



Date: June 26, 2019

Prepared By: Joseph Simon, Senior Fiscal Analyst

Purpose: Review school district and charter school FY20 budgets and PED oversight of school district and charter school budgets

Witness: Adan Delgado, Deputy Secretary of Finance and Operations, PED

Expected Outcome: Better understanding of school district and charter school budgeting practices and how the department can help school districts and charter schools ensure funds are directed to services for at-risk students.

FY20 School District and Charter School Operating Budgets and Implementation Plan for Compliance with Consolidated *Martinez* and *Yazzie* Lawsuit

Background

In 2018, the 1st Judicial District court issued a decision in the consolidated *Martinez* and *Yazzie* lawsuit that found the state had failed to provide sufficient funds for public education based on poor student outcomes. In response to the court’s order, the 2019 Legislature approved significant increases to appropriations for public education and adopted changes to the public school funding formula designed to provide additional services for students at-risk of academic failure, including new funding formula programs designed to extend the school year. As a result, school district and charter school operational fund spending will increase significantly in FY20, with most of the additional funding allocated to school employee salaries and benefits.

Key to the court’s order was a requirement that the state develop “a system of accountability...to assure that local districts are spending the funds provided in a way that efficiently and effectively meets the needs of at-risk students.” While the Legislature approved significant investments in new programming, including an additional \$113 million to provide additional services to at-risk students, staff conversations with stakeholders have indicated that many school districts and charter schools used additional funding primarily to increase employee pay. Additionally, the Legislature included additional funding to provide more students access to bilingual multicultural education programs; however, PED staff indicate it is unlikely many school districts or charter schools will expand bilingual programming. A review of school districts’ and charter schools’ budget submissions for FY20 indicates employee pay increases, exceeding the average 8 percent increase funded by

Legislative Changes to the FY20 Program Cost

(in thousands of dollars)

Increases At-Risk Index	\$113,177.9
Increase Bilingual and Multicultural Education Program Units	\$6,954.5
Set School Age Limit at 22	-\$6,129.0
Phase-Out School Size Adjustment for Schools within Large Districts	-\$9,041.6
Phase-In Rural Population Units	\$5,204.5
Extended Learning Time Program Units	\$62,497.4
K-5 Plus Program Units	\$119,895.9
Other Projected Net Unit Changes	-\$11,173.3
Instructional Materials	\$30,000.0
Fixed Costs	\$4,000.0
Increased School Employee Compensation (pay and benefits)	\$175,539.4
Net Change	\$490,925.8

Source: LESC files

the Legislature, with per FTE budgeted expenditures for all employees increasing by an average of \$4,400, or 10 percent from school district and charter school FY19 budgets. While some schools are investing in additional staff, possibly to add new programs and services for students at-risk of academic failure, large increases to existing staff salaries may have limited the amount available for school districts and charter schools to invest in new programming.

The data used to prepare this brief was downloaded from the Public Education Department's (PED's) Operating Budget Management System (OBMS). Unless otherwise indicated, revenue and expenses are for school districts' and charter schools' operational fund, which is used for most school district and charter school operating expenses and is primarily funded with state general fund revenue allocated to school districts and charter schools through the state equalization guarantee distribution (SEG). For FY20, initial school district and charter school budget submissions were used. Because the budget process is ongoing, some school districts and charter schools may have already made modifications to their FY20 budget submissions. Before July 1, 2019, PED will approve an operating budget for each school district and charter school based on the budgets submitted by each school district and charter school. As a result, the final budgets approved by the department may vary from the amounts reflected in this brief.

School District and Charter School Budgets

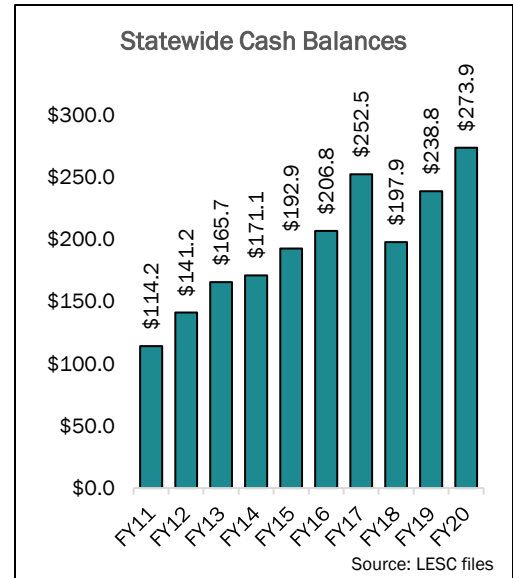
School District and Charter School Budgeted Revenue

For FY20, the Legislature increased the appropriation to the SEG distribution by \$486 million, but school district and charter schools only project an increase of \$346 million, or 13.6 percent, in revenue from the SEG — \$140 million less than the increase to the SEG appropriation approved by the Legislature. Much of this difference is due to excess capacity in new funding formula programs. According to information published by PED, the department awarded \$44.3 million of the \$62.5 million appropriated to extended learning time programs to school districts and charter schools and \$39.5 million of the \$120 million appropriated for K-5 Plus programs. While demand for these programs has been limited in the first year, in many cases due to the limited time between the signing of Senate Bill 1 and House Bill 5 and the submission of each school district's and charter school's budget, PED staff have indicated they will continue outreach efforts, with a goal of utilizing the entire appropriation in FY21.

New Mexico Connections Academy will see the largest reduction in SEG revenue in FY20 due to a 50 percent enrollment decline between FY18 and FY19. The school district with the largest gain, Deming Public Schools, took advantage of both K-5 Plus and extended learning time programs, which helped to boost its SEG distribution by 27 percent.

While statewide the overall increase in SEG revenue was 13.6 percent, there was a wide variance in increases by school district and charter school. Most school districts and charter schools will receive an increase of at least 10.8 percent, but about a quarter of school districts and charter schools received more than 16 percent and about a quarter of school districts received less than 7 percent. Sixteen charter schools and one school district will see a smaller SEG distribution in FY20 than in FY19, mostly due to decreased enrollment.

Cash Balances. School districts' and charter schools' projected FY19 year-end cash balances have returned to levels seen before the FY17 mid-year cash balance credit. For FY20, school districts and charter schools budgeted \$274 million in unrestricted operational fund cash balances, an increase of \$35 million, or 14.7 percent from the amount budgeted at the beginning of in FY19. School districts and charter schools now hold 10.4 percent of FY19 program cost in reserves, more than before the FY17 cash balance credit. However, this amount likely underestimates the total amount of cash held by school districts and charter schools. Budgets for FY20 are based on each school district's or charter school's estimate of the amount of cash they will hold at the end of FY19. For FY19, school districts and charter schools projected \$239 million in FY18 year-end cash reserves but adjusted budgets indicate the actual amount of cash held at the end of FY18 was \$305 million, or 27.6 percent more than estimated.



School District and Charter School Budgeted Expenses

For FY20, school districts and charter schools submitted budgets with a total of \$3.323 billion in operational fund spending, an increase of \$304 million, or 10 percent from budgeted FY19 expenses. However, schools generally do not spend their entire budgets due to the need to carry cash balances forward to fund programs operating on a reimbursement basis. For FY20, budgeted expenses are up by \$576 million from what school districts and charter schools estimate they will spend in FY19, including additional expenditures due to the mid-year unit value increase. Statewide, most of the additional spending went to employee salaries and benefits. Together, school districts and charter schools budgeted \$295 million more for salaries and benefits, an increase of 12.5 percent from FY19 adjusted budgets.

School districts and charter schools budgeted an additional \$27 million for substitute expenses to provide employees sick leave, professional development leave, or other leave. This amount is roughly what school districts and charter schools estimate they will spend in FY19, indicating substitute teachers may not receive a pay increases.

More than 80 percent of the additional spending for FY20 was allocated to the classroom, with spending for instruction, instructional support services, and student support services increasing by \$251 million, or 11.6 percent. Spending on administration and operations grew by only 6.3 percent. See **Attachment A: School District and Charter School Operational Fund Budget**.

Employee Pay. For FY20, some school district and charter school officials have reported that most of the additional revenue for FY20 will be used to pay for increases to existing employee pay and benefits, rather than for new programs directed at improving outcomes for at-risk students. School districts and charter schools submitted budgets with a total of \$1.911 billion in employee pay, including salaries, overtime expenses, and additional compensation, which is \$214 million more than FY19 adjusted budgeted expenses and \$256 million more than estimates of FY19 expenses. For teachers, per FTE budgeted pay is projected to rise from \$50,100 to \$56,002, an increase of \$5,902 or 11.8 percent. Pay for instructional assistants is projected to increase from \$17,486 per FTE to \$18,255 per FTE, an 8.7 percent increase. Ancillary service provider budgets rose by \$4,500, or 8.2 percent per

Because of cash balances, school districts and charter schools typically budget at higher levels than actual expenses. For example, per FTE teacher pay costs were budgeted at \$50,080 in FY19, but school districts and charter schools estimated actual expenses at \$48,709 per FTE, a difference of \$1,371 per FTE or 2.8 percent.

FTE and other support personnel, secretarial, and clerical staff are projected to receive an 8 percent increase per FTE. Per FTE costs for principals and assistant principals are projected to rise by 8.8 percent and budgets for other administrators increased by 6.1 percent. These costs only reflect school districts' and charter schools' salary expenses and do not include the costs of benefits. According to school district and charter school business officers, including benefits, the average costs associated with a teacher can be as high as \$80 thousand per year.

Language included in the General Appropriation Act (GAA) of 2019 required school districts and charter schools to grant all employees a 6 percent salary increase and to provide a minimum salary of \$41 thousand for level 1 teachers, \$50 thousand for level 2 teachers, and \$60 thousand for level 3A teachers and counselors. The GAA included sufficient funds for the 6 percent salary increases and additional funding to increase

Senate Bill 1 and House Bill 5 also tied the minimum salary for principals and assistant principals to the amount of a level 3A teacher multiplied by a responsibility factor set in state law. This resulted in an increase in minimum principal and assistant principal salaries from between \$55 thousand and \$80 thousand to between \$66 thousand and \$96 thousand.

the salaries of any employee whose salary would still have been under the new minimums after the 6 percent increase to the new mandated minimum. However, many school districts and charter schools chose to raise some employee salaries beyond the minimums required by statute or the GAA to avoid salary compaction issues, a situation where teachers with more years of experience or more education are paid similarly to teachers at the same licensure level with fewer years of experience and less education, or where administrators are paid

similarly to those they supervise.

While the increases budgeted for FY20 include pay increases for the regular school year it also includes additional pay that is required for teachers participating in the K-5 Plus program or in extended learning time programs. In the 44 school districts that will not participate in K-5 Plus or in extended learning time programs in FY20, budgeted teacher pay costs per FTE rose by 10 percent, slightly less than in school districts and charter schools with these programs. Other school districts that participated in both K-5 Plus and extended learning time programs saw much larger increases. For example, one of the largest increases is at Deming Public Schools, which is participating in both programs. In that school district, teacher pay is projected to rise from \$14.3 million in FY19, including pay from the K-3 Plus fund, to \$21.9 million in FY20, an increase of 53 percent. On a per-FTE basis, the school district's pay increased by 37 percent.

While also increasing pay, school districts and charter schools increased the number of budgeted FTE, from 38,461 to 39,395, including 320 new FTE teachers and 375 new FTE instructional assistants. This could indicate that some school districts and charter schools are planning to use additional funding on new programming. Between FY10 and FY19, state law waived requirements of the Public School Code, including individual class load and teaching load requirements, to provide school districts financial flexibility. Some school districts may be required to add additional teachers to account for the loss of these automatic waivers. For example, Albuquerque Public Schools has estimated the end of the class size waivers will cost the district \$13.8 million.

Employee Benefits. School districts and charter schools projected an \$82 million increase to employee benefits in FY20. Additional employer contributions to the

Educational Retirement Board (ERB) accounted for a majority of these increases, with an additional \$47.9 million in employer contributions. A small portion of this increase is related to legislative changes to ERB's plan. School districts and charter schools are required to pay 14.15 percent of salaries to ERB, an increase from FY19 when school district and charter schools contributed 13.9 percent. The Legislature appropriated \$4.3 million to the SEG to cover the operational fund costs of the increase; however, with the increased payroll the total cost of the increase was \$4.8 million. Additional costs are related to salary increases and the costs of new employees.

School districts and charter schools projected \$16.6 million in additional health insurance premiums, an 8.8 percent increase from FY19. For the plan year beginning in October, the New Mexico Public Schools Insurance Authority increased premiums by an average of 5.6 percent; increases to school district and charter school FTE may account for a portion of the additional cost.

Other Expenses. For FY20, school district and charter school budgets for fixed costs remained relatively flat from FY19 budgets, with the exception of budgeted expenditures for textbooks, which rose \$7.4 million. Proposed budgets for utilities expenses declined by \$2.5 million, due mostly to a reduction in communication services.

For FY20, the Legislature appropriated \$30 million to the SEG distribution for instructional materials and school districts and charter schools submitted budgets with \$16.8 million in textbook spending, an increase of \$5.6 million, or 50 percent from FY19 estimated operational fund expenditures. A key finding in the court's decision in the consolidated *Martinez* and *Yazzie* lawsuit was that school districts statewide were unable to afford sufficient, culturally relevant instructional materials; however, it appears that school districts and charter schools have not budgeted the full amount appropriated for instructional materials

In addition to the amount included in the SEG, the Legislature appropriated \$26.5 million in nonrecurring revenue for instructional materials. Language in the GAA required PED to distribute this funding in proportion to each school district's and charter school's share of formula funding; however it is unclear if school districts and charter schools have been informed of these allocations.

Oversight of School District and Charter School Budgets

State law gives PED significant oversight authority over school district and charter school financial affairs. Each year, school districts and charter schools must submit budgets to PED for review and approval. However, in the district court's decision in the consolidated *Martinez* and *Yazzie* lawsuit, the court found the PED has "failed to exercise its power to monitor or audit school districts' use of SEG and federal funds to ensure districts use these funds as required for at-risk students." For FY20, PED has required school districts and charter schools to submit a program budget questionnaire with their operating budget, which includes a narrative of services to be provided by the school district or charter school to at-risk students, as well as a budget for these services. As a result, PED may be able to identify school districts and charter schools that are increasing programs for at-risk students, consistent with legislative intent and the court's order. PED will not approve school district and charter school operating budgets until June 30, so it remains unclear if this information has led the department to require any changes as a condition of budget approval.

Each year, PED schedules a number of technical budget reviews for school districts and charter schools. In the past, these reviews have involved a formal question-and-answer session between PED staff and representatives of the school district or charter school administration and governing boards. In previous years, PED has formally reviewed 15 to 20 school districts and charter schools, while also conducting less formal reviews and analysis of every other school district and charter school budget. With significant changes to the public school funding formula and limited time and resources to implement these changes, the department only scheduled five formal technical reviews for FY20 school district and charter school budgets, based on those identified as budgeting a smaller than average proportion of their operational fund budget in the classroom.

Language in the GAA of 2019 required PED to withhold approval of a school district's or charter school's budget if the average expenditure rate on instruction, instructional support services, and student support services is lower than comparable school districts and charter schools unless that school district could justify their budgeted spending levels.

Additional budget reporting and review requirements included in SBI and HB5 will become effective during the FY21 budget cycle. In addition, both legislative changes and executive orders will require PED to revamp the system of accountability the court said would be required to ensure at-risk students equal access to a sound basic education. As such, FY20 represents a transition year, but the department will likely need to increase formal reviews for FY21 and subsequent years, providing an additional opportunity to ensure school district and charter school budgets are meeting the requirements of state law and the demands of the court. As the state transitions away from the PARCC assessment, the department will need to consider how to evaluate student outcomes with an assessment which may not be comparable to the PARCC assessment, which the court used in part to determine outcomes were insufficient for at-risk students.

School District and Charter School Operational Fund Budgets

Spending Category	Expense	FY19 Budget (Adjusted)	Estimate of FY19 Expenditures	FY20 Submitted Budget	Change FY19 Budget to FY20 Budget
Instruction	Employee Pay and Benefits	\$1,615,954,423	\$1,552,585,815	\$1,832,005,144	\$216,050,721
	Other Expenses	\$164,675,579	\$107,624,802	\$171,993,122	\$7,317,543
Instructional Support Services	Employee Pay and Benefits	\$60,591,619	\$58,045,907	\$66,316,223	\$5,724,604
	Other Expenses	\$19,520,936	\$13,929,751	\$20,439,160	\$918,224
Student Support Services	Employee Pay and Benefits	\$216,961,958	\$199,793,464	\$239,970,737	\$23,008,779
	Contracted Ancillary Providers	\$63,019,428	\$60,784,811	\$60,929,077	-\$2,090,351
	Other Expenses	\$19,693,535	\$10,988,757	\$20,244,069	\$550,534
Support Services-School Administration	Employee Pay and Benefits	\$167,270,991	\$165,877,714	\$187,602,162	\$20,331,171
	Other Expenses	\$15,697,616	\$7,737,011	\$11,771,131	-\$3,926,485
Support Services-General Administration	Employee Pay and Benefits	\$52,385,549	\$49,683,974	\$55,488,356	\$3,102,807
	Other Expenses	\$28,007,047	\$23,562,467	\$30,275,918	\$2,268,871
Central Services	Employee Pay and Benefits	\$83,504,355	\$80,702,231	\$91,394,622	\$7,890,267
	Other Expenses	\$33,337,369	\$26,962,613	\$36,704,958	\$3,367,589
Operation & Maintenance of Plant	Employee Pay and Benefits	\$154,958,752	\$149,613,874	\$174,013,776	\$19,055,024
	Utilities	\$118,906,869	\$112,957,343	\$116,430,311	-\$2,476,558
	Property/Liability Insurance	\$63,981,565	\$59,867,670	\$63,685,054	-\$296,511
	Other Expenses	\$60,307,700	\$48,585,385	\$60,270,408	-\$37,292
Other Support Services		\$43,821,569	\$1,488,410	\$53,651,236	\$9,829,667
Community Services Operations		\$2,062,920	\$1,028,842	\$2,055,579	-\$7,341
Student Transportation		\$10,850,651	\$7,534,570	\$11,702,965	\$852,314
Capital Outlay		\$19,154,249	\$4,631,353	\$12,330,677	-\$6,823,572
Food Services Operations		\$3,598,727	\$2,513,940	\$3,104,458	-\$494,269
Grand Total		\$3,018,674,268	\$2,746,820,830	\$3,322,711,214	\$304,036,946

Spending Category	Percent of Total Budget FY19	Percent of Total Budget FY20	Percent of Additional FY20 Funding
Instruction	59.0%	60.4%	73.5%
Instructional Support Services	2.7%	2.6%	2.2%
Student Support Services	9.9%	9.9%	7.1%
Support Services-School Administration	6.1%	6.3%	5.4%
Support Services-General Administration	2.7%	2.7%	1.8%
Central Services	3.9%	3.9%	3.7%
Operation & Maintenance of Plant	13.2%	13.5%	5.3%
Other Support Services	1.5%	0.1%	3.2%
Community Services Operations	0.1%	0.0%	0.0%
Student Transportation	0.4%	0.3%	0.3%
Capital Outlay	0.6%	0.2%	-2.2%
Food Services Operations	0.1%	0.1%	-0.2%

Source: OBMS and LESC Files