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FISCAL IMPACT REPORT

ORIGINAL DATE 02/20/15

SPONSOR Johnson LAST UPDATED _____ HB 417

SHORT TITLE Size Adjustment Factor for Certain Schools SB _____

ANALYST Gudgel

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY15	FY16	FY17	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		\$2,693.2	\$2,693.2	\$5,386.4	Recurring	Gallup McKinley County Schools
Total		(\$2,693.2)	(\$2,693.2)	(\$5,386.4)	Recurring	All Other School District and Charter School Operating Budgets

(Parenthesis () Indicate Expenditure Decreases)

Relates to Appropriation in the General Appropriation Act

SOURCES OF INFORMATION

LFC Files

Responses Received From

Public Education Department (PED)

Indian Affairs Department (IAD)

SUMMARY

Synopsis of Bill

House Bill 417 amends the rural size program unit in the School Finance Act. The bill allows a school district with over 10,000 MEM (membership of qualified students) that has at least one or more large high schools in an urban area and at least five high schools located twenty or more miles from the school district's central administrative office in sparsely populated, isolated rural areas to generate 0.5 program units per MEM in each eligible high school.

FISCAL IMPLICATIONS

Only eight school districts have more than 10 thousand MEM as follows: Albuquerque Public Schools, Las Cruces Public Schools, Rio Rancho Public Schools, Gadsden Independent School District, Santa Fe Public Schools, Gallup McKinley County Schools, Farmington Municipal

School District, and Roswell Independent School District.

The provisions of the bill only apply to Gallup McKinley County Schools (GCMS). PED's analysis notes that six of GCMS's eight high schools are located farther than 20 miles from the school district's central office. The bill does not include a definition of "large", making it difficult to ascertain whether PED would interpret GCMS's two urban high schools as meeting this requirement. In FY15, Gallup High School reported 935 students and Miyamura High School reported 1152 students on the first reporting date in October. Assuming one of these two high schools is considered a "large" high school, PED estimates the provisions of Subsection C would generate 672 program units for GCMS (1,344 students at the six rural isolated high schools multiplied by 0.5 units).

Generally, an increase in program units generated by school districts or charter schools that is not accompanied by an appropriation has the effect of diluting the unit value, impacting school districts and charter schools statewide. Based on PED's estimation of program units above, LFC staff estimates it will cost almost \$2.7 million in FY16 fully fund the units generated by the bill, based on the final unit value established for FY15. Neither the LFC nor the executive budget recommendations for FY16 include funding for this. IF not funded, the unit value would be diluted by approximately 0.1 percent.

SIGNIFICANT ISSUES

Gallup McKinley County Schools was historically the only school district that qualified for rural size program units pursuant to Subsection C. FY11 was the last year GMCS received rural isolation units. At that time, the district only generated 29.208 units, or \$104.4 thousand, down from \$1.7 million in FY10. The school district no longer qualified for rural program unit beginning with FY12 as a result of building a new high school – Miyamura High School. PED notes it appears the intent of this bill is to make up for the loss of rural size funding. The change to the funding formula generates 0.5 units for each student attending a high school more than 20 miles from the central office.

PED notes the state equalization guarantee distribution is calculated using average student membership from the prior year, reported on the second and third reporting dates. As a result, any modification to the public school funding formula will require a fiscal year to modify the existing data collection systems and worksheets before they can be fully implemented.

ADMINISTRATIVE IMPLICATIONS

PED will be required to modify all of the funding formula worksheets used to compute the state equalization guarantee distribution for school districts and charter schools and the unit value calculation will need to be modified to capture the impact of these additional units to the funding formula. PED notes concerns about the department's ability to make these changes from the FY16 school year and suggests the bill should include an effective date of July 1, 2016.

DUPLICATION

Senate Bill 500 is a duplicate.

TECHNICAL ISSUES

The bill uses the term “large high schools” on page 3, line 21, but does not define the student enrollment that qualifies a school district to the new program units. The Legislature may want to include the number of MEM that qualifies as a “large high school” to ensure consistent calculation from year to year. As drafted, PED would be required to determine what qualifies as a large high school.

Changes propose using data reported on the first reporting date on page 4, line 14. Historically, the rural size unit has been calculated using the average student membership reported on the second and third reporting dates. The Legislature may want to consider eliminating “on the first reporting date” to continue using data reported on the second and third reporting dates.

The Legislature may want to consider including an effective date to ensure program units will begin being calculated pursuant to the provisions of the bill in FY16, eliminating any potential confusion about calculation in FY15.

The phrase “sparsely populated, isolated rural areas” appears twice – on page 3, line 24 and page 4 line 16. Page 3 includes one comma in the clause while page 4 includes two commas.

OTHER SUBSTANTIVE ISSUES

Gallup McKinley County Schools is one of 24 school districts that receive federal Impact Aid payments. GMCS received \$22.7 million in Impact Aid payments in FY14, or 39 percent of all Impact Aid payments made to the state. Pursuant to the state’s funding formula, the state takes credit for 75 percent of these revenues when calculating the district’s state equalization guarantee distribution.

RSG/bb