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FISCAL IMPACT REPORT

ORIGINAL DATE 1/26/07

SPONSOR Ingle LAST UPDATED _____ HB _____

SHORT TITLE Lottery Scholarship Tuition Increases SB 110

ANALYST Dearing

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	NFI	\$800.0	Recurring	Lottery Success Scholarship Fund
	*Please see narrative			

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Relates to:

HB209, HB361, HB571, SB537, SB364

Responses Received From

Higher Education Department (HED)

SUMMARY

Synopsis of Bill

Senate Bill 110 amends Section 21-1-4 NMSA 1978 such that Lottery Success scholarship recipients entering New Mexico institutions would pay the first semester's tuition rate in successive semesters.

FISCAL IMPLICATIONS

Senate Bill 110 carries no direct appropriation from the General Fund. The bill pre-empts tuition raises from factors such as inflation for entering recipients, effectively creating semester-specific price-tiers (tranches) for entering recipients. If enacted, Senate Bill 110 would have the effect of extending the longevity of the fund by decreasing distributions. The legislation would freeze

tuition levels for incoming students at the 1st semester tuition rate and would mandate that higher education institutions must exempt these students from increases to tuition. The change to statute would create one-year or semester-based pricing, depending on the frequency of institutions’ tuition increases.

*Enactment of Senate Bill 110 would create a net increase to revenue in the Lottery Scholarship fund in the second year following tuition freezes. As successive classes of lottery recipients became entitled to the tuition freeze, the amount of net-revenue generated would increase. The following table highlights potential savings, given several key assumptions concerning historical inflation and enrollment growth rates at New Mexico’s higher education institutions. Historical inflation factors for tuition and enrollment growth rates were provided by HED. In the case of tuition inflation, the data were reported by institution type. Enrollment growth and tuition cost was reported for each institution in the Higher Education department’s “*Condition of Higher Education; 2005-2006.*” A weighted average of enrollment growth was compiled by institution type for this fiscal impact report. The following revenue scenario would depend on consistency of previously mentioned rates.

Potential Revenue Increases in years following SBI 10 Enactment			
Year One (FY08)	Year Two (FY09)	Year Three (FY10)	Year Three (FY11)
0	\$800,000	\$1,320,000	\$2,300,000
Institution Sector	Enrollment Growth		Tuition Inflation
Research Universities	0.13%		8.7%
Comprehensive Universities	6.00%		6.2%
Branch Community Colleges	6.90%		6.1%
Independent Community Colleges	7.70%		6.1%

Table 1. Potential Net-Revenue Scenario using HED Inflation and Growth Data; Weighted Avg. Enrollment growth from “Condition on Higher Education, 2005-2006.” Tuition inflation rates from HED Lottery projection, 9-26-2006.

SIGNIFICANT ISSUES

If enacted, there could be potential issues surrounding the creation of price differentials among other full-tuition paying students and those receiving scholarships. Additionally, there could be significant pressure by the institutions to increase state appropriations to fund inflation and displace lost tuition revenue from Lottery recipients.

In the 2005-2006 academic year, approximately \$36.9 million in Lottery Success scholarship funds were distributed to assist NM students. Payouts to beneficiaries continue to exceed New Mexico Lottery Authority disbursements to the scholarship fund. With overall flat high school graduation rates expected over this period, projected increases in expenditures are primarily based on tuition inflation.

Across the country, merit scholarship programs are undergoing similar solvency issues. Underestimated and rapidly increasing merit scholarship demand and scarce resources have forced other states to pursue alternatives. Other alternatives can include mechanical adjustments to eligibility, family income caps on recipients, reductions in awards, or increased eligibility criteria.

Lottery Revenues Forecast

	Year	Net Income (000s)	% Change
	FY97	21,253	
	FY98	19,267	-9.34%
	FY99	20,010	3.85%
	FY00	25,680	28.33%
	FY01	25,914	0.91%
	FY02	29,604	14.24%
	FY03	33,093	11.79%
	FY04	35,939	8.60%
	FY05	32,231	-10.32%
	FY06	36,856	14.35%
Forecast	<i>FY07</i>	<i>34,500</i>	<i>-6.39%</i>
	<i>FY08</i>	<i>35,074</i>	<i>1.67%</i>
	<i>FY09</i>	<i>35,607</i>	<i>1.52%</i>
	<i>FY10</i>	<i>36,288</i>	<i>1.91%</i>
	<i>FY11</i>	<i>37,009</i>	<i>1.99%</i>

Source: DFA/LFC Consensus Forecast, September 2006

TECHNICAL ISSUES

If enacted, Senate Bill amends 21-1-4 NMSA 1978; adding clause specifying rate for lottery tuition scholarship recipients.

A new section 21-1-4 (h) NMSA 1978 is created; amends statute such that the tuition rate for entering Lottery Success Scholarship recipient students is frozen at that rate for the duration of their term in the Lottery program.

RELATIONSHIP

Senate Bill 110 relates to the following bills; HB209, HB361, HB571, SB364, and SB537. Each bill proposes amendments to eligibility or fund mechanics in statute relating to the Lottery Success Scholarship program.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

If Senate Bill 110 is not enacted, tuition rates for lottery recipients will remain susceptible to inflation and other tuition increases.

PD/sb