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FISCAL IMPACT REPORT

ORIGINAL DATE 03/10/15

SPONSOR Harper LAST UPDATED _____ HB 579

SHORT TITLE Minimum School Equalization Distribution SB _____

ANALYST Gudgel

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY15	FY16		
	Requires an appropriation of at least \$190 million	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

Relates to Appropriation in the General Appropriation Act

SOURCES OF INFORMATION

LFC Files

Responses Received From

Public Education Department (PED)

Public School Insurance Authority (PSIA)

SUMMARY

Synopsis of Bill

House Bill 579 amends the Public School Finance Act, requiring that each school district's and charter school's program cost is equal to at least \$8 thousand per eligible student.

FISCAL IMPLICATIONS

PED uses the state equalization guarantee (SEG), also known as the "funding formula," to distribute money to public schools. About 90 percent of school districts' operational revenue is derived through the formula. The formula, designed to guarantee each public school student equal access to programs and services appropriate to educational need regardless of geographic location or local economic conditions, is enrollment-driven with weighted factors for school and district size, teacher qualifications, students' special needs, and other circumstances to generate a program unit. The number of units generated by all students statewide is divided into the annual program cost to determine the unit value. As part of determining a district's distribution, the state takes credit for 75 percent of three revenue sources: a 0.5 local mill levy, federal forest funds, and the operational portion of federal impact aid funds, all of which remain at the school district.

School districts may spend formula dollars according to local priorities; however, they must comply with statutory requirements and relevant PED directives.

For FY15, the average per student funding received by school districts and charter schools statewide totaled \$7,667. For FY15, 16 state chartered charter schools, 13 locally chartered charter schools, and 28 school districts received less than \$8,000 per student. The bill requires each school district's and charter school's SEG distribution to be at least equal to \$8,000 per student; however, the bill does not provide a mechanism for ensuring each school district receives \$8,000 per student in the event the SEG calculation or appropriation level results in less funding.

The amount of funding currently included in HB2 as adopted by the House is insufficient to ensure all school districts and charter schools receive funding totals \$8 thousand per student. If every student in the state of New Mexico generated a flat \$8 thousand, the state would need to appropriate an additional \$97 million to the SEG. This figure results from multiplying the total number of MEM in FY15 by \$8,000 and subtracting the current appropriation in HB2 from that total.

Without a mechanism to change the current funding formula and the way the SEG is calculated, **the Legislature would have to appropriate \$951 million more to the SEG** to ensure each school district and charter school receives funding that is no less than \$8 thousand per student.

If a separate appropriation was made to ensure the school districts and charter schools that are receiving funding that totals less than \$8 thousand per student receive the minimum established by this bill, the state would need to appropriate almost \$190 million additional dollars to PED to distribute to 57 school districts and charter schools.

It is unclear how provisions of the bill would be implemented for school districts or charter schools that received less than an amount equal to \$8 thousand per student. The bill does not change the calculation of the funding formula and does not provide for the redistribution of dollars from school districts or charter schools that exceed the \$8 thousand to school districts or charter schools that are below the \$8 thousand per student minimum.

It is possible that, without increasing funding to the SEG by \$951 million, any other funding allocation methodology outside of the funding formula could result in disequalization and the state could become ineligible to take credit for \$56 million in federal Impact Aid funds. If this occurred, the state would likely need to replace the lost federal revenue with general fund to hold the unit value flat, increasing the fiscal implications of this bill.

The Educational Retirement Board (ERB) indicates it is not clear what effect the bill would have, if enacted. If the bill increased school district operating budgets, thereby leading to an increase in the number of school employees, the resulting increase in new ERB members would likely have a small positive effect on the status of the educational retirement fund. If the bill lead to an increase in employee salaries, the effect on the fund would likely be negligible.

SIGNIFICANT ISSUES

PED notes the bill does not allow the \$8 thousand per student minimum to be adjusted if the SEG appropriation does not include sufficient dollars to meet the required distribution. The

department also notes the bill does not allow for redistribution of dollars. LFC staff notes that a methodology that took funding away from school districts receiving more than \$8,000 per student would negatively impact many small, rural isolated school districts. These school districts generally receive far more funding per-student because of their small nature and inability to take advantage of economies of scale; however, they generally receive supplemental distributions pursuant to Section 22-8-30 NMSA 1978 to ensure they have enough operational funding each year.

ADMINISTRATIVE IMPLICATIONS

PED indicates the department will need to modify all of the funding formula worksheets used to compute the SEG for school districts and charter schools and the unit value calculation will need to be modified to capture the impact of these additional minimum requirements. However, it is unclear that language in the bill will result in a change in the unit value calculation or the need to update the funding formula worksheets, as the bill does not change the SEG distribution, create additional units, or require the establishment of a new or supplemental unit value.

TECHNICAL ISSUES

It is unclear what is meant by “eligible student”. The SEG is generally calculated based on prior-year membership (or MEM), and the Legislature should consider using this term to ensure the per student funding floor established in this bill is not calculated based on current year enrollment, but rather MEM that are included in the calculation of the annual SEG allocation.

RSG/bb