

## Processes Related to Below-the-Line Funding

Public schools in New Mexico receive the vast majority of their funding through the state equalization guarantee (SEG), a formula designed to ensure equitable, student-based funding. In recent years, though, increased revenue has allowed the Legislature to invest heavily in targeted educational initiatives and programs funded with one-time appropriations that flow through the Public Education Department (PED). These appropriations, commonly referred to as “below-the-line” because of their location on a funding spreadsheet, give the Legislature and PED more influence in how education dollars are spent, but they also provide a set of unique challenges.

Most below-the-line (BTL) funding is administered through some sort of competitive grant process. While some of these funds are made available in the same fiscal year the Legislature appropriates them, most are not available to school districts or charter schools until the beginning of the next fiscal year. Especially after 60-day legislative sessions, PED staff is faced with a short timeline—usually about 90 days—in which to create grant programs, ready application documents and procedures, and eventually award those funds. This is often done with existing staff, who might already be overtaxed with job responsibilities.

Simultaneously, school district and charter school officials accustomed to receiving funding through monthly payments from the SEG must decide whether they have the capacity to apply for, and administer, new program funding, all while preparing annual budget submissions to the department. As a result, legislative and executive initiatives aimed at improving student outcomes don’t always play out as intended. Instead, they often are mired in bureaucratic processes that slow spending and prohibit school districts and charter schools from fully realizing the potential of innovative ideas.

This brief will outline the process by which BTL appropriations are routed through PED, the requirements school districts and charter schools must meet to be eligible for funding, and the local capacity, both in human and fiscal resources, needed to successfully administer these initiatives. Lastly, the brief will include policy proposals that could help streamline the funding and administration processes while maintaining systems for fiscal and program accountability.

### Key Takeaways

Below-the-line funding presents both administrative and implementation challenges.

*Page 1*

PED’s award process takes too long and means awardees have less time to spend.

*Page 2-3*

The reimbursement process can take more than a month and prompts the maintenance of large local cash reserves.

*Page 4*

Several recommendations could streamline funding while maintaining accountability.

*Page 4*

## PED's Award and Reimbursement Process

### Requests for Applications (RFAs), Requests for Information (RFIs), and Requests for Proposals (RFPs)

When the Legislature appropriates BTL funds for specific programming, PED staff is faced with two options. In cases such as the \$2 million for principal, counselor, and social worker residencies the Legislature appropriated during the 2023 legislative session, PED staff needed to create an entirely new program, issue requests for applications (RFAs), review applications, and award funds. For existing programs, such as career technical education, staff still must issue requests for applications, review applications, and award funds. In recent years, the Legislature has heard concerns about the time it takes for PED to complete these initial processes.

Several awardees report receiving budget authority as late as October, when a quarter of the fiscal year has passed. The delay results in an inability to spend funds effectively and sometimes means funds are reverted.

A large part of the backlog begins with the department itself. Multiple divisions and bureaus must coordinate to establish programming requirements, budget funds and spending codes, and issue requests for applications, requests for information, or requests for information—the processes needed to award funding to qualified applicants. First, program managers develop program requirements to ensure statutory alignment or to try to meet legislative intent. Program staff must also develop a methodology for distributing funds, if not specifically

outlined in statute. Distribution could mean formula-based funding, such as for the Family Income Index, or grant-based, specific to program requirements, such as community school grants, or some combination of both. PED program staff simultaneously work with fiscal grants management staff to establish the funding structures from which funding will flow and be tracked. Those structures are reviewed and approved by directors in the department's administrative services division.

Once these internal processes are complete, which can take anywhere from weeks to months, depending on workload and department capacity, program staff can issue an RFA, RFI, or RFP. There are no formal rules how staff use this process, resulting in a variety of approaches. Some program staff require school districts, charter schools, or other entities to complete an “intent to apply” process, which qualifies them to submit a formal application. This sort of duplication may ensure intent on the part of applicants, but could also add weeks to the award process. Other programs use a more straightforward approach that uses a one-step application process.

Once applications are submitted, program staff must vet them for alignment to program requirements. Again, there is variance from program to program. While most scoring is done by PED staff who may or may not be a part of the bureau issuing the grant program, some programs, such as community schools, use external partners like members of the Community School Coalition to score applications. This process increases transparency, but requires more coordination and time.

After applications are scored and staff determine awardees and award amounts, the department issues notice of planning awards to recipients. These notices indicate to school districts and charter schools that they will receive an award and how much those awards will be. Because this process usually takes place before the beginning of the new fiscal



year, awardees still do not have budget authority and cannot request funds from the department. They merely know funds will be available upon receipt of a final award letter.

PED's issuance of final award letters have been a major point of concern. Like initial program and funding approval, final award letters go through a series of steps before school districts, charter schools, and tribal entities are given official authority to spend grant funding. While department officials have pledged for years to improve the award letter process, awardees still report waiting inordinate amounts of time before they are able to spend funds. For the current fiscal year that began July 1, school districts and tribal entities report receiving final award letters and budget authority as late as the first week of October.

Those delays have reverberating impacts. First, because for some, a quarter of the fiscal year has elapsed, awardees face the task of spending what was intended as a yearlong appropriation in nine months or less. The delays also mean school officials who intended to use funds to hire staff face the difficulty of finding qualified individuals two months after the start of the school year. Most school hiring is done in the spring and over the summer. If officials planned to use funds to purchase instructional materials or supplies, a process that could take weeks or months, it is possible the school year may be over before materials come in. From a legislative perspective, delays in funding also make it difficult to distinguish between poor program implementation and the inability for awardees to hire staff or purchase materials.

And even in the best cases, in which funding flows smoothly and on time, PED's grant process comes with additional challenges and bureaucracy.

### **Requests for Reimbursements**

Unlike SEG payments that flow directly to school districts and charter schools on a monthly basis, state and federal grant funding is administered by PED on a reimbursement basis. This process presumably ensures spending is aligned with program intent and provides department staff the opportunity to oversee local expenditures, but is not required by law.

In this process, awardees must pay for expenditures using local funds, then submit requests for reimbursements, or RfRs, to PED. Department program staff review those requests, approve or disapprove based on program requirements, and then pass requests to fiscal grants management staff who provide a secondary review of requests. While awardees have outlined their intentions during the application process, and PED program staff with knowledge of program requirements have approved requests, the secondary review by fiscal staff is sometimes based on seemingly arbitrary and subjective requirements. While RfRs are generally approved, the review process can mean reimbursements take longer to process, especially when additional information is requested for approval.

The RfR process also adds to local workload pressures. Especially in small school districts or charter schools, with less staff capacity, submitting RfRs is yet another thing to do. There is also no standard process for when districts submit RfRs, resulting in some awardees submitting on a regular basis throughout the school year, while others submit only a few times a year, resulting in more complicated reviews and longer processing times. School officials report the inconsistency and unpredictability of the RfR process is one reason they maintain cash reserves.

## Policy Recommendations

***Multi-year Funding for Pilots.*** Most BTL appropriations are intended to support new programming. While some, such as attendance supports, may be focused on short-term strategies, other, such as teacher residencies or career technical education, are essentially pilot programs to test the efficacy of innovative ideas. In those pilot cases, the Legislature should consider multi-year funding to signal intent, sustainability, and encourage the development of recurring PED processes that will streamline funding and implementation as well as establish expectations for pilot program evaluation. The Legislature used two-year funding for the Family Income Index pilot. Three years might provide even more consistency and reduce bureaucracy.

***Formula-based funding.*** PED uses the awards and reimbursement process for some categorical funds, such as Indian education. Again, Indian education fund awardees report receiving funds at the beginning of October, leading to an inability to effectively use funds and resulting in large reversions. Tribal entities have also advocated for more autonomy in the use of Indian education funds, rather than having to apply for PED-developed grant programs. The Legislature should consider appropriating at least a portion of Indian education funding on a per-pupil basis. This could mean money flows more quickly and awardees are able to spend funds on local priorities.

***PED staff and salaries.*** While internal processes at PED add to delays, so too does lack of staff capacity. PED officials are advocating for additional employees in order to meet growing demands of the department. Simultaneously, state hiring practices sometimes mean PED employees are paid less than they are able to earn in the general education field, especially after investments in school staff salaries. The Legislature and the executive should consider bolstering staff capacity while also addressing salary levels to be more competitive with school districts and charter schools.

***Accountability.*** Much of the award and reimbursement process is based on ensuring funds are used effectively and efficiently. The focus on front-end processes, however, means staff has little time for support or technical assistance. The department also has not focused on demonstrating whether BTL initiatives have shown positive results. The Legislature, particularly the Legislative Education Study Committee, should consider developing statewide education metrics against which to determine whether to fund innovative ideas and to measure program efficacy.