

LFC Requester:	Sunny Liu, LFC
-----------------------	-----------------------

**AGENCY BILL ANALYSIS
2018 REGULAR SESSION**

WITHIN 24 HOURS OF BILL POSTING, EMAIL ANALYSIS TO:

LFC@NMLEGIS.GOV

and

DFA@STATE.NM.US

{Include the bill no. in the email subject line, e.g., HB2, and only attach one bill analysis and related documentation per email message}

SECTION I: GENERAL INFORMATION

{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}

Check all that apply: Date 01/29/2018
Original **Amendment** **Bill No:** SB147
Correction **Substitute**

Sponsor: Senator Gay G. Kernan **Agency Code:** 924
Short Title: SCHOOL SIZE ADJUSTMENT PROGRAM UNITS **Person Writing:** Marian Rael
Phone: 827-6519 **Email:** marian.rael@state.nm

SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY19	FY20		
	\$35,428.0	Recurring	General Fund (SEG)

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY18	FY19	FY20		

(Parenthesis () Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY18	FY19	FY20	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total						

(Parenthesis () Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to:
Duplicates/Relates to Appropriation in the General Appropriation Act

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis:

SB 147 seeks to change provisions of the public school funding formula. Specifically, SB 147 seeks to limit eligibility for size adjustment units to school districts and requires eligible schools in school districts with membership greater than 500 to serve at least three grade levels, kindergarten through twelfth grade. Further, any elementary school eligible to receive funds located within one mile of another elementary school in the school district boundaries is required to have membership aggregated for eligibility determinations. Identical eligibility aggregation provisions exist for junior and senior high schools.

FISCAL IMPLICATIONS

SB 147 would cause a decrease of 8,740.1 units, which would result in \$35,428,059 available in either program cost to be redistributed through the formula or reduced appropriations to the state equalization guarantee. This is because either the appropriation would stay flat and the unit value would increase, or the SEG appropriation would decrease by this amount as the base is declined. This is due to nature of the floating unit value (i.e. a unit value that follows the SEG appropriation instead of determining it) and the decision would be determined during the appropriations process following enactment of the bill. SEG appropriations have not decreased in recent years unless due to solvency. SB 147 would eliminate some charter and school district schools from eligibility for units from this section of the public school funding formula, colloquially termed small school size. The units that would be reduced and the impacted charter schools and school districts are listed in the attachment.

SIGNIFICANT ISSUES

The PED, and the State Board of Education before it, have always determined charter schools to be public schools and thus eligible under the same criteria for small school size funding. In recent years, certain stakeholders have questioned whether or not charter schools should qualify for small school size adjustment, arguing that the section of the public school funding formula was designed to offset diseconomies of scale in rural isolated sections of the state. Other stakeholders have defended the need for charter schools to receive the adjustment, arguing that these schools have the diseconomies of scale that come with operating a small school site, coupled with a lack of other revenue streams (capital outlay and local property taxes). Independent of the merits of either side of the debate, some state stakeholders have said that the state should not be subsidizing schools right next door to each other, or even co-located in the

same building. The small school size adjustment units do make up a large portion of total SEG at many charter schools, and therefore a large proportionate share of the charter schools' budgets. PED's School Budget and Finance Analysis Bureau (SBFAB) staff have heard anecdotes from charter school head administrators and business officials that limiting access to these units would result in school closures.

SB 147 is the first place in the public school funding formula that classifies schools by the grade levels served. There are many school districts or charter schools in the state that have decided to organize themselves in a manner so as to limit grade levels per school for programmatic reasons: including early learning centers serving Pre-K and Kindergarten grades, middle schools serving 7th and 8th grades and charter schools phasing in grades. There have even been school districts constructed such that each physical school consists of only one grade-level. SB 147 has negative financial consequences for schools organized to meet programmatic needs.

SB 147 also disparately impacts school districts that serve compact communities where schools are more closely grouped. For example, Santa Fe's population is one of the highest in the state with regard to membership, but schools are grouped more closely together by nature of the geographic layout of the city. These types of communities would be more negatively impacted by SB 147. Conversely, because the provisions of SB 147 look at elementary schools in comparison to their location with other elementary schools (same with junior and senior high), the state will continue to allow elementary, middle and senior high schools that share the same campus facility to each generate small school size adjustment units. This is in contrast to the provisions of SB 147 through which a charter high school that is located across the street from another high school would disqualify either school from generating units, even if the charter school came into existence much later.

PERFORMANCE IMPLICATIONS

SB 147 would better target small school size funding in the public school funding formula and achieve the policy goal of eliminating subsidies for schools located geographically close to one another. But it does so at the expense of simplicity. The provisions of SB 147 add additional layers of complexity to a funding formula that is already being criticized for being too complex. It is unclear if PED's SBFAB would be able to administer the provisions of SB 147 with complete accuracy. Adding another layer of geographic data analysis onto public school funding unit generation is a data source independent of school district or charter school membership or staff reports. If that data source (GIS) is not updated regularly, funding allocations could be developed inaccurately. If the database has performance issues, the process for developing operating Budgets, SEG allotments and setting the unit value is delayed. In essence, SB 147 would place the same level of importance to the administration of the public school funding formula on a GIS data source that does not yet exist at PED as that places on the STARS system that was developed over many years with multiple multi-million dollar appropriations.

ADMINISTRATIVE IMPLICATIONS

The administrative burden this would place on PED's SBFAB is high. In order to model the impact of limiting access to elementary, junior and high schools located within one mile of another elementary, junior or senior high school (respectively), the PED had to partner with staff from PSFA as we do not currently have the Geographic Information System (GIS) capacity to model school locations against one another. To implement this provision, the PED SBFAB would need to either continue to partner with PSFA or develop its own GIS capacities; neither of

which would come without costs. Provisions of SB 147 would also require PED's SBFAB to train staff on how to collect and analyze data from a GIS system to determine eligibility for units. SB 147 does not carry an appropriation. When PED has to absorb costs of new mandates without additional resources, resources that are currently devoted to other PED activities need to be reallocated.

The loss of the small school size adjustment to certain charter schools could be followed by litigation costs.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

TECHNICAL ISSUES

Language of SB 147 on page 3 lines 1-2, page 3 lines 7-8, and pages 3-4 lines 25 – 1 requires elementary schools located within one mile of any other elementary school to have membership aggregated to determine eligibility for small school size; identical language follows for junior or senior high schools. Many schools in the state would need their membership aggregated with more than one school. Since the provisions of SB 147 do not allow for aggregating multiple schools, PED would be required to perform numerous calculations to determine the aggregate that is most favorable to the charter school or school district with regard to generating units.

SB 147 does not provide for how to apply its provisions to virtual schools. Under the current statute if there is no presence within school district boundaries, they may qualify for size adjustment units.

OTHER SUBSTANTIVE ISSUES

The effective date of SB 147 is July 1, 2019 which conforms to the one year delay that PED requests for all funding formula changes. Allowing for a one-year delay gives the PED the ability to change the forms related to the Operating Budget development process and model impacts to the unit value. It also allows time to change and implement data collection. This is extremely important in a bill like SB 147 given the weight carried by the yet to be implemented GIS data source.

ALTERNATIVES

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Charter schools and school district schools located within one mile of a similar school serving similar grades would continue to qualify for these units.

AMENDMENTS