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FISCAL IMPACT REPORT

ORIGINAL DATE 3/7/15

SPONSOR Sanchez, M **LAST UPDATED** _____ **HB** _____

SHORT TITLE Lottery Scholarship As Full Scholarship **SB** 657

ANALYST Chavez

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY15	FY16	FY17	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
		≤(\$34,590.1)	≤(\$34,590.1)	≤(\$69,180.2)	Recurring	Lottery Tuition Fund (Reduced Expenditures)
Total		Unknown – Negative impact			Recurring	Lost Institution Tuition Revenue

(Parenthesis () Indicate Expenditure Decreases)

Duplicates, Relates to, Conflicts with, Companion to
 Duplicates Appropriation in the General Appropriation Act
 Relates to Appropriation in the General Appropriation Act

SOURCES OF INFORMATION

LFC Files

Responses Received From

Higher Education Department (HED)
 Eastern New Mexico University (ENMU)
 Council of University Presidents (CUP)
 New Mexico Independent Community Colleges (NMICC)

SUMMARY

Synopsis of Bill

Senate Bill 657 amends the Legislative Lottery Tuition Scholarship Act (LLTSA) to add financial need as a qualification to be eligible for a lottery tuition scholarship, defined as a student whose family's net household income does not exceed \$75 thousand. The bill also changes lottery scholarship award amounts from a percentage of available funds, as determined by HED, to the full amount of the average sector tuition. The bill does not address potential revenue shortfall if the demand for the scholarship exceeds available revenues. Students are required to submit a Free Application for Federal Student Aid (FAFSA) or a lottery tuition

scholarship application form developed by a public post-secondary institution or HED. The bill increases availability of the lottery scholarship for eligible students from seven to eight semesters. The bill changes the allocation procedures of the lottery tuition fund from HED determining award amounts to the Legislature appropriating funds and HED distributing the appropriation. It also removes the requirement that HED inform institutions of award levels by June 1st. Finally, the bill reduces the minimum Lottery Tuition Fund balance from \$2 million to \$1 million.

FISCAL IMPLICATIONS

SB 657 defines a student having financial need as one whose family’s net household income does not exceed \$75 thousand. However, agency analysis for the bill notes that the Expected Family Contribution (EFC) or Average Gross Income (AGI) provides a more accurate measure for determining a family’s ability to contribute to the costs of education. AGI is defined in the US income tax system as an individual's total gross income minus specific deductions. EFC is a measure of a family’s financial strength and is calculated according to a formula established by law and includes a family’s taxed and untaxed income, assets, and benefits, as well as family size. For the purposes of this analysis LFC staff use AGI, as provided by HED.

HED provided LFC with available financial information for students currently receiving the lottery scholarship. While the LLSP does not currently require a FAFSA, approximately 77 percent of lottery scholarship recipients completed one for the 2014-2015 school year.

Assuming those students who do not complete a FAFSA fail to do so because they do not need more financial aid, LFC estimates the total number of awards that would no longer be granted would be 15,531, or nearly 44 percent of all scholarships awarded. Using this estimate, the savings to the lottery tuition fund for FY15 would have been \$34.6 million. LFC assumes that savings to the fund would be similar for FY16. However, this is a conservative estimate as it is possible that some students who have not filed a FAFSA may still be eligible for the LLSP under the changed requirements. Measuring only those students who filed a FAFSA and have a higher than \$75 thousand AGI, savings to the Lottery Tuition Fund would be approximately \$18.5 million; additionally, some of these savings could be mitigated by the addition of an eighth semester of eligibility.

Students as Measured by Adjusted Gross Income (AGI), FY15

(dollars in thousands)

	≤ \$25K AGI	\$25K -\$50K AGI	\$50K -\$75K AGI	≥\$75K AGI/ No FAFSA
Research	4,150	3,939	2,517	12,277
Comprehensive	699	675	503	1,159
Two-Year	2,163	1,360	735	621
Total No. of Students	7,012	7,012	5,974	15,531
Total FY15 Avg. Sector Tuition	\$18,279.7	\$11,983.7	\$7,699.8	\$34,590.1

Source: HED

Savings to the Lottery Tuition Fund also reflects lost potential revenue for institutions, which may be negatively impacted by the bill. However, it is difficult to estimate how many students would choose to pay full tuition or find other sources of aid, and how many students would drop out or attend other institutions. As an example, ENMU analysis estimates an annual loss of approximately \$566 thousand of tuition revenue.

Finally, the bill requires all eligible students to receive a full tuition scholarship defined as the average tuition of each sector. However, the bill does not provide an additional source of revenue if demand for the scholarship should exceed revenue.

SIGNIFICANT ISSUES

Current funding for the LLSTP does not fully support scholarships at the average tuition rate for research universities, comprehensive colleges, and two-year colleges. This bill significantly reduces the cost of the lottery tuition scholarship, although the exact savings are difficult to calculate as not all students currently submit a FAFSA. This bill would change the LLSTP from a merit-based scholarship to a merit *and* financial need scholarship by limiting awards to those students whose families have a net income of \$75 thousand or below. (See Technical Issues.)

SB 657 provides for a maximum of eight semesters of scholarship eligibility, which gives students pursuing a baccalaureate degree at a four-year institution a total of nine semesters, or 135 credit hours to complete their degree. HED notes that increasing the number of semesters an eligible student may receive a lottery scholarship from seven to eight may be unnecessary, as institutions have been revising their degree plans to require only 120 credit hours, or eight semesters of full time study. Additionally, research shows that students at four-year institutions who take higher class loads per semester not only have faster completion rates, but are more likely to complete at all.

However, HED also notes students transferring from a two-year college to a four-year college may only have 48 earned credit hours at the time of transfer, meaning they would need a minimum of 72 credit hours to complete their degree. Adding an eighth semester of eligibility may help transfer students complete their baccalaureate degree fully supported by the scholarship.

HED also notes concern that the requirement that the department disburse funds to institutions of higher education based on projected enrollment (page 7, Subsections A and B) may lead the department to be obligated to make up the difference for any shortfall from other operational funds to meet the requirements of the bill.

The Legislature may wish to clarify procedures for making awards when the Lottery Tuition Fund is not sufficient to cover all eligible recipients.

HED also expresses concern that the reduction to the minimum fund balance to \$1 million may not be sufficient to account for fluctuations in the tuition repayment schedule and receipts of lottery ticket revenue, which may vary by 10 percent or more monthly. HED notes reducing the statutory fund balance may result in cash flow issues within the fund as the fiscal year ends and spring distributions are made.

PERFORMANCE IMPLICATIONS

The Council of University Presidents (CUP) notes the state's universities have made steady and significant performance gains. From FY13 to FY14 four-year institutions increased the number of degrees awarded by 590 to 11,729, a 5.3 percent increase. CUP analysis states that precluding students who would otherwise be eligible from receiving a Lottery Scholarship may disrupt this improving performance momentum.

ADMINISTRATIVE IMPLICATIONS

It appears that under the bill the Legislature would appropriate scholarships and the department would distribute appropriated funds to institutions.

TECHNICAL ISSUES

Financial Eligibility

Section 2, Subsection C(4) on page 5, lines 17 through 18, a qualification is added providing a student's family net household income not exceed \$75 thousand. However, net income is difficult to quantify using tax returns or the FAFSA, and does not factor in other sources of income, such as interest or disability payments, or family size. More common measurements are Adjusted Gross Income (AGI) and Estimated Family Contribution (EFC). The Legislature may wish to adopt one of these more common metrics to determine eligibility.

Award Setting

Section 2A on page 4, lines 7 through 13, maintains that institutions "shall award tuition scholarships in department-approved amounts." Changes to Section 21-21N-4 NMSA 1978 (pages 6-7) and Section 21-21N-6 NMSA 1978 (page 8, lines 24 through 25 and page 9, lines 1 through 2) under the bill both remove HED's authority to set scholarship award amounts. The Legislature may wish to clarify the language on page 4 to ensure uniform procedures for allocating lottery tuition scholarships.

While Section 2A of the bill on page 4, line 7 states that awards shall be made "to the extent that funds are made available", Section 3 of the bill on page 6, line 9 makes awards subject to appropriation by the Legislature. This would seem to indicate that the amount of awards would be determined by the Legislature, rather than the department.

However, HED analysis notes inconsistencies within the bill regarding the process of granting awards:

Section 2A preserves existing language that institutions shall award scholarships "in department-approved amounts". However Section 2B(2) indicates students are to receive full tuition scholarships, and Section 3 strikes all existing language giving NMHED the authority to set the proportion (percentage) of tuition that can be supported by the Lottery Tuition Fund. This raises questions as to the procedure of determining the proportion of tuition if the Legislature fails to appropriate sufficient funding for full tuition. This language is problematic since Section 5 strikes all language allowing NMHED to calculate award amounts through promulgation of rule.

OTHER SUBSTANTIVE ISSUES

The bill as currently written does not contain any “legacy” provisions for current students receiving the scholarship who would no longer be qualified students under the bill. CUP notes this would take a large population of students from nearly full tuition coverage to zero tuition coverage. This may create unintended consequences for students or universities who may have to significantly alter their education plans in a short period of time.

CUP adds the decision to attend or not attend would most likely be most challenging for students of families just above the bright-line figure of \$75 thousand of net household income, and may eliminate many working families from this program.

CUP also notes full-time students who establish substantial financial need through the FAFSA currently receive help in the form of Pell grants.

ALTERNATIVES

The Legislature may wish to consider establishing a legacy provision for students currently receiving the lottery tuition scholarship to ease the transition to the new provisions of the bill for both students and institutions.

POSSIBLE QUESTIONS

Will students still be eligible to receive full tuition scholarships when funds are no longer available? If so, what will the source of supplemental funds to support scholarships be?

Will students who currently receive the scholarship but who would no longer qualify for financial reasons be eligible to receive a lottery tuition scholarship beginning in the 2015-2016 school year?

KC/aml