

**LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS**

Bill Number: HJM 14aa

50th Legislature, 2nd Session, 2012

Tracking Number: .188549.1

Short Title: Study Lottery Tuition Fund Solvency

Sponsor(s): Representative Ray Begaye and Others

Analyst: Travis Dulany

Date: February 13, 2012

AS AMENDED

The House Floor amendment alters the task force composition by:

- **increasing the number of members representing institutions of higher education from three to five; and**
- **specifying that:**
 - **three members representing higher education institutions are to be appointed by the University Council of Presidents;**
 - **one member representing higher education institutions is to be appointed by the New Mexico Association of Community Colleges; and**
 - **one member representing higher education institutions is to be appointed by the New Mexico Independent Community Colleges.**

The House Education Committee amendment adds to the task force one member of the New Mexico Lottery Authority. That additional member is to be appointed by the New Mexico Lottery Authority Board of Directors.

Original Bill Summary:

HJM 14 requests that the Higher Education Department (HED), in cooperation with the Legislative Education Study Committee (LESC), and the Legislative Finance Committee (LFC), convene a task force to study the solvency of the Legislative Lottery Scholarship program.

Further, the joint memorial requests that the work group be composed of:

- **three members from the House of Representatives and three members from the Senate, appointed by the Legislative Council;**
- **three members appointed by the governor;**
- **three members representing higher education institutions, appointed by the Council of University Presidents; and**
- **three students, appointed by the Secretary of Higher Education, representing New Mexico higher education institutions, one of each representing:**

- research universities;
- comprehensive universities; and
- community colleges.

HJM 14 requests that the task force be staffed by HED, LESC, and LFC, and meet at least four times during the 2012 interim. Any recommendations of the group will be reported to the governor and the 1st Session of the 51st Legislature.

The sponsor may wish to consider adding additional stakeholders to the work group, such as the Chief Executive Officer of the New Mexico Lottery Authority. See the *Background* section of this analysis for the composition of similar work groups from previous years.

Fiscal Impact:

Legislative memorials do not contain an appropriation.

Fiscal Issues:

Memorials requesting state agencies to conduct studies are likely to have a fiscal impact in terms of staff time, travel, office supplies, and other items. Also, this memorial would need to consider per diem and travel costs of legislators.

Technical Issues:

Page four, line one refers to the “university council of presidents.” This should be amended to read, “council of university presidents.”

Substantive Issues:

2010 Interim

A work group similar to the one requested in HJM 14 was formed during the 2010 interim. In June 2010, a staff report to the LESC noted a number of issues with the Legislative Lottery Scholarship, among them, dissemination of information about the scholarship, demographic characteristics of scholarship recipients, educational outcomes of recipients, and the status of the Lottery Tuition Fund. In response to some of these issues – the status of the Lottery Tuition Fund in particular – and with the intent of considering strategies to address such other issues as rising tuition and increasing enrollments, HED convened the Lottery Study Committee in late summer 2010. Intended to provide broad representation, the membership was composed of:

- representatives of two-year and four-year postsecondary institutions, including financial aid directors;
- the Director of Financial Aid at HED;
- other HED staff;
- the Chief Executive Officer of the New Mexico Lottery;
- Department of Finance and Administration (DFA) staff; and
- LESC staff.

The work group met three times during the 2010 interim, in addition to communication via email. Through the course of their deliberations, the Lottery Study Committee members identified three issues that merit further discussion:

- whether the lottery scholarship should pay for remedial coursework;
- how to clarify whether a student has earned a high school diploma, which is one of the eligibility criteria, or a certificate of completion; and
- the challenges encountered by students with disabilities as they try to complete degrees.

Through their analyses of these particular issues and the solvency of the Lottery Tuition Fund, the members of the study committee considered a range of ideas. Some of these ideas would have increased the requirements of qualifying for or maintaining the lottery scholarship:

- Require a high school cumulative GPA of 2.0, or an American College Testing (ACT) composite score of 17 or above.
 - **Issue:** According to the Lottery Study Committee, this recommendation would have affected two-year community colleges more significantly than four-year institutions. Additionally, the committee indicated that this recommendation would have a minimal fiscal impact.
- In FY 12, increase the number of required credit hours from 12 per semester to 27 per year; and, by FY 14, phase in a requirement for 30 credit hours per year.
 - **Note:** The Lottery Study Committee indicated that students will still be required to maintain full-time status, or a minimum of 12 credit hours, for both the fall and spring semesters.
- Increase the required cumulative GPA from 2.5 to 2.75.

Other ideas that the study committee discussed would revise the conditions required or allowed:

- restrict lottery scholarship coverage to six credit hours of remedial coursework;
- cap lottery scholarship coverage at 18 credit hours per semester;
- limit General Educational Development (GED) eligibility to no older than 24 years of age;
- allow for year-round lottery scholarship coverage for those students who want to take summer coursework or are in programs that require year-round enrollment; and
- request that PED clarify the difference among a diploma, a GED certificate, and a certificate of completion on a student's high school transcript.

Finally, the Lottery Study Committee was made aware of a provision in HED's administrative code that allows individuals to move to New Mexico and qualify for the lottery scholarship prior to establishing residency, which is another eligibility criterion in state law. According to an HED representative, "rules provide an exception to the 12-month [residential] requirement for a person, the person's spouse and dependents if the person can provide evidence of a permanent full-time position, conducting business or practicing a profession" in New Mexico. Consequently, the Lottery Study Committee questioned whether this exception should be reviewed in terms of its impact on the Legislative Lottery Scholarship.

2011 Interim

Projections provided by DFA indicate that the Legislative Lottery Scholarship fund may be insolvent as early as FY 14.

New Mexico law requires the New Mexico Lottery Authority (NMLA) to distribute at least 50 percent of lottery proceeds to players in the form of prizes. Additional funds are allocated to cover the cost of lottery products, as well as retailer commission and administrative costs. Once these expenses have been paid, the New Mexico Lottery delivers all net proceeds to the State of New Mexico to fund the Legislative Lottery Scholarship. For FY 11, these net proceeds resulted in \$41.3 million, or 30.5 percent of total gross revenue, while, according to HED, \$53.0 million was expended to cover scholarships throughout the state.

During the 2011 interim, the LESC heard testimony from Mr. Tom Romero, Chief Executive Officer, NMLA. Alluding to the past four years, Mr. Romero noted that ticket sales have been down, or flat, for a variety of reasons, including:

- the economic recession and prolonged recovery;
- loss of retailers that went out of business; and
- increasing food and gas prices.

Despite these setbacks, Mr. Romero emphasized that net revenues for the scholarship program have increased both in dollars and percentage due to strict fiscal discipline and severe cost-cutting. Mr. Romero explained that steps were taken in the past two fiscal years to stabilize sales, including a new branding campaign, acquisition of 60 new stores, and the launch of a social media strategy to reach younger players. With these measures taken, based on its FY 12 budget, NMLA anticipates flat gross and net revenues over the next five years, with a sales forecast of \$136.4 million and a revenue forecast of \$41.0 million.

Additional fiscal concerns stem from institutional tuition increases. HED data show that, between FY 11 and FY 12, the average statewide tuition increase for an undergraduate New Mexico resident was 10 percent. FY 13 budget recommendations from both the Legislative Finance Committee and the Executive offer fewer cuts to higher education institutions than in previous years.

Background:

Created by legislation enacted in 1996, the Legislative Lottery Scholarship is a renewable, full-tuition award granted to qualifying students beginning in their second semester at a public postsecondary institution in New Mexico and continuing for seven more consecutive semesters. The scholarship covers the cost of tuition only. Students are responsible for additional educational expenses such as student fees, course materials, and housing.

To qualify for the Legislative Lottery Scholarship a student must:

- be a New Mexico resident;
- have graduated from a New Mexico public or accredited private school or have obtained a New Mexico GED;

- enroll full-time (in at least 12 credit hours) at an eligible New Mexico public college or university, in the first regular semester immediately following high school graduation; and
- obtain and maintain a cumulative GPA of at least 2.5.

State law also provides for specific accommodations with regard to:

- students with disabilities;
- students whose parents are in the military; and
- individuals that either immediately enlist in, or have recently departed from, the US Armed Forces.

Related Bills:

HB 217 *Lottery Scholarships for Home Schooling*
SB 49 *Accredited Home School Lottery Scholarships*
SJM 3 *Create Interim Higher Education Committee*
SJM 27 *Study Solvency of Lottery Tuition Fund (Identical)*