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FISCAL IMPACT REPORT

SPONSOR O'Neill/Salazar **ORIGINAL DATE** 2/11/2020
LAST UPDATED 2/14/2020 **HB** _____
SHORT TITLE Opportunity Scholarship Act **SB** 323/aSEC
ANALYST Valenzuela/Lobaugh

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY20	FY21		
	\$26,000.0	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY20	FY21	FY22	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Unfunded 2-year cost		\$ 4,130.0*	\$4,212.6*	\$12,639.5*	Recurring	General Fund
Unfunded 4-year cost		\$31,690.0	\$32,323.8	\$96,984.1	Recurring	I&G
Cost of MOUs		\$4,027.8	\$4,108.3	\$12,326.8	Recurring	I&G
Total Additional Cost		\$39,847.8	\$40,664.8	\$121,950.3		

(Parenthesis () Indicate Expenditure Decreases)

*The LFC estimate for the full cost of covering tuition and fees under HB14/SB323 is \$62 million/year, which is arrived at by adding the \$26 million appropriation in the bill plus the estimated \$36 million additional operating budget impact to cover unmet tuition and fees.

Relates to Senate Bill 195, Senate Bill 225

Duplicates the House Education Committee Substitute for House Bill 14 (HB14/HECS)

SOURCES OF INFORMATION

Legislating for Results: Appropriation Recommendation, (Report to the Legislature, December 2019, Volume 2) pp 337 - 339.

2020 LFC Hearing Brief, *Higher Education Financial Aid*, January 20, 2020.

A Promise is a Promise: Free Tuition Programs and How They Work National Conference of State Legislatures, March 2019.

Responses Received From

New Mexico Higher Education Department (HED)

Multiple Higher Education Institutions

Requested Data Not Received From

LFC requested data for SB323 and HB14/HECS; HED did not provide data to support its cost estimates.

SUMMARY

Synopsis of SEC Amendment

The Senate Education Committee Amendment adds language to the definition of “two-year opportunity scholarship” to allow qualified students who are enrolled in a credit-bearing certificate program to also be eligible to receive opportunity scholarships.

Synopsis of Original Bill

Senate Bill 323 (SB323) creates a new scholarship called the Opportunity Scholarship to pay for the tuition and fees for certain student populations attending public colleges and universities in the state. The new scholarship program would support two student populations: (1) students who are eligible to receive the lottery tuition scholarship – earning a 2.5 GPA in qualifying first semester and minimum 15 student credit hours (SCH) at four-year universities or 12 SCH at two-year colleges and (2) returning adult learners who are 24 years of age or older who maintain a 2.0 GPA and earn at least 6 SCH per semester (with no qualifying semester).

SB323 provides students “middle-dollar” financial aid support, paying for the remaining tuition and fee costs after state grants and scholarships have been exhausted. Federal Pell grants, private scholarships and institutional financial aid would not be used for tuition and fees for eligible students under SB323.

FISCAL IMPLICATIONS

As currently drafted, LFC projects the full cost of covering tuition and fees under SB323 is \$62 million because the bill establishes eligibility for returning adult learners and for recent high-school graduates. The \$26 million appropriation included within the bill, however, is restricted to eligible students enrolled only in a two-year program. Without a statutory provision to delay eligibility for recent high-school graduates, the bill creates an unfunded mandate to four-year institutions, who enroll students who meet SB323 eligibility criteria.

Risks to the Projections of the Opportunity Scholarship. Additional factors could increase the annual cost of covering tuition and fees at a much higher rate than the estimates reflect: (1) An increase in enrollment and in lottery-eligible students would dilute the amount of lottery tuition scholarships students earn and thus increase the cost of the opportunity scholarship, and (2) Colleges and universities could increase tuition and fees by more than 5 percent, which is the tuition increase assumed in cost estimates for the Opportunity Scholarship.

Eligible Students Shrink Under New Proposal. SB323 includes a \$26 million appropriation to provide opportunity scholarships to eligible students in two-year academic programs. When the opportunity scholarship was originally proposed as “last-dollar” financial aid program (covering unmet tuition and fees after state and federal aid), HED estimated a total cost of \$35 million to cover the remaining tuition and fees of four-year and two-year students. The original “last-dollar” opportunity scholarship proposal was for lottery-eligible and community college students enrolled at least half-time, an estimated 55,000 total eligible students.

Changing the opportunity scholarship from a last-dollar program (original proposal) to a middle-dollar program (SB323) would have increased the total cost of covering tuition and fees at community colleges to \$54 million because of the loss of tuition coverage from federal Pell grants. However, SB323 limits the opportunity scholarship to lottery-eligible students and community college students age 24 years or older taking at least 6 SCH, an estimated 35,600 total eligible students (see Attachment 1).

Cost Estimate Comparisons. Table 1 compares LFC and HED cost estimates for the Opportunity Scholarship in FY21. The LFC estimates an unmet tuition and fee cost of \$31.9 million for lottery eligible students and \$30.1 million for returning adult learners age 24 years or older taking at least 6 SCH. LFC cost estimates assume a 5 percent tuition and fee cost increase (which was assumed in HED cost estimates for the originally proposed opportunity scholarship) and an additional enrollment increase of 2 percent.

Table 1. Cost Estimates for the New Mexico Opportunity Scholarship

Category		Originally Proposed Opportunity Scholarship (Last-Dollar Program)		SB323 and HB14 Substitute Opportunity Scholarship (Middle-Dollar Program)	
		HED Estimate	LFC Estimate	HED Estimate	LFC Estimate
Total Estimated Eligible Students		55,000	55,000	-	35,600
Traditional High School (Lottery-Eligible) Students	Est. Total FY21 Lottery Student Tuition and Fees	\$80,160,000	\$81,760,000	-	\$81,760,000
	Minus Students who Lose Lottery Eligibility	(\$4,500,000)	(\$4,500,000)	-	(\$4,500,000)
	Minus College Juniors and Seniors Paying Own Fees	(\$8,000,000)	\$0	-	\$0
	Minus Lottery Scholarships	(\$40,000,000)	(\$40,000,000)	-	(\$40,000,000)
	Minus Pell Grant Tuition Coverage	(\$8,250,000)	(\$4,060,000)	-	\$0
	Minus Other State Aid	(\$5,000,000)	(\$5,570,000)	-	(\$5,570,000)
Subtotal: Unmet Tuition and Fees Cost		\$14,410,000	\$27,630,000	\$19,000,000	\$31,690,000
Part-Time Community College Students	Est. Total FY21 Community College Student Tuition and Fees	\$80,560,000	\$82,170,000	-	\$82,170,000
	Minus Students with less than 6 Credit Hours	(\$16,000,000)	(\$17,140,000)	-	(\$17,140,000)
	Minus Tuition of Lottery Eligible Students	(\$4,280,000)	(\$5,010,000)	-	(\$5,010,000)
	Minus Tuition and Fees of Students Age 18-23 with 6-12 Cred	\$0	\$0	-	(\$24,840,000)
	Minus Pell Grant Tuition Coverage	(\$33,870,000)	(\$33,870,000)	-	\$0
	Minus Other State Aid	(\$5,500,000)	(\$5,050,000)	-	(\$5,050,000)
Subtotal: Unmet Tuition and Fees Cost		\$20,910,000	\$21,100,000	\$26,000,000	\$30,130,000
Total Estimated Tuition and Fees Cost		\$35,320,000	\$48,730,000	\$45,000,000	\$61,820,000

Note: Not every eligible student will receive Opportunity Scholarship funds because some students may receive enough other state financial aid to cover their tuition and fees.

Note: LFC staff requested HED cost estimates for SB323 and the HB14 House Education Committee Substitute but these were not received.

Source: LFC analysis of HED data.

Potential Cost Risk: Higher-Than-Projected Enrollment. The positive message of the opportunity scholarship could increase enrollment and student retention beyond assumptions included in estimates. States that implemented tuition free college programs have seen college enrollments increase as much as 20 percent. Long-term costs could deviate drastically based on enrollment of 2 percent annual growth, as shown below:

General Fund Impact

	<u>Initial Annual Cost</u>	<u>10-year Cost</u>
SB323 Appropriation	\$ 26 million	\$ 312.2 million
LFC Cost Estimate	\$ 62 million	\$ 744.4 million

If enrollment increases 10 percent in the first year and 2 percent thereafter, the LFC estimate increases as shown below:

	<u>Initial Annual Cost</u>	<u>10-year Cost</u>
LFC Cost Estimate	\$ 68.2 million	\$ 818.9 million

SIGNIFICANT ISSUES

Several research studies show a widening postsecondary attainment gap contributes to growing economic inequality. The same studies illustrate a household income’s outsized influence on student success; top performing low- and middle-income students earn bachelor’s degrees at the same rate as low performing high-income students. In addition, low and middle-income students are half as likely to attend college.

Targeted Financial Aid. SB323 would subsidize students of all income levels, including students who do not apply for other forms of financial aid. It provides larger state subsidies to higher income students, who may not be required to use private scholarships or institutional merit-based awards to cover tuition and fees.

Each year, college students receive \$600 million in financial aid support to pursue a postsecondary education in New Mexico. The aid – 51 percent from grants, 12 percent from scholarships, 35 percent from loans, and 2 percent from work-study – is primarily needs-based, with students with the lowest incomes accruing 71 percent of the support. Programs like the lottery tuition scholarship have paid up to 100 percent of tuition costs, and the college affordability scholarship has helped adult learners return to earn a degree. The House Appropriations and Finance Committee Substitute for HB2&3 invests \$9.7 million to the lottery tuition scholarship fund to increase tuition coverage from 65 percent to 83 percent and adds \$10 million to the college affordability endowment fund to support returning adult learners.

Potential Decline in FAFSA Completion Rate. Each year, New Mexico students forego approximately \$20 million in federal Pell grants because they do not complete FAFSA. Statewide, the FAFSA completion rate is 65 percent, which is low compared with other states. Higher completion rates will translate to higher financial support for low-income students. SB323 does not require students to complete the FAFSA. It may create a disincentive which could decrease the amount of federal financial aid available to students in New Mexico.

Memorandum of Understanding. In order to participate in the opportunity scholarship, SB323 would require higher education institutions to complete a memorandum of understanding with HED to limit tuition increases and increase spending on student support services. Tuition and fees are set by boards of regents and governing boards of higher education institutions (Sections 21-1-2, 21-13-24.1, and 21-14-5 NMSA 1978).

SB323 does not specify the necessary parameters of the required MOUs between higher education institutions and HED. However, information on the HED website (as of February 13,

2020) indicate that higher education institutions would be required to (1) increase wraparound support services for students such as tutoring or advising to improve student retention and (2) agree to capped tuition. If the MOUs were to require institutions to spend an additional 2 percent on student services and academic support from FY19 actual levels, SB323 could have an additional estimated operating budget impact of over \$4 million each year for higher education institutions statewide (See Estimated Additional Operating Budget Table on page 1). In the absence of an appropriation in SB323 to cover the required additional spending on student support services, the requirement for additional student support services would need to be funded by institutions from either tuition and fees or another revenue source.

Ineligible Students Age 18 through 23. SB323 would allow lottery scholarship eligible students and returning adult students to receive opportunity scholarships for any unmet tuition and fee costs. Students who are not eligible for the lottery scholarship between the ages of 18 through 23 would be ineligible for the opportunity scholarship.

ALTERNATIVES

Leveraging Existing Financial Aid Programs

The House Appropriations and Finance Committee Substitute for House Bills 2 & 3, includes \$35 million to support student financial aid, as shown below:

1. Increases the annual appropriation to the student incentive grant, need-based aid, by \$5 million;
2. Adds a one-time investment of \$5 million to the student incentive grant program;
3. Invests \$9.7 million from the general fund into the lottery tuition scholarship fund to provide a higher level of tuition support for students;
4. Invests \$10 million from the general fund into the college affordability endowment fund;
5. Funds a \$300 thousand initiative at HED to improve the FAFSA completion rate to ensure students receive the grant funding for which they are entitled according to the federal Pell grant.

Targeting the Opportunity Scholarship

The Opportunity Scholarship could be targeted to different student populations based on either:

1. Student financial need (based on either Pell-eligibility or an annual family adjusted gross income cap),
2. Returning adult status,
3. Student course load (12-15 student credit hours per semester is considered full-time),
4. Leveraging some Pell grant funding, or
5. Academic programs in high-demand fields (teaching, nursing, trades, etc.).

**Attachment A. Number of Students Enrolled at Public Colleges and Universities
Impact of Opportunity Scholarship**

Institution	Enrollment (Headcount)	Eligibility House Bill 14		Eligibility HEC Sub for HB14/SB323	
		Lottery Recipients	Returning Adults	Lottery Recipients	Returning Adults
Four-Year Research Universities					
NM Tech	1,886	575	-	575	-
NMSU	14,297	3,255	-	3,255	-
UNM	23,774	5,509	-	5,509	-
Subtotal	39,957	9,339	-	9,339	-
Four-Year Comprehensive Universities					
NMHU	6,133	309	-	309	413
ENMU	3,195	799	-	799	529
NNMC	1,098	142	-	142	95
WNMU	3,200	152	-	152	634
Subtotal	13,626	1,402	-	1,402	1,671
Two-Year Branch Campuses					
ENMU-Roswell	2,428	265	1,721	265	826
ENMU-Ruidoso	644	16	358	16	172
NMSU-Alamogordo	1,717	75	785	75	377
NMSU-Carlsbad	1,890	65	1,118	65	537
NMSU-Dona Ana	7,920	685	5,194	685	2,492
NMSU-Grants	1,109	35	458	35	220
UNM-Gallup	2,234	109	1,301	109	624
UNM-Los Alamos	940	49	429	49	206
UNM-Taos	1,265	49	829	49	398
UNM-Valencia	2,340	185	1,159	185	556
Subtotal	22,487	1,533	13,353	1,533	6,407
Two-Year Independent Colleges					
Central NM CC	23,636	1,262	16,114	1,262	7,732
Clovis CC	3,409	70	1,802	70	865
Luna CC	1,093	67	710	67	341
Measlands CC	1,068	40	505	40	242
NMJC	2,256	135	1,492	135	716
San Juan College	7,052	270	3,708	270	1,779
Santa Fe CC	5,432	188	2,824	188	1,355
Subtotal	43,946	2,032	27,156	2,032	13,030
Tribal or Special Schools					
NMMI	498	8	-	8	-
DINE ¹	407	37	-	37	-
IAIA ¹	594	14	-	14	-
SWIPI ²	367	-	-	-	-
NTC ¹	1,325	126	-	126	-
Subtotal	3,191	185	-	185	-
Total Number of Students Enrolled	123,207	14,491	40,509	14,491	21,109

¹ Tribal colleges are not required to provide the same type of data to HED or LFC as institutions that receive state funding.

² Students who attend SIPI receive full tuition scholarships through federal appropriations.