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FISCAL IMPACT REPORT

SPONSOR <u>SFC</u>	ORIGINAL DATE 2/13/2022	LAST UPDATED 2/14/2022	HB _____
SHORT TITLE <u>Opportunity Scholarship Act</u>			SB <u>140/SFCS/aSFI#1/ aSFI#2</u>
		ANALYST <u>Fischer</u>	

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY22	FY23	FY24	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		\$75,000.0	\$115,131.7	\$190,131.7	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

Relates to Appropriations in the General Appropriation Act

SOURCES OF INFORMATION

LFC Files

Responses Received From

Higher Education Department (HED)

SUMMARY

Synopsis of SFI #1 and #2 Amendments

Senate Floor Amendment #1 to Senate Finance Committee Substitute for Senate Bill 140 made a technical correction to Section 4 of the bill, eliminating the words “four-year” where the scholarship fund distributions were intended to be to all public post-secondary and tribal institutions. Senate Floor Amendment #2 removed the limitation that the scholarships be available to students toward the completion of only one certificate.

Synopsis of Original Bill

The Senate Finance Committee Substitute for Senate Bill 140 establishes a new Opportunity Scholarship Act and nonreverting opportunity scholarship fund, and sets criteria for the new opportunity scholarships to be awarded from the fund. The bill repeals sections of the law to eliminate the legislative endowment scholarship and the college affordability scholarship and orders all balances in the legislative endowment scholarship fund and college affordability endowment fund to be transferred to the opportunity scholarship fund.

Under SB140, a scholarship to cover all tuition and fees would be provided to all degree-seeking undergraduate students of any public state or tribal college in New Mexico who take between six and 18 hours during the fall and spring semesters and maintain a 2.5 grade point average. Students enrolled in certain credit-bearing certificate programs would also be eligible for the scholarship, so long as the certificate programs were approved by the Higher Education and Workforce Solutions Departments. The scholarship would also cover tuition and fees for those students during the summer semester, so long as they took between three and nine credit hours.

The scholarship would cover tuition and fees for a maximum of 90 credit hours toward an associate degree and 160 credit hours for students working toward a bachelor's degree. There is no maximum hour cap provided for certificate-seeking students. Generally, associate degrees require 60 hours to complete, and bachelors require 120 hours, so the scholarship would cover the required courses to get those degrees plus 33 to 50 percent more courses in addition.

Students would become ineligible for the scholarship if they stopped out or dropped out for a semester or did not maintain a 2.5 grade point average. Therefore, the scholarship would not be available for students who received the scholarship for a few semesters, stopped out, but returned later as adult students. The effective date of this bill is July 1, 2022.

FISCAL IMPLICATIONS

If passed, on July 1, 2022, all balances from the legislative endowment scholarship fund and college affordability endowment fund shall be transferred to the new opportunity scholarship fund. The estimated FY22 year-end balances for the funds would leave the new opportunity scholarship with \$24.5 million:

- Legislative endowment scholarship fund: \$3.5 million
- College affordability endowment fund: \$21 million

House Bill 2 as passed out of the Senate Finance Committee also contains \$63 million in nonrecurring funding and \$12 million recurring funding for the opportunity scholarship program. Altogether, that would leave the new opportunity scholarship fund with approximately \$99.5 million, slightly less than the estimated \$ 109 million in tuition and fee needs.

While SB140 contains no appropriations, establishing a new scholarship program creates an expectation that it will continue in future fiscal years, therefore the estimated additional operating budget impacts are scored as recurring. The Higher Education Department estimates that, after state and lottery scholarship aid has been applied, a nearly \$105 million gap remained for the fall and spring semesters for students with above a 2.5 grade point average in FY21. Projecting this forward, staff assume the unfunded costs of the opportunity scholarship created in SB140 would be \$115 million in FY24, and \$126 million in FY25. In making this assumption, staff assume 2 percent year-over-year growth in enrollment and a 5 percent annual increase in tuition and fees, as observed in the past (see page 151 of LFC's FY23 Volume 3 document). The scenario on page 3 outlines these assumptions, but does not include potential costs of covering the tuition and fees for students taking summer courses, so the cost estimate is likely conservative.

Student Aid Scenario Under HB2 as Passed out of SFC & Assuming Passage of SB140

		actual FY21	opbud FY22	projected FY23	projected FY24	projected FY25	projected FY26	projected FY27	projected FY28	projected FY29	projected FY30
Uses	Prior year student head count (2% yoy growth)	72,859	74,316	75,803	77,319	78,865	80,442	82,051	83,692	85,366	87,073
	Tuition and fee cost (5% yoy growth + 2% head count growth)	\$163,180.7	\$174,766.5	\$187,175.0	\$200,464.4	\$214,697.3	\$229,940.9	\$246,266.7	\$263,751.6	\$282,478.0	\$302,533.9
	subportion 4-year	\$138,745.9	\$148,596.9	\$159,147.2	\$170,446.7	\$182,548.4	\$195,509.3	\$209,390.5	\$224,257.2	\$240,179.5	\$257,232.2
	subportion 2-year	\$22,579.1	\$24,182.2	\$25,899.2	\$27,738.0	\$29,707.4	\$31,816.6	\$34,075.6	\$36,495.0	\$39,086.1	\$41,861.2
	subportion tribal	\$1,855.6	\$1,987.3	\$2,128.4	\$2,279.6	\$2,441.4	\$2,614.8	\$2,800.4	\$2,999.2	\$3,212.2	\$3,440.2
	Lottery aid (5% yoy growth in need)	\$43,578.6	\$63,491.4	\$65,078.7	\$68,332.6	\$71,749.3	\$75,336.7	\$79,103.6	\$40,000.0	\$40,000.0	\$40,000.0
	Opportunity aid	\$6,700.0	\$18,000.0	\$99,500.0	\$12,000.0	\$12,000.0	\$12,000.0	\$12,000.0	\$12,000.0	\$12,000.0	\$12,000.0
	Other state aid	\$8,000.0	\$8,000.0	\$13,000.0	\$5,000.0	\$5,000.0	\$5,000.0	\$5,000.0	\$5,000.0	\$5,000.0	\$5,000.0

assume adding \$8m in nursing and teacher scholarships, minus \$3m college affordability

Gap	Tuition and fee gap remaining after state aid										
		\$104,902.1	\$85,275.1	\$9,596.3	\$115,131.7	\$125,948.1	\$137,604.1	\$150,163.1	\$206,751.6	\$225,478.0	\$245,533.9

Sources											
	Lottery beginning balances	\$1,763.2	\$14,521.8	\$3,630.4	\$108,551.7	\$80,219.1	\$48,469.8	\$13,133.1			
	Lottery approps	\$9,700.0	\$15,600.0	\$130,000.0							
	Lottery revenues	\$46,637.2	\$37,000.0	\$40,000.0	\$40,000.0	\$40,000.0	\$40,000.0	\$40,000.0	\$40,000.0	\$40,000.0	\$40,000.0
	Lottery ending balances	\$14,521.8	\$3,630.4	\$108,551.7	\$80,219.1	\$48,469.8	\$13,133.1				
	Opportunity beginning balances			\$24,500.0							
	Opportunity approps	\$17,000.0	\$18,000.0	\$75,000.0	\$12,000.0	\$12,000.0	\$12,000.0	\$12,000.0	\$12,000.0	\$12,000.0	\$12,000.0
	Opportunity Ending balances	\$10,300.0									

balance reverted

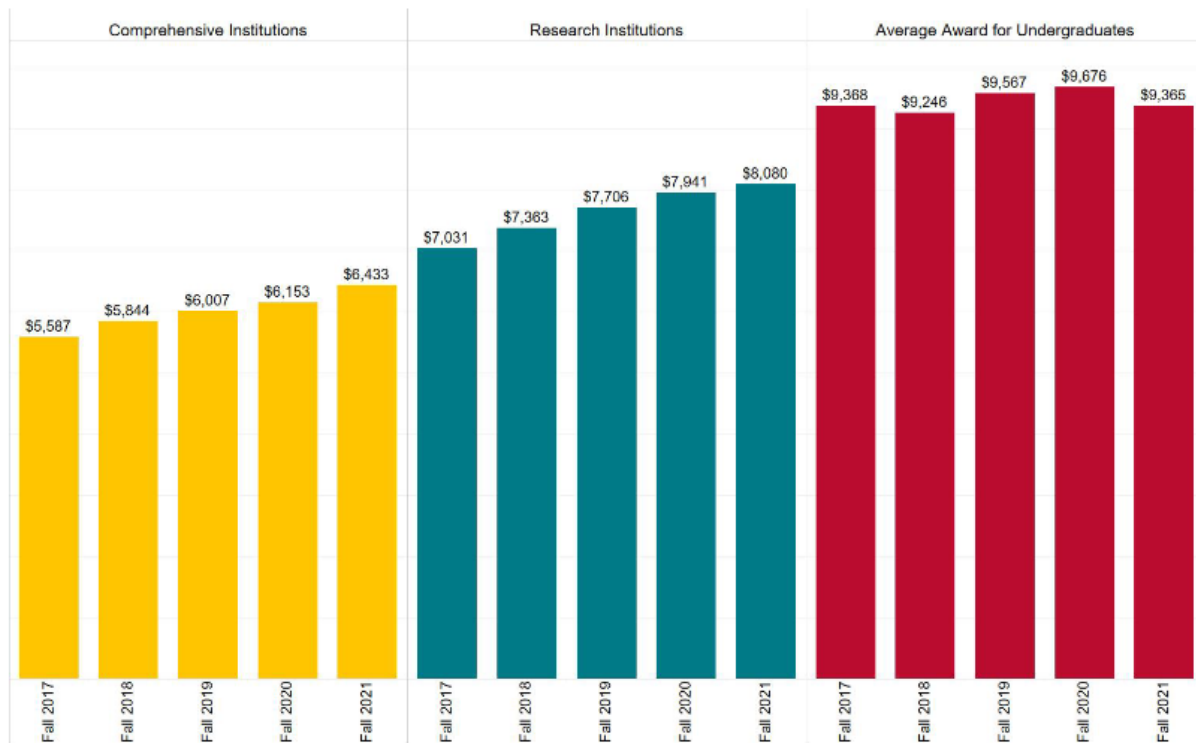
*Opportunity balances = \$21m in college affordability balances + \$3.5m in leg. Endowment balances
Opportunity approps = \$12m recurring + \$63m nonrecurring*

Source: LFC and HED files

SIGNIFICANT ISSUES

There is some indication that with existing low tuition and high federal and state aid, many students are already well supported when it comes to tuition and fees, especially those in bachelor’s degree programs. To illustrate, even in past years, when the lottery scholarship only covered 70 percent or less of tuition, the average financial aid package offered to students at New Mexico’s four-year colleges has been more than enough to cover tuition and fees.

Tuition & Fees and Average Financial Aid Award for Undergraduates



Source: College of University President’s 2021 Annual Accountability Report

The community colleges do not provide similar information and so the average financial aid available per student is unknown.

Especially at community colleges, the costs students incur when attending college that are not tuition and fees are typically much greater and, therefore, can be a larger barrier to attending college. These so-called “costs of attendance” include housing, childcare, transportation, and forgone income from attending college rather than working. The annual undergraduate cost of attendance at the University of New Mexico is \$25 thousand, of which tuition and fees is only \$9,228. At Central New Mexico Community College, the state’s largest two-year school, the annual cost of attendance is \$13,680 thousand, of which only \$1,740 is tuition and fees.

Federal Pell grants for low-income students are a major source of cost of attendance aid for students. Because this new opportunity scholarship is a “middle mile” scholarship, it could cover tuition and fees costs and free up more Pell grant money to cover a student’s cost of attendance. However, SB140 requires that the new opportunity scholarship be used “after all other state

financial aid has been applied.” In effect, this would make existing state aid that could be used for cost of attendance purposes (such as the teacher preparation affordability scholarship) to be applied first instead of tuition – undercutting that scholarship’s ability to support a student outside of those tuition and fees costs.

SB140 does not provide a semester or year limit on funding. Rather, the program allows funding up to 90 or 160 hours until the student completes an undergraduate degree or degrees.

Unlike the lottery, the new opportunity scholarship would not require students to attend college full-time and, therefore, the scholarship would likely disincentivize the timely completion of college. The issue is that students who attend part-time are much less likely to graduate without stopping out. According to the U.S. Department of Education, at Central New Mexico Community College, only 19 percent of part-time students graduate within eight years compared with 24 percent of full-time students. At the University of New Mexico, only 38 percent of part-time students graduate within eight years, compared to 53 percent of full-time students.

In their analysis of the original bill, Central New Mexico Community College noted that the new opportunity scholarship would not cover tuition or fees for students enrolled in courses toward micro-credentials, boot-camps, short courses, and other non-traditional forms of education commonly offered at community colleges.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB140 conflicts with appropriation language in House Bill 2 as passed out of the Senate Finance Committee. In HB2, the appropriations to the opportunity scholarship are for New Mexico residents enrolled at least half-time at a public post-secondary educational institution or tribal college *who are seeking an associate degree or a credit-bearing, workforce-aligned certificate as defined by the higher education department*—not a bachelor’s degree as in SB140.

Also in HB2, opportunity scholarships may be awarded for a maximum of *sixty credit hours* in an amount not to exceed one hundred percent of tuition and fees, *before legislative lottery scholarships have been applied*. The opportunity scholarship program shall prioritize financial aid for qualified students as defined in Subsection I. (1) of Section 21-21N-2 NMSA 1978.

SUGGESTED AMENDMENTS

Because there will likely not be enough funding appropriated in FY23 or future years to cover all tuition and fees needs, the legislature may want to amend Section 8 of SB140 to prioritize students at community colleges who are less likely to qualify for the lottery scholarship.

MF/rl/al