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

|             |                                     |               |         |              |         |         |          |
|-------------|-------------------------------------|---------------|---------|--------------|---------|---------|----------|
| SPONSOR     | SFC                                 | ORIGINAL DATE | 2/14/17 | LAST UPDATED | 2/28/17 | HB      |          |
| SHORT TITLE | Loan Repayment for Certain Students |               |         |              |         | SB      | 197/SFCS |
|             |                                     |               |         |              |         | ANALYST | Dulany   |

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

|       | FY17 | FY18 | FY19 | 3 Year Total Cost | Recurring or Nonrecurring | Fund Affected |
|-------|------|------|------|-------------------|---------------------------|---------------|
| Total |      | NFI  |      |                   |                           |               |

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to SB 181

Duplicates HB 88/HECS

### SOURCES OF INFORMATION

LFC Files

U.S. Department of Education

### Responses Received From

University of New Mexico (UNM)

Higher Education Department (HED)

UNM Health Sciences Center (UNM/HSC)

New Mexico State University (NMSU)

Western New Mexico University (WNMU)

### SUMMARY

#### Synopsis of Bill

The Senate Finance Committee Substitute for Senate Bill 197 converts the Minority Doctoral Assistance Loan for Service Program Act to the Minority Doctoral Loan Repayment Act. The bill provides for repayment of loans for “an individual who is a member of an ethnic minority or is a woman and who has successfully completed a doctoral degree-granting program at an eligible institution in the field of engineering, physical or life science or mathematics or another academic discipline in which ethnic minorities or women are underrepresented.” The bill further requires the department to give preference to a recipient who has completed a postsecondary degree at an institution designated in Article XII, Section 11 of the Constitution of New Mexico.

The bill removes requirements that eligible participants must graduate with a baccalaureate

degree from a New Mexico four-year, public postsecondary educational institution and be accepted for enrollment as a full-time doctoral student at an eligible institution. SB 197/SFCS instead requires eligible participants to be hired at a public postsecondary educational institution for a full-time, tenure track faculty position.

To receive loan repayment assistance grant of up to \$25 thousand per year for up to four years, the recipient must teach in a full-time faculty position at a public postsecondary educational institution in New Mexico for a minimum of one year for each year a loan repayment assistance grant is provided.

The bill excludes certain debts from repayment, including amounts incurred as a result of participation in state loan-for-service programs or other state programs whose purpose states that service is to be provided in exchange for financial service, scholarships that have a service component or obligation, personal loans from individuals, loans that exceed individual standard school expense levels, and loans that are eligible for another state or federal loan repayment program.

SB 197/SFCS requires the department to promulgate rules to provide for procedures for determining and awarding minority doctoral loan repayment assistance grants and providing disbursements of funds to a lender on behalf of the recipient in annual or other periodic installments.

Finally, SB 197/SFCS repeals delegation of contract rights provisions in current statute that require the sponsoring institution, if unable to place the student into a faculty position, shall arrange placement at a mutually agreed upon in-state public postsecondary institution, subject to department approval.

## **FISCAL IMPLICATIONS**

HED has budgeted \$75 thousand for the Minority Doctoral Loan for Service Program in FY17. HED indicates it would set the annual award based on program demand and available appropriations if SB 197/SFCS is enacted. For FY17, the annual award is \$15 thousand. HED anticipates demand for the doctoral loan repayment assistance program would be substantially greater than the current loan-for-service program. HED reports it may increase the allocation of its current general fund appropriation for student financial aid toward the program if demand increases (see the Estimated Additional Operating Budget Impact table). HED also reports it may request additional appropriations for the program in future budget cycles.

## **SIGNIFICANT ISSUES**

HED reports this legislation is a priority for the department in FY18. The purpose of the Minority Doctoral Loan for Service program is to increase the number of women and under-represented minority faculty at New Mexico's public postsecondary institutions. Current statute directs HED to provide loan assistance to students who are currently pursuing their doctoral degree and requires a sponsoring institution to commit to hiring these students into full-time faculty positions prior to completion of their doctorate. SB 197/SFCS would amend the statute to create a loan repayment program, where student loan repayment assistance is provided after the candidate has been hired by the institution in a full-time faculty position.

HED explains the current program is flawed because the structure of graduate studies and the hiring of faculty make it extremely difficult for students and institutions to make an employment commitment prior to completion of the doctoral degree. Many disciplines, such as those in science, technology, engineering, and math fields, require a lengthy period of post-doctoral work before the candidate is considered qualified for a faculty position. Consequently the number of students taking advantage of the current Minority Doctoral Loan for Service program is under-utilized: HED is supporting five doctoral candidates in FY17. Moreover, students who fail to complete their doctoral degrees are faced with significant repayment penalties on any loans disbursed by the department, according to HED.

The bill removes the tenuous hiring commitment required from both the student and an institution and delays the providing of assistance until after a student has obtained a doctorate and has been hired in a full-time faculty position. This restructuring provides a recruitment incentive for New Mexico's public institutions of higher education to hire new faculty without committing prior to the hire demonstrating qualifications to be a faculty member.

HED points out that although this new program would require doctoral students to find other means of financial support until they complete their studies, many doctoral programs provide substantial financial assistance through research or teaching assistantships. Doctoral students may seek federal or private loans to complete their studies, which loans would qualify for repayment assistance under this new program. HED anticipates that the demand for assistance will be substantially greater under the new program than under the existing one.

WNMU notes federal Direct Loans qualify for the federal Public Service Loan Forgiveness Program. Participants who are employed by a government or not-for-profit organization may be able to receive loan forgiveness after making 120 monthly payments under a qualifying repayment plan. If SB 197/SFCS were enacted, HED could consider awarding smaller loan repayment amounts on a monthly basis to more students who qualify for federal Public Service Loan Forgiveness. Over the course of four years, this could eliminate 48 of the 120 monthly payments required for loan forgiveness.

UNM HSC notes the penalty for noncompliance with a participant's contract terms are different from other loan-for-service and loan repayment programs. If a student fails to comply with the provisions of the contract, SB 197/SFCS converts the grant to a participant to a loan with an applied annual interest rate equal to the Treasury note rate in existence at the time the contract was entered into plus 2 percent. UNM HSC points out other statutorily created programs carry an 18 percent interest rate for similar noncompliance.

WNMU notes the benefits of including private loans in this bill because private loans tend to be more difficult to repay.

NMSU suggests the preference for students who have completed a postsecondary degree in New Mexico could provide a compromise between the broadening of potential recipients and the spirit of the original Minority Doctoral Assistance Loan for Service program.

## **ADMINISTRATIVE IMPLICATIONS**

HED will need to adopt new rules or amend existing rules for the program.

## **TECHNICAL ISSUES**

Although HED is expressly authorized to file suit in its own name for any violation of a contract entered into under this legislation (Section 5(D)), the rule-making authority granted to HED in Section 6 does not clearly include the power to monitor compliance, annually or otherwise, with assistance grants once they are awarded.

## **DUPLICATION AND RELATIONSHIP**

SB 197/SFCS duplicates HB 88/HECS.

SB 181 would enhance HED's loan collection efforts by offsetting the amount of debt owed against a defaulted participant's state income tax refund.

## **ALTERNATIVES**

The loan repayment program contemplated in SB 197/SFCS could be extended from four years to 10 years and require monthly payments for students who qualify for the federal Public Service Loan Forgiveness Program. This would potentially allow the department to make smaller payments to more students and allow the loans to be completely forgiven.

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