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FISCAL IMPACT REPORT

SPONSOR Muñoz ORIGINAL DATE 1/30/17
 LAST UPDATED 2/20/17 HB _____

SHORT TITLE Charter Schools in School Districts SB 135/SECS

ANALYST Liu

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY17	FY18	FY19	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		(\$778.2)	(\$778.3)	(\$1,556.5)	Recurring	Charter School Operating Budgets

(Parenthesis () Indicate Expenditure Decreases)

Relates to Appropriation in the General Appropriation Act

SOURCES OF INFORMATION

LFC Files

Legislative Education Study Committee (LESC) Files

Responses Received From

Public Education Department (PED)

SUMMARY

Synopsis of SEC Substitute

The Senate Education Committee substitute for Senate Bill 135 amends the Public School Finance Act, clarifying the term “school district” to include locally-chartered and state-chartered charter schools. Inclusion of charter schools in the definition of school district would subject them to the same 75 percent local and federal revenue credits taken from school districts. The bill precludes charter schools from credits taken pursuant to the Energy Efficiency and Renewable Energy Bonding Act.

FISCAL IMPLICATIONS

Currently, the only local or federal revenues received by charter schools are payments pursuant to 20 U.S. Code Section 7703, commonly known as Impact Aid. Current statute requires PED to reduce (or take credit for) the SEG of school districts by 75 percent of grants from the federal government, including Impact Aid payments. In FY16, PED took credit for \$54.3 million in federal Impact Aid payments received by school districts, but did not take credit for Impact Aid

received by charter schools. For FY17, the Legislature estimated \$64 million in projected credits, and the FY18 LFC public school support recommendation includes a \$624 thousand credit estimate for these school districts.

According to PED, seven state-chartered charter schools received a total of \$1 million in federal Impact Aid payments. If PED had taken a 75 percent credit for these federal revenues, \$778.3 thousand in general fund state equalization guarantee (SEG) allocations would have been withheld. The state does not take credit for the portions of Impact Aid payments related to special education, Native American education or construction. Credits have always been applied to the payments in lieu of taxes portion of the awards, commonly termed Operational awards.

Charter School	Operational Impact Aid	SB135 SEG Credit
East Mountain Charter HS	\$9,764	\$7,323
McCurdy Charter	\$164,839	\$123,629
Southwest Aeronautics, Math and Science	\$2,456	\$1,842
Southwest Intermediate	\$416	\$312
Southwest Primary	\$604	\$453
Southwest Secondary	\$4,466	\$3,350
Walatowa Charter HS	\$855,142	\$641,356
Total	\$1,037,687	\$778,265

Source: PED

The bill does not apply deductions of bond payments under the Energy Efficiency and Renewable Bonding Act to locally-chartered or state-chartered charter schools because charter schools are not eligible for such bonds. The Energy Efficiency and Renewable Energy Bonding Act defines school district as a “political subdivision” of the state established for the administration of public schools, segregated geographically for taxation and bonding purposes and governed by the Public School Code. This Energy Efficiency and Renewable Energy Bonding Act therefore excludes charter schools because there is no certified amount to take credit for charter schools.

SIGNIFICANT ISSUES

Federal law provides financial assistance to local education agencies that serve federally connected children, including those who reside on military bases or Native American reservations. Local education agencies who serve such children may apply to the federal Impact Aid office to receive funds. In most states, federal law prohibits the state from considering Impact Aid when allocating state funding; however, states that provide equalized expenditures for public education are allowed to credit federal revenues to maintain an equalized formula. According to the National Association of Federally Impacted Schools (NAFIS) New Mexico, Alaska, and Kansas are the only three states that currently meet the criteria for equalization.

If charter schools expand into areas with high concentrations of federally connected children, Impact Aid payments may increase. LESC notes not taking credit for charter school Impact Aid could have a profound effect on the equity of the funding formula.

ADMINISTRATIVE IMPLICATIONS

PED notes charter schools or the U.S. Department of Education will both need to report the receipt of Impact Aid vouchers to accurately track Impact Aid payments. Additional expenses of adjusting internal processes is expected to be minimal.

RELATIONSHIP

This bill relates to the state equalization guarantee distribution of the public school support appropriation in the General Appropriations Act.

TECHNICAL ISSUES

PED notes the bill, as introduced, included language on page 2, lines 2 through 4, that struck the words “is the difference between the state-chartered charter school's program cost and” and inserted “that is distributed to each charter school shall be reduced by” to allow for the two percent administrative withholding, as well as the federal revenue credits. This is a necessary change if the state is to take credit for charter school Impact Aid payments, as currently one section of law indicates that the SEG is the program cost less the two percent administrative holding and another indicates the SEG should reflect a credit for federal revenues.

OTHER SUBSTANTIVE ISSUES

Two locally-chartered charter schools receive Impact Aid revenue through their authorizing school district; however, PED takes credit for Impact Aid before allocating SEG to school districts, which subsequently transfer SEG distributions to their locally-chartered charter schools. As such, Impact Aid credits for locally-chartered charter schools are already deducted.

According to information provided to LESC by the NAFIS, New Mexico school districts could see smaller Impact Aid payments in future years. Recently, school districts have been receiving prior year Impact Aid payments, and the federal government has mostly caught up with those payments. Additionally, the U.S. Department of Education updated regulations to change the timeline for applications, which should eliminate prior year payments in the future. NAFIS notes school districts that fail to file federal FY18 applications by January 31, 2017, will lose 10 percent of their award.

SL/al