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FISCAL IMPACT REPORT

ORIGINAL DATE 2/8/14

SPONSOR Sapien LAST UPDATED _____ HB _____

SHORT TITLE Lottery Tuition Fund Act & Solvency SB 327

ANALYST Chavez

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY14	FY15	FY16	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		Unknown	Unknown	Unknown	Recurring	Institutional Operating Budgets
		(\$100.0)	(\$100.0)	(\$200.0)	Recurring	HED/General Fund

(Parenthesis () Indicate Expenditure Decreases)

Relates to HB 2, HB 145, HB 254, HB 348, SB 141, SB 146, SB 150, SB 327, SB 379 (See attachment)

Relates to Appropriation in the General Appropriation Act

SOURCES OF INFORMATION

LFC Files

Responses Received From

Higher Education Department (HED)
 New Mexico State University (NMSU)
 New Mexico Tech (NM Tech)
 Eastern New Mexico University (ENMU)
 Central New Mexico Community College (CNM)
 New Mexico Lottery Authority (NMLA)

SUMMARY

Synopsis of Bill

Senate Bill 327 makes changes to the Legislative Lottery Scholarship Program (LLSP), including the creation of the Lottery Tuition Fund Act. Changes to the LLSP include:

- Requiring lottery students to fill out an application developed and provided by the Higher Education Department (HED);
- Requiring students to fill out a free application for federal student aid (FAFSA) to receive the lottery tuition scholarship;

- Distinguishing “legacy” and “qualified” students. Legacy students are defined as students who have received the legislative lottery scholarship for 3 or more semesters by the end of FY14;
- For qualified students, creating sliding scale award payments based on institution type and number of semesters attended; and
- Adding reporting requirements for the Higher Education Department (HED).

Sections 21-1-4.3, 21-1-4.4 and 26-16-10.1 NMSA 1978 are repealed.

This bill does not contain an appropriation.

FISCAL IMPLICATIONS

The LLSP is solvent under SB 327.

LFC staff estimates that under this bill, the total cost of flat award expenditures to the LLSP in FY15 would be \$41.7 million. Any additional revenue after the statutory award levels are made may be awarded to legacy students for an amount up to tuition levels. Flat award expenditures are approximately \$35.6 million at research institutions, \$2.7 million at comprehensive institutions, and \$1.7 million and \$1.6 million at branch and independent community colleges, respectively. The FY15 projected expenditure is \$26 million less than the \$67 million in LLSP expenditures for FY14, resulting in an estimated fund balance of \$1.3 million in FY15.

Lottery revenues for FY15 are expected to be around \$43 million. While flat awards as provided for in this bill would be less than projected revenue, there is no appropriation for the legacy provision.

The HAFC substitute for HB 2 currently contains two appropriations for students receiving the lottery scholarship: one to make scholarships whole for the spring 2014 semester; and another to support legacy students in FY15. If these appropriations are eliminated, students not eligible for the legacy provision would have their scholarship awards for FY15 reduced.

LFC staff estimate HED and institutions will likely incur additional operational costs to administer this program.

SIGNIFICANT ISSUES

The LLSP relies on revenues from lottery ticket sales and prior year fund balance to meet annual scholarship expenses. During the last few fiscal years, lottery scholarship expenses have increased steadily, \$53.3 million in FY11, \$58.2 million in FY12, \$61.9 million in FY13, and a projected \$67.5 million in FY14. As forecasted by the Legislature and executive branch, the LLSP will deplete all remaining fund balances in FY14 unless supplemental funding is provided. Lottery revenues are expected to remain flat and insufficient to meet the full cost of funding tuition for all eligible students in FY14. Since scholarship expenditures cannot exceed available revenues, significant changes are required to maintain program solvency. Section 21-1-4.4 NMSA 1978 mandates HED to reduce award amounts by a department-determined percentage if expenditures would be greater than revenues.

SB 327 establishes a sliding scale payment award system for qualified students, beginning in the 2014-2015 academic year:

Sliding Award Scale, SB 327

	Semesters 2 & 3	Semesters 4 & 5	Semesters 6 & 7	Semester 8
Research	\$1,200	\$1,500	\$1,800	\$2,100
Comprehensive	\$500	\$800	\$1,000	\$1,200
Branch CC	\$500	\$800		
Independent CC	\$300	\$600		

* Flat award amounts will be reduced according to available revenue.

Legacy students’ awards would equal the full tuition amount less any necessary reduction due to a shortfall in revenues.

The bill requires the department to promulgate rules setting forth explicit criteria for student qualification and continuing eligibility, the amounts available for scholarship awards, and guidelines for the administration of the program. The department is also required to include in a report to the LFC and DFA by November 1st of each year:

- The status of the fund and LLSP participation data;
- The number of qualified and legacy students who received lottery tuition scholarships;
- The total number of students enrolled in the prior 12-month period;
- The component amounts of the lottery tuition scholarship received and the amount of unmet need that was not offset by the lottery tuition scholarship;
- The amount of lottery tuition scholarships funded and the amount of tuition costs that were not offset by the lottery tuition scholarship;
- The number of legacy and qualified students who graduated with a degree and the number of consecutive and nonconsecutive semesters attended prior to graduation;
- The number of students who received a lottery tuition scholarship and subsequently became ineligible for a lottery tuition scholarship and the reasons for ineligibility; and
- Any additional information required or requested by the LFC and DFA.

CNM notes that the scholarship levels for community colleges are lower than those for branch community colleges, comprehensive universities, and research universities. However, because of changes in levels of state support for institutions, independent community colleges will likely need to raise tuition rates to levels more comparable to branch colleges in the near future. Over time, the scholarship amounts for community colleges will cover a decreasing proportion of tuition at institutions.

ADMINISTRATIVE IMPLICATIONS

HED reports that the administrative changes proposed in the bill may cause institutions and colleges a need to increase staff and make program changes to monitor and support the program and students. Institutions of higher education and HED would also have to monitor the different components of the bill to ensure the awards are properly distributed.

CNM adds that there will be some challenges for institutions in implementing different rules for legacy students versus new students. Institutions will need to program new reports in their student information systems in order to identify legacy students. The financial aid staff will have to administer the awards to legacy student and new students as two separate aid programs. However, this additional work does appear to be manageable.

The bill contains significant reporting requirements for HED, and requires HED to create an application process for students who wish to obtain a lottery scholarship. It is unclear whether the department has the resources to carry out the requirements of the bill and in sufficient time to implement them fully for FY15.

RELATIONSHIP

See Attachment 1 for related lottery bills.

TECHNICAL ISSUES

Students who transfer from a two-year institution to a four-year institution have an extra semester of eligibility at a four-year institution, for a total of eight semesters of LLSP eligibility as opposed to seven for students who only study at four-year schools.

NMSU notes that a notification date of May 1st regarding scholarship amounts is too late for institutions and students to plan effectively for the academic year.

NM Tech provides the following technical issues:

- Section 3 of the bill sets deadlines for HED with regard to development of a form for requesting a lottery tuition scholarship. The August 1, 2014 deadline for development of an application form will result in institutions implementing the form for the 2015-2016 school year, not the 2014-2015 school year.
- Section 4 establishes an application procedure for the student that is to be completed each year. The NM Tech financial aid office questions the need for the application as the office has automatically verified the student's eligibility and awarded the scholarship. NM Tech is concerned that SB327 may create an administrative burden for the financial aid office. Also, SB327 may need to clarify deadlines for students completing an application form because some students will file after the semester has begun.
- Section 5A states that the board of regents shall award lottery tuition scholarships. The inclusion of the regents in the lottery scholarship award process creates an unneeded level of bureaucracy for the institutions. The financial aid office at each educational institution has historically managed the lottery scholarship award process.
- Section 6 sets the scholarship amounts using a sliding scale. The sliding scale for award amounts would be easier to implement in the University's student information system if the division from one amount to the next coincided with a traditional academic year. Financial aid awards are typically made on an academic year basis using the costs for that time period and are generally split evenly between the two semesters.
- Finally, NM Tech states that unmet need is not clearly outlined in the bill and should be defined more clearly. (See p. 9, line 20)

POSSIBLE QUESTIONS

Why are students required to fill out a FAFSA if unmet need is not taken into consideration in the awarding of scholarships?

If students are applying for the FAFSA, should the other aid (such as Pell grants) be considered before lottery tuition scholarships are awarded to improve lottery tuition fund solvency?

Will institutions have sufficient time to update their administrative database systems to comply with the changes outlined in the bill?

Will HED have enough time to create an application form, assess student applications and unmet need, and distribute awards? Financial aid awards are determined now -- February 2014 for FY15 through the spring and summer – too late for guidelines, procedures and forms to be developed for FY15 awards. While there is no financial need component to this scholarship, will financial aid deadlines affect the LLSP?

KC/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