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## FISCAL IMPACT REPORT

SPONSOR Sariñana ORIGINAL DATE 1/27/17  
LAST UPDATED \_\_\_\_\_ HB 194  
SHORT TITLE Lottery Scholarship Full & Need-Based SB \_\_\_\_\_  
ANALYST Dulany

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY17	FY18	FY19	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>	See Fiscal Implications	See Fiscal Implications	See Fiscal Implications	See Fiscal Implications	Recurring	Lottery Tuition Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to HB 237, HB 250, SB 188, and SB 192

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Higher Education Department (HED)  
University of New Mexico (UNM)  
New Mexico State University (NMSU)  
Central New Mexico Community College (CNM)

### SUMMARY

#### Synopsis of Bill

House Bill 194 amends the Legislative Lottery Tuition Scholarship Act to add criteria that a qualified student must demonstrate financial need. It limits scholarship eligibility to a student whose family's annual net household income does not exceed \$75 thousand. The bill specifies a qualified student is eligible to receive a full tuition scholarship.

HB 194 deletes existing language on calculating scholarship award amounts and requires HED to distribute appropriations from the lottery tuition fund to each public postsecondary educational institution based on projected enrollment and the average tuition charged by institutions, broken down by institution type.

The bill reduces the annual average balance required in the lottery tuition fund from \$2 million to \$1 million.

Finally, HB 194 adds a new section to the Legislative Lottery Tuition Scholarship Act to require a student, prior to consideration for the scholarship, submit to his or her intended public postsecondary educational institution a completed lottery tuition scholarship application form or Free Application For Federal Student Aid (FAFSA).

## **FISCAL IMPLICATIONS**

The exact fiscal impact from HB 194 is difficult to calculate at this time for a number of reasons. First, HED reports only 78 percent of lottery scholarship recipients complete a FAFSA. Second, the FAFSA captures several key points of money available to students to pay for college, including adjusted gross income; however, annual household net income is not captured on the application.

In lieu of exact data, HED estimates disallowing students with a reported adjusted gross income above \$75 thousand may reduce tuition payments from the lottery tuition fund by \$19.3 million. HED estimates the cost to cover full scholarships for existing participants to be about \$67.4 million, while revenue from lottery ticket sales averages about \$41 million per year. By eliminating the \$19.3 million in payments to students above \$75 thousand in adjusted gross income, according to HED estimates, the program would still face a \$6.1 million shortfall after accounting for the reduced \$1 million average annual balance requirement.

LFC staff's estimate of full tuition scholarships is slightly lower than the department's. About \$66.7 million would be required to provide full tuition scholarships. At the current funding level, LFC staff estimate FY18 scholarships under existing requirements could dip to 70.6 percent of tuition costs (see Attachment).

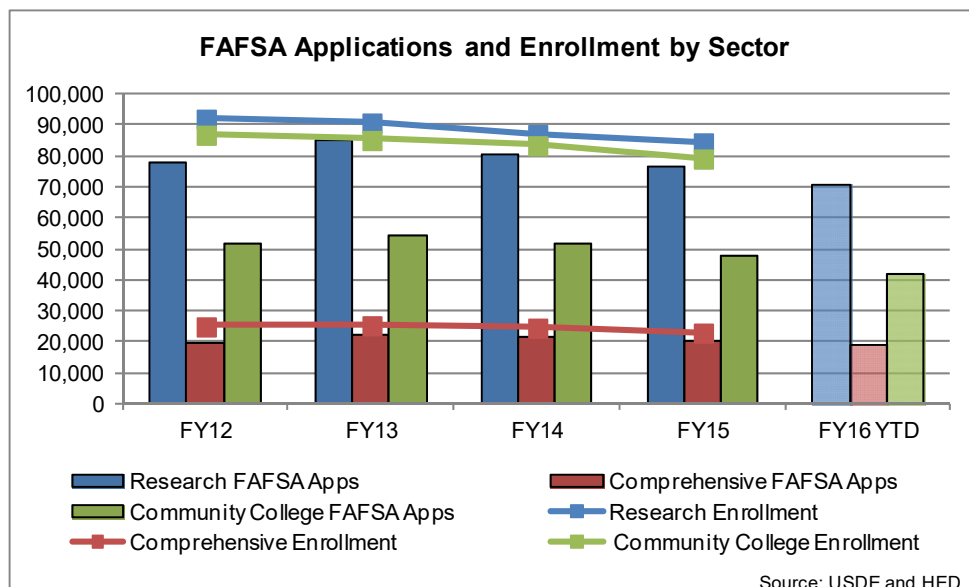
HED has expressed concerns over lottery tuition fund cash flow in recent years, noting the current \$2 million average annual fund balance is difficult to maintain given the manner in which lottery payments are received in arrears and how distributions are made to higher education institutions each semester. A \$1 million average annual fund balance may exacerbate these concerns.

HED notes page 4, line 24 allows a student to receive a full tuition scholarship, but Section 3 of the bill specifies the amount available to cover scholarships is subject to appropriation by the Legislature. HED states this raises the question as to procedure for determining the proportion of tuition covered by the scholarship if the Legislature does not appropriate sufficient funding for full tuition awards. LFC staff interpret the language to mean a full scholarship is the highest level of award a student may receive, but that if insufficient funds exist in the lottery tuition fund HED will set scholarship amounts based on what is available to maintain the required \$1 million average annual balance.

According to NMSU, of the 2,950 lottery award recipients at the institution in the fall 2016 semester, 1,643 scholarship recipients, or about 56 percent, would be ineligible under HB 194.

## **SIGNIFICANT ISSUES**

By adding a requirement to complete the FAFSA, HB 194 may help to drive more federal revenue into the state and provide additional financial aid to current students. There currently exists a gap between enrollment at New Mexico's higher education institutions and FAFSA completions, noted in the graph below.



The gap is the highest among community colleges, although many students at these colleges may be taking non-credit courses that are ineligible for federal financial aid.

Institutions and HED do not currently maintain records of family annual net household income. A more common metric for determining student financial aid need is expected family contribution (EFC), which is based on a family’s adjusted gross income and currently calculated in the FAFSA. EFC takes into account certain parameters not captured by net household income, such as the number of family members. A family with four children and a net household income of \$80 thousand may be in less of a position to cover college tuition costs than a family with a net household income of \$70 thousand and one child.

As noted by HED, HB 194 would result in some current lottery scholarship recipients losing their scholarships. In addition, some students may lose or gain eligibility from year to year depending on family net income and depending on how the provisions of this bill are implemented (see Possible Questions).

The bill analysis from CNM cites research suggesting lottery programs are disproportionately targeted toward lower-to-middle-class individuals and those living under the poverty level. A need component in the scholarship program may better align beneficiaries of the program with those who primarily fund it.

### ADMINISTRATIVE IMPLICATIONS

A new lottery scholarship application form would need to be developed. The form would need to capture family annual net household income. It is likely all students who wish to receive the scholarship would need to complete the application form because the FAFSA does not currently capture family annual net household income data.

**TECHNICAL ISSUES**

The bill strikes the requirement that HED calculate the uniform percentage used for distributing scholarship dollars on page 6, lines 14 through 16; however, references to the uniform percentage remain on page 7, lines 20 through 23.

**ALTERNATIVES**

CNM suggests adding language to HB 194 to require federal financial aid dollars apply first. CNM cites data indicating over 40 percent of participants meet eligibility requirements for Pell Grants. If lottery scholarship requirements were then adjusted to match Pell eligibility, CNM suggests, the state could save up to 48 percent of its current scholarship allocations. However, the lottery scholarship covers only tuition, while Pell disbursements cover costs associated with attending college, including room and board. If Pell Grants were applied first, recipients' Pell disbursements would first apply to tuition, leaving little or no money remaining to cover other expenses associated with attending a higher education institution. If this suggestion were adopted, the Legislature would need to consider expanding the scholarship to cover costs other than tuition. Data for FY15 indicate New Mexico students received about \$177.9 million in Pell Grants and \$255.6 million in federal Direct Loans:

<b>2014-2015 Award Year Federal Pell Grants and Direct Loans</b>						
<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>
<b>Institution</b>	<b>Pell Recips.</b>	<b>Pell Disburs. (in thousands)</b>	<b>Pell Grants Per Recipient (C/B) (in thousands)</b>	<b>Direct Loan Recips.</b>	<b>Direct Loan Disburs. (in thousands)</b>	<b>Direct Loans Per Recipient (F/E) (in thousands)</b>
CCC	1,061	\$3,276.4	\$3.1	280	\$787.4	\$2.8
CNM	11,617	\$28,029.2	\$2.4	5,127	\$13,669.8	\$2.7
ENMU	3,062	\$11,379.0	\$3.7	3,309	\$16,790.2	\$5.1
LCC	515	\$1,874.0	\$3.6	105	\$282.2	\$2.7
MCC	181	\$634.9	\$3.5	-	-	-
NM Tech	506	\$2,165.3	\$4.3	921	\$4,009.3	\$4.4
NMHU	1,355	\$5,364.2	\$4.0	1,969	\$11,961.6	\$6.1
NMJC	732	\$2,553.9	\$3.5	244	\$723.1	\$3.0
NMMI	165	\$652.3	\$4.0	169	\$538.7	\$3.2
NMSU	11,328	\$44,760.1	\$4.0	13,197	\$59,113.2	\$4.5
NNMC	648	\$2,586.8	\$4.0	199	\$632.0	\$3.2
SFCC	2,036	\$7,039.7	\$3.5	1,056	\$3,928.2	\$3.7
SJC	3,194	\$10,801.7	\$3.4	1,355	\$4,353.7	\$3.2
UNM	13,159	\$50,780.6	\$3.9	18,978	\$124,734.1	\$6.6
WNMU	1,477	\$5,966.5	\$4.0	2,473	\$14,069.0	\$5.7
<b>Total/Avg.</b>	<b>51,036</b>	<b>\$177,864.5</b>	<b>\$3.5</b>	<b>49,382</b>	<b>\$255,592.5</b>	<b>\$5.2</b>

Source: USDE

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Note: disbursements for branch campus community colleges are included in main campus figures.

CNM also suggests alternatives that would fund scholarships above the tuition level at less expensive colleges in order to cover other costs associated with college attendance.

**POSSIBLE QUESTIONS**

Would a student who loses eligibility based on his or her family's net household income become eligible if his or her family's net income again drops below the \$75 thousand threshold?

TD/jle