

<b>LFC Requester:</b>	<b>Sunny Liu</b>
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**AGENCY BILL ANALYSIS  
2019 REGULAR SESSION**

**WITHIN 24 HOURS OF BILL POSTING, EMAIL ANALYSIS TO:**

**[LFC@NMLEGIS.GOV](mailto:LFC@NMLEGIS.GOV)**

*and*

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*{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:*

<b>Original</b>	<input checked="" type="checkbox"/>	<b>Amendment</b>	<input type="checkbox"/>	<b>Date</b>	<u>2/6/19</u>
<b>Correction</b>	<input type="checkbox"/>	<b>Substitute</b>	<input type="checkbox"/>	<b>Bill No:</b>	<u>SB172</u>

  

<b>Sponsor:</b>	<u>Sen. George Munoz and Sen. Clemente Sanchez</u>	<b>Agency Code:</b>	<u>924</u>
<b>Short Title:</b>	<u>EXCLUDE IMPACT AID AS FED REVENUE IN SEG</u>	<b>Person Writing Analysis:</b>	<u>David Craig</u>
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**SECTION II: FISCAL IMPACT**

**APPROPRIATION (dollars in thousands)**

Appropriation		Recurring or Nonrecurring	Fund Affected
FY19	FY20		

(Parenthesis ( ) Indicate Expenditure Decreases)

**REVENUE (dollars in thousands)**

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY19	FY20	FY21		
	(\$58,684.6)	(\$58,684.6)	Recurring	General Fund (SEG)

(Parenthesis ( ) Indicate Expenditure Decreases)

**ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)**

	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>3 Year Total Cost</b>	<b>Recurring or Nonrecurring</b>	<b>Fund Affected</b>
<b>Total</b>						

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to:  
 Duplicates/Relates to Appropriation in the General Appropriation Act

**SECTION III: NARRATIVE**

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**BILL SUMMARY**

Synopsis:

SB172 amends the Public School Finance Act to eliminate the Impact Aid credit in the public school funding formula in FY20 and subsequent years.

**FISCAL IMPLICATIONS**

Using FY18 Impact Aid credits, the table below presents how much additional revenue school districts will receive in additional SEG formula dollars, assuming the state appropriated the additional \$56.8 million in SEG dollars necessary to not lower the unit value. These school districts would receive these Impact Aid dollars and the same amount of these funds from state sources as well. If the state did not appropriate from the General Fund additional SEG dollars to offset this amount in the calculated program cost, funding for all schools in the state would be redistributed to the entities below, in amounts proportional (but less than those displayed).

SCHOOL DISTRICT/CHARTER	FY20 SB170 Est. SEG Impact
GALLUP	\$21,952,010.79
CENTRAL	\$17,133,037.66
ZUNI	\$5,481,627.95
BERNALILLO	\$3,238,132.06
DULCE	\$2,583,365.61
GRANTS	\$2,525,191.64
POJOAQUE	\$868,086.74
CUBA	\$818,039.10
JEMEZ VALLEY	\$795,738.70
ALAMOGORDO	\$634,291.06
BLOOMFIELD	\$511,438.01
MAGDALENA	\$347,793.89
LOS ALAMOS	\$297,869.82
TULAROSA	\$265,661.90

RUIDOSO	\$228,790.37
JEMEZ MOUNTAIN	\$182,390.93
WALATOWA HIGH	\$172,018.81
CLOVIS	\$169,886.07
LOS LUNAS	\$167,418.02
ALBUQUERQUE	\$91,362.74
ESPANOLA	\$75,951.41
MCCURDY CHARTER	\$61,652.06
TAOS	\$31,779.41
PENASCO	\$22,246.00
RATON	\$10,163.89
SW PRIMARY	\$5,785.10
PORTALES	\$4,978.82
SAMS	\$3,886.60
SW SECONDARY	\$3,655.84
MAXWELL	\$389.98
<b>STATE TOTALS</b>	<b>\$58,684,640.96</b>

## SIGNIFICANT ISSUE5S

The practice of taking credit for Impact Aid is equalized state aid formulas like New Mexico's dates to the early 1970's when states enacted new laws to promote greater equity in their school finance systems. In New Mexico, the 1974 creation of the current public school funding formula calculates a state equalization guarantee (SEG) that considers the ability for wealthy and poor districts to raise money from schools using property taxes, and attempts to equalize funding so that a similarly situated student in a poor district receives education funding on the same basis as a child in a wealthy district. In education finance literature this is termed "horizontal equity", or "equal treatment of equals."<sup>1</sup> The funding formula does so by limiting access to education funding for local property tax revenues.

However, limiting the ability of local school districts to levy property taxes does not address the federal Impact Aid program's property tax offset payments. The Impact Aid program was designed to offset the loss of these local property tax revenues and compensate for burdens placed on local taxpayers for increased local school district property taxes because of untaxable federal property in the school district. In New Mexico and other states, to help address inequities caused by the receipt of these payments in lieu of property taxes, the state takes credit for 75 (formerly 95) percent of those revenues received. This practice reduces state aid payments to those districts for 75 percent of the amount of their federal local property tax offsets. The school districts keep 100 percent of the local federal grant funding.

Under current law, the state takes credit for 75 percent of: receipts from local ½ mill levy property taxes; receipts from the assessed value of products severed and sold and the value of equipment in the school district under the Oil and Gas; federal impact aid funds ; and federal forest reserve (Secure Rural Schools) funds. Impact Aid revenue received by school districts for federal children (basic support and children with disabilities) payments and construction grants

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<sup>1</sup> The public school funding formula in New Mexico also incorporates elements of vertical equity", or" equal treatment of unequals;" wherein the formula distributes additional funding for students that are more costly to educate like those with higher levels of special education needs or higher grades.

are excluded from this credit.

When school districts (and charter schools) retain property taxes for operational purposes, education finance researchers say that the practice has a “disequalizing effect”. This is because of the reintroduction property wealth impacts into the education finance system. In this instance you would have some districts able to generate federal local property tax offsets, while others would not be able to levy property taxes (though that would likely be subject to change). For example, when we reduced the amount of credits from 95 percent to 75 percent for Impact Aid and then mill levies, education policymakers and stakeholders will speak generally about how that decision had a disequalizing effect between wealthy populated districts whose residents are supportive of, and can afford to pay the practice of, levying additional property taxes and those in more property-rich and cash-flow poor, rural districts where local residents are more averse to tax increases.

The actual legal determination of the amount of disequalization in our funding formula is required to be calculated yearly by PED via a disparity calculation and submitted to the USDE Impact Aid Office for certification to continue the practice of taking consideration of Impact Aid in the public school funding formula. In essence, the USDE requires states to show that horizontal equity is being maintained in the funding formula by using the federal range ratio,<sup>2</sup> a 95 – 5 percent confidence interval. New Mexico has not historically needed to engage in wealth neutrality or exceptional circumstances tests; although, for FY19 a recent funding formula change did mean that we were only provisionally certified. Threats to increasing disparity include: proliferation of entities with high or low revenues per MEM (charter schools); funding formula changes that are not studied for impacts to disparity; and the increasing receipt of property taxes or revenues that act like property taxes for which the state does not take credit. In recent years this would include, but is not limited to: wind farm tax offsets, local county gross receipts revenues (Taos and Spaceport taxes); and offsets from local private businesses as part of tax infrastructure.

## **PERFORMANCE IMPLICATIONS**

## **ADMINISTRATIVE IMPLICATIONS**

If Impact aid was eliminated as a credit from the public school funding formula, it would likely disrupt the calculation of equity in our system. Indeed, such a policy would negate the need for a formal yearly disparity calculation (federal range ratio) as the only purpose administratively that the calculation serves is to prove that the state can take credit for a portion of Impact Aid funds. As such, the elimination of Impact Aid credits would end the practice of equitable funding in our state as defined by federal statute. In the larger sense, it would also end the era of equalized funding and reintroduce the influence of property wealth into our state aid formula. The ability to quickly perform disparity calculations for funding formula proposals continues to be a service the School Budget and Finance Analysis Bureau is working on. Currently the disparity calculation takes about a week to prepare and PED is working on developing a calculator to measure equity impacts of funding formula bills such as SB 172.

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<sup>2</sup> The federal range ratio is a common metric of horizontal equity in education finance literature. Other common metrics include (but are not limited to): the range, the restricted range, the relative mean deviation, the McLoone index, the variance, the coefficient of variation, the standard deviation of logarithms, and the Gini coefficient. New Mexico’s funding formula has historically performed well on these measures.

**CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**  
SB 172 is similar to SB 170, Phase Out Impact Aid as Fed Revenue in SEG.

## **TECHNICAL ISSUES**

## **OTHER SUBSTANTIVE ISSUES**

PED believes it is very likely that school districts with wealthier property tax bases would seek the elimination of the credit on ½ mill levies and oil and gas receiving districts would seek the end to credits on Oil and Gas severance taxes, as happened when we reduced the amount of credit we take on Impact Aid funds from 95 to 75 percent in the wake of the Zuni capital outlay lawsuit. As that fact pattern reverts the state back to a property tax basis for education funding, it is likely the caps on Operational taxes would be reexamined as well potentially adding even more inequities into the system if state education financing.

## **ALTERNATIVES**

If policy makers believe that those areas of the state receiving Impact Aid funds need additional services or cost offsets, the PED recommends other methods that maintain an equalized funding system. This could include increased native education programming and related recurring revenues, relevant appropriate cultural programming assistance from the state by reopening satellite sites in these jurisdictions.

As many of the Impact Aid school districts are rural, sparsely populated areas it is recommended that the state reexamine the current sparsity factor as currently no school generates these units after Gallup-McKinley County Schools reorganized schools so as to disqualify from generating these units.

The PED has long supported increasing the scope of property tax credits as the education finance landscape changes, and would recommend examining credits on local option property tax, wind farm receipts and tax infrastructure district PILT payments to school districts.

## **WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

## **AMENDMENTS**