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| LFC Requester: | Liu |
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**AGENCY BILL ANALYSIS
2022 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:
Original **Amendment** _____
Correction _____ **Substitute** _____

Date January 28, 2022
Bill No: SB75

Sponsor: Sen. Gonzales
Limit School Operational
Short Title: Expenditures

Agency Name and Code Number: PED - 924
Person Writing John Sena
Phone 505-570-7816 **Email:** John.sena@state.nm.us

SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

| Appropriation | | Recurring or Nonrecurring | Fund Affected |
|---------------|------|---------------------------|---------------|
| FY22 | FY23 | | |
| | | | |
| | | | |

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

| Estimated Revenue | | | Recurring or Nonrecurring | Fund Affected |
|-------------------|------|------|---------------------------|---------------|
| FY22 | FY23 | FY24 | | |
| | | | | |
| | | | | |

(Parenthesis () Indicate Expenditure Decreases)

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 | PED Operating Budget |

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

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis:

Beginning in FY24, Senate Bill 75 (SB75) would require the Public Education Department (PED) to reject the budget of any school district or charter school that budgets an increase in administrative expenditures above the lesser of (1) the percentage increase in consumer price index for all urban consumers (CPI-U), or (2) the budgeted percent increase in program cost from the prior fiscal year.

The bill defines “administrative expenditures” as any expenditure budgeted under general administrative support services (2300), central services (2500), operations and maintenance of plant (2600), and other support services (2900).

PED may waive this limitation for school districts and charter schools that are among the 10 percent lowest administrative expenditures per student in the state, are ranked in the top 10 percent for student performance, or have been newly authorized within five years from the effective date of the bill. School districts and charter schools submitting a waiver request on the provisions of SB75 must have the request approved by a two-thirds vote by the local school board or charter school governing body.

FISCAL IMPLICATIONS

To understand the bill’s impact on school districts and charter schools, PED staff estimated the number of budgets that would have been rejected due to excessive budgeted administrative expenditures in FY22. While the FY22 budgeted program cost increased by 7.4 percent from FY21 actuals, the CPI-U increased by only 1.2 percent, meaning PED would be required to reject any budget proposing greater than a 1.2 percent increase in administrative expenditures in functions 2300, 2500, 2600, and 2900. Data in PED’s Operating Budget Management System (OBMS) show that out of 187 school districts and charter schools, only 12 met the threshold for approval; on average, school districts budgeted approximately a 26 percent increase in administrative expenditures from FY21 to FY22. This number would likely be smaller after SB75 is enacted given the new attention those administrative function codes would receive under the bill.

While SB75 would create a new limitation on school district budgets, the bill may have little to no impact on actual administrative spending. In many cases, school district and charter schools’

actual spending practices do not reflect their original budget. PED has the authority to reject district and charter budgets, an authority the department exercises regularly to ensure the budget entities comply with state law. However, the department cannot restrict a school district or charter from deviating from its budget to make additional administrative expenditures. In fact, because the bill would not be enforced until FY24, districts and charters may have an incentive to inflate administrative expenditures exorbitantly in FY23 to make the FY24 threshold an easier target to meet.

PED staff estimate the new budget approval requirement will require an additional budget analyst to review budgets and waiver requests in the department's school budget bureau at a cost of approximately \$65 thousand. If SB75 is enacted, PED would request an increase in its FY24 operating budget to cover the cost of the bill's implementation.

SIGNIFICANT ISSUES

New Mexico's school districts and charter schools enjoy a significant amount of "local control" over their budgets. SB75 would create a layer of administrative red tape for districts, dampening their autonomy to craft a budget based on their local needs.

SB75's limitation on administrative expenditures may affect the salaries of school district administrators. The budget functions considered "administrative expenditures" by SB75 include salaries for superintendents, associate superintendents, IT personnel, business officials, warehouse employees, maintenance and custodial personnel, and duty personnel and crosswalk guards. If salaries for these critical administrators are held to the CPI-U while other salaries grow substantially, New Mexico's school districts and charter schools may have difficulty hiring highly qualified staff to execute core administrative duties.

Additionally, the Legislature often mandates an across-the-board salary increases above the average year-over-year increase in the CPI-U (LFC and PED recommended 7 percent in FY23). It would be impossible for school districts to meet mandated salary increases for administrative personnel while simultaneously meeting the CPI-U threshold required by SB75.

SB75 allows PED to waive the administrative expenditure limitation for school districts that are among the top 10 percent in student performance, but does not define student performance. PED would be required to establish student performance criteria for waivers, which may include proficiency rates and graduation rates.

PERFORMANCE IMPLICATIONS

By limiting administrative expenditures to the threshold set by the CPI-U, the bill makes it difficult for districts' administrative capacity to keep pace with the Legislature's historic investments in public education. In recent years, New Mexico has made unprecedented investments in public education, beginning with a "moonshot" investment in FY20 that increased public school spending by 16 percent. If districts and charters are bound to the CPI-U, they will be unable to improve their administration at a rate comparable to the rest of their educational programs, which may impact their capacity to execute those programs to the intended effect.

ADMINISTRATIVE IMPLICATIONS

SB75 would create a significant administrative burden for PED. The department would be

required to analyze CPI and program cost data, review district budget submissions, set student performance thresholds and other criteria for SB75 waivers, and review waiver requests on a case-by-case basis. The department estimates SB75 will require one additional FTE in the School Budget Bureau to perform these functions.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

N/A

TECHNICAL ISSUES

N/A

OTHER SUBSTANTIVE ISSUES

PED may waive the provisions of SB75 for any budget entities that have been newly authorized within five years from the effective date of the bill. Given that the creation of a new school district is an extremely rare occurrence, the bill appears to provide an automatic waiver provision for certain charter schools that would not be afforded to other public schools.

ALTERNATIVES

N/A

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

N/A

AMENDMENTS

N/A