

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 FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website ([www.nmlegis.gov](http://www.nmlegis.gov)). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

## FISCAL IMPACT REPORT

ORIGINAL DATE 02/27/13  
 SPONSOR Stewart LAST UPDATED 03/06/13 HB 523  
 SHORT TITLE School State-Support Reserve Reimbursement SB \_\_\_\_\_  
 ANALYST Gudgel

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY13	FY14		
	\$9,000.0 See Fiscal Implications	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY13	FY14	FY15		
	\$9,000.0 See Fiscal Implications		Recurring	State Support Reserve Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to Appropriation in the General Appropriation Act

### SOURCES OF INFORMATION

LFC Files

Responses Received From

Public Education Department (PED)

### SUMMARY

#### Synopsis of Bill

House Bill 523 amends the Public School Finance Act to state the state support reserve fund shall be reimbursed by appropriation each year in the amount of the yearly distribution made from the fund so that the fund at the beginning of each fiscal year shall have a credit balance of at least \$10 million.

## **FISCAL IMPLICATIONS**

During the 2007 legislative session, the Legislature appropriated \$1 million to the State Support Reserve Fund, a non-reverting fund. There has been no activity in or out of the fund since FY07, and the balance is remains at \$1 million.

HB 523 appears to contemplate an annual appropriation to ensure the fund has a beginning balance of \$10 million. However, the language of the bill indicates that the fund shall be reimbursed by the amount of any yearly distribution so that the fund has a beginning balance of at least \$10 million. This language appears ambiguous in that it only mandates an appropriation of the yearly distribution. If this is the case, an initial appropriation of \$9 million will be required to ensure the fund has a balance of \$10 million. Otherwise, the fund balance will remain at \$1 million, the Department will only be able to make yearly distributions up to \$1 million, and the appropriation to reimburse the fund will be limited by the amount of fund balance used.

The bill does not include an appropriation of \$9 million to ensure the fund has a beginning balance of \$10 million. In FY14, to meet the provisions of this bill based on the above analysis, an appropriation of \$9 million will be required to ensure a beginning year fund balance of \$10 million. In subsequent years, the appropriation amount will be dependent on any distributions from the fund.

However, the PED analysis indicates the provisions of this bill require an appropriation of \$9 million for FY14. This analysis assumes that the language requires a beginning balance in the fund of \$10 million annually.

The State-Support Reserve Fund was established to augment the appropriations for the state equalization guarantee distribution in order to ensure, to the extent of the balances in the fund, that the maximum figures for such distribution established by law shall not be reduced. Balances in the State-Support Reserve Fund are used to cover any shortages in anticipated local and federal revenues received from the local 0.5 mill levy, federal forest funds and federal impact aid credits.

The PED request for public school support generally includes a conservative estimate of these credits in order to avoid having to hold money back or having to request the return of funds from districts if local and federal revenues come in less than were estimated. Timing of receipt of these credits is also critical, as the Department generally receives the bulk of these credits late in the fiscal year.

In recent years distributions from the fund have not been needed; however with the uncertainty of federal revenues, particularly with Impact Aid and forest reserve payments, the PED indicates this fund may be needed.

## **SIGNIFICANT ISSUES**

The State Support Reserve Fund was created in 1967 to ensure that the maximum distribution for basic state support of public schools 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 program unit value is not reduced in the event local and federal revenues that the state takes credit for do not materialize at the estimated amount. The state takes credit for 75 percent of the local 0.5-mill levies and 75 percent of federal forest reserve funds and federal Impact Aid funds (formally PL 874) - with the exception of Impact Aid funds for special education or for students living on Indian lands, which remain in the local districts.

The PED has not accessed the fund since the 2007 appropriation. Since 2007, the state has received more in impact aid credits than has been assumed in the budget, resulting in the reversion of more than \$71 million since FY08.

	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
<b>Impact Aid</b>	\$54,283,184.9	\$67,582,749.8	\$56,983,295.0	\$55,860,373.3	\$ 52,723,165.44
<b>Forest Reserve</b>	\$778,358.7	\$6,522,084.9	\$6,287,232.0	\$4,804,222.9	\$ 4,134,251.74
<b>.5 Mill Levy</b>	\$11,731,238.5	\$13,252,290.8	\$12,856,078.2	\$12,834,465.5	\$ 14,045,409.80
<b>Grand Total 75% Actual Credits</b>	\$66,792,782.2	\$87,357,125.5	\$76,126,605.2	\$73,499,061.6	\$70,902,827.0
Total Assumed in Budget	\$55,600,000.0	\$55,400,000.0	\$64,400,000.0	\$59,400,000.0	\$68,436,000.0
Difference	(\$11,192,782.2)	(\$31,957,125.5)	(\$11,726,605.2)	(\$14,099,061.6)	(\$2,466,827.0)

The Legislative Education Study Committee (LESC) analysis notes the potential impact of sequestration on the state equalization guarantee distribution and the unit value. The analysis notes that the federal government has indicated if sequestration occurs, New Mexico’s basic Impact Aid allocation could be reduced by \$5.7 million. The LESC analysis includes a table that indicates 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. This is not a correct statement. The PED set the final unit value based on the actual amount of credits received as of January 2013 to account for potential sequester impacts that could result in no additional Impact Aid revenues received for the 2012-2013 school year. Therefore, if sequestration occurs, the unit value will not be affected during the current school year.

**ADMINISTRATIVE IMPLICATIONS**

The PED administers the Public School Fund appropriated by the Legislature. The Secretary of the PED also is responsible for notifying the state treasurer of any amounts in the State-Support Reserve Fund that will be needed for distribution.

**ALTERNATIVES**

Include language in the General Appropriation Act to allow the PED to access reserves in a specified amount with Board of Finance approval if local and federal revenues received are lower than estimated so the PED will not have to decrease the program unit value.

RSG/blm:svb