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HANNA SKANDERA
SECRETARY OF EDUCATION

SUSANA MARTINEZ
GOVERNOR

January 31, 2017

MEMORANDUM

TO: Superintendents, Charter School Head Administrators and School Business Officials

FROM: Hipolito "Paul" Aguilar, Deputy Secretary, Finance and Administration

A handwritten signature in blue ink, appearing to read "H. Aguilar".

RE: **Implementation of Senate Finance Committee Substitute for Senate Bill 114**

Summary

Recent solvency provisions contained in Senate Bill 114 (SB 114) passed by the Legislature require the Public Education Department to apply a \$50 million credit against the fiscal year 2016 (FY16) audited operational fund cash balances of school districts and charter schools. SB 114 exempts school districts and charter schools that will receive an emergency supplemental distribution in fiscal year 2017 (FY17). SB 114 also exempts school districts and charter schools from the credit if the audited operational fund cash balance for FY16 is at or below three percent of the prior year (FY16) *program cost* [emphasis added]. Additionally, if implementing the provisions of SB 114 would reduce a school district or charter school's cash balance as a percent of FY16 program cost below three percent the reduction is capped so as not to reduce cash below the three percent threshold. As a result of these exemptions, the statewide SEG reduction will be below \$50 million. State Equalization Guarantee (SEG) distributions will be reduced from March to June for those school districts and charter schools that are not exempt from the provisions of SB 114.

Administration Requirements

The provisions of SB 114 will require the PED School Budget and Finance Analysis Bureau (Bureau) to make determinations regarding FY17 Emergency Supplemental awards earlier than in year's past. If you budgeted emergency supplemental funding, or have since communicated to the Bureau your intent to apply for emergency supplemental funding, please complete your emergency supplemental request packet (including the financial analysis module) to your assigned executive budget analyst no later than February 8, 2017. Additionally, since the provisions require the credit be calculated on *audited* FY16 operational cash balances, the Bureau will need access to your audited balance no later than February 20, 2017 [emphasis added]. For those entities that will not have an audited FY16 operational fund cash balance

available and public by this date, please contact your executive budget analyst for additional instructions. For those school districts or charter schools with a late audit, please reference previous bureau correspondence regarding sanctions for late audit submittals.

Notification and Certification

Provisions of SB 114 require the bureau to provide prompt notification to each school district and charter school the amount of the credit to the remaining FY17 SEG. The earliest the bureau will be able to notify school districts and charter schools of the amount of the credit is just prior to the March SEG distribution, as the bureau must calculate all emergency supplemental exemptions first, as well as compile available audited fund balances.

Provisions of SB 114 also require school districts and charter schools to budget operational cash balances in an amount equal to the SEG reduction and apply those funds to FY17 operations. To comply with these provisions, the bureau will require each impacted school district and charter school to certify it will submit the appropriate Budget Adjustment Request(s) (BAR's) over the remaining months of FY17 to reduce current operational fund cash balances necessary to maintain FY17 operational expenditure levels.

Conclusion

Reductions related to state solvency are always difficult for everyone involved. Policymakers, including the Governor, worked hard to limit reductions to those who could afford it least. As noted above, provisions in SB-114 require districts and charter schools subject to the reductions to transfer an amount equal to the reduction from operational cash balances into the operational account to ensure that classroom spending is not affected. Any adjustments to the operational budget for the remainder of the school year should be focused on administration and other operational lines to guarantee classroom dollars are safeguarded.

Though reductions in funding are difficult, we know you are committed to excellence and delivering a high quality education program. We look forward to your continued cooperation; both in implementing the provisions of SB 114, and as we continue working toward improving outcomes for students.

cc: Hanna Skandera, Secretary of Public Education
Amelia Saiz, Director, Audit and Accounting Bureau
School Budget and Finance Analysis Bureau Staff, Public Education Department