

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).

FISCAL IMPACT REPORT

SPONSOR Montoya, RE **ORIGINAL DATE** 01/31/21
LAST UPDATED 03/01/21 **HB** 138
SHORT TITLE Increase Fine Arts Education Program Unit **SB** _____
ANALYST Liu

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY21	FY22	FY23	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		\$2,907.6 - \$3,023.5	\$2,907.6 - \$3,023.5	\$5,815.1 - \$6,047.0	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

Relates to SB131
 Relates to Appropriation in the General Appropriation Act of 2021

SOURCES OF INFORMATION

LFC Files
 Legislative Education Study Committee (LESC) Files

Responses Received From
 Public Education Department (PED)

SUMMARY

Synopsis of Bill

House Bill 138 increases the elementary fine arts cost differential in the public school funding formula from 0.05 to 0.054, beginning in FY22.

FISCAL IMPLICATIONS

This bill does not contain an appropriation. The bill increases the public school funding formula elementary fine arts factor from 0.05 to 0.054 in FY22, effectively generating more program units (a weighted student count) and funding for public schools based on the number of students in fine arts programs. Preliminary FY21 data shows 160.4 thousand students in the funding formula generated 8,020 fine arts program units, or \$36.4 million.

Assuming no change in the fine arts student population and a fine arts factor increase to 0.054, the formula would generate 642 new fine arts program units. At the current unit value of \$4,531.74, this would create an operating budget impact of \$2.9 million. PED estimates this cost could be up to \$3 million.

Using FY21 student counts and demographics, increasing the fine arts factor to 0.054 would generate a total of 8,661 program units. At the preliminary unit value, these additional units would effectively shift the equivalent of \$2.9 million in formula funds to schools with more students in fine arts programs. Because this bill does not contain an appropriation, the costs of the \$2.9 million redistribution would be primarily borne by schools without fine arts programs.

Total net fiscal impacts would also depend on the total number of students counted in the 2020-2021 school year. According to PED first reporting date (40th day) student membership counts, statewide enrollment declined from 320.4 thousand students in 2019 to 308 thousand students in 2020, a decrease of 12.3 thousand students, or 3.9 percent. Because the funding formula is based on prior-year student membership and 40th day counts are highly predictive of the second (80th) and third (120th) reporting date counts, total student membership will likely decrease at a similar rate for the FY22 funding formula and place downward pressure on fine arts program unit generation.

SIGNIFICANT ISSUES

The elementary fine arts factor was initially established in the public school funding formula in FY04 and phased in over two years. According to LESC, the 0.05 fine arts factor has generated about 9,000 units, or \$34 million, in recent years. Prior to FY20, the public school funding formula also applied a training and experience (T&E) index to the fine arts factor, generating about 700 additional program units, or \$3 million, for schools with elementary fine arts programs. In total, about \$37 million of the previous formula funding could be attributable to fine arts programs.

Laws 2018, Chapter 55, (House Bill 188) separated the T&E index from the fine arts factor in FY20, reducing the number of program units generated in the formula; however, the subsequent increase in the unit value offset the loss of program units. As such, about \$36.4 million of the funding formula is still attributable to elementary fine arts.

PED notes changes to the T&E index created some confusion regarding fine arts funding for school districts and charter schools throughout the state. Previous versions of the Fine Arts Education Act (FAEA) program plan application included information to school districts and charter schools regarding their FAEA funding by multiplying the school district or charter school T&E index by the amount of FAEA units generated and thence the unit value to calculate program funding amounts. When newer applications for FAEA removed the T&E multiplier, many fine arts stakeholders raised concerns regarding the reduction in funding for FAEA programs.

Regardless of calculated program amounts in program plan applications, as one element of non-categorical funding within the yearly state equalization guarantee (SEG) distributions, the actual amount of FAEA funding has always been aggregated in the monthly SEG allotment and subject to local decision-making regarding allotment among the different FAEA programs within the school district or charter school.

ADMINISTRATIVE IMPLICATIONS

PED will need to modify all of the funding formula worksheets used to compute the SEG distribution for school districts and charter schools. The unit value calculation will need to be

modified to capture the impact of these additional changes to the funding formula.

RELATIONSHIP

This bill relates to the SEG distribution in the General Appropriation Act of 2021 and Senate Bill 131, which includes fine arts program units under the definition of discretionary program units.

OTHER SUBSTANTIVE ISSUES

PED notes provisions of the FAEA require the department to review the goals and priorities of the FAEA plans and make recommendations to the PED secretary – operationalized by approval of program plan applications. Provisions of the Public School Finance Act (22-8-23.5 NMSA 1978) limit FAEA unit generation to student membership in programs implemented in accordance with the provisions of the FAEA, and therefore, membership in approved programs. If a program plan application was denied in FY21 for existing programs, the estimated impact to the state could change.

SL/al