F I S C A L I M P A C T R E P O R T

SPONSOR HEC **ORIGINAL DATE** 2/7/2015 **LAST UPDATED** 3/6/2105 **HB** 170/HECS/aHAFC

SHORT TITLE Higher Education Endowment Fund **SB**

ANALYST Hartzler

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY15	FY16	FY17		
	$2,750.0	$2,750.0	Nonrecurring	Institutional Endowment Funds

(Parenthesis ( ) Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY15	FY16	FY17	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		$20.0	$10.0	$30.0	Nonrecurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to Appropriation in the General Appropriation Act, Section 4J, Higher Education Department, Policy Development and Institutional Financial Oversight

Relates to Appropriation in HB 2, General Appropriation Act of 2015, Section 5 (51)

SOURCES OF INFORMATION

LFC Files

Responses Received From
Higher Education Department (HED)
University of New Mexico (UNM)
New Mexico State University (NMSU)
New Mexico Independent Community Colleges (NMICC)

SUMMARY

Synopsis of HAFC Amendment

The House Appropriation and Finance Committee amendment strikes the $5.5 million appropriation to the Higher Education Endowment Fund.

Synopsis of Bill

The House Education Committee Substitute for House Bill 170 proposes to (1) amend the Higher Education Endowment Fund (Act), Section 21-1-27.1 NMSA 1978, and (2) appropriate $5.5 million from the general fund to the higher education endowment fund (fund) to carry out the purposes of the Act.

In addition to appropriating general fund revenues, the bill amends Section 21-1-27.1 NMSA 1978 by limiting funds to establish endowments at public postsecondary institutions. The bill defines endowment purposes eligible for funding:

(1) establish endowed chairs, lectureships, professorships, research positions, graduate assistantships and faculty development programs that will enhance the quality of public postsecondary education in New Mexico;

(2) address "the governor's initiatives, including research and development initiatives; technology transfer initiatives; science, technology, engineering and mathematics (STEM) initiatives; health, education, water, and agricultural initiatives; and workforce development initiatives."

The bill excludes student scholarships, currently a permissible purpose, as an endowment purpose for this fund.

HB 170 amends the current law distribution of endowment funds by requiring all institutions seeking a distribution to have 50 percent of the distribution requested. Further, the bill designates 62 percent of available funds for all research institutions, including the University of New Mexico Health Sciences Center (UNM HSC); 18 percent for comprehensive institutions; and 20 percent for community colleges, including the New Mexico Military Institute. HB 170 also amends the amount institutions must provide as matching funds, requiring all institutions to demonstrate 50 percent matching funds before receiving a distribution from the fund. Current law scales institutional matching amounts, with research institutions having higher matching requirements than community colleges. See Attachment 1 for a distribution of $5.5 million (in HB 2, as approved by the House) under current law and under HB 170.

The bill requires the department to distribute endowment funds following a decision by the department or the higher education endowment committee and documents submitted by an institution documenting proof of matching funds from a nongovernmental source. The endowment committee must include representatives from HED, the Economic Development Department (EDD), and Department of Finance and Administration (DFA). The committee is to meet no more than twice a year to review institutional requests and award proposals submitted by eligible public institutions and awards made by the department to (1) determine whether proposals and awards satisfy the bill's purposes, (2) whether the department is distributing funds according to the bill's guidelines, and (3) recommend ways to support or change the endowment purposes and distribution processes.

The bill also shortens the time period for when disbursements may be made and when unencumbered funds may be redistributed among other institutions. The department may distribute funds to institutions for two years, at which time any balance will revert to the general fund. Allocations not made during the first year of a two-year cycle will be available during the second year of the cycle for another round of matching awards. HB 170 strikes the current law requirement that second round of distributions to be limited to institutions in the same sector that resulted in having a balance after the first round of awards.

The bill requires investment income from the endowment to be used only for endowment purposes. It also requires the department to submit an annual report to the Legislative Finance Committee on awards made from the fund, matching sources and amounts, and purposes of the awards.

FISCAL IMPLICATIONS

The HAFC amendment struck the appropriation included in HB 170.

The Legislature appropriated general fund revenues to the fund in FY14 and FY15, though the governor vetoed the appropriation in both years. (See Governor's Message, 2013 and 2014 General Appropriation Acts.) For FY16, the executive recommended a $2.5 million special general fund appropriation, while the LFC recommended a $5 million special general fund appropriation to the fund. In HB 2, Section 5 (51), the House approved a $5.5 million special general fund appropriation to the fund, contingent on legislation enacted during this session that affects the fund's distribution. If HB 2 as passed by the House is enacted, the fund would receive a nonrecurring general fund appropriation of $5.5 million.

Attachment 1 illustrates the distribution of the $5.5 million appropriation to the fund under current law, without amendment. HB 170 strikes this distribution, making all institutions eligible for the maximum amount of funding available from the fund provided the institution provides documentation that it has or will receive matching funds an amount to at least 50 percent of the requested fund distribution. For example, one institution could demonstrate a gift of $3.4 million, $1.1 million, or $990 thousand and receive the entire amount designated for that sector, while other institutions could also demonstrate significant gifts at a later time but not receive matching funds if all funds were distributed.

Since the fund requires a financial match, LFC assume gift revenues, plus income, would accrue to institutional endowment funds. Given past awarding cycles, it is possible the $5.5 million appropriation included in the bill would be disbursed in its entirety by the end of FY17.

LFC staff assumes some administrative costs associated with conducting endowment committee meetings, assessing proposals, distributing funds, and generating a report to the Legislature.

SIGNIFICANT ISSUES

Institutions can benefit from matching funds, as is evident by prior appropriations to this fund and institutional success at receiving donations. Based on initial comments from institutions, the HEC substitute addresses many of the concerns raised after the bill was introduced and in further meetings with legislators, executive agency staff, institutional leaders, and others. The substitute allows for expedited administration of the fund by the department and full participation by all public, postsecondary institutions and for purposes distinct to their individual missions. The substitute allows institutions to maximize opportunities with potential donors by articulating clear expectations for matching gifts.

PERFORMANCE IMPLICATIONS

No performance measures are associated with this bill. It is clear that an institution that receives funding from the state's endowment fund will generate additional revenues due to the matching requirement.

ADMINISTRATIVE IMPLICATIONS

HED notes that it would be required to promulgate rules consistent with the bill.

TH/bb/aml