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FISCAL IMPACT REPORT

SPONSOR Smith ORIGINAL DATE 9/30/16
 LAST UPDATED 10/1/16 HB _____

SHORT TITLE School District Cash Balances SB 10

ANALYST Liu

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY17	FY18		
(\$25,000.0)		Nonrecurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

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)

Relates to SB4

Relates to Appropriation in the 2016 General Appropriation Act

SOURCES OF INFORMATION

LFC Files

SUMMARY

Synopsis of Bill

Senate Bill 10 would amend the Public School Finance Act, allowing the Public Education Department (PED) secretary to reduce the FY17 state equalization guarantee (SEG) distribution by \$25 million. Each school district's or charter school's SEG distribution would be reduced proportionately, calculated by dividing \$25 million by total eligible FY16 membership and multiplying the quotient by each eligible school district's or charter school's FY16 final funded membership. Total FY16 eligible membership only includes membership counts from school districts or charter schools that have not received emergency supplemental appropriations in FY16 or FY17. Reductions will be in the form of an FY17 SEG credit, applied by the PED secretary.

FISCAL IMPLICATIONS

Chapter 39 of Laws 2011 repealed cash balance limits for school districts and charter schools, allowing public education institutions to retain all cash carried forward from the end of each fiscal year. According to PED, unaudited, unrestricted cash balances carried forward from FY16 by public schools amounted to \$252.5 million, a 20.5 percent increase from the FY15 cash carryforward balance of \$209.6 million. This bill would allow the PED secretary to reduce the FY17 SEG distribution for school districts and charter schools, generating \$25 million in general fund savings. Fifteen school districts and charter schools are excluded from the total eligible FY16 membership count due to receiving emergency supplemental appropriations in FY16 or FY17.

Reduction to the FY17 SEG distribution may restrict school district or charter school flexibility in financial decision-making if unrestricted cash balances are low. The fiscal impact of this bill would likely require school districts and charter schools to use unrestricted cash balances to offset the SEG distribution credit, effectively decreasing average cash balances.

SIGNIFICANT ISSUES

SB 10 does not take into account school district and charter school cash balances carried forward from FY16, thus having a larger fiscal impact on school districts with low cash balances and high membership. The median FY17 SEG distribution credit; however, is \$20.3 thousand—significantly smaller than the median FY16 cash balance carry forward of \$248.8 thousand.

New Mexico remains under a sufficiency lawsuit asserting that poor and disparate student performance is associated with insufficient funding for public education. The complaint refers to a 2008 American Institute for Research report that found public school operational expenses were underfunded statewide by approximately \$334.7 million, or 14.5 percent.

Reductions to the FY17 SEG distribution would require PED to demonstrate that the state still meets special education maintenance of effort (MOE) requirements or qualifies for a waiver. The MOE provision of Part B of the federal Individuals with Disabilities Education Act (IDEA-B) – 34 CFR §300.163(a) – requires states to maintain state-level financial support of special education as a condition of continued receipt of federal IDEA-B funds and effectively prohibits states from supplanting state revenues appropriated for special education students with federal IDEA-B dollars. Provisions of IDEA-B allow the U.S. Secretary of Education to grant a waiver to a state that does not meet annual MOE requirements based on (1) a showing of precipitous declines in financial resources and exceptional and uncontrollable financial circumstances, or (2) clear and convincing evidence that all children with disabilities have available to them a free appropriate public education (FAPE), notwithstanding the state's failure to maintain fiscal effort. PED is currently working with the U.S. Department of Education to reach a settlement on prior year shortfalls for MOE.

RELATIONSHIP

SB 10 and SB 4 reduce reliance on general fund appropriations for public school funding. SB 10 reduces FY17 SEG distributions based on FY16 school district and charter school membership. SB 4 replaces instructional material funds with supplemental severance tax bonds from the public school capital outlay fund.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

A general fund reversion of \$25 million in FY17 will not be realized through a reduction of the SEG distribution, and school districts and charter schools will receive their full authorized SEG distribution.

SL/jll/al