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FISCAL IMPACT REPORT

ORIGINAL DATE 2/27/19

SPONSOR Roybal Caballero LAST UPDATED _____ HB 561

SHORT TITLE Lottery Scholarship Based on Need SB _____

ANALYST Valenzuela

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY19	FY20	FY21	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
		(\$10,000.0)	(\$10,000.0)	(\$20,000.0)	Recurring	Lottery Tuition Fund
		\$1,000.0 - \$49,000.0	\$1,000.0 - \$49,000.0	\$1,000.0 - \$98,000.0	Recurring	Tuition & Fee Revenue

(Parenthesis () Indicate Expenditure Decreases)

Relates to HB146

SOURCES OF INFORMATION

LFC Files

Responses Received From

New Mexico Higher Education Department (HED)
 New Mexico Independent Community Colleges (NMICC)
 Central New Mexico Community College (CNM)
 San Juan College (SJC)

SUMMARY

Synopsis of Bill

House Bill 561 amends the Legislative Lottery Tuition Scholarship Act: (1) Adds financial need as a qualification for the scholarship, requiring a student’s household income to fall below 240 percent of the federal poverty level (FPL) guidelines within New Mexico; (2) subject to appropriation, provides for a full tuition scholarship based on average in-state tuition at either research universities, or comprehensive universities, or community colleges; (3) lowers the minimum statutory cash balance carried over from year-to-year to \$1 million from \$2 million; (4) strikes the provision under HED rulemaking authority directing rules developed on the current allocation process for lottery scholarships; and (5) creates a new section of the act requiring a student to fill out both a lottery scholarship application and a free application for federal student aid (FASFA).

FISCAL IMPLICATIONS

HB561 does not contain an appropriation. The eligibility constraint of 240 percent of FPL is shown in the table below:

<u>Household Size</u>	<u>240% FPL (annual income)</u>
1 person	\$ 29,136
2 persons	\$ 39,504
3 persons	\$ 49,872
4 persons	\$ 60,240
5 persons	\$ 70,608
6 persons	\$ 80,976
7 persons	\$ 91,344
8 persons	\$101,712

Based on the requirements in the bill, 47.9 percent of the current lottery recipients would remain eligible. Assuming FY19 tuition rates, the scholarship program would need \$32 million to implement HB 561. Currently, the lottery estimates a \$42 million requirement to meet FY19 lottery recipients.

The bill, if enacted, could save \$10 million annually to the lottery tuition fund.

Impact to Tuition Revenues at Colleges and Universities. HB561 would make ineligible 52.1 percent of current lottery recipients. The bill could have one of several impacts on these newly ineligible students: (1) Students, who become ineligible for not filing a FASFA, may complete the form if the student perceives attaining eligibility or (2) The ineligible student may stay enrolled in the institution, absorbing the additional cost through student loans or family contributions, or (3) The student may choose other educational opportunities at a school that costs less, (4) The student may seek a postsecondary education out of state.

It is difficult to predict how a student or their family would react to losing eligibility for the lottery scholarship. As such, the assumption below assumes those students who become ineligible leave the state for education. The analysis provides a range for the impact depending on the amount of students who might make that choice.

The attachment provides data on the number of lottery recipients by institution with lottery awards for FY18. Several colleges and universities have indicated there could be direct fiscal impact to colleges and universities if students who become ineligible choose to leave the institution, taking with them tuition, fees and other revenues. Using the data in the attachment to estimate the impact, institutions could lose up to \$48.7 million in tuition and fee revenue, based on FY19 tuition and fees, if 100 percent of the ineligible students leave the state for university. If 15 percent of the ineligible students leave, the impact would be \$7.3 million in lost tuition and fee revenue.

Colleges and universities in surrounding states have been deploying strategies to entice New Mexico college-bound students by offering them scholarships to equalize the cost of in-state tuition to a comparable level in New Mexico. The offers are generally aimed at students with higher aptitude and test scores.

SIGNIFICANT ISSUES

Currently, lottery scholarship amounts are defined in statute as being \$1,500 per semester for students at research institutions, \$1,020 for students at comprehensive universities, and \$380 for students at community colleges. Scholarship amounts can be higher than this if the amount available in the fund is sufficient to cover higher amounts as determined by HED. HB561 eliminates this process returning to a prior process of basing scholarships on the average of actual tuition rates for each type of higher education institution. In the 2018 legislative session, the process was changed to “decouple” the scholarship amount from actual tuition rates, as a measure to ensure the financial viability of the lottery tuition fund by removing the impact of institutions increasing tuition rates as a form of raising additional revenue.

HB561 may encourage colleges and universities to again increase tuition rates to raise revenue, particularly if ineligible students leave. Over time, it is likely that future increases in tuition would have a negative impact on the financial viability of the lottery scholarship fund.

ADMINISTRATIVE IMPLICATIONS

The enactment of HB561 would increase the administrative burden for colleges and universities, who would be required to process lottery tuition applications. The student financial aid offices manage these processes and should not have difficulty bringing a new application into its existing processes.

MFV/sb

HB 561 Attachment. Percent of Eligible Students and Estimated Tuition Revenue Impact

Institution	FY2018 recipient count (unduplicated)	Eligible under Threshold (unduplicated)	Percent Eligible under Threshold	FY19 Sector Average Tuition per semester	Estimated Cost - 100% FY19 tuition	Ineligible under Threshold (unduplicated)	FY19 Stated Resident Tuition & Fees (annual)	Estimated tuition revenue loss, annually	Estimated tuition revenue loss, annually
								If 100% of ineligible students go out of state for college	If 15% of ineligible students go out of state for college
NMIMT	1059	432	41%	\$2,960	\$1,278,720	627	\$7,769.54	(\$2,435,751)	(\$365,363)
NMSU	6,119	1,686	28%		\$4,990,560	4,433	\$7,368.00	(\$16,331,172)	(\$2,449,676)
UNM	13,738	6,930	50%		\$20,512,800	6,808	\$7,322.40	(\$24,925,450)	(\$3,738,817)
ENMU	1,443	722	50%	\$1,980	\$1,429,560	721	\$6,206.64	(\$2,237,494)	(\$335,624)
NMHU	480	319	66%		\$631,620	161	\$6,000.00	(\$483,000)	(\$72,450)
NNMC	214	167	78%		\$330,660	47	\$4,765.20	(\$111,982)	(\$16,797)
WNMU	318	187	59%		\$370,260	131	\$6,824.26	(\$446,989)	(\$67,048)
ENMU-Roswell	257	188	73%	\$735	\$138,180	69	\$2,256.00	(\$77,832)	(\$11,675)
ENMU-Ruidoso	26	21	81%		\$15,435	5	\$1,180.00	(\$2,950)	(\$443)
NMSU-Alamogordo	150	58	39%		\$42,630	92	\$2,064.00	(\$94,944)	(\$14,242)
NMSU-Carlsbad	140	55	39%		\$40,425	85	\$1,276.00	(\$54,230)	(\$8,135)
NMSU-Dona Ana CC	1,042	550	53%		\$404,250	492	\$1,776.00	(\$436,896)	(\$65,534)
NMSU-Grants	44	30	68%		\$22,050	14	\$2,064.00	(\$14,448)	(\$2,167)
UNM-Gallup	93	78	84%		\$57,330	15	\$1,932.00	(\$14,490)	(\$2,174)
UNM-Los Alamos	90	44	49%		\$32,340	46	\$2,092.00	(\$48,116)	(\$7,217)
UNM-Taos	96	78	81%		\$57,330	18	\$1,902.00	(\$17,118)	(\$2,568)
UNM-Valencia	297	207	70%		\$152,145	90	\$1,878.00	(\$84,510)	(\$12,677)
Central NM CC	1,938	1,186	61%		\$871,710	752	\$1,626.00	(\$611,376)	(\$91,706)
Clovis CC	69	42	61%		\$30,870	27	\$1,376.00	(\$18,576)	(\$2,786)
Luna CC	71	50	70%		\$36,750	21	\$968.00	(\$10,164)	(\$1,525)
Mesalands CC	39	34	87%		\$24,990	5	\$1,812.00	(\$4,530)	(\$680)
NM Junior College	190	129	68%		\$94,815	61	\$1,344.00	(\$40,992)	(\$6,149)
San Juan College	466	343	74%		\$252,105	123	\$1,840.00	(\$113,160)	(\$16,974)
Santa Fe CC	319	207	65%	\$152,145	112	\$1,467.00	(\$82,152)	(\$12,323)	
Totals	28,698	13,743	47.9%		\$ 31,969,680	14,955		(\$48,698,321)	(\$7,304,748)

Source: HED & LFC Files