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**LEGISLATIVE EDUCATION STUDY COMMITTEE**  
**BILL ANALYSIS**  
**53rd Legislature, 1st Session, 2017**

<b>Bill Number</b>	<u>HB344/aHSIVC</u>	<b>Sponsor</b>	<u>Sariñana, Roybal Caballero, &amp; Trujillo, CH</u>
<b>Tracking Number</b>	<u>.206732.3</u>	<b>Committee Referrals</b>	<u>HSIVC/HEC</u>
<b>Short Title</b>	<u>Lottery Scholarship Full &amp; Need-Based</u>		
<b>Analyst</b>	<u>Rogne</u>	<b>Original Date</b>	<u>2/20/17</u>
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**BILL SUMMARY**

Synopsis of HSIVC Amendment

The House State Government, Indian and Veterans' Affairs Committee amendment to HB344 changes provisions for legacy students. A legacy student would be defined as a full-time resident who has received one or more program semesters of the legislative lottery tuition scholarship by the end of FY17. The amendment reduces the maximum number of program semesters a legacy student can receive from eight to seven and changes the requirements for a legacy student to maintain eligibility. A legacy student would be eligible to receive a lottery tuition scholarship provided a legacy student:

- attends a four-year, public postsecondary educational institution and successfully completes 15 or more credit hours for each program semester;
- attends a two-year, public postsecondary educational institution and successfully completes 12 or more credit hours for each program semester; and
- maintains a grade-point average of 2.5 on a 4.0 scale.

In current law, legacy students must complete 12 or more credit hours for each program semester, regardless of the type of postsecondary educational institution they attend.

Synopsis of Original Bill

House Bill 344 (HB344) amends the Legislative Lottery Tuition Scholarship Act, Section 21-21N NMSA 1978, to limit the lottery tuition scholarship to students demonstrating financial need based on the expected family contribution (EFC) as determined by the free application for federal student aid (FAFSA). This bill would also amend the definition of "legacy student" to extend through the end of FY17. Lastly, HB344 would require a student to submit an application prior to consideration for the lottery tuition scholarship.

**FISCAL IMPACT**

HB344/aHSIVC does not contain an appropriation.

HB344/aHSIVC would have a fiscal impact; however, according to the Higher Education Department (HED), estimating the fiscal impact is difficult because only 78 percent of lottery scholarship recipients complete a FAFSA. The potential impact of this bill would also be affected by changes in enrollment trends and adjustments to tuition rates in FY18. Moreover, HED does not track the housing status of students and cannot differentiate between at-home and independent or on-campus students, complicating the estimate of the cost of attendance variable. Actual savings to the lottery tuition fund could vary widely from the cost estimate provided on the table below.

According to HED, disallowing students with an EFC/cost of attendance (COA) ratio greater than 150 percent could reduce the cost of full tuition payments from the fund by approximately \$12 million to \$15 million. However, because of the large number of recipients that do not presently have a FAFSA on file along with the difficulty in quantifying the COA variable, the exact impact is difficult to ascertain.

The following table shows, by institution, the estimated 150 percent EFC threshold; FY16 scholarship participants; estimated number of students eligible under the provision of HB344; and estimated cost based on FY17 sector average tuition rates.

Institution	Estimated 150% EFC/COA threshold	FY2016 recipient count	Eligible under EFC Threshold	Percent Eligible under EFC Threshold	Estimated Cost - 100% FY17 tuition
NMIMT	\$25,800	1,069	761	71%	\$2,084,300
NMSU	\$21,600	6,622	5,153	78%	\$14,114,700
UNM	\$24,900	14,008	10,748	77%	\$29,437,700
ENMU	\$20,100	1,527	1,212	79%	\$2,213,300
NMHU	\$19,800	480	438	91%	\$799,900
NNMC	\$22,700	206	193	94%	\$352,000
WNMU	\$22,400	328	290	88%	\$529,700
ENMU-Roswell	\$13,600	244	196	80%	\$134,200
ENMU-Ruidoso	\$17,300	31	31	100%	\$21,300
NMSU-Alamogordo	\$20,900	177	154	87%	\$105,300
NMSU-Carlsbad	\$20,900	189	164	87%	\$112,800
NMSU-Dona Ana CC	\$20,900	1,057	1,004	95%	\$688,900
NMSU-Grants	\$20,900	58	54	93%	\$36,900
UNM-Gallup	\$19,500	81	72	88%	\$49,100
UNM-Los Alamos	\$16,800	79	54	68%	\$36,900
UNM-Taos	\$19,500	95	86	91%	\$59,300
UNM-Valencia	\$19,200	321	285	89%	\$195,200
Central NM CC	\$21,200	2,070	1,800	87%	\$1,235,000
Clovis CC	\$15,700	95	86	91%	\$59,200
Luna CC	\$13,100	76	72	95%	\$49,700
Mesalands CC	\$12,600	32	26	81%	\$17,700
NM Junior College	\$10,500	164	101	62%	\$69,500
San Juan College	\$13,700	398	303	76%	\$207,600
Santa Fe CC	\$22,700	284	256	90%	\$175,900
				Grand Total	\$52,786,100

Source: HED

HED noted that assuming \$41 million in revenue to the lottery tuition fund in FY18, the need-based threshold enacted in HB344/aHSIVC may allow the fund to increase sector average tuition. The full impact to the scholarship fund would be quantified by analyzing the draw-down requests submitted by institutions to HED one year after implementation. Since the legacy provisions within HB344/aHSIVC allow high-EFC students to continue to receive the scholarship, total cost savings would take two to three years to be realized as legacy students phase out of the scholarship.

## SUBSTANTIVE ISSUES

HB344/aHSIVC would amend the Legislative Lottery Tuition Scholarship Act to limit the scholarship to qualified students whose EFC is less than 150 percent of the total COA as calculated by financial aid officers of public postsecondary educational institutions. The 150 percent threshold in HB344/aHSIVC ensures that students and families with modest incomes (low EFC) are eligible for the scholarship while excluding high-income, high-EFC students. However, the award is still based on the sector tuition average, meaning that tuition support would be established by the Secretary at HED based on sector average tuition, enrollment, and available resources. Tuition and/or enrollment increases may erode the cost savings over time.

HB344/aHSIVC defines legacy students as students who have received one or more program semesters of lottery tuition scholarship by the end of FY17. The purpose is to hold some students currently receiving the scholarship harmless if their EFA/COA threshold exceeds 150 percent. Freshman and sophomore students currently receiving the scholarship would be required to show financial need pursuant to HB344/aHSIVC.

This bill would add a new section to the Legislative Lottery Tuition Scholarship Act requiring students to submit an application developed by the postsecondary institution or HED, or a FAFSA, to their intended public postsecondary educational institution.

HED noted that HB344/aHSIVC Section 1-I adds language to the act that a qualified student must demonstrate financial need. Federal qualifications for student aid are based upon the FAFSA which sets the EFC for each student and is independent of the institution, while the COA is unique to the institution and varies depending on a student's housing status (i.e., living at home, on-campus, or living independently). The EFC is based not only on income but includes investments and other assets in the calculation. Financial aid officers at the postsecondary institutions rely on the EFC and cost of attendance data reported on the FAFSA to calculate need-based aid for each student. Financial aid officers at postsecondary institutions compare the EFC and COA for each student when packaging financial aid. If the cost of attendance exceeds the EFC, then the student is eligible for need-based aid such as Pell Grants and subsidized loans.

The need-based requirement of HB344/aHSIVC may cause shifts in enrollment and/or housing status which presently are impossible to predict. Some students may find themselves eligible for tuition scholarships at one institution but ineligible at another. In addition, some students may opt to live independently or on-campus if they find they are excluded from scholarship eligibility if they live at home. Students and families may face difficulties in determining their eligibility for the scholarship. However if the student identifies intent to attend a postsecondary institution on the FAFSA, applies, and is accepted, the institution will prepare an award letter notifying the student of their financial aid package prior to enrollment.

**FAFSA and Undocumented Students.** HB344/aHSIVC requires students to complete a FAFSA, which is used to determine a family's EFC or a department-approved application in lieu of the FAFSA. Undocumented students cannot file an electronic FAFSA for the purpose of calculating EFC but can submit a paper FAFSA to the financial aid office at their institution. The financial aid officers would be responsible for manually calculating these students' EFC.

The purpose of the legislative lottery tuition scholarship is to increase access to postsecondary education, reduce financial burden on students, and increase educational attainment in New Mexico. According to *Moving Beyond Access: College Success for Low-Income, First-*

*Generation Students*, published by the Pell Institute, today’s four-year college graduates will earn nearly \$1 million more over their working lives than those who only receive a high school diploma. Research has shown that increases in financial aid, and particularly grants and scholarships, raise the likelihood that first-generation students will persist in college. It is in New Mexico’s interest to increase the number of students who enter college and earn degrees, particularly baccalaureates.

**Current Status of the Legislative Lottery Tuition Scholarship.** The legislative lottery tuition scholarship is currently funded by 30 percent of lottery ticket sales. Since 2009, the cost of tuition scholarships has outpaced revenues from ticket sales; as a result, the year-end balance of the lottery tuition fund has declined. According to the Legislative Lottery Scholarship Report published by HED in December 2016, the fund paid 90 percent of sector average tuition in FY16. Tuition payments were reduced from the FY14 peak of \$66 million to \$58.2 million in FY16. A summary of the FY16 lottery tuition fund activity can be found below:

<b>FY16 Lottery Tuition Fund Activity Summary</b>	
<b>Cash Balance Beginning FY16</b>	\$3,402,138
NM Lottery Authority Revenues	\$45,936,991
Liquor Excise Tax Revenue	\$14,626,920
TRD Voluntary Contributions, Other Misc. Revenue	\$11,203
<b>Subtotal FY15 Revenues</b>	\$60,575,114
Fall 2014 Lottery Scholarship Payments	(\$26,733,244)
Spring 2015 Lottery Scholarship Payments	(\$31,437,309)
FY15 Delayed Payment	(\$3,587,324)
<b>Subtotal FY16 Expenditures</b>	(\$58,170,533)
<b>Cash Balance Ending FY16</b>	\$2,219,375
	Source: SHARE Financials

The lottery tuition scholarship fund has experienced strain due to an increase in students’ claiming the scholarship. In FY16 there was a total of 29,143 lottery scholarship recipients compared with 16,168 in FY00. Attachment A depicts FY16 student headcount and lottery scholarship recipients.

For FY16 and FY17, 39 percent of the liquor excise tax revenue is directed to the lottery tuition fund, pursuant to subsection C of 7-1-6.40 NMSA 1978. However, the lottery tuition fund’s liquor excise tax revenue enacted in Laws 2014, Chapter 80 (SB347) will sunset June 30, 2017.

Laws 2014, Chapter 80 also made changes to student eligibility criteria. Some of these changes were explicitly specified within the legislation, and some in additional rules promulgated by HED and published in 5.7.20 NMAC. Current eligibility criteria are summarized below:

- Students must maintain continuous enrollment, not including summer semesters, and maintain a 2.5 cumulative GPA on a 4.0 scale;
- For students who have less than three semesters of scholarship award at the end of FY14 (non-legacy students), the credit hour requirement has changed from 12 credit hours per semester to 15 credit hours;

- Students may receive a maximum of three semesters of the scholarship at a two-year institution, and a maximum of seven semesters if enrolled at a research or comprehensive institution. Students with documented disabilities may maintain eligibility with a reduced course load of a minimum of six credit hours per semester;
- For these students the maximum number of award semesters is increased to seven semesters at a two-year institution and 14 semesters at a four-year institution; and
- Qualified students with exceptional mitigating circumstances may be allowed a probationary semester, as determined by the institution's financial aid officer.

## **ADMINISTRATIVE IMPLICATIONS**

HED would promulgate rule to carry out the directives contained in HB344/aHSIVC. According to HED, financial aid officers at the public postsecondary institutions would be responsible for the collection of FAFSA data and computing eligibility for the scholarship when packaging financial aid.

HED also noted student enrollment trends are volatile and difficult to assess in the long term. While the fiscal year budget is determined in advance of the fall semester, enrollment changes in the fall semester may affect the availability of funds for the spring term. In the event the lottery tuition fund balance was insufficient to pay the estimated sector average tuition, HED would be required to request a special/supplemental appropriation as part of its annual budget request to address the shortfall.

According to the University of New Mexico (UNM), limiting the lottery tuition scholarship to students with need will likely negatively impact the state's ability to attract many highly qualified students to postsecondary institutions. Students with high levels of preparation and various levels of need benefit from the current program. New Mexico also gains from the investment due to more prepared high school graduates staying in the state and graduating from college.

UNM also noted student need is not necessarily an equitable evaluation when there are so many possible costs of attendance. Most importantly, this change eliminates 3,400 students out of 6,400 students at UNM who received the award in fall 2016. A large number of those students that would no longer be eligible have high need for financial support.

According to Western New Mexico University (WNMU), allowing students to complete an application developed by a postsecondary educational institution addresses the issue of Deferred Action for Childhood Arrivals (DACA) and undocumented students as long as the application does not require them to put their status in writing. WNMU also noted HB344/aHSIVC grandfathered in anyone who has had their scholarship one or more semesters by the end of this year, so no one would lose it part way through. Lastly, WNMU stated that the cap of an EFC at 150 percent of the total COA would cover "pretty much all" of WNMU students.

Eastern New Mexico University (ENMU) noted that their preference is for the lottery tuition scholarship to remain in its current form. However, in the event that revenues are not available to support the lottery scholarship, ENMU is supportive of changing scholarship guidelines so that the program is directed toward students demonstrating financial need.

**RELATED BILLS**

Conflicts with HB194, Lottery Scholarship Full & Need-Based, a bill which makes the lottery tuition scholarship a full scholarship awarded based on financial need.

Relates to HB237/HTRCS, Liquor Tax to Lottery Scholarship Fund, a bill providing for the extension of the liquor excise tax revenues to the lottery tuition fund and reduction of the percentage of distribution to 30 percent.

Relates to HB250/HBICS/aHFI#1, Lottery Employee Bonuses & Unclaimed Prizes, requires unclaimed and forfeited prizes to be paid into the lottery tuition fund and ties the amount of bonuses paid to lottery employees and vendors to the amount of ticket revenues delivered to the lottery tuition fund.

Relates to SB192/aSFC, Transfer of Lottery Funds, a bill amending the New Mexico Lottery Act to eliminate the requirement to transfer monthly at least 30 percent of gross revenue from lottery sales to the lottery tuition fund and adding in its place the requirement to transfer all net revenue to the lottery tuition fund.

Conflicts with SB276, Lottery Scholarship Awards & Applications, a bill amending the scholarship to include differentiated awards depending on the type of postsecondary educational institution and the length of student attendance.

**SOURCES OF INFORMATION**

- LESC Files
- University of New Mexico
- Western New Mexico University
- Eastern New Mexico University
- The Pell Institute
- Higher Education Department

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FY16 Student Headcount and Lottery Scholarship Recipients			
Institution	Student Headcount	Lottery Scholarship Recipients	Scholarship Recipients of Percentages of Total Students
NM Tech	2,530	1,069	42.3%
NMSU	17,931	6,486	36.2%
UNM	31,542	13,956	44.2%
<b>Research Sector Total</b>	52,003	21,511	41.4%
ENMU	8,008	1,526	19.1%
NMHU	4,346	484	11.1%
NNMC	1,489	206	13.8%
WNMU	4,385	328	7.5%
<b>Comprehensive Sector Total</b>	18,228	2,544	14.0%
ENMU-RO	3,738	246	6.6%
ENMU-RU	1,121	31	2.8%
NMSU-AL	3,238	82	2.5%
NMSU-CA	3,257	118	3.6%
NMSU-DA	10,912	888	8.1%
NMSU-GR	1,787	29	1.6%
UNM-GA	3,201	87	2.7%
UNM-LA	1,935	79	4.1%
UNM-VA	3,536	314	8.9%
CNM	38,109	2,066	5.4%
CCC	5,964	96	1.6%
LCC	2,045	76	3.7%
MCC	1,336	31	2.3%
NMJC	4,430	165	3.7%
SJC	11,612	405	3.5%
SFCC	9,124	285	3.1%
NMMI	631	0	0.0%
<b>Community College Sector Total</b>	108,430	5,088	4.7%
<b>Grand Total All Sectors</b>	178,661	29,143	16.3%
			Source: HED