

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current and previously issued FIRs are available on the NM Legislative Website (www.nmlegis.gov) and may also be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

SPONSOR Sariñana/Roybal **ORIGINAL DATE** 2/28/17
Caballero/Trujillo, CH **LAST UPDATED** 3/09/17 **HB** 344/aHSIVC

SHORT TITLE Lottery Scholarship Full Need & Need-Based **SB** _____

ANALYST Dulany

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY17	FY18	FY19	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		(\$7,000.0)	(\$7,000.0- \$10,000.0)	(\$14,000.0- \$17,000.0)	Recurring	Lottery Tuition Fund

(Parenthesis () Indicate Expenditure Decreases)

Conflicts with HB 194, HB 425, HB 426, SB 276, & SB 420
 Relates to HB 250/HBICS, SB 192/aSFC

SOURCES OF INFORMATION

LFC Files

Responses Received From

University of New Mexico (UNM)
 Higher Education Department (HED)
 Western New Mexico University (WNMU)
 Eastern New Mexico University (ENMU)
 New Mexico State University (NMSU)

SUMMARY

Synopsis of House State Government, Indian and Veterans' Affairs Committee Amendments

The House State Government, Indian and Veterans' Affairs Committee amendments define a legacy student as one who has received the scholarship for one or more program semesters prior to the end of FY17, as opposed to three program semesters in the original bill. The amendments reduce the number of semesters a legacy student may receive the scholarship from eight to seven. Finally, the HSIVC amendments specify that a legacy student is eligible to receive the scholarship if he or she attends a four-year public postsecondary educational institution and successfully completes 15 or more credit hours per program semester, or 12 credit hours per program semester for a student attending a two-year public postsecondary educational institution, and maintains a 2.5 grade-point average. This eligibility criteria is similar to the requirements in current law for qualified students receiving the lottery scholarship.

Synopsis of Original Bill

House Bill 344 amends the Legislative Lottery Tuition Scholarship Act to require qualified students to demonstrate financial need by means of the expected family contribution (EFC). HB 344 provides for scholarships to students whose EFC is less than 150 percent of the total cost of attendance as calculated by the financial aid officer at the public postsecondary educational institution. The bill also amends the definition of “legacy student” to include those who received the scholarship for three program semesters prior to the end of FY17, allowing these students to continue to receive the scholarship without demonstrating financial need. Finally, HB 344 requires, prior to consideration for a scholarship each year, a student must submit to the intended public postsecondary educational institution a lottery tuition scholarship application form or a Free Application for Federal Student Aid (FAFSA).

FISCAL IMPLICATIONS

HB 344 amends the definition of “legacy student” to include those who received the scholarship for three or more program semesters prior to the end of FY17. As noted in greater detail in “Significant Issues” below, this expanded definition allows students who enrolled during or before the fall 2015 semester to receive the scholarship for eight semesters instead of the current seven. This is likely to result in additional scholarships being issued to eligible students during the eighth semester, although the exact impact is unknown at this time. Data for the spring semesters between 2001 and 2008 previously provided by HED show the average portion of students receiving the scholarship in their eighth semester was 6.9 percent; however, because the definition of “legacy student” does not include all current recipients, it is likely the percent of students receiving the scholarship in their eighth program semester under the provisions of HB 344 would be less than 6.9 percent.

HED reports calculating the fiscal impact of HB 344 is difficult because only about 78 percent of lottery scholarship recipients complete the FAFSA. The potential impact of this bill would also be affected by changes in enrollment trends and adjustments in tuition rates in FY18, according to the department. HED does not track the housing status of students, and therefore cannot differentiate between at-home, independent or on-campus students (see “Significant Issues”). According to the department, this affects the department’s ability to estimate the cost of attendance variable required in determining eligibility for the scholarship.

HED suggests HB 344 may allow the lottery tuition fund to cover an increased portion of tuition costs for eligible students; however, because legacy students remain eligible without demonstrating need, total cost savings would take two to three years to be realized as legacy students are phased out of the program. Under current law, LFC staff estimate FY18 scholarship award amounts to be about 70.6 percent of average tuition costs, while HED has suggested this amount could be as low as 60-65 percent.

To fully fund the scholarship in its current form, LFC staff estimate, about \$66.7 million in revenue would be required (see Attachment). Based on the table below, HED estimates about \$52.8 million would be needed to cover full tuition scholarships under the provisions of HB 344. This table assumes legacy students have been phased out. If in the first year half of lottery recipients are legacy students and half are qualified students demonstrating need, a cost savings of \$7 million could be assumed in FY18, with a gradual increase in cost savings each year thereafter until legacy students are phased out of the program. This applies to full tuition

scholarships only; if revenues do not exceed scholarship expenditures, the department will reduce the percent of tuition covered by the scholarship.

Percent of Eligible Students and Estimated Full Scholarship Award Cost
(dollars in thousands)

Institution	Estimated 150% EFC/COA threshold	FY2016 recipient count	Eligible under Threshold	Percent Eligible under Threshold	Estimated Cost 100% FY17 tuition
NM Tech	\$25.8	1,069	761	71%	\$2,084.3
NMSU	\$21.6	6,622	5,153	78%	\$14,114.7
UNM	\$24.9	14,008	10,748	77%	\$29,437.7
ENMU	\$20.1	1,527	1,212	79%	\$2,213.3
NMHU	\$19.8	480	438	91%	\$799.9
NNMC	\$22.7	206	193	94%	\$352.0
WNMU	\$22.4	328	290	88%	\$529.7
ENMU-Roswell	\$13.6	244	196	80%	\$134.2
ENMU-Ruidoso	\$17.3	31	31	100%	\$21.3
NMSU-Alamogordo	\$20.9	177	154	87%	\$105.3
NMSU-Carlsbad	\$20.9	189	164	87%	\$112.8
NMSU-Dona Ana CC	\$20.9	1,057	1,004	95%	\$688.9
NMSU-Grants	\$20.9	58	54	93%	\$36.9
UNM-Gallup	\$19.5	81	72	88%	\$49.1
UNM-Los Alamos	\$16.8	79	54	68%	\$36.9
UNM-Taos	\$19.5	95	86	91%	\$59.3
UNM-Valencia	\$19.2	321	285	89%	\$195.2
Central NM CC	\$21.2	2,070	1,800	87%	\$1,235.0
Clovis CC	\$15.7	95	86	91%	\$59.2
Luna CC	\$13.1	76	72	95%	\$49.7
Mesalands CC	\$12.6	32	26	81%	\$17.7
NM Junior College	\$10.5	164	101	62%	\$69.5
San Juan College	\$13.7	398	303	76%	\$207.6
Santa Fe CC	\$22.7	284	256	90%	\$175.9
Total					\$52,786.1

Source: HED

UNM suggests “this change eliminates 3,400 students out of 6,400 students at UNM who received the award in [f]all 2016.” This estimate by UNM of students who would not be eligible for the scholarship under the provisions of HB 344 is significantly higher than HED’s estimate.

SIGNIFICANT ISSUES

Legacy Students

HB 344 defines a “legacy student” as one who received the scholarship for three or more program semesters by the end of FY17 (see Technical Issues). This definition would apply to any

student who enrolled during or prior to the fall 2015 academic semester. Legacy students differ from other qualified students in two distinct ways:

1. legacy students qualify for the scholarship by completing 12 credit hours per program semester, whereas other qualified students who attend a four-year institution must complete 15 credit hours per program semester to be eligible; and
2. legacy students receive the scholarship for eight program semesters, while other students receive the scholarship for seven program semesters.

FAFSA and Scholarship Application

HB 344 requires a student to submit to the intended public post-secondary educational institution a completed a lottery tuition scholarship application or FAFSA. WNMU has noted concerns with requiring students to complete a FAFSA, particularly with regard to undocumented students. The university states the option to complete a separate form developed by HED addresses its concerns for undocumented students as long as the application form developed by HED does not require the student to list his or her immigration status.

Expected Family Contribution and Cost of Attendance

HB 344 does not define or reference in other relevant law the terms “expected family contribution” and “cost of attendance” (see Technical Issues); however, HED interprets these terms as those provided for in federal law. According to the US Department of Education, EFC is a measure of the student’s family financial strength and takes into consideration taxed and untaxed income, assets, and benefits (such as unemployment or Social Security). EFC also considers the student’s family size and the number of family members who will attend college during the year.

The federal definition “cost of attendance” includes tuition and fees; an allowance for books, supplies, transportation, and miscellaneous personal expenses; and an allowance for room and board costs. The allowance for room and board is determined by the institution for a student without dependents residing at home with parents, but for students residing in institutionally owned or operated housing the room and board allowance is based on the amount normally assessed for most of the institution’s residents for room and board. For all other students, the allowance is based on the expenses “reasonably incurred by such students for room and board.”

As a result of this definition, it is likely the cost of attendance will vary for each student depending on their living arrangements. On this point, UNM states “[s]tudent need is not necessarily an equitable evaluation when there are so many possible costs of attendance.”

HED points out the need-based requirement contained in this bill may cause shifts in enrollment or housing status, which the department is unable to predict at this time. HED states some students may find themselves eligible for tuition scholarships at one institution but ineligible at another. In addition, according to HED, some students may opt to live independently or on-campus if they find they are excluded from scholarship eligibility due to low cost of attendance because they live with their parents. HED further notes students and families may face difficulties in determining eligibility for the scholarship, although it is presumed if a student completes the required paperwork and is accepted to an institution, the institution will prepare an award letter notifying the student of his or her financial aid package prior to enrollment.

TECHNICAL ISSUES

In the amended version of the bill, the definition of “legacy student” applies to one who “received for one or more program semesters by the end of fiscal year 2017 the legislative lottery scholarship awarded *pursuant to the former provisions of Sections 21-1-4.3, 21-13-10 and 21-16-10.1 NMSA 1978 prior to enactment of the Legislative Lottery Tuition Scholarship Act*” (emphasis added). The Legislative Lottery Tuition Scholarship Act was enacted in 2014; however, the definition of a legacy student in HB 344 attempts to include to a student who enrolled during or before the fall 2016 semester. That student would not have received the scholarship “pursuant to the former provisions [of the legislative lottery scholarship] prior to enactment of the Legislative Lottery Tuition Scholarship Act” because he or she had not yet enrolled in a postsecondary educational institution prior to the enactment of the Legislative Lottery Tuition Scholarship Act.

The sponsor may wish to reference or define the terms “expected family contribution” and “cost of attendance.”

TD/jle/AL

Legislative Lottery Tuition Scholarship Program: Current Status and Projections
(in thousands)

	FY16	FY17	FY18	
	Actuals	Estimated	LFC Scenario	100 % Tuition Award Scenario
Revenues				
Lottery Revenues	\$45,481.5	\$42,000.0	\$42,000.0	\$42,000.0
Lottery Tuition Fund Beginning Balance	\$3,402.1	\$3,456.8	\$4,126.0	\$4,126.0
Non-reverting and Other Revenues	\$1,619.3	\$18.0	\$18.0	\$18.0
Liquor Excise Tax Distribution	\$14,725.6	\$18,600.0	\$2,925.3	\$2,925.3
Available Revenues	\$65,228.5	\$64,074.8	\$49,069.3	\$49,069.3
Expenditures				
Scholarships - Percent of Tuition Awarded	<i>90% of est. avg. sector tuition</i>	<i>90% of est. avg. sector tuition</i>	<i>70.6% of est. avg. sector tuition</i>	<i>100% of est. avg. sector tuition</i>
<i>Research Awards</i>	\$51,253.2	\$52,432.2	\$40,998.0	\$58,082.8
<i>Comprehensive Awards</i>	\$3,914.7	\$4,425.8	\$3,446.4	\$4,882.7
<i>Two-year Awards</i>	\$3,002.6	\$3,090.8	\$2,624.9	\$3,718.8
<i>FY15 Late Payment</i>	\$3,601.2	\$0.0		
Total Expenditures	\$61,771.7	\$59,948.8	\$47,069.3	\$66,684.3
Est. Year-End Lottery Tuition Fund Balance (Available Revenues - Expenditures)	\$3,456.8	\$4,126.0	\$2,000.0	(\$17,615.0)
Less Statutory Minimum	(\$2,000.0)	(\$2,000.0)	(\$2,000.0)	(\$2,000.0)
Est. Over/Under	\$1,456.8	\$2,126.0	\$0.0	(\$19,615.0)

Source: HED and LFC Files

Notes: FY18 estimates assume 3 percent expenditure increase.