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FISCAL IMPACT REPORT

ORIGINAL DATE 03/01/09
LAST UPDATED 03/06/09 **HB** 846
SPONSOR Miera
SHORT TITLE College In-State Tuition for Non-residents **SB** _____
ANALYST Varela and Williams

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY10	FY11	FY12	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
	(\$10,964.8)				Recurring, grows over time	Other State Funds ---- University Tuition Revenue
			\$10,964.8		Recurring; grows over time	General Fund --- Formula Cost via Tuition Revenue Credit
			\$700 to \$1,600.0		Recurring, grows over time	General Fund Formula Cost— Instruction and General

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Higher Education Department (HED)

SUMMARY

Synopsis of Bill

House Bill 846 creates a section under New Mexico Statute Chapter 21, Article 1 that provides each state postsecondary institution the authority to grant competitive scholarships on a merit basis to out-of-state undergraduate students. Students who receive the competitive scholarships would be eligible to receive in-state tuition at a state postsecondary educational institution. The number of competitive scholarships by each state institution shall not exceed six percent of that state educational institution's full-time equivalent (FTE) enrollment of the previous year.

FISCAL IMPLICATIONS

This bill carries no appropriation; however, there is a significant fiscal impact. Only the University of New Mexico and New Mexico State University would benefit from the percentage increase for scholarships awarded by enacting this bill, relative to the current program which is authorized in state administrative code.

There is a general fund cost due to the difference in the tuition revenue forgone by the institutions by allowing in-state tuition for non-residents, which is projected to be at least \$10.9 million in order to meet the increased number of competitive scholarships granted by the two universities who would benefit from HB 846. This is due to the tuition revenue credit calculation in the higher education funding formula through which the general fund essentially picks up the difference between the tuition rates for all tuition waiver programs. Finally, the higher education funding formula incremental cost for instruction and general could range from \$700.0 thousand to \$1.6 million for an increase of nearly 1,000 students and associated student credit hour enrollments at the two universities. These scenarios were developed to illustrate varying assumptions for undergraduate versus graduate student enrollments under the expanded program.

The largest component of the fiscal impact is reflected in the table below, which calculates the estimated tuition differential costs to the University of New Mexico and New Mexico State University if HB 846 passes using 2007-2008 undergraduate FTE enrollment numbers provided by HED. The difference in tuition rates at each institution reflects current tuition schedules and assumes the appropriation tuition credit from the House-passed version of House Bill 2.

It is important to note that the bill states that “the number of competitive scholarships granted by each state educational institution shall not exceed 6 percent of that state educational institution’s full time equivalent enrollment of the previous year.” For demonstration purposes, the undergraduate data from HED has been used; however, the total FTE enrollment for the institutions is considerably larger than those used in the table. Total educational institution FTE enrollment numbers (includes graduate and professional students) would mean a larger number of competitive scholarships could be awarded by enacting HB 846. Therefore, the total cost in the table would also increase.

	Fall 2007 UG FTE	Current Awards 2008-2009	HB 846 Proposed Awards	Difference	In-state Tuition (+2.5% tuition credit) Academic Year 2009-10	Out-of-state Tuition (+8% tuition credit) Academic Year 2009-10	Difference	FY12 General Fund Cost
UNM	16,596	415	996	581	\$4,685.28	\$16,137.36	\$11,452.09	\$6,653,661.39
NMSU	11,447	286	687	401	\$4,563.30	\$15,314.40	\$10,751.10	\$4,311,191.10
NMIMT	1,207	72	72	0				
ENMU	2,924	175	175	0				
NMHU	1,842	111	111	0				
NNMC	1,471	88	88	0				
WNMU	1,787	107	107	0				
								\$10,964,852.49

SIGNIFICANT ISSUES

According to HED, the competitive scholarship program was established in 1998 and is currently administered by HED under statutory authority Section 21-1-4G, NMSA 1978. The current statute does not reference the competitive scholarship program directly, but HED has the authority to define resident and nonresident rates. The current program was never explicitly authorized in state statute.

New Mexico Administrative Code, Title 5, Chapter 7, Part 14 governs the competitive scholarship program. NMAC requires that recipients receive at least \$100 in competitive scholarship funds to be eligible, which would be in addition to the waived tuition cost. Explicit eligibility criteria in administrative code include:

- Eligibility for US citizens versus non-citizens: There is a declaration of residency requirement. Non-citizens may participate if an institution ensures non-citizens meet similar merit requirements as non-citizens. Foreign nationals who are both undergraduates and graduate students are then allowed to participate in the program.
- Competitive scholarship awards to foreign nationals are capped at ten percent of total scholarships authorized.
- At small universities, student from the United States must have either:
 - High school GPA of 3.5 or higher and an ACT score of 20 or higher; or
 - High school GPA of 3.0 or higher and an ACT score of 23 or higher
- At large universities, students from the United States must have either:
 - High school GPA of 3.5 or higher and an ACT score of 23 or higher
 - High school GPA of 3.0 and an ACT score of 26 or higher

HED notes that the objective and purpose of the competitive scholarship is to attract out-of-state undergraduate students who have demonstrated high academic achievement in their respective high schools to enroll in institutions of higher education in New Mexico. HED sends institutions annual notification of the number of competitive scholarships they can award based on the institutions undergraduate FTE enrollment of the previous year. Currently, with the exception of the University of New Mexico (UNM) and New Mexico State University (NMSU) at 2.5 percent, all public postsecondary institutions grant 6 percent of their undergraduate FTE enrollment in competitive scholarships.

HED states that this bill proposes to permanently raise the ceiling of competitive scholarship awards for UNM and NMSU from 2.5 percent to as much as 6 percent as they are currently limited (NMAC 5.7.14) to 2.5 percent. The NMAC defines a large university as one that produces more than 150,000 student credit hours per academic year.

In October 2008, the LFC *Review of HED Financial Aid Programs* noted New Mexico's financial aid investment strategy would benefit from an increased focus on need based aid, particularly given the high rate of poverty in the state. HB 846 proposes to allow in-state tuition for non-residents, effectively subsidizing the cost of non-resident education with New Mexico tax dollars. Available research indicates that need based aid is the ideal policy lever to increase college access. The LFC report further noted need-based grants had a substantial positive influence on college enrollment rates, substantially more than tuition levels or non-need based

grants. The National Commission on the Financing of Postsecondary Education concluded need-based grants for students constituted a more efficient means to expand access than direct institutional subsidies. Research also showed that need based grants have a positive impact on high school graduation rates. Other states have seen positive results from increasing need-based aid. A case study of the State of Washington’s grant programs indicated that an increase in state funds for need-based grants in 1993-1994 resulted in improved within-year persistence in public four year universities. Other research has shown that states that maintain adequate need based grant aid can equalize persistence across diverse groups.

The HAFC recommendation for general appropriations includes reductions in some areas where federal funds can be used. These reductions will have to be made up to maintain the current level of appropriations in FY11 and FY12. In FY11, \$150 million will have to be restored and in FY12, \$330 million will have to be restored. This is in addition to other appropriation increases required in FY11 to maintain current service levels or to implement statutorily scheduled funding increases, such as ERB contributions, instructional material funding replacement, and restoring Medicaid funding from the general fund instead of the tobacco settlement program fund. These add up to \$80 million to \$100 million.

PERFORMANCE IMPLICATIONS

HED collects tuition waiver data from all public postsecondary institutions; however, this data has not been released. Since this legislation focuses on students with demonstrated high academic achievement, the impacts on persistence and graduation rates are expected to be positive.

ALTERNATIVES

HED currently has regulatory authority over the competitive scholarship program, which would permit HED to make regulatory changes such as raising the current ceiling to 6 percent. According to HED, the agency “would not suggest regulatory changes that have a significant fiscal impact to New Mexico as HB 846 proposes without the support of the legislature.”

The National Merit Scholarship Program selects 15,000 finalists each year. National Merit scholarships include \$2,500 scholarships, corporate-sponsored merit scholarships, college-sponsored scholarships and other special scholarships to commended students.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

UNM and NMSU will continue to be limited to the 2.5 percent cap on granting competitive scholarships to out-of-state undergraduate students. Yet, as shown in the table, UNM currently offers over 400 of these awards and NMSU nearly 300 awards, compared to 175 at Eastern New Mexico University.

POSSIBLE QUESTIONS

1. Given the economic climate, should general fund dollars be utilized on need based financial aid for resident students instead?
2. What institutional funds and programs along with National Merit scholarships are available to fund scholarships or offer college credit to meet the goals of this program?

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3. Should the merit criteria currently specified in administrative code be specified in this legislation?
4. Is it the Legislature's intent to authorize this program for graduate students?
5. Is it the Legislature's intent to authorize this program for non-citizens? Should the participation cap of 10 percent for non-citizens currently specified in administrative code be specified in this legislation?

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