

**LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS**

Bill Number: HB 523

51st Legislature, 1st Session, 2013

Tracking Number: .192883.1

Short Title: School State-Support Reserve Reimbursement

Sponsor: Representative Mimi Stewart and Others

Analyst: David T. Craig

Date: February 28, 2013

Bill Summary:

HB 523 amends the *Public School Finance Act* to require that at the beginning of each fiscal year the State-Support Reserve Fund have a credit balance of at least \$10.0 million.

Fiscal Impact:

HB 523 does not contain an appropriation.

Fiscal Issues:

Among its provisions, current law states that the Legislature's intent was to ensure that the State Support Reserve Fund had a credit balance of at least \$10.0 million at the beginning of each fiscal year.

The current balance in the fund is \$1.0 million, which is the last appropriation to the fund by the 2007 Legislature.

From FY 00 to FY 07, there was no balance in fund as a result of a provision in the *General Appropriation Act of 1999* that transferred the balance in the fund to the General Fund operating reserve on June 30, 1999. According to the Legislative Finance Committee *1999 Post Session Fiscal Review*, the balance in the State Support Reserve Fund at the end of FY 99 was \$5.2 million.

Background:

State Support Reserve Fund

- In 1967, the State Support Reserve Fund was created in law to ensure that the maximum distribution for basic state support established in law would not be reduced;
- In 1974, when the current public school funding formula was established in law, this provision was amended to require that the fund be used only to supplement the appropriations for the State Equalization Guarantee (SEG) so that the Unit Value is not reduced.

Unit Value

Under the public school funding formula:

- Program Cost is the amount of money assumed under the formula to be necessary to provide educational services in public schools state wide. The SEG is determined to be the program cost less credits (see below).
- The unit value is a dollar amount calculated by dividing the program cost by the total number of program units statewide:

$$\text{Unit Value} = \frac{\text{Program Cost}}{\text{Total Statewide Units}}$$

Thus, a decrease in credits, or an increase in units could cause a reduction in the unit value.

Credits

- the state takes credit for 75 percent of the local .5-mill levies and 75 percent of federal forest reserve funds and most Impact Aid (formally PL 874) funds, with the exception of Impact Aid funds for special education or for students living on Indian lands, which remain in the local districts; and
- school districts retain 25 percent for operational or other purposes.

Sequestration

On January 2, 2013, President Obama signed into law the federal *American Taxpayer Relief Act* (ATRA) of 2012. The ATRA postponed the federal *Budget Control Act* (BCA) sequestration from January 2, 2013, as originally scheduled, to March 1, 2013, and reduced across-the-board cuts for FY 13 by \$24.0 billion to account for the two-month delay. Without action, on March 1, 2013, however, reductions in federal program funding for FY 13, FY 14, and beyond will automatically occur.

For FY 2012, as noted in the guidance from the US Department of Education:

- most federally funded education programs are forward-funded.¹;
- for forward-funded federal programs, sequestration occurring in March will not have an impact on federal funding until July 2013 for the school year 2013-2014; and
- the Impact Aid program, however, is a current-year funded program, meaning that the sequestration cuts would have an immediate impact on funding allotments that would affect state FY 13 funding

¹ The term “forward-funded” means that budget authority is made available for obligation beginning in the last quarter of the fiscal year for the financing of ongoing activities (usually grant programs) during the next fiscal year. This funding is used mostly for education programs so that obligations for grants can be made prior to the beginning of the next school year. “Current-year funded” programs are funded during, not prior to, the federal fiscal year. Funding for Impact Aid, a current-year funded program, occurs around May of each year, more than 7 months after the start of the federal fiscal year.

The Impact Aid program is a federal program that provides revenue to local governmental entities 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, including military bases. According to a comparison of Impact Aid funding done by the legislative staff in New Mexico, there are 28 school districts in New Mexico receiving Impact Aid funds annually.

According to the Federal Funds Information for States (FFIS):

- the FY 13 allocation for Basic Impact Aid to entities in New Mexico was \$95,963,000;
- if sequestration occurs on March 1, 2013, New Mexico’s Impact Aid allocation could be reduced by \$5,662,000; and
- this would result in a total allocation of \$90,301,000.

All federal Impact Aid dollars are distributed from the federal government directly to a local educational agency (LEA)² throughout the country. In New Mexico, however, federal Impact Aid funds are also accounted for in the State Equalization Guarantee (SEG) Distribution (also known as the Public School Funding Formula) by:

- taking 75 percent credit in the SEG distribution of LEAs that receive Impact Aid funds; and
- allowing LEAs to use the remaining 25 percent for operational or other purposes.

The table below illustrates that if sequestration occurs this school year, the reduction to Impact Aid funds would require additional funding for the SEG by \$4,246,500 in order to hold the unit value constant.

Additional Required State Funding due to Impact Aid Sequestration Cuts.

Impact Aid FY 13 Allocation	Calculation	Amount of Impact Aid Credited to the New Mexico SEG	Assuming all units remain equal, the additional amount NM must fund.
\$95,963,000	$(0.75)*(\$95,963,000)$	\$71,972,300	
\$90,301,000	$(0.75)*(\$90,301,000)$	\$67,725,800	(\$4,246,500)

On a somewhat positive note, the *General Appropriation Act of 2012* includes language for FY 13 that allows the Public Education Department to “request from the State Board of Finance a transfer of up to \$4.0 million from the separate account of the appropriation contingency fund” to augment the appropriation for the SEG if federal revenue or other revenues for which the state takes credit fall short of the projected amount in FY 13. An additional \$1.0 million remains as a balance in the State Support Reserve Fund.³ These available dollars would hold the current unit value constant if the sequestration amount remains at \$4,246,500.

² Also referred to as a local school district.

³ In 1967, the State Support Reserve Fund was created in law to ensure that the maximum distribution for basic state support established in law would not be reduced. In 1974, when the current public school funding formula was established in law, this provision was amended to require that the fund be used only to supplement the appropriation for the SEG so that the unit value is not reduced. Current provisions for this fund state that it is the intent of the Legislature that the fund “at the beginning of each fiscal year shall have a credit balance of at least ten million dollars (\$10,000,000).”

If the projected credits for FY 14 in the *General Appropriations Act (GAA) of 2013* are impacted through sequestration, either by timeliness of receipt of federal funds or a reduction in the amount of federal funds, then having a balance in the State-Support Reserve Fund may allow the State to augment the SEG as provided for in the *GAA of 2013* and help offset any potential impact to schools from sequestration.

Committee Referrals:

HEC, HAFC

Related Bills:

None as of February 22, 2013.