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## FISCAL IMPACT REPORT

SPONSOR: Watchman DATE TYPED: 02/27/01 HB 808  
 SHORT TITLE: State Equalization Guarantee Formula 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

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates SB 517  
 Relates to HB-365, HB-563, SB-451, and SB-547

### SOURCES OF INFORMATION

LFC Files  
 State Department of Education (SDE)

### SUMMARY

#### Synopsis of Bill

House Bill 808 amends the Public School Finance Act, Section 22-8-25 NMSA 1978. The bill proposes to:

- Change the percent of federal impact aid receipts the state takes into consideration in calculating the State Equalization Guarantee (SEG) from 75% to 50% from July 1,2001 to June 30, 2002;
- Change the percent of federal impact aid receipts the state takes into consideration in calculating the State Equalization Guarantee (SEG) from 50% to 25% from July 1,2002, to June 30,2003;
- Change the percent of federal impact aid receipts the state takes into consideration in calculating the State Equalization Guarantee to 0% July 1,2003, and in subsequent years.
- Require districts receiving impact aid to budget 20% of those funds for capital outlay purposes; and

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- Allow districts to retain the remaining funds for operational expenditures.(SDE projects that impact aid districts would retain over \$70,000.0 to use at their discretion)

### Significant Issues

According to SDE, with the reduction from 75% to 50% , the bill would affect the state's ability to qualify as an equalized state for the purposes of taking credit for impact aid fund in calculation of the SEG because the state would no longer be able to meet the disparity test set forth in federal law.

The statutory provisions of New Mexico's public school funding formula, New Mexico has, in prior years 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.

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 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.

### **FISCAL IMPLICATIONS**

According to SDE, the enactment of HB-808 would require the 2002 Legislature to consider appropriating \$45,900.0, which is the projected loss in impact aid credits, in general fund to the SEG to maintain current unit value. Otherwise, the unit value for all school districts would have to be reduced proportionally to make up the loss to the SEG.

### **OTHER SUBSTANTIVE ISSUES**

The Department of Education indicates that if HB 808 is enacted, New Mexico would no longer qualify under federal law to take credit for eligible impact aid revenues, because the state no longer meet the disparity test required by federal law. If the 50% impact aid had been in effect when the state submitted its disparity calculation for 2000-2001, the state would not have been certified to take credit for impact aid receipts. As a result, the state could no longer mandate or legislate utilization of the impact aid receipts by local school districts. Therefore, the state requirement that 20 % if impact aid funds by designated for capital outlay would not be applicable. As a result of New Mexico's failure to qualify as an equalized state, each impact aid recipient district would by able, according to federal law, to expend its impact aid for any legally permissible purpose.

RS/njw:ar