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## FISCAL IMPACT REPORT

ORIGINAL DATE 02/28/13

SPONSOR Smith/Keller LAST UPDATED \_\_\_\_\_ HB 586

SHORT TITLE Lottery Scholarship Requirements SB \_\_\_\_\_

ANALYST Hartzler-Toon

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY13	FY14	FY15		
	NFI	NFI	Recurring	Lottery Tuition Fund

(Parenthesis ( ) Indicate Revenue Decreases)

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

	FY13	FY14	FY15	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>		\$25.0	\$25.0	\$50.0	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates Appropriation in the General Appropriation Act, Higher Education, Higher Education Department, Student Financial Aid

House Bill 309 relates to

- HB 27, Expanding Lottery Scholarship Eligibility
- HB 28, Lottery Scholarships at Tribal Colleges
- HB 586, Lottery Scholarship Requirements
- SB 392, Lottery Tuition Fund Distributions
- SB 451, Lottery Scholarship Requirements and Debt

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Higher Education Department (HED)  
University of New Mexico (UNM)

#### No Responses Received From

New Mexico State University (NMSU)  
Council of University Presidents

New Mexico Independent Community Colleges  
New Mexico Association of Community Colleges

## **SUMMARY**

### Synopsis of Bill

House Bill 586 (HB 586) amends current laws affecting the Legislative Lottery Scholarship Program. Specifically, HB 586

- (1) raises the initial grade point average (GPA) requirement for students attending the state's four-year institutions and branch campuses to receive the legislative lottery scholarship from 2.5 to 2.7 (on a 4.0 GPA scale); and
- (2) applies a means-test to receive legislative lottery scholarships,
  - a. awarding 100 percent of the available scholarship amount to eligible students with family incomes of less than \$54 thousand annually,
  - b. awarding 85 percent of the available scholarship amount to students with family incomes greater than \$54 thousand but less than \$100 thousand, and
  - c. awarding 70 percent of the available scholarship amount to students with family incomes over \$100 thousand.

The bill applies the above provisions to students who enroll in fall 2014 (FY15), and presumably thereafter. Students currently receiving legislative lottery scholarships and those enrolling in fall 2013 (FY14) are not subject to the new eligibility requirements or the means-tested, scaled awards.

The bill requires the Higher Education Department (HED) to determine the scholarship amounts based on available lottery revenues and appropriations.

## **FISCAL IMPLICATIONS**

The bill does not contain an appropriation. The bill requires the HED to use available revenues for legislative lottery scholarships. Assuming historic demand levels and without additional revenues, the Higher Education Department (HED) will reduce all legislative lottery scholarship amounts for FY14.

House Bill 586 will not have an impact on the total annual legislative lottery expenditures or lottery fund balance. The bill limits scholarships to available revenues, resulting in the highest level of legislative lottery expenditures while maintaining a sufficient fund balance needed in keeping with responsible cash management practices. The bill will impact the distribution of scholarships received by individual students. In FY15, the impact on distributions from the lottery tuition fund will be modest since the bill affects only those students enrolling in fall 2014 and not all students receiving scholarships during that year. The bill's impact will be greater as the fall 2014 cohort of students make academic progress.

## **SIGNIFICANT ISSUES**

The legislative lottery scholarship fund relies on revenues from lottery sales and increasingly on fund balance to meet annual scholarship expenses. During the last few fiscal years, lottery

scholarship expenses have increased steadily, \$47.2 million in FY10, \$53.3 million in FY11, \$58.2 million in FY12, and an estimated \$59 million in FY13. The Legislative Finance Committee (LFC) and HED projects that in FY14, without any changes to the scholarship program or additional revenues, lottery revenues and fund balance would be not sufficient to meet total scholarship expenses in FY14. The LFC and HED estimate an additional \$5 million to \$16 million in revenues would be needed to meet 100 percent of tuition scholarships in FY14.

During the last two legislative sessions, the Legislative Education Study Committee (LESC) and the LFC have held many hearings on the legislative lottery scholarship program, options for improving program solvency, and the impacts of possible options on the recipient pool. The scholarship program is merit-based and does not consider an eligible student's financial need, though some scholarship recipients receive additional federal, state, institutional, or other merit-based and need-based aid to meet college costs. The Legislature, the HED, institutions, and others have considered program changes such as raising eligibility requirements, including higher grade point averages, heavier semester course loads, and means-testing; reducing the maximum number of scholarship semesters; and reducing the scholarship amount. Most of these options reduce the pool of eligible students, particularly disadvantaged students. The Legislature and others have studied additional revenue options; however, no additional single revenue sources keep pace with increasing tuition costs.

House Bill 586 incorporates a number of approaches discussed during prior legislative sessions. First, the bill would impose means-testing for the award, requiring students to complete the Free Application for Federal Student Aid or some form reporting family income tax statements. The tiered-scholarship levels apply to students attending public four-year and two-year institutions. While all eligible students would receive a lottery scholarship at some amount, the bill prioritizes aid for students who demonstrate greater financial need. Scaling awards based on household resources targets grant aid to students most in need and reduces the debt-burden on middle-income students.

Second, the bill sets two tiers for initial student eligibility. To be eligible for the legislative lottery scholarship program, students attending four-year institutions or their branch campuses must have a 2.7 GPA from a public or private-accredited high school. Students who transfer from a two-year college to a four-year college must have a 2.7 GPA while at the two-year college. Students who earned the graduate equivalency diploma (GED) are not eligible to directly receive a legislative lottery scholarship at a four-year institution.

Students who earn at least a 2.5 GPA or receive a GED are eligible for a lottery scholarship at a public, two-year college. This is a departure from current law that sets a 2.5 GPA requirement for student eligibility, no matter whether the student enrolls in a public two-year or four-year institution.

The bill maintains the 2.5 GPA standard to continue scholarship eligibility for students who attend both four-year and two-year institutions.

## **PERFORMANCE IMPLICATIONS**

Based on data provided by students at the University of New Mexico and other sources, students who have higher pre-college GPAs generally perform better in college and perform better at more selective institutions. There also is a correlation between students with higher high school

GPA's and higher college completion and graduation rates. Under HB 586, institutions with students enrolling under the proposed eligibility standards may see an increase in college completion and graduation rates.

### **ADMINISTRATIVE IMPLICATIONS**

The HED responded that additional procedures for collecting data and monitoring awards would be required under HB 586. The operational impact is estimated at \$25 thousand annually.

### **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

House Bill 586 relates to

- HB 27, Expanding Lottery Scholarship Eligibility
- HB 28, Lottery Scholarships at Tribal Colleges
- HB 309, Lottery Scholarship Solvency
- SB 392, Lottery Tuition Fund Distributions
- SB 451, Lottery Scholarship Requirements and Debt

Currently, the General Appropriation Act appropriates revenues and fund balance from the lottery tuition fund for lottery scholarships. House Bill 2 include an appropriation to the HED's student financial aid program for \$60.2 million in other state funds category for lottery scholarships; this amount is based on FY12 actual scholarship expenses and an average 2012-13 tuition increase of 4 percent. The HED recently reported that FY13 scholarship expenses will total approximately \$59 million.

### **TECHNICAL ISSUES**

Section 4 of the bill applies the bill's provisions to students enrolling in the fall 2014 semester, and defines this as the student's "qualifying semester." If the provisions are intended to affect students who enroll after fall 2014, the bill may be amended to affect students who enroll in fall 2014 "or later."

The University of New Mexico reports that basing lottery scholarship eligibility on "family income" excludes other assets available to support a student's education. The bill sponsors may consider using an eligibility standard based on the "estimated family contribution," which captures family income and other assets in calculating a student's ability to contribute to the total cost of education (including tuition, fees, books, room and board, etc.).

### **OTHER SUBSTANTIVE ISSUES**

Federal, state, and tribal governments; institutions; and other private sources provide financial assistance to students. The lottery scholarship is one of many state-funded, student aid programs. Revisions to this program should be reviewed so that all sources and types (grant or loan) of financial aid are considered.

One such federal aid program, the American Opportunity Tax Credit, as amended, allows families to deduct the cost of tuition, books, fees, or other related educational expenses, from their federal taxes. This credit and the Lifetime Learning Tax Credit are claimed by those who

owe taxes, generally by families with higher household annual incomes. New Mexico's legislative lottery scholarship families cannot take full advantage of these tax credits because the state scholarship program covers the cost of tuition. Both tax credits were extended through December 31, 2013 under the American Taxpayer Relief Act.

## **ALTERNATIVES**

House Bill 586 recognizes a reduction of scholarship awards for FY14 and in the future, based on available and projected revenues, and phases-in reductions in scholarships based on student financial need starting in FY15. Alternative approaches to reform the legislative lottery program could include

- (1) make no changes to the legislative lottery scholarship program and supplementing lottery fund revenues with additional revenues. Assuming the fund balance is depleted in FY14, an estimated \$25 million would be necessary to meet FY15 expenses.
- (2) maintain eligibility requirements and continuing to index scholarship amounts to tuition levels but, on an annual basis, reducing available scholarship amounts to a percent of tuition, as limited to available revenues;
- (3) maintain lottery scholarship amounts but changing eligibility requirements to reduce the eligible pool of students (example, raising grade point average, increasing the number of credits required to maintain full-time status; means-testing).

Students generally support (1) maintaining the scholarship level and finding additional revenues to meet demand or (2) connecting award levels and college placement with higher rates of high school achievement.

## **WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

Under current law, the HED has authority to annually adjust the scholarship amount. Without additional revenues, the HED would reduce the scholarship amount, without regard for student financial need, to one that is less a student's full tuition amount for either or both semesters in FY14.

Should the HED seek to collect data on existing scholarship recipients' financial need, the HED could require students to complete the free application for federal student aid.

## **POSSIBLE QUESTIONS**

Should eligibility requirements for the legislative lottery scholarship award be changed? If so, would such proposed changes

- improve or threaten fund solvency?
- Impact the pool of eligible students, particularly low-income students?
- Increase or further student academic progress or graduation?

Are other revenue sources available to mitigate lower tuition awards and make changes in awards more predictable?

What are the impacts of requiring additional credit hours per semester on student achievement, student progress, and graduation? Are the impacts the same for all students or are there disparate impacts on students based on one's financial need?