

<b>LFC Requester:</b>	<b>Sunny Liu</b>
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**AGENCY BILL ANALYSIS  
2019 REGULAR SESSION**

**WITHIN 24 HOURS OF BILL POSTING, EMAIL ANALYSIS TO:**

[LFC@NMLEGIS.GOV](mailto:LFC@NMLEGIS.GOV)

*and*

[DFA@STATE.NM.US](mailto: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:*

Original <input checked="" type="checkbox"/> Amendment <input type="checkbox"/>	Date <u>3/11/19</u>
Correction <input type="checkbox"/> Substitute <input type="checkbox"/>	Bill No: <u>HB77</u>

Sponsor: <u>Rep. Roberto "Bobby" J. Gonzales</u>	Agency Code: <u>924</u>	
Short <u>SCHOOL DISTRICT</u>	Person Writing <u>Daniel Manzano</u>	
Title: <u>ADMINISTRATIVE EXPENSES</u>	Phone: <u>505-670-3820</u>	Email <u>Daniel.Manzano@state.nm.us</u>

**SECTION II: FISCAL IMPACT**

**APPROPRIATION (dollars in thousands)**

Appropriation		Recurring or Nonrecurring	Fund Affected
FY19	FY20		

(Parenthesis ( ) Indicate Expenditure Decreases)

**REVENUE (dollars in thousands)**

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY19	FY20	FY21		
	Minimal	Minimal	Recurring	General Fund (PED Agency Budget)

(Parenthesis ( ) Indicate Expenditure Decreases)

**ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)**

	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>3 Year Total Cost</b>	<b>Recurring or Nonrecurring</b>	<b>Fund Affected</b>
<b>Total</b>						

(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:

HB 77 amends the Public School Finance Act to define administrative expenditures and limits the growth in budgeted administrative expenditures to the growth in the consumer price index. PED may waive this provision if administrative expenditures per student are lower than similarly sized school districts and charter schools and for school districts or charter schools ranked in the top ten percent for student performance. HB 77 indicates that a budget may not be approved for a school district or charter school that does not provide for the limitation on growth of administrative expenditures.

**FISCAL IMPLICATIONS**

HB 77 makes substantive changes to how school districts and charter schools may budget administrative expenditures, but is unlikely to impact actual administrative spending. The provisions of HB 77 creates a definition of administrative expenditures that not differs from PED’s calculations (see “Significant Issues” bellow), and applies that definition to Operating Budget submittals. HB 77 seeks to constrain administrative spending as defined to sub-functions 2300, 2500, 2600 and 2900 to the growth in the consumer price index. However, this policy proposal does not take into consideration that school districts and charter schools have legal authority under 6.20.2.9 Subsection A to adjust budget authority within the total 2000 roll-up functional level without PED approval after the Operating Budget is approved. In laymen’s terms this means that school districts and charter schools will always submit an Operating Budget that conforms to the administrative expenditure restriction but will always have the ability to increase administrative spending after Operating Budget approval.

This has the effect of decoupling the Operating Budget from the actual spending behaviors of the districts and charter schools, thereby devaluing Operating Budget figures in analyses of spending patterns in public schools. At the same time, HB 77 does not provide real limitations on administrative expenditures in those same schools.

## SIGNIFICANT ISSUES

HB 77 uses a different definition of administrative expenditures than that used by PED to determine expenditures. In some respects HB 77's proposed definition of administrative expenditures is far narrower as it eliminates school administration – which by definition is an administrative expenditure. HB 77's proposed definition of administrative expenditures includes items that PED would not classify as administrative in nature, including security and safety purchases, vehicle maintenance, grounds keeping, and operation and maintenance of buildings. Most problematic is HB 77's inclusion of Other Support Services (Function 2900) in a definition of administrative expenditures. This function includes a number of expenditure items for which the school has no control over like state requirements to establish an emergency reserve or the restriction of access to the June 75% credit. It also captures cash balances amounts that have been set aside as restricted expenditures; which are not really expenditures per se.

<b>UCOA Func.</b>	<b>HB 77</b>	<b>PED</b>
1000		
2100		
2200		
2300	Admin	Admin
2400		Admin
2500	Admin	Admin
2600	Admin	
2700		
2900	Admin	
3100		
3300		
4000		
5000		

The following table provides a list of commonly used function codes in the public schools' universal chart of accounts (UCOA). The UCOA in New Mexico conforms to codes used by the U.S. Census Bureau and the U.S. Department of Education's National Center for Education Statistics to ease reporting of education finance. Further details on how the accounting string in the UCOA is used are available in Supplement 3 of the Public School Accounting and Budgeting Manual of Procedures, available on the PED website. Functions roll-up to a function level so that budgetary control is at the roll-up function level. School districts are able to transfer budgetary authority across functions within the 2000 roll-up function with a maintenance budget adjustment request (BAR), which does not require PED approval.

**UCOA**

<b>Func.</b>	<b>Name</b>	<b>Description</b>
1000	Instruction	Activities dealing directly between teachers and students provided for students (includes extracurricular activities, teacher training, textbooks and <i>pro-rated</i> teaching duties of administrators).
2100	Support Services - Students	Activities that supplement instructional processes, but are focused on students and families rather than classroom (attendance, social work, guidance counselors, ancillary service providers).
2200	Support-Services - Instruction	Activities associated with assisting instructional staff with content and process of learning experiences for students (library/media specialists, computer labs student assessment).
2300	Support Services - General Administration	Activities concerning establishing and administering policy for operating a school district or charter school (School Board, Superintendent, and Community/Governmental Relations).
2400	Support Services - School Administration	Activities concerning the administrative responsibilities for a specific school (Principal, Graduation, Full-time Departmental Heads).
2500	Central Service	Activities that support other administrative and instructional functions (Business Office, Human Resources, Public Information Officers, Print Shops, District wide IT).
2600	Operations and Maintenance	Activities concerned with keeping a physical plant open (O&M, Grounds-keeping, Vehicle O&M, School Safety and Security).
2700	Student Transportation	Activities concerned with conveying students "to and from" school (amounts outside Categorical Transportation, Operations, Servicing and Maintenance).
2900	Other Support Services	Activities that are unrelated to any other support service function (tax liabilities, penalties, budgeting cash reserves or restricted revenues).
3100	Food Service Operations	Activities concerned with providing food to students, staff or other community participants (in Operational Fund this is over and above what is operated by School Lunch Program).
3300	Community Service Operations	Activities concerned with providing community services to students, staff or other community participants (gym or pool access, adult education, child-care).
4000	Capital Outlay	Activities concerned with acquiring heavy equipment, vehicles or land, or construction (if allowable).
5000	Debt Service	Activities related to the servicing of long term debt (principal/interest) of a school district or charter school (rare in school districts).

HB 77 does not limit the analysis of percentage of function expenditures to the Operational subfund, in the same manner as PED usually performs for its dollars in the classroom analysis. This means that school districts will be limited by amounts the spend Operations and Maintenance and other Support Services in their Capital Outlay and Debt Service funds.

## **PERFORMANCE IMPLICATIONS**

PED has never developed any study of school districts statewide that demonstrates a correlation between administrative expenditures and student achievement. There are school districts and charter schools that have high administrative expenditures and high student achievement and there are school districts and charter schools that have low administrative expenditures and low student achievement. There are case studies of a few school districts where low administrative expenditures have been accompanied by high student achievement, but no pattern of a relationship has been observed. Assuming that HB 77 would retain the limitation of administrative functions to the Operational subfund as PED has done in the past, the percentage of administrative expenditures as a percent of total Operational subfund expenditures and the associated school grade for FY18 show some districts with high administrative expenditures and high performance, such as Logan, and those with low administrative expenditures and low performance, such as Mora. Given that there is no proven link between the level of administrative spending and student outcomes, and that HB 77 is unlikely to make any real change to administrative spending at the local level, it is difficult to determine how HB 77 would add value to students, and instead creates additional administrative burdens to PED and school districts and charter schools undergoing the Operating Budget review and verification process.

## **ADMINISTRATIVE IMPLICATIONS**

The burden on creating new Operating Budget requirements for implementation on PED staff is high. Since HB 77 contains an emergency clause, creating new budgetary approval processes for implementation with the FY20 school year, and developing new forms and the necessary training to reach compliance with HB77 at the same time the PED is being asked to perform countless other proposed changes to the Operating Budget and public school funding formula is unlikely to be a successful endeavor. The PED asks for a one year delay in all proposed funding formula changes, and would ask the sponsor consider a year delay to implement this significant change as well.

HB 77 indicates that a school district or charter school may be waived from the limitation on administrative expenditures in the Operating Budget if it is ranked in the top ten percent of school districts and charter schools. The PED used school district and charter school grades for this analysis. However, the PARCC test on which this analysis was based was eliminated by Executive order, and it is unclear how currently PED would administer this waiver given a replacement is still being developed and how such a waiver may be fairly administered over time.

Similarly, HB 77 establishes that a school district or charter school may be waived from the limitation on administrative expenditures in the Operating Budget if its administrative expenditures per student are lower than ninety percent of similarly sized school districts or charter schools – but does not define how to classify by size. PED would probably rank order MEM by four or five bands, but notes the extraordinary discretion it is afforded to create these bands. This in effect would allow PED to pick and choose which school districts and charter schools are eligible for this waiver.

## **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

As local school boards are structured as constitutional entities with statutory powers as defined in law, attempts to limit the actual ability or practice of school districts and charter schools to spend on administrative expenditures appear to conflict with other sections of law and may be challenged by school districts. For example, other provisions of the Public School Code indicate that (22-5-4 NMSA 1978) indicate local school boards shall have powers to develop educational policies for the school district; employ the superintendent and fix the superintendent's salary; and review and approve the annual school district budget. Under current law, the Operating Budget approval process review and verification respects these powers and duties to set levels of administrative spending. If HB 77 were to become law, it is possible that constraints on administrative spending could conflict with the state powers of a local school board.

## **TECHNICAL ISSUES**

## **OTHER SUBSTANTIVE ISSUES**

## **ALTERNATIVES**

School districts may continue to establish local spending priorities and the Legislative staff can better study the correlation between administrative spending and student performance, if any.

## **WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

## **AMENDMENTS**