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## FISCAL IMPACT REPORT

ORIGINAL DATE 03/15/21

SPONSOR SFC LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Opportunity Scholarship Act SB 135/SFCS

ANALYST Valenzuela

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY21	FY22		
	\$4,000.0	Recurring	General Fund (Lottery Tuition)

(Parenthesis ( ) Indicate Expenditure Decreases)

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

	FY21	FY22	FY23	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>		\$56,372.2	\$56,372.2	\$112,744.4	Recurring	General Fund (Opportunity Scholarship Act)

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates Appropriation in the General Appropriation Act of 2021

### SOURCES OF INFORMATION

LFC Files

Responses Received On Original Bill From  
Higher Education Department (NMHED)  
Multiple Colleges and Universities

### SUMMARY

#### Synopsis of Bill

The Senate Finance Committee substitute for Senate Bill 135 (SB135/SFCS) appropriates \$4 million from the general fund to the lottery tuition fund for the purpose of providing scholarships to returning lottery students who lost eligibility and are within 36 credit hours of earning a bachelor's degree.

The bill creates a new fund – the opportunity scholarship fund – for the purpose of providing scholarships to part-time students who enroll in a two-year academic program or full-time

students who enroll in bachelor's degree programs at universities. SB135 also creates in statute the Opportunity Scholarship Act, providing for eligibility for students attending a four-year university or two-year community college. Student eligibility for an opportunity scholarship takes one of three forms:

1. Recent high school graduates, called recent graduate learners, pursuing a bachelor's degree at a four-year university, who must maintain full-time enrollment status and successfully complete 15 credit hours per semester with at least a 2.5 cumulative GPA (eligible to receive financial support for up to seven semesters); or
2. Adults, called recent student learners, pursuing a credential in a two-year academic program, who must maintain part-time enrollment status and successfully complete six credit hours per semester with at least a 2.0 cumulative GPA (eligible to receive financial support for up to eight semesters); and
3. Adults, called recent student learners, who after completing a two-year academic program, may continue receiving financial support for two additional years to pursue a bachelor's degree.

SB135/SFCS creates a new category of eligibility under the lottery tuition scholarship fund – returning lottery students – who lost eligibility and are within 36 credit hours of earning a bachelor's degree. In contrast to existing lottery scholarship recipients, the new category of student eligibility will be required to complete only six credit hours a semester to maintain a scholarship and can receive the scholarship for up to two years. Existing lottery scholarship recipients are required to complete 15 credit hours per semester.

The effective date of this bill is July 1, 2021.

### **FISCAL IMPLICATIONS**

The appropriation of \$4 million contained in this bill is from the general fund for transfer to the lottery tuition fund to provide scholarships to returning lottery students who lost eligibility and are within 36 credit hours of earning a bachelor's degree. This appropriation is a recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY22 shall not revert to the general fund.

Based on the provisions in the bill, the estimated fiscal impact is approximately \$61.4 million annually to fully fund the Opportunity Scholarship Act, as shown below. No appropriation is included for the opportunity scholarship fund; however, the House Appropriations and Finance Committee substitute for House Bill 2 includes \$5 million for the opportunity scholarship program but the estimated additional cost to fully fund the provisions in the bill is approximately \$56.4 million per year.:

**Table 1. Estimated Annual Costs to Implement SB135/SFCS**

	Returning Student Learners		Recent Graduate Learners
	Two-Year Academic Program Cost	Four-year Academic Program Cost <sup>1</sup>	Four-Year Academic Program Cost
Research University	-	9,382,459	14,205,456
Regional Comprehensive University	6,200,576	4,279,691	1,142,973
Two-Year Colleges	22,910,372		947,654
Tribal Colleges	1,151,534	575,767	575,767
<b>Total Annual Cost</b>	<b>30,262,482</b>	<b>14,237,917</b>	<b>16,871,850</b>

<sup>1</sup>Assumes 10 percent of two-year college graduates pursue a bachelor's degree

The annual estimated costs, shown in table 1, are based on initial projections provided by HED for the original bill with several notable changes: (1) increased costs for students attending four-year universities who would attain eligibility by enrolling into a two-year academic program; (2) increased cost for a “returning student learner” to earn a bachelor’s degree after earning a two-year credential; and (3) increased costs for lottery eligible students who will benefit from receiving full cost of tuition and student fees under the bill.

**SIGNIFICANT ISSUES**

**Excess Credits.** Over the past decade, the Legislature has implemented a series of statutory revisions directed at colleges and universities to normalize among institutions the academic degree requirements to earn a degree. Now, most degree programs are standardized: an associate degree requires 60 earned credit hours and a bachelor’s degree requires 120 earned credit hours. However, the bill would provide students with funding to earn up to 90 credit hours for a two-year degree and up to 180 credit hours for a bachelor’s degree. The bill would incentivize students to earn 50 percent more credit hours than required to earn a degree.

The Legislature addressed this specific concern several years ago when it changed the lottery tuition scholarship to require students to earn 15 credit hours per semester for a bachelor’s degree and 12 credit hours per semester for an associate degree. Lowering the eligibility requirements, from 12 to 6 credit hours, could further heighten the probabilities that a student will not complete, nullifying the student and state investment. Research studies have shown higher rates of completion from students who are required to meet rigorous requirements to maintain scholarship than students who do not have meet these requirements. Since the lottery tuition scholarship statute change, the number of students who earn a bachelor’s degree at the University of New Mexico has doubled its four-year graduation rate from 19 percent to 39 percent, as an example.

The bill could create incentives for students to persist longer than necessary pursuing a degree.

**Uneven Student Support.** Of note, SB135/SFCS applies eligibility requirements unevenly, which could impact students unfairly. Under the bill, students earning a two-year degree will receive four years of financial support to complete a two-year degree, plus an additional two years of financial support if those students seek to attain a bachelor’s degree.

Students who attend a four-year university working toward a bachelor’s degree, are only supported for three and a half years under significantly higher performance thresholds. These students may seek to enroll in a two-year program at their four-year university, then take advantage of the additional two years of financial support to earn a bachelor’s degree.

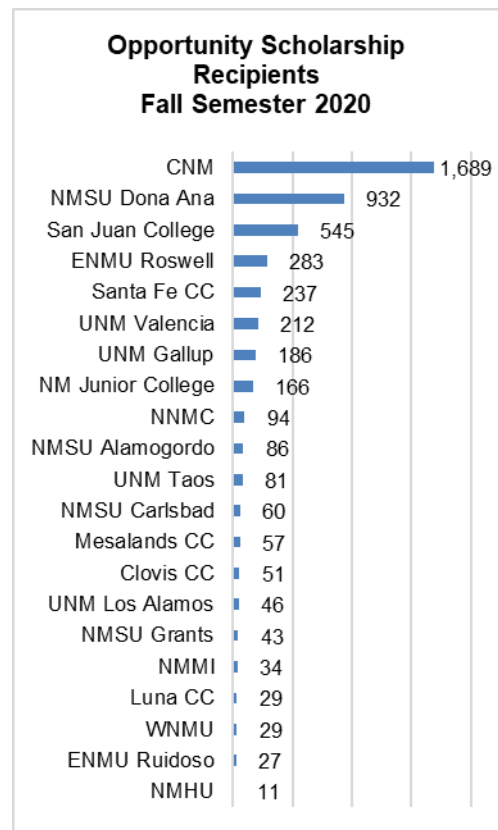
**Rising Costs of Tuition and Student Fees.** Governing bodies could erode the value of the any appropriations for the opportunity scholarship, by increasing tuition or imposing more student fees. On average over the past five years, cost of tuition has increased by 20 percent at four-year universities and 10 percent at two-year colleges. In FY20, colleges and universities collected \$319 million in tuition revenue and \$42 million in general student fee revenue. If institutions increase tuition an average 3.5 percent, it would erode the appropriation’s value by \$4.5 million annually.

**OTHER SUBSTANTIVE ISSUES**

**Community College Reliance on State Funding.** For two-year opportunity scholarships, HED has estimated allocations by institutions, shown in attachment 1 for the original bill. The allocations reflect several possible imbalances in the allocation methodology:

1. Allocations may be supplanting other institutional funds dedicated to student scholarships, including the 3 percent bridge scholarships or local financial support. The impact is effectively shifting tuition and fee costs to the state, while lessening local support. For example, ENMU Roswell imposes only the bare minimum local property tax required by statute but will receive \$1.2 million under SB135. Roswell is the fifth largest city in New Mexico but only contributes \$1.1 million in property taxes to its branch campus, while UNM Gallup, with half of the population, collects \$2.4 million from local property taxes.
2. Allocations are based on 100 percent of part-time student enrollment at two-year community colleges. Two-year colleges have significantly increased certificate programs that do not align with two-year credit-bearing academic programs. The allocations appear overstated, if based on this methodology.
3. Allocations impact institutions differently based on the type of two-year academic programs offered to students. For instance, in the fall 2020 semester, San Juan College used to opportunity scholarship to pay for a \$2,500.00 course fee for several students, reflecting more than 300 percent cost of tuition and general student fees. HED approved SJC’s use of opportunity scholarship for this purpose. The bill would cap those course-specific fees to \$250/course, but students will likely be faced with increasing cost of attendance because of a proliferation of similar course-specific fees, allowed under the bill.

**First Year of Program.** The opportunity scholarship was created and funded with \$10 million in the General



Appropriation Act of 2020. HED began offering scholarships in the 2020 fall semester. The Legislature intended the program to support students attending two-year colleges and four-year universities. HED implemented the program to focus on students enrolled in two-year academic programs, including those enrolled in sub-baccalaureate certificate programs that require less than a year to complete, without a requirement that the programs be accredited.

Unofficial reports from colleges and universities across the state show almost 4,900 students received opportunity scholarships for the fall 2020 semester, for a combined semester total of \$3.9 million. The average scholarship per student totaled \$795/semester.

The independent community colleges received the highest level of funding from the opportunity scholarship, 62 percent of the total funding awarded, even though enrollment in those schools declined by 26 percent. The branch campus community colleges received 34 percent of the funding while their enrollment declined by 22 percent.

**Precipitous Enrollment Declines.** Despite broadly available scholarship programs with the third lowest tuition costs in the country, enrollments at public colleges and universities have declined precipitously. In the five-year period preceding the coronavirus pandemic, statewide enrollment declined by 13 percent, or 16.4 thousand students. Prior to the coronavirus pandemic, the loss of students has impacted four-year universities and two-year community colleges evenly.

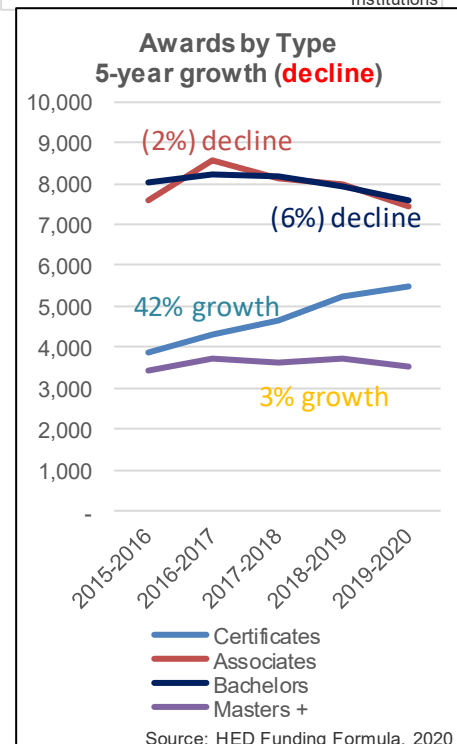
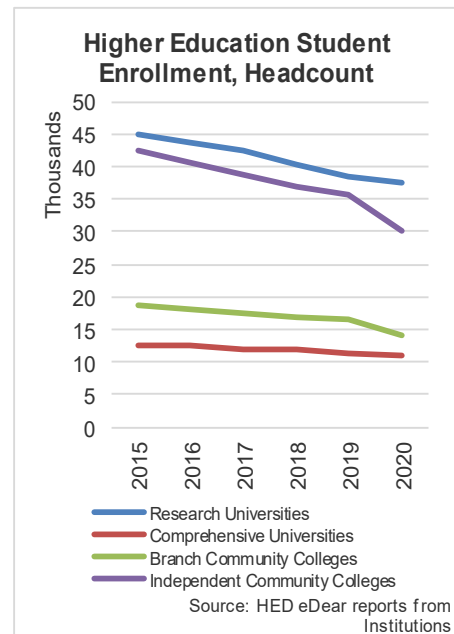
The Covid-19 pandemic accelerated enrollment declines, deepening losses by an additional 9.2 percent, or 9,423 students. Two-year colleges suffered the majority, or 87 percent, of student enrollment losses from the pandemic. By chance, the pandemic impacted two-year colleges for the inaugural year of the opportunity scholarship initiative, which offered free college tuition and fees to students

enrolled in two-year academic programs.

**PERFORMANCE IMPLICATIONS**

Declining enrollment threatens a robust workforce in New Mexico, and lagging institutional performance must improve to ensure more students are successful in completing their degrees. Today on average at the two-year colleges, fewer than 27 percent of first-time full-time students finish their degree. New Mexico colleges and universities, when compared with peers in other states, lag in graduation rates.

The performance-based funding formula for colleges and universities incentivizes student completion. Since its introduction, colleges and universities have conferred 22 percent more awards to students in New Mexico. Every year,



students, in aggregate, earn as many as 24 thousand awards. Forty-two percent of the growth has been in sub-baccalaureate certificates, requiring less than two years to earn a certificate. Meanwhile, the number of students earning bachelor's degrees has declined by 6 percent. Employers report inability to recruit sufficient numbers of New Mexico graduates with bachelor's degrees or higher. New Mexico faces shortages of teachers, social workers, healthcare professional, engineers and scientists.

Enrollment declines along with misalignment in type of degree production could position the state poorly to address workforce needs for the next decade.

**Adults with Some College, No Degree.** New Mexico underperforms its surrounding states on educational attainment. According to U.S. Census Bureau data, 63 percent of New Mexico's adult population do not hold a college degree. More than 23 percent of adults – 325 thousand New Mexicans – have attempted college but did not complete a degree. Lacking readily available analyses on its students who have left their campuses prior to degree completion, New Mexico institutions instead cite student's financial or personal circumstances as reasons for non-completion. More than 20 years ago, UNM initiated a program called the Graduation Project that targeted these students – students who dropped out – to return them to campus. Initially, the program experienced strong results, but changing administrations over time have diminished its effectiveness.

## ALTERNATIVES

Institutional reforms focused on student outcomes may be an effective approach to assisting students. Several colleges and universities across the country have learned that bringing students on campus to graduate more quickly is student focused rather than institutional focused. More importantly, colleges and universities hold the data to help students succeed but, most often, only use the data to comply with state or federal requirements. Instead, developing existing data sources into actionable information would be transformational for students and institutions.

**Using the Data on Campus, Predictive Analytics.** Institutions in other states have tackled lagging institutional performance by distilling useful information from the data it collects on its students and their performance. Using predictive analytics software, the institutions monitor data to gain insight to potential challenges confronting students. For example, elevated student absences might signal course withdrawal, rising unpaid balances might signal financial challenges, bad test grades might indicate need for more direct academic contacts. Taken together, the data can be used to trigger administrators to act. Principally, student advisors can make contact with the student and triage potential challenges before students make a decision to drop out. Georgia State University – which has lead the nation developing an effective student-focused data system – has doubled its graduation rate in five years. Georgia State University, a research university in the heart of Atlanta, Georgia, had low graduation rates, with significant student populations who did not complete their intended degrees, resulting in high student loan default rates and misalignment in the workforce. After restructuring its data systems, Georgia State built an early warning system, assessing 801 student metrics daily, and making contact with a student within 48 hours of a possible problem. The successful program has assisted students in completing their degrees on time, lowering the cost of education.