

# How New Mexico Public Schools are Funded



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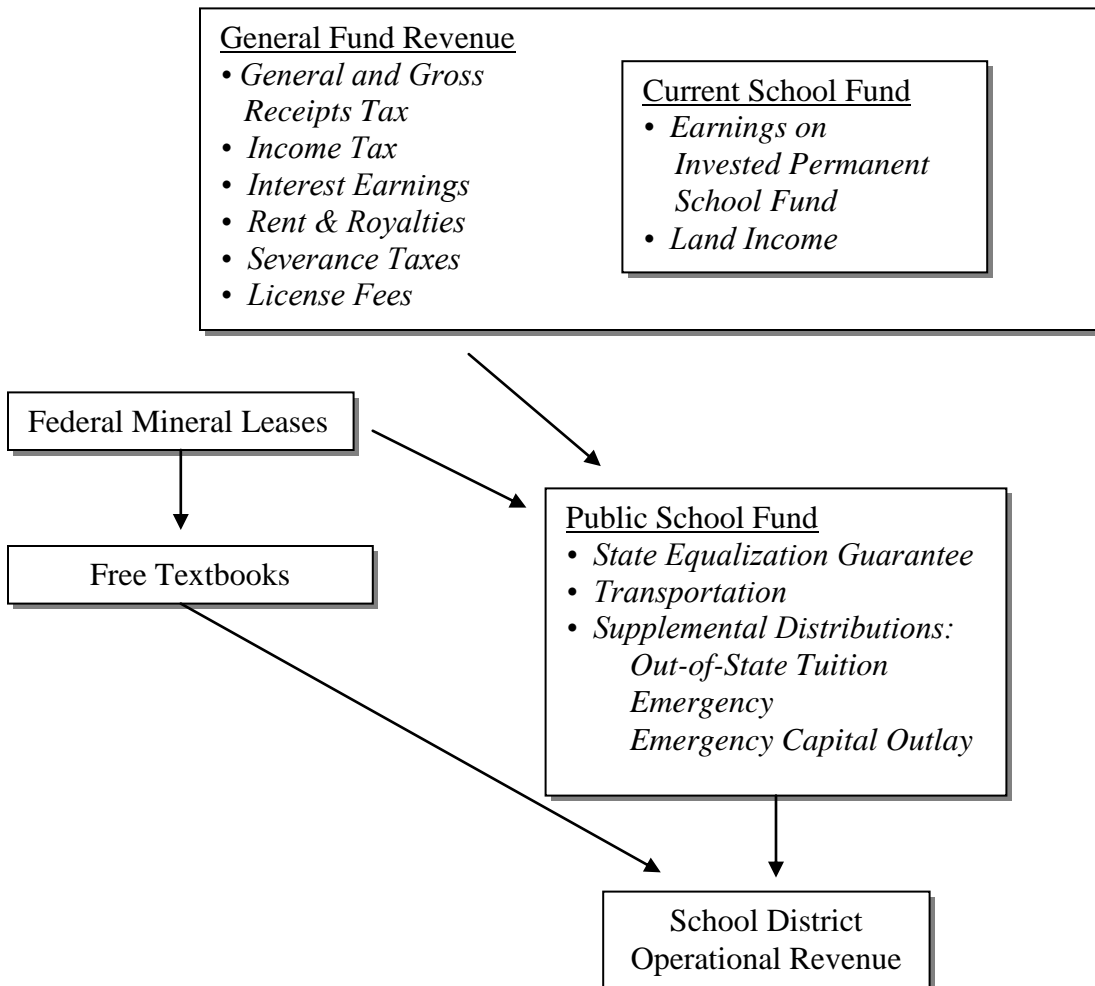
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## OPERATIONAL FUNDING:

### WHERE DOES THE MONEY COME FROM?

Nearly all state-level school district operational funds are distributed through the Public School Fund. Revenues are derived from the following sources: the General Fund, the Current School Fund, and the Federal Mineral Leasing Revenue. Only one significant state appropriation is not distributed through the Public School Fund, the Free Textbook appropriation, which is made from Federal Mineral Leasing revenue. The remainder of the Federal Mineral Leasing revenue is deposited to the Public School Fund. The Free Textbook allocation is made on the basis of the 40<sup>th</sup> day membership [22-15-9 NMSA 1978].



## HOW IS THE MONEY DISTRIBUTED?

The Public School Fund is currently appropriated in the following three separate distributions:

**State Equalization Guarantee Distribution (SEG):** Accounting for more than 90 percent of school districts' operational revenue, the SEG is the largest state distribution.

**Transportation Distribution:** Allocated to each school district according to a statutory formula, the Transportation Distribution makes payments to each school district to pay for to-and-from school transportation costs for students in grades K-12 attending public schools within the district.

**Supplemental Distributions:** The Secretary of Education is authorized to make the following supplemental distributions:

- **Out-of-State Tuition:** Provides for the payment of out-of-state tuition for New Mexico students subject to the Compulsory School Attendance law who are attending school outside the state because of the unavailability of school facilities in the school district in which they live.
- **Emergency:** Provides for emergency distributions to districts in financial need. School districts requesting emergency distributions must not have cash and invested reserves or other resources or any combination thereof equal to five percent or more of their respective net operational budgets.
- **Emergency Capital Outlay:** Provides for emergency capital outlay distributions to school districts that have experienced an unexpected capital outlay emergency demanding immediate attention.

## **THE NEW MEXICO PUBLIC SCHOOL FUNDING FORMULA**

**History:** The New Mexico public school funding formula is based on a model developed by the National Education Finance Project (NEFP) in the late 1960s and early 1970s. One of the projects of the NEFP was to develop a computer model to simulate the fiscal consequences of alternative decisions in regard to the financing of public elementary and secondary education. As a tool for better decision making, the model had great potential because of the variety of data that could be accommodated and the ease with which new data could be added and new decision options made available. And after adapting the NEFP model to construct a computer model matching conditions in New Mexico, the “tools” were available to begin a detailed study of public school in New Mexico and, subsequently, to develop a proposal for a new school finance plan.

Appointed by the Governor in the summer of 1973, the Advisory Committee on School Finance was composed of a broad cross section of educational interests, including parents, teachers, administrators, and legislators. The committee established the basic philosophy and direction of the project and met monthly to review progress and to give direction for future work.

The committee’s initial task was to define educational need. Committee members discussed many elements, including some already included in statute, such as the additional costs associated with secondary schools, which had been recognized in public school funding in New Mexico since the 1930s; the differential weighting of students by grade level and size of school, which had been recognized since 1960s; and the necessity of supporting adequate staffing patterns.

The committee’s second task was to devise a school finance formula based upon a comprehensive definition of educational need that would equitably fund this need throughout the state. The committee’s guiding philosophy was the equalization of educational opportunity for all children in New Mexico.

Past school funding methods, however, had created a high degree of disequalization among districts because of differences in local wealth. The gap between rich and poor districts was enormous, and the revenue that would be required to reach full equalization with the richest districts was staggering. Thus, while it was unreasonable and impracticable to equalize at the highest level, any lower level would result in certain districts’ losing revenue. The goal of the new formula, therefore, was clear: to equalize educational opportunity at the highest possible revenue level while minimizing the financial loss to the richest districts.

As the result of the committee’s work, the 1974 New Mexico Legislature enacted the Public School Finance Act, which has been widely acclaimed as one of the most innovative of the school finance plans currently being used across the country.

The formula is designed to distribute operational funds to school districts objectively and in a non-categorical manner while providing for local school district autonomy. Formula dollars received by local districts are not earmarked for specific programs. Within statutory and regulatory guidelines, school districts have the latitude to spend their dollars according to local priorities.

In place for more than two decades, the public school funding formula has been under constant analysis. For the most part, the results of these analyses have supported statutory data-based refinements to the structure of the formula while maintaining the philosophical concept of educational equity for all students.

In recent years, however, some individuals have questioned the credibility of the formula citing as unfair the fact that some districts receive less revenue per pupil compared to others. Some districts have attempted to make arguments for additional factors to meet their particular needs such as increasing revenues for cost-of-living adjustments, at-risk students, or specific types of teacher training. In response to these concerns, the State Board of Education, the Legislature, and the Executive in 1995 made commitments to support an independent, comprehensive study of the funding formula.

Completed in 1996, the principal finding of the study concluded the following: “When evaluated on the basis of generally accepted standards of equity, the New Mexico public school funding formula is a highly equitable formula. . . . [S]pending disparities are less than in other states and statistically insignificant.”

## STATE EQUALIZATION GUARANTEE

**Goals:** The intent of the 1974 Public School Finance Act [22-8-17 through 25 NMSA 1978] is to equalize financial opportunity at the highest possible revenue level and to guarantee each New Mexico public school student equal access to programs and services appropriate to his or her educational needs regardless of geographic location or local economic conditions. Through the absence of categorical funding and fund “tracking,” the act also seeks to encourage local school district initiatives in seeking more efficient and effective means of achieving desirable educational goals.

**Program Cost:** The formula uses cost differentials to reflect the costs associated with providing educational services to students all of whom have differing needs. For example, research indicates that educating high school students costs more than educating first graders and that additional funding is required for the provision of bilingual education and special education services.

A program cost for each school district is determined by multiplying the student full-time equivalency in a particular grade or a program full-time equivalency by the respective cost differential to generate units. (The full-time equivalency to be used in the calculation of program units is the prior year average of district membership on the 80<sup>th</sup> and 120<sup>th</sup> days\*.) All of the program units are then added together and multiplied by the district’s training and experience index to produce the adjusted program units. The following are then added to the adjusted program units:

- Units generated by students served in nonprofit special education institutions;
- Units generated for teachers certified by the National Board for Professional Teaching Standards
- Units generated by the various size adjustment factors in the formula for small and rural schools and districts;
- Units generated by at-risk factors
- Units generated by growing districts;
- Units generated by any newly created districts; and
- Save harmless units generated to protect very small districts from a too precipitous decline in revenue.
- Units generated by Charter School Student Activities
- Units generated by Home School Student Activities

The grand total of all the units is then multiplied by the unit value for that school year resulting in the district’s program cost, which is then adjusted to determine the district’s state equalization guarantee.

**State Equalization Guarantee:** Program cost is the amount of money assumed under the formula to be necessary for a given district with a particular configuration of students and educational programs to provide educational services. A district’s state equalization guarantee is the amount of money the State of New Mexico “guarantees” to provide to the district to defray most of the program cost. The exact amount is determined by

- Adding together revenue coming into the district as the result of a required half-mill property tax levy; and revenue generated under Impact Aid (formerly called PL 874), except that revenue generated specifically for special education; and any revenue generated through Forest Reserve funds;

- Multiplying the result by 75 percent<sup>1</sup> to determine the revenue for which the state takes credit; and
- Subtracting the 75% credit amount from program cost.
- The cash balance credit was applied for one year in FY04 and was effective FY06 thru FY 10.

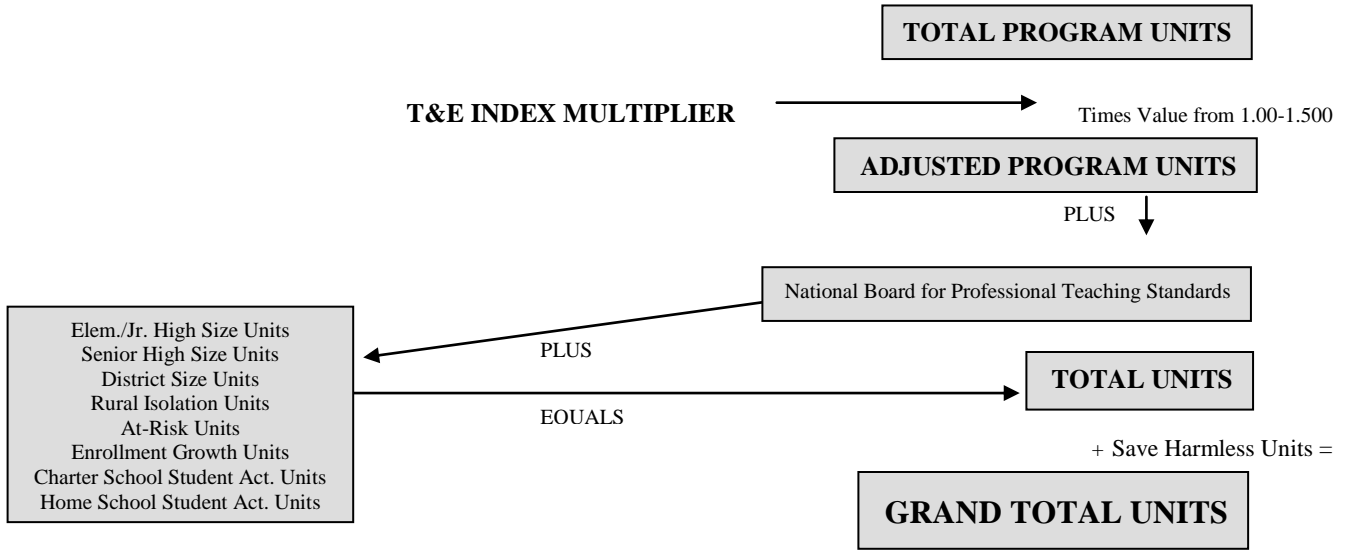
Districts participating in the Utility Conservation program will have an additional amount subtracted from the program cost; that amount is held in a separate fund to be used solely for that program.

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Prior to FY07, the full-time equivalency used in the calculation of program units was the prior year average of district membership on the 40<sup>th</sup>, 80<sup>th</sup> and 120<sup>th</sup> days.

# STATE EQUALIZATION GUARANTEE COMPUTATION

<u>MEMBERSHIP/PROGRAM</u>	<u>TIME</u>	<u>DIFFERENTIAL=UNITS</u>	S U M O F  U N I T S
Kindergarten & 3- & 4-Year-Old DD	FTE ×	1.440	
Grade 1	MEM ×	1.200	
Grades 2-3	MEM ×	1.180	
Grades 4-6	MEM ×	1.045	
Grades 7-12	MEM ×	1.250	
<b><u>SPECIAL EDUCATION</u></b>			
Ancillary	FTE ×	25.000	
A/B Level	MEM ×	0.700	
C/D Level	MEM ×	1.000	
D Level	MEM ×	2.000	
3- & 4-Year-Old DD	MEM ×	2.000	
<b><u>BILINGUAL</u></b>	FTE ×	0.500	
<b><u>FINE ARTS EDUCATION</u></b>	FTE ×	0.050	
<b><u>ELEMENTARY P.E. PROG</u></b>	FTE ×	0.060	



**Grand Total Units × Unit Value = Program Cost**

Program Cost  
 -75% (Noncategorical Revenue Credits)  
-Utility Conservation Program Contract Payments  
**State Equalization Guarantee**

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## CAPITAL OUTLAY FUNDING

### SOURCES OF NEW MEXICO PUBLIC SCHOOL CAPITAL OUTLAY FUNDING

Public school capital outlay financing is both a local and state responsibility in the state of New Mexico. School districts can generate state revenues through two statutory measures. One measure is through direct legislative appropriations, which provides funding for specific needs. The second is through a standards based process under the Public School Capital Outlay Act. Locally, districts can generate capital outlay revenues from the sale of bonds, direct levies, earnings from investments, rents, sales of real property and equipment, as well as other miscellaneous sources.

**The Public School Capital Outlay Act:** A new funding mechanism was established to ensure that through a standards-based process, for all school districts, the physical condition and capacity, educational suitability and technology infrastructure of all public school facilities in New Mexico meet an adequate level statewide. This process uses a statewide assessment database which ranks the condition of every school building relative to the statewide adequacy standards. The schools with the greatest facilities needs will be addressed first according to the New Mexico Condition Index (NMCI). The database will operate as an objective prioritizing and ranking tool to assist the Public School Capital Outlay Council (PSCOC) in allocating funds to school districts. The new standards based process also requires school districts who receive awards to provide a local match that will be determined by the state match distribution formula.

For allocation cycles beginning after September 1, 2003 the following provisions apply:

1. All districts are eligible to apply regardless of percentage of indebtedness;
2. Funding must be determined by using the statewide adequacy standards and the PSCOC must apply the standards to charter schools to the same extent;
3. The PSCOC must establish criteria to be used in public school capital outlay projects that receive grant assistance from Public School Capital Outlay Act;
4. No more than 10% of the combined total grants in a funding cycle shall be used for retrofitting existing facilities for technology infrastructure;
5. A formula will be used to determine the percentage participation of the state and the districts in the standards-based capital outlay process for projects approved by the council and must be funded within available resources in accordance with the funding formula;
6. Capital outlay grant awards made by the PSCOC will be reduced by a percentage of direct appropriations for capital outlay projects received by a school district. The amount of the reduction will be determined by the state-local match formula, and will equal the direct legislative appropriation percentage amount for the school district multiplied by the amount of the direct appropriations for individual school projects;
  - A) An appropriation is deemed to be accepted, for projects appropriated prior to 2010, unless written notification to reject the appropriation is received by DFA & PED;
  - B) The total offset should exclude any appropriation previously made to the subject school district that is reauthorized for expenditure by another recipient;
  - C) The total shall exclude one-half of the amount of any appropriation made or reauthorized after January 1, 2007 if the purpose of the appropriation or

- reauthorization is to fund, in whole or in part, a capital outlay project that, when prioritized by the council pursuant to this section either in the immediately preceding funding cycle or in the current funding cycle, ranked in the top one hundred fifty projects statewide;
- D) The total shall exclude the proportionate share of any appropriation made or reauthorized after January 1, 2008 for a capital project that will be jointly used by a governmental entity other than the subject school district. Pursuant to criteria adopted by rule of the council and based upon the proposed use of the capital project, the council shall determine the proportionate share to be used by the governmental entity and excluded from the total;
  - E) Unless the grant award is made to the state-chartered charter school or unless the appropriation was previously used to calculate a reduction pursuant to this paragraph, the total shall exclude appropriations made after January 1, 2007 for non-operating purposes of a specific state-chartered charter school, regardless of whether the charter school is a state-chartered charter school at the time of the appropriation or later opts to become a state-chartered charter school;
7. "Subject school district," means the school district that has submitted the application for funding in which the approved PSCOC project will be located;
8. In those instances in which a school district has used all of its local resources, the PSCOC may fund up to the total amount of the project;
9. No application for grant assistance from the fund will be approved unless the PSCOC determines that:
- A) The capital outlay project is needed and is included in the school districts five-year facilities plan among its top priorities;
  - B) The school district has used its resources in a prudent manner;
  - C) The school district has provided insurance for building of the district according to provisions of section 13-5-3 NMSA 1978;
  - D) The district has submitted a five-year facilities plan that has been approved by the PSCOC pursuant to section 22-24-5.3 NMSA 1978 and the capital needs of charter schools located in the district as well as projections for enrollment and facilities needed in order to maintain a full-day kindergarten are included;
  - E) The district is willing and able to pay any portion of the project that is not funded with grant assistance from the fund;
  - F) The application includes charter schools or the district has shown that charter schools meet the statewide adequacy standards; and
  - G) The district has agreed, in writing, any reporting requirements imposed by the PSCOC pursuant to sections 22-24-5.1 NMSA 1978.

The fund may be expended annually by the PSCOC for grants to school districts for the purpose of making lease payments for classroom facilities, including facilities leased by charter schools. The grant shall not exceed the annual lease payments owed for leasing classroom space for schools, including charter schools, in the district; or seven hundred dollars (\$700) multiplied by the number of membership using the leased classroom facilities; provided that, in fiscal year 2009 and in each subsequent fiscal year, the amount shall be adjusted by the percentage in crease between the penultimate calendar year and the immediately preceding calendar year of the consumer price index for the United States.

All of the provisions of the Public School Capital Outlay Act [[22-24-1](#) NMSA 1978] apply to an application by a state-chartered charter school for grant assistance for a capital project except:

1. The portion of the cost of the project to be paid from the fund shall be calculated pursuant to Paragraph (5) of Subsection B of Section [22-24-5](#) NMSA 1978 using data from the school district in which the state-chartered charter school is located;
2. In calculating a reduction pursuant to Paragraph (6) of Subsection B of Section [22-24-5](#) NMSA 1978, the amount to be used in Subparagraph (a) of that paragraph shall equal the total of all legislative appropriations made after January 1, 2007 for non-operating expenses either directly to the charter school or to another governmental entity for the purpose of passing the money through directly to the charter school, regardless of whether the charter school was a state-chartered charter school at the time of the appropriation or later opted to become a state-chartered charter school, except that the total shall not include any such appropriation if, before the charter school became a state-chartered charter school, the appropriation was previously used to calculate a reduction pursuant to Paragraph (6) of Subsection B of Section [22-24-5](#) NMSA 1978; and
3. The amount to be used in Subsection B of that paragraph shall equal the total of all federal money received by the charter school for non-operating purposes pursuant to Title XIV of the American Recovery and Reinvestment Act of 2009, regardless of whether the charter school was a state-chartered charter school at the time of receiving the federal money or later opted to become a state-chartered charter school, except that the total shall not include any such federal money if, before the charter school became a state-chartered charter school, the money was previously used to calculate a reduction pursuant to Paragraph (6) of Subsection B of Section [22-24-5](#) NMSA 1978; and
4. If the council determines that the state-chartered charter school does not have the resources to pay all or a portion of the total cost of the capital outlay project that is not funded with grant assistance from the fund, to the extent that money is available in the charter school capital outlay fund, the council shall make an award from that fund for the remaining amount necessary to pay for the project. The council may establish, by rule, a procedure for determining the amount of resources available to the charter school and the amount needed from the charter school capital outlay fund.

A program for assisting charter schools to be located in public buildings or in buildings being acquired by charter schools pursuant to a lease purchase agreement shall be developed under [22-24-6.2](#) NMSA 1978.

**Supplemental Severance Tax Bonds:** Supplemental Severance Tax Bonds (SSTB) are bonds issued by the State Board of Finance and paid for by revenue derived from taxes levied upon the natural resource products severed and saved from the soil and other sources as the New Mexico State Legislature may from time to time determine. This authorization does not require legislative reauthorization and may be considered a dedicated funding stream for public school capital outlay.

**The Public School Capital Improvements Act:** Commonly referred to as SB-9 or the “two-mill levy,” this funding mechanism allows districts to ask local voters to approve a property levy of up to two mills for a maximum of six years. Funds generated through imposition of the two-mill levy must be used to:

1. Erecting, remodeling, making additions to, providing equipment for, or furnishing public school buildings;
2. Purchasing or improving public school grounds;
3. Maintenance of public school buildings or public school grounds, including the purchasing or repairing of maintenance equipment, participating in the facility information

management system as required by the Public School Capital Outlay Act [22-24-1 NMSA 1978] and including payments under contract with regional education cooperatives for maintenance support services and expenditures for technical training and certification for maintenance and facilities management personnel, but excluding salary expenses of school district employees;

4. Purchasing activity vehicles for transporting students to extracurricular activities; and
5. Purchasing computer software and hardware for student use in public school classrooms.

An individual school district may only use SB-9 funds for any or all of these purposes as stated in the school district's individual resolution. The Public School Capital Improvements Act contains provisions that provide a school district with a minimum level of funding. This minimum level of funding or "program guarantee" is calculated by multiplying a school district's 40<sup>th</sup> day total program units by the matching dollar amount (currently \$74.39 through fiscal year 2010) and in each subsequent fiscal year equal the amount for the previous year adjusted by the percentage increase between the next preceding year and the preceding calendar year of the consumer price index for the United States, all items, as published by the US Department of Labor.

If the local revenue generated by the two-mill levy is less than the program guarantee, the state funds the difference in the form of "matching" funds. State matching funds have some restrictions as to their use. For fiscal year 2010 and thereafter, the amount of state "matching" funds shall not be less than an amount currently equal to \$5.78 and in each subsequent fiscal year equal the amount for the previous year adjusted by the percentage increase between the next preceding year and the preceding calendar year of the consumer price index for the United States, all items, as published by the US Department of Labor.

**Direct Legislative Appropriations:** Direct Legislative Appropriations for capital outlay project funding are targeted for specific projects within the school district. Specific legislators sponsor these projects. Projects funded from these specific appropriations have become more sparsely used in recent years due to the shortfall. These allocations are funded by the general fund or from the proceeds of the sale of severance tax bonds.

**Local General Obligation Bonds:** Local school districts may issue general obligation bonds for the purpose of erecting, remodeling, making additions to and furnishing school buildings, or purchasing or improving school grounds, providing matching funds for capital outlay projects funded pursuant to the Public School Capital Outlay Act, or any combination of these purposes. In addition, a school district may also use bond proceeds to purchase computer equipment and software for student use in public school classrooms. The issuance of these bonds is subject to the provisions of Article 9, Section 11 of the Constitution of New Mexico. Prior to the issuance of bonds, several steps must be taken. One of these is the submission of PED form 995-10/89 to the School Budget Planning Unit at the Public Education Department to determine exactly how much bonding capacity remains. This must be accomplished prior to the election. Another step is the actual submission of the question to the voters by the local school board. Upon successful election results, the local school board may, subject to the approval of the Attorney General, proceed to issue the bonds. There are restrictions: (1) the district's ability to sell bonds is limited to 6% of its assessed valuation; (2) there is a four year period in which the bonds may be sold from a particular approved resolution (6-15-9 NMSA 1978).

This is only a summary of information associated with the issuance of school district general obligation bonds. Each school district should consult with their financial advisor for more specific information regarding elections and the issuance of local general obligation bonds.

**NOTE:** The tax rate associated with this type of funding is likely to fluctuate every year due to the timing of principal and interest payments as well as changes in assessed valuations.

**The Public School Buildings Act:** This Act, commonly referred to as HB-33, allows districts to impose a tax not to exceed 10-mills for a maximum of six years on the net taxable value of property upon approval of qualified voters. These funds are to be used for:

1. Erecting, remodeling, making additions to, providing equipment for or furnishing public school buildings;
2. Payments made pursuant to a financing agreement entered into by a school district or a charter school for the leasing of a building or other real property with an option to purchase for a price that is reduced according to payments made;
3. Purchasing or improving public school grounds;
4. Purchasing activity vehicles for transporting students to and from extracurricular activities, provided that this authorization for expenditure does not apply to school districts with a student MEM greater than sixty thousand; or
5. Administering the projects undertaken pursuant to items 1 and 3 of this section, including expenditures for facility maintenance software, project management software, project oversight and district personnel specifically related to administration of projects funded by the Public School Buildings Act; provided that expenditures pursuant to this subsection shall not exceed five percent of the total project costs.

There are limitations and restrictions associated with this act: (1) the authorized tax rate made under the Public Buildings Act, when added to the tax rates for servicing the debt of the school district and the rate authorized under the Public School Capital Improvements Act, cannot exceed 15-mills. If it does exceed 15-mills, the rate authorized under the Public School Buildings Act will be adjusted downward to compensate; and (2) the revenues generated from the Public School Buildings Act are only to be used for specific capital improvements (as defined above). This funding mechanism is most useful for districts with high-assessed valuation and low bonded indebtedness.

After July 1, 2007, a resolution submitted to the qualifying electors pursuant to Subsection A of 22-26-3 NMSA 1978 shall include capital improvements funding for a locally chartered or state-chartered charter school located within the school district if;

1. The charter school timely provides the necessary information to the school district for inclusion on the resolution that identifies the capital improvements of the charter school for which the revenue proposed to be produced will be used; and
2. The capital improvements are included in the five-year facilities plan:
  - a. of the school district, if the charter school is a locally chartered charter school; or
  - b. of the charter school, if the charter school is a state-chartered charter school.

**The Public School Lease Purchase Act:** The purpose of the Public School Lease Purchase Act is to implement the provisions of Article 9, Section 11 of the constitution of New Mexico, which declares that a financing agreement entered into by a school district or a charter school for leasing of a building or other real property with an option to purchase for a price that is reduced according to the payments made by the school district or charter school pursuant to the financing agreement is not a debt if:

1. There is no legal obligation for the school district or charter school to continue the lease from year to year or to purchase the real property;

2. The agreement provides that the lease shall be terminated if sufficient money is not available to meet the current lease payments.

A school district may apply any legally available funds to the payments due on or any prepayment premium payable in connection with lease purchase arrangements as they become due, including any combination of:

1. money from the school district's general fund;
2. investment income actually received from investments;
3. proceeds from taxes imposed to pay school district general obligation bonds or taxes imposed pursuant to the Public School Capital Improvements Act [[22-25-1](#) NMSA 1978], the Public School Buildings Act [[22-26-1](#) NMSA 1978] or the Educational Technology Equipment Act [[6-15A-1](#) NMSA 1978];
4. loans, grants or lease payments received from the public school capital outlay council pursuant to the Public School Capital Outlay Act [[22-24-1](#) NMSA 1978];
5. state distributions to the school district pursuant to the Public School Improvements Act;
6. fees or assessments received by the school district;
7. proceeds from the sale of real property and rental income received from the rental or leasing of school district property;
8. grants from the federal government as assistance to those areas affected by federal activity authorized in accordance with Title 20 of the United States Code, commonly known as "PL 874 funds" or "impact aid";
9. revenues from the tax authorized pursuant to Sections 8 through 12 [[22-26A-8](#) through [22-26A-12](#) NMSA 1978] of the Public School Lease Purchase Act, if proposed by the local school board and approved by the voters; and
10. legislative appropriations.

A local school board has the option of adopting a resolution to submit to the qualified electors of the school district the question of whether a property tax should be imposed upon the net taxable value of property allocated to the school district under the Property Tax Code [[7-35-1](#) NMSA 1978] for the purpose of making payments under a specific lease-purchase arrangement. The tax rate shall not exceed the rate specified in the resolution. A locally chartered or state-chartered charter school may also enter into a lease purchase arrangement provided that a governing body of a charter school shall not propose a tax or conduct an election. However, a charter school may receive revenue from a tax proposed by the local school board for the district in which the charter school is located and approved by the voters.

**Educational Technology Equipment Act:** Enacted in 1997, the Educational Technology Equipment Act provides a statutory basis for the implementation of a constitutional amendment approved by voters in the 1996 general election. Passage of the amendment allows school districts to create debt without submitting the question to voters to enter into a lease-purchase agreement to acquire educational technology equipment. Such debt is, however, subject to the Constitutional limitation that no school district shall become indebted in an amount exceeding 6% of the assessed valuation of the taxable property within the school district. The combination of outstanding bonds and lease-purchase principal cannot exceed this limit. If a district is already at this limit, it cannot enter into one of these agreements. A school district should consult with their bond attorney or bond advisor prior to entering into one of these arrangements. The purpose is to acquire tools used in the educational process that constitute learning resources.

**Public Building Energy Efficiency and Water Conservation Act:** This act is a self-funded program that allows a school district to perform energy efficiency capital improvements. Through these improvements, energy and operational costs are reduced. The district pays for the program with these savings. The amount of money required to pay the provider is taken from a school district's state equalization guarantee and transferred to the public school utility conservation fund, which the school district uses to make these payments. These contracts may not exceed 10 years.

**Impact Aid Funds:** The federal government provides certain funds to school districts in lieu of local property taxes for children residing on federal lands or children having parents working on federal property. A school district is eligible to receive these funds if at least three percent of its average daily attendance (ADA), with a minimum of 400 ADA, are federally connected. Formerly called P.L. 874 funds, these Impact Aid funds are now produced through provisions of Title 20, Section 7703 (b), USC.

School districts in New Mexico receive substantial Impact Aid payments because of the large numbers of federal military installations, Indian lands, federal public domain, and national forest lands within their boundaries.

The federal government allocates these Impact Aid funds directly to school districts on the basis of an average per capita cost of education, calculated on either a state or national basis, whichever is larger. The state takes credit for 75% of all Impact Aid revenues flowing to local districts (except for special education and Indian set-aside funds) when calculating the state equalization guarantee.

**Forest Reserve Funds:** Twenty-two New Mexico counties receive Forest Reserve funds. These counties receive 25% of the net receipts from operations (primarily timber sales) within their respective reserve areas. Distributions are divided equally between the County Road Fund and the school district. The state takes credit for 75% of the Forest Reserve funds in calculating the state equalization guarantee.

**Department of Energy:** Los Alamos Public Schools receives funds from the Department of Energy in lieu of property taxes on federal property located within the district.

**Department of Defense:** The Clovis and Alamogordo school districts receive funds from the Department of Defense for an increase in district membership related to the presence of military personnel within their respective districts.

**Miscellaneous Sources:** Funds for capital outlay needs also come from other sources such as donations, earnings from investments, rents, sales of real property and equipment. The Legislature also appropriates limited funds for capital outlay emergencies to the Public Education Department for distribution to public school districts as needed.