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FISCAL IMPACT REPORT

ORIGINAL DATE 2/01/17
 SPONSOR Shendo LAST UPDATED 3/12/17 HB _____
 SHORT TITLE Colleges as Tax Refund Intercept Claimants SB 181/aHTRC
 ANALYST Iglesias

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY17	FY18	FY19	FY20	FY21		
Unknown but positive	Unknown but positive	Unknown but positive	Unknown but positive	Unknown but positive	Recurring	HED / Financial Aid Special Programs Fund

Parenthesis () indicate expenditure decreases.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY17	FY18	FY19	3 Year Total Cost	Recurring or Nonrecurring	Fund / Agency Affected
Total	\$21.0	\$0.0	\$0.0	\$21.0	Nonrecurring	TRD (General Fund)

Parenthesis () indicate expenditure decreases.

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

Higher Education Department (HED)

SUMMARY

Synopsis of HTRC Amendment

The House Taxation and Revenue Committee (HTRC) amendment establishes the priority of HED's claims against a taxpayer's state income tax refund. The amendment adds a subsection 12 to Section 7-2C-11 NMSA 1978 to add claims from educational loans made by the higher education department to end of the list of purposes for which claims can be made against a state tax refund.

This amendment addresses a concern to ensure child support and other existing claims against state tax refunds will continue to receive the priority currently established in statute.

Synopsis of Original Bill

Senate Bill 181 amends Section 7-2C-3 NMSA 1978 to allow the Higher Education Department (HED) to enhance its debt collection efforts by offsetting the amount of debt owed against the defaulted participant's state income tax refund. The tax refund of a borrower's spouse may also be intercepted.

To this end, this bill corrects a reference to the Workforce Solutions Department in the definition of "claimant agency" and expands the definition include the Higher Education Department (HED). The bill also expands the definition of an educational loan to include loans owned by HED. Currently, the definition includes loans owned by a public postsecondary educational institution or loans guaranteed by any corporation authorized under the Educational Assistance Act.

There is no effective date of this bill. It is assumed that the new effective date is 90 days after this session ends.

FISCAL IMPLICATIONS

This legislation does not have a general fund revenue impact. The Higher Education Department (HED) states revenue from collections would go to the Financial Aid Special Programs fund and would be used to support current program participants. The amount of revenue from successful tax refund intercepts is indeterminate.

SIGNIFICANT ISSUES

This bill is a legislative priority of the Higher Education Department.

HED administers the state funded loan for service programs. The programs provide financial assistance in the form of loans to eligible students completing certain degree programs. Upon completion of their education, loan recipients may provide service within designated areas of New Mexico to receive forgiveness on the loan. Repayment provisions exist for students who fail to provide service within New Mexico. If a loan for service recipient completes their professional education and does not serve within the state for a period of at least one year, HED may assess a penalty of up to three (3) times the principal due, plus 18 percent interest. In all other cases, loans bear interest at 7 percent per year.

HED also administers the state funded loan repayment programs. Through the loan repayment programs, practicing professionals within the state may receive assistance in repaying outstanding student loan debt. Participants are required to provide service in New Mexico for a contract term. Failure to complete the required contract term may result in the participant being required to repay assistance received. Loan repayment program participants who have defaulted on their student loan repayment contract would also be included in the tax intercept program if this bill is enacted.

Once a program participant has defaulted on their repayment obligation, HED has a statutory duty to begin the collection process on the loan. In response to a FY15 external audit finding, HED currently contracts with an external vendor to pursue defaulted loans; the contract expires June 1, 2020. If this bill is enacted, HED would enhance collection efforts by offsetting the

amount of debt owed against the defaulted participant's state income tax refund. The tax refund of a borrower's spouse may also be intercepted.

As of December 31, 2016, HED is tracking \$1.1 thousand in outstanding principal and interest for defaulted loans.

ADMINISTRATIVE IMPLICATIONS

HED shall complete the procedures of the offset as required by the Tax Refund Intercept Act. HED has contracted an external vendor to collect outstanding loan debt.

The Taxation and Revenue Department (TRD) expects this bill to have a minimal administrative impact. Some programming and report changes will be necessary to support the addition of a new claimant. Most costs will be absorbed during tax year preparations.

OTHER SUBSTANTIVE ISSUES

As of December 31, 2016, the Educational Computer Systems Inc., (ECSI) database which is utilized by HED to track loan accounts, reported \$1.1 thousand in outstanding principle and interest for defaulted loans.

The number of applications received for the various state loan for service and loan repayment programs exceed the number of awards HED is able to issue based on program budgets. Amounts owed by defaulted loan account holders that are collected through the tax intercept program would revert to the respective loan for service or loan repayment program fund. The funds could then be used to support current students that are applying for financial assistance or practicing professionals seeking loan repayment.

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