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FISCAL IMPACT REPORT

SPONSOR: Lundstrom DATE TYPED: 02/22/01 HB 563
 SHORT TITLE: Cap Impact Aid Revenue SB _____
 ANALYST: Segura

APPROPRIATION

| Appropriation Contained | | Estimated Additional Impact | | Recurring or Non-Rec | Fund Affected |
|-------------------------|---------------|-----------------------------|---------------|----------------------|----------------------|
| FY01 | FY02 | FY01 | FY02 | | |
| | \$ (45,900.0) | | | Recurring | General Fund |
| | \$ 70,000.0 | See Narrative | See Narrative | Recurring | Impact Aid Districts |

(Parenthesis () Indicate Expenditure Decreases)

Duplicates SB 451
 Relates to HB 365 and SB517

SOURCES OF INFORMATION

LFC Files
 State Department of Education (SDE)

SUMMARY

Synopsis of Bill

House Bill 563 amends the Public School Finance Act (Section 22-8-25 NMSA 1978) to cap the Impact Aid revenue considered as federal revenue for purposes of the State Equalization Guarantee (SEG) distribution at the FY 2001 level. Any increases in Impact Aid above the amount received in FY 2001 by a school district shall be retained by the school district and shall not be considered to be federal revenue for SEG purposes.

Significant Issues

The statutory provisions of New Mexico 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.

According to the State Department of Education, HB-563 will increase the funds available for operational expenditures within those districts who qualify for Impact Aid as a result of the cap on impact aid credits at the FY 2001 level. The effect of capping the amount considered as federal

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revenue for SEG purposes will be to decrease the percentage of Impact Aid revenue that the state takes credit for, well below the 75 % as set forth in Section 22-8-25 NMSA 1978.

The SDE indicates that if HB 563 were enacted, substantial disequalization within the state would occur with regard to funds available to school districts for operational expenditures. The resulting disparity would, at some future point, disqualify the State of New Mexico from meeting federal criteria that allow the state to qualify as an equalized state, removing the State's ability to take credit for any impact aid receipts.

As a result, state could no longer mandate or legislate utilization of the Impact Aid receipts by local school districts. In addition, the state requirement that 20 % of impact aid funds be designated for capital outlay would not be applicable.

Currently, the state takes 75 % credit of all local and federal revenues as required in the Public School Finance Act (Section 22-8-25 NMSA 1978). The state takes credit for only the basic support portion of the Impact Aid funds, which translates to 58.5 % of total Impact Aid payments. Therefore, 41.5% of total Impact Aid payments received by school districts are not applied under the state equalization funding formula and represent additional revenues to the recipient districts in addition to the operational revenues guaranteed by the state equalization guarantee formula.

FISCAL IMPLICATIONS

The enactment of HB 563 could have a projected general fund impact of \$45,900.0 as the result of the loss in Impact Aid credits. The general fund revenue would be needed to maintain the current unit value. The SDE has provided an attachment which provides a breakdown of the projected loss to individual districts based on 1999-2000 actual distributions.

ADMINISTRATIVE IMPLICATIONS

None To SDE

OTHER SUBSTANTIVE ISSUES

According to SDE, if New Mexico were unable to take credit for Impact Aid receipts, the State Equalization Guarantee would be reduced by an estimated \$45,900.0 for the school year 2002-2003. Impact Aid districts would retain over \$70,000.0 to use at their discretion. This change could have a significant effect on the State Equalization Funding Formula as it is now constituted.

AW/ar