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FISCAL IMPACT REPORT

SPONSOR Smith **ORIGINAL DATE** 9/30/16
LAST UPDATED 10/2/16 **HB** _____

SHORT TITLE Public School Capital Outlay Fund Changes **SB** 4

ANALYST Liu

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY17	FY18		
\$12,500.0		Nonrecurring	Instructional Material Fund
(\$12,500.0)		Nonrecurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY17	FY18	FY19	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		\$0.0 - \$25,000.0	\$0.0 - \$25,000.0	\$0.0 - \$50,000.0	Recurring	Instructional Material Fund or Transportation Distribution of the Public School Fund
Total		(\$0.0 - \$25,000.0)	(\$0.0 - \$25,000.0)	(\$0.0 - \$50,000.0)	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

Relates to SB 8

Relates to Appropriation in the 2016 General Appropriation Act

SOURCES OF INFORMATION

LFC Files

Responses Received From

Public School Facilities Authority (PSFA)

Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Bill

Senate Bill 4 would amend the Public School Capital Outlay Act, removing the four-year, \$15 million cap on building system repair, renovation, or replacement initiatives from the public school capital outlay fund. The bill would also reserve \$25 million of the public school capital outlay fund for future reappropriation by the Legislature in FY18, FY19, FY20, FY21, and FY22 to the instructional material fund or the transportation distribution of the public school fund. Any reserved amount not appropriated by the Legislature before the first day of the aforementioned fiscal years could be expended by the Public School Capital Outlay Council (PSCOC) as outlined in the Public School Capital Outlay Act. Additionally, the bill would make a nonrecurring, nonreverting \$12.5 million appropriation from the public school capital outlay fund to the instructional material fund starting in FY17 for the purchase of instructional material pursuant to the Instructional Material Law.

FISCAL IMPLICATIONS

Beginning in FY18, this bill would authorize the Legislature to appropriate \$25 million in revenue from supplemental severance tax bond (SSTB) notes in the public school capital outlay fund to the instructional material fund or the transportation distribution of the public school fund. If appropriated by the Legislature, the \$25 million in SSTB revenue would replace general fund appropriations for instructional materials and school transportation. Absent any appropriation of the \$25 million by the Legislature, PSCOC would be allowed to expend the reserved amount in accordance with provisions of the Public School Capital Outlay Act. Severance tax revenue, and consequently the revenue available for capital projects, can be volatile from year to year.

The appropriation of \$12.5 million contained in this bill is a nonrecurring transfer in FY17 from the public school capital outlay fund to the instructional material fund for the purchase of instructional material pursuant to the Instructional Material Law. Any unexpended or unencumbered balance remaining at the end of a fiscal year shall not revert to the public school capital outlay fund.

SIGNIFICANT ISSUES

According to PSFA, the bill would likely result in reductions to PSFA operational expenditures, capital project awards to schools, and emergency contingency reserves to keep the public school capital outlay fund solvent. LFC and DFA estimates indicate adjustments to capital project awards for schools may be necessary in FY18 depending on actual project reversions and advance repayments from districts.

The average statewide Facility Condition Index (FCI) has decreased significantly from 71 percent in 2001 and stabilized around 35 percent in the last five years for school districts, indicating marked improvement in the condition of New Mexico school facilities. As of FY16, PSCOC has awarded over \$2.3 billion in state matching funds to school districts for capital improvement. This bill removes certain funding restrictions for building system repair, renovation, or replacement initiatives identified by PSCOC, including a \$15 million cap on expenditures and the timeframe for expenditure between FY16 and FY20. PSCOC is currently shifting emphasis from construction awards to system maintenance in an effort to extend the

useful life of existing school buildings. PSFA estimates demand for project award funding related to system initiatives will exceed \$15 million in subsequent fiscal years.

The Public Education Department sent a memorandum to superintendents, charter school representatives, and transportation directors on September 21, 2016, informing them of an immediate freeze on capital outlay projects with no activity, excluding projects authorized during the 2016 legislative session. No activity was defined as projects without a signed grant agreement in place, projects without an approved request to obligate funds, and projects without encumbrances or approved expenditures as of September 6, 2016. The freeze was enacted as part of the proposed solvency plan to correct state revenue shortfalls.

RELATIONSHIP

SB 4 relates to SB 8 regarding fiscal impacts to the public school capital outlay fund. SB 4 appropriates \$12.5 million from the public school capital outlay fund to the instructional materials fund and reserves \$25 million in subsequent years for potential appropriation to the instructional materials fund or transportation distribution of the public school fund. SB 4 also removes spending restrictions on system initiatives. SB 8 provides for nonrecurring use of severance tax bonding capacity to assist in addressing solvency issues. SB 8 disencumbers public school capital outlay appropriations for projects that are eligible for closeout and transfers the remaining awards to DFA. According to PSFA, the estimated reversion could be up to \$12.2 million from projects that have been eligible for closeout. Final audits for these projects are expected to be completed by November 15, 2016; at which time, all reversion amounts will need to be recertified for reallocation.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

A general fund savings of \$12.5 million in FY17 will not be realized through utilization of supplemental severance tax bonds appropriated from the public school capital outlay fund, and the Legislature will not have the authority to appropriate \$25 million in additional revenue from the fund for subsequent years to offset general fund need. PSCOC will carry over unspent balances from project reversions and remain limited to a \$15 million cap on system initiatives.

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