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FISCAL IMPACT REPORT

ORIGINAL DATE 1-27-2007

SPONSOR Garcia, M.J. LAST UPDATED 3-1-2007 HB _____

SHORT TITLE Teacher Loan Repayment Act SB 560/aSEC/aSJC

ANALYST Dearing

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY07	FY08		
	\$400.0	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

Duplicates HB531
Relates to Appropriation in the General Appropriation Act

SOURCES OF INFORMATION

LFC Files

Responses Received From
Higher Education Department (HED)

SUMMARY

Synopsis of SJC Amendment

The Senate Judiciary Committee amends Senate Bill 560/aSEC such that;

1.) On page, 5, line 8, strike “three times the principal due plus eighteen” and insert in lieu thereof “fifteen”.

The Senate Judiciary Committee amendment makes minor changes to the proposed legislation, thereby reducing the default penalty from treble the principal plus eighteen percent to 15 percent. The results of the changes are such that there would be somewhat less deterrence for program participants defaulting on program loans.

Synopsis of SEC Amendment

The Senate Education Committee amends Senate Bill 560 such that;

1. On page 1, line 19, after "of" insert "public school".

2. On page 2, line 10, after the first "teacher" insert "in a public school".
3. On page 2, line 22, after "teach" insert "in a public school".
4. On page 3, line 12, after "in" insert "a public school in".
5. On page 3, line 16, after "the" insert "public school".,

Senate Education Committee amendments make minor changes to the proposed legislation, thereby clarifying its intention. The intent of the changes are such that the term “teacher in a public school” is specified through-out the bill, for language clarification.

Synopsis of Original Bill

Senate Bill 560 enacts the Teacher Loan Repayment Act and appropriates \$400 thousand from the general fund to a newly-created non-reverting fund to be administered by the New Mexico Higher Education Department (NMHED) for expenditure in FY08 and subsequent fiscal years to carry out the provisions of the Act. Senate Bill 560 creates the Teacher Loan Repayment Fund, establishes framework for teachers’ loans for service provided to the state of New Mexico, mandates annual reporting of the program’s status to the Executive and Legislature, and provides penalties for service loans in default.

FISCAL IMPLICATIONS

The appropriation of \$400 thousand contained in this bill is a recurring expense to the General Fund. Any unexpended or unencumbered balance remaining at the end of FY08 shall not revert to the General Fund.

This bill creates a new fund and provides for continuing appropriations. The LFC has concerns with including continuing appropriation language in the statutory provisions for newly created funds, as earmarking reduces the ability of the legislature to establish spending priorities.

SIGNIFICANT ISSUES

A similar program currently exists and receives annual funding through the Higher Education department’s Student Financial Aid program budget. Existing sections 21-22E-1 through 21-22E-1 NMSA 1978, "Teacher Loan for Service Act" provide a similar loan servicing program. FY06 actuals and FY08 budget amounts were \$350 thousand for this program.

The significant difference between the existing Loan for Service Act and this proposed *Repayment* Act is that students participating in the existing program must be enrolled or accepted in a New Mexico postsecondary institution’s teacher preparation program. Under the Loan program, upon graduation and entry into service in a New Mexico school, principle and accrued interest of loans taken out to fund participating students’ education are incrementally retired or repaid with successive years of service. The interest on Teacher Loan for Service loans accrues at 7 percent while in a teacher preparation program and 18 percent if in non-compliance with the terms and (contract) default occurs. Again, only New Mexico residents entering an accredited NM program are eligible for the Teacher Loan for Service program.

The proposed legislation would instead provide repayment for service *after* the debt is incurred. Participating teachers would have at minimum a 2-year service commitment. Contract terms would be determined, and the Higher Education department would then establish a yearly service credit value. In the event that a participant failed to comply with the terms of the agreement, a maximum penalty of up to 3 times the principle plus 18 percent interest could be assessed.

Senate Bill 560 as written allows variable amounts for the yearly service credit value, increasing it both for difficult to fill locations as well as skill-sets and certifications. The proposed program would make it easier to recruit teachers from outside the state, as well as positioning teachers in underserved rural areas. New Mexico residents and teachers from non-profit postsecondary institutions could receive preference.

Other loan or repayments for service programs include the following programs.

- Medical Student Loans, 21-22-1 through 21-22-10
- Osteopathic Medical Student Loans, 21-22A-1 through 21-22A-10
- Nursing Student Loans, 21-22B-1 through 21-22B-10
- Allied Health Student Loan for Service, 21-22C-1 through 21-22C-10
- Health Professional Loan Repayment, 21-22D-1 through 21-22D-10
- Public Service Law Loan Repayment Act, 21-22F-1 through 21-22F-11

While the terms of these existing programs vary, the Health Professional and Public Service Law programs have penalties and contract terms similar to the proposed program. Many existing programs have clauses specifying participants' graduation or enrollment from New Mexico postsecondary institutions. The proposed legislation could encourage recruitment of teachers with specialty skills from other states. An important consideration of Senate Bill 560 is the ability to effectively apply a bonus to entice teaching professionals to the areas with teacher shortages, and direct specialty certified professionals where they are needed.

If enacted, the legislation could promote relocation of teachers to underserved rural areas, as well as underperforming districts needing specialty language or teachings skills.

PERFORMANCE IMPLICATIONS

The department will make annual reports to the governor and to the legislature regarding repayment award grants, current information on participants, and the status of participants serving in designated teacher shortage areas.

DUPLICATION;

Senate Bill 560 Duplicates House Bill 531

RELATIONSHIP

Senate Bill 560 relates to 21-22E-1 NMSA 1978, "Teacher Loan for Service Act." Relationship is described in detail in the significant issues narrative.

TECHNICAL ISSUES

Revenue from penalties and program-default repayment shall be credited back to the fund.

PD/nt