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

Bill Number	<u>HB425</u>	Sponsor	<u>Dow</u>
Tracking Number	<u>.206862.3</u>	Committee Referrals	<u>HEC/HAFC</u>
Short Title	<u>Legislative Lottery Tuition Loan for Service</u>		
Analyst	<u>Rogne</u>	Original Date	<u>2/22/17</u>
		Last Updated	<u></u>

BILL SUMMARY

Synopsis of Bill

House Bill 425 (HB425) creates the Legislative Lottery Tuition Loan for Service Act to replace the legislative lottery tuition scholarship. Students would be required to repay the tuition loans with public service employment. Public service is defined as full-time employment within New Mexico with an 501(c)(3) organization or a federal, state, local, or tribal government or political subdivision.

FISCAL IMPACT

This bill does not contain an appropriation.

The fiscal impact to the lottery tuition fund is unknown.

According to the Higher Education Department (HED), the fiscal impacts to the department would be significant. Loan tracking systems would need to be deployed in order to track upward of 20 thousand loan accounts. The exact administrative costs are unknown at this time but would likely require addition of a minimum 4 full-time employees (FTE) to service the accounts. HED's current loan servicing system would require evaluation to gauge its ability to accommodate the increased account load and would require significant upgrades or replacement. These expenses would incur a recurring cost to the general fund, estimated at \$250 thousand annually. Costs would be incurred in FY17 to hire additional staff and upgrade HED's Financial Aid loan servicing system, estimated at \$50 thousand.

SUBSTANTIVE ISSUES

Many provisions of the Legislative Lottery Tuition Loan for Service Act would mirror provisions of the Legislative Lottery Tuition Scholarship Act. The most notable exception is that qualified students would be required to pay back their tuition loans instead of receiving a tuition scholarship. Qualified students would be able to begin receiving the tuition loans for a maximum of seven program semesters beginning in FY18.

Qualified students would be required to file a declaration of intent to provide public service in New Mexico with HED prior to approval for a tuition loan. Upon completion of six months of public service in New Mexico, a qualified student would receive one year of tuition loan forgiveness. However, if the tuition loan recipient works full time for a for-profit employer in New Mexico or in the uniformed services, the loan would have a 3 percent interest rate; if the recipient works outside of New Mexico and not in the uniformed services, a 10 percent interest rate. Loans for recipients who do not complete their education would become due immediately; HED would work with the postsecondary institution to establish repayment terms. Loans would not accrue interest until HED, working with the postsecondary institution, determines the recipient terminated their education or failed to fulfill the obligation to provide public service in New Mexico, and cancels the recipient's lottery tuition loan for service contract.

HB425 requires HED to provide oversight for the lottery tuition loan for service in the same manner as the legislative lottery tuition scholarship, but also adds responsibilities. HB425 would require HED to promulgate rules setting forth explicit criteria for student qualifications and continuing eligibility, calculating the tuition loan award amount for the Legislative Lottery Tuition Loan for Service Act, and establishing guidelines for the administration of the program. HED would also be required to report annually on the status of the fund and student participation data to the Legislative Finance Committee and the Department of Finance and Administration.

HED would administer the lottery tuition loan for service fund created by HB425. The fund would consist of transfers from the lottery tuition fund, income from the investment of the fund and gifts, grants and donations to the fund. Transfers from the lottery tuition fund would be 50 percent of the distribution to the lottery tuition fund from the New Mexico lottery authority. The New Mexico Lottery Authority is currently required to transmit at least 30 percent of gross revenues of the previous month pursuant to Subsection B of Section 6-24-24 NMSA 1978. The lottery tuition loan for service fund would be required to maintain an annual average balance of \$2 million.

HB425 would also end the provisions of the Legislative Lottery Tuition Scholarship Act with the last group of qualified students graduating prior to June 30, 2017.

The effective date of these provisions is July 1, 2017.

The University of New Mexico (UNM) expressed several concerns with HB425. UNM noted that recipients who do not meet the obligations for various reasons would suffer extra penalties on top of already difficult circumstances. In addition, UNM noted these provisions could lead to students choosing not to participate who could otherwise benefit from the lottery scholarship and productively contribute to the state of New Mexico.

Eastern New Mexico University (ENMU) does not support HB425. ENMU noted this proposed legislation does not comply with the original intent of the lottery scholarship program.

Central New Mexico Community College (CNM) shared concerns expressed by UNM and ENMU. In addition, CNM noted New Mexico has long struggled with diversifying its economy and is currently suffering from a significant outmigration of adults. Federal student loans are already eligible for forgiveness for students working in public service. CNM suggests incentivizing loan forgiveness for college graduates from all programs as long as the student maintains residency in New Mexico for an amount of time equal to their lottery loan award.

ADMINISTRATIVE IMPLICATIONS

The Financial Aid Division at HED administers the Legislative Lottery Tuition Scholarship. Adding a service component to a scholarship program would have significant administrative impact and concurrent costs. The department would be required to restructure reporting requirements from the public postsecondary institutions.

TECHNICAL ISSUES

Numbers 1 and 2 of Subsection B of Section 7 of HB425 refer to employment in the “uniformed services,” however, uniformed services is not defined. A definition would clarify applicable uniformed services professions.

Legacy students are not defined in the Legislative Lottery Tuition Loan for Service Act. A definition would clarify trajectories for students currently receiving the legislative lottery tuition scholarship who do not graduate prior to June 30, 2017.

OTHER SIGNIFICANT ISSUES

The U.S. Department of Education already provides the Public Service Loan Forgiveness Program that forgives the remaining balance on direct federal loans after 120 qualifying monthly payments under a qualifying repayment plan while working full-time for a qualifying employer. Qualifying monthly payments can be as low as \$0, depending on income.

RELATED BILLS

Relates to HB194, HB344, and SB188, which amend the definition of “qualified student” for the legislative lottery tuition scholarship.

Relates to HB237, HB250, SB192, HB426, which address revenues to the lottery tuition fund.

Relates to SB276, which differentiates tuition award levels based on program semester.

Relates to SB420, which would allow a 16-month grace period for students to qualify for the legislative lottery scholarship.

SOURCES OF INFORMATION

- LESC Files
- New Mexico Military Institute
- Higher Education Department
- University of New Mexico
- Eastern New Mexico
- Central New Mexico Community College

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