

**LEGISLATIVE EDUCATION STUDY COMMITTEE  
BILL ANALYSIS**

**Bill Number:** SB 657

**52nd Legislature, 1st Session, 2015**

**Tracking Number:** .198911.2

**Short Title:** Lottery Scholarship as Full Scholarship

**Sponsor(s):** Senator Michael S. Sanchez

**Analyst:** Travis Dulany

**Date:** March 9, 2015

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**Bill Summary:**

SB 657 amends sections of the *Legislative Lottery Tuition Scholarship Act* relating to qualified students to:<sup>1</sup>

- require that these students must demonstrate financial need;
- insert wording to describe the scholarship as “a full tuition scholarship”;
- expand the scholarship to eight semesters from seven semesters; and
- in addition to existing scholarship criteria, provide scholarships to students whose family’s net household income does not exceed \$75,000 (see “Technical Issues,” below).

Among its other provisions, the bill:

- reduces the annual average balance of the Lottery Tuition Fund from \$2.0 million to \$1.0 million; and
- restructures the scholarship dispersion methodology to require that, subject to appropriation by the Legislature from the Lottery Tuition Fund, the Higher Education Department (HED) must distribute to each public postsecondary educational institution an amount based on:
  - the projected enrollment at each comprehensive, research, and state educational institution of qualified students in their second through eighth semesters (see “Technical Issues,” below), including qualified students in their fifth through eighth semesters who transferred from community colleges;
  - the projected enrollment at each community college of qualified students in their second through fourth semesters; and
  - the average of in-state tuition costs charged by:
    - research institutions for each research institution;
    - comprehensive institutions for each comprehensive institution; and
    - community colleges for each community college.

Finally, other provisions in the bill add new material to require that, prior to consideration for a lottery tuition scholarship each year, a student must submit to the intended public postsecondary educational institution a completed:

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<sup>1</sup> Refer to “Background” (page 3) for eligibility requirements of a qualified student.

- lottery tuition scholarship application form developed by the public postsecondary educational institution or department; or
- Free Application for Federal Student Aid (FAFSA) provided pursuant to the federal *Higher Education Act of 1965*.

### **Fiscal Impact:**

SB 657 does not contain an appropriation.

### **Fiscal Issues:**

HED notes that calculating the fiscal impact of SB 657 may be difficult because only 77 percent of scholarship recipients complete a FAFSA. Nonetheless, the department estimates that disallowing students with an adjusted gross income (see “Technical Issues,” below) over \$75,000 could reduce payments from the Lottery Tuition Fund by approximately \$18.0 million. This amount represents approximately 27 percent of FY 14 lottery scholarship expenditures.

HED further asserts that the new language in the bill providing for “a full tuition scholarship,” as well as requirements that HED must distribute to each institution an amount based on projected enrollment, may result in insufficient funds to cover scholarships. It may be important to note, however, that the annual average balance required under Section 4 of SB 657 limits the amount that HED can distribute to postsecondary educational institutions. In the event of insufficient funds to provide full tuition scholarships for all qualified students, HED would need to either seek additional funds or develop a policy to prioritize scholarships.

With regard to the reduction in the annual average balance from \$2.0 million to \$1.0 million, HED states that the purpose of the fund balance is to account for fluctuations in tuition payments and lottery revenue, which may vary by 10 percent or more. HED asserts that this reduction in the annual average balance may result in cash flow issues within the fund.

Eastern New Mexico University (ENMU) reports that enactment of SB 657 would result in 369 of 1,135 current scholarship recipients losing their lottery scholarship eligibility at that particular institution.

### **Technical Issues:**

The inserted language on page 5, lines 17-18, limits the scholarship to students “whose family’s net household income does not exceed [\$75,000].” The sponsor may wish to consider adding language to specify that this section applies to a student whose family’s net household income does not exceed \$75,000 *per year*.

Although added language on page 5, line 1, increases the maximum number of program semesters for a qualified student from seven to eight, existing language on page 7, lines 8-13 requires that the amount distributed to each public postsecondary educational institution is to be based on the projected enrollment of qualified students in their *second through eighth semesters*, which is only seven semesters.

Both HED and ENMU suggest using the term “adjusted gross income” instead of “net household income” in order to remain consistent with FAFSA terminology.

Page 4, lines 24-25, specifies that “a qualified student *who is not a legacy student* is eligible to receive *a full* tuition scholarship...” (emphasis added). This implies that legacy students (see “Background,” below) will not receive a full tuition scholarship; however, it is unclear how scholarship award amounts will be set for legacy students if this is the case.

### **Substantive Issues:**

HED notes that, by expanding scholarship eligibility to eight semesters, students pursuing a baccalaureate degree will have up to nine semesters to complete their degree requirements (students must qualify for the scholarship in their first semester). At a four-year institution, students taking 15 credit hours each semester, as required under the scholarship program, will complete 135 credit hours in those nine semesters; however, HED reports that several postsecondary educational institutions are reducing credit-hour requirements for a four-year degree to 120 credit hours.

Conversely, however, certain professions require more than 120 credit hours. For example, Certified Public Accountant certification requires a minimum of 150 credit hours.

The HED bill analysis indicates that the addition of the eighth semester of eligibility could help students transferring from two-year institutions to four-year institutions complete their baccalaureate degrees.

### **Background:**

#### ***FY 14 Lottery Scholarship Recipients***

In FY 14, according to HED, there were a total of 32,070 Lottery Tuition Scholarship recipients among the three sectors:

- 22,687 recipients at the research institutions;
- 3,036 recipients at the four-year comprehensive colleges; and
- 6,347 recipients at the two-year independent and branch community colleges.

#### ***2014 Legislation***

Laws 2014, Chapter 80 made a number of changes to the Legislative Lottery Tuition Scholarship program, including:

- student eligibility;
- scholarship award amounts;
- a Lottery Tuition Fund annual average balance; and
- additional distributions to the Lottery Tuition Fund.

### **Student Eligibility**

Two types of students are eligible to receive the Legislative Lottery Tuition Scholarship:

- **legacy** students, who are full-time resident students who had received the scholarship for three or more semesters by the end of FY 14 under the prior statutory provisions of the scholarship; and

- **qualified** students, who must either graduate from a public or accredited private New Mexico high school or receive a High School Equivalency Credential while maintaining residency in New Mexico and:
  - either:
    - immediately upon graduation or receipt of a credential be accepted for entrance to and attend a public postsecondary educational institution; **or**
    - within 120 days of completion of a high school curriculum or receipt of a High School Equivalency Credential begin service in the US Armed Forces and within one year of completion of honorable service or medical discharge from the service, attend a public postsecondary educational institution; **and**
  - successfully complete the first semester at a public postsecondary educational institution with a grade point average (GPA) of 2.5 or higher during the first semester of full-time enrollment.

Legacy students may receive the scholarship for a total of eight semesters, provided that the student:

- maintains residency in New Mexico;
- maintains a GPA of 2.5 or higher; and
- completes 12 or more credit hours per semester.

Qualified students may receive the scholarship for a total of seven semesters provided that the student:

- maintains residency in New Mexico;
- maintains a GPA of 2.5 or higher; and
- completes:
  - 15 or more credit hours if the student is attending a four-year public postsecondary educational institution; and
  - 12 or more credit hours if the student is attending a two-year public postsecondary educational institution.

### Scholarship Award Amounts

The 2014 legislation requires the following:

- prior to June 1 each year, based on the amount appropriated from the Legislature and on the projected enrollment at all public postsecondary educational institutions, HED must:
  - determine the total amount of money available for all tuition scholarships for qualified students;
  - determine the uniform percentage by which to calculate tuition scholarships for qualified students attending any public postsecondary educational institution; and
  - notify all public postsecondary educational institutions of such determinations made by HED; and

- in determining distribution and award amounts for the tuition scholarship program, HED must:
  - maintain the minimum fund balance;
  - distribute to all public postsecondary educational institutions an amount not to exceed the remaining balance in the fund; and
  - distribute to each public postsecondary educational institution an amount based on:
    - the projected enrollment at each comprehensive, research, or state educational institution of qualified students in their second through eighth semesters, including qualified students in their fifth through eighth semesters who transferred from a community college;
    - the projected enrollment at each community college of qualified students in their second through fourth semesters; and
    - a uniform percentage of the average of in-state tuition costs charged by:
      - ✓ research institutions for each research institution;
      - ✓ comprehensive institutions for each comprehensive institution; and
      - ✓ community colleges for each community college.

Although the language in statute requires that HED determine, prior to June 1 of each year, the uniform percentage by which to calculate scholarships for students, HED appears to have determined award amounts on a semester-by-semester basis for FY 15. For fall 2014, students received scholarships equal to 100 percent of the average tuition costs among the different types of institutions; for spring 2015, students are receiving 95 percent of these average tuition costs.<sup>2</sup>

The sector average tuition costs for academic year 2014-2015 are:

- \$2,519.42 for research institutions;
- \$1,570.86 for comprehensive institutions; and
- \$643.41 for community colleges.

#### Lottery Tuition Fund Annual Average Balance

The *Legislative Lottery Tuition Scholarship Act* requires that the Lottery Tuition Fund must maintain an annual average balance of \$2.0 million.

#### Additional Distributions to the Lottery Tuition Fund

The 2014 legislation:

- appropriated \$11.0 million from the Student Financial Aid Fund of HED to the Lottery Tuition Fund for expenditure in FY 14 and subsequent fiscal years; and
- provided for, from July 1, 2015 to July 1, 2017, a distribution of 39 percent of the net receipts attributable to the *Liquor Excise Tax* to be made to the Lottery Tuition Fund.

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<sup>2</sup> Several institutions have indicated that they will cover the remaining 5.0 percent not covered by the Legislative Lottery Tuition Scholarship.

## ***Related Background***

Created by legislation enacted in 1996, the Legislative Lottery Scholarship is a renewable award granted to qualified students beginning in their second semester at a public postsecondary institution in New Mexico. The scholarship covers the cost of tuition only. Students are responsible for additional educational expenses such as student fees, course materials, and housing.

Under the newly enacted *Legislative Lottery Tuition Scholarship Act*, a student must:

- maintain residency in New Mexico;
- have graduated from a public or accredited private New Mexico high school or have obtained a New Mexico High School Equivalency Credential while maintaining New Mexico residency;
- enroll full-time (in at least 15 credit hours, or 12 credit hours for legacy students and community college students) at an eligible New Mexico postsecondary educational institution immediately upon graduation; and
- attain and maintain a GPA of at least 2.5.

State law also provides for specific accommodations with regard to:

- students with disabilities; and
- individuals who either immediately enlist in, or have recently departed from, the US Armed Forces.

## **Committee Referrals:**

SEC/SFC

## **Related Bills:**

SB 286 *Forfeited Lottery Prizes to Tuition Fund*

SB 521 *Lottery Scholarships for Home School*

SM 108 *Tuition Scholarship Amounts & Notices*

HB 375 *Branch Colleges in Tuition Scholarship*

HB 429 *Lottery Scholarships for Home School*

HB 460 *Study Lottery Tuition Recipient Mentoring*

HM 93 *Year-Round Legislative Lottery Scholarship*

HM 112 *Tuition Scholarship Amounts & Notices*