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FISCAL IMPACT REPORT

ORIGINAL DATE 1/28/16
LAST UPDATED 2/4/16 **HB** _____

SPONSOR Munoz

SHORT TITLE School “Current Year MEM” Calculation **SB** 165

ANALYST Elkins

REVENUE (dollars in thousands)

| Estimated Revenue | | | Recurring or Nonrecurring | Fund Affected |
|-------------------|-------------------------|------|---------------------------------|------------------|
| FY16 | FY17 | FY18 | | |
| | See Fiscal Implications | | | |

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
 LESC Files

Response Received From
 Public Education Department (PED)

SUMMARY

Synopsis of Bill

The bill amends the Public School Finance Act, Section 22-8-23.1 NMSA 1978, to clarify the definition of “current year MEM” in the calculation of enrollment growth units. The amended definition of “current year MEM” will eliminate the double funding of students in newly phased-in grades who count in the current-year student membership in the calculation of program units and also count in the calculation of enrollment growth units. The bill defines “current year MEM” to mean the sum of MEM on the first reporting date of the current year minus MEM calculated for new formula-based programs for the purposes of the state equalization guarantee distribution (SEG). This bill is endorsed by the Legislative Finance Committee and the Legislative Education Study Committee.

FISCAL IMPLICATIONS

For FY16, the Legislature appropriated \$5.2 million for enrollment growth units. LFC analysis of the FY15 final funded run indicates charter schools generated 54 percent of enrollment growth units while serving 7 percent of the total public school population. However, it is unclear how much of the funding for enrollment growth units is attributable to students in new formula-based

programs. The double funding of students in newly phased-in grades who count in the current-year student membership in the calculation of program units and also count in the calculation of enrollment growth units dilutes the unit value in the SEG. The Legislature included language in the GAA of 2015 to eliminate this double funding and reduced the SEG by \$2.9 million to account for this reduction in FY16. This bill formalizes the language in the GAA and should have no fiscal impact on charters or districts in FY17 or subsequent years. Passage of this bill will not increase or decrease funding for public schools, rather by eliminating the double funding of these students will reduce the amount of units generated and increase the unit value.

SIGNIFICANT ISSUES

School districts and charter schools are required to use current-year student membership in the calculation of program units for new formula-based programs, including newly phased-in grades by charter schools pursuant to language included in the General Appropriation Act (GAA) because prior year enrollment data does not exist. However, these same students are also counted toward the calculation of enrollment growth units, and if a charter school's newly phased-in grade level causes year-over-year enrollment growth of at least 1 percent, the charter school generates those units as well, resulting in the double funding of these students.

The Legislature included language in the GAA of 2015 to prohibit counting any student funded based on current year enrollment toward enrollment growth units in FY16. PED originally indicated the language included in the budget sufficiently addressed the double-funding issue; however, PED recently indicated the department will not be implementing the language as drafted, which will result in a modest dilution of the unit value. Additionally, it only provides a temporary annual solution to the problem.

Enrollment growth units are triggered only when a school district or charter school experiences an increase in student membership equal to or greater than 1 percent over the previous year. 1.5 units for each student above the 1 percent growth threshold and an additional 0.5 units for each student above the prior year base are generated through the two statutory formulas, resulting in: growth from zero to 1 percent being funded with 0.5 units per student; and growth greater than or equal to 1 percent up being funded with 2 units per student.

Much of the limited annual increase in enrollment growth units has been the result of charter schools phasing in grades over time. Enrollment for these grades is generally based on current year enrollment, rather than prior-year enrollment; however, charter schools have also historically been able to count these students toward enrollment growth units.

According to PED, this bill will impact charter schools and school districts that are adding a new grades or other new programs for the current fiscal year. Approximately, 10 to 20 charters add new grades each year. The individual impact to each charter will fluctuate greatly depending how big they are and how many students they serve as well as how many new grades they are adding.