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## FISCAL IMPACT REPORT

ORIGINAL DATE 02/04/14  
LAST UPDATED 02/08/14

SPONSOR Candelaria HB \_\_\_\_\_

SHORT TITLE Limit Lottery Scholarship Tuition Increases SB 141

ANALYST Chavez

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY14	FY15	FY16	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>		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)

New Mexico Tech (NM Tech)

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 makes no other programmatic changes; students would continue to be eligible for eight semesters with a 2.5 GPA and 12 credit hour minimum.

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.

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 dollars. 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 however 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.

## **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 a possible unforeseen consequence in analysis of a similar bill: 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.

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.

## **RELATIONSHIP**

SB 146 has the same tuition restrictions as this bill, though that bill also increases credit hour minimums to 15 credit hours per semester. 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.

### **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. Also, because students may move from one institution to another before graduation, it could be difficult for institutions to track tuition rates for individual students who move among institutions.

### **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: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?	
<b>HB 145 (Taylor)</b>	2.5	12 SCH	8	No	None	No	No	None	Yes	No	Adds eligibility for dependents of military on active duty outside of NM
<b>HB 254 (Smith, JE)</b>	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
<b>HB 263 (Harper)</b>	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
<b>HB 348 (Baldonado)</b>	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.
<b>SB 141 (Candelaria)</b>	2.5	12 SCH	8	No	Limits tuition payments to tuition amount of qualifying semester	Unclear	No	None	Yes	No	None
<b>SB 146 (Ingle)</b>	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
<b>SB 150 (Smith)</b>	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
<b>SB 302 (Sanchez)</b>	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
<b>SB 303 (Sanchez)</b>	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
<b>SB 327 (Sapien)</b>	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
<b>SB 379 (Payne)</b>	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