

**LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS**

Bill No: SB 159

48th Legislature, 1st Session, 2007

Short Title: Public School Cash Balance Credits

Sponsor (s): Senator Vernon D. Asbill and Others

Analyst: Kathleen Forrer

Date: January 26, 2007

FOR THE LEGISLATIVE EDUCATION STUDY COMMITTEE

Bill Summary:

SB 159 amends the *Public School Finance Act* and makes the following changes to the cash balance credit used in calculating a school district's or charter school's State Equalization Guarantee:

- The allowable limit (the amount of cash balance that districts and charter schools may retain) is raised from 15 to 18 percent of budgeted expenditures for school districts and charter schools with a current year program cost less than \$5.0 million; from 9.0 to 10 percent of budgeted expenditures for school districts and charter schools with a current year program cost of \$10.0 million or more but less than \$25.0 million; and from 7.0 to 8.0 percent of budgeted expenditures for school districts and charter schools with a current year program cost of \$25.0 million or more but less than \$200.0 million. Other allowable limits remain the same.
- The basis for calculating the amount of a school district's or charter school's excess cash balance that may be used as a credit is changed from the allowable limit (which is the amount of cash balance that districts and charter schools may retain) to the allowable unrestricted, unreserved operational cash balance and the emergency reserve (which is the total amount of cash balance and emergency reserve not attributable to other revenue sources for which the state also takes credit¹).

Fiscal Impact:

SB 159 does not contain an appropriation.

SB 159 corrects the regressive impact on school districts and charter schools of the 2006 amendment to the cash balance credit statute (see Issues). The tables below illustrate the differences between current statute and SB 159.

For the purpose of illustration, districts A and B are identical in both the total amount of expenditures each has budgeted (\$51.0 million) and in the percent of those expenditures that they are able to retain as cash balance (7.0 percent, or approximately \$3.6 million under the current statute; 8.0 percent, or approximately \$4.0 million under SB 159). However, District A has a

¹ Other revenue sources for which the state also takes credit are the school district property tax, federal Forest Reserve funds, and the operational portion of federal Impact Aid.

cash balance of \$4.5 million and District B has a cash balance of \$4.75 million. Thus, both districts have cash balance in excess of the allowable limit.

Under current statute, if a district's cash balance exceeds 18 percent of the allowable limit, the district's cash balance credit is limited to 18 percent of the allowable limit (which is the same for both districts A and B). As a consequence, a district that greatly exceeds the limit has a smaller percentage of its actual cash balance used as a credit than a district that is closer to the limit. In this case, District A, which has the lower cash balance, has 14.3 percent, or \$642,600 of its allowable cash balance used as a credit, while District B, which has the higher cash balance, has a smaller percentage of its cash balance (13.5 percent, or \$642,600) used as a credit.

CURRENT STATUTE

If excess cash balance is greater than 18% of the allowable limit, the credit equals 18% of the allowable limit.							
DISTRICT	2006-2007 Total Budgeted Operational Expenditures	Allowable Unrestricted Unreserved Cash Balance	Allowable Percent of Total Expenditures	Allowable Limit	Excess Cash Balance	CASH BALANCE CREDIT 18% of ALLOWABLE LIMIT	Credit as Percent of Allowable Cash Balance
DISTRICT A	\$51,000,000	\$4,500,000	7.0%	\$3,570,000	\$930,000	\$642,600	14.3%
DISTRICT B	\$51,000,000	\$4,750,000	7.0%	\$3,570,000	\$1,180,000	\$642,600	13.5%

Under the amendments in SB 159, both District A and District B would have a higher amount of cash balance that they could retain (approximately \$4.0 million). Because the credit calculation would be based on a percentage of the allowable cash balance rather than the allowable limit, District A would have a smaller percentage of its allowable cash balance used as a credit (9.3 percent as opposed to the 14.3 percent under current law). District B would have a larger percentage of its allowable cash balance used as a credit (14.1 percent as opposed to the 13.5 percent under current law). In terms of actual dollars, District A would retain an additional \$222,600, and District B would have an additional \$27,400 used as a credit.

SB 159

If excess cash balance is greater than 18% of the allowable cash balance, the credit equals 18% of the allowable cash balance.							
DISTRICT	2005-2006 Total Budgeted Operational Expenditures	Allowable Unrestricted Unreserved Cash Balance	Allowable Percent of Total Expenditures	Allowable Limit	Excess Cash Balance	CASH BALANCE CREDIT 18% of ALLOWABLE CASH BALANCE	Credit as Percent of Allowable Cash Balance
DISTRICT A	\$51,000,000	\$4,500,000	8.0%	\$4,080,000	\$420,000	\$420,000	9.3%
DISTRICT B	\$51,000,000	\$4,750,000	8.0%	\$4,080,000	\$670,000	\$670,000	14.1%

In its analysis of SB 159, the Public Education Department notes: “[I]n FY06, the current language in statute produced seven entities statewide with excess cash, which resulted in a cash balance credit of \$814.0. If enacted, the same FY06 data under SB159 would produce only three entities with excess cash and would result in cash balance credit of only \$183.0.”

Issues:

Among other provisions², the 2006 amendment to Section 22-8-41 NMSA 1978 changed the calculation of the upper limit of the cash balance credit from 18 (or 20) percent of the allowable

² The 2006 amendment also (1) raised the limits on how much cash balance school districts and charter schools may retain and (2) allowed the Secretary of Public Education to “waive all or a portion of the reduction otherwise required...if the Secretary finds that the school district’s excess balance is needed to provide the local match required under the Public School Capital Outlay Act...or to recoup an amount paid as the district’s share....”

cash balance to 18 (or 20) percent of the allowable limit.³ For districts and charter schools with cash balance that is greater than 18 (or 20) percent of the allowable limit, the result is that the state now takes credit for a greater portion of the allowable cash balance from a school district or charter school that has kept its cash balance closer to the allowable limit than it does from a district or charter school that greatly exceeds the allowable limit (see Fiscal Impact). SB 159 corrects this problem and also raises certain of the allowable limits to minimize any potential impact.

Related Bill:

HB 59 *Public School Cash Balance Credits* (identical)

³ The 20 percent applies to districts or charter schools with a program cost in excess of \$200 million. Currently, only the Albuquerque Public Schools is in this category.