- Does HB 348 address solvency of the lottery tuition fund?
- How does HB 348 promote educational access?
- What are the implications of program changes, particularly the restriction requiring particular degrees, for participating in the legislative lottery tuition waiver program?

THT/jl:ds

Legislative Lottery Scholarship Program: Proposed Legislation in 2014 Session

Bill Number	Lottery Program Changes						FY15 Funding				Other Changes
	GPA?	Full Time?	Number of Semesters	Financial Need?	Award Changes	Legacy Provision?	Solvent?	Appropriation?	Sanding Required?	Emerg. Clause?	
HB 145 (Taylor)	2.5	12 SCH	8	No	None	No	No	None	Yes	No	Adds eligibility for dependents of military on active duty outside of NM
HB 254/aHAFC (Smith, JE)	2.5-3.25	12 SCH	7	Yes	Level of award based on GPA and financial need	No	Yes	None	Possibly	Yes	Requires application and FAFSA; unfunded legacy provision
HB 263/aHEC (Harper)	2.5	12 SCH	7	No	Award reduced by percentage amount across all sectors, as determined by HED.	No	Yes	None	No	Yes	Duplicates current law; LFC staff estimate award reductions at 60 percent in FY15.
HB 348 (Baldonado)	2.5	12 SCH	7	No	No change to amount; waiver instead of scholarship	Unclear	No	None	Yes	Yes	Scholarship to loan program; students must repay the waiver if they fail to get a degree.
SB 141 (Candelaria)	2.5	12 SCH	8	No	Limits tuition payments to tuition amount of qualifying semester	Unclear	No	None	Yes	No	None
SB 146 (Ingle)	2.5	15 SCH for all higher-ed students	8	No	Limits tuition rates; award amount equals the tuition rate of qualifying semester	Unclear	No	None	Yes	No	None
SB 150 (Smith)	2.75	15 SCH for 4-year inst; 12 CH for 2-year inst.	7	No	Flat awards based on type of institution	Yes - 3 or more semesters by FY15 (unfunded)	Yes	\$8 million recurring; \$2.9 million for legacy students	No	Yes	None
SB 302 (Sanchez)	N/A	N/A	N/A	N/A	N/A	N/A	Yes for FY15; not solvent in the long-term without program changes.	\$3 million monthly through FY18	No	No	Repeals the capital gains deduction from net income and appropriates a portion of savings to the LLSP
SB 303 (Sanchez)	N/A	N/A	N/A	N/A	N/A	N/A	Yes for FY15; not solvent in the long-term without program changes.	\$35 million annually	No	No	Raises motor vehicle excise tax and gives 20 percent of proceeds to the LLSP
SB 327 (Sapien)	2.5	12 SCH	7 at four-year inst.; 4 at two-year inst. + 4 at four-year inst.	No	Award amount based on type of institution and # of semesters w/ scholarship	Yes - 3 or more semesters by FY15	Yes	None	Possibly	Yes	Requires scholarship application and FAFSA; unfunded legacy provision
SB 347/SFCCS (Sanchez)	2.5	15 SCH for 4-year inst; 12 CH for 2-year inst.	7	No	Awards full tuition to program semesters one through three, pro-rated semester awards for remaining students.	Yes- 3 or more semesters by FY15 considered full-time at 12 SCH, can receive LLSP for 8 semesters.	Yes	FY15: \$11.5 million general fund; FY16: Est. \$18.4 million excise liquor tax distribution	Yes	Yes	None
SB 379 (Payne)	Institutional decision	Institutional decision	Institutional decision	Institutional decision	Institutional decision	Institutional decision	Yes	None	Possibly	Inst. decision	HED distributes agreed-upon amount to institutions by Aug 15; institutions establish criteria.

*SCH =Student Credit Hour

Source: LFC Files