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FISCAL IMPACT REPORT

SPONSOR: Martinez DATE TYPED: 03/16/01 HB 365/aHTRC
 SHORT TITLE: State Equalization Guarantee Distribution SB _____
 ANALYST: Gilbert

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY01	FY02	FY01	FY02		
		Future Potential for Significant Impact			General Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files
 State Department of Education (SDE)

SUMMARY

Synopsis of HTRC Amendment

The House Taxation and Revenue Committee amendment strikes the new language added by HEC amendment no. 4 (see subsection C.(3) below) and replaces it with the following:

(3) if the federal government allows the state to calculate disparity on the unit value, sixty percent of grants from the federal government for impact aid, sixty percent of receipts to the school district from local revenue as defined in Subsection B of this section, and sixty percent of the school district’s share of forest reserve funds as set out in Paragraph (1) of this subsection. The school district shall budget and expend thirty-five percent of the grant receipts for capital outlay.”.

This is essentially the same language as the HEC amendment, with exception to addition of the bolded text as shown above.

Synopsis of HEC Amendment

The House Education Committee amendment to House Bill 365, strikes language from the original bill which changed the percent of federal impact aid receipts the state takes into consideration in calculating the State Equalization Guarantee (reducing it from 75% on July 30, 2001 down to 0% effective July 1, 2005).

The HEC amendment adds a new (C.3) to Section 22-8-25 NMSA 1978 as follows:

C. "Federal revenue", as used in this section, means receipts to the school district, excluding amounts which that, if taken into account in the computation of the state equalization guarantee distribution, result, under federal law or regulations, in a reduction in or elimination of federal school funding otherwise receivable by the school district, derived from the following:

(3) if the federal government allows the state to calculate disparity on the unit value, sixty percent of grants from the federal government for impact aid. The school district shall budget and expend thirty-five percent of the grant receipts for capital outlay.”.

The HEC amendment to HB365 clarifies that school districts shall not be required to budget and expend thirty-five percent of grant receipts for capital outlay unless the federal government approves of this change.

This appears to resolve the State Department of Education’s (SDE) concern that HB365 would jeopardize the state’s ability to qualify as an equalized state for the purpose of taking credit for impact aid funds in calculation of the SEG.

Synopsis of Original Bill

House Bill 365 reduces the reliance of the state equalization guarantee distribution on certain federal funding.

This bill amends the Public School Finance Act 22-8-25 NMSA 1978 to:

Change the percent of federal impact aid receipts the state takes into consideration in calculating the State Equalization Guarantee (SEG) as follows:

from 75% to 60% from July 1, 2001, to June 30, 2002;

from 60% to 45% from July 1, 2002, to June 30, 2003;

from 45% to 30% from July 1, 2003, to June 30, 2004;

from 30% to 15% from July 1, 2004, to June 30, 2005;

from 15% to 0% July 1, 2005, and in subsequent years.

Currently, the state takes 75% credit of all local and federal revenues as required in the Public School Finance Act (§ 22-8-25 NMSA 1978). The state takes credit for only the operational portion of the impact aid funds, which translates to 58.5% of total impact aid payments. The districts retain 41.5% of total impact aid payments.

Reduction from 75% to 60% in the percent of federal impact aid receipts the state takes into consideration in calculating the SEG would jeopardize the state’s ability to qualify as an equalized state for the purpose of taking credit for impact aid funds in calculation of the SEG. This is because the state would no longer be able to meet the disparity test set forth in current federal law.

According to the SDE, passage of House Bill 365 in its original form would require the 2002 Legislature to appropriate an additional projected \$45.9 million (equivalent to the loss in impact aid credits) in general fund revenue to the SEG, if the current unit value is to be maintained. Impact aid districts would retain over \$70.0 million to use at their discretion.

FISCAL IMPLICATIONS

If the federal government allows the percent of federal impact aid receipts the state takes into consideration in calculating the SEG to drop from 75% to 60%, this bill would require school districts to budget and expend thirty-five percent of the grant receipts for capital outlay. Accordingly, the SDE states that such a change would require an additional \$10.6 million appropriation (equivalent to the loss in impact aid credits) from the general fund to the SEG, in order to maintain the current unit value.

OTHER SUBSTANTIVE ISSUES

Because of the statutory provisions of New Mexico's public school funding formula, New Mexico has qualified under federal impact aid requirements as an equalized state and has been allowed to consider eligible impact aid receipts in determining the amount of state aid to public school districts. With the HEC and HTRC amendments, New Mexico's status as an equalized state should not be jeopardized.

LG/lrs