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LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS
54th Legislature, 1st Session, 2019

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|------------------------|---|----------------------------|------------------|
| Bill Number | <u>SB253</u> | Sponsor | <u>Soules</u> |
| Tracking Number | <u>.211512.2</u> | Committee Referrals | <u>SEC/SFC</u> |
| Short Title | <u>School Program Unit Calculations</u> | | |
| Analyst | <u>Simon</u> | Original Date | <u>1/25/2019</u> |
| | | Last Updated | <u></u> |

BILL SUMMARY

Synopsis of Bill

Senate Bill 253 (SB253) would amend the Public School Finance Act to provide that a school district or charter school with a year-over-year decrease in enrollment of 25 percent or more would have their state equalization guarantee (SEG) distribution calculated using current year enrollment, rather than prior year enrollment.

FISCAL IMPACT

SB253 would require the Public Education Department (PED) to calculate the SEG distribution for a school district or charter school with an enrollment drop of more than 25 percent based enrollment on the first reporting date of the current year rather than on the average enrollment on the second and third reporting dates of the prior year. SB253 could result in some school districts and charter schools receiving less funding; however, PED does not set the unit value used to determine the final SEG distribution until after the department certifies current year enrollment, allowing any “savings” from the change to be redistributed through the funding formula to school districts and charter schools across the state.

No school district has experienced an enrollment decline of 25 percent or more in the past five years but a small number of charter schools see significant enrollment declines each year. Reasons for the enrollment declines likely vary by school, but PED has recommended closing a number of the schools with significant enrollment declines for poor student performance or an inability to manage finances.

Funding for students no longer enrolled in these schools can amount to millions of dollars. Had the provisions of SB253 been in place in prior years, LESC staff estimate that \$2.6 million would have been redistributed through the funding formula in FY15, \$302 thousand would have been redistributed in FY16, \$336 thousand would have been redistributed in FY17 and \$339 thousand would have been redistributed in FY18. The estimated impact for FY19 is unclear, but would likely be significant due to the higher than average number of charter schools with significant enrollment declines. In FY19, New Mexico Connections Academy, the state’s largest charter

school, lost 684 students, or 39.8 percent of its prior year enrollment and ACE Leadership High School lost 115 students, or 31.8 percent of its prior year enrollment.

SB253 would exempt any school district or state-chartered charter school receiving an emergency supplemental distribution. PED makes emergency supplemental distributions primarily to school districts, based on financial need, and a school district receiving emergency supplemental funding is subject to increased budget scrutiny as a result. State law does not allow for a school district or state-chartered charter school with more than 5 percent of their operational budget in cash or invested reserves to receive an emergency supplemental distribution.

SUBSTANTIVE ISSUES

Typically, school district and charter school funding is based on average enrollment on two reporting days in the prior fiscal year – the first working day in December and the second Wednesday in February. As a result, a school district or charter school with declining enrollment received funding to serve more students than are actually attending the school.

For school districts and charter schools with an enrollment increase of at least 1 percent, the funding formula allocates additional funding to compensate for the additional students. In addition, any school districts or charter schools with fewer than 200 students are funded based on either prior year enrollment or current year enrollment, whichever is greater.

Although the public school funding formula contains provisions that allow school districts and charter schools with growing enrollment to receive additional funding to cover the costs of those students, the funding formula does not contain provisions to adjust for significant enrollment decreases. While under current law, a school district or charter school receives additional funding if they see a significant increase in enrollment or a significant decrease in enrollment, under SB253 the school district or charter school would only see additional funding if enrollment is increasing.

School Districts and Charter Schools with Enrollment Decreases of 25 Percent or More

| FY14 to FY15 | |
|--|--------|
| Bataan Charter School ¹ | -26.0% |
| Cariños De Los Niños Charter School ¹ | -42.5% |
| Gordon Bernell Charter | -30.3% |
| International School at Mesa Del Sol | -27.1% |
| FY15 to FY16 | |
| La Jicarita Community School ¹ | -45.0% |
| Sage Montessori Charter School ¹ | -28.0% |
| FY16 to FY17 | |
| GREAT Academy | -27.1% |
| FY17 to FY18 | |
| Academy of Trades and Technology ¹ | -28.8% |
| FY18 to FY19 | |
| ACE Leadership High School | -31.8% |
| Dream Diné Charter School | -33.3% |
| La Academia Dolores Huerta ² | -25.7% |
| Lindrith Area Heritage | -25.0% |
| New America School - Las Cruces | -30.4% |
| New Mexico Connections Academy ³ | -39.8% |
| Rio Gallinas School of Ecology and the Arts | -29.5% |
| Taos International School ³ | -35.3% |

¹This school has since closed.

Source: LESC Files

²The Public Education Commission did not renew this charter for the 2019-2020 school year.

³The Public Education Commission did not renew this school's charter for the 2018-2019 school year; however, the district court has allowed the charter school to remain open.

ADMINISTRATIVE IMPLICATIONS

SB253 would require PED to complete additional calculations when determining each school district's and charter school's SEG distribution. Because the public school funding formula already uses current year enrollment to determine a school district's or charter school's eligibility for enrollment growth funding, PED already collects and reviews this data for funding purposes.

School districts and charter schools with significant enrollment declines would be required to reduce their budgets mid-year if fewer students than expected are enrolled on the first reporting date. State law defines the first reporting date as the second Wednesday in October, or three and one half months into the fiscal year. School districts and charter schools that see a significant decrease in enrollment at the start of the school year would need to begin planning for a mid-year budget cut. Typically, school districts and charter schools receive additional funding when PED sets the final unit value in January, which could help to offset some of the reduction in SEG funding that would result if the bill is enacted.

OTHER SIGNIFICANT ISSUES

A number of the charter schools that have seen significant enrollment declines in prior years have had performance or operational issues that have led to their closure or recommended closure. Of the eight charter schools that saw significant year-over-year enrollment declines between FY14 and FY18, five have since closed. In 2017, the Public Education Commission (PEC) voted 7-3 to deny the renewal application of Taos International School and voted 6-3 to deny the renewal application of New Mexico Connections Academy. In both cases, the PEC cited student performance issues, and in the case of Taos International School, the PEC said the school's governing board was failing to meet its obligations to oversee the school's financial affairs. Both charter schools appealed the PEC's denial, which was upheld by the public education secretary. After the charter schools filed a lawsuit to overturn the decisions of the PEC and the secretary, the district court allowed both schools to remain open, but enrollment in each school declined substantially.

One school that experienced a significant enrollment decline in FY19 was not renewed by its authorizer for the FY20 school year. Recently, the PEC voted not to renew the charter of La Academia Dolores Huerta, citing student performance results. The charter school has indicated it will appeal the decision

SOURCES OF INFORMATION

- LESC Files

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