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FISCAL IMPACT REPORT

ORIGINAL DATE 2/12/17
 SPONSOR SFCS LAST UPDATED 3/06/17 HB _____
 SHORT TITLE Charter School Equalization Guarantee SB CS/CS/305/SFCS
 ANALYST Liu

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY17	FY18	FY19	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		(\$3,491.3)	(\$3,491.3)	(\$6,982.6)	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

Relates to HB46, HB184, HB273, SB30, SB39, SB135, SB193, SB207, SB313, SB346
 Relates to State Equalization Guarantee appropriation in the General Appropriation Act

SOURCES OF INFORMATION

LFC Files
 Legislative Education Study Committee (LESC) Files

SUMMARY

Synopsis of SFC Substitute

The Senate Finance Committee substitute for Senate Bill 305 as substituted by the Senate Education Committee amends the Public School Code to include a definition of “virtual charter school” and creates a new section in the Public School Finance Act calculating virtual charter school program units as only the sum of early childhood education, basic education, special education, and National Board-certified personnel program units without the instructional staff training and experience index multiplier. The bill defines a virtual charter school as a charter school in which instruction and curriculum are delivered predominantly via internet-based methods by teachers licensed in New Mexico.

FISCAL IMPLICATIONS

In FY17, New Mexico had three virtual charter schools in operation, generating approximately \$13.8 million in SEG distributions. Under the provisions of this bill, as substituted by SFC, the FY17 program units for these virtual charter schools would have been reduced by about 877 units and resulted in an SEG redistribution of about \$3.5 million, which would have been allocated to all other school districts and charter schools. The following analysis uses the FY17 unit value of \$3,979.63.

	FY17 Total Units	FY17 Projected SEG	SB305/SFCS Total Units	SB305/SFCS Projected SEG
PECOS CONNECTIONS	503.769	\$2,004,814	400.165	\$1,592,509
NEW MEXICO VIRTUAL ACADEMY	718.108	\$2,857,804	674.838	\$2,685,606
NEW MEXICO CONNECTIONS VIRTUAL (SANTA FE)	2,257.677	\$8,984,719	1,527.260	\$6,077,930
TOTAL	3,479.554	\$13,847,337	2,602.263	\$10,356,044

SIGNIFICANT ISSUES

Virtual education takes many forms and serves many purposes. Formats in virtual education include full-time online kindergarten through 12th grade schools as well as single courses that allow students to explore a subject not available in their brick-and-mortar schools. Virtual education is also used by students to make up credits for a required course they earlier failed. New Mexico’s statutes do not currently regulate virtual charter schools. The National Center for Education Statistics (NCES) indicates virtual schools may spend as much as 25 percent less than traditional schools. However, a 2016 LFC evaluation found virtual charter schools in New Mexico have not demonstrated cost-effectiveness compared to traditional schools.

The Connections Academy, a for-profit organization, is a division of Connections Education, LLC, which is owned by Pearson PLC. Connections Academy contracts to provide an online school platform for students in kindergarten through 12th grade in 26 states. Under New Mexico law, charter schools can contract with providers for services, but cannot contract away management duties. In 2013, the initial New Mexico Connections Academy (NMCA) application was denied by the Public Education Commission as it found the charter was “contrary to the best interests of the charter school’s projected students, the community, or the school district in whose geographic boundaries the charter school applies to operate,” but after a series of appeals it was authorized and opened in FY13.

NMCA received few bids for curriculum, technology support, and hardware requests for proposals (RFP). NMCA had an RFP written by attorneys for curriculum, technology support, and hardware. NMCA received few bids and their contracting company, Connections Academy of New Mexico, LLC won all three bids for the online curriculum framework, laptops, and technological support for the school. NMCA paid Connections Academy of New Mexico, LLC just over \$3 million for services in FY15.

New Mexico Virtual Academy is a locally chartered charter school, authorized by Farmington Municipal Schools in FY12, with enrollment capped at 500 students. New Mexico Virtual Academy did not go through a RFP process but paid an estimated \$1.5 million to K12 Inc., a for-profit company, in FY15 for curriculum, online and paper books, computers, and training. Research has found serious deficiencies with K12 Inc., which New Mexico Virtual Academy utilizes.

In December 2016, Farmington Municipal Schools voted to deny reauthorization for the New Mexico Virtual Academy charter school, effectively closing the school at the end of the school year due to low student performance. This decision came a day after the school district was informed that the Attorney General’s office would be investigating the company providing curriculum and educational services for the online charter school. The for-profit company, K12

Inc., recently reached a \$168.5 million settlement with the California Attorney General to resolve allegations of false advertising, false claims, and unfair competition relating to its virtual charter schools. According to California Attorney General Kamala Harris, “K12 and its schools misled parents and the State of California by claiming taxpayer dollars for questionable student attendance, misstating student success and parent satisfaction, and loading nonprofit charities with debt.” The Farmington Municipal Schools board brought up several concerns about New Mexico Virtual Academy, including its graduation rate (38.6 percent), students’ math (11.8 percent) and reading (29.6 percent) proficiency scores, and the school’s lack of a certified procurement officer. However, after the school appealed, the Farmington school board voted to approve a two-year charter renewal with New Mexico Virtual Academy on February 9, 2017, under conditions that student achievement would improve and New Mexico Virtual Academy would pursue a charter through another school district or the state.

ADMINISTRATIVE IMPLICATIONS

The bill’s provisions will require PED to determine which charter schools meet the proposed definition of virtual schools under the Charter Schools Act in order to be recognized for funding differences. Other administrative impacts would be minimal.

RELATIONSHIP

This bill relates to HB46, which places a moratorium on new charter schools; HB184, which requires property tax revenue distributions to charter schools; HB273, which provides flexibilities and penalties for charter schools based on performance; SB30, which adjusts program units generated for at-risk students, teacher experience, and charter school size adjustments; SB39, which prevents double-counting of enrollment growth and new program units; SB135, which takes credit for federal Impact Aid payments made to charter schools; SB193, which appropriates funding and clarifies authorities of the Public Education Commission; SB207, which places an enrollment cap on charter schools in certain districts; SB313, which adjusts eligibility for charter school lease payments; and SB346, which requires charter schools to establish eligibility and participate in the federal free and reduced-price meal program.

OTHER SUBSTANTIVE ISSUES

A 2016 CREDO online charter school study found students at online charter schools lost, on average, 72 days of learning in reading and 180 days in math compared to identical peers in traditional public schools. The CREDO report found no significant difference in online charter school student performance in New Mexico; however, the study sample was collected in 2013, the first year of online charter school entry in the state. Questions have been raised about the legality of virtual charter schools in light of statutes, previous PED staff recommendations to deny virtual charter schools, and an Attorney General opinion. Additionally, issues have been raised by the Public School Capital Outlay Council with regard to lease assistance funding – specifically the disparity between making lease assistance reimbursements based on student enrollment when only a portion of the students will ever enter the building.