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

SPONSOR Stapleton **ORIGINAL DATE** 02/08/13 **LAST UPDATED** 02/28/13 **HB** 53

SHORT TITLE Teacher Loan Repayment Act **SB**

ANALYST Roberts

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY13	FY14	FY15	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	NFI	Indeterminate*	Indeterminate*	Indeterminate*	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

*See Fiscal Implications and Administrative Implications

SOURCES OF INFORMATION

LFC Files

Responses Received From

Higher Education Department (HED)
Public Education Department (PED)
University of New Mexico (UNM)
Eastern New Mexico University (ENMU)

SUMMARY

Synopsis of Bill

House Bill 53 would amend Chapter 21 NMSA 1978 by adding a new section to the Teacher Loan Repayment Act to make more teachers in low income, poorly-performing public schools, eligible for an educational loan payment program. The program will pay principal and interest on teacher education loans obtained from the federal government or a commercial lender. The substitute creates a new non-reverting teacher loan repayment fund in the state treasury.

More specific provisions within the bill are as follows:

- Section 4: states teacher eligibility and qualifications that include being a licensed New Mexico teacher and legal resident;
- Section 5: adds a new section to the Public School Code (Chapter 21 NMSA 1978) allowing for modification of award amounts based upon available funding and a preference for teachers from New Mexico schools; describes debts not eligible for repayment including personal loans, commercial loans and loans that exceed standard

school expense levels; requires a two-school-year service contract in a high-risk teacher position; addresses noncompliance; provides that repayment awards shall not obligate the state to the creditor; requires rule adoption to include a procedure to determine the amount of loan that will be repaid for each year of service; and provides repayment awards in periodic installments (assuming with creditor approval); and

- Section 7: creates the new non-reverting "teacher loan repayment fund" and provides for continuing appropriations.
- Section 8: authorizes the Department to cancel a teacher loan repayment contract "for any reasonable cause" deemed sufficient.

FISCAL IMPLICATIONS

New Mexico has an existing Teacher Loan for Service Program which provides for a portion of a loan to be forgiven for each year that the loan recipient practices in the profession as a licensed teacher in New Mexico (Article 21-22E).

The Higher Education Department (HED) notes that there is no appropriation proposed in this bill. To implement the bill, the Department will be required to re-allocate a portion of the student financial aid appropriation to fund this program. In FY13, the HED was appropriated $187.0 thousand in general fund for a teacher loan repayment program. The Department anticipates it would be necessary to dedicate approximately $150.0 thousand to this program initially. For FY14, House Bill 2 included $239 thousand in other revenues for the existing loan for service program.

Currently, the HED Teacher Loan-for-Service program helps defray expenses incurred in obtaining initial licensure. Upon graduation a student declares his or her intent to serve as a public service teacher in a designated shortage area in New Mexico.

Continuing Appropriations language

This bill creates a new fund and provides for continuing appropriations. The LFC has concerns with including continuing appropriation language in the statutory provisions for newly created funds, as earmarking reduces the ability of the legislature to establish spending priorities.

SIGNIFICANT ISSUES

The HED has reported in the past that loan repayment programs are the most successful when matching professionals with debt to communities needing their services. The bill will require that teachers commit to one year of service to have their educational loans paid by the state on their behalf. It will also require repayment of a loan plus the amount of any interest and penalty assessed for failure to perform the service commitment. It may be difficult for the state to achieve this considering the current earning potential of public school teachers.

The bill has the potential to require a general and other funds appropriation each year to maintain a desired level of participation. However the fiscal impact is currently unknown. The HED reports that the Department currently has similar programs in place and that no additional funding has been requested for FY14 for this program.

At the federal level, two teacher loan forgiveness/cancellation programs exist:

1. The Federal Teacher Loan Forgiveness Program allows the U.S. Department of Education to forgive a portion of qualifying teachers' federal loan obligations. To qualify, among other criteria, a borrower must work as a full-time teacher for five consecutive years in an elementary or secondary school that has been designated as a low-income school. Teachers who teach in low-income schools receive up to $17.5 thousand of forgiveness on their federal loans.

2. The Federal Perkins Loan Cancellation Program provides eligible teachers the opportunity for loan cancellation for full-time teaching at a low-income school, or for teaching in certain subject areas. Teachers qualify for cancellation of up to 100 percent of a Federal Perkins Loan if they have served full time in a public or nonprofit elementary or secondary school system as a 1) teacher in a school serving students from low-income families; 2) special education teacher, including teachers of infants, toddlers, children, or youth with disabilities; or 3) teacher in the fields of mathematics, science, foreign languages, or bilingual education, or in any other field of expertise determined by a state education agency to have a shortage of qualified teachers in that state.

Each year the PED produces a list of eligible schools for the purpose of qualifying for forgiveness or cancellation under the federal programs listed above. The criteria for inclusion on the list, is a poverty level of at least 30 percent based on the number of students qualifying for free or reduced priced lunch. The 2012-2013 list includes approximately 850 New Mexico public and private schools

The University of New Mexico (UNM) expresses concern that the bill does not specify the types of federal loans that would be repaid by the state. For instance, Pell grants or TEACH grants are both provided by the U.S. federal government, and it is questionable if a state governmental agency can pay these off. In addition, the state would have to either create a loan recovery system, or contract with a vendor, to successfully pursue delinquent loan recipients. This would add additional, unknown costs to the process for the state.

PERFORMANCE IMPLICATIONS

This bill relates to PED's strategic plan, strategic lever 4: rewarding effective educators and leaders by providing incentives for recruiting and retaining teachers to work in high need, low-income areas.

ADMINISTRATIVE IMPLICATIONS

The HED's fiscal audits, including the FY12 audit, reports a material weakness with the Department's loan collection, loan tracking, reconciliation and collections of student loan forgiveness and for service programs. While progress is being made in these programs, significant work is necessary to establish a strong, transparent, and accountable system.

The HED and PED will work in coordination to determine the ability and qualifications of each applicant to become a teacher in the program. The PED's role will include arranging for loan recipients to receive assistance in locating employment with public schools in New Mexico. The HED's role will include assessing an applicant's total teacher education indebtedness and balances in the proposed teacher loan repayment fund. Currently; however, data around school-need for specific teaching positions is not collected. A system would also have to be developed to track teachers to ensure they remain employed at the high-need school.

OTHER SUBSTANTIVE ISSUES

In 2008, an LFC program evaluation of the HED administered financial aid program found that loan repayment programs are more cost effective than loan for service programs. Loan repayment programs pose less administrative burdens for the HED, have less financial risk for the state, and provide immediate public benefit. For public school teachers, the report found that a loan repayment program could be structured to provide an incentive to teachers to move to a school with a higher percentage of low income students would assist in the state's policy goal of having more qualified teachers where they are needed most – at schools with high concentrations of students from low income families or schools in need of improvement. The report recommended the state transition a substantial portion of the appropriations for workface based financial aid programs for loan for service programs into loan repayment programs, and create a teacher loan repayment program to target state goals of having the most qualified teachers where they are most needed.

TECHNICAL ISSUES

Section 8 of the bill may propose a constitutional challenge with respect to cancelling a contract where the individual retains a benefit and the state does not receive a benefit.

To retain the Legislatures power to appropriate, on page 7, line 12, after the word "appropriate" insert "by the Legislature".

MIR/svb:blm