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## FISCAL IMPACT REPORT

<b>SPONSOR</b>	SEC _____	<b>ORIGINAL DATE</b>	02/11/07	<b>HB</b>	
	Higher Education Faculty Endowment Fund	<b>LAST UPDATED</b>	03/01/07	<b>SB</b>	CS/260/aSEC/aSFC/
<b>SHORT TITLE</b>	Distributions			<b>SB</b>	aSFI#1/aSFI #2/aSFI#3
				<b>ANALYST</b>	Williams

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY07	FY08		
\$12,000.0		Non-Recurring	General Fund
	See Narrative		Faculty Endowment Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
\$12,000.0			Nonrecurring	Faculty Endowment Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to SB 645, HB 292 and HB 983

Relates to LFC budget recommendation of \$25 million in non-recurring in FY07 to the faculty endowment fund.

Relates to Executive budget recommendation of \$12 million in nonrecurring in FY08 to the faculty endowment fund

### SOURCES OF INFORMATION

LFC Files

Responses Received From

Higher Education Department (HED)

## SUMMARY

### Synopsis of SFI#3 Amendment

Senate Floor Amendment 3 to SB 260 provides for funding for “faculty and development programs” and removes the language “and other purposes”.

### Synopsis of SFI#2 Amendment

Senate Floor Amendment 2 to SB 260 removes the specific listing of film, energy, aerospace or education from the language which provides for a carve out of not less than five percent of each institution’s total endowment effort for governor’s initiatives.

### Synopsis of SFI#1 Amendment

Senate Floor Amendment 1 to SB 260 removes the clause “and other purposes” from the list of expenditures which are authorized using the endowment investment income.

### Synopsis of SFC Amendment

The Senate Finance Committee amendment strikes the Senate Education Committee amendment and corrects the title to reflect that the bill includes an appropriation.

### Synopsis of SEC Amendment

The Senate Education Committee amendment clarifies the eligible purposes to receive funding must be academic in nature.

### Synopsis of Original Bill

The faculty endowment program would provide non-recurring endowment funding for endowed chairs, lectureships, professorships, scholarships, graduate assistantships, faculty development programs and other purposes to enhance the quality of New Mexico higher education. The HED is authorized to promulgate rules to establish procedures to disburse funds from the faculty endowment fund. Not less than 5 percent of each institution’s total endowment program under funds provided in this legislation would address more or more of the governor’s initiatives in film, energy, aerospace or education.

Funds would be available through June 30, 2010 as follows:

- \$2 million each to University of New Mexico, New Mexico State University and New Mexico Institute of Mining and Technology, with 50 percent matching funds;
- \$1.5 million to the University of New Mexico School of Medicine, with 50 percent matching funds;
- \$500 thousand each to New Mexico Highlands University, Eastern New Mexico University, Western New Mexico University and Northern New Mexico State School, with 40 percent matching funds;
- a total amount of endowments of \$2.5 million for New Mexico Military Institute, community colleges, branch community colleges and technical and vocational institutions, with a 30 percent matching fund requirement. This amount is to be

distributed according to rules developed by HED. These rules must ensure each eligible institution an opportunity to receive an equitable share of the funds.

Eligible uses of endowment funds are expanded to lectureships, scholarships, graduate assistantships and other purposes.

The Higher Education Department would report on amounts disbursed to each institution, the amount of matching funds and their source and the purpose of the endowments to the legislative finance committee by July 1 of 2008, 2009 and 2010.

On July 1, 2010, any funds remaining in the faculty endowment fund may be matched by any public, post-secondary institution consistent with HED rules.

The bill repeals Laws of 2003, Chapter 379, Section 1 related to the faculty endowment program.

The bill makes other technical changes to state statute.

### **FISCAL IMPLICATIONS**

The appropriation of \$12 million contained in this bill is a non-recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of fiscal year 2012 shall revert to the general fund. This bill provides for continuing appropriations from the faculty endowment fund during that time.

It is not clear how private match funding requirements would be determined. Further, it is not clear if these funds would be subject to the prudent man rule for investments due to the striking of Laws of 2003, Chapter 379.

### **SIGNIFICANT ISSUES**

Under current law, the three research institutions and the UNM School of Medicine are eligible to participate in the endowed chair program, while six of the state's universities are eligible to participate in endowed professorships and endowed faculty development programs. Half of the disbursements are to be for endowed chairs, 35 percent are designated for endowed professorships and 15 percent are for endowed faculty development programs.

According to Volume II of the LFC budget recommendation: "The committee recommends consideration of nonrecurring funding of up to \$25 million for endowed chairs at the state's four-year and two-year postsecondary institutions. The endowed-chair funding achieves several legislative objectives. The funding provides a mechanism for partnering with noninstitutional funding organizations, attracting, retaining, and creating incentives for enhanced student learning, scholarship, and research as well as supporting the multi-faceted missions of the state's institutions.

The surplus of nonrecurring general fund monies provides an opportunity to invest in this initiative because the distributions from the endowment are used for operating purposes of the endowed faculty positions.

Expansion of the program to two-year institutions will require changes to 21-1-27.1 NMSA 1978 to reward enhanced student learning activities of faculty at those institutions.”

According to the Executive Budget in Brief “*Path to Progress, Expanding Opportunity*”, January 2007: the executive proposal is to “retain and attract high-caliber faculty to the State’s higher education institutions by creating endowed chairs, particularly in specialized, high-need fields. Institutions must provide matching funds from private sources, which helps engage the private sector and alumni.”

## **OTHER SUBSTANTIVE ISSUES**

In past years, in determining prior-year institutional draw downs from the faculty endowment fund, the Commission on Higher Education, now the HED, has required the university to provide a letter signed by the chair of the board of regents, the president, and the chief financial officer declaring:

- 1) that an endowment account has been established for receipt both of the monies from the Fund and the non-governmental matching monies;
- 2) which kind of endowment is being established (i.e., a chair, professorship, or faculty development program);
- 3) administration of the Fund meets the requirements of Section 21-1-38 NMSA 1978; and
- 4) identification of the source of the non-governmental monies and their permanent commitment to the endowment.

Faculty endowment funds at institutions are contributing to strong bond ratings for those institutions.

## **TECHNICAL ISSUES**

The legislature may wish to consider adding the Department of Finance and Administration to receive reported information on the program.

## **POSSIBLE QUESTIONS**

1. What is the most effective level of private contribution match to maximize non-state matching funds, while enabling effective participation in the faculty endowment program by various institutions?
2. What guiding criteria for endowment management would be required?

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