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## FISCAL IMPACT REPORT

SPONSOR: HAFC DATE TYPED: 03/08/01 HB 22 & 28/HAFCS/aHAFC  
 SHORT TITLE: Lottery Tuition Scholarship Funding SB \_\_\_\_\_  
 ANALYST: Fernandez

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY01	FY02			
	\$ (13,024.2)		Recurring	Public School Capital Outlay Fund
	\$ 13,434.7		Recurring	Lottery Success Fund
	\$ 12,613.8		Recurring	Educational Technology Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates/Conflicts with/Companion to/Relates to SB59, SB304, SB590 and SB727

### SOURCES OF INFORMATION

Commission on Higher Education (CHE)

### SUMMARY

#### Synopsis of HAFC Amendment

The House Appropriations and Finance Committee amendment clarify that a student receiving a lottery success scholarship must be enrolled full-time at an eligible institution.

#### Synopsis of Original Bill

The House Appropriations and Finance Committee Substitute for House Bills 22 and 28 amends the New Mexico Lottery Act to increase the distribution of net lottery revenue allocated to the Lottery Tuition Fund, changes the distribution of lottery proceeds from the public school capital outlay fund to the educational technology fund, adds language which directs institutions to award all other scholarships before lottery tuition scholarship funds, changes the name of the fund to the Lottery Success Fund, and removes language requiring CHE to prepare guidelines for administration of the program.

In addition, this bill adds a new section to Chapter 21, NMSA 1978, cited as the Lottery Success Scholarship Act which sets forth eligibility criteria and guidelines for administration of the program by CHE and repeals those provisions pertaining to the Lottery Success Scholarship program which are no longer applicable.

### Significant Issues

Currently, the New Mexico Lottery Act distributes 50 percent of net lottery revenues to the Public School Capital Outlay Fund and 50 percent to the Lottery Tuition Fund. This bill increases the distribution available for lottery tuition scholarships to an amount appropriated by the Legislature, plus ten percent of the remaining balance for a reserve. The remainder in the fund shall be transferred to the Educational Technology Fund for expenditure pursuant to the Technology for Education Act.

The Lottery Success Scholarship Act requires CHE to determine the award amount for qualified students, and determine the maximum award amount based on the percentage increase in the tuition credit in the General Appropriation Act for the next academic year. Currently, the tuition credit included in the General Appropriation Act is 5 percent.

Awards from the fund shall not exceed the cost of tuition, taking into account any other scholarships prior to awarding lottery funds.

The bill does not define the purpose and use of the reserve. It is unclear if funds in the reserve should be included as part of the appropriation for the following year or if the reserve shall continue to grow each year? The fiscal implications detailed below are based on the assumption that funds in the reserve are not included in the appropriation for the following year but rather, continue to grow each year until such time as expenditures exceed revenues.

### **FISCAL IMPLICATIONS**

1. Projections from CHE indicate that if no changes to the program or current statute are made, the program will run short of the funding needed to provide 100 percent tuition scholarships to students in FY03. These projections are based on an assumption of 9 percent tuition increases at universities and 5 percent at community colleges.
2. Based on the provisions of this bill, and the assumption that funds in the reserve do not become part of the appropriation, but rather grow each year until needed, it will not be necessary to draw funds from the reserve for program expenditures until FY09. Further, projected program expenditures will not exceed projected revenues, including reserve funds until FY12. It is important to note that this assumption is based on lottery revenues increasing by 3 percent per year which varies from the CHE projections that hold lottery revenues constant. Additionally, balances in the reserve fund assume investment by Office of the State Treasurer in the overnight account yielding, 5 percent per annum.
3. After the amount appropriated by the legislature and the 10 percent set aside for the reserve, the remainder shall be transferred to the Educational Technology Fund to carry out the provisions of the Technology for Education Act.

The distribution to the Educational Technology Fund in FY02 is projected at \$12.6 million. After that, the distributions remain at a constant level of roughly \$4.0 million dollars through FY04, then drops in FY05 to \$3.7 million, then finally to zero in FY09 when the fund will no longer receive a distribution.

4. According to SDE, the net revenues deposited into the Public School Capital Outlay Fund total approximately \$12-15 million per fiscal year. Other sources of funding for critical capital outlay include supplemental severance tax bonds. House Joint Resolution 3 proposes to amend the constitution to increase the statewide general obligation bonding capacity by 2 percent and dedicating the revenues to the Public School Capital Outlay Council. House Bill 134 implements the Public School Capital Outlay Task Force recommendations which provides additional funding for critical capital outlay.

#### **ADMINISTRATIVE IMPLICATIONS**

This bill requires the board of regents or governing board at each eligible institution to award scholarships to students who meet the requirements of the Lottery Scholarship Act, develop a method to notify students of possible eligibility, designate an officer to administer the program, draw down funds from CHE, maintain records for each recipient and provide an annual report to the commission.

The CHE shall adopt and promulgate rules to carry out the provisions of the Lottery Success Scholarship Act, including guidelines for administration of the Lottery Success Scholarship program in accordance with the Lottery Success Scholarship Act.

#### **RELATIONSHIP**

This bill relates to SB59, SB304, SB590 and SB727.

#### **TECHNICAL ISSUES**

The bill does not define the purpose and use of the reserve. It is unclear if funds in the reserve should be included as part of the appropriation for the following year, or if the reserve shall continue to grow each year? The bill should also clarify if reserve funds should be mixed in the Lottery Success Fund or deposited in a separate fund.

CTF/njw:ar  
Attachment