

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 and previously issued FIRs are available on the NM Legislative Website (www.nmlegis.gov) and may also be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

ORIGINAL DATE 02/18/14

SPONSOR HEC LAST UPDATED _____ HB 208/HECS

SHORT TITLE K-3 Plus Unit Value Reimbursement SB _____

ANALYST Gudgel

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY14	FY15	FY16	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		See Fiscal Implications				

(Parenthesis () Indicate Expenditure Decreases)

Relates to Appropriation in the General Appropriation Act

SOURCES OF INFORMATION

LFC Files

SUMMARY

Synopsis of Bill

House Education Committee Substitute for House Bill 208 amends Section 22-13-28 NMSA of the Public School Code pertaining to the K-3 Plus program in the following way:

- Expands eligibility to public schools with a descending percentage of students eligible for free or reduced-fee lunch if there is a balance remaining in the fund after funding the first two priorities noted in the next bullet;
- Creates a funding priority for K-3 Plus programs that funds schools with 85 percent or more of the students eligible for free or reduced-fee lunch first, then schools rated D or F, and lastly, if there is a left over balance, any school that applies in order of descending percentage of students eligible for free or reduced-fee lunch if there is a balance remaining in the fund; and
- Requires funding be based on the preliminary unit value set by the secretary for the next school year.

The committee substitute has an emergency clause.

FISCAL IMPLICATIONS

Under the current funding priorities – 85 percent or more of the students eligible for free or reduced-fee lunch or a D or F school – approximately 63 thousand students are eligible to participate in the program. Expansion of the program to include kindergarten through third grade students at school statewide expands eligibility to approximately 107,000 students.

Senate Bill 313 (the General Appropriation Act of 2014) includes \$21.3 million for K-3 Plus programs in FY15. LFC staff estimates, based on projections of the preliminary funded unit value for FY15, this will fund 17 thousand students in FY15. This is 900 fewer students than if the department were required to continue to use the final unit value set for FY14.

SIGNIFICANT ISSUES

Provisions related to the use of the preliminary unit value address issues with summer 2013 K-3 Plus funding. For summer 2013 K-3 Plus programs, PED reimbursed programs that had days in June (FY13) at 30 percent of the final unit value for the 2012-2013 school year, and programs that had days in July and August (FY14) at 30 percent of the preliminary unit value for the 2013-2014 school year, despite statute requiring the use of the final unit value. Laws 2013 Chapter 175 (House Bill 310) made changes to the K-3 Plus program requiring PED to use the final unit value as the basis for reimbursing school districts for summer K-3 Plus programs. Generally, this will result in increased funding for July and August programs – as revenues increase and appropriations for formula funding increase, the preliminary unit value unit value will increase year over year – creating an incentive to start programs at the beginning of the fiscal year, rather than having programs that cross fiscal years. Summer 2013 K-3 Plus programs that had days in June were reimbursed at \$44.00 per day, while July and August days were reimbursed at \$45.80 per day.

The bill creates a consistent funding base for the PED to use when establishing summer K-3 Plus programs. Use of the preliminary unit value as the basis for funding may be problematic though, as generally the preliminary unit value is announced in April. Statute requires school districts to submit applications for K-3 Plus programs no later than March 15. The application generally includes the amount that will be funded per student (in the past per day) and requires school districts to submit a budget based on that amount of funding. Because of the timing of setting the initial unit value budgeting for summer programs will be difficult. The Legislature may wish to continue to require the use of the final unit value. It is important to remember that statute sets a minimum rate the department can award for programs; while use of the final unit value as the minimum base allowed will generally be less than if the department used the preliminary unit value for the next school year, there is nothing prohibiting the department from setting an amount for reimbursement higher than the minimum required.

TECHNICAL ISSUES

As noted above, the Legislature should consider basing funding on the final unit value for the preceding year rather than basing funding on the preliminary unit value for the succeeding school year to ensure school districts are able to appropriately budget for summer K-3 Plus programs. If the Legislature requires the use of the preliminary unit value to set the budget for summer programs that information will not be available to school districts until after they submit applications for programs.

OTHER SUBSTANTIVE ISSUES

Prior to the 2012 K-3 Plus program, school districts received full funding for all students reported regardless of the number of days students participated. In some instances this resulted in districts receiving funding for students that did not attend a majority of the days. PED changed the funding policy during the 2012 program to require students to participate a minimum number of days in order for a school district or charter school to receive any funding for that student.

Participating school districts voiced concern that this hindered their ability to adequately fund the fixed costs associated with the program. As a result, the Legislature made the K-3 Plus program permanent during the 2012 legislative session and required funding to be reimbursed at 30 percent of the unit value established in the public school funding formula. Requiring funding to be based on a specific reporting date is consistent with the methodology used to distribute formula funding.

RSG/jl