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FISCAL IMPACT REPORT

ORIGINAL DATE 2/18/17

SPONSOR Soules LAST UPDATED _____ HB _____

SHORT TITLE Lottery Scholarship Grace Period SB 420

ANALYST Dulany

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY17	FY18	FY19	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		See Fiscal Implications				

(Parenthesis () Indicate Expenditure Decreases)

Relates to HB 194, HB 344, HB 425, HB 426, & SB 276

SOURCES OF INFORMATION

LFC Files

Responses Received From

Eastern New Mexico University (ENMU)
 New Mexico State University (NMSU)
 Higher Education Department (HED)
 Office of the Attorney General (OAG)
 University of New Mexico (UNM)

SUMMARY

Synopsis of Bill

Senate Bill 420 amends the Legislative Lottery Tuition Scholarship Act to allow a 16-month grace period for qualified students to enroll in a public postsecondary educational institution after graduating from high school or receiving a high school equivalency credential.

The bill also extends the grace period for qualified students who serve in the military between high school and college. Under SB 420, these students have four months, rather than 120 days, from graduation to begin service in the US armed forces and 16 months, rather than one year, from completion of honorable service or medical discharge to attend a public postsecondary educational institution.

FISCAL IMPLICATIONS

HED reports the fiscal impact of SB 420 is unknown at this time.

In an agency analysis for a bill during the 2013 legislative session that would have allowed for a two-year grace period for students who enroll at a two-year institution, or a four-year institution if the student served in the military, HED estimated such expanded eligibility would generate a 10 percent increase in recipients per academic year. These estimates suggested the increase would translate to an additional expenditure from the lottery tuition fund of \$12.1 million between FY14 and FY16. Under the current Legislative Lottery Tuition Scholarship Act, HED would be required to reduce the percent of tuition the scholarship pays in order to maintain an average annual fund balance of \$2 million.

The 16-month grace period may provide short-term relief to the lottery tuition fund, which is expected to reduce scholarship levels from 90 percent of tuition rates to between 60-70 percent in FY18 (see Attachment). As more students take advantage of the grace period, fewer scholarships would be paid out in the 16 months following enactment of SB 420, allowing for higher scholarship amounts per student. However, as the first eligible cohort for the grace period begins to enroll in college courses in the succeeding 16 months, scholarship award amounts would again begin to decline.

The Legislative Lottery Tuition Scholarship Act requires HED to calculate the uniform percentage of in-state tuition costs for the Legislative Lottery Tuition Scholarship by June 1 of each year. In calculating the amount distributed to each institution, HED must factor “the projected enrollment” of qualified students enrolled during eligible program semesters. The 16-month gap proposed in SB 420 may make these projections more difficult to calculate.

SIGNIFICANT ISSUES

OAG notes the expanded eligibility for individuals who were medically discharged from the military would provide for more recovery time before the individual enrolls in full-time college coursework.

NMSU points out the bill does not address transfer students. For example, in the case a student graduates from a New Mexico high school and then immediately enrolls in an out-of-state postsecondary educational institution, it may be unclear whether the student is eligible for the Legislative Lottery Scholarship. NMSU further questions whether students who choose to take part-time coursework during the 16-month grace period would be eligible for the scholarship once they begin taking 12-15 credit hours at a New Mexico public postsecondary educational institution.

Data from NMSU shows about 30 percent of students at the institution fall short of eligibility requirements during the qualifying semester. NMSU suggests a growth and maturity period provided for in SB 420 could increase college readiness and reduce the number of students who fail to meet eligibility criteria.

HED cites research published in the *Journal of Higher Education* in 2013 that followed a cohort of Texas high school graduates and compared students who matriculated immediately after high school to students who took one or more gap years before college enrollment. The research

suggests, “Consistent with prior research, Texas students who postponed college enrollment were more disadvantaged economically and averaged lower academic achievement than on-time enrollees, but there was also considerable socioeconomic and academic differentiation among students who delayed. Students who delayed one semester or one year were more similar to each other than either group was to students who postponed two or more years. Still, among students who delayed enrollment, *those who postponed by one year were the most advantaged based on family background and academic achievement* (emphasis added). For example, 41 percent of one-year delayers had college-educated parents, compared with one-third of students who delayed two and three or more years. One-year delayers averaged SAT scores of 912, compared with 890 for those who postponed by one-semester. Among students who postponed postsecondary enrollment, those who delayed by one year also surpassed all others in their [Advanced Placement] course taking, which is a strong predictor of college intentions.” According to HED, this counters the notion that delaying enrollment by a year adversely affects college readiness and/or completion, though the study indicated that delays longer than one year do have a negative impact on college success.

HED further notes, while the effect of allowing a gap year on the lottery tuition fund is unknown, the study cited above seems to indicate that students who may take advantage of a gap year are likely to be more socioeconomically advantaged. These students would predominately enroll at New Mexico’s research institutions and would be the most likely to persist through the full seven semesters of support the Legislative Lottery Scholarship provides, according to the department. The number of students who currently forgo the Lottery Scholarship in order to take a gap year is unknown. However these students will tend to be more socioeconomically advantaged, and therefore more likely to persist and complete their degree irrespective of support from the Legislative Lottery Scholarship. Given these factors, HED suggests allowing for a gap year will impact the lottery tuition fund to some degree. However, the department states, tuition rates and total revenues into the fund will continue to have much greater influence on the overall solvency of the fund.

OTHER SUBSTANTIVE ISSUES

NMSU cites institutional data showing the Legislative Lottery Tuition Scholarship has been beneficial to the retention and graduation rates of qualified students. When comparing the rates between students that received scholarship versus those that did not receive Lottery or Pell, the rates of retention are approximately 40 percent higher within the first three years. The four-year graduation rates for those students on the Legislative Lottery Tuition Scholarship are also 20 percent higher than those that did not receive the scholarship.

According to NMSU, the following chart depicts graduation and retention rates for NMSU students with exclusively the Legislative Lottery Tuition Scholarship. In comparison with the subsequent charts, the retention and graduation rates are much higher for those students with the lottery scholarship.

Received Lottery Scholarship Only

Cohort	Head-count	Retention Rates			Graduation/Retention Rates					
		1 Year	2 Year	3 Year	4 Year		5 Year		6 Year	
					Graduated	Retained	Graduated	Retained	Graduated	Retained
Fall 2007	748	92%	84%	80%	27%	51%	59%	18%	67%	9%
Fall 2008	679	93%	85%	82%	27%	54%	59%	19%	70%	8%
Fall 2009	754	91%	82%	76%	22%	51%	55%	17%	66%	7%
Fall 2010	606	93%	83%	77%	29%	46%	61%	14%	69%	6%
Fall 2011	657	92%	82%	75%	29%	44%	58%	13%		
Fall 2012	656	92%	81%	76%	31%	45%				
Fall 2013	598	92%	83%	75%						
Fall 2014	541	92%	83%							
Fall 2015	622	90%								

The following chart depicts the four-, five-, six-year graduation and retention rates for NMSU students that did not receive the Legislative Lottery Tuition Scholarship or a Pell Grant. The data shows that these students are retained and graduate at lower rates than those with the scholarship.

Received Neither Lottery Scholarship Nor Pell Grant

Cohort	Head-count	Retention Rates			Graduation/Retention Rates					
		1 Year	2 Year	3 Year	4 Year		5 Year		6 Year	
					Graduated	Retained	Graduated	Retained	Graduated	Retained
Fall 2007	597	54%	41%	36%	9%	25%	22%	12%	26%	7%
Fall 2008	654	60%	49%	42%	11%	30%	25%	16%	31%	9%
Fall 2009	658	57%	47%	39%	11%	26%	25%	11%	30%	6%
Fall 2010	552	57%	44%	39%	12%	25%	25%	11%	30%	5%
Fall 2011	534	58%	48%	43%	14%	29%	26%	14%		
Fall 2012	461	56%	42%	35%	13%	23%				
Fall 2013	483	56%	43%	38%						
Fall 2014	466	56%	46%							
Fall 2015	482	59%								

TD/sb

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

	FY16		FY17		FY18		
	Actuals	Estimated	LFC Scenario	Exec Rec.	100 % Tuition Award Scenario		
Revenues							
Lottery Revenues	\$45,481.5	\$42,000.0	\$42,000.0	\$40,500.0	\$42,000.0	\$42,000.0	
Lottery Tuition Fund Beginning Balance	\$3,402.1	\$3,456.8	\$4,126.0	\$2,000.0	\$4,126.0	\$4,126.0	
Non-reverting and Other Revenues	\$1,619.3	\$18.0	\$18.0	\$15.0	\$18.0	\$18.0	
Liquor Excise Tax Distribution	\$14,725.6	\$18,600.0	\$2,925.3	\$2,500.0	\$2,925.3	\$2,925.3	
Available Revenues	\$65,228.5	\$64,074.8	\$49,069.3	\$45,015.0	\$49,069.3	\$49,069.3	
Expenditures							
Scholarships - Percent of Tuition Awarded	90% of est. avg. sector tuition	90% of est. avg. sector tuition	70.6% of est. avg. sector tuition	62.5% of Sector Average	100% of est. avg sector tuition		
Research Awards	\$51,253.2	\$52,432.2	\$40,998.0	\$36,301.8	\$58,082.8		
Comprehensive Awards	\$3,914.7	\$4,425.8	\$3,446.4	\$3,051.7	\$4,882.7		
Two-year Awards	\$3,002.6	\$3,090.8	\$2,624.9	\$2,324.2	\$3,718.8		
FY15 Late Payment	\$3,601.2	\$0.0					
Total Expenditures	\$61,771.7	\$59,948.8	\$47,069.3	\$41,677.7	\$66,684.3		
Interest and Accrual Adjustments							
Est. Year-End Lottery Tuition Fund Balance (Available Revenues - Expenditures)	\$3,456.8	\$4,126.0	\$2,000.0	\$3,337.3	(\$17,615.0)		
Less Statutory Minimum	(\$2,000.0)	(\$2,000.0)	(\$2,000.0)	(\$2,000.0)	(\$2,000.0)		
Est. Over/Under	\$1,456.8	\$2,126.0	\$0.0	\$1,337.3	(\$19,615.0)		

Source: HED and LFC Files

Notes: FY18 estimates assume 3 percent expenditure increase.