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FISCAL IMPACT REPORT

SPONSOR <u>Campos</u>	LAST UPDATED <u>2/2/24</u> ORIGINAL DATE <u>1/28/24</u>
SHORT TITLE <u>Higher Education Trust Fund</u>	BILL NUMBER <u>Senate Bill 159/aSEC</u> ANALYST <u>Jorgensen/ Torres, Ismael</u>

APPROPRIATION* (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY24	FY25		
	\$959,000.0	Nonrecurring	Tax Stabilization Reserve Fund

Parentheses () indicate expenditure decreases.
 *Amounts reflect most recent version of this legislation.

REVENUE* (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY25	FY26	FY27		
\$47,950.0	\$47,271.4	\$48,310.3	Recurring	Higher Education Program Fund

Parentheses () indicate revenue increases.
 *Amounts reflect most recent version of this legislation (see Appendix A)

Relates to appropriation in the General Appropriation Act

Sources of Information

LFC Files

Agency Analysis Received From
 New Mexico Independent Community Colleges (NMICC)
 State Investment Council (SIC)

SUMMARY

Synopsis of SEC Amendment

The Senate Education Committee amendment to Senate Bill 159 states \$47.95 million shall be distributed from the higher education trust fund to the higher education program fund on July 1, 2024.

Synopsis of Original Bill

Senate Bill 159 establishes a trust fund to pay for tuition and student financial aid programs authorized by law. To accomplish this, the bill creates a higher education trust fund to invest \$959 million transferred from the tax stabilization reserve fund. Additionally, the bill creates a higher education program fund which receives annual distributions from the higher education trust fund and may be used for scholarships for tuition and fees.

Balances in the higher education trust fund will be invested with the State Investment Council (SIC). From FY26 to FY27, the SIC shall distribute 5 percent of the preceding calendar-year end fund balance to the higher education program fund, where the average of all year-end balance is taken for however many years the fund has existed. After the first three years, SIC will distribute 5 percent of the three-year average year-end fund balance to the higher education program fund.

The bill specifies that balances in the fund may be appropriated for purposes other than student financial aid should general fund balances, including all reserves, be insufficient to meet the level of appropriations authorized from the general fund.

The bill authorizes a transfer of \$959 million from the tax stabilization reserve fund to the higher education trust fund.

This bill does not contain an effective date, and as a result, would go into effect on May 15, 2024, (90 days after the Legislature adjourns) if signed.

FISCAL IMPLICATIONS

The bill transfers \$959 million from the tax stabilization reserve fund to the higher education trust fund. The newly created trust fund is invested by SIC with investment earnings used to pay for tuition and fees scholarships for programs authorized by law.

The funds transferred from the tax stabilization reserve are a part of the general fund reserves. The amount represents about 9.5 percent of general fund recurring appropriations, and therefore would reduce the reserve percentage by that amount. The Legislative Finance Committee budget recommendation accounts for the transfer and allows for 30 percent remaining reserves. Further, the balance of the TSR is invested by SIC and earnings on the fund remain in the fund, growing reserve levels. Because of the transfer, SIC is expected to invest the funds more aggressively, earning a higher return that will instead be available for appropriation to scholarship programs.

The Legislature made sufficient nonrecurring appropriations to cover the full cost of the lottery scholarship through FY27. The Higher Education Department estimates the FY24 cost of the opportunity scholarship to be \$158 million, \$10.6 million more than the \$146 million appropriated. The costs of these scholarship programs are likely to grow as higher education enrollment and/or tuition rates increase.

SIC reports the 2023 year-end balance of the TSR was \$2.39 billion with an additional contribution of \$723.9 million expected in January, and that the TSR will have the cash holdings to make the transfer to the higher education trust fund mandated by SB159.

SIC notes the TSR must maintain a higher proportion of liquid assets to allow for emergency use of the fund which drives down investment return rates. In contrast to this, the higher education trust fund would have stable and predictable spending policy which could allow the Council to invest the funds in assets with higher return potential and more like the asset allocations of other permanent/trust funds under the Council's management. SIC notes investment return expectations for its funds range from 5.1 percent for the TSR to 7 percent for the land grant permanent fund and SIC provided analysis based on a 6 percent investment return assumption.

LFC conducted two analyses (see attachments) to estimate the impact of this bill on the scholarship programs. Both analyses use a 6 percent investment return assumption. The first analysis (appendix A) assumed annual growth of 1 percent per year in the opportunity and lottery scholarships. This is meant to approximate a scenario in which demographic changes reduce the number of high school graduates and in which higher education institutions do not raise tuition. The analysis finds that the endowment would produce sufficient revenue to cover scholarship cost increases through FY32. However, with a growth rate of 3.5 percent per year (appendix B), representing modest increases in enrollment and tuition, the scholarship costs will exceed trust fund revenue by the end of FY28.

SIGNIFICANT ISSUES

New Mexico's two scholarship programs provide access to tuition-free higher education for a majority of undergraduate students. However, neither of these programs guarantees tuition-free college and scholarship amounts may be reduced based on availability of funding.

The lottery scholarship receives annual revenue equal to 30 percent of revenue generated through lottery tickets sales in the state. Historically, this revenue source has generated approximately \$40 to \$50 million per year while the cost to provide a full award to eligible students is approximately \$65 to \$70 million per year. The Legislature made a nonrecurring special appropriation of \$130 million in FY23 to fully fund the lottery scholarship program through FY28. When this funding is exhausted, the lottery scholarship will be in a deficit and the Legislature will have to allocate additional funds to pay for the program or institutions will have to reduce the scholarship amount for students.

The opportunity scholarship received recurring appropriations of \$146 million per year in FY24. However, data received from higher education institutions show opportunity scholarship costs are estimated at \$158 million for FY24.

A 2023 LFC program evaluation, *Higher Education Financial Aid: Opportunity and Lottery Scholarships*, found New Mexico has grown state funding for financial aid at a significantly faster rate (276 percent) than funding for core instruction and general operations at state colleges (27 percent) since FY19. The LFC evaluation found increased funding for core instruction and general operations, particularly student supports, has a higher estimated impact on college completion than additional financial aid dollars. The LFC evaluation recommended improving the sustainability of the state's tuition scholarship programs and prioritizing future funding increases for core instruction and general operations at state colleges.

This cost growth of these scholarship programs will require the Legislature to either increase appropriations to fully fund the scholarship program or require higher education institutions to reduce student awards to reflect available funding.

Projecting the actual costs of these programs is difficult as each institution sets its tuition independently and the state scholarship programs do not currently have a maximum cost per credit hour or similar cost control mechanism. Increases in tuition rates could significantly increase scholarship program costs. Additionally, estimating student enrollment presents challenges as New Mexico's K-12 population is declining and the number recent high school graduates as well as adult learners who may enroll in higher education programs in the future is unknown.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

The LFC recommendation for the opportunity scholarship does not cover the total anticipated need and presupposes enactment of this legislation to fully fund the program.

ADMINISTRATIVE IMPLICATIONS

This bill will require additional time from investment and administrative staff at the State Investment Office. However, the additional resources required can be addressed through their ordinary budgeting process.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The FY25 LFC recommendation for higher education does not include additional funding to pay for opportunity scholarship cost increases estimated at \$15.9 million. If this bill is not passed, the legislature would need to provide additional funding to cover the full cost of the opportunity scholarship program or reduce scholarship award amounts which may result in students being held liable for tuition not covered by the scholarship.

Attachments

1. Analysis of Higher Education Trust Fund -- Assuming No Tuition Increase, 1 Percent Annual Enrollment Increase (Appendix A)
2. Analysis of Higher Education Trust Fund -- Assuming 3.5 Percent Annual Growth for Tuition and Enrollment (Appendix B)

Analysis of Higher Education Trust Fund
(assuming NO TUITION INCREASE, 1% annual enrollment increase)

	FY25*	FY26	FY27	FY28	FY29	FY30	FY31	FY32
SOURCES								
Trust Fund Beg. Bal.	959,000.0	945,427.1	986,984.0	1,029,422.7	1,069,905.8	1,086,582.3	1,101,864.2	1,115,643.9
Investment Return (1)	-	56,725.6	59,219.0	61,765.4	64,194.3	65,194.9	66,111.9	66,938.6
Avail for Transfer to Prog Fund (2)	47,950.0	47,271.4	48,310.3	49,363.9	51,438.5	53,098.5	54,305.9	55,068.2
USES								
Lottery Scholarship Fund Balance	110,823.8	84,647.9	55,615.2	23,604.4	-	-	-	-
Lottery Scholarship Revenue	47,219.1	46,931.1	46,611.8	46,259.6	46,000.0	46,000.0	46,000.0	46,000.0
Lottery Cost (3)	70,599.0	71,305.0	72,018.0	72,738.2	73,465.6	74,200.3	74,942.3	75,691.7
<i>Lottery Need, Additional</i>	-	-	-	2,874.2	27,465.6	28,200.3	28,942.3	29,691.7
Opportunity Appropriations	146,000.0	146,000.0	146,000.0	146,000.0	146,000.0	146,000.0	146,000.0	146,000.0
Opportunity Use (4)	159,572.9	161,168.7	162,780.3	164,408.1	166,052.2	167,712.8	169,389.9	171,083.8
<i>Opportunity Need, Additional</i>	13,572.9	15,168.7	16,780.3	18,408.1	20,052.2	21,712.8	23,389.9	25,083.8
Total Financial Aid Need	13,572.9	15,168.7	16,780.3	21,282.3	47,517.8	49,913.0	52,332.1	54,775.5
Trust Fund Use	13,572.9	15,168.7	16,780.3	21,282.3	47,517.8	49,913.0	52,332.1	54,775.5
Reversion to Trust Fund/(Gap)	34,377.1	32,102.7	31,529.9	28,081.6	3,920.7	3,185.5	1,973.7	292.7
Trust Fund Ending Balance	945,427.1	986,984.0	1,029,422.7	1,069,905.8	1,086,582.3	1,101,864.2	1,115,643.9	1,127,807.1

*Distribution from the trust fund to the program fund in FY25 will require a technical amendment to SB159 as introduced.

Notes:

1. investment return of 6% based on STPF 10-year return
2. statute allows for 5% of 3-year average
3. Based on 1% enrollment growth and no tuition growth
4. Based on 1% enrollment growth and no tuition growth

Analysis of Higher Education Trust Fund

(assuming 3.5% average annual growth rate for tuition and enrollment increases)

	FY25*	FY26	FY27	FY28	FY29	FY30	FY31	FY32
SOURCES								
Trust Fund Beg. Bal.	959,000.0	943,098.0	978,094.9	1,009,325.6	1,024,870.8	1,036,158.2	1,047,155.1	1,058,181.3
Investment Return (1)	-	56,585.9	58,685.7	60,559.5	61,492.2	62,169.5	62,829.3	63,490.9
Avail for Transfer to Prog Fund (2)	47,950.0	47,154.9	48,029.8	48,842.0	50,204.9	51,172.6	51,803.1	52,358.2
USES								
Lottery Scholarship Fund Balance	110,823.8	84,647.9	55,615.2	23,604.4	-	-	-	-
Lottery Scholarship Revenue	47,219.1	46,931.1	46,611.8	46,259.6	46,000.0	46,000.0	46,000.0	46,000.0
Lottery Cost (3)	73,395.0	75,963.8	78,622.6	81,374.3	84,222.5	87,170.2	90,221.2	93,378.9
<i>Lottery Need, Additional</i>	-	-	-	11,510.3	38,222.5	41,170.2	44,221.2	47,378.9
Opportunity Appropriations	146,000.0	146,000.0	146,000.0	146,000.0	146,000.0	146,000.0	146,000.0	146,000.0
Opportunity Use (4)	161,902.0	167,589.0	173,455.0	179,504.0	185,786.6	192,289.2	199,019.3	205,985.0
<i>Opportunity Need, Additional</i>	15,902.0	21,589.0	27,455.0	33,504.0	39,786.6	46,289.2	53,019.3	59,985.0
Total Financial Aid Need	15,902.0	21,589.0	27,455.0	45,014.3	78,009.1	87,459.4	97,240.5	107,363.9
Trust Fund Use	15,902.0	21,589.0	27,455.0	45,014.3	50,204.9	51,172.6	51,803.1	52,358.2
Reversion to Trust Fund/(Gap)	32,048.0	25,565.9	20,574.8	3,827.7	(27,804.2)	(36,286.8)	(45,437.4)	(55,005.7)
Trust Fund Ending Balance	943,098.0	978,094.9	1,009,325.6	1,024,870.8	1,036,158.2	1,047,155.1	1,058,181.3	1,069,314.0

*Distribution from the trust fund to the program fund in FY25 will require a technical amendment to SB159 as introduced.

Notes:

1. investment return of 6% based on STPF 10-year return
2. statute allows for 5% of 3-year average
3. Based on 5% growth FY25 and 3.5 after FY25
4. Based on 3.5% growth