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## FISCAL IMPACT REPORT

SPONSOR Scott/Townsend/  
Gallegos/Ezzell/  
Brown ORIGINAL DATE 2/22/2019 LAST UPDATED \_\_\_\_\_ HB 634  
 SHORT TITLE Delete Local Revenue from SEG Calculation SB \_\_\_\_\_  
 ANALYST Liu/Rabin

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY20	FY21	FY22	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>	\$62,762.1 - \$69,716.8	\$71,461.9	\$70,713.5	\$204,937.5 - \$211,892.2	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to HB5, HB325, SB1, SB172, SB253; Conflicts with HB326, SB170  
 Relates to Appropriation in the General Appropriation Act

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Public School Facilities Authority (PSFA)

#### Responses Not Received From

Public Education Department (PED)

### SUMMARY

#### Synopsis of Bill

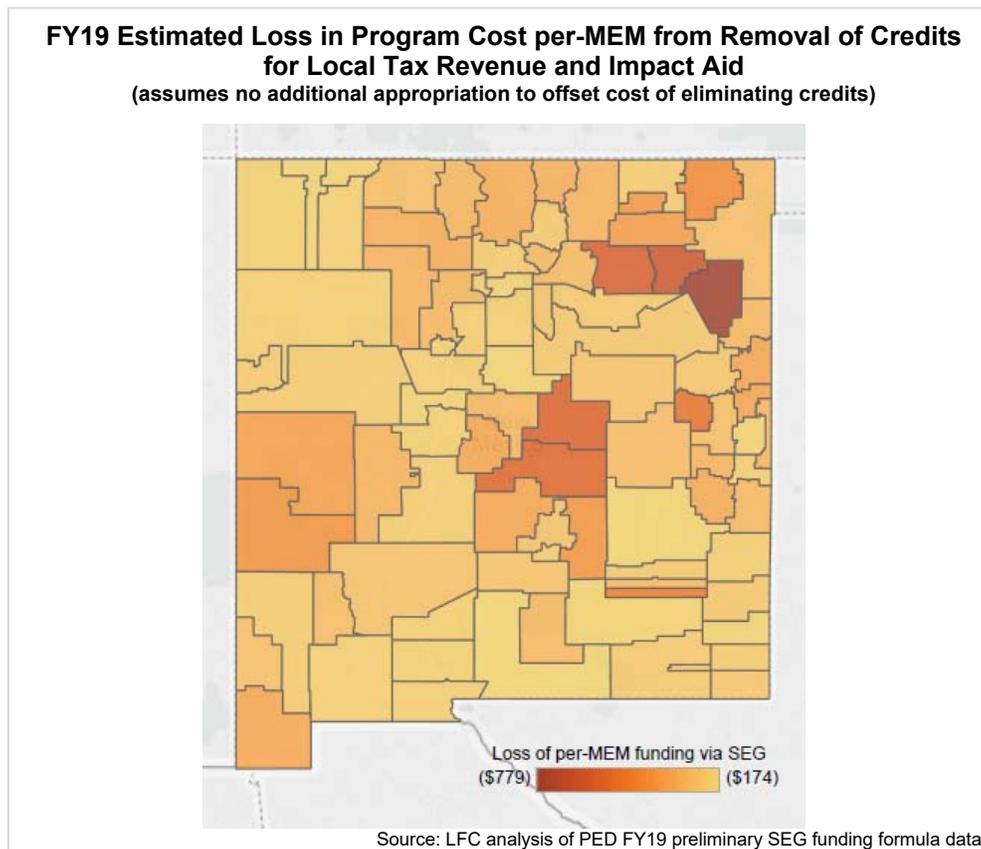
House Bill 634 amends the Public School Finance Act to eliminate the state's ability to credit local tax revenue in the public school funding formula.

### FISCAL IMPLICATIONS

Although HB634 only removes language allowing the state to credit local tax revenue in the public school funding formula, federal law regarding Impact Aid payments states that "a State may consider as local resources funds received under this subchapter only in proportion to the share that local tax revenues covered under a State equalization program are of total tax revenues" (20 U.S.C. 7709 (d)(1)(B)). As such, eliminating the local tax revenue credit in the SEG effectively eliminates the Impact Aid credit as well.

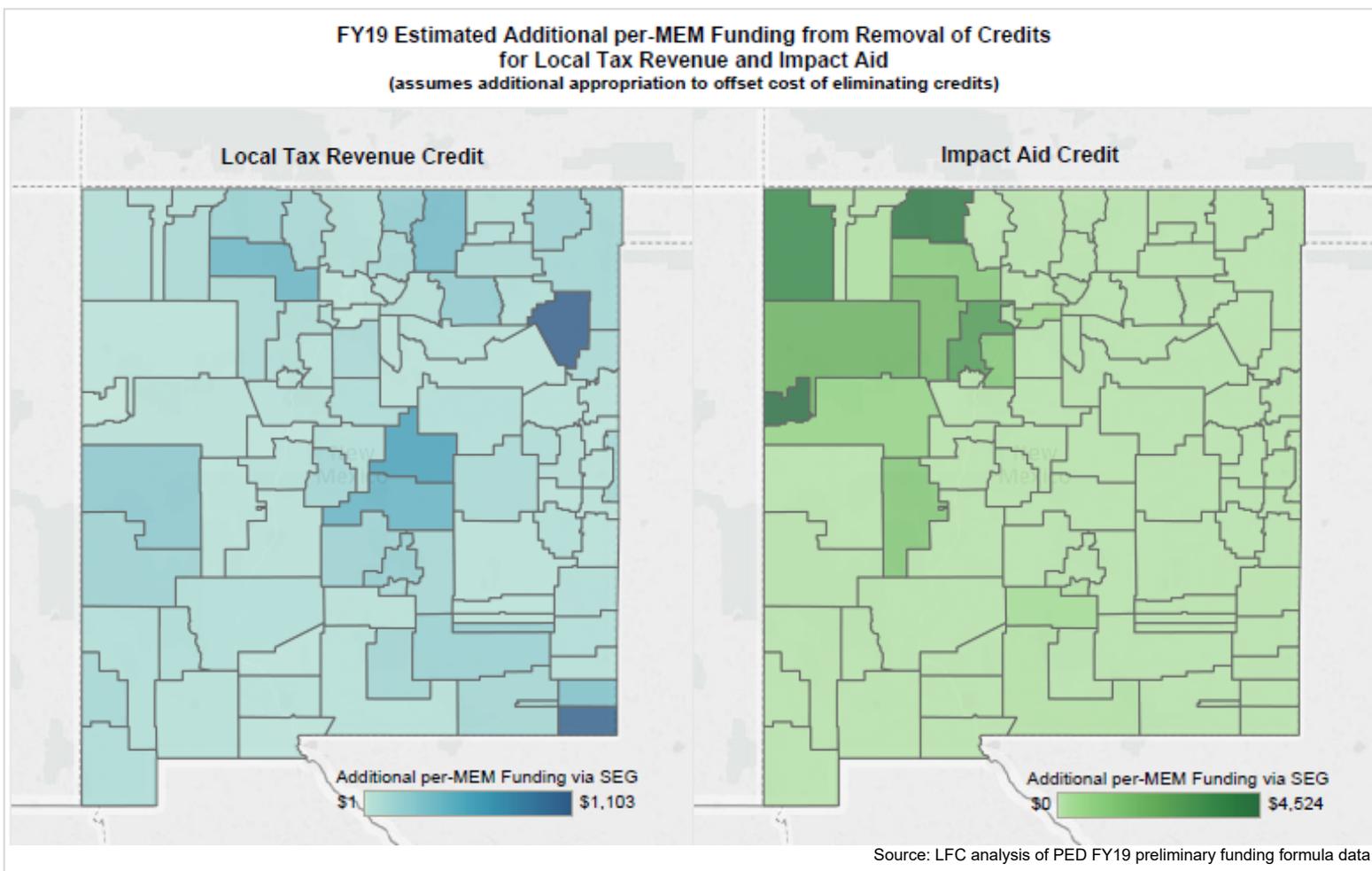
To determine a given school district’s state equalization guarantee (SEG) distribution under current law, Section 22-8-25(D)(6) NMSA 1978 requires PED deduct the “local and federal revenues” from the total calculated program cost of the school district. “Local revenues” and “federal revenues” are statutorily defined terms. Local revenue, for the purpose of calculating the SEG, comprise 75 percent of receipts to the school district derived from a school district’s 0.5 mill levy on 1) the net taxable value of property allocated to the school district, 2) the assessed value of products severed and sold in the school district (such as oil and gas), and 3) the assessed value of equipment used to sever those resources. Federal revenue comprises 75 percent of a district’s share of forest reserve funds distributed in accordance with Section 22-8-33 NMSA 1978 and 75 percent of grants from the federal government as assistance to those areas affected by federal activity authorized in accordance with Title 20 of the United State Code, commonly known as “PL 874 Funds” or “Impact Aid.”

If this bill is enacted, the state would no longer be able to take credit for local tax revenues or federal operational Impact Aid revenues received by local school districts. Without an equivalent annual increase in the general fund appropriation to make up for the lost revenues, SEG funding for school districts with low local tax revenues would be reallocated to schools with high local tax revenues on top of the tax revenue already received, and funding for non-Impact Aid school districts and charter schools would be reallocated to Impact Aid schools on top of the federal Impact Aid dollars already received. SEG funding would decrease by an average of \$273 per-MEM, but this decrease would not be distributed equally in all districts, as illustrated by the map below.<sup>1</sup>



<sup>1</sup> Because disaggregated estimates of Impact Aid are not available for out-years, this chart utilizes FY19 data so estimated effects on Impact Aid and non-Impact Aid recipients can be compared. Although this bill would not change the FY19 local tax revenue or Impact Aid credits, a similarly disparate effect can be anticipated in out-years.

If the change proposed by HB634 is offset through additional appropriations from the general fund to the SEG distribution, districts and schools receiving significant local tax revenues as well as the 25 school districts and five state-chartered charter schools that receive Impact Aid payments would realize an even greater increase in operational funds.<sup>2</sup> The disparate impact of this change is illustrated in the maps below. For a list of local tax and federal Impact Aid revenues by district, see Attachment 1: FY18 Local Tax Revenue and Impact Aid Payments.



This bill significantly decreases the funds the state is permitted to credit from the SEG and does not provide for appropriations to offset these decreases. The additional operating budget impacts reflect the cost to schools each fiscal year if such appropriations are not made. In the calculation of the FY18 SEG, schools received \$21.3 million in local tax revenue and \$78.2 million in Impact Aid, and the state took credit for \$16 million in local tax revenue and \$58.7 million in Impact Aid, a total of \$74.7 million. This analysis uses prior year trends to project anticipated local tax revenue and Impact Aid and calculate the potential impact of this bill.

Because the LFC recommendation may not reflect the Legislature’s final appropriation for the FY20 SEG, the total fiscal impact of eliminating both the Impact Aid and local tax revenue credits ranges between \$62.8 million and \$69.7 million. Since no budget recommendations have been made for FY21 and FY22, those estimates reflect only the fiscal impact based on updated projections.

<sup>2</sup> See Note 1, above.

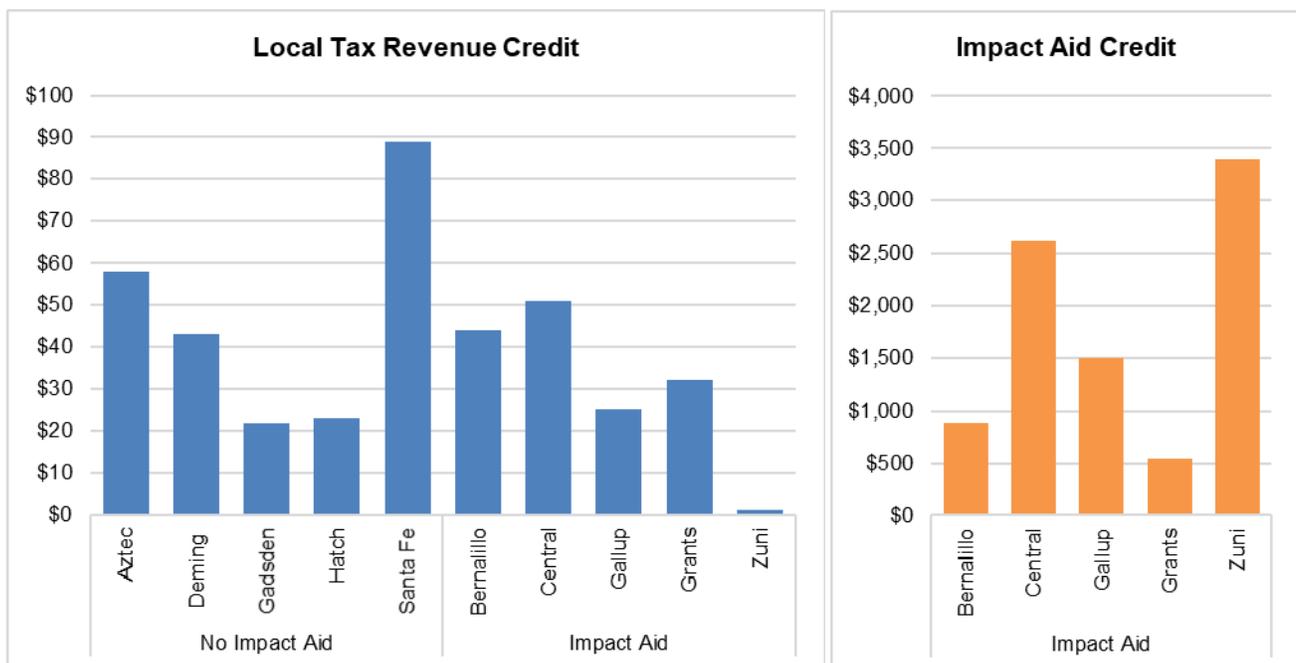
**SIGNIFICANT ISSUES**

The federal government provides Impact Aid funding to school districts and charter schools to compensate for property taxes not received from federal lands (including property owned by the U.S. Forest Service, the Bureau of Land Management, national laboratories, Indian reservations, and any other federally-owned property). School districts and charter schools receive different types of Impact Aid for school operations, special education, Native American education, and construction. Recipients directly receive 100 percent of federal Impact Aid payments, and IAD notes operational Impact Aid may be used for a variety of purposes, including teacher salaries, utilities, facilities maintenance, supplies, and capital improvements.

New Mexico, unlike other states, has not relied much on local property taxes to fund education. Because New Mexico’s SEG distribution is intended to equalize education funding, the funding formula is based on student membership (MEM) and other characteristics, and the state takes credit for 75 percent of local tax revenue and operational Impact Aid funding when calculating state SEG funding for school districts and charter schools to account for differences in local property tax wealth and federal payments in lieu of taxes. In FY18, schools received an additional \$5.3 million above their program cost from uncredited local tax revenues and \$19.6 million above their program cost from uncredited operational Impact Aid. In FY19, schools are expected to receive \$5.1 million in uncredited local tax revenue and \$18.1 million in uncredited operational Impact Aid. In addition, the state does not take credit for Impact Aid funding for special education, Native American education, or construction, which totaled \$21.5 million in FY18 and are estimated to be \$30.6 million in FY19.

The following chart illustrates the disparate impact this change would have on per-MEM funding in comparable districts:<sup>3</sup>

**FY19 Estimated per-MEM Local Tax Revenue and Impact Aid Credits**



Source: LFC analysis of PED FY19 preliminary SEG funding formula data

<sup>3</sup> See Note 1, above.

Reduction or elimination of the local tax revenue or Impact Aid credits might also prompt a corresponding reduction or elimination of the credit for federal Forest Reserve funds, which in FY18 totaled \$2.3 million. Removing the credits for Impact Aid, Forest Reserve funds, and local revenue credits from the funding formula would reintroduce disparities in education funding due to differences in local resources and revenues.

PED is currently developing a calculator to measure equity impacts of removing or reducing local and/or federal credits in the funding formula, but that calculator is not available at this time.

### **ADMINISTRATIVE IMPLICATIONS**

PED will be required to update the funding formula calculations to reflect the changes in this bill, which should be possible with current resources.

### **CONFLICT, RELATIONSHIP**

This bill conflicts with House Bill 326 and Senate Bill 170, which phase out the state's ability to credit federal Impact Aid in the public school funding formula over a three-year period. Because HB634 would eliminate the local tax revenue credit in FY20, the state would be forced to entirely eliminate the Impact Aid credit at the same time per federal law, and would not be able to implement the phased reduction specified in HB326 and SB170.

This bill relates to House Bill 325 and Senate Bill 172, which eliminate the state's ability to credit federal Impact Aid in the public school funding formula. If this bill is enacted, federal law would prohibit the state from taking credit for Impact Aid.

This bill relates to House Bill 5, Senate Bill 1, and Senate Bill 253, which make changes to the SEG funding formula. This bill also relates to the SEG appropriation in the General Appropriation Act.

### **TECHNICAL ISSUES**

Federal law would prohibit the state from crediting federal Impact Aid if this bill is enacted; however, the bill maintains the provisions of Section 22-8-25 NMSA 1978, that permit the state to credit 75 percent of Impact Aid. If enacted, these sections would conflict with federal law.

### **OTHER SUBSTANTITVE ISSUES**

State law limits the amount certain local property tax revenue can increase each year through what is commonly referred to as "yield control." When assessed property values increase from the prior year by more than the statutorily defined "growth control factor," statute mandates tax rates be adjusted to limit the revenue to the allowable amount. The rate of increase of property value is generally different for residential and non-residential properties, leading to different yield controlled rates for residential and nonresidential properties in the same district. As a result, the 0.5 mill levy now yields 0.325 mills for residential property and 0.477 mills for non-residential property statewide.

**POSSIBLE QUESTIONS**

Will the Legislature be required to commit general fund revenues to the SEG to make up for the loss of these local and federal revenues?

Attachments

1. FY18 Local Tax Revenue and Impact Aid Payments

SL/ER/sb

FY18 Local Tax Revenue and Impact Aid Payments

District <sup>1</sup>	Total Local Tax Revenue	Uncredited Local Tax Revenue (25 percent)	Local Tax Revenue Credit (75 percent)	Total Impact Aid	Uncredited Impact Aid (25 percent)	Impact Aid Credit (75 percent)
Alamogordo	\$330,327	\$82,582	\$247,745	\$845,721	\$634,291	\$211,430
Albuquerque	\$5,199,620	\$1,299,905	\$3,899,715	\$121,817	\$91,363	\$30,454
Animas	\$15,394	\$3,849	\$11,546	\$0	\$0	\$0
Artesia	\$759,481	\$189,870	\$569,611	\$0	\$0	\$0
Aztec	\$235,938	\$58,984	\$176,953	\$0	\$0	\$0
Belen	\$210,501	\$52,625	\$157,876	\$0	\$0	\$0
Bernalillo	\$162,055	\$40,514	\$121,541	\$4,317,509	\$3,238,132	\$1,079,377
Bloomfield	\$351,320	\$87,830	\$263,490	\$681,917	\$511,438	\$170,479
Capitan	\$109,002	\$27,250	\$81,751	\$0	\$0	\$0
Carlsbad	\$1,282,710	\$320,677	\$962,032	\$0	\$0	\$0
Carrizozo	\$26,312	\$6,578	\$19,734	\$0	\$0	\$0
Central Cons.	\$396,172	\$99,043	\$297,129	\$22,844,050	\$17,133,038	\$5,711,013
Chama Valley	\$47,670	\$11,918	\$35,753	\$0	\$0	\$0
Cimarron	\$175,730	\$43,932	\$131,797	\$0	\$0	\$0
Clayton	\$75,569	\$18,892	\$56,677	\$0	\$0	\$0
Cloudcroft	\$55,138	\$13,784	\$41,353	\$0	\$0	\$0
Clovis	\$446,548	\$111,637	\$334,911	\$226,515	\$169,886	\$56,629
Cobre Cons.	\$96,416	\$24,104	\$72,312	\$0	\$0	\$0
Corona	\$29,592	\$7,398	\$22,194	\$0	\$0	\$0
Cuba	\$57,536	\$14,384	\$43,152	\$1,090,719	\$818,039	\$272,680
Deming	\$288,883	\$72,221	\$216,662	\$0	\$0	\$0
Des Moines	\$16,218	\$4,054	\$12,163	\$0	\$0	\$0
Dexter	\$29,767	\$7,442	\$22,326	\$0	\$0	\$0
Dora	\$14,344	\$3,586	\$10,758	\$0	\$0	\$0
Dulce	\$154,474	\$38,618	\$115,855	\$3,444,487	\$2,583,366	\$861,122
Elida	\$11,051	\$2,763	\$8,288	\$0	\$0	\$0
Española	\$108,420	\$27,105	\$81,315	\$101,269	\$75,951	\$25,317
Estancia	\$41,815	\$10,454	\$31,361	\$0	\$0	\$0
Eunice	\$340,662	\$85,166	\$255,497	\$0	\$0	\$0
Farmington	\$585,587	\$146,397	\$439,190	\$0	\$0	\$0
Floyd	\$7,966	\$1,991	\$5,974	\$0	\$0	\$0
Ft. Sumner	\$24,363	\$6,091	\$18,273	\$0	\$0	\$0
Gadsden	\$383,396	\$95,849	\$287,547	\$0	\$0	\$0
Gallup	\$369,047	\$92,262	\$276,786	\$29,269,348	\$21,952,011	\$7,317,337
Grady	\$70,329	\$17,582	\$52,747	\$0	\$0	\$0
Grants	\$134,827	\$33,707	\$101,121	\$3,366,922	\$2,525,192	\$841,731
Hagerman	\$16,846	\$4,211	\$12,634	\$0	\$0	\$0
Hatch	\$38,960	\$9,740	\$29,220	\$0	\$0	\$0
Hobbs	\$650,511	\$162,628	\$487,884	\$0	\$0	\$0
Hondo	\$15,534	\$3,883	\$11,650	\$0	\$0	\$0
House	\$5,824	\$1,456	\$4,368	\$0	\$0	\$0
Jal	\$794,937	\$198,734	\$596,203	\$0	\$0	\$0
Jemez Mountain	\$112,969	\$28,242	\$84,727	\$243,188	\$182,391	\$60,797
Jemez Valley	\$30,624	\$7,656	\$22,968	\$1,060,985	\$795,739	\$265,246
Lake Arthur	\$23,015	\$5,754	\$17,261	\$0	\$0	\$0
Las Cruces	\$1,272,623	\$318,156	\$954,467	\$0	\$0	\$0
Las Vegas City	\$82,844	\$20,711	\$62,133	\$0	\$0	\$0
Logan	\$32,650	\$8,163	\$24,488	\$0	\$0	\$0
Lordsburg	\$66,617	\$16,654	\$49,963	\$0	\$0	\$0
Los Alamos	\$303,301	\$75,825	\$227,476	\$397,160	\$297,870	\$99,290
Los Lunas	\$214,925	\$53,731	\$161,194	\$223,224	\$167,418	\$55,806
Loving	\$102,584	\$25,646	\$76,938	\$0	\$0	\$0

FY18 Local Tax Revenue and Impact Aid Payments

District <sup>1</sup>	Total Local Tax Revenue	Uncredited Local Tax Revenue (25 percent)	Local Tax Revenue Credit (75 percent)	Total Impact Aid	Uncredited Impact Aid (25 percent)	Impact Aid Credit (75 percent)
Lovington	\$303,025	\$75,756	\$227,269	\$0	\$0	\$0
Magdalena	\$10,147	\$2,537	\$7,610	\$463,725	\$347,794	\$115,931
Maxwell	\$8,751	\$2,188	\$6,563	\$520	\$390	\$130
Melrose	\$16,318	\$4,079	\$12,238	\$0	\$0	\$0
Mesa Vista	\$36,854	\$9,213	\$27,640	\$0	\$0	\$0
Mora	\$28,973	\$7,243	\$21,730	\$0	\$0	\$0
Moriarty	\$234,928	\$58,732	\$176,196	\$0	\$0	\$0
Mosquero	\$54,672	\$13,668	\$41,004	\$0	\$0	\$0
Mountainair	\$30,903	\$7,726	\$23,177	\$0	\$0	\$0
Pecos	\$16,216	\$4,054	\$12,162	\$0	\$0	\$0
Peñasco	\$10,125	\$2,531	\$7,594	\$29,661	\$22,246	\$7,415
Pojoaque	\$49,805	\$12,451	\$37,354	\$1,157,449	\$868,087	\$289,362
Portales	\$126,782	\$31,695	\$95,086	\$6,638	\$4,979	\$1,660
Quemado	\$37,890	\$9,472	\$28,417	\$0	\$0	\$0
Questa	\$91,753	\$22,938	\$68,815	\$0	\$0	\$0
Raton	\$61,110	\$15,277	\$45,832	\$13,552	\$10,164	\$3,388
Reserve	\$21,896	\$5,474	\$16,422	\$0	\$0	\$0
Rio Rancho	\$709,264	\$177,316	\$531,948	\$0	\$0	\$0
Roswell	\$382,152	\$95,538	\$286,614	\$0	\$0	\$0
Roy	\$3,934	\$983	\$2,950	\$0	\$0	\$0
Ruidoso	\$241,092	\$60,273	\$180,819	\$305,054	\$228,790	\$76,263
San Jon	\$6,999	\$1,750	\$5,250	\$0	\$0	\$0
Santa Fe	\$1,465,305	\$366,326	\$1,098,979	\$0	\$0	\$0
Santa Rosa	\$47,050	\$11,763	\$35,288	\$0	\$0	\$0
Silver City Cons.	\$182,357	\$45,589	\$136,767	\$0	\$0	\$0
Socorro	\$67,512	\$16,878	\$50,634	\$0	\$0	\$0
Springer	\$13,906	\$3,477	\$10,430	\$0	\$0	\$0
Taos	\$217,366	\$54,341	\$163,024	\$42,373	\$31,779	\$10,593
Tatum	\$53,498	\$13,375	\$40,124	\$0	\$0	\$0
Texico	\$41,337	\$10,334	\$31,003	\$0	\$0	\$0
Truth Or Conseq.	\$160,003	\$40,001	\$120,002	\$0	\$0	\$0
Tucumcari	\$47,707	\$11,927	\$35,780	\$0	\$0	\$0
Tularosa	\$40,477	\$10,119	\$30,357	\$354,216	\$265,662	\$88,554
Vaughn	\$30,905	\$7,726	\$23,179	\$0	\$0	\$0
Wagon Mound	\$13,998	\$3,500	\$10,499	\$0	\$0	\$0
West Las Vegas	\$58,782	\$14,695	\$44,086	\$0	\$0	\$0
Zuni	\$1,131	\$283	\$848	\$7,308,837	\$5,481,628	\$1,827,209
State Charters	\$0	\$0	\$0	\$329,331	\$246,998	\$82,333
<b>Total</b>	<b>\$21,333,862</b>	<b>\$5,333,466</b>	<b>\$16,000,397</b>	<b>\$78,246,188</b>	<b>\$58,684,641</b>	<b>\$19,561,547</b>

1. Includes district-chartered charter schools.

2. Excludes Impact Aid for special education, Native American education, and construction.

Source: LFC analysis of PED FY18 final funding formula data