F I S C A L   I M P A C T   R E P O R T

		ORIGINAL DATE	02/19/13		
SPONSOR	HEC	**LAST UPDATED**	03/01/13	**HB**	289/HECS
SHORT TITLE	Local Proceeds for School District Employees			**SB**	
				ANALYST	Gudgel

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY13	FY14	FY15	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		See Fiscal Implications				

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Public School Facilities Authority (PSFA)
Department of Finance and Administration (DFA)

SUMMARY

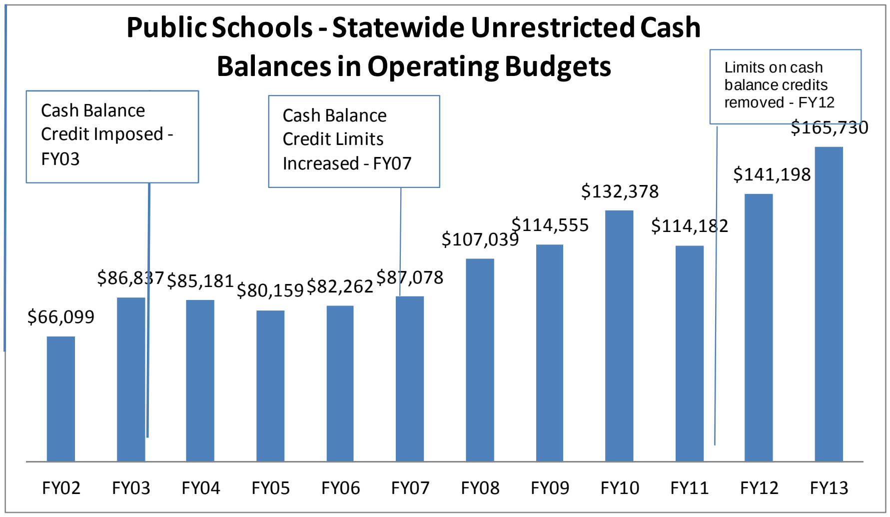
Synopsis of Bill

The House Education Committee substitute for House Bill 289 (HB 289) amends the Public School Capital Improvements Act (SB-9) to allow a school district to use up to 5 percent of the proceeds generated from the local mill levy to pay salary expenses of school district employees who oversee district administration of projects funded by revenues generated pursuant to the Public School Capital Improvements Act. It also allows SB-9 taxes to be used for purchasing or contracting for network equipment and services, computer peripheral equipment and maintenance services, operating systems and educational software: and communications equipment and services, including for internet access.

FISCAL IMPLICATIONS

Expanding the permissible uses of SB-9 proceeds to allow school districts to use up to 5 percent of the proceeds generated from the local mill levy to pay salary expenses of employees who oversee district administration of projects funded by SB-9 revenue and computer and communications equipment and services may free up operational state equalization guarantee distribution funding, a portion of which is currently used for this purpose.

It is important to note, however, since FY08, school districts and charter schools have grown year-end cash balances by $49 million, or 42 percent.



Employee salaries are recurring costs that will be paid from nonrecurring revenues that require voter approval in the future. Expanded use of SB-9 revenue to pay employee salaries will diminish the capacity to fund other capital improvements or other allowed uses of SB-9 revenue.

The Public School Facilities Authority (PSFA) notes that school districts have reduced their maintenance and custodial staffing levels due to past budget constraints, putting infrastructure at risk. If SB-9 funding is used to pay for salaries, the ability for schools to hire licensed contractors will be diminished and the necessary parts and supplies needed to maintain facilities will also be reduced. These reductions will have an adverse and direct impact to the educational environment.

When considered in light of large operational cash balances, allowing school districts to reduce the amount of funding that goes directly to facility maintenance and operations may have a negative effect on school building conditions. The PSFA's Facility Maintenance Assessment Report (FMAR) indicates that the New Mexico statewide FMAR average score is currently 60.9 percent (district scores are based upon a small random sample of 186 of the 800 schools). The PSFA data indicates a rating of 80 percent or more is considered good maintenance. Of the school districts, only 8 school districts received a rating of "good". Sixteen school districts received ratings of "satisfactory", 16 received ratings of "marginal", and 31 school districts received ratings of "poor".

Additionally, the Public Education Department's (PED) analysis of the original bill noted that historically, school districts have funded approximately 61 percent of statewide construction spending from revenue generated by local taxes. For the current facilities condition index (FCI) to remain at its current level of 35 percent, approximately $367 million needs to be invested in New Mexico's school buildings annually. This places the state's responsibility of maintaining the current FCI level at approximately $143 million. The diversion of a portion of SB-9 tax revenues from the maintenance of school buildings may result in the FCI increasing.

SIGNIFICANT ISSUES

HB 289 was not presented to the Public School Capital Outlay Oversight Task Force (PSCOOTF) during the 2012 interim, nor is the bill sponsored by the PSCOOTF.

Generally, changes proposed in this bill will not apply to SB-9 elections that have occurred prior to the effective date of this bill because the resolution and proclamation will not include the expanded uses. To be able to use SB-9 revenues for employee salaries a school district will have to include this purpose in the next district resolution and in the proclamation for voter approval.

The PED's analysis of the original bill noted that the SB-9 tax is an ad valorem tax that is matched with state funds. The state funds are funded through Supplemental Severance Tax Bonds which are governed by NMAC through the State Board of Finance (2.61.6 NMAC: Bond Project Disbursement). The new proposed uses of these funds for salary expenses of school district employees are not allowable pursuant to the rule. This bill may conflict with the State Board of Finance's disbursement rule.

CONFLICT

Conflicts with SB 147 that adds a definition of "education technology".

OTHER SUBSTANTIVE ISSUES

Funds generated from an SB-9 election are collected through ad valorem taxes and a state match. There are state matching funds for the locally-chartered and state-chartered charter schools residing within the school district, imposing an SB-9. There are five school districts that do not currently have an SB-9 tax election: Carlsbad, Espanola, Los Alamos, Penasco and Reserve.

The PSFA notes that the PED's current methodology of capturing maintenance expenditures is included in one function code (2600) with no specific breakdown as recommended by the National Center for Education Statistics (NCES). This does not allow for a true point by point analysis of where maintenance dollars are being spent.

Expanding the uses of these revenue sources may allow school districts to implement the new Partnership for Assessment Readiness for College and Careers assessment related to the new Common Core State Standards (CCSS). The CCSS were adopted in 2010 and will be fully implemented by the 2014-2015 school year. The new PARCC assessment is a computer adaptive test. The PED estimated it will cost the state approximately $8.4 million to purchase computers needed to administer the test. This cost estimate does not include other technology infrastructure needs.

Local general obligation bond authorizations and SB-9 and HB-33 mill levies require the question to be contained in a proclamation and then posed to the voters. Generally, changes proposed in this bill will not apply to elections that have occurred prior to the effective date of this bill because the proclamation will not include the expanded uses. It is unclear whether a district would be able to spend general obligation bond proceeds or SB-9 and HB-33 funds on the expanded permissible uses if the language in the existing proclamation vaguely references education technology.

ALTERNATIVES

The Legislature may wish to clarify that the distribution of local property tax receipts used for the salary expenses of school district personnel can only be used for existing positions and not for expansion.

RSG/blm:svb