

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (www.nmlegis.gov). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

ORIGINAL DATE 01/23/13
 SPONSOR Stewart LAST UPDATED 02/12/13 HB 3/aHEC
 SHORT TITLE Education Appropriation Act SB _____
 ANALYST Gudgel

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY13	FY14		
	\$2,580,089.3	Recurring	General Fund
	\$22,854.9	Recurring	Other State Funds
	\$131.8	Recurring	Internal Service Funds/Interagency Transfer
	\$445,622.9	Recurring	Federal Funds
	\$45,265.0	Nonrecurring	Appropriation Contingency Fund

(Parenthesis () Indicate Expenditure Decreases)

Duplicates Appropriation in the General Appropriation Act and House Bill 11

SOURCES OF INFORMATION

LFC Files

Response Not Received From
 Public Education Department (PED)

SUMMARY

Synopsis of HEC Amendment

Substantive amendments to House Bill 3 (HB 3) increase the recurring general fund appropriations for public education to \$2,580,089.3, and include language allowing elementary schools that receive a D or F school grade during the 2012-2013 school year to be eligible to apply for Kindergarten-Three-Plus. The amendment moves Kindergarten-Three-Plus below-the-line, and eliminates below-the-line funding for the early reading initiative, interventions for D and F schools, college and career readiness, and short-cycle assessment for fourth through 10th graders, moving the amounts for these programs above the line. The amendment also includes nonrecurring appropriations to the department for transition to common core standards,

emergency supplemental funding, installing global positioning systems in public school busses, Partnership for Assessment of Readiness for College and Career (PARCC) infrastructure, transition to teacher effectiveness, and funds to ensure the state meets the maintenance of effort requirements of the federal Individuals with Disabilities Education Act for FY13.

Synopsis of Original Bill

House Bill 3 substantially reflects the Legislative Finance Committee’s (LFC) recommendation (House Bill 11) for public education funding for FY14 with two exceptions - \$16,450.0 in Kindergarten-Three Plus funding has been moved into the program cost and is contingent on statutory changes making it a formula-based program, and \$23 million is included in program cost for underfunded initiatives in the state equalization guarantee (SEG) distribution. The bill appropriates funding for the SEG, the transportation distribution, supplemental distributions including emergency supplemental funding, out of state tuition, Indian education funding, the instructional materials distribution including dual credit materials, the Public Education Department operating budget, and the Public Education Department (PED) related recurring appropriations (below-the-line initiatives) including regional education cooperatives. The bill has an emergency clause.

FISCAL IMPLICATIONS

The general fund appropriation of almost \$2.6 billion contained in this bill is a recurring expense to the general fund. Unexpended or unencumbered balances remaining at the end of fiscal year 2014 from the public school support allocation, supplemental distributions, public education operating budget, and the majority of the related recurring appropriations shall revert to the general fund.

Unexpended or unencumbered balances remaining at the end of fiscal year 2014 from the transportation distribution, instructional materials allocation, and Indian education allocation shall not revert to the general fund.

The bill also includes \$45,265.0 million of nonrecurring appropriations.

SIGNIFICANT ISSUES

The state equalization guarantee (SEG) distribution, also known as the “funding formula”, is used to distribute funds to public schools and charter schools. HB 3 proposes increased funding from the general fund to the SEG by \$124.8 million, or 5.5 percent.

The appropriation to the SEG includes \$6.9 million for projected enrollment growth, \$17.6 million for increases in the employers share of insurance premiums, \$31.6 million to reverse the 1.5 percent retirement swap and implement the statutory 0.75 percent retirement increase, \$18.7 million for a one percent salary increase for all employees funded with SEG dollars, \$309.4 million for college and career readiness assessments, \$2.5 million for interventions for D and F schools, \$2.5 million for short cycle assessments in grades four through 10, \$8.5 million for the early reading initiative, and \$32.6 million to meet the federal Individuals with Disabilities Education Act (IDEA) maintenance of effort requirements.

Appropriations in the amended bill estimate projected credits of \$64 million from the local 0.5 mill levy, federal forest funds and the operational portion of federal impact aid. The bill also contains credits of \$6.1 million from the driver's license fund, \$1.5 million in recurring revenues and \$4.6 million in fund balance.

Categorical appropriations include \$100.3 million for the transportation distribution, including sufficient funds for a 1 percent salary increase for transportation employees, \$2.5 million for emergency supplemental, \$27.8 million for instructional materials and dual credit instructional materials, \$346 thousand for out-of-state tuition, and \$1.8 million for Indian education with a \$400 thousand set aside for a nonprofit organization that provides teaching support in schools with a high proportion of Native American students.

The amended bill includes \$42.1 million in total revenues to the PED for the Department's FY14 operating budget, including general fund revenues of \$11.7 million. Related recurring appropriation (flow-through appropriations) to the PED total \$37.2 million and include the following: \$16.5 million for Kindergarten-Three-Plus, \$15.5 million for kindergarten, \$1.9 million for elementary breakfast, \$500 thousand for a nonprofit organization that provides teaching support to low-income students, \$890 thousand for innovative digital education and learning (IDEAL-NM), \$541.8 thousand for advanced placement, \$192.4 thousand for apprenticeship assistance, \$87.1 thousand for mock trial, and \$200 thousand for the graduation, reality and dual role skills (GRADS) program, \$938.2 thousand for regional education cooperatives,. The appropriation to the PED for the department's operating budget includes \$750 thousand for operating and maintaining the operating budget management system (OBMS) and the student teacher accountability reporting system (STARS).

ADMINISTRATIVE IMPLICATIONS

The bill contains language that directs the secretary to set an initial unit value to be used by the districts in developing school year 2013-2014 operating budgets and provides for an adjustment to the unit value before January 31, 2014. Language also directs the secretary of the PED to verify and audit student membership and program units claimed by school districts and charter schools and to work with and assist superintendents and school boards and head administrators and governing bodies of charter schools to ensure efficient spending practices, membership and program units are calculated correctly, and school district and charter school operating budgets are implemented in a manner that will minimize adverse impacts to instructional programs and student achievement. The secretary shall ensure the number of instructional days budgeted by a school district or charter school for the 2013-2014 school year are not reduced from the 2012-2013 school year.

Language related to the distribution of emergency supplemental funding requires the secretary to verify that any recipient school district or charter school is current with its audits. Language also prohibits the department from distributing emergency supplemental funds to a school district or charter school having cash and invested reserves, or other resources or any combination thereof, equaling five percent or more of their operating budget.

Language related to early reading initiative funding requires the PED to develop a distribution plan that targets funds for direct services to students at schools with high proportions of students not proficient in reading and high proportions of at-risk students. The public education department may only approve a school district budget that demonstrates that its early reading

initiative allocation will be used to fund proven instructional strategies and professional development strategies such as extended school day and extended school year programs, reading coaches and reading specialists and prekindergarten programs.

Language related to the flow-through appropriation to the department for regional education cooperatives (RECs) allows the department to allocate amounts to a REC provided the REC's application adequately justified a need for the allocation and the department finds the REC submitted timely quarterly financial reports, is in compliance with state and federal financial reporting requirements, including annual audit requirement pursuant to the Audit Act, and is otherwise financially stable. An allocation made to a regional education cooperative may only be used for current year operating expenses.

CONFLICT

Conflicts with appropriations in HB 11.

RSG/svb:blm