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FISCAL IMPACT REPORT

SPONSOR Altamirano DATE TYPED 02/11/05 HB _____

SHORT TITLE Decouple Lottery Scholarship From Tuition SB 651

ANALYST Williams

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY05	FY06	FY05	FY06		
			(832.1)	Recurring, but could escalate over time; see fiscal implications	Lottery Tuition Fund

(Parenthesis () Indicate Expenditure Decreases)

Relates to various student financial aid bills

SOURCES OF INFORMATION

LFC Files
 Commission on Higher Education
 Council of University Presidents

SUMMARY

Synopsis of Bill

Senate Bill 651 amends statute to decouple the lottery scholarship program from tuition and establish payments for tuition in specified amounts.

Flat tuition amounts would be established for three categories of public, post-secondary institutions. The proposed amount of the award would be included annually as part of the higher education budget recommendation of the commission on higher education and determined by the legislature. However, for FY06 the following is specified in the bill:

Four-year, research institutions: \$1,400
 Four-year, comprehensive, regional institutions: \$900
 Two-year institutions: \$500

Scholarship awards would be placed in student accounts at the institutions and might be used to pay tuition, fees, books and course supplies. The bill specifically excludes use of the scholarship

for room and board.

Significant Issues

This proposal is similar to, but differs somewhat, from the recommendations of a recent report of the Commission on Higher Education, *“Improving Student Success in Postsecondary Education in New Mexico”*. In its fiscal impact report, CHE notes its support for the bill. A similar proposal was included in the report of the Governor’s Task Force on Higher Education.

Tuition and fees for 2004-2005 are shown on the attachment. To the extent the award amounts specified in this bill for FY06 and established by future legislatures are set below current and/or actual tuition levels in the future, students at certain institutions would receive a reduction in lottery tuition payments to pay for tuition, all other things held constant. To the extent the award amounts specified for FY06 and established by future legislatures are set above current and/or actual tuition levels in the future, students at certain other institutions would be able to utilize the funds for fees, book and course supplies.

Potential Advantages:

- Allow families or independent students to claim federal tax credits given sufficient tax liability
- Minimize impacts on lottery scholarship fund from tuition increases

Potential Disadvantages:

- Diminish transparency of link between the lottery scholarship fund and tuition
- Would there be impacts on perception of state commitment?
- Would there be impacts on strength of lottery ticket sales and advertising campaign?

The Council of University Presidents notes “decoupling the scholarship from institution tuition rates is a fundamental change, the consequences of which are not well understood. This is an issue of a magnitude that requires very careful examination and modeling yet to be undertaken.”

NMACC notes “decoupling from tuition and establishing a flat rate for educational expenses puts more control over tuition increases with the Legislature. Furthermore decoupling can also extend the life of the fund with the effect of less annual impact on the fund by large tuition increases.”

NMACC also notes “Since tuition rates are determined locally, there is a great disparity in tuition both between the sectors and within the sectors so decoupling will create a disparity at different colleges among those that will have to make up some tuition to attend a college in a particular area and those that will not only have lottery money to cover their tuition but perhaps fees and books as well.”

FISCAL IMPLICATIONS

The fiscal impact associated with this bill reflects the anticipated reduction in payments to students driven by establishing scholarship amounts below tuition rates for certain institutions in FY06. Given the bill provides the scholarship award amounts would be established annually, the magnitude of future impacts is not clear.

To the extent the legislature authorized increases in scholarship amounts at levels lower than increases in actual tuition charges, the savings for the lottery tuition fund could escalate over time. CHE notes the long-term average growth of tuition in New Mexico is about 10 percent for research institutions, 8 percent for regional institutions and 7 percent at community colleges. (In comparison, NMACC notes the 11 year average resident tuition increase at community colleges is around 50% or less than 5% annually). If scholarship awards are allowed to grow by roughly the amount of inflation (using a measure similar to consumer price index), then the differential could result in fund savings of roughly \$3.2 million in FY07 and \$5.7 million in FY08 under CHE assumptions.

However, other escalators which could be considered might include the amount of the tuition revenue credit or one of the published higher education cost indices. These escalators would be greater than more common measures of inflation, i.e. the consumer price index, with the implication that the escalation of future savings for the lottery scholarship fund is not clear.

OTHER SUBSTANTIVE ISSUES

A CHE Fact Sheet on Decoupling notes the federal HOPE credit provides up to \$1,500 in tax credits for the first two years of post-secondary education, and the federal Lifetime Learning credit provides up to \$2,000 for on-going education. Taxpayers with dependent, qualifying students would be eligible to receive the credit, while independent students would be eligible for the credit. Note federal tax liability must be sufficient to claim these credits.

NMACC suggests “To honor past commitments, those currently on lottery should be grandfathered at the tuition rate for the duration of their scholarship. This may help lessen the resistance for accepting the decoupling concept.”

The legislature may wish to consider a sunset provision to re-evaluate the decoupling initiative and its impacts.

The legislature may wish to consider an annual review and reporting to the legislative finance committee, legislative education study committee, office of the governor and department of finance and administration by:

- New Mexico Lottery Authority on revenue situation and outlook and
- Commission on Higher Education on
 - expenditure situation and outlook
 - fund balance situation and outlook
 - policy and fiscal impacts of each enacted change to lottery scholarship program

TECHNICAL ISSUES

The amounts specified on page 2, lines 22 to 25 and page 3, lines 1 to 13 may need to specify on a “per semester” basis.

AW/sb

Attachment

Comparison of New Mexico Public, Post-secondary Tuition Rates

	<u>Resident Tuition per semester FY03-04</u>	<u>Resident Tuition per se- mester FY04-05</u>
<u>Research Universities</u>		
New Mexico Tech	\$1,078	\$1,153
New Mexico State	\$1,209	\$1,314
University of New Mexico	\$1,370	\$1,556
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<u>Comprehensive Universities</u>		
Eastern New Mexico	\$888	\$939
New Mexico Highlands	\$804	\$816
Western New Mexico	\$876	\$948
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<u>Branch</u>		
ENMU – Roswell	\$397	\$421
NMSU – Alamogordo	\$468	\$516
NMSU – Carlsbad	\$480	\$480
NMSU – Dona Ana	\$420	\$444
NMSU – Grants	\$432	\$492
UNM – Gallup	\$492	\$528
UNM – Los Alamos	\$420	\$444
UNM – Taos	\$444	\$480
UNM – Valencia	\$456	\$492
<u>Community Colleges</u>		
Albuquerque TVI	\$444	\$462
Clovis Community College	\$288	\$288
Luna Community College	\$300	\$300
Mesalands Community College	\$510	\$525
New Mexico Junior College	\$204	\$204
Northern New Mexico	\$324	\$348
Santa Fe Community College	\$318	\$360
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San Juan College	\$300	\$0