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## FISCAL IMPACT REPORT

ORIGINAL DATE 2-27-07  
 SPONSOR Jennings LAST UPDATED 2-28-07 HB \_\_\_\_\_  
 SHORT TITLE Legislative Lottery Tuition Scholarship Act SB 929  
 ANALYST Dearing

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY07	FY08		
	\$100,000.0	Non-Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

Responses Received

Department of Finance and Administration (DFA)  
 Higher Education Department (HED)

### SUMMARY

Synopsis of Bill

Senate Bill 929 appropriates \$100 million from the General Fund to the Lottery Tuition trust fund created in the bill prior to the end of FY07. The legislation amends the Lottery Tuition Scholarship Act, Section 21-1-4.4 NMSA 1978 such that the program shall be named the *Legislative Lottery Tuition Scholarship Act*. Senate Bill 929 creates both the *lottery tuition trust fund* and the *legislative lottery tuition scholarship fund*, both non-reverting; in addition to specifying investment of the *trust fund* be performed by the State Investment Council, with investment responsibilities of the *scholarship fund* placed with the State treasury.

Senate Bill 929 enacts a new section of statute to provide procedures for administration of the Legislative Lottery Tuition Scholarship program. The bill amends sections of the existing Lottery Tuition Scholarship Act, Section 21-1-4.4 NMSA 1978 to include the new program name, update other state institution names to currently used terms, and includes a clause such that awards from the fund in no circumstance exceed the costs of tuition at public postsecondary institutions.

Senate Bill 929 repeals sections Sections 6-24-23, 21-1-4.3 and 21-16-10.1 NMSA 1978 (being Laws 1995, Chapter 155, Section 23 and Laws 1996, Chapter 71, Sections 3 and 6, as amended).

### **FISCAL IMPLICATIONS**

The appropriation of \$100 million contained in Senate Bill 929 is a nonrecurring expense to the General Fund. Any unexpended or unencumbered balance remaining at the end of FY08 shall not revert to the General Fund.

Senate Bill creates two new funds. 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.

As written, Senate Bill 929 will address several items of ongoing concern and has the potential to extend the longevity of the scholarship fund through these changes and a one-time appropriation of \$100 million.

- 1.) The bill enacts a requirement that recipient students maintain a 2.5/4.0 G.P.A for the duration that they receive the scholarship. Current statute provides that students must earn the 2.5 G.P.A for their *first* semester of full-time enrollment.
- 2.) The bill provides for a requalification process for students that have fallen below the minimum G.P.A., however, students may fall below a 2.5 G.P.A. only once.
- 3.) Lastly, a non-reverting lottery tuition trust fund is created. The fund would initially be charged with a \$100 million appropriation to be invested with the State Investment Council. Interest earnings from this appropriation would subsidize operating/sales revenues transferred from the New Mexico Lottery Authority to the previously named *lottery tuition scholarship fund*; re-named the *legislative lottery tuition scholarship fund* with passage of Senate Bill 929. This appropriation could provide an approximate \$8 million annual perpetuity contribution to the scholarship fund. This contribution could markedly extend the solvency of the fund.

### **RELATIONSHIP**

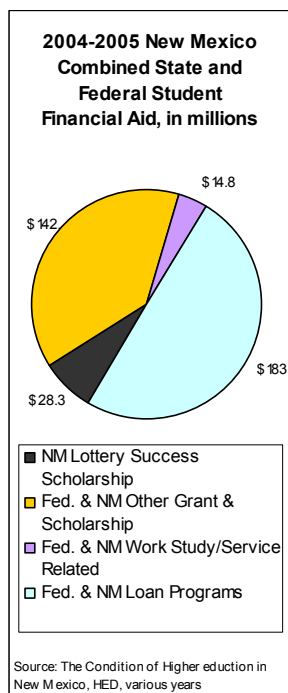
Senate Bill 687 relates to:

Senate Bill (s): 110, 689, 426, 686, and 687  
House Bill (s): 571, 209, 275, 361, and 740

These listed bills create various changes to lottery scholarship eligibility, distributions from the fund, or otherwise change the Lottery Success program framework.

**ALTERNATIVES, OTHER SIGNIFICANT ISSUES**

In the 2005-2006 academic year, approximately \$36.9 million in Lottery Success scholarship funds were distributed to New Mexico students. Payouts to beneficiaries continue to exceed New Mexico Lottery Authority disbursements to the scholarship fund. Recent projections show fund insolvency around 2012-2013. With overall flat high school graduation rates expected over this period, projected increases in expenditures are primarily based on tuition inflation. State student aid dollars from the lottery program comprise an ever larger component of state spending on higher education, increasing from 38 percent to 42 percent over the 2002-2003 academic year with subsequent reductions in work-study and service aid.



Across the country, merit scholarship programs are undergoing similar solvency issues. Underestimated and rapidly increasing demand for merit scholarships and scarce resources have forced other states to pursue alternatives.

The Lottery program is one component among many available federal and state student financial aid sources. Including federal and other state grants, work-study, and loan programs, the Lottery program comprises just about 7.7 % of available student financial aid in NM.

Students excluded from the Lottery Success Scholarship have the option to apply for other state and federal financial aid programs.

