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FISCAL IMPACT REPORT

SPONSOR Sanchez, M **ORIGINAL DATE** 03/02/15
LAST UPDATED 03/18/15 **HB** _____

SHORT TITLE Index Charter School Head Admin Salary **SB** 605/aSEC/aSPAC

ANALYST Gudgel

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY15	FY16		
	NFI		

(Parenthesis () Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY15	FY16	FY17	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		(Decrease)	See Fiscal Implications		Recurring	Charter School Operating Budgets

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Public Education Department (PED)

Public School Insurance Authority (PSIA)

SUMMARY

Synopsis of SPAC Amendment

Senate Public Affairs Committee Amendment to Senate Bill 605 as amended by Senate Education Committee strikes the changes adopted by SEC and inserts the following:

- Limits compensation received by a head administrator to the lesser of 80 percent of the compensation of the local superintendent of the school district or 110 percent of the average compensation of school district elementary, middle, or high school principals depending on whether the head administrator oversees an elementary, middle, or high school.

- Prohibits the head administrator of a charter school from receiving total compensation that exceeds the percentages specified in Subsection U (noted in first bullet) regardless of the number of charter schools employing or contracting with the head administrator.
- Defines “compensation” as gross salary for personal services rendered while on the payroll of a charter school or under contract with a charter school, and other forms of compensation, benefits and additional compensation as defined in the public education department uniform chart of accounts, including stipends, bonuses, or incentives that are in addition to standard compensation.

Synopsis of SEC Amendment

Senate Education Committee Amendment to Senate Bill 605 strikes all changes in the original bill and inserts the following:

- Limits compensation received by a head administrator through an employment contract with a charter school or a contract between the head administrator and another educational institution, a local school board, a charter management organization or any other entity that provides educational, management or consulting services, products or technology to the lesser of:
 - 80 percent of the compensation of the local superintendent; or
 - No more than 10 percent more than the average compensation of school district elementary, middle, or high school principals depending on whether the head administrator oversees an elementary, middle, or high school.
- The bill defines “compensation” as salary, benefits, merit-based supplemental compensation, and any other forms of compensation.

Synopsis of Bill

Senate Bill 605 requires charter school contracts with an educational or charter management to organization to limit the salary and benefits of a head administrator of a charter schools to:

- 80 percent of the compensation of the local superintendent where the charter school is geographically located; or
- By more than 10 percent of the average compensation for school principals in the school district where the charter school is located.

FISCAL IMPLICATIONS

Any savings resulting from the bill would be realized by charter schools, which may have revenue freed up because of the salary caps proposed in this bill. However, as noted in technical issues, it is unclear how many charter school head administrators would be affected by the changes in this bill.

Assuming a charter school administrator cannot be paid the larger of two figures, LFC staff review of charter school head administrator salaries and average local school district principal and superintendent salaries indicates most, if not all, charter school head administrator salaries would be adjusted downward pursuant to the provisions of this bill.

ERB anticipates the bill will not have an effect on the actuarial status of the educational

retirement fund.

SIGNIFICANT ISSUES

The twice amended bill limits the total compensation received by a head administrator from one or more charter schools to no more than 110 percent of the local school district principals' compensation or 80 percent of the local superintendent's salary, whichever is lesser.

As noted above the definition of compensation is based on PED's uniform chart of accounts (See Other Significant Issues).

Many charter school issues, both national and local, relate to charter school employee pay and conflicts of interest. Charter schools are one of the only governmental entities in New Mexico that are not governed by a board of individuals that is elected by the people or appointed by an entity that is directly accountable to the voters. Concerns have been raised in New Mexico that charter school administrator salaries are not regulated and in many instances head administrators are making salaries that far exceed local school district employees with similar responsibilities.

But what level of compensation is appropriate for charter school head administrators remains a gray area. Charters operate as independent local education agencies with a board that is responsible for managing the school and setting employees' salaries. Neither the state nor the authorizer has control over how much a charter official is paid.

Charter school founders (individuals submitting charter school applications) are generally responsible for establishing initial board members, who often times select the founder to serve as the head administrator of the charter school. In instances, selection of board members to fill vacancies is done by the head administrator or vetted through the head administrator. These board members set the head administrator's salary, evaluate the head administrator's performance, and make decisions with regard to continued employment of the head administrator. In many instances, the head administrator's salary is set by a charter school governing board that has been handpicked by the head administrator.

The bill seeks to limit the salary and benefits of a charter school administrator to be more in line with what local school districts pay their employees.

Currently, 23 school districts have at least one charter school. Many of these charter schools have individuals who earn considerably more than the local school district's average principal salary – some much closer in line to the local superintendent's salary, despite being responsible for educating far fewer children. For example, the governing boards of three charter schools in Albuquerque paid a single head administrator almost \$215 thousand to oversee three charter schools that served less than 500 students, while the superintendent of APS was receiving an annual salary of \$250 thousand to oversee the state's largest school district with 86 thousand students.

OTHER SIGNIFICANT ISSUES

PED School Budget and Finance Analysis Bureau Supplement 3 v2.9 (Revised March 2014) includes the following definitions for compensation:

51000 Personnel Services—Compensation

Amounts paid to both permanent and temporary school district or charter school employees, including personnel substituting for those in permanent positions. This includes gross salary for personal services rendered while on the payroll of the school district or charter school and other forms of compensation. Used with all Functions except 2900 (Other Support Services), 4000 (Capital Outlay), and 5000 (Debt Service). Used with all Job Classifications except 0000 (None). *This is a “roll-up” account for accumulation of totals. Entries are not posted to the “roll-up” account, but to the accounts listed below.*

51100 Salaries Expense. Full-time, part-time, and prorated portions of the costs for work performed by permanent and temporary employees of the school district or charter school.

51200 Overtime Expense. Amounts paid to non-exempt employees of the school district or charter school in either temporary or permanent positions for work performed in addition to the normal work period for which the employee is compensated under regular and temporary salaries. The terms of such payment for overtime are a matter of state and local regulation and interpretation.

51300 Additional Compensation. Amounts paid to both permanent and temporary school district or charter school employees for items such as bonuses or incentives that are in addition to standard compensation. Includes stipends (amounts paid to both permanent and temporary school district or charter school employees that are paid on a regular or irregular basis for some specific purpose such as serving as a department chair or coaching that are in addition to standard compensation).