F I S C A L   I M P A C T   R E P O R T

SPONSOR:	Altamirano	DATE TYPED:	03/10/01	HB	
SHORT TITLE:	Public School Capital Outlay			SB	SJR 38
				ANALYST:	Eaton

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY01	FY02			
		See Attachment A	Recurring	General Fund
		See Attachment A	Recurring	Severance Tax Permanent Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to <u>Senate Joint Resolution 7</u>

SOURCES OF INFORMATION

State Investment Council (SIC)

SUMMARY

<u>Synopsis of Bill</u>

This bill proposes to amend Article 8, Section 10 of the New Mexico Constitution to provide for an additional distribution from the Severance Tax Permanent Fund (STPF). The amount will be calculated as 1 percent of the average of the preceding five calendar year market values of the STPF fund as measured on December 31st of those years.

The additional distribution to the public school capital outlay fund will be used exclusively for public school capital outlay projects.

Each school district shall be eligible to apply for assistance and all projects will be eligible, regardless of school district indebtedness.

Distributions from the STPF shall be made in equal monthly installments.

The amendment proposed by this resolution shall be submitted to the people for their approval or rejection at the next general election or at any special election prior to that date which may be called for that purpose.

FISCAL IMPLICATIONS

The State Investment Council (SIC) analysis (Attachment A) indicates that distributions to the general fund would be reduced by $614 million dollars from FY 2005-2025. Distributions to the Public School Capital Outlay Fund during the same period would be $1,317 million.

Analysis assumes 8.485% annual growth of Severance Tax Permanent Fund through the forecast period.

OTHER SUBSTANTIVE ISSUES

A review of the current distributions method for the Land Grant Permanent Fund (LGPF) and the Severance Tax Permanent Fund (STPF) is in progress. The SIC previously indicated that the study should be available before the legislature adjourns in March 2001.

It is noteworthy that the Legislature has made significant progress in the last several years in funding public school capital outlay including the issuance of supplemental severance tax bonds. This legislative session, several bills including HTRC Substitute for House Bill 134 and SFC Substitute for Senate Bill 167 propose further increases in funding for public school capital outlay in the amount of $200 million in construction moneys for deficiency corrections for FY02 & FY03. Additionally, both bills provide $50 million in FY02 and FY03 specifically for impact aid districts which are the Gallup, Zuni and Grants school districts.

Because there still remains considerable uncertainty what the capital needs are and their associated costs, both bills contain funding for a comprehensive needs assessment. At the present time, approximately one-third of public schools have been assessed.

On December 19, 2000 Barra, Rogers Casey presented to the SIC a preliminary of the asset allocation study that also looked at the effect of varying spending policy. Below are some highlights.

<u>Over 30 years:</u>

- The expected return on the permanent funds is 8.37%.
- An investment return of 7.95% is required to support the current distribution formula that holds the funds harmless (preserves the real value of the fund).
- There is a 57.7% probability of exceeding the spending target under current conditions.
- There is a 48.4% probability of exceeding the spending target under a 5.2% distribution scenario.
- Between years 20 and 30 the funds start to lose value under a 5.2% distribution policy.

The Barra, Rogers Casey preliminary asset allocation study indicated that the long run rate of return may be increased with some minor changes in the asset allocation. These changes recommended by the SIC are proposed in Senate Bill 232 (Altamirano).

JBE/ar