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## FISCAL IMPACT REPORT

**ORIGINAL DATE** 03/07/13  
**LAST UPDATED** \_\_\_\_\_

**SPONSOR** HEC **HB** 660/HECS

**SHORT TITLE** Public Peace, Health, Safety & Welfare **SB** \_\_\_\_\_

**ANALYST** Gudgel

### REVENUE (dollars in thousands)

Estimated Revenue	Recurring or Nonrecurring	Fund Affected
FY14 to FY19		
Up to (\$210,000.0)	Nonrecurring	Public School Capital Outlay Fund – Existing Programs
Up to \$210,000.0	Nonrecurring	Public School Capital Outlay Fund – Education Technology Grants

(Parenthesis ( ) Indicate Revenue Decreases)

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY13	FY14	FY15 to FY18	5 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>		\$891.1	\$866.0	\$4,355.1	Recurring	PSFA Operating Budget - PSCOF

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

Responses Received From  
Public School Facilities Authority (PSFA)

No Responses Received From  
Public Education Department (PED)

### SUMMARY

#### Synopsis of Bill

The House Education Committee Substitute for House Bill 660 amends the Public School Capital Outlay Act (PSCOA) to include a definition of education technology and allow the Public School Capital Outlay Council (PSCOC) to use up to \$200 million to make grants to school districts and charter schools for purchasing, installing, maintaining, and upgrading education technology during fiscal years 2014 through 2018. The bill also creates a \$10 million

grant program for an education technology infrastructure deficiency correction initiative for fiscal years 2014 through 2018.

## **FISCAL IMPLICATIONS**

The PSCOC makes grants from the Public School Capital Outlay Fund (PSCOF) to school districts primarily for standards-based projects, lease assistance, and roofing projects. The PSCOF consists entirely of proceeds from the sale of supplemental severance tax bonds. Standards-based projects require local school districts to match funds committed by the PSCOC based on a formula established in statute. The bill creates two new grant programs, allowing the PSCOC to allocate up to \$210 million between fiscal years 2014 and 2018 for education technology and related purchases. This will result in less funds available for standards-based projects, potentially resulting in violation of the court order in the Zuni lawsuit.

Currently, HB 2 includes a \$5.2 million special appropriation to the Public Education Department (PED) to purchase needed computer equipment for administration of the new computer-based standards-based assessment anticipated in 2014-2015.

## **PROGRAM DESCRIPTION**

The bill establishes two new grant programs related to education technology. The new definition of “education technology” includes educational and cable televisions, television systems, radio broadcasting; satellite, copper wire, and fiber-optic transmission; network connection devices and digital communications equipment, including voice, video and data equipment; computer hardware and software, including licenses, data storage fees and other technologies and services; local and remote servers; other computer infrastructure; portable media such as discs and drives to contain data for electronic storage and playback; maintenance equipment; and generally anything else used to implement technology in schools and related facilities.

### Education Technology Infrastructure Deficiency Correction Program

The bill authorized expenditure of up to \$10 million of the PSCOF in fiscal years 2014 to 2018 for an education technology infrastructure deficiency correction initiative. By September 1, 2013, the PSCOC, with the advice of the PED and the Department of Information Technology (DoIT) will be required to define and develop minimum adequacy standards for the program to identify and determine reasonable costs for education technology infrastructure deficiencies; a methodology for prioritizing projects; and a methodology for determining the school district’s share of the project costs. The bill allows the use of revenues generated pursuant to the Education Technology Equipment Act (ed tech notes), SB9, HB33, general obligation bonds, and state and federal grants. Local matching requirements for education technology infrastructure deficiency correction grants may be waived pursuant to existing provisions in law.

### Education Technology Equipment Program

The bill also authorizes expenditure of up to \$200 million of the PSCOF in fiscal years 2014 to 2018 for grants to school district to purchase, install, maintain, and upgrade education technology equipment as deemed necessary by the Council for an adequate educational program, and establishes a procedure for school districts and charter schools to apply for an education technology grant. Applications will be required to include a detailed assessment conducted by

the school district of the education technology equipment needed to meet state or federal education instructional requirements and the itemized estimated costs. The Public School Facilities Authority (PSFA) will be required to verify the assessment and estimated costs and rank the applications through a methodology adopted by the PSCOC. The PSCOC will be able to make awards in an amount up to \$200 thousand dollars annually, and is authorized to award partial grants. Grants made pursuant to the bill must be expended within two years.

### **SIGNIFICANT ISSUES**

Expanded use of Public School Capital Outlay Funds for education technology will diminish capacity to fund other capital projects or other allowed uses of the PSCOF. Historically, school districts fund 61 percent of all statewide construction spending from local taxes. To maintain the current facility condition index of 34.62 percent, the PSFA estimates \$367 million must be spent annually on school facilities-renewal. This leaves the state responsible for about \$143 million annually. Funding at a lower level places the state's investment in school facilities at risk, as funding gaps may increase the rate of degradation and thus may exceed future funding capacity.

Enactment of this bill, or any of the other bills this session that repurpose or earmark PSCOF funds, will decrease funds available for the core mission of the Public School Capital Outlay Act of ensuring students are in adequate facilities, and may result in reopening of the Zuni lawsuit. The Legislature should consider these bills simultaneously and analyze the merits of each appropriation to ensure the state will continue to meet the constitutional obligations under the Zuni court decree. A referral to House Judiciary Committee was withdrawn.

The Public School Capital Outlay Oversight Task Force (PSCOOTF) is charged by statute to monitor the progress and effectiveness of programs administered by the PSCOC and PSFA. As part of their 2012 Interim Work Plan, the Task Force examined a number of issues related to the implementation of the PARCC assessment. Due to many unknowns as far as the scope and projected cost, there were no specific recommendations regarding information technology expenditures. It is important to note there has not been a needs assessment for information technology conducted statewide and the scope of the problem is currently unknown.

The PSFA notes that redirecting \$110 million to educational technology infrastructure and equipment over a five year period could have a negative impact on construction employment. Unemployment in the construction sector is currently 41 percent—8.7 times higher than the 6.2 percent average unemployment rate across New Mexico's economy. Over the next 18 months the PSCOC has \$364.3 million in funding commitments to projects in development and construction, representing 10,383 direct and indirect jobs in construction and related sectors. If the amount of funding for construction projects decreases, it is likely the number of jobs supported by the PSCOC funded projects will decrease in the future.

### **PERFORMANCE IMPLICATIONS**

The PSFA indicates the agency's primary performance measure is the improvement in the statewide facility condition index (FCI) of public school buildings. Redirecting funds to education technology infrastructure and equipment over a five year period will cause the FCI to rise.

## **ADMINISTRATIVE IMPLICATIONS**

The bill requires the PSCOC to adopt rules to administer the new grant programs, including adopting a methodology to rank applications annually considering the availability of alternative funding, the existing education technology infrastructure within the school district and the size and location of the school district. This will require the PSCOC to adopt adequacy standards for education technology equipment. The bill also requires the PSCOC to adopt adequacy standards for an education technology infrastructure deficiency correction initiative. It is likely these initiatives will require significant time of the PSCOC, PSFA, PED and the DoIT.

The PSFA analysis indicates the agency is unable to manage the responsibilities of this bill within current appropriation levels. The PSFA estimates the need for 10 additional term FTE totaling \$866.1 thousand in additional salaries and benefits for FY14, and \$25.1 thousand for equipment and supplies.

## **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

HB 264 establishes a new \$15 million grant program using PSCOF proceeds for building systems.

HB 211 and SB 60 include the following appropriations from the PSCOF: \$8 million to the New Mexico School for the Deaf; \$9.2 million to the New Mexico School for the Blind; \$2.5 million to the PED for prekindergarten classrooms; \$3 million to the PED for school busses.

HB 291 appropriates \$10 million from the PSCOF to address deferred maintenance.

SB 98 decreases supplemental severance tax bonds available for public school capital outlay projects by \$38.4 million.

HB 2 includes \$172.8 thousand from the PSCOF to the PSFA to repay a PSCOC loan for Animas School District's matching fund requirements on a previously funded project.

## **TECHNICAL ISSUES**

The PSFA analysis indicates technology infrastructure is the framework upon which digital networks operate. This infrastructure is the transmission media that includes the conduit, wiring, cabling, and hardware related to end-point terminations. It does not include the interconnecting hardware such as routers, aggregators/concentrators, repeaters, switches, or devices that control transmission paths or computers and other end user devices that are interconnected. However, the bill does not include a definition of "education technology infrastructure" and it could be construed to be broader than this definition.

The PSFA analysis indicates there are several words and phrases within the added definition of education technology that could lead to the interpretation that items which are not capital in nature (such as disks) are allowable with capital dollars. Other language such as: "education television and radio broadcasting and cable television", "other technologies and services", "any other techniques and tools", and "equipment and tools" may lead to the same misinterpretation and may not be an appropriate use of supplemental severance tax bonds (SSTB), if the expenditure is in conflict with the State Board of Finance's disbursement rule (2.61.6 NMAC:

Bond Project Disbursement). The PSCOC projects are funded with SSTBs with a term that does not extend beyond the fiscal year. Occasionally, the Board of Finance issues long term bonds or appropriations from STBs are made to the fund to support the various programs of the PSCOA. In these cases, there may be issues with funding technology equipment which may not have a useful life as long as the term the bonds.

### **OTHER SUBSTANTIVE ISSUES**

Expanding the uses of the PSCOF may allow school districts and charter schools 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 assessment will be required in the 2014-2015 school year (FY15). 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 based on school district and charter school responses to a PED survey. This cost estimate does not include other technology infrastructure needs.

Currently, HB 2 includes a \$5.2 million special appropriation to the PED to purchase needed computer equipment for administration of the new computer-based standards-based assessment anticipated in 2014-2015.

### **ALTERNATIVES**

- Make an appropriation from the PSCOF to the PSCOC to work collaboratively with the PED, DoIT, Department of Finance and Administration, Legislative Education Study Committee, and the Legislative Finance Committee to conduct a comprehensive technology equipment and infrastructure needs assessment including funding requirements.

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