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FISCAL IMPACT REPORT

SPONSOR Muñoz/Jaramillo/Correa Hemphill/Hickey LAST UPDATED _____
ORIGINAL DATE 2/28/23
BILL
SHORT TITLE Limit School District Admin Expenditures NUMBER Senate Bill 438
ANALYST Liu

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT* (dollars in thousands)

	FY23	FY24	FY25	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
		\$70.5	\$70.5	\$141.0	Recurring	General Fund

Parentheses () indicate expenditure decreases.

*Amounts reflect most recent analysis of this legislation.

Relates to House Bill 413, Senate Bill 325

Relates to appropriation in the General Appropriation Act

Sources of Information

LFC Files

Legislative Education Study Committee (LESC) Files

Responses Received From

Public Education Department (PED)

SUMMARY

Synopsis of Senate Bill 438

Senate Bill 438 prohibits PED from approving the operating budget or budget adjustment requests from school districts or charter schools that do not limit the growth of administrative expenditures. The bill sets the limit as the increase in the consumer price index (CPI) or program cost, whichever is lower. PED may waive this limitation for extraordinary circumstances if the school district or charter school holds a public hearing requesting the waiver.

The bill further requires PED and LESC to convene a working group to study all state and federal reporting requirements to alleviate school administrative reporting burdens. The effective date of this bill is July 1, 2023.

FISCAL IMPLICATIONS

The bill does not contain an appropriation but will require additional oversight of school budgets at PED. A PED analysis of a similar bill last year indicated the department would need 1 FTE to

oversee school administrative budget limitations. The average cost of 1 FTE at PED would be \$70.5 thousand annually.

For FY23, the budgeted program cost increased by 11.8 percent from the prior year, and CPI for all items increased by 6.4 percent for the last 12 months. In FY23, school districts and charter schools increased operational administrative budgets by an average of 7 percent, and 79 school districts and charter schools grew administrative budgets above 6.4 percent.

The administrative budget limitation may have little to no impact on actual administrative spending, as many school districts and charter schools do not make expenditures that reflect the original budget.

SIGNIFICANT ISSUES

PED notes the bill defines administrative expenditures as function codes 2300, 2500, and 2900 – or support services – general administration, central services, and other support services, respectively. In FY23, school districts and charter schools collectively budgeted \$339.5 million in these functions for operations, a \$22.1 million, or 7 percent increase from the prior year.

Beginning in FY24, the bill would require PED to reject the budget of any school district or charter school that budgets an increase in administrative expenditures above the lesser of

1. the percentage increase in CPI for the prior year, or
2. a percentage of the current year's budgeted administrative expenditures less than or equal to the percentage increase in program cost for the budgeted fiscal year compared with the current fiscal year.

PED may waive a year's limitation on growth of administrative expenditures for a school district or charter school in 'extraordinary circumstances' defined by rule of the department.

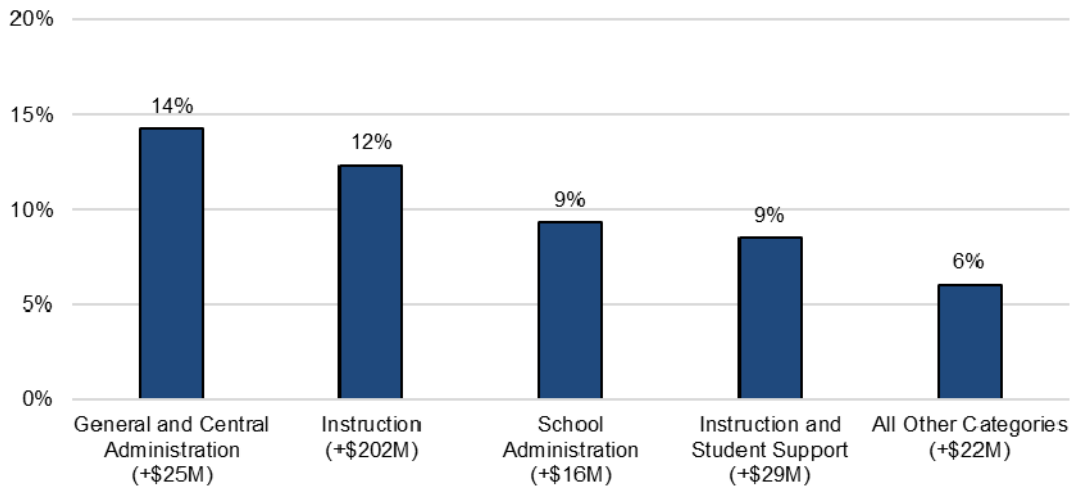
On February 14, 2019, the 1st Judicial District Court issued a final judgment and order on the consolidated *Martinez v. New Mexico* and *Yazzie v. New Mexico* education sufficiency lawsuits, and found that New Mexico's public education system failed to provide a constitutionally sufficient education for at-risk students, particularly low-income, English language learners, Native American students, 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.

During trial, the court rejected the claim that PED was not responsible for the school districts' failure to provide programs that would ameliorate the education gap due to a lack of control over school district spending. The court noted PED had read its statutory authority too narrowly and had forsaken its oversight role. The statutory obligation to supervise all schools and school officials, including taking over the control and management of a public school, was broad enough for PED to review and assure that school districts were using funds to provide programs to assist at-risk students. The court also noted PED did not sufficiently monitor nor audit the use of formula funds and federal funds to determine whether school districts were using funds as required for at-risk students.

PERFORMANCE IMPLICATIONS

Excessive growth in administrative budgets in central office and other overhead functions can divert resources away from classrooms and direct services. According to statewide school operating budget data, between FY19 and FY22, general and central administrative budgets grew at a faster rate than instructional services.

**Growth in Statewide Public School Operational Funding:
\$642 million (24 Percent) Total Increase from FY19 to FY22**



Source: LFC Files

ADMINISTRATIVE IMPLICATIONS

The bill includes a temporary provision requiring PED and LESC to convene a working group to study all state and federal reporting requirements to alleviate school district and public school administrative, teaching, and instructional support reporting burdens.

RELATIONSHIP

This bill relates to House Bill 413, which reduces class sizes and potentially shifts spending to instruction, and Senate Bill 325, which increases school board member training requirements and potentially shifts spending to central administration.

The bill also relates to the state equalization guarantee (SEG) appropriation in the General Appropriation Act, which would affect the administrative expenditure limitation in this bill.

TECHNICAL ISSUES

PED notes the bill requires calculations of the administrative expenditures for school districts and charter schools that have a student membership (MEM) greater than 2,000; however, the administrative budget limitations in the bill still apply to all school districts and charter schools. The bill does not specify if separate treatment is applied to larger school districts.

PED notes Subsection E of Section 1 of the bill makes reference to a waiver provision in Subsection B that is likely meant to apply to Subsection D. Similarly, Subsection E makes references to Subsection A that are likely meant for Subsection C.

OTHER SUBSTANTIVE ISSUES

The definition of administrative burden (as defined in PED's reports inventory) is:

- Required by law for fiscal or program review/compliance, but not maximally streamlined, reduced or automated.
- Not useful to school districts and charter schools (local education agencies, LEAs) or helpful to students.

PED does not consider tasks to be an administrative burden if a school district or charter school would perform the task in the normal course of operations, if it is useful to school districts or charter schools, if it is helpful to students, or if it represents sound managerial or instructional practice, such as strategic planning, budgeting and financial reporting, conducting a needs assessment, or administering academic assessments, as long as the task, if required, is maximally streamlined.

Annually, PED collects 244 data reports from schools and requires application narratives across 24 different bureaus. The department's 2022 reports inventory concluded:

- The total annual school personnel time dedicated to completing these reports is 10.5 thousand hours, or 5 FTE per school district or charter school;
- An immediate 34 percent reduction can be achieved by the overall recommendations; and
- An additional 4 percent administrative burden reduction can be achieved by legislative action to change state statutes and longer-term reductions.

As a result of the 2022 reports inventory findings, PED recommended internal process changes for department bureaus, including:

- Using the Data Necessity Rubric and standard operating procedure before requesting new data and reports;
- Conducting an annual administrative burden reduction survey; and
- Establishing a data governance council to provide strategic oversight of improvement efforts and the implementation plan.

In May 2022, the governor signed an executive order to reduce the administrative burden for teachers and school administrators by 25 percent by the start of FY23. In September 2022, PED released a final report on reducing administrative burdens, and completed an overhaul of reporting requirements, trimming 34 percent from administrative work required of school districts and charter schools across New Mexico, and cutting teacher paperwork by 41 percent.

SL/mg/ne/mg