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FISCAL IMPACT REPORT

ORIGINAL DATE 1/31/08
 LAST UPDATED 2/01/08 HB _____

SPONSOR Lopez

SHORT TITLE Educational Services Gross Receipts Exemption SB 480

ANALYST Schardin

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY08	FY09	FY10		
	(\$168.4)	(\$173.5)	Recurring	General Fund
	(\$143.9)	(\$148.2)	Recurring	Local Governments

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
 Rio Grande Educational Collaborative

Responses Received From

Taxation and Revenue Department (TRD)
 Public Education Department (PED)

SUMMARY

Synopsis of Bill

Senate Bill 480 creates a new gross receipts tax exemption for receipts from the sale of a service for supplemental education provided pursuant to the federal No Child Left Behind Act of 2001. The provisions of the bill will become effective on July 1, 2008.

FISCAL IMPLICATIONS

According to PED, federal spending in New Mexico for supplemental education services totaled \$4.5 million in the 2006-2007 school years (FY07). Most of that federal funding was probably spent in municipalities, where the statewide average tax rate is about 7 percent. PED expects the amount of federal funding for supplemental education services is expected to grow as more schools are identified for improvement. This fiscal impact analysis assumes growth of 3 percent per year. These assumptions result in a FY09 revenue loss of \$312.3 thousand. About 75 percent of that revenue loss will accrue to the general fund and the remaining 25 percent to local governments.

LFC notes that the fiscal impact of the bill could be larger if federal funding for supplemental education services rises in the future, or could be reduced to zero if the No Child Left Behind program is discontinued.

SIGNIFICANT ISSUES

PED received \$4.5 million in federal funds for special education services, commonly referred to as tutoring, in the 2006-2007 school year. PED reports that supplemental educational services were established in the No Child Left Behind Act of 2001. These tutoring services are provided to low-income students in schools that are in year two of school improvement, corrective action or restructuring.

PED solicits bids from vendors to receive that funding. Winning vendors then provide tutoring services in Title I school districts. Proponents of the legislation note that because a gross receipts tax of about 7 percent must be paid out of a set amount of federal funds available for tutoring, the amount of tutoring that can be provided to New Mexico students is lower. By allowing a gross receipts tax deduction for tutoring, the federal funds available will be able to serve more students.

LFC notes that while individual credits, deductions and exemptions from the gross receipts tax may have small fiscal impacts, their cumulative effect significantly narrows the gross receipts tax base. Narrowing the gross receipts tax base increases revenue volatility and requires a higher tax rate to generate the same amount of revenue.

ADMINISTRATIVE IMPLICATIONS

The administrative impact on TRD will be minimal.

TECHNICAL ISSUES

LFC recommends amending the bill to define “service for supplemental education.” The No Child Left Behind Act defines “supplemental educational services” as “tutoring and other supplemental academic enrichment services that are (i) in addition to instruction provided during the school day; and (ii) are of high quality, research-based, and specifically designed to increase the academic achievement of eligible children on the academic assessments required under section 1111 and attain proficiency in meeting the State’s academic achievement standards.”

SS/nt