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LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS
53rd Legislature, 2nd Session, 2018

Bill Number	<u>HB178</u>	Sponsor	<u>Larrañaga</u>
Tracking Number	<u>.209239.2</u>	Committee Referrals	<u>HEC/HAFC</u>
Short Title	<u>Lottery Scholarship Changes</u>		
Analyst	<u>Rogne</u>	Original Date	<u>1/30/18</u>
		Last Updated	<u></u>

FOR THE LEGISLATIVE FINANCE COMMITTEE

BILL SUMMARY

Synopsis of Bill

House Bill 178 (HB178) amends the Legislative Lottery Tuition Scholarship Act to provide flat lottery scholarship awards, decoupling scholarship amounts from tuition costs. HB178 sets scholarship amounts based on the type of postsecondary educational institution on a per-semester basis: \$1,500 for a student enrolled at a research institution, \$1,000 for a student enrolled at a comprehensive institution, and \$750 for a student enrolled at a community college. If there is not enough money in the lottery scholarship tuition fund to pay for the fixed scholarship amounts, the Higher Education Department (HED) will reduce the awards proportionally. If the annual balance in the fund exceeds \$5 million for two years, HED will increase the awards proportionally until the ending balance equals \$5 million. Accordingly, HB178 removes the requirement to maintain a \$2 million annual fund balance to accommodate for this change. HB178 will apply to legislative lottery tuition scholarship awards beginning with the fall semester of the 2018-2019 academic year.

HB178 also makes technical changes by removing references to legacy students and referencing the definition of full-time student instead of reiterating the requirements of full-time attendance at four-year and two-year educational institutions. In addition, HB178 makes a technical change in the “community college” definition to specify the legislative lottery scholarship can apply to the two-year college portion of the New Mexico military institute.

FISCAL IMPACT

This bill does not contain an appropriation.

The following table shows the cost required for tuition awards as directed by HB178, and the estimated FY19 lottery scholarship awards based on the estimated FY19 revenues of \$38.5 million:

Sector	HB178 Proportional Award Per Semester	FY18 Average Tuition Per Semester	FY18 Estimated Enrollment*	Cost	FY19 Estimated Award
Research Universities	\$1,500	\$2, 869	20,806	\$31,209,000	\$1,534
Comprehensive Universities	\$1,000	\$1,949	2,442	\$2,442,000	\$1,022
Community Colleges	\$750	\$713	5,343	\$4,007,250	\$767 **
Grand Total	-		28,591	\$37,658,250	-

* HED has not received the Spring 2018 lottery scholarship actuals at the time of this analysis.

** Some community college tuition rates fall below this level. If tuition falls below the award level the scholarship is capped at 100% of tuition. This has the effect of increasing the maximum award for each sector by about \$10 at the current tuition rates.

Source: HED

SUBSTANTIVE ISSUES

HB178 removes language in the Legislative Lottery Tuition Scholarship Act directing scholarships to be calculated based on sector average tuition rates, effectively decoupling award amounts from tuition. The tuition-decoupled awards of \$1,500 research; \$1,000 comprehensive; and \$750 community college are awarded to qualified students on a per-semester basis. HB178 directs HED to distribute awards to each postsecondary educational institution based on the full-time enrollment of qualified students. HED may lower scholarships proportionally across institutional sectors if there is not enough money in the legislative lottery tuition fund, or raise scholarships proportionally if the fund exceeds \$5 million for two consecutive years.

The legislative lottery tuition scholarship is intended to increase access to postsecondary education, reduce financial burden on students, and increase educational attainment in New Mexico. The lottery scholarship is funded by 30 percent of lottery ticket sales. Since 2009, the cost of tuition scholarships has outpaced revenues from ticket sales; consequently, the balance of the lottery tuition fund has declined significantly in recent years.

By decoupling lottery scholarship amounts from tuition, awards are based solely on enrollment and revenues. Decoupling awards from tuition amounts may discourage colleges from raising tuition. In addition, the flat awards based on the type of postsecondary institution may provide for some planning consistency for students and families, as they will be more certain of their award amount and cost of attendance from year to year.

Current Status of the Legislative Lottery Tuition Fund. According to the Legislative Lottery Scholarship Report published by HED in December 2017, in FY16 and FY17, the lottery scholarship covered 90 percent of sector average tuition. However, the lottery tuition fund has been shrinking because of a drop in revenues and rising tuition costs. For FY16 and FY17, Laws 2014, Chapter 80 directed a portion of the liquor excise tax to the lottery tuition fund, about \$19 million a year. With the sunset of the liquor excise tax revenue at the end of FY17, the tuition percentage was reduced in FY18 to 60 percent of sector average tuition. A summary of the FY17 lottery tuition fund activity can be found below.

FY17 Lottery Tuition Fund Activity Summary	
Cash Balance Beginning FY17	\$2,219,375
NM Lottery Authority Revenues	\$38,240,313
Liquor Excise Tax Revenue	\$19,419,756
Interest, Voluntary Contributions, Other Misc. Revenue	\$234,161
Subtotal FY17 Revenues + Carry Forward Balance	\$60,113,605
Fall 2016 Lottery Scholarship Payments	(\$26,876,909)
Spring 2017 Lottery Scholarship Payments	(\$31,045,363)
UNM Nursing Summer Payment	(\$130,494)
Subtotal FY17 Expenditures	(\$58,052,766)
Cash Balance Ending FY17	\$2,060,839
	Source: SHARE Financials

To be eligible for the lottery scholarship, students must attend postsecondary full-time up to (1) 16 months after high school graduation or receiving a high school equivalency credential; or (2) 16 months after military service begun within four months of high school graduation or receiving a high school equivalency credential. Qualified students must be residents of New Mexico. Statute defines full-time attendance as 15 or more credit hours per semester for students attending four-year postsecondary institutions, and 12 credit hours for students attending two-year institutions. Pursuant to current statute and rules set forth in 5.7.20 NMAC, students do not receive the lottery scholarship in their first semester of enrollment but instead have an initial qualifying semester supported by other institutional funds (the Bridge scholarship). Students must complete their first semester with a grade point average (GPA) of 2.5 or better, and maintain a 2.5 GPA or better, to receive the lottery scholarship.

In FY17, there were a total of 28,710 lottery scholarship recipients distributed by sector as follows:

- 20,916 recipients at the research institutions;
- 2,455 recipients at the four-year comprehensive colleges; and
- 5,339 recipients at the two-year independent and branch community colleges.

See Attachment 1 for FY17 student headcount and lottery scholarship recipients by postsecondary educational institution.

The University of New Mexico (UNM) is concerned that HB178 attempts to funnel enrollments to two-year institutions by providing students at four-year institutions 50 percent of current tuition levels and students at two-year schools 100 percent of tuition. UNM noted this provides an incentive for students to enroll at two-year schools over four-year schools, and notes this may have a negative impact on student success outcomes and negatively impact already diminished enrollments for four-year institutions.

HB178 amends the current lottery scholarship recipients definitions by removing legacy students. According to New Mexico State University (NMSU), a small number of legacy students are currently enrolled at NMSU. The purpose of creating the legacy students under the 2014 legislation was to grandfather students under the previous provisions. By eliminating this definition, the existing legacy students would have to take 15 credit hours instead of 12, as provided under current law.

According to San Juan College, HB178 would allow for students at the community college to take up to 16 credit hours per semester and have tuition fully funded. Full tuition funding makes it possible for a large number of potential students to complete their college education.

ADMINISTRATIVE IMPLICATIONS

The Financial Aid Division at HED administers the legislative lottery scholarship.

RELATED BILLS

Related to HB147, Transmitting of Lottery Funds, which eliminates the requirement for the Lottery Authority to transfer at least 30 percent of the gross revenues from the sale of lottery tickets to the lottery tuition fund each month.

Conflicts with HB270, Lottery Scholarship Awards & Tuition Costs, which sets different decoupled tuition awards.

Conflicts with SB140, Lottery Scholarship Awards & Tuition Costs, which sets different decoupled tuition awards and amends language regarding the fund balance required in the lottery tuition fund.

SOURCES OF INFORMATION

- LESC Files
- San Juan College
- University of New Mexico
- New Mexico State University
- Higher Education Department

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FY17 Student Headcount and Lottery Scholarship Recipients

Institution	Total Student Headcount	Lottery Scholarship Recipients	Scholarship Recipients as Percentages of Total Students
NM Tech	2,920	1,059	36.3%
NMSU	21,068	6,119	29.0%
UNM	36,848	13,738	37.3%
Research Sector Total	60,836	20,916	34.4%
ENMU	6,624	1,443	21.8%
NMHU	3,465	480	13.9%
NNMC	1,556	214	13.8%
WNMU	3,328	318	9.6%
Comprehensive Sector Total	14,972	2,455	16.4%
ENMU-RO	3,423	257	7.5%
ENMU-RU	653	26	4.0%
NMSU-AL	1,779	150	8.4%
NMSU-CA	2,011	140	7.0%
NMSU-DA	9,985	1042	10.4%
NMSU-GR	848	44	5.2%
UNM-GA	3,153	93	3.0%
UNM-LA	932	90	9.7%
UNM-VA	2,363	297	12.6%
CNM	31,066	1,938	6.2%
CCC	3,494	69	2.0%
LCC	1,535	71	4.6%
MCC	803	39	4.9%
NMJC	3,621	190	5.2%
SJC	9,763	466	4.8%
SFCC	5,718	319	5.6%
NMMI	954	12	1.3%
Community College Sector Total	83,639	5,339	6.4%
Grand Total All Sectors	159,447	28,710	18.0%

Source: HED