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FISCAL IMPACT REPORT

SPONSOR Rue/Adkins **ORIGINAL DATE** 1/31/17
LAST UPDATED _____ **HB** _____

SHORT TITLE School District Size Limits **SB** 89

ANALYST Liu/Serna Marmol

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY17	FY18		
	\$150.0	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY17	FY18	FY19	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		See Fiscal Implications				

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files
 Legislative Education Study Committee (LESC) Files

Responses Received From

Public Education Department (PED)
 Public School Facilities Authority (PSFA)
 Regional Education Cooperatives (REC)

SUMMARY

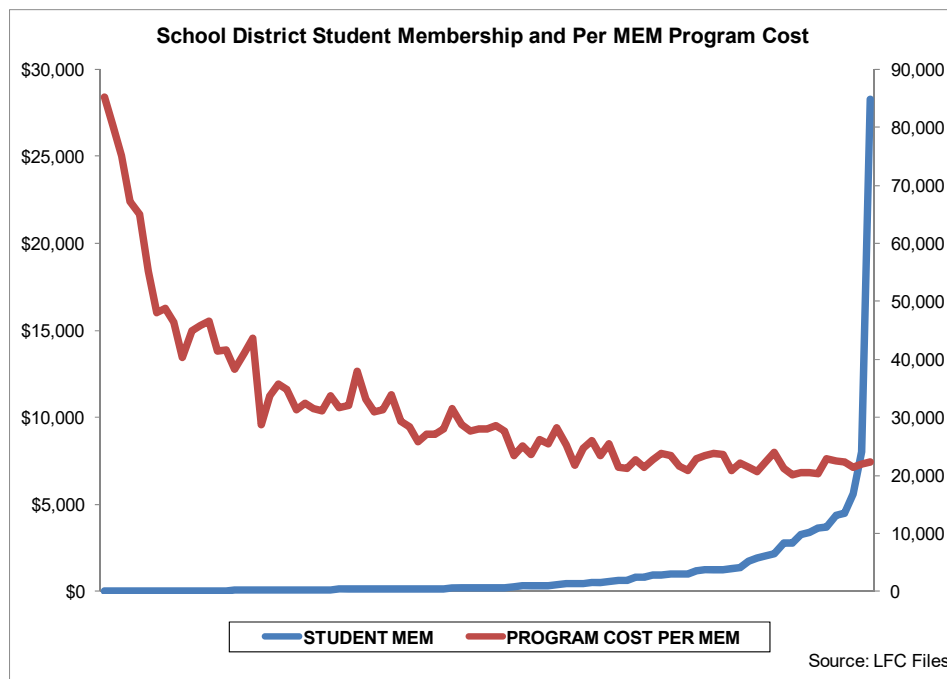
Synopsis of Bill

Senate Bill 89 limits membership for school districts to 40 thousand students and requires any school district exceeding the cap to establish a new district within two years. PED will appoint a task force, that includes members of the local school board for the residents of the existing school district, to propose geographic boundaries, demographics, membership, current and long-term financial position, capital needs, and other considerations for the existing and new school district(s). Task force members will be entitled to receive per diem and mileage. The bill makes an appropriation.

FISCAL IMPLICATIONS

This bill appropriates \$150 thousand from the general fund to PED for expenditure in FY18 through FY20 to assist in the creation of new school districts. Any unexpended or unencumbered balance remaining at the end of FY20 shall revert to the general fund. PED indicates the bill is projected to only impact Albuquerque Public Schools (APS), and it is unlikely additional funds are necessary to enact the provisions of the bill.

It is unclear at this time if splitting APS will result in significant cost savings. Program cost per MEM, or funded student membership, for school districts in New Mexico appears to decrease as MEM increases. For the first reporting date of the 2016-2017 school year, APS reported 83,633 MEM, generating \$7,417 per MEM. Las Cruces, the second most populous school district, reported 24,326 MEM, generating \$7,307 per MEM. Santa Fe, the fifth most populous school district, reported 12,795 MEM, generating \$7,477 per MEM.



PSFA notes the state and local match formula considers land valuations within district boundaries to determine bonding capacity for school districts. Dividing an existing school district would alter the state and local share for the existing district and newly formed district(s). Currently, Albuquerque’s state-to-local match ratio is 59 percent-to-41 percent. The fiscal impact on the public school capital outlay fund cannot be determined without more information on how district boundaries are set in a potential district separation. PSFA notes the new school district(s) may need district administrative spaces or extracurricular facilities, which are considered above adequacy standards and are therefore not eligible for a funding match from the Public School Capital Outlay Council.

SIGNIFICANT ISSUES

Provisions of this bill would require PED to divide APS into at least three new school districts. In FY17, funded student membership in APS, including locally-chartered charter schools, was approximately 90,128. PED notes it is unlikely any other community is growing at a rate sufficient to trigger the provisions of the bill in the next three years.

ADMINISTRATIVE IMPLICATIONS

REC notes APS will incur additional administrative responsibilities of setting up the new district(s). PED indicates the bill will not create any additional administrative implications.

OTHER SUBSTANTIVE ISSUES

Deconsolidation or the split of large school districts into smaller school districts has had impacts in several cities nationwide. For example, in 2015, Seattle Public Schools (SPS) conducted an impact report and found that dividing SPS into two or more school district would increase fiscal costs to taxpayers. Of particular concern to SPS was the need and on-going costs of separate governance boards, leadership teams and central office support. SPS found that every percentage point increase in central administration expenditures would cost the new Seattle school districts about \$6.1 million more per year. Additionally, a split of school districts could polarize the City of Seattle and increase disparity among the geographic regions across the city. It should be noted New Mexico has a relatively unique funding formula that allocates a majority of public school funding through a statewide distribution; other states typically have a larger share of local revenues for public school funding.

A 2014 LFC evaluation of high and low-performing elementary schools showed a disparity between APS elementary schools below the Interstate-40 boundary in Albuquerque and above the same boundary line. APS elementary schools south of Interstate-40 were generally high poverty and low-performing. In addition, the evaluation concluded that poverty continues to play a factor in school achievement.

While the bill does not consider individual school sizes, it is likely school district size has an influence on individual school sizes given that costs to manage schools within a district increase as the number of schools increase. As such, school sizes within larger districts tend to be greater. A series of studies, referred to as the “Matthew Project,” has focused on school size and school performance in impoverished communities. The Matthew Project was inspired by the work of Noah Friedkin and Juan Necochea in 1988. Their study, carried out with California data describing school performance at four grade levels, concluded that smaller school size benefitted school performance in impoverished communities but larger size benefitted school performance in affluent communities.

Research on the relationship between school district size and spending has identified some economies of scale in public education. Larger districts tend to have lower per-pupil operating expenditures than smaller districts; however, several recent studies have suggested the economic benefits of increasing district size diminish as the size of the district grows and that there is an optimal size of school district. A 2007 Mackinac Center Report on school district consolidation, size, and spending estimated the most cost-effective size for school districts in Michigan was about 2,900 students. Both smaller and larger districts were likely to spend more per pupil. A 2005 Center for Policy Research study on the economies of scale from New York school district consolidations indicated mergers of school districts from 300 pupils to 600 pupils could result in 23.7 percent savings and combining districts from 1,500 pupils to 3,000 pupils could result in 3.9 percent savings, implying 3,000 students approached optimal size.