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## FISCAL IMPACT REPORT

SPONSOR: Marquardt DATE TYPED: 2/23/03 HB 797

SHORT TITLE: Impact Aid Revenue for School Districts SB \_\_\_\_\_

ANALYST: L. Baca

### APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY03	FY04	FY03	FY04		
			(\$2,830.0) See Narrative	Recurring	GF

(Parenthesis ( ) Indicate Expenditure Decreases)

Conflicts with: HB 115, School Funding Formula  
HB 483, Cap School District Impact Aid  
HB 637, Allow School Districts to Keep Federal Money

Relates to Appropriation in the General Appropriation Act

### SOURCES OF INFORMATION

LFC files

Responses Received From  
 State Department of Education (SDE)

### SUMMARY

#### Synopsis of Bill

House Bill 797 amends the Public School Finance Act and provides that school districts that have military installations may retain 100% of their Impact Aid receipts received for federally connected children.

#### Significant Issues

New Mexico is considered an “equalization” state by the federal government and, thus, is allowed to take credit for eligible federal funds such as forest reserve and federal impact aid. To be able to take credit for eligible P.L. 874 funds, the state must satisfy disparity criteria adopted by the federal government. Should the state fail to meet the criteria, it will be unable to take

credit for a percent of the eligible P.L. 874 funds, which in FY03 totaled \$48.8 million, of which \$2,830.2 was received by school districts having military installations within the school district's boundaries. According to SDE, enacting this bill would not immediately jeopardize the state's ability to retain its designation as an equalized state. BUT, according to SDE, the state must qualify annually, and the provisions of this bill could eventually impact the state's ability to meet the disparity criterion set forth by the federal government.

The state provides the lion's share of funding of New Mexico's public schools, and the New Mexico Public School Funding Formula is used to distribute state support. The formula is an equalization formula and considers all available funds to ensure that "equality" of educational opportunity is maintained. To accomplish this, the formula takes credit for 75% of eligible federal funds including P.L. 874 Impact Aid funds, which in FY03 totaled nearly \$48.8 million. The SDE analysis points out that all P.L. 874 payment to New Mexico school districts totaled \$84.5 million in FY03. The state took credit for 57.8% of all funds and only 75% of eligible funds with school districts retaining nearly \$35.6 million (See SDE Chart 1). Of the 25% retained by school districts, 5% may be used for operational purposes and 20% must be used for capital outlay projects. (See OTHER SUBSTANTIVE ISSUES below.)

### **FISCAL IMPLICATIONS**

If this bill is enacted, school districts receiving Impact Aid that do not have military installations within their borders, and non-P.L. 874 districts, would have the state support provided to them reduced by \$2,830.0, or the state would have to increase its support to avoid reducing the flow of state revenue for support of public schools. The bill does not indicate, but, presumably, its provisions would become effective beginning fiscal year 2004. This loss in credits would be recurring. (See SDE's Table 1, attached.)

### **TECHNICAL ISSUES**

In its analysis, the SDE makes three significant observations:

- Impact Aid is not generated because a school district has a military installation but because students within the district meet federally established criteria;
- The bill does not reflect the actual procedure of budgeting the corresponding additional revenues that are retained by school districts as a result of the reduction from 95% to 75% in credits taken by the state; and
- The bill is technically incorrect because all districts receiving Impact Aid retain it. Then, the State Equalization Guarantee (SEG) is reduced accordingly.

### **OTHER SUBSTANTIVE ISSUES**

Until the early 1950's, funding of public schools was considered a local responsibility and financing their activities relied almost solely on local resources. At this point, according to the Education Commission of the States (ECS), states became more actively involved in public school finance although the use of state resources remained minimal in most states. State participation in funding public schools increased following the early 1970's Serrano vs. Priest decision, which held that the quality of a child's education should not be determined by the accident of his\her birth. This California court decision led some states, like New Mexico, to take steps to avoid litigation on the quality of education issue and to ensure compliance with provisions of the

state constitution. Thus was born the New Mexico Public Schools Funding Formula that was enacted in 1975, and was the culmination of a decade-long search for the “most appropriate” mechanism to distribute state support.

Twenty years following the Serrano decision, more than 25 states had been sued with the lawsuits claiming violations of state constitutions that required uniform systems of public education. Not all states sued were found in violation of state constitutions, but interest in obtaining greater state support for public education has increased in most of the nation’s 50 states.

**POSSIBLE QUESTIONS**

1. If this bill is adopted, will disequalization among New Mexico school districts eventually occur?
2. Given current economic conditions, can the state afford a \$2,830.2 hit?
3. What might happen if the state doesn’t have funds to replace the \$2,830.0 loss in credits?

**LRB/yr**