F I S C A L   I M P A C T   R E P O R T

		ORIGINAL DATE	1/18/17		
SPONSOR	CC	**LAST UPDATED**	2/15/17	**HB**	
SHORT TITLE	School District Cash Balances			**SB**	114/aCC/ec
				ANALYST	Liu

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY17	FY18		
($46,108.2)		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 HB7
Companion to HB4, HB5, HB6, HB 8, SB111, SB112, SB113
Relates to Appropriation in the 2017 General Appropriation Act

SOURCES OF INFORMATION
LFC Files
Legislative Education Study Committee (LESC) Files

No Response Received From
Public Education Department (PED)

SUMMARY

Synopsis of Conference Committee Amendment

The conference committee retained all language in the Senate Finance Committee Substitute for Senate Bill 114 as amended by the House Floor, with one exception. The conference committee action replaces the 4 percent credit floor with a 3 percent credit floor, effectively expanding the applicability and amount of the FY17 state equalization guarantee (SEG) credit to school districts and charter schools with a cash balance amount greater than 3 percent of FY16 program cost. The conference committee action is estimated to result in a total credit of $46.1 million.

Synopsis of House Floor Amendment #1

House Floor amendment #1 eliminated the House Appropriations and Finance Committee (HAFC) amendment and added a provision to ensure school districts and charter schools would not be credited by an amount that would reduce their FY16 audited cash balances below 4 percent of FY16 program cost. Staff estimates the House Floor amendment would have resulted in a total FY17 state equalization guarantee (SEG) credit of $43.2 million.

Synopsis of HAFC Amendment

Senate Bill 114 as amended by HAFC included a provision to ensure the FY17 SEG distribution credit did not exceed audited FY16 cash carry over balances.

Synopsis of SFC Substitute

Senate Bill 114 as substituted by the Senate Finance Committee amends the Public School Finance Act, adding a section requiring the Public Education Department (PED) secretary to reduce the FY17 SEG distribution to school districts and charter schools by $49.4 million as a credit for excess FY16 cash balances at school districts and charter schools. The $49.4 million SEG credit would be applied proportionately to all school districts and charter schools based on their FY16 program cost, excluding school districts that receive an emergency supplemental distribution in FY17. The bill directs the PED secretary to reduce SEG distributions evenly over the remainder of FY17. The bill has an emergency clause.

FISCAL IMPLICATIONS

The bill would require the PED secretary to reduce the FY17 SEG distribution for school districts and charter schools based on FY16 program cost, generating an estimated $49.1 million in general fund savings based on budgeted FY16 cash balances. This amount could change based on final audited figures. Each school district's and charter school's SEG distribution would be reduced proportionately, calculated by dividing $50 million by total FY16 program cost and multiplying the quotient by each school district's or charter school's FY16 program cost. Additional exemptions and adjustments to the credit are detailed below. The bill would reduce FY17 SEG distributions for all school districts and charter schools by an average of 2.1 percent.

Emergency Supplemental Exemption

School districts and charter schools that receive an emergency supplemental distribution in FY17 are excluded from the credit. According to PED, as of September 21, 2016, 14 school districts were budgeted to receive emergency supplemental distributions in FY17. Exclusion of the 14 emergency supplemental school districts is estimated to reduce the $50 million credit by approximately $631.3 thousand. The SFC substitute for SB114 adds this exemption, reducing the total credit to $49.4 million.

Laws 2011, Chapter 39, repealed cash balance limits for school districts and charter schools, allowing school districts and charter schools to retain all SEG cash balances remaining at the end of a fiscal year. According to PED, unaudited, unrestricted cash balances carried forward from FY16 by school districts and charter schools totaled $252.5 million, a 20.5 percent increase from FY15 cash carry forward balances of $209.6 million. The budgeted cash balances provided by

PED represent the amount of cash each school district and charter school budgeted to carry forward into FY17; the audited amount could change, as the amounts budgeted represent an estimated yearend balance.

Three Percent Credit Floor

School districts and charter schools would not be credited by an amount that would reduce their FY16 audited cash balances below 3 percent of FY16 program cost. Thirty-four school districts or charter schools would have their credits adjusted from the SFC substitute amount due to low cash balance percentages. Any school district or charter school with an audited 3 percent cash balance or less would not experience a credit under the conference committee's action, and school districts and charter schools with an audited cash balance over 3 percent could only be credited the amount in excess of 3 percent.

The conference committee action is estimated to increase the total credit imposed in the House Floor amendment from $38.4 million to $43 million, an estimated net increase of $4.5 million. However, preliminary validation of actual audit amounts for a number of reported school district and charter school cash balances indicates FY16 audited cash balances may be higher than budgeted cash balances noted on Attachment A. LESC and LFC staff estimate an additional $3.2 million increase in the SEG credit may be realized due to higher estimated audited cash balances. As such, total credits are estimated at $46.1 million.

It is anticipated that school districts and charter schools will use unrestricted cash balances to offset the SEG distribution credit, effectively decreasing average cash balances. Reduction to the SEG distribution may restrict school district and charter school flexibility in financial decision-making, particularly for school districts or charter schools with lower-than-average cash balances or delayed federal and state reimbursements. Fiscal impacts of the credit to these school districts and charter schools may be greater. See Attachment A for details on credit estimates affecting each school district and charter school.

The fiscal impact of this bill is time dependent. As school districts and charter schools continue to spend down budgets in FY17, cash balances may decrease and the probability of credits impacting operational budgets increases. Additionally, Laws 2016 (2^{nd} Special Session), Chapter 6 (Senate Bill 9) reduced FY17 SEG distributions by $37.8 million, or 1.5 percent for each school district and charter school, further compounding the need for school districts and charter schools to use existing cash balances.

SIGNIFICANT ISSUES

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.

Laws 2016 (2^{nd} Special Session), Chapter 6 (Senate Bill 9), reduced FY17 public school categorical appropriations by $30 million and gave PED discretion to allocate the $30 million reduction across six appropriations. PED allocated the $30 million reduction to the transportation appropriation and instructional materials appropriation. In prior years, a number of school districts have had to supplement student transportation distributions with operational funds

(SEG). According to PED, school districts and charter schools were provided flexibility in determining how to allocate reductions among their transportation and instructional materials reductions; locally-chartered charter schools saw the reduction to instructional materials allocations only because they do not receive transportation funds. Additionally, the Legislature appropriated $12.5 million in supplemental severance tax bond proceeds from the public school capital outlay fund to the instructional materials fund to offset reductions in FY17.

According to PED, $2.8 million in emergency supplemental funding was approved to school districts in FY16 and $1.2 million was carried forward for FY17. Over $4 million has been budgeted for emergency supplemental funding in FY17, including the FY16 carryover amount. PED notes supplemental emergency requests may increase as a result of solvency actions taken during the 2016 special legislative session.

RELATIONSHIP, COMPANIONSHIP

This bill relates to HB7, which also applies a program cost credit to school districts and charter schools. Additionally, the bill relates to the state equalization guarantee distribution within the General Appropriation Act of 2016 and Laws 2016 (2^{nd} Special Session), Chapter 6 (Senate Bill 9). The bill is a companion to HB4, HB5, HB6, HB 8, SB111, SB112, and SB113, which are all solvency bills for FY17.

OTHER SUBSTANTIVE ISSUES

During the 2016 special session, the Legislature considered taking credit for cash balances through a blended model that took a little of every school district's and charter school's cash balance and then swept additional cash balance from school districts and charter schools that had larger accumulated balances in relation to their operating budgets. The superintendents' association represented that a majority of school districts did not support this methodology and instead supported a methodology that took credit for cash balances proportionately across school districts and charter schools independent of actual cash balances.

ALTERNATIVES

According to LESC, PED proposed an SEG distribution credit that only impacts school districts and charter schools with cash balances in excess of 5 percent of their FY16 program cost. Under this method, the SEG credit impact would be greater to school districts and charter schools with larger reported FY16 budgeted cash balances. School districts and charter schools with cash balances less than 5 percent of their FY16 program cost would not be affected by the credit.

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