

FISCAL IMPLICATIONS

The appropriation of \$40.8 million contained in this bill is a nonrecurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY20 shall revert to the general fund.

LESC notes current law allows, but does not require, a school district or charter school to budget up to 5 percent of its proposed operational fund expenditures in the forthcoming fiscal year in an emergency account. According to data from PED, school districts held a total of \$3.2 million in emergency funds. The bill would require school districts and charter schools to sequester a percentage of cash balances for emergencies. The amount each school district and charter school would be required to reserve for emergencies would vary based on size, as follows:

- School districts and charter schools with fewer than 200 students: 10 percent
- School districts and charter schools with between 200 and 2,000 students: 7 percent
- School district and charter schools with between 2,000 and 25,000 students: 5 percent
- School districts and charter schools with more than 25,000 students: 3 percent

The actual dollar amount reserved for emergencies would depend on how much school districts and charter schools retain in cash balances. Because the percentage thresholds are based on school district or charter school cash balances, the amount of sequestered cash might be relatively small in relation to the total balance. For example, Albuquerque Public Schools (APS) has more than 25,000 students and a FY18 cash balance of \$44 million. Under provisions of this bill, APS could sequester \$1.3 million, or 3 percent, of cash for emergencies.

SIGNIFICANT ISSUES

In December 2016, consensus general fund forecasts showed the state exhausting reserves and ending FY17 with a \$69.1 million deficit. To keep the state solvent, the Legislature passed and governor enacted Laws 2017, Chapter 3, which reduced school district and charter school SEG distributions by \$40.8 million based on each school district's or charter school's unrestricted (non-emergency) cash balances. This reduction, or "credit," was nonrecurring, but placed additional fiscal constraints on public schools following the \$37.8 million recurring reduction in SEG distributions and \$30 million reduction in categorical appropriations enacted in October 2016.

According to PED data, school district and charter school unrestricted, unaudited cash balances totaled \$252.3 million at the end of FY16, prior to the credit taken during FY17. Ending cash balances for FY17 fell to \$197.6 million but grew to \$237.9 million in FY18. Almost half of school districts and charter schools reached a cash balance level in FY18 above their FY16 level, effectively recovering the credited amount from FY17.

The General Appropriation Act of 2018 included \$5 million to restore operational cash balances credited in Laws 2017, Chapter 3, and up to \$10 million from unallocated SEG distributions at the end of FY18 (which effectively would go into operational cash balances). The governor vetoed the \$5 million appropriation; however, PED was able to reset the unit value at the end of FY18 and allocate \$10 million to school district and charter school cash balances. LESL notes this end-of-year cash infusion would mean current reported FY18 cash balances are likely understated.

PERFORMANCE IMPLICATIONS

Beginning in FY06, PED moved from distributing federal flow-through funds on an advanced allotment basis to a reimbursement basis, to comply with the federal Cash Management Improvement Act. As a result, school districts and charter schools had to pay for expenses covered by federal grants and await reimbursement from PED. In FY17, PED took an average of 18 days to process reimbursement requests after the receipt of a complete and verified invoice. While the department allows grant recipients to seek reimbursement every two weeks and encourages school districts and charter schools to file reimbursement requests frequently, some school districts and charter schools file reimbursement requests less frequently, leading to backlogs in reimbursement requests near the end of the fiscal year. More frequent reimbursement requests could help ease cash flow issues faced by school districts and charter schools and reduce backlogs at PED.

TECHNICAL ISSUES

LESC notes \$140.6 thousand of the SEG distribution credited in Laws 2017, Chapter 3, are attributable to six charter schools that have since closed. Because those schools are no longer operating, distribution to these schools pursuant to the appropriation in this bill would not benefit students. It is unknown how many charter schools will close at the end of FY19, but La Academia Dolores Huerta did not receive a renewed charter from the Public Education Commission (PEC) for FY20. Additionally, New Mexico Connections Academy and Taos International School remain in litigation with PEC over their charter revocation decisions. Credits for these schools total an additional \$1738 thousand.

Under current law, the assets of closed state-chartered charter schools are first used to satisfy outstanding payroll, then to other creditors of the charter school, and finally to the state treasury to be deposited in the current school fund. Assets and liabilities of locally chartered charter schools are transferred to their authorizing school district. LESL notes liabilities for one closed charter school, Southwest Intermediate Learning Center, was assumed by another state-chartered charter school, which may benefit from the distribution allowed by this bill. The sponsor may wish to consider whether PED should make distributions to charter schools that are no longer in operation.

OTHER SUBSTANTIVE ISSUES

According to LESL, from FY06 to FY11, school districts and charter schools were limited in their ability to carryforward cash balance from one fiscal year to the next. Following the repeal of cash balance limits in 2011, cumulative statewide budgeted cash balances increased from \$141 million, or 6 percent of program cost, at the end of FY11 to \$252 million, or 9.9 percent of program cost, at the end of FY16. School districts and charter schools have historically budgeted less in cash than in recent years. From FY94 through FY06, when the Legislature enacted statutory cash balance limits, statewide budgeted cash balances averaged \$65 million, or 4.3 percent of statewide program cost. One factor that might have contributed to increasing cash balance levels was the need for cash to float federal and state grant programs that operated on a reimbursement basis.

School districts and charter schools require cash balances for a variety of reasons, including:

- Making upfront payments for state and federal grant programs that operate on a reimbursement basis;
- Maintaining bond ratings;
- Providing start-up costs for operating expenses when opening a new school; and
- Saving money to pay for large upcoming costs, such as textbooks or capital spending.

Available cash at the end of the year is particularly important for most school district and charter schools because pre-paid risk insurance premiums are due in full to the New Mexico Public Schools Insurance Authority (NMPSIA) early in the fiscal year. This requires school districts (apart from Albuquerque Public Schools) and charter schools to pay a combined \$74 million by August 10, although for FY18, NMPSIA agreed to allow school districts and charter schools to pay their risk premiums in three payments.

Charter schools indicate saving operational cash for capital purposes is particularly important because of limited access to capital funding through local mill levies. While charter schools often receive SB9 and HB33 distributions, charter schools typically do not receive funds from school district general obligation bonds and are more likely to rely on lease assistance funding from the Public School Capital Outlay Council and operational funding for other capital expenses.

District superintendents noted the importance of maintaining cash balances to fund their educational program in light of changes in enrollment that can reduce a school district's SEG distribution for a year or two. Superintendents argue cash balances allow them to maintain steady staffing levels and reduce the impact of yearly changes in enrollment.

Cash and fund balance trends are important considerations for bond rating agencies when assessing the credit worthiness of a school district. Moody's Investor Services' methodology for rating U.S. local governments' general obligation bond debt shows 30 percent of the rating is based on cash and fund balance and 70 percent is based on the size of the local tax base, how much debt the government has acquired (including pension debt), and the legal ability of the government to match revenues and expenses. Moody's methodology allows school districts to carry lower fund and cash balances than other governments at the same rating-level.

Bond rating downgrades can lead to increased debt service costs; however it can be difficult to quantify how much a ratings downgrade costs a school district because bond interest rates are set based on a number of factors, including the credit rating, market conditions, and how other investments are expected to perform versus municipal bonds. In some cases interest rates can rise before a bond issuer has been downgraded. For example, the interest rate paid by Santa Fe Public Schools increased from 4 percent to 5 percent between bonds issued in 2014 and 2015 even though the school district's rating was maintained (Moody's did issue a "negative outlook" prior to the 2015 sale). After the school district was downgraded in 2017, the school district sold bonds with a 5 percent rate, the same as before the downgrade. New Mexico school districts generally retain strong credit ratings, with most school districts receiving Aa or A ratings, signaling low risk of default. Nationwide, most general government municipal bonds carry Aa ratings. Only about 5 percent of general government municipal bonds are Aaa rated, the highest possible rating.

Guarantees provided for in state law generally "enhance" the bond rating of most school districts. Section 22-18-13 NMSA 1978 requires the Department of Finance and Administration

(DFA) to pay school district general obligation bonds if DFA is informed by the bond's paying agent that the agent has not received a bond payment from the school district. DFA then withholds the amount from the school district's next SEG payment. Because of this program, school districts currently receive an enhanced rating of Aa2 based on the credit worthiness of the state, regardless of the underlying rating for the school district. When Moody's downgraded state general obligation bonds from Aaa to Aa1, Moody's also downgraded enhanced school district ratings from Aa1 to Aa2. Because of the rating enhancement, the financial stability of the state is an important factor in determining the interest rates that schools will pay.

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School District and Charter School Unrestricted Cash Balances	FY16 Ending Balance	FY17 Ending Balance	FY18 Ending Balance
DESCRIPTION	6/30/2016	6/30/2017	6/30/2018
Academy of Trades and Technology	\$367,256	\$244,334	\$0
AIMS @ UNM	\$1,230,060	\$1,124,000	\$1,388,999
Alamogordo	\$3,463,495	\$2,956,309	\$3,241,515
Albuquerque	\$53,869,288	\$45,303,413	\$44,009,697
Albuquerque Collegiate		\$0	\$0
Albuquerque School of Excellence	\$0	\$210,000	\$189,944
Albuquerque Sign Language Academy	\$461,276	\$301,717	\$600,000
Aldo Leopold Charter School	\$488,791	\$360,810	\$190,395
Alma D' Arte Charter High School	\$130,000	\$80,000	\$95,000
Altura Preparatory		\$0	\$0
Amy Biehl Charter High School	\$705,949	\$495,215	\$519,434
Animas	\$464,595	\$191,120	\$198,066
Anthony Charter School	\$139,929	\$40,000	\$0
Artesia	\$3,047,902	\$2,724,102	\$2,793,955
ASK Academy	\$74,000	\$161,016	\$97,895
Aztec	\$3,695,331	\$1,966,076	\$1,833,956
Belen	\$942,973	\$250,000	\$550,533
Bernalillo	\$2,023,888	\$2,102,874	\$3,082,210
Bloomfield	\$2,576,071	\$2,627,419	\$3,855,769
Capitan	\$1,107,466	\$740,494	\$584,527
Carlsbad	\$9,122,603	\$2,221,136	\$4,279,096
Carrizozo	\$121,749	\$83,596	\$93,775
Central	\$11,673,494	\$8,984,728	\$10,164,592
Cesar Chavez Community School	\$500,000	\$554,770	\$638,136
Chama Valley	\$191,064	\$68,242	\$128,305
Cimarron	\$315,168	\$149,876	\$239,067
Clayton	\$753,381	\$386,731	\$547,643
Cloudcroft	\$706,277	\$441,595	\$573,803
Clovis	\$10,571,214	\$9,621,256	\$9,320,797
Cobre	\$434,791	\$28,211	\$349,234
Coral Community Charter	\$129,321	\$21,446	\$18,362
Corona	\$73,540	\$67,056	\$0
Cuba	\$613,086	\$186,241	\$829,736
DEAP	\$0	\$0	\$16,923
Deming	\$1,994,347	\$1,341,115	\$3,447,755
Des Moines	\$86,798	\$123,041	\$88,471
Dexter	\$846,188	\$271,825	\$701,445
Dora	\$589,228	\$387,727	\$357,957
Dream Dine'	\$84,314	\$103,966	\$185,491
Dulce	\$1,481,498	\$1,095,654	\$1,652,635
Elida	\$71,814	\$60,000	\$117,204
Espanola	\$1,686,880	\$1,581,897	\$2,608,233
Estancia	\$1,276,145	\$818,967	\$1,392,853
Estancia Valley Classical Academy	\$48,730	\$17,819	\$50,622
Eunice	\$1,491,080	\$929,528	\$1,260,143
Explore Academy	\$0	\$3,000	\$30,000
Farmington	\$6,215,822	\$4,456,659	\$6,554,429
Floyd	\$211,392	\$107,841	\$123,947
Fort Sumner	\$662,954	\$215,585	\$203,154
Gadsden	\$17,111,661	\$13,968,365	\$16,691,675
Gallup	\$16,867,235	\$12,003,358	\$19,776,805
Gilbert L. Sena Charter School	\$120,000	\$150,000	\$150,000
Grady	\$103,029	\$186,481	\$107,342
Grants/Cibola	\$2,591,221	\$3,776,360	\$6,180,557
Hagerman	\$817,579	\$579,384	\$271,442
Hatch	\$211,261	\$80,877	\$539,518
Hobbs	\$5,945,938	\$2,949,965	\$4,945,028
Hondo Valley	\$58,662	\$78,781	\$98,928
Horizon Academy West	\$426,880	\$96,513	\$299,999
House	\$129,995	\$43,541	\$116,700
Hozho Academy		\$0	\$0
J. Paul Taylor	\$34,616	\$120,920	\$122,885
Jal	\$512,037	\$469,392	\$386,853
Jemez Mountain	\$1,000,965	\$703,339	\$701,333

School District and Charter School Unrestricted Cash Balances	FY16 Ending Balance	FY17 Ending Balance	FY18 Ending Balance
DESCRIPTION	6/30/2016	6/30/2017	6/30/2018
Jemez Valley	\$384,859	\$576,580	\$563,568
La Academia Dolores Huerta	\$244,755	\$90,000	\$180,000
La Promesa Early Learning Center	\$0	\$0	\$470,785
La Tierra Montessori School of the Arts & Sciences	\$0	\$76,441	\$138,866
Lake Arthur	\$187,914	\$120,745	\$143,785
Las Cruces	\$7,297,634	\$9,749,515	\$10,519,630
Las Montañas Charter School	\$120,021	\$30,261	\$91,986
Las Vegas City	\$171,593	\$94,823	\$1,014,711
Logan	\$667,064	\$536,016	\$495,224
Lordsburg	\$117,514	\$209,367	\$291,857
Los Alamos	\$1,748,725	\$385,959	\$1,916,926
Los Lunas	\$9,174,853	\$5,584,715	\$4,844,611
Loving	\$706,513	\$128,798	\$492,214
Lovington	\$3,301,015	\$1,180,427	\$2,181,142
Magdalena	\$420,866	\$457,221	\$606,971
MASTERS Program	\$327,808	\$494,267	\$695,986
Maxwell	\$51,683	\$68,410	\$59,327
McCurdy Charter School	\$97,202	\$35,868	\$81,402
Media Arts Collaborative Charter School	\$405,632	\$209,984	\$175,000
Melrose	\$125,012	\$163,285	\$121,534
Mesa Vista	\$590,785	\$476,005	\$10,000
Mission Achievement and Success	\$0	\$300,000	\$400,000
Monte Del Sol Charter School	\$197,221	\$170,720	\$100,000
Montessori Elementary School	\$27,000	\$30,000	\$40,700
Mora	\$1,048,791	\$614,267	\$721,193
Moriarty	\$1,147,067	\$143,262	\$493,906
Mosquero	\$86,507	\$81,759	\$85,687
Mountainair	\$509,444	\$407,595	\$88,271
New America School	\$674,764	\$393,042	\$492,260
New America School - Las Cruces	\$559,337	\$390,060	\$486,525
New Mexico Connections Academy	\$410,000	\$100,000	\$365,102
New Mexico School for the Arts	\$213,616	\$216,542	\$329,163
North Valley Academy	\$464,589	\$106,448	\$344,562
Pecos	\$256,345	\$191,155	\$630,609
Penasco	\$884,900	\$938,715	\$226,810
Pojoaque Valley	\$258,774	\$293,325	\$0
Portales	\$247,059	\$383,132	\$1,393,126
Quemado	\$152,838	\$104,852	\$223,847
Questa	\$205,993	\$274,737	\$60,092
Raton	\$881,645	\$291,241	\$581,142
Red River Valley Charter School	\$37,391	\$9,255	\$97,471
Reserve	\$79,252	\$69,362	\$63,961
Rio Rancho	\$5,078,269	\$872,528	\$8,572,745
Roswell	\$5,791,532	\$5,322,501	\$313,806
Roy	\$165,543	\$39,845	\$49,610
Ruidoso	\$3,312,485	\$3,440,979	\$4,144,932
Sage Montessori Charter School	\$40,000	\$0	\$0
San Jon	\$152,031	\$200,784	\$182,665
Santa Fe	\$5,492,633	\$7,984,535	\$5,569,537
Santa Rosa	\$462,995	\$445,549	\$587,373
School of Dreams Academy	\$262,732	\$200,000	\$36,000
Silver City	\$645,485	\$756,628	\$274,311
Six Directions Indigenous	\$0	\$24,000	\$200,000
Socorro	\$566,812	\$610,496	\$1,370,764
South Valley Preparatory School	\$64,453	\$20,000	\$34,000
Southwest Intermediate Learning Center	\$431,861	\$0	\$0
Southwest Primary Learning Center	\$110,194		\$206,981
Southwest Secondary Learning Center	\$752,795	\$1,286,964	\$1,016,303
Springer	\$115,860	\$237,783	\$272,406
Student Athlete Headquarters (SAHQ)	\$0	\$0	\$6,000
SW Aeronautics, Mathematics and Science Academy	\$573,664	\$466,677	\$368,938
Taos	\$720,858	\$1,285,585	\$2,189,979
Taos Academy	\$98,464	\$228,201	\$334,430
Taos Integrated School of the Arts	\$152,539	\$91,921	\$13,222

School District and Charter School Unrestricted Cash Balances	FY16 Ending Balance	FY17 Ending Balance	FY18 Ending Balance
DESCRIPTION	6/30/2016	6/30/2017	6/30/2018
Taos International School	\$170,000	\$150,000	\$76,423
Tatum	\$640,808	\$325,967	\$290,122
Texico	\$393,484	\$219,896	\$497,126
The Great Academy	\$600,000	\$300,000	\$280,667
Tierra Adentro	\$100,000	\$80,000	\$350,000
Tierra Encantada Charter School	\$179,634	\$130,000	\$184,273
Truth or Consequences	\$2,104,689	\$1,467,557	\$1,617,821
Tucumcari	\$890,446	\$882,169	\$1,394,764
Tularosa	\$2,317,005	\$1,313,640	\$960,760
Turquoise Trail Elementary	\$494,017	\$217,330	\$164,034
Uplift Community School	\$75,000	\$0	\$0
Vaughn	\$212,322	\$76,414	\$220,224
Wagon Mound	\$42,946	\$49,215	\$59,824
Walatowa Charter High School	\$845,504	\$1,433,767	\$1,836,523
West Las Vegas	\$726,054	\$761,794	\$1,787,324
Zuni	\$425,400	\$644,340	\$1,165,375
Carinos De Los Ninos	\$39,689	\$6,509	\$0
Roots and Wings Community School	\$50,000	\$500	\$50,711
ABQ Charter Academy	\$638,622	\$483,965	\$295,943
ACE	\$603,700	\$510,595	\$585,430
Albuquerque Talent Development	\$205,766	\$235,781	\$194,000
Alice King Community School	\$214,000	\$100,000	\$10,000
Christine Duncan's Heritage Academy	\$71,596	\$369,948	\$403,524
Cien Aguas International School	\$157,720	\$25,656	\$21,204
Corrales International School	\$59,998	\$76,110	\$215,211
Cottonwood Classical Preparatory School	\$18,693	\$20,000	\$51,926
Digital Arts and Technology Academy	\$380,981	\$200,000	\$172,040
East Mountain High School	\$311,437	\$305,709	\$0
El Camino Real Academy	\$0	\$12,247	\$2,825
Gordon Bernell Charter School	\$533,000	\$475,772	\$400,000
Health Leadership High School	\$616,909	\$201,332	\$500,432
International School @ Mesa Del Sol	\$455,000	\$360,000	\$291,007
La Academia de Esperanza	\$208,575	\$520,072	\$0
La Resolana Leadership Academy	\$0	\$5,000	\$137,104
Los Puentes Charter School	\$349,251	\$201,655	\$419,328
Mark Armijo Academy			\$150,000
Montessori of the Rio Grande	\$100,000	\$34,750	\$82,000
Mountain Mahogany Community School	\$56,819	\$56,690	\$74,021
Native American Community Academy	\$100,000	\$115,141	\$9,133
New Mexico International School	\$174,132	\$337,633	\$391,690
Public Academy for Performing Arts	\$200,000	\$189,000	\$30,000
Robert F. Kennedy Charter School	\$35,047	\$87,665	\$46,760
Siembra Leadership	\$0	\$18,122	\$381,661
South Valley Academy	\$1,115,149	\$882,759	\$825,836
Technology Leadership	\$200,000	\$743,549	\$873,362
Twenty-First Century Charter	\$210,719	\$35,613	\$22,876
William W. & Josephine Dorn Charter Comm School	\$45,000	\$10,000	\$30,000
Mosaic Academy Charter	\$247,619	\$277,241	\$243,745
Jefferson Montessori Academy	\$57,771	\$20,317	\$159,829
Pecos Connections Academy	\$0	\$50,000	\$189,000
Moreno Valley High School	\$96,369	\$40,005	\$82,261
Deming Cesar Chavez Charter High School	\$1,063,093	\$327,444	\$400,924
New Mexico Virtual Academy	\$47,950	\$10,000	\$15,000
Middle College High School	\$226,454	\$375,349	\$646,550
Lindrith Area Heritage Charter School	\$92,580	\$56,274	\$48,889
San Diego Riverside Charter School	\$298,842	\$150,561	\$101,854
Sidney Gutierrez Middle School	\$183,202	\$157,734	\$220,294
Academy for Technology and the Classics	\$55,270	\$25,774	\$68,998
Cottonwood Valley Charter School	\$93,633	\$32,000	\$110,000
Anansi Charter School	\$39,048	\$56,143	\$74,060
Taos Municipal Charter School	\$37,861	\$5,388	\$100
Vista Grande High School	\$121,488	\$91,713	\$84,852
Rio Gallinas School	\$105,250	\$106,000	\$204,541
STATEWIDE	\$252,282,955	\$197,564,620	\$237,862,903