LFC Requester:	Sunny Liu

AGENCY BILL ANALYSIS
2017 REGULAR SESSION

WITHIN 24 HOURS OF BILL POSTING, EMAIL ANALYSIS TO:

LFC@NMLEGIS.GOV

and

DFA@STATE.NM.US

{Include the bill no. in the email subject line, e.g., HB2, and only attach one bill analysis and related documentation per email message}

SECTION I: GENERAL INFORMATION
{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}

Check all that apply:
Original X **Amendment** ____
Correction ____ **Substitute** ____

Date 1/30/17
Bill No: SB114/SFCS/aSFL/aCC

Sponsor: Senator Steven P. Neville, Senator John Arthur Smith
Short Title: SCHOOL DISTRICT CASH BALANCES

Agency Code: 924
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SECTION II: FISCAL IMPACT

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY17	**FY18**	**FY19**		
$43,000.0			Nonrecurring	General Fund
($43,000.0)			Nonrecurring	State Equalization Guarantee

(Parenthesis ( ) Indicate Expenditure Decreases)
Relates to HB-7
Relates to Appropriations contained in the General Appropriation Act

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis of Conference Committee

The Conference Committee amendments to Senate Bill 114 take credit for a portion of school district and charter school FY16 cash balances by reducing the FY17 State Equalization Guarantee Distribution for those school districts and charter schools provided for in the bill.

School districts receiving emergency supplemental distributions are exempted from reductions.

The Conference Committee amendment establishes a floor of 3 percent of the FY16 program cost under which school districts and charter schools would not have their cash balances reduced. For those school districts and charter school whose cash balances are already at 3 percent of below, no reductions will be applied.

While the bill uses $50 million as the number in determining the proportional share and the target reduction, the actual amount of the reduction will be about $43 million since a number of school districts and charter schools are exempted from the reductions as the result of receiving emergency supplemental assistance or having FY16 year-end cash balances of 3 percent or lower.

SIGNIFICANT ISSUES

In FY16, school districts and charter schools carried over unexpended funds of more than a quarter of a billion dollars. An analysis of the amount of funding carried over annually by districts and charter schools identified an increase from $114 million in 2010 to more than $252 million in FY16, an increase of about 45 percent.

Language in the bill provides for districts and charter schools whose distribution is reduced shall apply in the amount of that credit its audited fiscal year 2016 operational fund cash balance toward the school district's or charter school's fiscal year 2017 operations.

The provisions of this bill will leave some districts with cash balances below a 5 percent threshold that is considered a prudent amount of cash to hold in reserve. PED will work with those districts and charter schools in this situation to ensure they take the necessary steps to ensure they prioritize remaining funding to finish out the school year.

The PED has begun work preparing for these reductions. Because final emergency supplemental allocations have not yet been finalized, it is anticipated that monthly allocations would be reduced beginning with the March distribution. The PED is working with DFA to identify an amount of the SEG appropriation that could be reduced immediately and returned to the general fund.

Synopsis of the Original Bill

SB 114 reduces fiscal year 2017 (FY17) state equalization guarantee (SEG) distributions by $50 million, to be applied as a credit for cash balances on the basis of the proportionate share of a school district’s or charter school’s FY16 program cost.

FISCAL IMPLICATIONS

The application of a $50 million credit in FY17 to a school district’s or charter school’s SEG distributions will reduce remaining monthly SEG distributions by this amount.

Reduction of SEG payments will require the majority of school districts and charter schools to make budget adjustment requests (BAR’s) as they move their funds out of cash into Operational to cover the reduced revenues. Alternatively, school districts and charter schools may choose to reduce expenditures to offset the SEG reduction attributable to the cash balance credit.

The $50 million SEG reduction will result in cost savings of this amount; it is not technically revenue to the General Fund as it is cost avoidance and not revenue generation. However, to illustrate fiscal impacts it is presented under Revenues.

SIGNIFICANT ISSUES

For FY16, PED considered fourteen school districts' operating budgets that requested funding for emergency supplemental funding. These requests were considered prior to the solvency measures taken during the second special session. If the provisions of SB 114 were enacted as written, they would adversely impact school districts that are already planning on submitting requests for additional state aid for operations. The sponsors may wish to consider whether or not to apply the provisions of SB 114 to these school districts, as it is very likely any reductions will be considered when awarding state funds.

FY 17 ENTITIES BUDGETING EMERG. SUPP.

1	CHAMA
2	CORONA
3	DES MOINES
4	GRADY
5	HONDO
6	HOUSE
7	LAKE ARTHUR
8	LORDSBURG
9	MAXWELL
10	MELROSE
11	QUEMADO
12	QUESTA
13	RESERVE
14	WAGON MOUND

PERFORMANCE IMPLICATIONS

ADMINISTRATIVE IMPLICATIONS

There will be minimal administrative costs to PED.

Since SB 114 contains an emergency clause, if enacted PED will implement the credit beginning with the April SEG distribution and the reduction would be spaced evenly over three monthly SEG payments.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB 114 appears identical to HB 7.

TECHNICAL ISSUES

OTHER SUBSTANTIVE ISSUES

Many school districts and charter schools have cash balances that are already very low. For example, approximately 59 entities had projected cash balances at FY16 end that were less than five percent of the FY 17 Operational Budget. If the provisions of HB 7 become law, these entities will likely be drawing cash balances to cover Operational costs that in turn could impact bond ratings and the ability to cover up front costs for FY18. The legislature may wish to consider exempting folks that had FY16 cash carry-over amounts that were at five percent or below of FY17 operating budget amounts (or some other amount) to minimize impacts to the classroom.

ALTERNATIVES

The legislature could reduce the FY 17 appropriation to the state equalization guarantee (SEG) by $50 million.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

AMENDMENTS