

LFC Requester:	Liu
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**AGENCY BILL ANALYSIS
2023 REGULAR SESSION**

SECTION I: GENERAL INFORMATION

Check all that apply:

Original **Amendment**
Correction **Substitute**

Date Prepared: 02/16/23
Bill No: HB375

Sponsor: Garratt
Short Title: CHARTER SCHOOL
EXPENDITURE PLAN

Agency Name and Code Number: PED - 924
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SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY23	FY24		
None	None	N/A	NFA

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY23	FY24	FY25		
None	None	None	N/A	NFA

(Parenthesis () Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY23	FY24	FY25	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	None	\$110.0	\$110.0	\$330.0	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

Duplicates/Relates to Appropriation in the General Appropriation Act

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis: House Bill 375 (HB375) would amend the Charter Schools Act to specify that a charter school’s chartering authority may withhold “up to” two percent of the school-generated program cost for its administrative support of a charter school, instead of exactly two percent, and that, beginning in 2024, the chartering authority must provide an expenditure plan for the funds

withheld by July 15 each year, as well as by a final accounting of the expenditure of the funds in the prior year by August 1.

FISCAL IMPLICATIONS

None.

SIGNIFICANT ISSUES

Current law allows that a charter school's chartering authority – whether the school district for locally-chartered or the Public Education Commission (PEC) for state-chartered charter schools – may withhold two percent of the charter school's state equalization guarantee (SEG) distribution for its administrative support of a charter school. The Public Education Department (PED) Charter Schools Division administratively supports the PEC, PED collects the two percent on behalf of the PEC. The administrative support and budgeting of the funds are governed by a Memorandum of Understanding between PED and the PEC.

In practice, all chartering authorities have been withholding the two percent from their charter schools' SEG distributions for decades (the Charter Schools Act was enacted in 1999). Because statute specifies “two percent,” to be used for any authorizers' administrative costs, chartering authorities must withhold the full two percent, even if they may not need the entire amount to support their administrative oversight functions. The provisions of HB375 would allow that “up to” two percent could be withheld, allowing flexibility on the amount of the withholding.

Current law is silent on accountability for the two percent withholding, besides the purpose being “administrative support”, and chartering authorities are not required to provide accounting of the administrative costs to support their charter schools.

For school year 2022-2023, the amount withheld from charter schools statewide totaled \$6.9 million: \$4.3 million was withheld by PED for state-chartered charter schools and \$2.6 million by school districts for locally chartered charter schools. The amount withheld by PED supports operations of the PEC, the Charter Schools Division, and PED administrative costs.

HB375 would require school districts and the Charter Schools Division of PED to provide an expenditure plan and final accounting of the amount withheld annually. By July 15, 2024, and every year thereafter, HB375 would require that every chartering authority provide to their charter schools an expenditure plan for the money they intend to withhold, which would include:

- the percentage and amount of the planned withholding;
- the detail of how the chartering authority plans to spend that percentage to monitor the fiscal practices, overall governance, student performance, progress toward performance framework goals and legal compliance with state law and the charter contract and perform any other obligations of the chartering authority to the charter school pursuant to the charter contract; and
- a budget for the oversight and expenditure plan.

By August 1, 2024 and every year thereafter, school districts and the Charter Schools Division of PED would be required to provide to charter schools with a detailed review of how the withheld percentage and amount was spent in the prior year, including:

- proposed and actual expenditures; and
- how activities of the chartering authority pursuant to its plan resulted in measurable value to the charter school and improvements in the financial management, governance or

performance of the charter school.

PERFORMANCE IMPLICATIONS

None.

ADMINISTRATIVE IMPLICATIONS

PED and school districts would have to establish processes to account for their expenditure of the administrative withholding for their charter schools. The requirements of the expenditure plan and prior year report would increase the administrative responsibility for both school districts and PED to produce the information.

PED would require the addition of 1.0 FTE in the Charter Schools Division to support the reporting requirements in HB375 at an annual cost of \$110,000.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

None.

TECHNICAL ISSUES

None.

OTHER SUBSTANTIVE ISSUES

None.

ALTERNATIVES

None.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Charter school chartering authorities will continue to withhold two percent of their charter's SEG distribution without accounting for how those funds are spent.

AMENDMENTS

None.