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## FISCAL IMPACT REPORT

ORIGINAL DATE 1/30/18

SPONSOR Larrañaga LAST UPDATED \_\_\_\_\_ HB 178

SHORT TITLE Lottery Scholarship Changes SB \_\_\_\_\_

ANALYST Dulany

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

	FY18	FY19	FY20	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>		See Fiscal Implications				Lottery Tuition Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Conflicts with SB 140

Relates to appropriation in the General Appropriation Act, Section 5, Special Appropriations

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

University of New Mexico (UNM)  
 Higher Education Department (HED)  
 New Mexico State University (NMSU)  
 San Juan College (SJC)  
 Council of University Presidents (CUP)

### SUMMARY

#### Synopsis of Bill

House Bill 178 amends the Legislative Lottery Tuition Scholarship Act to set flat award amounts depending on the sector of institution a student attends:

- \$1,500 per semester for students attending research institutions
- \$1,000 per semester for students attending comprehensive institutions
- \$750 per semester for students attending community colleges.

The bill requires HED to reduce scholarship amounts proportionately across institutional sectors if revenues are insufficient to cover the amounts listed above. If the balance in the lottery tuition fund exceeds \$5 million for two consecutive years, HB 178 requires the department to allocate

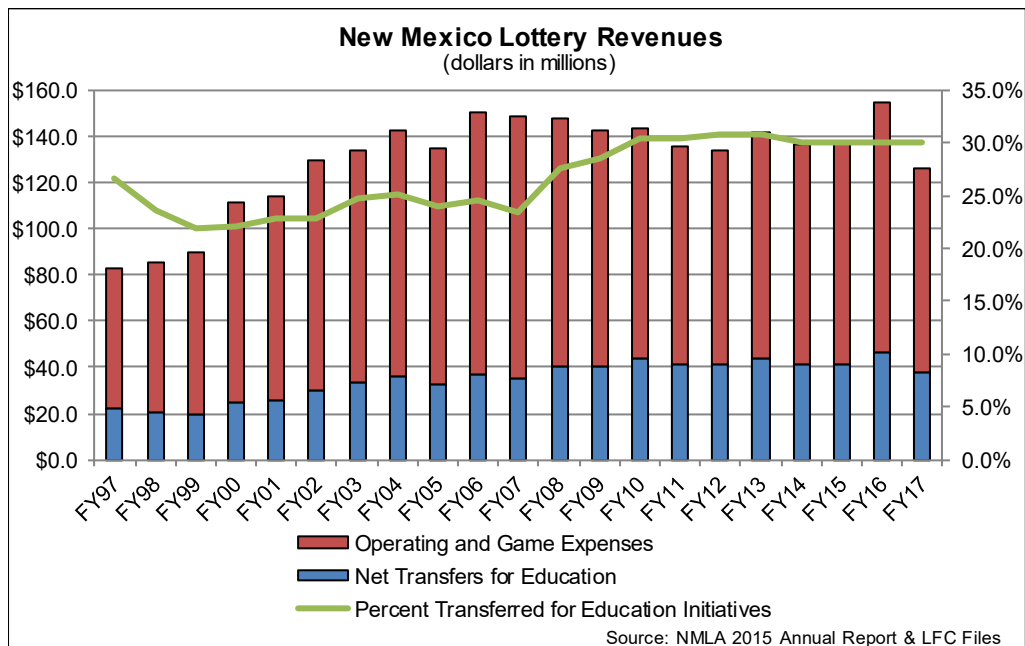
the overage proportionately for supplemental scholarships. Finally, HB 178 removes the current requirement for HED to maintain an average annual balance of \$2 million in the lottery tuition fund.

HB 178 was endorsed by the Legislative Finance Committee.

### FISCAL IMPLICATIONS

Under current law, the Legislative Lottery Tuition Scholarship provides awards to cover a percent of tuition based on average tuition rates charged in each sector of institution (i.e. research university, comprehensive institution, or community college). In FY18, the scholarship covers 60 percent of these average rates. HB 178 decouples the award amount from the tuition rates charged at higher education institutions, instead providing awards fixed to the amounts listed under the Summary section of this report.

Transfers to the lottery tuition fund to cover scholarships have experienced volatility in recent years. In FY16, the New Mexico Lottery Authority transferred \$46.3 million, in part due to a run-up of large prize pool games such as Powerball. However, a year later revenues dropped 18.2 percent to \$37.8 million.



HB 178 sets a reasonably safe floor for scholarship award amounts. Based on the most recently available scholarship participation data, the cost to provide the flat amounts enumerated in HB 178 totals \$37.2 million, \$600 thousand below the 10-year low for lottery transfers. Assuming the 10-year average of \$41 million in lottery revenues and the minimum fund balance of \$5 million, the scholarship would cover about 110.2 percent of the flat amounts contemplated in HB 178. Column C of Attachment 1 illustrates the percent covered under the base amounts, while column F demonstrates the percent covered assuming of \$41 million in revenues.

As noted by NMSU, the bill would provide a scholarship covering a higher percent of tuition for community colleges students. Community colleges charge a fraction of the tuition rates charged

at larger four-year institutions. Assuming the 10-year low of lottery revenues to cover scholarships, nine out of the 17 community colleges would be able to provide full tuition scholarships. If the 10-year average of \$41 million were available, the legislative lottery scholarship would cover an average of 95 percent of tuition across all of the community colleges.

Impacts to students at four-year institutions would be relatively minimal. The scholarship currently covers 60 percent of tuition across all sectors. Under HB 178, assuming the 10-year average of revenues and the minimum fund balance of \$5 million, the scholarship would pay 57.6 percent of tuition for students at research institutions and 56.6 percent of tuition for students at comprehensive institutions. The impact of covering higher scholarship percentages at community colleges has minimal impact because less than 1/5<sup>th</sup> of lottery scholarship recipients attend community colleges, and tuition rates at community colleges tend to be lower than four-year institutions so the cost of covering a higher percentage is relatively low.

UNM suggests HB 178 may incentivize students to attend community colleges due to the higher percent payout of scholarships at community colleges. As noted above, community colleges charge significantly lower tuition rates. For example, tuition at New Mexico Junior College is 1/7<sup>th</sup> the tuition rate charged at the New Mexico Institute of Mining and Technology. SJC notes the \$750 assigned for community colleges in HB 178 would allow for low-income students to receive full tuition funding and have an opportunity to complete a certificate or associate degree and still have the benefit of transferring to a four-year institution.

HB 178 decouples scholarship award amounts from tuition rates. Over time, scholarship awards for students attending institutions increasing tuition at higher rates than others will receive a lower percent of tuition covered. This occurs because the bill anchors scholarship awards to amounts set in statute, rather than a moving average of tuition rates at multiple institutions. Attachment 2 demonstrates how tuition increases at different rates among New Mexico's colleges and universities.

## **CONFLICT**

Some lottery funding would shift to community colleges under this bill, while a conflicting bill, SB 140, maintains current proportions of revenue for each sector. Compared with SB 140, assuming \$41 million in lottery revenues, HB 178 would shift about \$1.3 million, or 3.2 percent of total lottery revenues, to community colleges. Because scholarships cannot pay awards above the tuition rate, funding to several community colleges is capped and redistributed to other institutions, so higher available revenues means a higher percent of tuition will be covered for those attending four-year institutions and less of a shift in funding between institutional sectors.

## **OTHER SUBSTANTIVE ISSUES**

HB 178 eliminates provisions for “legacy students,” who are able to qualify for the scholarship with 12 credit hours per semester versus the 15 required for other qualified students. It is estimated this would impact 5 students at NMSU. It is unclear how many students would be impacted at other institutions. In order to qualify as a legacy student, the student would have had to start college during the fall 2012 semester.

**TD/ sb**

Legislative Lottery Tuition Scholarship  
Percent Covered Under Flat Award Scenario, FY18

Sector	A FY18 Tuition Per Semester	B Base Amount Covered	C Percent Covered Under Base Amount	D Estimated Cost of Base Amount	E Scholarship Amount Based on Additional Revenue (Base Amount x 110.2%)	F Percent Covered Based on Available Revenue	G Estimated Cost Based on Additional Available Revenue
<b>Four Year Institutions</b>							
Research							
1 NIMIT	\$3,066.48	\$1,500.00	48.9%	\$1,635,000.0	\$1,653.71	53.9%	\$1,802,541.2
2 NMSU	\$2,850.00	\$1,500.00	52.6%	\$9,418,500.0	\$1,653.71	58.0%	\$10,383,629.8
3 UNM	\$2,689.52	\$1,500.00	55.8%	\$20,155,596.2	\$1,653.71	61.5%	\$22,220,974.6
4 <b>Average/Total</b>			<b>52.3%</b>	<b>\$31,209,096.2</b>		<b>57.6%</b>	<b>\$34,407,145.7</b>
<b>Four Year Institutions</b>							
Comprehensive							
5 Eastern NM University	\$1,830.48	\$1,000.00	54.6%	\$1,443,000.0	\$1,102.47	60.2%	\$1,590,866.7
6 NM Highlands University	\$2,124.00	\$1,000.00	47.1%	\$480,000.0	\$1,102.47	51.9%	\$529,186.4
7 Northern NM College	\$1,630.20	\$1,000.00	61.3%	\$219,000.0	\$1,102.47	67.6%	\$241,441.3
8 Western NM University	\$2,209.00	\$1,000.00	45.3%	\$300,000.0	\$1,102.47	49.9%	\$330,741.5
9 <b>Average/Total</b>			<b>51.3%</b>	<b>\$2,442,000.0</b>		<b>56.6%</b>	<b>\$2,692,235.9</b>
<b>Two Year Institutions</b>							
Branches							
10 ENMU Roswell	\$936.00	\$750.00	80.1%	\$210,000.0	\$826.85	88.3%	\$231,519.1
11 ENMU Ruidoso	\$540.00	\$750.00	100.0%	\$34,020.0	\$826.85	100.0%	\$34,020.0
12 NMSU Alamogordo	\$936.00	\$750.00	80.1%	\$60,750.0	\$826.85	88.3%	\$66,975.2
13 NMSU Carlsbad	\$492.00	\$750.00	100.0%	\$43,788.0	\$826.85	100.0%	\$43,788.0
14 NMSU Dona Ana	\$768.00	\$750.00	97.7%	\$730,500.0	\$826.85	100.0%	\$748,032.0
15 NMSU Grants	\$936.00	\$750.00	80.1%	\$23,250.0	\$826.85	88.3%	\$25,632.5
16 UNM Gallup	\$841.20	\$750.00	89.2%	\$76,810.3	\$826.85	98.3%	\$84,681.2
17 UNM Los Alamos	\$984.00	\$750.00	76.2%	\$73,244.9	\$826.85	84.0%	\$80,750.5
18 UNM Taos	\$900.00	\$750.00	83.3%	\$76,048.5	\$826.85	91.9%	\$83,841.3
19 UNM Valencia	\$894.00	\$750.00	83.9%	\$219,227.2	\$826.85	92.5%	\$241,691.8
20 CNM	\$648.00	\$750.00	100.0%	\$1,250,640.0	\$826.85	100.0%	\$1,250,640.0
21 CCC	\$528.00	\$750.00	100.0%	\$47,520.0	\$826.85	100.0%	\$47,520.0
22 LCC	\$456.00	\$750.00	100.0%	\$36,480.0	\$826.85	100.0%	\$36,480.0
23 MCC	\$696.00	\$750.00	100.0%	\$50,112.0	\$826.85	100.0%	\$50,112.0
24 NMJC	\$444.00	\$750.00	100.0%	\$88,800.0	\$826.85	100.0%	\$88,800.0
25 SJC	\$552.00	\$750.00	100.0%	\$264,408.0	\$826.85	100.0%	\$264,408.0
26 SFCC	\$576.00	\$750.00	100.0%	\$190,080.0	\$826.85	100.0%	\$190,080.0
27 NMMI	\$857.50	\$750.00	87.5%	\$37,500.00	\$826.85	96.4%	\$41,342.7
28 <b>Average/Total</b>			<b>90.0%</b>	<b>\$3,513,179.0</b>		<b>94.8%</b>	<b>\$3,610,314.1</b>
29 <b>Total Cost</b>				<b>\$37,164,275.17</b>			<b>\$40,709,695.74</b>
30 <b>Estimated Revenue</b>				<b>\$40,972,562.00</b>			<b>\$40,972,562.00</b>
31 <b>Percent of Revenue Available</b>				<b>110.2%</b>			

Source: CUP, HED, LFC Files

Tuition Credit History - Resident Undergraduate Tuition Percent Increases

	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
	Resident Undergrad.	Resident Undergrad.	Resident Undergrad.	Resident Undergrad.	Resident Undergrad.	Resident Undergrad.	Resident Undergrad.	Resident Undergrad.	Resident Undergrad.	Resident Undergrad.
<b>4-Year Institutions</b>										
NMIMT	6.4%	5.9%	7.2%	8.0%	4.0%	4.5%	5.0%	5.0%	5.0%	5.0%
NMSU	6.4%	5.0%	8.0%	10.3%	4.7%	3.0%	4.9%	3.1%	0.0%	7.4%
UNM	5.4%	5.5%	7.9%	7.0%	3.8%	3.8%	0.0%	3.0%	2.5%	0.0%
ENMU	5.6%	6.3%	9.8%	5.6%	3.0%	0.0%	4.8%	6.5%	5.0%	6.8%
NMHU	6.4%	2.0%	7.7%	8.6%	5.0%	9.9%	9.4%	5.0%	17.9%	3.7%
NMCC	(2.2%)	29.2%	(3.5%)	128.2%	0.0%	14.0%	0.0%	8.9%	4.3%	4.5%
WNMU	6.1%	4.6%	6.2%	7.6%	5.0%	5.0%	6.0%	5.0%	0.0%	5.0%
<b>4-Year Average Tuition</b>	<b>4.9%</b>	<b>8.4%</b>	<b>6.2%</b>	<b>25.0%</b>	<b>3.6%</b>	<b>5.7%</b>	<b>4.3%</b>	<b>5.2%</b>	<b>4.9%</b>	<b>4.6%</b>
<b>4-Year Tuition Credit</b>	<b>2.0%</b>	<b>2.5%</b>	<b>5.0%</b>	<b>3.1%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>2-Year Institutions</b>										
ENMU-Roswell	5.7%	6.8%	8.1%	24.1%	(7.6%)	0.0%	0.0%	10.3%	7.8%	13.0%
ENMU-Ruidoso	5.1%	0.0%	8.5%	6.5%	5.0%	9.7%	2.6%	5.1%	4.9%	4.7%
NMSU-Alamogordo	6.7%	5.0%	9.5%	10.8%	4.2%	1.3%	2.6%	0.0%	0.0%	0.0%
NMSU-Carlsbad	(34.9%)	0.0%	0.0%	9.1%	0.0%	2.8%	0.0%	16.7%	0.0%	5.1%
NMSU-Dona Ana	4.0%	6.0%	7.5%	10.0%	3.6%	1.8%	3.4%	0.0%	0.0%	6.7%
NMSU-Grants	9.1%	5.5%	6.9%	11.7%	4.9%	0.0%	6.8%	0.0%	0.0%	4.0%
UNM-Gallup	1.6%	0.0%	3.9%	0.0%	0.0%	0.0%	0.0%	7.1%	8.0%	0.0%
UNM-Los Alamos	3.8%	2.9%	8.4%	12.2%	4.2%	2.0%	8.6%	6.9%	6.8%	3.8%
UNM-Taos	1.8%	2.2%	8.6%	12.0%	2.9%	5.9%	0.0%	4.2%	0.0%	0.0%
UNM-Valencia	5.5%	0.0%	8.6%	9.5%	0.0%	0.0%	0.0%	7.3%	8.7%	4.2%
CNM	(0.9%)	6.8%	6.3%	9.7%	0.0%	2.6%	1.0%	2.0%	2.0%	3.8%
CCC	0.0%	3.3%	9.5%	18.2%	0.0%	0.0%	0.0%	0.0%	0.0%	12.8%
LCC	0.0%	3.3%	9.7%	9.4%	0.0%	0.0%	0.0%	0.0%	8.6%	0.0%
MCC	1.4%	1.9%	10.8%	9.1%	0.0%	0.0%	0.0%	4.2%	10.0%	5.5%
NMJC	2.3%	0.0%	6.8%	3.1%	0.0%	6.1%	0.0%	0.0%	0.0%	5.7%
SJC	0.0%	6.7%	18.8%	28.1%	0.0%	0.0%	0.0%	12.2%	0.0%	0.0%
SFCC	0.0%	0.0%	10.0%	9.7%	0.0%	0.0%	0.0%	12.7%	5.6%	2.1%
<b>2-Year Average Tuition</b>	<b>0.7%</b>	<b>3.0%</b>	<b>8.3%</b>	<b>11.4%</b>	<b>1.0%</b>	<b>1.9%</b>	<b>1.5%</b>	<b>5.2%</b>	<b>3.1%</b>	<b>4.2%</b>
<b>2-Year Tuition Credit</b>	<b>2.0%</b>	<b>2.0%</b>	<b>9.0%</b>	<b>9.5%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
New Mexico Military Institute	0.0%	0.0%	15.3%	5.0%	3.6%	0.0%	0.0%	0.0%	7.0%	2.0%

Source: LFC Files, FY18 HEI OpBuds

Notes:  
 Credit for tuition has not been taken since performance funding was introduced to the higher education funding formula in FY12.  
 Calculated averages may differ from some published averages in CHE/HEd annual report.  
 FY12 Four-year tuition average excludes NNMC (tuition grew because the institution transitioned from two-year rates to four-year rates).  
 As of FY14, several institutions charge lower tuition rates for students taking 15 credit hours or more. Wherever applicable, the lower tuition rate is applied in this table.