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LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS
56th Legislature, 1st Session, 2023

Bill Number	<u>SB466</u>	Sponsor	<u>Maestas</u>
Tracking Number	<u>.225149.1</u>	Committee Referrals	<u>SEC/SFC</u>
Short Title	<u>Charter School & Chartering Authority Audits</u>		
Analyst	<u>Bedeaux</u>	Original Date	<u>2/21/23</u>
		Last Updated	<u></u>

BILL SUMMARY

Synopsis of Bill

Senate Bill 466 (SB466) would require all charter school governing bodies, including those of both state- and locally chartered charter schools, to become “boards of finance.” The bill would require each charter school to be audited independent of the Public Education Department (PED) or their school district authorizer.

FISCAL IMPACT

SB466 does not contain an appropriation.

As is currently the case for school districts and state agencies, SB466 would require state- and locally chartered charter schools to cover the cost of their own audit. LESC staff estimate the annual cost of audits would be approximately \$10 thousand to \$20 thousand per charter school. Analysis by the Legislative Finance Committee (LFC) points out that many charter schools already pay these costs individually; in FY22, 96 charter schools paid \$1.5 million for auditing services.

[Section 22-8-37 NMSA 1978](#) allows PED to distribute funds directly to boards of finance. Requiring local charter school governing bodies to become boards of finance would allow them to receive funding directly from PED, rather than through their local school district authorizers. Eliminating a level of bureaucracy could improve the efficiency of school funding streams, allowing local charter schools to receive and spend state and federal grants in a timelier fashion.

SUBSTANTIVE ISSUES

Under current law, state-chartered charter school governing bodies are considered component units of PED, while locally chartered charter schools are considered component units of their authorizing school district. As component units, charter schools are audited alongside their authorizers. A [2010 program evaluation by LFC](#) pointed out that charter schools that receive audit findings negatively impact the audits of their authorizers. Analysis of SB466 from LFC notes PED’s FY19 audit included 152 findings from 51 state-chartered charter schools.

[Section 22-8-38 NMSA 1978](#) gives the Public Education Department (PED) the authority to designate local school boards and the governing bodies of state-chartered charter schools as boards of finance; SB466 would expand this authority and require locally chartered charter schools to become boards of finance. To become a board of finance, individual members of school boards and charter school governing bodies must meet certain criteria, namely:

- Complete trainings on fiscal records management;
- Consult with PED on any matters not covered by the manual of accounting and budgeting;
- Be adequately bonded to protect public funds from loss; and
- Remain in good status without suspension by PED.

By improving the training and oversight required for charter school governing body members, SB466 may reduce the probability that public funds intended for education are misused. The 2010 LFC program evaluation recommended increased scrutiny of charter school fiscal practices in response to a few high-profile cases of misuse of public funds. By independently focusing on charter school operations, SB466 may create more accountability for public funds and give charter school authorizers better information to make governance decisions about individual schools.

ADMINISTRATIVE IMPLICATIONS

PED staff explained SB466 would create new administrative responsibilities, both for the department and for district authorizers, to ensure charter schools meet the requirements of a board of finance and to ensure charter schools are completing their annual audits.

Charter school governing bodies would be required to seek an independent auditor and contract for auditing services on an annual basis. PED staff explained there may be too few independent auditors in the state capable to meet the increased demand, which may slow down the auditing process and increase the cost of audits.

Charter schools governing bodies that do not meet the requirements for a board of finance may have their charter denied, non-renewed, or revoked beginning July 1, 2024.

RELATED BILLS

Related to HB143, School Board Governance Requirements, which increases state oversight of charter school lease assistance payments.

Related to HB325, School Board Governance Changes, which requires school board and charter school governing body members to receive training in school financial management.

Related to HB375, Charter School Expenditure Plan, which would require chartering authorities to provide an expenditure plan for funds retained from the “2 percent” administrative withholding.

SOURCES OF INFORMATION

- LESC Files
- Legislative Finance Committee (LFC)
- Public Education Department (PED)
- Office of the State Auditor (OSA)