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## FISCAL IMPACT REPORT

ORIGINAL DATE 02/08/11

SPONSOR Ingle LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Limit Tuition Increase For Lottery Recipients SB 292

ANALYST Haug

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY11	FY12	FY13		
	NFI*	NFI*		

(Parenthesis ( ) Indicate Revenue Decreases)

\*See fiscal impact narrative

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Higher Education Department (HED)  
 Central New Mexico Community College (CNM)  
 University of New Mexico (UNM)  
 New Mexico Lottery Authority (NMLA)

### SUMMARY

#### Synopsis of Bill

Senate Bill 292 would amend Section 21-1-4 NMSA 1978 such that Lottery Success scholarship recipients entering New Mexico institutions would pay the first semester's tuition rate in successive semesters.

### FISCAL IMPLICATIONS

According to the HED, from AY 2008-2009 to AY 2010-2011, tuition has averaged an increase of 39.9% at four year schools and 13.4% at two year colleges. A freshman that started at a four year college in AY 2008-2009 would be paying nearly forty percent more in tuition as a senior. Current projections done by the Lottery Study Committee indicate that a 5-7% increase in tuition has the potential of severely depleting the Lottery Tuition Fund over the next several fiscal years.

CNM states:

In determining the level of state appropriations for higher education institutions, the

higher education funding formula makes certain assumptions about tuition revenues available to support those institutions through a “tuition credit.” By effectively freezing the tuition rate of students receiving the lottery scholarship, this is limiting the tuition revenue available to support higher education institutions. This could potentially be accounted for in the calculation of the formula tuition credit. But, if the formula did reflect this change, for CNM ONLY, we estimate a GF impact of about \$200,000 for FY12. Without this adjustment to the formula tuition credit, CNM would have to absorb the \$200,000 loss of revenue. The estimated dollar impact would grow as the gap between the rate charged to the individual lottery scholarship recipient and the rate charged to other students widened.

This dollar amount was calculated by determining the actual tuition revenue received by current lottery scholarship recipients at CNM and assuming a 9.5% increase in tuition as proposed in the LFC FY12 budget recommendation. The \$200,000 reflects the revenue lost by not applying that increase to scholarship recipients.

The discussion above reduces the fiscal impact to a question whether the short to intermediate term benefits of continuing 100% lottery scholarship funding of tuition is outweighed by the offsetting effects on tuition charges for non lottery recipients. Under the best of circumstances, a moderate extension of the ability to pay 100% tuition costs would inevitably lead to increasing distortions in the overall cost of tuition. For this reason, the table above reflects no fiscal impact.

## **SIGNIFICANT ISSUES**

For FY09, lottery expenditures of about \$43.3 million exceeded lottery income of about \$41.5 million and lottery fund balances declined, leaving a smaller pool from which to earn interest. This continued in FY10 where the corpus of the fund was tapped in order to reimburse the public postsecondary institutions.

An LFC performance evaluation of the University of New Mexico and New Mexico State University reports that in the current fiscal climate, general fund support will likely continue to be reduced causing institutions to consider raising tuition. Assuming an average tuition increase over the next few years of 7 percent and interest earned on the lottery fund of about 1.5 percent, the projected FY12 lottery fund balance of about \$34 million will be about half of what it was in FY09 and is expected to zero out in FY14. While these projections could be viewed as worst case, even best case scenarios raise concerns. Assuming a 5 percent tuition increase, slower growth in the number of recipients, and moderate increases in revenues, the fund will have a negative balance in FY15.

Currently, the Legislative Lottery Study Committee is working on analyzing data from the two- and four-year institutions to determine whether changes should be made to eligibility requirements as the fund is currently expending more than the annual revenues provide

CNM comments that SB 292 would:

Positively impact the lottery scholarship fund in that it would reduce the rate of increase in expenditures from that fund, thus making the scholarship program financially viable for a longer period of time,

Negatively impact revenues available to higher education institutions if not reflected in the calculation of the funding formula tuition credit.

CNM notes further that future increases in tuition will place greater demands on the lottery scholarship fund. At some point, the fund will not be large enough to cover 100% of tuition for all eligible students. Current law allows HED to adjust the percentage of tuition covered by the scholarship should funds be insufficient to cover 100% of tuition.

The NMLA states that while the New Mexico Lottery had a record return in FY10 of \$43.5 million, proceeds to the Legislative Lottery Scholarship fund for the first six months of FY11 total \$20.2 million compared to \$21.2 million in FY10. Sales have been declining in the past four years. FY11 year-to-date sales are tracking approximately \$3.6 million behind sales last year at this time.

The NMLA notes further that according to DFA, the Legislative Lottery Scholarship fund will be in the red by FY14, with the expenditures far surpassing revenues. This bill would help minimize this potential or at least lessen the severity thereby helping to sustain the Legislative Lottery Scholarship fund.

## **RELATIONSHIP**

Senate Bill 292 relates to Senate Bill 226 which makes substantial changes to the lottery scholarship and to House Bill 62 which extends the time from 120 days to sixteen months for a student to qualify and enter college.

GH/mew