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FISCAL IMPACT REPORT

ORIGINAL DATE 02/05/14
 SPONSOR Smith, J.E. LAST UPDATED 02/14/14 HB 254/aHAFC
 SHORT TITLE Lottery Scholarship Solvency SB _____
 ANALYST Chavez

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY14	FY15	FY16	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		(\$700.0)	(\$700.0)	(\$1,400.0)	Recurring	Lottery Tuition Fund
		Unknown	Unknown	Unknown	Recurring	Institutional Operating Budgets
		(\$100.0)	(\$100.0)	(\$200.0)	Recurring	HED/General Fund

(Parenthesis () Indicate Expenditure Decreases)

Relates to HB 2, HB 145, HB 263, HB 348, SB 141, SB 146, SB 150, SB 327, SB 379

SOURCES OF INFORMATION

LFC Files

Responses Received From

Department of Finance and Administration (DFA)
 Higher Education Department (HED)
 University of New Mexico (UNM)
 New Mexico State University (NMSU)
 New Mexico Tech (NM Tech)
 Central New Mexico Community College (CNM)
 New Mexico Lottery Authority (NMLA)

SUMMARY

Synopsis of HAFC Amendment

The House Appropriations and Finance Committee amendment to House Bill 254 removes the legacy provision of the bill that would provide full tuition scholarships for students who had finished three semesters or more by the end of FY14. The legacy provision as outlined in the original bill had also allowed students to maintain eligibility with a 2.5 GPA and 12 credit hours per semester, as well as to receive the scholarship for eight semesters rather than seven.

All students under the amendment would be subject to the same conditions of the bill and receive scholarship award amounts based on a minimum GPA of 2.5 and unmet need.

Synopsis of Original Bill

House Bill 254 makes changes to the Legislative Lottery Scholarship Program (LLSP), including the creation of the Lottery Tuition Fund Act. Other changes to the LLSP include:

- Requiring lottery students to fill out an application and a free application for federal student aid (FAFSA) to receive the lottery tuition scholarship;
- Distinguishing “legacy” and “qualified” students. Legacy students are defined as students who have received the legislative lottery scholarship for 3 or more semesters by the end of FY14;
- For qualified students, creating flat awards based on institution type, GPA, and unmet need; and
- Adding reporting requirements for the Higher Education Department (HED).

Sections 21-1-4.3, 21-1-4.4 and 26-16-10.1 NMSA 1978 are repealed.

This bill contains an emergency clause.

FISCAL IMPLICATIONS

According to HED, the scholarship award method in HB 254, without any revenue constraints, requires slightly more revenue than average annual lottery revenues. HED estimates \$43.7 million in expenditures for eligible students under the awards matrix outlined in the bill in FY15. LFC staff estimate FY15 lottery revenues of \$43 million, leaving a \$700 thousand shortfall. Consequently, HED or institutions would be required to reduce awards accordingly. If HED maintains a fund balance in the lottery tuition fund, award amounts would require additional reductions.

However, on p. 5, lines 4-5, HB 256 contains language awarding scholarships “to the extent that funds are made available by the legislature from the fund.” As such, the lottery scholarship would be solvent under this bill, although students may not receive the full awards given in this bill if HED estimates are correct, or if a higher proportion of students receive larger awards based on high unmet need and/or high GPA. In order to keep spending under available revenues, the average award would have to be about 60 percent of average tuition for each of the institution sectors.

The HAFC substitute for HB 2 currently contains two appropriations for students receiving the lottery scholarship: one to make scholarships whole for the spring 2014 semester; and another to aid in cash flow management in FY14 and to support the cost of legacy students in FY15. The \$11 million appropriation is contingent on enacting legislation that address lottery tuition fund solvency. If these appropriations are eliminated, students would have their FY14 and FY15 scholarship awards reduced.

LFC staff estimate HED and institutions will likely incur additional operational costs to administer this program. CNM notes that because the bill adds both a student application and a FASFA requirement, the college would require an additional financial aid counselor to process those applications. It is likely that other institutions would also need to hire additional staff to meet the requirements of the bill.

This bill does not require HED to maintain a minimum fund balance. HED has stated that it requires a minimum fund balance in order to avoid cash flow problems. It is not clear if HED has the authority or ability to maintain a minimum fund balance under the bill as written.

This bill does not contain an appropriation.

SIGNIFICANT ISSUES

The LLSP relies on revenues from lottery ticket sales and prior year fund balance to meet annual scholarship expenses. During the last few fiscal years, lottery scholarship expenses have increased steadily, \$53.3 million in FY11, \$58.2 million in FY12, \$61.9 million in FY13, and a projected \$67.5 million in FY14. As forecasted by the Legislature and executive branch, the LLSP will deplete all remaining fund balances in FY14 unless supplemental funding is provided. Lottery revenues are expected to remain flat and insufficient to meet the full cost of funding tuition for all eligible students. Since scholarship expenditures cannot exceed available revenues, significant changes are required to maintain program solvency. Alternatively, Section 21-1-4.4 NMSA 1978 mandates HED to reduce award amounts by a department-determined percentage if expenditures are greater than revenues.

Under the criteria in HB 254, the reimbursement amount for students in attending each type of institution would vary according to their unmet need and their GPA performance. For each type of institution – research, comprehensive, branch community college and independent community college, there are 20 different award amounts. In total, the bill creates 80 possible legislative lottery scholarship award amounts. For FY15, the lowest award amount would be \$250 per semester; the highest possible award amount would be \$2,100 per semester. Currently about 57 percent of students achieve the highest grade point average level defined in the bill.

Each of the sectors would have an awards matrix with possible award amounts varying by type of institution. Below is the awards matrix for students at research universities:

LLSP Scholarship Award Matrix: Research Institutions

		UnMet Need* (Cost - Estimated Family Contribution - All Other Scholarships and Aid)					
		\$7,000+	\$6,000 - \$6,999	\$4,000 - \$5,999	\$1,000 - \$3,999	Under \$1,000	
		UnMet Need Amt:	\$1,050	\$950	\$850	\$750	\$650
		GPA Amt:					
GPA*	2.50 - 2.74	\$750	\$1,800	\$1,700	\$1,600	\$1,500	\$1,400
	2.75 - 2.99	\$850	\$1,900	\$1,800	\$1,700	\$1,600	\$1,500
	3.00 - 3.24	\$950	\$2,000	\$1,900	\$1,800	\$1,700	\$1,600
	Over 3.25	\$1,050	\$2,100	\$2,000	\$1,900	\$1,800	\$1,700

* Total LLSP award is determined by adding GPA award amount to UnMet Need award amount.

The bill requires HED to develop and provide to all public post-secondary institutions a printed and electronic form for requesting a lottery tuition scholarship. Each student must fill out a FAFSA as well as the HED-developed application form. For FY16 and later, the department must determine, after considering any appropriation from the legislature and projected enrollment at all public post-secondary institutions, the total amount available for lottery tuition

scholarships. HED is required to adjust award amounts according to available funds and announce to regents and governing boards by May 1st of 2015 and each year thereafter. It is unclear whether the department can meet these requirements given its resources. For FY15 it is likely that HED would have to reduce the scholarship amounts described in the bill to bring total expenditure below available revenue.

Eligibility requirements for the LLSP remain unchanged: students may qualify with one semester at a public higher-education institution with a 2.5 GPA or higher with 12 or more credit hours and maintain eligibility with the same requirements. However, a qualified student may only receive the scholarship for seven semesters, rather than eight. Students at two-year institutions may receive the scholarship for three consecutive semesters of attendance and another four consecutive semesters at a four-year institution.

The bill requires the department to promulgate rules setting forth explicit criteria for student qualification and continuing eligibility, the amounts available for scholarship awards, and guidelines for the administration of the program. The department is also required to include in a report to the LFC and DFA by November 1st of each year:

- The status of the fund and LLSP participation data;
- The number of qualified and legacy students who received lottery tuition scholarships;
- The total number of students enrolled in the prior 12-month period;
- The component amounts of the lottery tuition scholarship received and the amount of unmet need that was not offset by the lottery tuition scholarship;
- The amount of lottery tuition scholarships funded and the amount of tuition costs that were not offset by the lottery tuition scholarship;
- The number of qualified students who graduated with a degree and the number of consecutive and nonconsecutive semesters attended prior to graduation;
- The number of students who received a lottery tuition scholarship and subsequently became ineligible for a lottery tuition scholarship and the reasons for ineligibility; and
- Any additional information required or requested by the LFC and DFA.

It is not clear how many students would exit the LLSP as a result of the new application and FAFSA requirements.

PERFORMANCE IMPLICATIONS

HED states the change in LLSP procedures contained in this bill would direct more money towards the most financially needy students but would preserve some level of award to all current recipients. HED also notes this approach promotes higher GPAs while still providing an award amount to all current recipients.

However, there may be unintended consequences of providing higher awards for students with high GPAs, such as discouraging students from taking a class load of more than 12 credit hours, or from taking difficult classes, in order to obtain as high a GPA as possible. Under most requirements at four-year institutions, eight semesters (LLSP plus the bridge scholarship) at 12 credit hours per semester leaves students far short of the number of credit hours needed to graduate. This may affect completion rates. Additionally, students may chose degree paths based on ease of obtaining GPA, or may be dissuaded from choosing more difficult degree paths.

ADMINISTRATIVE IMPLICATIONS

The process for making awards would become more complex with this bill. Institutions would need to develop new procedures to ensure that awards are made correctly and would likely need to implement new software systems, particularly at the smaller institutions. NM Tech notes that setting up the new rules in the University's computer system will take some time. However, once the rules are written in, NM Tech states the new rules should not be difficult to administer.

In order to ensure that the institutions are correctly awarding LLSP funds, HED would need to increase its institutional oversight role and data collection methods.

UNM responds that the plan for awards as outlined in this bill is complicated and difficult for students and families to understand, especially as the components could change each semester. The bill contains significant reporting requirements for HED, and requires HED to create an application process for students who wish to obtain a lottery scholarship. It is unclear whether the department has the resources to carry out the requirements of the bill.

RELATIONSHIP

For a comprehensive list of related bills, see attached table.

TECHNICAL ISSUES

On P. 11, lines 11-14, the bill requires HED to report on the number of qualified students and the number of legacy students who graduated with a degree and for each qualified student, the number of consecutive semesters and nonconsecutive semesters attended prior to graduation. However, a lottery student may only receive the scholarship for consecutive semesters. The language is confusing regarding whether it is meant students graduating with a lottery scholarship, or students graduating who have received a scholarship at some time prior to graduation.

UNM states that the definition of unmet need in the legislation is different than the standard term when describing financial aid to families, which may be confusing to students and families and may affect the award a student receives. This language should be clarified to align with current university policies.

This bill declares an emergency. However, many institutions have priority FAFSA application deadlines on or around March 1st. There may not be enough time for students to fill out a FAFSA application for the 2014-2015 school year. Additionally, institutions typically provide aid and award packages to students by April; they would not have sufficient time to include the lottery scholarship in these award packages. Even if institutions were able to calculate unmet needs for

lottery students for before the beginning of the fall semester, this may make the dissemination of the lottery scholarship particularly difficult under the provisions of the bill for the 2014-2015 school year.

The Legislature may wish to consider adding language that maintains a minimum fund balance in the fund to avoid cash flow issues with the disbursement of scholarship awards.

OTHER SUBSTANTIVE ISSUES

CNM notes that historically, New Mexico has functioned as a low-tuition/low need-based aid state. New Mexico's tuition rates are substantially lower than peer institutions throughout the country, but in states with much higher tuitions, those states generally provide significantly more state-funded need-based aid. The changes proposed in this bill would begin to establish a more robust need-based aid program in New Mexico thus allowing institutions to set tuition rates that are more comparable to peer institutions without limiting access to students from low income families.

POSSIBLE QUESTIONS

NM Tech asks: Section 5 of the bill refers to regents or other governing bodies awarding lottery tuition scholarships. Current law requires HED provide guidelines to be distributed to the regents. In the past, the University was responsible for awarding the lottery scholarships. Does HB 254 require administrative approval from university regents prior to awarding the lottery scholarships?

Will institutions have sufficient time and resources to update their administrative database systems to comply with the changes outlined in the bill?

Will HED have enough time and resources to create an application form, assess student applications and unmet need, and distribute awards? Financial aid awards are determined as early as now -- February 2014 for FY15 – too late for guidelines, procedures and forms to be developed for FY15 awards.

KC/ds:svb:jl

Legislative Lottery Scholarship Program: Proposed Legislation in 2014 Session

Bill Number	Lottery Program Changes						FY15 Funding				Other Changes
	GPA?	Full Time?	Number of Semesters	Financial Need?	Award Changes	Legacy Provision?	Solvent?	Appropriation?	Sanding Required?	Emerg. Clause?	
HB 145 (Taylor)	2.5	12 SCH	8	No	None	No	No	None	Yes	No	Adds eligibility for dependents of military on active duty outside of NM
HB 254/aH AFC (Smith, JE)	2.5-3.25	12 SCH	7	Yes	Level of award based on GPA and financial need	No	Yes	None	Possibly	Yes	Requires application and FAFSA; unfunded legacy provision
HB 263/aHEC (Harper)	2.5	12 SCH	7	No	Award reduced by percentage amount across all sectors, as determined by HED.	No	Yes	None	No	Yes	Duplicates current law.
HB 348 (Baldonado)	2.5	12 SCH	7	No	No change to amount; waiver instead of scholarship	Unclear	No	None	Yes	Yes	Scholarship to loan program; students must repay the waiver if they fail to get a degree.
SB 141 (Candelaria)	2.5	12 SCH	8	No	Limits tuition payments to tuition amount of qualifying semester	Unclear	No	None	Yes	No	None
SB 146 (Ingle)	2.5	15 SCH for all higher- ed students	8	No	Limits tuition rates; award amount equals the tuition rate of qualifying semester	Unclear	No	None	Yes	No	None
SB 150 (Smith)	2.75	15 SCH for 4-year inst; 12 CH for 2-year inst.	7	No	Flat awards based on type of institution	Yes - 3 or more semesters by FY15 (unfunded)	Yes	\$8 million recurring; \$2.9 million for legacy students	No	Yes	None
SB 302 (Sanchez)	N/A	N/A	N/A	N/A	N/A	N/A	Yes for FY15; not solvent in the long-term without program changes.	\$3 million monthly through FY18	No	No	Repeals the capital gains deduction from net income and appropriates a portion of savings to the LLSP
SB 303 (Sanchez)	N/A	N/A	N/A	N/A	N/A	N/A	Yes for FY15; not solvent in the long-term without program changes.	\$35 million annually	No	No	Raises motor vehicle excise tax and gives 20 percent of proceeds to the LLSP
SB 327 (Sapien)	2.5	12 SCH	7 at four-year inst.; 4 at two-year inst. + 4 at four-year inst.	No	Award amount based on type of institution and # of semesters w/ scholarship	Yes - 3 or more semesters by FY15	Yes	None	Possibly	Yes	Requires scholarship application and FAFSA; unfunded legacy provision
SB 347/SFCCS (Sanchez)	2.5	15 SCH for 4-year inst; 12 CH for 2-year inst.	7	No	Awards full tuition to program semesters one through three, pro-rated semester awards for remaining students.	Yes - 3 or more semesters by FY15 considered full-time at 12 SCH, can receive LLSP for 8 semesters.	Yes	\$11.5 million general fund and excise liquor tax distribution	Yes	Yes	None
SB 379 (Payne)	Institutional decision	Institutional decision	Institutional decision	Institutional decision	Institutional decision	Institutional decision	Yes	None	Possibly	Inst. decision	HED distributes agreed-upon amount to institutions by Aug 15; institutions establish criteria.

*SCH =Student Credit Hour

Source: LFC Files