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FISCAL IMPACT REPORT

ORIGINAL DATE 01/30/11
 SPONSOR Bandy LAST UPDATED 02/22/11 HB 47/aHEC
 SHORT TITLE School District Cash Balances for Emergency SB _____
 ANALYST Gudgel

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY11	FY12	FY13		
	(\$500.0)		Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY11	FY12	FY13	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		See Fiscal Implications				

(Parenthesis () Indicate Expenditure Decreases)

House Bill 47 is Government Restructuring Task Force sponsored legislation.

SOURCES OF INFORMATION

LFC Files

Responses Received From

Public Education Department (PED)

Public School Facilities Authority (PSFA)

SUMMARY

Synopsis of House Education Committee Amendment

House Education Committee Amendment to House Bill 47 adds an emergency clause and changes the Applicability clause so that the bill will apply to cash balances realized from the FY11 appropriation and subsequent fiscal years.

Synopsis of Original Bill

House Bill 47 amends the Public School Finance Act to eliminate current restrictions on school districts and charter schools to budget cash balances carried forward from the previous fiscal year for operational expenditures, excluding salaries. The bill will allow districts and charter schools to carry forward all cash balances from the previous year, rather than limiting the amount a district or charter is able to carry forward to a percentage of the district or charters budgeted expenditures.

FISCAL IMPLICATIONS

The impact of this bill would currently be minimal to school districts and charter schools as a result of the decreased general fund appropriations to school districts and charter schools. For FY10, only eight charter schools and one school district had cash balance credits totaling \$445,566. For FY09, 6 charter schools and 1 district had cash balance credits totaling \$365,481; for FY08, three charters schools had cash balance credits totaling \$122,427; and for FY07, 5 charter schools and 5 districts had cash balance credits totaling \$887,101.

Cash balances revert to the general fund and passage of this bill will result in decreased reversions to the general fund.

SIGNIFICANT ISSUES

Limitations on cash balance carry forward were imposed in FY03 by Laws 2003, Chapter 155, to establish practical limits on the amount of operational cash balances that a district or charter school could retain while allowing sufficient revenue to provide adequate cash flow at the start of a new fiscal year. Currently, school districts are allowed to keep only a percentage of year-end cash balances based on the districts total program cost. Allowable cash balance carry forward is as follows based on program cost: 1) program cost less than \$5 million, 18 percent of budgeted expenditures; 2) program cost \$5 million but less than \$10 million, 12 percent of budgeted expenditures; 3) program cost \$10 million but less than \$25 million, 10 percent of budgeted expenditures; 4) program cost \$25 million but less than \$200 million, 8 percent of budgeted expenditures; and 5) program cost greater than \$200 million, 5 percent of budgeted expenditures.

If a district or charter school has cash balances exceeding statutory amounts, the Public Education Department reduces the district's monthly state equalization guarantee distribution to account for the excess cash. Restricting the carry forward of cash balances limits the incentives a district or charter school has to conservatively manage their budgets. School districts argue cash balance caps currently in statute are a disincentive to efficiency.

PERFORMANCE IMPLICATIONS

None

ADMINISTRATIVE IMPLICATIONS

Administrative burden on the Public Education Department will be lightened. The department will no longer have to verify reductions from the state equalization guarantee distribution have been taken.

ALTERNATIVES

Increase the percentage of cash balances a district can carry forward.

RSG/bym:mew