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## FISCAL IMPACT REPORT

**SPONSOR** Martinez, K                      **ORIGINAL DATE** 03/06/15  
**LAST UPDATED** 03/09/10                      **HB** 492/aHGEIAC

**SHORT TITLE** Equalization Guarantee & Federal Funds                      **SB** \_\_\_\_\_

**ANALYST** Gudgel

### REVENUE (dollars in thousands)

FY16	FY17	FY18	FY19	FY20	Recurring or Nonrecurring	Fund Affected
\$8,648.4	\$17,296.7	\$25,945.2	\$34,593.6	\$43,242.0	Recurring	23 School Districts that Receive Impact Aid Payments

(Parenthesis ( ) Indicate Expenditure Decreases)

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

FY16	FY17	FY18	FY19	FY20	5 Year Total Cost	Recurring or Nonrecurring	Fund Affected
(\$8,648.4)	(\$17,296.7)	(\$25,945.2)	(\$34,593.6)	(\$43,242.0)	(\$129,726.1)	Recurring	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)

### SUMMARY

#### Synopsis of HGEIAC Amendment

House Government, Elections & Indian Affairs amendment to House Bill 492 addresses technical issues raised below regarding what months the state takes credit for Impact Aid payments when calculating the annual state equalization guarantee (SEG) distribution. The bill changes language as follows to ensure the state is taking credit for Impact Aid revenues at a single rate each fiscal year: 75 percent for fiscal year 2015 (current law); 60 percent for fiscal year 2016; 45 percent for fiscal year 2017; 30 percent for fiscal year 2018; 15 percent for fiscal

year 2019; and 0 percent beginning with fiscal year 2020.

Synopsis of Bill

House Bill 492 amends the Public School Finance Act to reduce the amount of federal revenue the state is able to take credit for in the public school funding formula over the next five years as follows:

- 75 percent through June 30, 2015 (current law);
- 60 percent from July 1, 2015 through June 30, 2016;
- 45 percent from July 1, 2016 through June 30, 2017;
- 30 percent from July 1, 2017 through June 30, 2018;
- 15 percent from July 1, 2018 through June 30, 2019; and
- 0 percent beginning on July 1, 2020.

**FISCAL IMPLICATIONS**

To determine a given school district’s state equalization guarantee (SEG) distribution under current law, Section 22-8-25(D)(6) NMSA 1978 requires that PED deduct the “local and federal revenues” from the total calculated program cost of the school district. “Local revenues” and “federal revenues” are statutorily defined terms. Federal revenue, for the purpose of calculating the SEG, is partially derived from 75 percent of grants from the federal government as assistance to those areas affected by federal activity authorized in accordance with Title 20 of the United State Code, commonly known as “PL 874 Funds” or “Impact Aid.”

This bill would reduce the percentage of Impact Aid revenue the state takes credit for by 15 percent annually between FY16 and FY20 until the percentage reaches zero, resulting in the exclusion of federal Impact Aid revenue from the computation of the state equalization guarantee (SEG) distribution beginning with FY20.

Currently the state takes credit for \$43.2 million in federal Impact Aid revenues received directly by school districts and charter schools. This bill would allow the state to take credit for \$34.5 million in FY16, \$25.9 million in FY17, \$17.3 million in FY18, and \$8.6 million in FY19. After FY19 the state would no longer be able to take credit for federal Impact Aid revenues received by local school districts. The 23 school districts that receive impact aid payments would realize a significant increase in operational funds, though the increase would not be equivalent to the reduction in credit because the statewide appropriation to the SEG would likely decrease, affecting all school districts.

Without an equivalent annual increase in the general fund appropriation to make up for the lost federal revenue, school districts and charter schools would receive less operational funding annually. Enactment of this bill could result in the Legislature considering increasing general fund appropriations to the public education funding formula to make up for the lost revenue annually.

PED’s analysis on House Bill 162 (a similar bill that prohibited the state from taking credit for Impact Aid revenues received by Zuni Public School Districts) noted the loss of Impact Aid revenue would result in the dilution of the unit value to accommodate the loss of credits. Otherwise, the Legislature would need to increase annual appropriations to the SEG in an equivalent amount to ensure dilution of the unit value does not occur. It is also likely that the

state would cease to be an equalized state - students from different parts of the state with similar needs would be generating different funding.

The following table shows impact aid payments received by school district and taken credit for in the FY14 SEG calculation:

<b>IMPACT AID PAYMENTS BY DISTRICT</b>		
<b>June 1, 2013 through May 31, 2014 Credits</b>		
		STATE CREDIT
SCHOOL	OPERATIONAL	OPERATIONAL
DISTRICT	@ 25%	@ 75%
ALAMOGORDO	\$172,012.57	\$516,037.70
ALBUQUERQUE	\$8,078.49	\$24,235.47
BERNALILLO	\$847,964.12	\$2,543,892.35
BLOOMFIELD	\$94,541.34	\$283,624.01
CENTRAL	\$4,260,144.24	\$12,780,432.72
CLOVIS	\$27,321.99	\$81,965.96
CUBA	\$157,754.50	\$473,263.49
DULCE	\$669,479.04	\$2,008,437.12
ESPANOLA	\$32,136.16	\$96,408.49
GALLUP	\$5,672,193.11	\$17,016,579.34
GRANTS	\$267,071.93	\$801,215.78
JEMEZ MOUNTAIN	\$44,195.35	\$132,586.04
JEMEZ VALLEY	\$268,395.41	\$805,186.23
LOS ALAMOS	\$58,826.56	\$176,479.69
LOS LUNAS	\$25,112.86	\$75,338.58
MAGDALENA	\$79,705.94	\$239,117.83
MAXWELL	\$74.70	\$224.11
PENASCO	\$5,951.21	\$17,853.62
POJOAQUE	\$266,901.91	\$800,705.72
PORTALES	\$2,387.18	\$7,161.54
RATON	\$471.52	\$1,414.55
RUIDOSO	\$126,521.07	\$379,563.20
TAOS	\$4,829.25	\$14,487.74
TULAROSA	\$75,419.57	\$226,258.70
ZUNI	\$1,246,519.81	\$3,739,559.42
	<b>\$14,414,009.79</b>	<b>\$43,242,029.38</b>

**SIGNIFICANT ISSUES**

A key feature of New Mexico’s Public School Finance Act’s operational funding scheme is the state equalization guarantee distribution, which is a formula that is meant to apportion federal and local revenue for schools equitably among the state’s school districts.

Impact Aid is a federal program that provides revenue to local governmental entities including school districts in lieu of property taxes not received from federal lands. These lands include property owned by the U.S. Forest, the Bureau of Land Management, National Laboratories, Indian reservations, and any other federally owned property. School districts directly receive 100 percent of federal Impact Aid payments. The objective of the Public School Finance Act is to equalize educational opportunity at the highest possible revenue level and guarantee each public school student equal access to programs and services appropriate to educational need, despite geographic location or local economic conditions. This is accomplished by accumulating

revenue at the state level and distributing appropriations to districts based on a program cost determined through the Public School Funding Formula. Because New Mexico is an equalized state, all revenue sources are considered in meeting the annual program cost. As a result, the state takes credit for 75 percent of federal Impact Aid payments to the districts, the local 0.5 mill levy and federal forest reserve payments to the districts. This ensures that total district revenue received through the state equalization guarantee (SEG) remains consistent with the amount calculated to meet student need and that each public school student receives equal access to programs and services appropriate to educational need. There are four parts to Impact Aid: basic payment, Indian set-aside, special education add-on, and construction funds. The state takes credit for the basic payment portion of Impact Aid only.

The “Indian set-aside” portion of Impact Aid is a payment to school districts based on the number of Native American students enrolled and receiving educational services. This payment meets the Congressional trust responsibility for educating Native American students. The state does not take credit for this portion of Impact Aid. Districts are required to consult with local Pueblos, Tribes, and Nations as to those programs that will be most beneficial to Native American students enrolled in the local district. Pueblos, Tribes, and Nations acknowledge this collaboration through the Indian Policies and Procedures agreement with the local district.

PED notes that school districts that only receive 0.5 mill levy funds may push for the 0.5 mill levy to be excluded in the calculation of a district’s SEG distribution in future years. The statewide impact if that occurred would be approximately \$15 million per year. PED states that it could reasonably be expected that highly taxed districts, particularly in the oil patch areas of the southeast and northwest would push to keep oil and gas revenues now paid to the state in their districts to supplement their revenues, returning to disparities in per student funding around the state, causing students in some areas to receive less funding than other students with similar needs.

PED additionally notes that excluding Impact Aid basic payments from the calculation of a school district’s SEG will increase the funding disparity between school districts in the state.

## **PERFORMANCE IMPLICATIONS**

PED will be required to update the funding formula calculations to reflect the changes in this bill. This should be able to be accomplished within current resources.

## **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

HB162 and SB602 conflict with HB492. HB74 and HB579 also amend Section 22-8-25 NMSA 1978.

## **TECHNICAL ISSUES**

Subsection G requires the calculation of federal revenues to be based on receipts from June 1 of the prior fiscal year through May 31 of the current fiscal year. However, provisions on page 3 related to the amount of credit to be calculated align with receipts received during a fiscal year. The Legislature should consider aligning changes on page 3 with Subsection G so PED is not calculating June revenues that the state takes credit for at a different rate than July through May revenues. Language could simply read “For fiscal year 2015, seventy-five percent of federal

revenues calculated pursuant to Subsection G.” etc. This has been addressed by HGEIAC amendment.

Additionally, there is a gap in fiscal years in Subparagraph (e) and (f) on page 3. Subsection (e) specifies credits to be taken in FY19 and Subparagraph (f) specifies credits to be taken in FY21. The Legislature may want to consider amending Subparagraph (f) to read July 1, 2019. This has been addressed by HGEIAC amendment.

## **OTHER SUBSTANTIVE ISSUES**

### According to the Indian Affairs Department:

According to a presentation entitled “Impact Aid-Title VIII: A 50 State Comparison” presented by the Indian Affairs Department in 2011: Impact Aid is a means to provide federal funds to public schools on Indian reservations. There are two reasons for Impact Aid: lack of local tax revenue and the unique needs of a predominantly Native American population-specifically to strengthen education programs in general. Impact Aid funds can be used for salaries for teachers and teacher aides; purchasing of text books, computers, and other equipment; after-school programs; remedial tutoring; advanced placement classes; and special enrichment programs. There are 89 public school districts in New Mexico. 23 public school districts have significant Native American student populations. 20 public school districts apply for Impact Aid funds. Some public school districts have opted not to apply for Impact Aid funds.

According to the National Indian Impacted Schools Association: Many local school districts across the United States include within their boundaries parcels of land that the federal government either owns or has removed from the local tax rolls-including Indian lands. These school districts face special challenges; they must provide a quality education to the children living on Indian and other federal lands, while sometimes operating with less local revenue than other school districts have, because the federal property is exempt from local property taxes.

Since 1950, Congress has provided financial assistance to these local school districts through the Impact Aid Program. Impact Aid was designed to assist local school districts that have lost property tax revenue due to the presence of tax-exempt federal property, or that have experienced increased expenditures due to the enrollment of federally conducted children, including children living on Indian lands. The Impact Aid law assists local school districts with concentrations of children residing on Indian lands, military bases, low-rent housing properties, or other federal properties. To a lesser extent, the Act also supports school districts with children who have parents in the uniformed services or employed on eligible federal properties but who do not live on federal property.

## **POSSIBLE QUESTIONS**

Will the Legislature be required to commit general fund revenues to SEG to make up for the loss of this federal revenue?

RSG/aml/je