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FISCAL IMPACT REPORT

SPONSOR Ingle **ORIGINAL DATE** 02/04/14
LAST UPDATED 02/08/14 **HB** _____
SHORT TITLE Lottery Tuition Rates and Definitions **SB** 146
ANALYST Chavez

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY14	FY15	FY16	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		See Fiscal Implications			Recurring	Institution Operating Budgets

(Parenthesis () Indicate Expenditure Decreases)

Relates to HB 145, HB 254, HB 263, SB 141, SB 150

SOURCES OF INFORMATION

LFC Files

Responses Received From

Higher Education Department (HED)
 University of New Mexico (UNM)
 Eastern New Mexico University (ENMU)
 New Mexico Lottery Authority (NMLA)

SUMMARY

Synopsis of Bill

Senate Bill 146 limits the rate of tuition an institution can charge a participant in the Legislative Lottery Scholarship Program (LLSP) to the cost of tuition of their first year of receiving the scholarship. Under the bill, a student would receive a scholarship equivalent to the amount of tuition in the qualifying semester for each subsequent semester in which they maintain scholarship eligibility. The bill also changes the full time requirement from 12 credit hours to 15 credit hours in section 21-1-4 NMSA 1978, but makes no other eligibility requirement changes.

This bill contains no appropriation.

FISCAL IMPLICATIONS

Currently, HED projects total scholarship spending for FY15 at \$67.8 million. Under the provisions of this bill, the lottery program would not be solvent for FY15 or FY16. With estimated flat lottery revenues and increasing tuition rates, LFC staff estimate solvency would also not be achieved thereafter with this bill. In another lottery scenario, LFC estimated that 2 percent of students would be unable to increase their class load to 15 credit hours; savings under this provision would not increase enough to create solvency. However, UNM has noted that increasing minimum credit hours to 15 has been shown to improve student completion outcomes.

Under the bill, in FY15 most students would continue to receive their current scholarship at FY15 tuition rates, with the exception of students who qualified for the lottery scholarship in spring 2014. However, savings to the program would be minimal, estimated at \$29 thousand. Consequently, HED would still need to sand more than \$25 million dollars from scholarship award amounts.

For FY16, HED notes that an exact calculation of savings cannot be determined. LFC staff estimates that FY16 expenses alone would exceed lottery revenues by more than \$25 million dollars, and the department would again be required to sand scholarship amounts in FY16.

NM Tech estimates significant administrative costs to institutions of implementing the provisions of this bill, including updating administrative software to handle several cohorts of students with different tuition rates and, if the software cannot be modified, a manual process would need to be developed which would require additional personnel.

Institutions may incur rising administrative costs to update software and handle several cohorts of students with different tuition rates, and to track students who move from one institution to another with different tuition amounts.

SIGNIFICANT ISSUES

During the last few fiscal years, lottery scholarship expenses have increased steadily, from \$53.3 million in FY11, to \$58.2 million in FY12, and \$61.9 million in FY13, and a projected \$67.5 million in FY14. Lottery revenues are expected to remain flat near \$40 million, and insufficient to meet the full cost of funding tuition for all eligible students. Additionally, tuition rates have been growing nationally and locally over the past few years (see LFC volume III, p. 92), and are expected to continue to increase. Consistent annual increases in tuition outpace lottery revenues. If this bill were enacted, HED would be required to reduce the payment amount in accordance with Chapter 21-1-4.4 NMSA, which requires HED to align payments with available revenues.

NMLA indicates that passage of this bill may reduce the gap between lottery revenues and expenditures but will not help the lottery tuition fund achieve solvency. In addition, HED points out that the bill would likely negatively impact the lottery tuition fund due to possible tuition inflation at the higher education institutions.

ENMU notes that a possible unforeseen consequence of the bill is that universities and colleges could simply increase tuition rates at a higher rate for each incoming class of students in order to make up the difference lost in the restricted payments, which would increase tuition for all students in attendance.

UNM supports the increase in credit hour minimums to 15 credit hours, stating that evidence is emerging on the importance of taking 15 hours for on-time completion. However, UNM adds that federal Title IV financial aid defines full-time as 12 credit hours; further information is needed. Any conflict between these requirements could lead to confusion among students, and perhaps reduce access to enrollments.

It is not clear if the changes to the lottery scholarship program contained in the bill apply to students who have not received the scholarship before FY15, or all students currently receive the scholarship.

ADMINISTRATIVE IMPLICATIONS

ENMU notes that the bill would lead to a significant administrative challenge as each institution would have different tuition and fee rates for each of the different cohorts. The institutions' current accounting software system may not be able to administer that many tuition and fee rates.

RELATIONSHIP

SB 141 has the same tuition restrictions as this bill; however, that bill does not include increasing credit hour minimums. SB 150 makes a number of changes to the LLSP, including decoupling scholarships from tuition and changing eligibility requirements. HB 145 expands eligibility of the LLSP to include active duty military dependents of New Mexico residents living outside the state. HB 254 requires that students submit a Free Application for Federal Student Aid and adjusts awards based on GPA and financial need. HB 263 gives HED authority to set one flat scholarship rate for all students at all institutions, based on available revenue and capped at tuition.

See attachment 1 for lottery-related bills.

TECHNICAL ISSUES

This bill amends Section 21-1-4 NMSA 1978 to increase the minimum number of credit hours from 12 to 15 in order to be considered full-time. However, this amendment may be over broad, as the changes affect all students of higher education institutions, not only lottery students. The Legislature may consider changing the credit hour provision to the section of the bill that pertains to lottery students only.

UNM noted that the Title IV federal financial aid requirements define a student full-time at 12 credit hours or more, while the bill defines full-time as 15 credit hours; while not prohibitive to receiving federal aid, this difference could cause confusion among students and institutions.

On p. 3, lines 22-25, SB 146 states that “the tuition rate in effect when a student first qualifies for a lottery tuition scholarship shall remain in effect during the remainder of the semesters, excluding summer sessions, in which the student receives a lottery tuition scholarship.” However, lottery scholarship recipients are not eligible to receive the lottery scholarship during the summer.

OTHER SUBSTANTIVE ISSUES

Lottery scholarship recipients who begin at a two-year institution may be discouraged from continuing on to a four-year program as the difference in tuition is significant and a lottery scholarship would only cover two-year tuition. Additionally, UNM points out that, because students often move from one institution to another throughout their college career, it could be difficult to track tuition rates for individual students who move among institutions.

ALTERNATIVES

Change section H on p. 3, line 22 to include increases to full-time credit hour requirements for lottery students; restore 12 credit hour minimums in the rest of the statute.

POSSIBLE QUESTIONS

Do the provisions of the bill apply retroactively to students who received the scholarship prior to FY15, or will the tuition limits apply only to new students from FY15 and beyond? Will current students have their scholarship award amount reduced?

What tuition rate applies if a LLSP student transfers from a two-year school to a four-year school?

KC/svb:jl

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 (Smith, JE)	2.5-3.25	12 SCH	7	Yes	Level of award based on GPA and financial need	Yes - 3 or more semesters by FY15 (unfunded)	Yes	None	Possibly	Yes	Requires application and FAFSA; unfunded legacy provision
HB 263 (Harper)	2.5	12 SCH	7	No	Flat award determined by HED; one award for all institution types, capped at tuition.	No	Yes	None	No	Yes	None
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 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