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FISCAL IMPACT REPORT

ORIGINAL DATE 02/28/11

SPONSOR HECS LAST UPDATED 03/02/11 HB 241/HECS/aHAFC

SHORT TITLE Teacher Loan Repayment Act SB _____

ANALYST Hanika-Ortiz/Fernandez

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY11	FY12	FY13	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		Indeterminate			Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Higher Education Department (HED)

Public Education Department (PED)

SUMMARY

Synopsis of HAFC Amendment

The House Appropriations and Finance Committee Amendment to House Bill 241 removes from the definition of "loan" a contract between a commercial lender and a teacher for teacher education purposes. Therefore the proposed act is revised to only provide for repayment of the principal and reasonable interest accrued on loans obtained from the federal government for teacher education purposes.

Synopsis of Original Substitute

The House Education Committee Substitute for House Bill 241 adds a new section to Chapter 21 NMSA 1978 to enact the teacher loan repayment act (act) to increase the number of high-risk teacher positions in low-income poorly-performing public schools through an educational loan payment program. The program will pay principal and interest on teacher education loans obtained from the federal government or a commercial lender. The substitute creates the new non-reverting teacher loan repayment fund in the state treasury, to be administered by the Higher Education Department (HED) in consultation with the Public Education Department (PED).

More specific provisions within the bill are as follows:

Section 3: includes a definition for “designated high-risk teacher positions” to mean working in schools with a high rate of poverty and with students not meeting academy proficiency levels and “loan” to mean a grant to defray teacher education costs under a contract between the federal government or a commercial lender and a teacher;

Section 4: states teacher qualifications that include being a licensed New Mexico teacher and legal resident;

Section 5: allows for modification of award amounts based upon available funding and a preference for teachers from New Mexico schools; describes debts not eligible for repayment including personal loans and loans that exceed standard school expense levels; requires a two-school-year service contract in a high-risk teacher position; addresses noncompliance; provides that repayment awards shall not obligate the state to the creditor; requires rule adoption to include a procedure to determine the amount of loan that will be repaid for each year of service; and provides for repayment awards in periodic installments (assuming with creditor approval);

Section 6: recognizes HED’s authority to enforce the terms of a contract; and

Section 7: creates the new non-reverting “teacher loan repayment fund” and provides for continuing appropriations.

FISCAL IMPLICATIONS

The FY11 adjusted general fund appropriation to the Higher Education Department for all student financial aid programs is \$22.8 million. HED administers approximately 24 different programs including the “Teacher Loan for Service” program. In FY11, HED allocated a total of \$247.1 thousand for the Teacher Loan for Service program, \$96.9 thousand from the general fund and \$150.2 thousand from cash balances (Teacher Loan for Service Fund is non-reverting). The FY12 LFC recommendation for the Teacher Loan for Service was \$94 thousand from the general fund and \$145.7 from cash balances. The FY10 actual expenditures for the Teacher Loan for Service program total \$56.5 thousand.

The ‘Teacher Loan for Service’ program created in 2001, Section 21-22E-1 NMSA 1978, “to address New Mexico’s teacher shortage by providing students with the financial means to complete or enhance their post-secondary teacher preparation education.” The loans are made to a student who declares his/her intent to serve as a public school teacher in a designated teacher shortage area of New Mexico. Teacher shortage areas may be either geographic or discipline specific.

Since there is no appropriation contained in this bill, it is unclear how HED will fund the new Teacher Loan Repayment program. The analysis submitted by the department did not indicate how or if general fund from other student financial aid programs would be reallocated to fund this program. It is also uncertain what available cash balances exist for each of the 24 various financial aid programs since the department did not provide this key information.

This bill creates the new non-reverting “teacher loan repayment fund” and provides for continuing appropriations. The LFC has concerns with including continuing appropriation language in the statutory provisions for newly created funds, as earmarking reduces the ability of the legislature to establish spending priorities. Money in the fund is appropriated to HED for making loan repayment awards pursuant to the act.

SIGNIFICANT ISSUES

HED has reported in the past that loan repayment programs are the most successful when matching professionals with debt to communities needing their services.

According to the Adequate Yearly Progress (AYP) report published by PED for 2009, 68.3% of schools in New Mexico are not making progress. Each year the percentage not making progress is increasing. A teacher loan repayment program may assist in helping to reverse the trend by placing more teachers in low performing and poverty stricken areas.

The bill will require immediate repayment of a loan plus the amount of any interest and penalty assessed for failure to perform the service commitment. It may be difficult for the state to achieve this considering the current earning potential of public school teachers.

It remains uncertain if two years is enough time for a teacher to become established and prosper in a new area.

The new act provides for repayment by the state of the principal and reasonable interest accrued on loans obtained from the federal government or a commercial lender for teacher education purposes.

Given that HB 241 requires a participating teacher to serve for only two full years in a high-risk teacher position; most loans are amortized over many years.

The bill will require that teachers commit to two years of service to have their education loans paid by the State on their behalf, even if loans have been obtained from a commercial vendor. The bill has the potential to require a general and other funds appropriation each year to maintain a desired level of service. However, the fiscal impact is currently unknown.

The Federal Loan Forgiveness Program for Teachers allows the U.S. Department of Education to repay a portion of qualifying borrowers' Stafford loan obligations. To qualify, a borrower must work as a full-time teacher for five consecutive years in an elementary or secondary school that has been designated as a "low-income" school. Borrowers who teach in low-income schools receive up to \$5,000 of forgiveness on their Stafford Loans. A higher amount – up to \$17,500 in loan forgiveness – has recently been made available for "highly qualified" mathematics, science and special education teachers.

PERFORMANCE IMPLICATIONS

New Mexico's existing Teacher Loan for Service Program provides for a portion of a loan to be forgiven for each year that the loan recipient practices his profession as a licensed teacher in New Mexico. 21-22E-6 (F) (3) states: *for loan terms of three years or more, forty percent of the loan shall be forgiven upon completion of the first year of service, thirty percent of the loan shall be forgiven upon completion of the second year of service and the remainder of the loan shall be forgiven upon completion of the third year of service.* 21-22E-6 (H) further provides that: *if a loan recipient completes his teacher preparation program and does not serve in a New Mexico public school, the commission shall assess a penalty of up to three times the principal due, plus eighteen percent interest, unless the commission finds acceptable extenuating circumstances that prevent the loan recipient from serving.*

ADMINISTRATIVE IMPLICATIONS

HED and PED will need to work cooperatively to “make a full and careful investigation of the ability and qualifications of each applicant and determine their fitness to become a teacher in the program”. PED’s role will include arranging for loan recipients to receive assistance in locating employment with public schools in New Mexico. HED’s role will include assessing an applicant’s total teacher education indebtedness and balances in the proposed teacher loan repayment fund.

TECHNICAL ISSUES

The bill is unclear if the teachers will be required to be “highly qualified”.

There may need to be discussion about commercial loans identified for repayment that have co-signors.

OTHER SUBSTANTIVE ISSUES

In 2008, an LFC program evaluation of HED administered financial aid program found that loan repayment programs are more cost effective than loan for service programs. Loan repayment programs pose less administrative burdens for HED, have less financial risk for the state, and provide immediate public benefit. For public school teachers, the report found that a loan repayment program could be structured to provide an incentive to teachers to move to a school with a higher percentage of low income students would assist in the state’s policy goal of having more qualified teachers where they are needed most – at schools with high concentrations of students from low income families or schools in need of improvement. The report recommended the state transition a substantial portion of the appropriations for workforce based financial aid programs from loan for service programs into loan repayment programs, and create a teacher loan repayment program to target state goals of having the most qualified teachers where they are most needed.

ALTERNATIVES

Consider the possibility of replacing the “Teacher Loan for Service Fund” with the proposed “Teacher Loan Payment Fund”.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

New Mexico will not have a state loan repayment program for certified teachers to incentivize work in rural and high risk schools.

AHO:CTF/svb:mew:bym