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FISCAL IMPACT REPORT

ORIGINAL DATE 02/14/13
 SPONSOR Payne LAST UPDATED 02/15/13 HB _____

SHORT TITLE Lottery Scholarship Requirements & Debt SB 451

ANALYST Hartzler-Toon

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY13	FY14		
	NFI	N/A	N/A

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY13	FY14	FY15		
	Unknown Increase	Unknown Increase	Recurring	Lottery Tuition Fund

(Parenthesis () Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY13	FY14	FY15	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		\$300.0	\$300.0	\$600.0	Recurring	General Fund <i>or</i> Lottery Tuition Fund

(Parenthesis () Indicate Expenditure Decreases)

Relates to Appropriation in the General Appropriation Act, Higher Education, Higher Education Department, Student Financial Aid

SOURCES OF INFORMATION

LFC Files

Responses Received From

Higher Education Department (HED)

University of New Mexico (UNM)

Responses Not Received From

Council of University Presidents

New Mexico Independent Community Colleges

New Mexico Association Community Colleges

Individual Public Institutions

SUMMARY

Synopsis of Bill

Senate Bill 451 (SB 451) changes the eligibility criteria for the Legislative Lottery Scholarship Program and makes tuition assistance offered repayable as a debt if the student fails to maintain eligibility, drops out, or fails to complete the student's educational program leading to a certificate or degree. Further, a student who receives the full four years of scholarship funding but fails to graduate in six years must pay back two semesters of scholarship assistance as a debt. The Higher Education Department (HED) is to administer the program, including the aid-to-loan program, in collaboration with institutions.

The bill's higher eligibility requirements would affect students currently receiving the legislative lottery scholarship, while the aid-to-loan component appears to impact only students eligible to receive the scholarship in fall 2013.

FISCAL IMPLICATIONS

The legislative lottery tuition fund relies on revenues from lottery sales and increasingly on fund balance to meet annual scholarship expenses. The LFC and HED project that without any changes to the scholarship program or additional revenues, lottery revenues and fund balance would be not sufficient to meet total scholarship expenses in FY14. The LFC and HED estimate an additional \$5 million to \$16 million in revenues will be needed to meet full tuition scholarships in FY14.

During the last two legislative sessions, the Legislative Education Study Committee (LESC) and the LFC have held many hearings on the legislative lottery scholarship program, options for improving program solvency, and the impacts of possible options on the recipient pool. The scholarship program is merit-based and does not consider an eligible student's financial need, though some scholarship recipients receive additional federal, state, institutional, or other merit-based and need-based aid to meet college costs. The Legislature, the HED, institutions, and others have considered program changes such as raising eligibility requirements, including higher grade point averages, heavier semester course loads, and means-testing; reducing the maximum number of scholarship semesters; and reducing the scholarship amount. Most of these options reduce the pool of eligible students, particularly disadvantaged students.

While SB 451 does not include a purpose statement, the bill appears to address lottery tuition fund solvency by restricting those students eligible to initially receive and maintain the scholarship and raising lottery tuition fund revenues due to fewer scholarship recipients and receipts from the aid-to-loan program for scholarship students.

SIGNIFICANT ISSUES

The bill raises eligibility requirements for the legislative lottery scholarship and implements an aid-to-loan program. Without the benefit of thorough agency or institutional comments on this legislation, the LFC can offer only general statements on the efficacy of the proposed changes on increasing student performance, including more timely graduation, and lottery tuition fund solvency.

Student Eligibility

Current law states that eligibility for the legislative lottery scholarship program requires that a student

- (1) attend college full-time;
- (2) be a New Mexico resident; and
- (3) completing a high school curriculum at a public or accredited private high school with a minimum 2.5 GPA on a 4.0 scale or upon receiving a graduate equivalent diploma (GED); and
- (4) enroll in one of the state's public postsecondary institutions immediately upon completing high school or earning the GED.

Once eligible, the student must earn a 2.5 GPA the first semester of college enrollment and maintain this GPA to keep the scholarship for up to four consecutive years. (Sections 21-1-4.3, 21-13-10, and 21-16-10.1 NMSA 1978.) There are slightly different enrollment criteria for individuals who enlisted and completed military service and students with disabilities.

SB 451 amends current law by

- (1) increasing the student's graduating GPA requirement to minimum 2.75 on a 4.0 scale;
- (2) adding a new academic requirement – the student must have scored at least 21 on the American College Test (ACT) or 1500 on the Scholastic Aptitude Test (SAT); and
- (3) defines full-time student as one who enrolls in 12 student credit hours, excluding remedial courses.

The state residency and immediate enrollment at a public postsecondary institution are similar to current law, as are enrollment requirements for individuals who enlisted and completed military service. Criteria applying to students with disabilities have not been changed.

A general assessment of the eligibility requirements suggests fewer students will be initially eligible and it will be more difficult for current students to maintain the scholarship over four years. Without a thorough agency response or institutional comments on SB 451, it is difficult to estimate (1) the impacts of the GPA and ACT/SAT eligibility components on the size of an initial class of legislative lottery scholarship recipients and (2) the impact of the increased minimum GPA requirement on students' continued eligibility. For a variety of reasons, it is unlikely the eligibility component requiring to 12 student credit hours or nonpayment for remedial courses has significant impacts on the size of the initial class of recipients or continuing students.

Aid-Payback Program

Senate Bill 451 would create an aid-repayment program for students who initially earn the legislative lottery scholarship but fail to maintain eligibility, drop out of school, or fail to complete a program leading to a certificate or degree within the term of the scholarship.

Under the bill, the HED would draft the scholarship application, which must include a student declaration of one's academic program and intent to complete an associate's or bachelor's degree within six years. The institution will provide the applications, ensure a student's initial eligibility and continued academic progress with the HED, and report to the HED when and for what reason a student no longer qualifies for the scholarship.

The bill is silent as to what point the lottery scholarship recipient and the HED enter a contract, but the parties enter an agreement stating that the recipient, upon breach of contract, shall repay the HED the amount of tuition assistance received, with interest. A student may breach the contract for becoming ineligible (example, failing to maintain the minimum 2.75 GPA requirement, failing to maintain residency, dropping below full-time status), dropping out of school, or failing to complete a certificate or degree program within six years. In addition, scholarship recipients who take longer than the scholarship term of four years to graduate will owe a debt of two semesters of tuition assistance. The bill states that the loan interest shall be a general rate of interest published in the Wall Street Journal. Interest on the aid to be paid back to the state shall be determined annually by the HED and shall begin to accrue when the breach of contract occurs.

While all provisions of SB 451 apply to students first eligible in fall 2013, it is unclear whether the loan payment program applies to current lottery scholarship students.

PERFORMANCE IMPLICATIONS

Studies of financial aid programs show a correlation between merit programs with high academic standards and higher graduation rates. The University of New Mexico (UNM) staff has testified before the LESC and LFC that legislative lottery scholarship recipients graduate at higher rates than those who do not receive these scholarships. Importantly, lottery scholarship recipients who demonstrate financial need graduate at higher rates than non-lottery scholarship students with similar levels of financial need. More information from the HED and other institutions may provide a more thorough review of the implications of raising scholarship requirements on the pool of eligible students and maintaining the scholarship.

The aid-to-loan program in SB 451 is complex and could involve thousands of student recipients/borrowers. The HED currently administers a number of student loan repayment and loan forgiveness programs for college and professional school graduates who provide desired services to the state. While the department has significantly improved its administration of these programs, involving hundreds of borrowers, the department's FY10, FY11, and FY12 financial audits report that the "beginning balances of loans and amount of loans receivable and corresponding loan data for all loans could not be verified sufficiently to permit an unqualified opinion to be rendered for the last three years." It appears unlikely that the HED could administer an aid-to-loan program of the size suggested in SB 451.

ADMINISTRATIVE IMPLICATIONS

The University's response recognized that institutions would assume additional administrative burdens due to increased tracking and reporting of student progress, continued eligibility, and identifying contract breaches triggering the aid-to-loan program.

It is unlikely that the department could undertake an additional loan program, particularly one involving so many aid recipient/borrowers, without incurring significant increases in operational costs for processing, tracking, loan repayment, and collections. For FY14, the LFC estimated a \$300 thousand operating increase for staff, infrastructure, and contractual services to implement the aid-to-loan program in SB 451. The HED responded that

The bill would have significant system programming involvement for [the HED] to monitor collection efforts in the bill to ensure the collection of debt owed is properly being repaid to the state.

RELATIONSHIP

SB 451 relates to a number of bills:

HB 27, Expand Lottery Scholarship Eligibility
HB 28, Lottery Scholarships at Tribal Colleges
HB 309, Lottery Scholarship Program Solvency
SB 392, Lottery Tuition Fund Distributions

TECHNICAL ISSUES

The bill could be more explicit as to which scholarship recipients, if any, are “grandfathered” under the program's current eligibility requirements, including the 2.5 GPA standard versus SB 451's higher 2.75 GPA standard.

The bill raises a number of questions regarding students who fail to maintain the scholarship but still graduate, within six years or later. These may be addressed in the bill itself, through regulation, or the HED/scholarship recipient contract.

The bill is silent as to where aid-to-loan repayments will be deposited. If solvency of the lottery tuition fund is a concern, it is suggested that aid repayments be deposited in the lottery tuition fund (6-24-23 NMSA 1978).

The bill would affect students eligible in fall 2013. It may be difficult for the HED and institutions to promulgate regulations and implement policies and procedures consistent with the bill and create the required legal documents and loan tracking programs by the 2013-14 academic year.

Neither the LFC's nor the Executive's FY14 budget recommendations reflect an increase in personal services and employee benefits and contractual services that SB 451 would likely require. The bill may be amended to clarify whether the expected increase in operating expenses should be supported by the HED's general fund appropriations or lottery tuition fund balances. If the lottery tuition fund is to be used for some operating costs, the committees of jurisdiction may wish to amend 6-24-23 NMSA 1978 to expand the purpose of the fund.

ALTERNATIVES

The University suggested that “closer tracking of student progress to degree for continued eligibility would be preferable to establishing a loan program.”

THT/svb