F I S C A L   I M P A C T   R E P O R T

SPONSOR	Gonzales/Tallman/ Pinto	**ORIGINAL DATE** **LAST UPDATED**	1/31/22	**HB**	
SHORT TITLE	Limit School Admin Expenditures			**SB**	75
				ANALYST	Liu

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY22	FY23	FY24	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total			$65.0	$65.0	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to HB119, SB105
Relates to Appropriation in the General Appropriation Act

SOURCES OF INFORMATION
LFC Files
Legislative Education Study Committee (LESC) Files

Responses Received From
Public Education Department (PED)

SUMMARY

Synopsis of Bill

Senate Bill 75 prohibits school districts and charter schools from growing operational budgets for administrative expenses faster than either an increase in the U.S. consumer price index for all items (CPI-U) or increase in the public school funding formula program cost, whichever is lower. The bill requires school boards or charter governing authorities to request a waiver of the administrative budgeting limitation from PED. The department may waive the limitation if the school district or charter school has comparatively low administrative expenditures per pupil, has high student performance, or has been newly authorized within five years. The bill further prohibits PED from approving any operating budgets or budget adjustment requests that would circumvent the administrative budget limitation. Provisions of this bill will affect school operating budgets beginning in FY24.

FISCAL IMPLICATIONS

The bill does not contain an appropriation; however, PED notes oversight of the administrative budget limitation requirement will necessitate an additional budget analyst to review budgets and waiver requests. PED estimates the cost of the additional FTE would be $65 thousand annually.

For FY22, the budgeted program cost increased by 7.4 percent from the prior year, and CPI-U increased by 1.2 percent. PED notes school districts and charter schools increased administrative budgets in FY22 by an average of 26 percent. Out of 187 school districts and charter schools, only 12 entities would have met budgetary requirements under provisions of this bill, requiring PED to reject the vast majority of school budgets across the state.

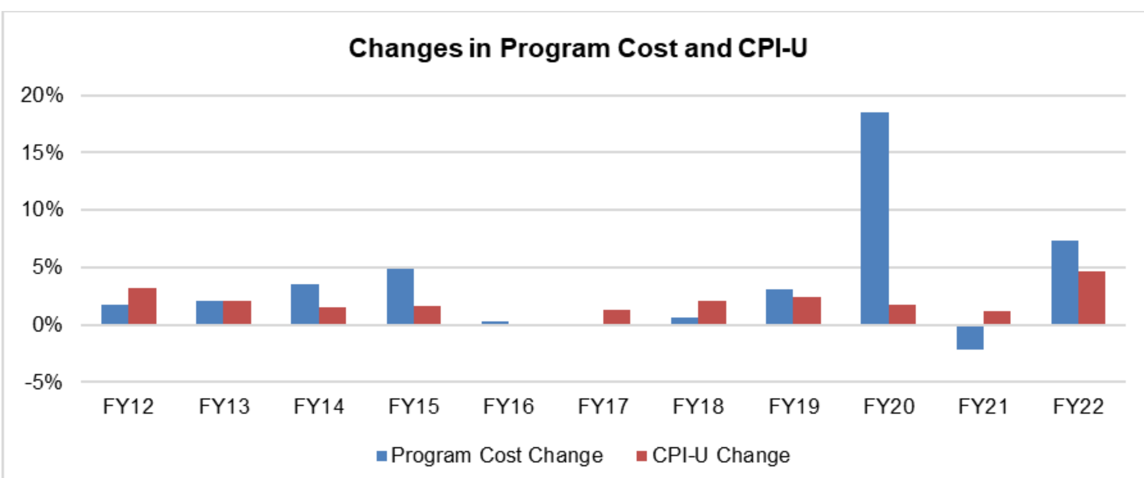
PED notes the administrative budget limitation may have little to no impact on actual administrative spending, as many school districts and charter schools do not make expenditures that reflect the original budget.

SIGNIFICANT ISSUES

Because the bill would affect operating budgets beginning in FY24, PED notes school districts and charter schools would have an incentive to inflate administrative budgets exorbitantly in FY23 to make the FY24 budget limitation threshold an easier target to meet.

The bill defines administrative expenditures as the 2300 (general administration), 2500 (central services), 2600 (operation and maintenance of plant), and 2900 (other support services) functions in PED's uniform chart of accounts. PED notes these functions include salaries for superintendents, associate superintendents, IT personnel, business officials, warehouse employees, maintenance and custodial personnel, and duty personnel and crosswalk guards.

PED notes the Legislature has recently mandated across-the-board salary increases for school personnel above the average year-over-year increase in CPI-U (the LFC and executive FY23 budget recommendations increase salaries by 7 percent). If salaries for administrative positions are held to the CPI-U growth rate while other salaries grow faster, New Mexico's school districts and charter schools may have difficulty hiring staff for these functions. The current estimated CPI-U for 2021 is 4.7 percent.

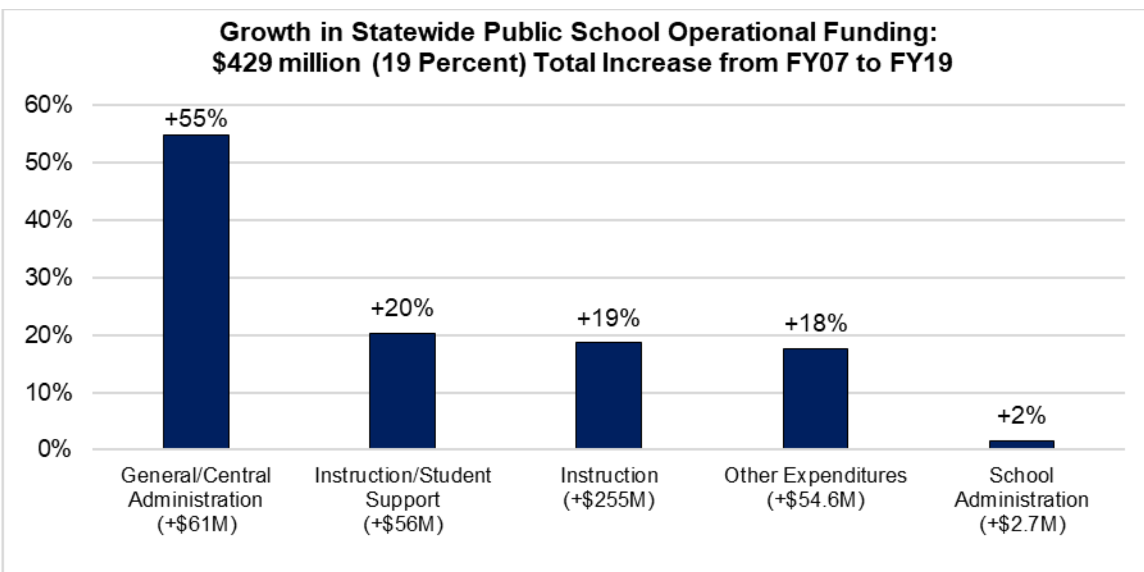


On February 14, 2019, the 1st Judicial District Court issued a final judgment and order on the consolidated *Martinez v. New Mexico* and *Yazzie v. New Mexico* education sufficiency lawsuits, and found that New Mexico's public education system failed to provide a constitutionally sufficient education for at-risk students, particularly low-income, English language learners, Native American students, and special education students. The court's findings suggested overall public school funding levels, financing methods, and PED oversight were deficient. As such, the court enjoined the state to provide sufficient resources, including instructional materials, properly trained staff, and curricular offerings, necessary for providing the opportunity for a sufficient education for all at-risk students.

During trial, the court rejected the claim that PED was not responsible for the school districts' failure to provide programs that would ameliorate the education gap due to a lack of control over school district spending. The court noted PED had read its statutory authority too narrowly and had forsaken its oversight role. The statutory obligation to supervise all schools and school officials, including taking over the control and management of a public school, was broad enough for PED to review and assure that school districts were using funds to provide programs to assist at-risk students. The court also noted PED did not sufficiently monitor nor audit the use of formula funds and federal funds to determine whether school districts were using funds as required for at-risk students.

PERFORMANCE IMPLICATIONS

Excessive growth in administrative budgets in central office and other overhead functions can divert resources away from classrooms and direct services. According to statewide school operating budget data, between FY07 and FY19, general and central administrative budgets grew at a faster rate than instructional services.



ADMINISTRATIVE IMPLICATIONS

PED notes the bill would create a significant administrative burden. The department would be required to analyze CPI-U and program cost data, review district budget submissions, set student performance thresholds and other criteria for waivers, and review waiver requests on a case-by-case basis. The department estimates the bill will require one additional FTE in the School Budget Bureau to perform these functions.

RELATIONSHIP

This bill relates to House Bill 119, which changes state distributions for public school capital improvements, and Senate Bill 105, which changes the budget deadline for PED to submit the public school support request. The bill also relates to the state equalization guarantee distribution appropriation in the General Appropriation Act.

TECHNICAL ISSUES

Provisions of the bill would allow PED to waive the administrative budget limitation for school districts or charter schools ranking in the top 10 percent for student performance but does not define student performance. PED notes the agency would establish student performance criteria for waivers, which may include proficiency rates and graduation rates.

OTHER SUBSTANTIVE ISSUES

The bill sets the threshold for administrative budget increases in line with the lesser of increases to the CPI-U or increases to program cost. If the program cost is reduced or CPI-U falls below 0 percent, school districts and charter schools would need to reduce administrative budgets at the same rate for PED budget approval.

Provisions of this bill authorize PED to waive the administrative budget limitation for any entities that have been newly authorized within five years from the effective date of the bill. Given the creation of a new school district is an extremely rare occurrence, this exemption would most likely apply only to charter schools.

Administrative operating budgets have grown significantly in the last decade, likely in response to additional reporting requirements and new programmatic initiatives at the local, state, and federal level. According to LESC, New Mexico schools are required to complete 61 compliance, 31 financial transparency, and 55 program performance reports. Since 2017, the Legislature has added 26 new reporting requirements, in some case replacing old requirements, and repealed 14 reporting requirements.

SL/SEC/acv