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FISCAL IMPACT REPORT

ORIGINAL DATE 02/25/11

SPONSOR Smith LAST UPDATED 02/28/11 HB 375

SHORT TITLE Approval Before PED Emergency Supp. Distr. SB _____

ANALYST Gudgel

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY11	FY12		
	NFI		

(Parenthesis () Indicate Expenditure Decreases)

Relates to House Bill 2. House Bill 2 includes a \$1.9 million appropriation for emergency supplemental support to school districts experiencing shortfalls in FY12.

SOURCES OF INFORMATION

LFC Files

Responses Received From

Public Education Department (PED)

SUMMARY

Synopsis of Bill

House Bill 375 amends the Public School Finance Act to require Board of Finance approval of all emergency supplemental distributions to school districts or state-chartered charter schools in financial need pursuant to the emergency supplemental distribution contained in the public school support supplemental distributions.

FISCAL IMPLICATIONS

A total of \$12.3 million in emergency supplemental funds were appropriated in during the 2010 Legislative Session. Of the total, \$10 million was available for use in both FY10 and FY11, the remainder only available for use in FY11. During the spring of 2010, 28 school districts budgeted \$11.7 million in emergency supplemental funds for FY11. See Attached Sheet. The department has not yet awarded or distributed any emergency supplemental funds, but will do so in the next few weeks.

School districts apply for these funds and PED performs a mid-year financial analysis to determine the amount of emergency supplemental needed and distributed to a district. Statute

prohibits emergency supplemental distributions from being made to any school district or state-chartered charter school having cash and invested reserves, or other resources or any combination thereof, equaling five percent or more of the school district's or state-chartered charter school's operational budget. This is the only limitation to distributing these funds currently in statute. Section 5 of the 2010 General Appropriation Act (Special Appropriations) included this language.

It has been unclear what criteria the department reviews to determine whether emergency supplemental funding is actually needed by school districts before they allocate those funds. It is also of concern that PED is allowing districts to budget emergency supplemental funds, and awarding funds for recurring expenses year after year.

House Bill 2 currently has a \$1.9 million recurring general fund appropriation for emergency supplemental in Section 4, and \$2 million in non-recurring general fund and \$1 million in nonrecurring federal funds for emergency supplemental in Section 5. If this bill passes, the BOF will be required to approve any distributions of those funds.

SIGNIFICANT ISSUES

Recognizing the ongoing need for emergency supplemental funding, House Bill 2 includes \$4.9 million in appropriations for emergency supplemental. Historically, small schools have been primary users of these funds; however, a growing number of large schools are applying for supplemental assistance. In addition to ongoing concerns regarding the number of schools with late annual audits applying for emergency supplemental, districts with large cash balances are also applying for and receiving emergency supplemental assistance. It is unclear how PED evaluates a district's cash position in order to approve or disapprove emergency requests and what criteria PED uses to determine whether allocating emergency supplemental is warranted.

LFC program evaluations over the past several years have noted concerns regarding emergency supplemental distributions, including:

- Between FY07 and FY10, Lake Arthur received \$2.7 million, while its slightly larger neighboring district, Hagerman received none.
- Some districts have received emergency supplemental funding for a decade (Corona, Hondo, Mosquero) and in some cases, like Roy and Mosquero, the amount almost doubles formula funding.
- In February 2010, Gadsden applied for the maximum allowable amount of \$500 thousand in "extraordinary financial shortfall" General Appropriation Act funding. That request outlined Gadsden's 2008-09 cost-reduction plans: implementing an energy-management program; using central office employees as substitutes; limiting travel, professional development, use of district vehicles, and cell phone usage; eliminating non-emergency overtime; requiring superintendent's approval of all operational budgets; and imposing hiring moratoriums. In spite of these measures as well as class consolidation for FY10, the district requested the funds to maintain the district's music program, elementary counselors, transportation for after-school programs, transportation for athletic programs, and support staff at a new elementary school. In May 2010, Gadsden budgeted \$1.5 million in supplemental emergency operational funds for FY11. The requested funding would help avoid the same cuts to the district's music program, elementary counselors,

transportation to after school programs, transportation for athletic programs, and support staff at a new elementary school.

- A 2009 LFC evaluation of West Las Vegas noted over the past 4 years the district received over \$1.5 million in emergency supplemental appropriations despite submitting having sufficient cash balances and submitting deficient justification.

The Board of Finance questions what value is being added by requiring BOF approval. The BOF indicates that without specific authority to disapprove the distribution if all statutory requirements are met it will be difficult for the Board to disapprove a distribution. In 2009, language in the GAA required BOF approval of emergency supplemental. At that time the Board reviewed whether the request had met all statutory requirements and had completed a review process prior to approval. The Board did indicate they denied an application, and in certain instances could provide a valuable review process.

ADMINISTRATIVE IMPLICATIONS

PED and school districts will be required to submit all PED approved emergency supplemental distributions to the BOF for approval before distributions can be made. The BOF would have to approve these distributions. BOF indicates in the instance of a true emergency, BOF approval may prove to provide some inflexibility as the Board only meets once a month.

ALTERNATIVES

Consider requiring districts to be in compliance with the audit act to qualify for emergency supplemental funds and only allowing emergency supplemental to districts with emergency and operational cash balances less than 50 percent of those allowable by Section 22-8-41 NMSA 1978.

RSG/mew

New Mexico Public Education Department
School Budget and Finance Analysis Bureau
PRELIMINARY 2010-2011

2010-2011 Appropriation:	
Out of State Tuition	\$333,106.00
Categorical Public School Support:	\$1,925,468.16
Small Rural Districts (less than 600 Mem)	\$4,000,000.00
Districts Experiencing Budget Shortfalls	\$6,000,000.00
Total Appropriation:	\$12,258,574.16

(\$346,000 Less .544% Per HB-2 Sanding=\$344,117.76)
(\$2,000,000 Less .544% Per HB-2 Sanding=\$1,989,120)

Supplemental Emergency	Amount Requested	Amount Budgeted	Amount Approved	Amount Distributed	Date Distributed
DISTRICTS					
CHAMA	695,000.00	695,000.00			
CIMARRON	120,000.00	120,000.00			
CORONA	650,000.00	650,000.00			
DES MOINES	450,000.00	450,000.00			
ELIDA	235,000.00	235,000.00			
FT. SUMNER	250,000.00	250,000.00			
GADSDEN	1,500,000.00	1,500,000.00			
GALLUP	800,000.00	800,000.00			
GRADY	415,000.00	415,000.00			
HATCH	250,000.00	250,000.00			
HONDO	155,000.00	155,000.00			
HOUSE	500,000.00	500,000.00			
LAKE ARTHUR	860,000.00	860,000.00			
LOGAN	150,000.00	150,000.00			
MAXWELL	460,000.00	460,000.00			
MESA VISTA	210,000.00	210,000.00			
MOSQUERO	550,000.00	550,000.00			
MOUNTAINAIR	200,000.00	200,000.00			
PENASCO	150,000.00	150,000.00			
QUEMADO	150,000.00	150,000.00			
QUESTA	130,000.00	130,000.00			
RESERVE	235,000.00	235,000.00			
ROY	700,000.00	700,000.00			
SILVER CITY	110,000.00	110,000.00			
SPRINGER	275,000.00	275,000.00			
TAOS	350,000.00	350,000.00			
VAUGHN	430,000.00	430,000.00			
WAGON MOUND	680,000.00	680,000.00			
Sub Total	11,660,000.00	11,660,000.00	0.00	0.00	
CHARTER SCHOOLS					
		0.00			
Sub Total	0.00	0.00	0.00	0.00	0.00
Out-of-State Tuition:					
	Amount Requested	Amount Budgeted	Amount Approved	Amount Distributed	Date Distributed
ALAMOGORDO	\$15,000.00	14,523.43			
LORDSBURG	\$331,000.00	318,582.57			
Sub-Total	\$346,000.00	\$333,106.00			
TOTAL	12,006,000.00	11,993,106.00	0.00	0.00	
Total Appropriation:	12,258,574.16		Total Appropriation:	12,258,574.16	
Total Amount BUDGETED	11,993,106.00		Total Amount REQUESTED	12,006,000.00	
Balance	265,468.16		Balance	252,574.16	
Total Appropriation:	12,258,574.16				
Total Amount Distributed:	0.00				
Balance	12,258,574.16				