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FISCAL IMPACT REPORT

ORIGINAL DATE 2/17/2020

SPONSOR SEC LAST UPDATED _____ HB _____

SHORT TITLE Online School Budget Reporting SB 96/SECS

ANALYST Liu

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY20	FY21		
	\$3,000.0	Recurring	Public Education Reform Fund

(Parenthesis () Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY20	FY21	FY22	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		See Fiscal Implications				

(Parenthesis () Indicate Expenditure Decreases)

Relates to HB127, SB10

Relates to Appropriation in the HAFC Substitute for HB2 and 3

SOURCES OF INFORMATION

LFC Files

Legislative Education Study Committee (LESC) Files

Responses Received From

Department of Information Technology (DoIT)

No Response Received

Public Education Department (PED)

SUMMARY

Synopsis of Bill

The Senate Education Committee Substitute for Senate Bill 96 appropriates \$3 million from the public education reform fund to PED for the purpose of implementing and maintaining a statewide online school financial reporting system by December 1, 2021. The bill requires PED

to consult with stakeholders on designing a reporting system with a chart of accounts that will enable comparisons between schools, local education agencies, and regional education cooperatives. The system must show how schools budget funds for at-risk student supports, bilingual multicultural education services, special education student supports, administrative costs, salaries and benefits by job classification, major expenditure categories, and revenue sources.

FISCAL IMPLICATIONS

The appropriation of \$3 million contained in this bill is from the public education reform fund (PERF), but will create future recurring expenses. The bill notes any unexpended or unencumbered balance remaining at the end of FY22 shall revert to PERF.

Currently, PERF has no balance; however, over \$110 million from the state equalization guarantee (SEG) distribution is projected to revert to the fund at the end of FY20. For FY20, the Legislature appropriated \$119.9 million for K-5 Plus programs and \$62.4 million for extended learning time programs (ELTP). According to preliminary PED data, schools applied for \$29 million in K-5 Plus funding and \$42.3 million of ELTP funding in FY20, resulting in a projected reversion of \$111 million to PERF. On January 31, 2020, PED increased the final unit value by 0.81 percent, which decreased the estimated reversion to PERF by about \$575 thousand.

The HAFC substitute for House Bills 2 and 3 appropriates \$67 million from PERF for various purposes in FY21, including \$2.9 million to PED for a real-time data management system, grants management system, and educator preparation program data exchange system. These systems would improve internal data collection, validation, and reporting on existing PED information systems, like the Operating Budget Management System (OBMS) or Student Teacher Accountability Reporting System (STARS). Provisions of this bill mainly focus on external online reporting mechanisms rather than internal data processes; however, the scope of work in the aforementioned systems also includes some external reporting components.

Currently, the OBMS and STARS databases at PED house information that could be used for the reporting system in this bill, such as personnel salary data, major budget category funding levels, and job categories. However, most of this data is aggregated at a school district or charter school level. Additionally, PED must request work orders to change system functions, as the department contracts with an external service provider for the databases. Costs for substantial changes could be significant. Additionally, costs to train end users (i.e. school administrators and business officials) on new system functions and requirements must be considered. The bill authorizes the use of the \$3 million appropriation for training and technical assistance.

Costs for collecting and reporting public education data can vary substantially, depending on system functions and existing processes. A 2016 Thornburg Foundation report prepared by Martin Consulting Group, LLC, titled *Efficiency Evaluation: A Review of Public Education Reporting*, studied the impact of student reporting systems in New Mexico and compared costs with three other states (Texas, Nevada, and Delaware). The report estimated that school districts and charter schools in New Mexico spent \$211.93 per student annually to collect and report student-level data, while Nevada school systems spent \$69.45 per student to report the same type of data. The report estimated that a small school system in New Mexico serving 400 students would have to invest roughly \$60 thousand in initial costs and \$4 per student in annual maintenance fees. Other estimates suggest initial costs could be \$10 thousand per school in the

first year with annual subscription costs ranging between \$5,000 and \$7,000 per school.

SIGNIFICANT ISSUES

The federal Every Student Succeeds Act (ESSA) requires states to begin publicly reporting annual per-student spending by school site level, beginning in the 2017-2018 school year. Given the complexity of complying with the new financial transparency requirement, in 2017, the U.S. Department of Education extended the timeline for implementation to the 2018-2019 school year. ESSA requires states to report “the per-pupil expenditures of Federal, State and local funds, including actual personnel expenditures, and actual non-personnel expenditures of Federal, State and local funds, disaggregated by source of funds, for each local education agency and each school in the State for the preceding fiscal year.” Although PED provided schools guidance on complying with the new federal reporting requirement in FY20, the department has not released the data publicly.

On February 14, 2019, the 1st Judicial District Court issued a final judgment and order on the consolidated *Martinez v. New Mexico* and *Yazzie v. New Mexico* education sufficiency lawsuits, and found that New Mexico’s public education system failed to provide a constitutionally sufficient education for at-risk, ELL, Native American, and special education students. The court’s findings suggested overall public school funding levels, financing methods, and PED oversight were deficient. As such, the court enjoined the state to provide sufficient resources, including instructional materials, properly trained staff, and curricular offerings, necessary for providing the opportunity for a sufficient education for all at-risk students. Additionally, the court noted the state would need a system of accountability to measure whether the programs and services actually provided the opportunity for a sound basic education and to assure that local districts spent funds provided in a way that efficiently and effectively met the needs of at-risk students.

In FY20, PED distributed a budget questionnaire asking school districts and charter schools about their use of at-risk funds. According to LESC, the categories presented in the accounting portion of the questionnaire included examples – such as student information systems or security personnel – that were not well aligned with the newly enacted statutory requirements, alongside interventions that were clearly aligned with statute – such as tutoring, after school programs, and support services, including guidance or health services. School districts’ and charter schools’ responses varied, with some school districts and charter schools providing little information, while others included detailed accounting, including services provided with federal or other sources of funding. In general, most school districts reported spending less than their proportional funding formula allocation for at-risk students on the aforementioned interventions.

On October 30, 2019, the *Yazzie* plaintiffs filed a motion claiming the state failed to comply with the injunction and requested a statewide plan to reach compliance. The *Martinez* plaintiffs filed a motion requesting the court to grant post-judgment discovery to assess whether the state had complied with the injunction.

PERFORMANCE IMPLICATIONS

According to the Standish Group, an independent international information technology research firm, between 2010 and 2014 only 13 percent of large (greater than \$6 million) government software projects were successfully completed on time, on budget, and within satisfactory target performance. In contrast, about 57 percent of smaller government projects (less than \$1 million)

were successfully completed and implemented, suggesting risks of project failure may decrease with smaller project sizes and scope.

According to 18F, a digital services agency in the U.S. General Services Administration, a technology project's odds of success improve when government leaders overseeing the project understand the following development concepts:

- *User-centered design*: development is centered on the software's end users;
- *Agile development*: short-cycle project design and production is used rather than large-scale, long-term design and production (i.e. waterfall development);
- *DevOps*: software testing and development processes are automatically merged with system operations to ensure continuous functionality and quality assurance;
- *Building with loosely coupled parts*: project components are developed in smaller, independent parts to reduce overall system failure;
- *Modular contracting*: contracting for project components is small enough to easily replace non-performing vendors with new vendors; and
- *Product ownership*: development includes continuous feedback and buy-in from key stakeholders.

ADMINISTRATIVE IMPLICATIONS

Provisions of this bill would require PED to develop new accounting codes for programs or services, such as budget lines for at-risk services and bilingual programs. Additionally, the bill requires PED to engage with school districts, charter school leaders, business managers, LFC staff, and LESC staff by before December 31, 2021, to establish the reporting system.

Currently, New Mexico schools use eight or nine different student information and financial accounting systems to report information to PED. As such, PED must provide customized technical assistance to address the needs of small schools and large districts.

The 2016 Thornburg Foundation report identified approximately 140 reports that school districts and charter schools must submit to PED annually. About 20 percent of the reports are federally required. Additionally, the 140 reports highlighted by the study do not account for additional financial data reporting requirements for OBMS or individual teacher data for the evaluation system. The report estimates New Mexico school personnel spend about 15 thousand hours per year on reporting functions. Streamlining the system may reduce reporting burdens at the state and local level.

RELATIONSHIP

This bill relates to the HAFC substitute for House Bills 2 and 3, which includes \$1 million to PED for a real-time data management system, \$1.6 million for a grants management system, and \$524 thousand for an educator preparation program data exchange system. The bill also relates to House Bill 127, which requests a taskforce to conduct asset mapping and a gap analysis on social services in public schools, and Senate Bill 10, which requires free and reduced-fee lunch applications to coincide with student registration.

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