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FISCAL IMPACT REPORT

ORIGINAL DATE 2/10/2020

SPONSOR O'Neill LAST UPDATED _____ HB _____

SHORT TITLE Increase Fine Arts Ed Program Unit SB 263

ANALYST Liu

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY20	FY21	FY22	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		\$7,492.5		\$7,492.5	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

Duplicates HB239
Relates to Appropriation in the General Appropriation Act

SOURCES OF INFORMATION

LFC Files
Legislative Education Study Committee (LESC) Files

Responses Received From
Public Education Department (PED)

SUMMARY

Synopsis of Bill

Senate Bill 239 increases the elementary fine arts cost differential in the public school funding formula from 0.05 to 0.06.

FISCAL IMPLICATIONS

This bill does not contain an appropriation. The bill increases the public school funding formula elementary fine arts factor from 0.05 to 0.06 in FY21, effective generating more program units (a weighted student count) and funding for public schools based on the number of students in fine arts programs. Preliminary FY21 data shows the funding formula generating 8,141 fine arts program units, or \$37.2 million. Assuming no change in the fine arts student population and a fine arts factor increase to 0.06, the formula would generate 1,628 new fine arts program units. At the current unit value of \$4,602.27, this would create an operating budget impact of \$7.5 million.

Using FY21 student counts and demographics, increasing the fine arts factor to 0.06 would generate a total of 9,769 program units. At the final FY20 unit value, these additional units would effectively shift the equivalent of \$7.5 million in formula funds to schools with more students in fine arts programs. Because this bill does not contain an appropriation, the costs of the \$7.5 million redistribution would be primarily borne by schools without fine arts programs.

Total net fiscal impacts would also depend on the total number of students counted in the 2019-2020 school year. According to PED first reporting date (40th day) student membership counts, statewide enrollment declined from 325.5 thousand students in 2018 to 323 thousand students in 2019, a decrease of 2,480 students or 0.76 percent. Because the funding formula is based on prior year student membership and 40th day counts are highly predictive of the second (80th) and third (120th) reporting date counts, total student membership will likely decrease at a similar rate for the FY21 funding formula and place downward pressure on fine arts program unit generation.

PED notes without a commensurate \$7.5 million appropriation, the increase of 1,628 new program units would dilute the current unit value. Assuming 673.9 thousand units are generated at the end of FY21 and the current unit value of \$4,565.41 is maintained, the addition of 1,628 new program units would reduce the unit value by \$11.09, or 0.24 percent.

SIGNIFICANT ISSUES

The elementary fine arts factor was initially established in the public school funding formula in FY04 and phased-in over 2 years. According to LESC, the 0.05 fine arts factor has generated about 9,000 units, or \$34 million, annually in the last 5 years. Prior to FY20, the public school funding formula also applied a training and experience (T&E) index to the fine arts factor, generating about 700 additional program units, or \$3 million, for schools with elementary fine arts programs. In total, about \$37 million of formula funding could be attributable to fine arts programs.

Laws 2018, Chapter 55 (House Bill 188) separated the T&E index from the fine arts factor in FY20, reducing the number of program units generated in the formula; however, the subsequent increase in the unit value offset the loss of program units. As such, \$37 million of the funding formula is still attributable to elementary fine arts.

PED notes changes to the T&E index created some confusion regarding fine arts funding for school districts and charter schools throughout the state. Previous versions of the Fine Arts Education Act (FAEA) program plan application included information to school districts and charter schools regarding their FAEA funding by multiplying the school district or charter school T&E index by the amount of FAEA units generated and thence the unit value to calculate program funding amounts. When newer applications for FAEA removed the T&E multiplier, many fine arts stakeholders raised concerns regarding the reduction in funding for FAEA programs.

Regardless of calculated program amounts in program plan applications, as one element of non-categorical funding within the yearly state equalization guarantee (SEG) distributions, the actual amount of FAEA funding has always been aggregated in the monthly SEG allotment and subject to local decision making regarding allotment among the different FAEA programs within the school district or charter school.

ADMINISTRATIVE IMPLICATIONS

PED will need to modify all of the funding formula worksheets used to compute the SEG distribution for school districts and charter schools. The unit value calculation will need to be modified to capture the impact of these additional changes to the funding formula.

DUPLICATION, RELATIONSHIP

This bill is a duplicate of House Bill 239. This bill relates to the SEG distribution in the General Appropriation Act.

OTHER SUBSTANTIVE ISSUES

PED notes provisions of the Fine Arts Education Act (FAEA) require the department to review the goals and priorities of the FAEA plans and make recommendations to the PED secretary – operationalized by approval of program plan applications. Provisions of the Public School Finance Act (22-8-23.5 NMSA 1978) limit FAEA unit generation to student membership in programs implemented in accordance with the provisions of the FAEA, and therefore membership in approved programs. If a program plan application was denied in FY21 for existing programs, the estimated impact to the state could change.

SL/sb