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FISCAL IMPACT REPORT

SPONSOR Varela **DATE TYPED** 03/04/05 **HB** 778/aHEC

SHORT TITLE College Affordability Act **SB** _____

ANALYST Williams

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY05	FY06	FY05	FY06		
\$10,000.0				Non-Recurring*	General Fund
\$15,000.0				Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

* Expected to be a multi-year commitment to establish a \$250 million trust fund.

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
\$10,000.0			Non-Recurring*	College Affordability Endowment Fund
\$15,000.0			Recurring	College Affordability Scholarship Fund

(Parenthesis () Indicate Revenue Decreases)

* Expected to be a multi-year commitment to establish a \$250 million trust fund.

Relates to various student financial aid bills; duplicate of Senate Bill 669

SOURCES OF INFORMATION

LFC Files

Commission on Higher Education (CHE)

SUMMARY

Synopsis of HEC Amendment

House Education amendment to HB778 amends the legislation as follows:

- *On page 1, line 25:* strike the word “and” and after line 25, insert the following new subsection:

“B. “returning adult” means a student enrolling in a public post-secondary educational institution at any time later than the first semester following high school graduation or the award of a general educational development certificate; and”.
- Reletter the succeeding subsection accordingly.
- *On page 3, line 2:* after the word “on” insert the word “a” and after the word “need” insert text “formula calculated”.

This amendment adds no additional appropriation to this legislation.

Original Synopsis of Bill

House Bill 778 establishes the College Affordability Act to “encourage New Mexico students with financial need to attend and complete educational programs at public post-secondary educational institutions in New Mexico.” Provisions would apply to resident students of the state attending a public, post-secondary institution. Student eligibility for the new scholarship program would include:

- Has not earned a baccalaureate
- Enrolled at least half-time in a degree program
- Demonstrated financial need

The new scholarship program would be administered by the CHE. Distribution criteria would be determined using data from the free application for federal student aid (FAFSA) and on the percentage of an institution’s students classified as returning adults who are otherwise ineligible for state financial aid. Awards are capped at \$1,000 per semester. Awards may continue each semester as long as the student maintains eligibility criteria, but are capped at eight consecutive semesters or until graduation, whichever is first. Eligibility would be discontinued if a student withdraws, fails to achieve satisfactory academic progress or exhibits substantial noncompliance with the Act or associated CHE rules.

The program would be funded with two general fund appropriations. The college affordability endowment fund as well as the college affordability scholarship fund are established. Until the corpus of the endowment fund reaches \$250 million, the bill authorizes an equal split of income generated by the fund between the corpus and the scholarship fund.

Monies would be transmitted from the state treasury by CHE to institutions for student accounts. Students could draw upon the funds for tuition, fees, books and course supplies.

Significant Issues

This proposal is based on the recommendations of a recent report of the Commission on Higher Education. “*Improving Student Success in Postsecondary Education in New Mexico*” noted the state spent \$31 million for merit-based student financial aid programs versus \$18 million for needs-based programs in 2003. The report included a recommendation of a \$250 million endowment fund established to address needs-based student financial aid. A similar proposal was included in the report of the Governor’s Task Force on Higher Education.

CHE indicates the target population the scholarship program proposed in this bill would serve is older students demonstrating unmet financial need. These students would be those not eligible for the lottery tuition scholarship program. A funding allocation would be made to each institution based on the eligibility criteria established in CHE regulation. Institutions would then determine student distributions. According to CHE, simulations of potential distributions to students are not available because institutions have not been required to utilize the FAFSA in the past. In its fiscal impact report for Senate Bill 669, CHE notes the \$15 million recurring appropriation could support approximately 7,500 students for two semesters each at the maximum scholarship amount.

Measuring Up 2004 noted net college costs in New Mexico for low- and middle-income students to attend public two-year colleges and four-year universities represent 33 percent and 40 percent, respectively, of their annual income. Several recent higher education policy analyses find New Mexico deficient in the extent of its needs-based student financial aid programs. The lottery tuition scholarship program is considered a merit-based student financial aid program because it is available to all students meeting certain criteria and maintaining a 2.5 grade point average. The state typically ranks high among states with merit-based student financial aid programs.

PERFORMANCE IMPLICATIONS

The bill does not address performance reporting criteria to evaluate program effectiveness and outcomes.

FISCAL IMPLICATIONS

The bill contains two appropriations. First, the appropriation of \$10 million to the college affordability endowment fund contained in this bill is a non-recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY06 would **not** revert to the general fund. This appropriation is expected to be a multi-year commitment of non-recurring general funds to reach the goal of establishing a \$250 million trust fund.

Second, the appropriation of \$15 million to the college affordability scholarship fund contained in this bill is a recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY06 would **not** revert to the general fund. CHE notes the amount of recurring appropriation would decline over time as the size of the endowment and associated distribution of interest income increases.

ADMINISTRATIVE IMPLICATIONS

In its analysis on Senate Bill 669, CHE notes there would be a significant one-time effort to initiate the new program as well as on-going annual allocation of funding. Given current workload, one additional FTE staff would be “extremely helpful.”

TECHNICAL ISSUES

Page 5, line 4, may need to include the formal name of the fund.

Page 5, line 8, may need to include the formal name of the fund.

OTHER SUBSTANTIVE ISSUES

A recent report of the General Accounting Office found part-time, adult students tend to exhibit weaker persistence and graduation rates.

The bill does not specify the criteria by which satisfactory academic progress would be determined.

The sponsor may wish to consider an amendment to the bill to require the fund be invested by the State Investment Council pursuant to the provisions of 6-8-7G NMSA 1978.

Based on supplementary information requested and received from the CHE, the program would use data from the FAFSA to determine eligibility solely based on income. Other data collected from the FAFSA to determine eligibility for other student financial aid programs would not impact eligibility; examples might include felony conviction and drug use.

POSSIBLE QUESTIONS

1. How would institutions administer the provisions of this bill?
2. Who would evaluate student eligibility to determine awards ----- the institutions or the CHE?
3. What are examples of “substantial noncompliance” which might cause a student to lose a scholarship award?
4. What are the implications of semester eligibility when two-year college students exceed a four semester time to degree in comparison with four-year college students exceeding an eight semester time-to-degree?
5. To what extent would the program improve New Mexico’s national ranking for needs-based student financial aid programs?

AW/lg