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F I S C A L   I M P A C T   R E P O R T

		ORIGINAL DATE	01/23/09		
SPONSOR	Lujan, B.	**LAST UPDATED**	02/20/09	**HB**	73/aHEC
SHORT TITLE	College Affordability Endowment Distribution			**SB**	
				ANALYST	Varela

APPROPRIATION (dollars in thousands)

Appropriation		**Recurring or Non-Rec**	**Fund Affected**
FY09	**FY10**		
	$0.0		

(Parenthesis ( ) Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			**Recurring or Non-Rec**	**Fund Affected**
FY09	**FY10**	**FY11**		
	$0.01	$0.01	Recurring	Scholarship Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to Senate Bill 79

SOURCES OF INFORMATION
LFC Files

Responses Received From
Higher Education Department (HED)
State Treasurer's Office (STO)
State Investment Council (SIC)

SUMMARY

Synopsis of HEC Amendment

The House Education Committee amendment inserts additional language. Specifically, on page 3, line 3, before the period, the amendment adds "provided, however, that until the fund has existed for five years, the distribution shall be based on the average of the year-end market value of the fund for the years that the fund has existed."

Synopsis of Original Bill

House Bill 73 changes the annual distribution of the College Affordability Endowment Fund. The bill proposes that the annual distribution to the scholarship fund from the endowment fund shall be five percent of the average of the year-end market values of the endowment fund for the immediately preceding five calendar years.

FISCAL IMPLICATIONS

Currently, the College Affordability Act provides that until fifty percent of the annual income from investment of the college affordability endowment fund is equal to or exceeds two million dollars ($2,000,000), an annual distribution of two million dollars ($2,000,000) shall be made from the college affordability endowment fund to the college affordability scholarship fund. Thereafter, until the corpus of the endowment fund is two hundred fifty million dollars ($250,000,000), fifty percent of the income from investment of the fund shall remain in the corpus of the fund and fifty percent shall be distributed annually to the scholarship fund. After the corpus of the endowment fund is two hundred fifty million dollars ($250,000,000), all investment income from the fund shall be distributed to the college affordability scholarship fund.

House Bill 73 changes the annual distribution of the endowment to 5 percent of the previous 5-year rolling average of the endowment's balance. The distributions would be evenly split between the corpus of the endowment fund and the scholarship fund. The baseline scholarship distributions would be set at a minimum of $2 million. If the overall assets of the endowment reach a value of more than $250 million, the distributions would go entirely toward the scholarship fund.

According to the SIC, the department has invested the endowment fund since May 2007. Establishing a 5-year calendar average is not yet possible, unless the fund was held or managed elsewhere on a prior basis. Data received from SIC indicates that the year end balance for calendar year 2006 was $98 million, and the year end balance for 2007 was $72.5 million. The average balance for the previous two calendar years is $85.3 million. The resulting distribution for the following year would be $4.2 million, with approximately $2.1 million going to the corpus of the endowment fund and $2.1 million to the scholarship fund.

SIC states that the impact of House Bill 73 would be minimal on scholarship distributions, but could have a more dramatic effect on the endowment fund's long term growth. The reasoning is that current market values are depressed; however, a significant market rally would amplify the effect. It is not clear how long it might take to reestablish previous asset values because of the current economic climate.

SIGNIFICANT ISSUES

According to SIC, the permanent fund and other distributions have been administered very successfully using a 5-year average of the fund balance. This methodology helps prevent significant spikes or drops based on changes in annual market valuations. The technique helps reduce volatility in distributions from year to year. Aside from not having enough years to properly implement, this would be a recommended technique for even-handed distributions.

HED states that House Bill 73 is a priority of the department's legislative agenda and is part of their strategic priorities and goals.

ADMINISTRATIVE IMPLICATIONS

SIC states that there are no significant changes in investing and administering the endowment fund.

HED is the administrator for the college affordability fund involving receipt, disbursement, and tracking for New Mexico's public post-secondary institutions and tribal colleges.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

House Bill 73 relates to Senate Bill 79 which reduces the corpus of the endowment fund.

POSSIBLE QUESTIONS

What is the estimated additional number of scholarships that could be awarded by enacting this bill?

PTV/mc:svb