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**LEGISLATIVE EDUCATION STUDY COMMITTEE**  
**BILL ANALYSIS**  
**53rd Legislature, 1st Session, 2017**

<b>Bill Number</b>	<u>SM135</u>	<b>Sponsor</b>	<u>Stewart</u>
<b>Tracking Number</b>	<u>.207155.1</u>	<b>Committee Referrals</b>	<u>SRC/SEC</u>
<b>Short Title</b>	<u>Study School District Cash Balances</u>		
<b>Analyst</b>	<u>Simon</u>	<b>Original Date</b>	<u>3/9/17</u>
		<b>Last Updated</b>	<u></u>

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**BILL SUMMARY**

Synopsis of Bill

Senate Memorial 135 (SM135) requests that the LESC study school district cash balances to determine “reasonable and appropriate” school district and charter school cash balances.

**FISCAL IMPACT**

Legislative memorials do not carry appropriations.

**SUBSTANTIVE ISSUES**

SM135 requests that the LESC study the issue of school district and charter school cash balances. During the 2017 regular legislative session, the Legislature approved Senate Bill 114 (SB114) which took credit for school district and charter school cash balances. SB114 allocated a cash balance credit to each school district and charter school based on the school district’s or charter school’s share of statewide program cost. The bill protected school districts and charter schools with smaller cash balances by limiting the credit to the amount of FY16 year-end, audited cash that was more than 3 percent of FY16 program cost.

During the October 2016 special session, the Legislature considered taking credit for cash balances through a blended model that took a little of every school district’s and charter school’s cash balance and then swept additional cash balances from school districts and charter schools that had larger accumulated balances in relation to their operating budgets. The superintendents’ association stated at that time that a majority of school districts did not support this methodology and preferred a methodology that took credit for cash balances proportionately across school districts and charter schools independent of actual cash balances.

The memorial notes that public school funding accounts for a large share of New Mexico’s general fund appropriations and that in times of fiscal crisis accumulated cash balances become a possible target to ensure the state meets its constitutional obligation for a balanced budget. The memorial requests that the LESC to study different methodologies for “determining reasonable

and appropriate” cash balances. The study should include methods used by other states, a review of cash balances held by school districts, and previous action by the Legislature to sweep or limit school district cash balances.

**OTHER SIGNIFICANT ISSUES**

Typically, school districts and charter schools carry forward cash balances to provide funding for federal and state grant programs that operate on a reimbursement basis and to maintain the school district’s bond rating. The memorial notes that beginning in FY06, state law only allowed school districts and charter schools to carry forward a limited amount of operational cash balance to the next fiscal year. The amount a school district or charter school could carry forward was limited based on the program cost of the school district or charter school. Those with smaller program costs were allowed to carry forward a larger percentage of cash. The cash balance limit established by law were amended twice before being repealed completely in 2011.

**CASH BALANCE LIMITS ESTABLISHED BY LAW**

LAW ESTABLISHING LIMIT	PROGRAM COST LESS THAN \$5 MILLION	PROGRAM COST BETWEEN \$5 AND \$10 MILLION	PROGRAM COST BETWEEN \$10 AND \$25 MILLION	PROGRAM COST BETWEEN \$25 AND \$200 MILLION	PROGRAM COST OVER \$200 MILLION
Laws 2004, Ch. 60	9.0%	7.5%	6.0%	4.5%	2.5%
Laws 2006, Ch. 95	15.0%	12.0%	9.0%	7.0%	5.0%
Laws 2007, Ch. 122	18.0%	12.0%	10.0%	8.0%	5.0%
Laws 2011, Ch. 39	Repealed Cash Balance Limits				

Source: LESC

According to data from PED, school districts and charter schools budgeted \$141.2 million in cash at the end of FY11, or 5 percent of statewide program cost. For FY17 operating budgets, school districts and charter schools budgeted \$252.5 million in unrestricted, operational cash balance, or 9.9 percent of FY16 statewide program cost.

**RELATED BILLS**

SM135 relates to the Conference Committee Report for Senate Finance Committee Substitute Senate Bill 114/aHAFC/aHFI, School District Cash Balances, which was passed by the Legislature and signed by the governor (Laws 2017, Chapter 3).

SM135 relates to \*Senate Bill 332, Replenish School Cash Balances, which would repeal Laws 2017, Chapter 3, and restore the cash balance credit taken pursuant to that law to school districts and charter schools.

**SOURCES OF INFORMATION**

- LESC Files

**JWS/rab**