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FISCAL IMPACT REPORT

ORIGINAL DATE 2/9/16

SPONSOR Sapien **LAST UPDATED** _____ **HB** _____

SHORT TITLE Lottery Scholarship Awards & Applications **SB** 276

ANALYST Dulany

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY17	FY18	FY19	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		See Fiscal Implications				

(Parenthesis () Indicate Expenditure Decreases)

Conflicts with HB 194 & HB 344

SOURCES OF INFORMATION

LFC Files

Responses Received From

Higher Education Department (HED)
 Eastern New Mexico University (ENMU)
 Western New Mexico University (WNMU)
 University of New Mexico (UNM)

SUMMARY

Synopsis of Bill

Senate Bill 276 amends the Legislative Lottery Tuition Scholarship Act to add varying maximum tuition scholarship levels based on the number of program semesters a student has received a scholarship as follows:

Maximum Allowable Scholarship Amounts under SB 276							
Institution Sector	1st Program Semester	2nd Program Semester	3rd Program Semester	4th Program Semester	5th Program Semester	6th Program Semester	7th Program Semester
Research Institution	40%	50%	50%	80%	100%	100%	100%
Comprehensive Institution	40%	50%	50%	80%	100%	100%	100%
Community College	60%	60%	100%	-	-	-	-

The bill requires students to submit a form requesting a scholarship and to file a Free Application for Federal Student Aid (FAFSA). SB 276 requires HED to determine distribution and awards for the scholarship based on the projected enrollment at each institution and a uniform percentage of the average in-state tuition costs charged by the different institutions.

HED is required to report by November 1 of each year on the component amounts of the lottery tuition scholarship and the amount of unmet need that was not offset by the lottery tuition scholarship for each qualified and legacy student as well as the number of students who received the scholarship and subsequently became ineligible and the reasons for ineligibility.

FISCAL IMPLICATIONS

The Legislative Lottery Tuition Scholarship currently pays 90 percent of average tuition rates at New Mexico’s higher education institutions. This percentage is estimated to drop in FY18 as distributions from Liquor Excise Tax revenues expire at the end of FY17. Scholarship amounts as a percentage of tuition are anticipated to drop to 70.6 percent in FY18 based on LFC Staff estimates; HED suggests this amount could be as low as 60 percent. LFC staff estimate full tuition scholarships would require about \$66.7 million, while revenues from the lottery and trailing Liquor Excise Tax are estimated to be about \$49 million (See Attachment).

HED notes the following average distribution of lottery recipients by program semester and sector:

Average Percent Distribution of Lottery Recipients by Program Semester							
	1st Program Semester	2nd Program Semester	3rd Program Semester	4th Program Semester	5th Program Semester	6th Program Semester	7th Program Semester
Research	17.5%	15.8%	14.3%	14.5%	13.3%	12.8%	11.7%
Comprehensive	22.8%	17.4%	14.4%	13.0%	11.4%	11.2%	9.8%
Branch Community College	45.0%	31.3%	23.7%	N/A	N/A	N/A	N/A
Independent CC + NMMI	48.8%	30.5%	20.7%	N/A	N/A	N/A	N/A

Source: HED

Based on this distribution and the scholarship amounts listed in SB 276, HED estimates the following costs would be incurred for the scholarship program under the provisions of the bill:

Estimated Cost by Program Semester and Sector under SB 276 (dollars in thousands)								
	1st Program Semester	2nd Program Semester	3rd Program Semester	4th Program Semester	5th Program Semester	6th Program Semester	7th Program Semester	Totals
Research Universities	\$4,168.36	\$4,708.86	\$4,253.12	\$6,877.47	\$7,933.94	\$7,613.47	\$6,943.96	\$42,499.17
Comprehensive Universities	\$423.65	\$403.16	\$333.08	\$483.44	\$528.04	\$518.42	\$456.69	\$3,146.48
Branch Community Colleges	\$152.06	\$137.34	\$231.34	N/A	N/A	N/A	N/A	\$520.75
Independent Community Colleges	\$223.51	\$184.66	\$279.19	N/A	N/A	N/A	N/A	\$687.36
								\$46,853.76

At a total cost of \$46.9 million, and assuming \$41 million in lottery revenues, HED estimates FY18 tuition support levels under SB 276 would be:

HED Estimated Tuition Support Levels in FY18 under SB 276							
	1st Program Semester	2nd Program Semester	3rd Program Semester	4th Program Semester	5th Program Semester	6th Program Semester	7th Program Semester
Research	35.0%	44.0%	44.0%	70.0%	88.0%	88.0%	88.0%
Comprehensive	35.0%	44.0%	44.0%	70.0%	88.0%	88.0%	88.0%
Community College	53.0%	53.0%	88.0%	-	-	-	-

Source: HED

Note these amounts do not factor tuition increases or changes in enrollment.

SIGNIFICANT ISSUES

HED notes SB 276 authorizes the HED secretary to adjust the award percentages based on available revenues but does not prescribe the formula for performing the reduction. The department further notes there is no definition of “unmet need.” This could be calculated as the difference between expected family contribution and the tuition scholarship, but other factors such as receipt of need-based grants, such as Pell Grants, and total cost of attendance could be utilized.

SB 276 requires HED to report on the number of qualified and legacy students who received lottery tuition scholarship support; however, HED notes no legacy students remain in the program, as “legacy student” is defined as a student who received the scholarship for three or more program semesters by the end of FY14.

HED notes SB 276 does not address how students currently receiving the scholarship at 90 percent will be addressed. Based on LFC staff interpretation of the bill, it appears there will be no grandfathering of current students under the prior provisions of the bill, as was seen in the most recent overhaul of the Legislative Lottery Tuition Scholarship Act.

Some benefits exist in so-called back-loading (i.e. higher award levels toward the end of scholarship eligibility) of the Legislative Lottery Tuition Scholarship. As an example, interest on subsidized federal Stafford loans is paid by the federal government while the student is in school as well as under other deferment conditions. If a student is required to take such loans in the course of his or her time in college due to the Legislative Lottery Scholarship not covering the full tuition amount, the student would be avoiding interest while the scholarship is paying the lowest percentage of tuition. Proponents of back-loading have also suggested it provides incentive for students to progress further in their degree programs by paying higher percentages in the junior and senior years.

Opponents of back-loading have noted students are much more likely to graduate once they are past their first and second years of college. Such opponents suggest removing more financial barriers early on in these students’ college careers to allow them to focus on their studies during the first two critical years. With regard to subsidized federal student loans, as implied by WNMU, the amount a student may borrow is currently \$3,500 in the first year, \$4,500 in the second year, and \$5,500 for subsequent years. As a result, students have the least amount of

scholarship support during the time they have the least amount of access to subsidized loans.

WNMU notes concerns with requiring students to apply for the scholarship, stating this disadvantages poor students and first generation college-goers.

UNM states:

“The back-loading model is made viable by counting on high attrition of first and second year students. The idea is to invest lower sums early when losses of students are very high. For example, at UNM, by the end of the 3rd program semester (second year in college), we have lost 32% of our beginning student cohort, a vast many of them entering with an opportunity to receive the Lottery Scholarship and progress toward a degree. From the 3rd program semester to the 7th we only lose an additional 10%.”

For these reasons, UNM expresses objection. UNM states “[i]nstead of continuing to improve the success of these students, the funding for [back-loading] relies on [high attrition rates] taking place.” UNM suggests back-loading gives preference to students who were likely to graduate, scholarship notwithstanding.

Fall-to-fall retention (retention into the second program semester) tends to be lower among comprehensive institutions. Note: this is for all students in a given cohort, rather than lottery students:

First-Time, Full-Time Student Fall-to-Fall Retention	Fall 2013 to Fall 2014 Actual	Fall 2014 to Fall 2015 Actual	Fall 2015 to Fall 2016 Actual
New Mexico Institute of Mining and Technology	78.8%	75.1%	76.9%
New Mexico State University	74.0%	74.0%	72.0%
University of New Mexico	79.1%	79.5%	79.7%
Eastern New Mexico University	59.3%	58.1%	58.7%
New Mexico Highlands University	48.4%	52.4%	52.7%
Northern New Mexico College	39.0%	54.0%	63.8%
Western New Mexico University	56.8%	51.5%	53.9%

Source: AGA Reports

Fall-to-fall retention rates at community colleges range from 34.6 percent to 65.8 percent.

ENMU expresses concern that the tuition scholarship rates set forth in the bill would discourage students from attending a four-year institution in favor of a community college.

ADMINISTRATIVE IMPLICATIONS

WNMU indicates additional administrative requirements in processing FAFSAs and determining unmet need. WNMU suggests HED does not have an award database to determine eligibility and track student awards. HED did not note this concern; however, HED did state the new reporting requirements, in particular the reasons a student becomes ineligible for the scholarship, may require significant restructuring of the data reports submitted to HED by the institutions.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB 276 conflicts with HB 194 and HB 344, both of which add a need component to scholarship eligibility.

ALTERNATIVES

Page 2, lines 24-25, and page 3, line 1, requires a student to “file a free application for federal student aid...” This language implies the student is to file the completed form with the federal government. WNMU cites concerns that undocumented students would be put in a challenging position in filing this form. If the bill were amended to require students to submit a completed FAFSA to the institution, rather than requiring it be filed, this may allow students the ability to calculate expected family contribution without raising concerns surrounding a student’s immigration status. Alternatively, the bill could be amended to require the FAFSA “or a comparable form used for calculating expected family contribution.”

TD/sb/jle

Legislative Lottery Tuition Scholarship Program: Current Status and Projections
(in thousands)

	FY16	FY17	FY18
	Actuals	Estimated	LFC Scenario
			100 % Tuition Award Scenario
Revenues			
Lottery Revenues	\$45,481.5	\$42,000.0	\$42,000.0
Lottery Tuition Fund Beginning Balance	\$3,402.1	\$3,456.8	\$4,126.0
Non-reverting and Other Revenues	\$1,619.3	\$18.0	\$18.0
Liquor Excise Tax Distribution	\$14,725.6	\$18,600.0	\$2,925.3
Available Revenues	\$65,228.5	\$64,074.8	\$49,069.3
Expenditures			
Scholarships - Percent of Tuition Awarded			
	90% of est. avg. sector tuition	90% of est. avg. sector tuition	70.6% of est. avg. sector tuition
Research Awards	\$51,253.2	\$52,432.2	\$40,998.0
Comprehensive Awards	\$3,914.7	\$4,425.8	\$3,446.4
Two-year Awards	\$3,002.6	\$3,090.8	\$2,624.9
FY15 Late Payment	\$3,601.2	\$0.0	
Total Expenditures	\$61,771.7	\$59,948.8	\$47,069.3
Est. Year-End Lottery Tuition Fund Balance (Available Revenues - Expenditures)	\$3,456.8	\$4,126.0	\$2,000.0
Less Statutory Minimum	(\$2,000.0)	(\$2,000.0)	(\$2,000.0)
Est. Over/Under	\$1,456.8	\$2,126.0	\$0.0
			100% of est. avg sector tuition
			\$58,082.8
			\$4,882.7
			\$3,718.8
			\$66,684.3
			(\$17,615.0)
			(\$2,000.0)
			(\$19,615.0)

Source: HED and LFC Files

Notes: FY18 estimates assume 3 percent expenditure increase.