

MINUTES
Legislative Finance Committee
State Capitol Room 322
Santa Fe, NM 87501
January 18, 2016

Monday, January 18th

The following members and designees were present on Monday, January 18, 2016: Chairman John Arthur Smith; Vice Chairman Jimmie C. Hall; Senators Carlos R. Cisneros, Sue Wilson Beffort, Stuart Ingle, Howie C. Morales, George K. Muñoz, Steven P. Neville, and Pete Campos; and Representatives Larry A. Larrañaga, Luciano “Lucky” Varela, Nick L. Salazar, Paul C. Bandy, Jason C. Harper, George Dodge Jr., and Patricia A. Lundstrom. Guest legislators: Senators William F. Burt, Daniel Ivey-Soto, and Clemente Sanchez.

Program Evaluation: Performance, Cost, and Governance of Selected Charter Schools.

Yann Lussiez, Ph.D., and Nathan Eckberg, both program evaluators, presented the report *Performance, Cost, and Governance of Selected Charter Schools*. After 15 years of rapid growth, the state’s charter schools, if treated as a single school district, would rank as the third largest district in terms of student enrollment and funding. New Mexico now has a total of 102 charter schools authorized for FY17, including two virtual charter schools. Charter schools serve approximately 7 percent of the student population and make up 11 percent of all public schools statewide; however, they received 46 percent of funding increases over the past seven years.

Charter school authorization occurs independently of the state’s budget process and does not take into consideration the financial implications for the state. Charter schools dilute the amount of state money available to all public schools through small-school program units, enrollment growth, transportation funding, and overall cost per student. While the cost per student for charter schools is higher than district schools, charter school student performance in New Mexico is mixed. There is little difference between student achievement between charter schools and traditional public schools. The charters of poorly performing charter schools are rarely revoked and high performing charters do not share best practices with district schools.

Further, state funding and accountability structures fail to address the unique nature of virtual schools. While virtual schools require less overhead expenditures than brick-and-mortar schools, funding for virtual charter school costs is not significantly lower than brick-and-mortar schools. Both virtual schools combined spent approximately \$4.5 million on contracts with their out-of-state contracting companies. Compared with traditional schools, virtual charters have not demonstrated cost-effectiveness and policymakers have insufficient evidence to promote virtual charter schools in New Mexico.

The evaluation follows a number of LFC education evaluations and LFC and LESC joint reports. Overall, the six selected charter schools in this study provided different educational programs with varied academic results and program costs per student. Authorization, oversight, and governance of charter schools continue to be essential to school effectiveness and the need to

address those areas, both at the district level and with the Public Education Department and the Public Education Commission, is ongoing.

The report included a series of recommendations to address student achievement, school finance, governance, and virtual education. Specifically, the evaluation recommended analyzing the impact of increasing charter school enrollment on the state's budget. In addition, it recommended creating an advisory group to review virtual education and create statutory requirements for funding and student achievement. Finally, it recommended phasing out or reducing the small-school multiplier in the public school funding formula for charter schools by creating categorical funding and adjusting the method for counting students for the formula to eliminate the double-funding of certain students attending charters.

PED Policy Director Matt Pahl summarized PED's response to the evaluation. Mr. Pahl said charter schools provide options to students wanting to direct their own education path. PED agrees with the report that, currently, New Mexico's charter schools performance is similar to traditional public schools performance. However, Mr. Pahl said PED is hopeful that implementation of the Charter School Division's (CSD's) strategic plan will result in better performance over traditional public schools. CSD has begun to create systems to implement targeted high quality evaluations of academic organizational and financial charter school frameworks. CSD is also working on providing site specific support such as trainings.

PED has implemented the supplemental accountability model (SAM) to grade charter schools serving high risk populations. Mr. Pahl explained that grading rules of the current school grading system are moderated for those schools and mission-specific measurements are incorporated into the determination of the school's letter grade. Mr. Pahl said this tailored accountability for charter schools was not reflected in the evaluation.

The evaluation reported that from FY08 to FY15, charter schools received 46 percent of the change in funding while educating only 7 percent of all students. Mr. Pahl said that is important to note that charter school enrollment more than doubled while school district enrollment declined by 1 percent in that same period. Mr. Pahl then addressed the report's findings on small-school adjustments. A PED analysis found that districts receive more per student in small-school adjustments than charter schools. As demonstrated by South Valley Academy, Mr. Pahl said additional charter schools that have facility capacity may be looking to expand enrollment and therefore reduce the need for small-school adjustments. In response to Representative Hall, Mr. Pahl said it is too early to tell if the increase in enrollment would impact the number of schools applying to be charter.

Regarding the report's recommendation that the Legislature make a separate transportation appropriation with a separate distribution formula for state-chartered charter schools, Mr. Pahl said the findings in the report do not point to a legislative allocation problem but rather a distribution problem.

Mr. Pahl said the CSD's strategic plan for charter schools includes strategies to decrease audit findings and address growth and has identified goals and best practices for authorizers and the governing council. Mr. Pahl said PED disagrees with the report's recommendation to create a

pool of qualified potential governing council members to assist charter schools in filling vacancies because it would result in unfair influence and politicize council member positions.

Mr. Pahl lastly talked about virtual schools. Mr. Pahl said virtual schools engage students in new ways and present new opportunities important to New Mexico, particularly in rural areas. Mr. Pahl said cost-savings for virtual schools would be better seen by not including in the analysis SEG funding because it does not include lease assistance. Charter schools pay for their facilities using lease assistance.

Tori Stephens-Shauger, executive director and principal of ACE Leadership High School, then briefly addressed the committee. Less than 80 students were enrolled in the school five years ago. Current student enrollment is 390. Ms. Stephens-Shauger said the current school's grade does not accurately reflect the work being done. Ms. Stephens-Shauger said a research-based performance assessment model more accurately demonstrates student's proficiency and growth. Leslie Lujan, finance director of the school, said that in FY15, some money that normally would have been spent in the classroom was used to purchase the school's building. Ms. Lujan said, to fairly represent instructional expenditures, the report should have included money spent on support services to students. Teacher salaries are higher at the school because teachers work 208 days, compared with 180 days a teacher works at a traditional school. Ms. Lujan said the school will be phasing out small-school adjustment in the next five years.

Next addressing the committee was Julie Radoslovich, director and principal of South Valley Academy. Ms. Radoslovich said *U.S. News & World Report* has reported the school is one of the top schools in the New Mexico. There is currently a wait list to enroll in the school. Ms. Radoslovich said the report card does reflect the essence of the school. Ms. Radoslovich requested legislators advocate for removing the time restriction on the PARCC exam, especially for English-language learners. Ms. Radoslovich said the school is interested in alternative ways to measure student performance. The school is currently working with New Mexico Center for School Leadership to propose new metrics for evaluating students. Ms. Radoslovich requested that legislators consider allowing the school to use its own at-risk factor in the funding formula to generate additional revenue.

Robert Baade, director of Robert F. Kennedy Charter School, lastly addressed the committee. Mr. Baade gave a brief background of the school. Mr. Baade said the school is working with Albuquerque Public Schools on its audit findings.

In response to Representative Lundstrom, Mr. Pahl said funding per student at a school is based on the characteristics of the students enrolled. Mr. Pahl said the funding formula is applied equally to traditional public schools and charter schools. Representative Lundstrom requested PED and LFC staff provide the committee an analysis on the differences in funding between district students and chartered charter school students.

In response to Representative Varela, Charles Sallee, deputy director of the LFC, said staff worked closely with the Legislative Education Study Committee (LESC) and PED on the report. Mr. Sallee said some of the report's recommendations were reflected actions that LESC took in December 2015.

Senator Sanchez suggested that the process of electing charter school board members be evaluated to see if changes need to be made to ensure accountability and public involvement.

In response to Chairman Smith, Mr. Pahl said the secretary of PED has the authority to override actions of the Public Education Commission (PEC). PED recently overturned three charter school revocations made by the PEC. Chairman Smith requested a list of duties the PEC performs.

Committee-Sponsored Legislation. Representative Hall informed committee members that three of the five pieces of potential committee-sponsored legislation would also be considered by the Legislative Education Study Committee (LESC) for endorsement. Charles Sallee, deputy director of the LFC, went over a bill that would make changes to the public school funding formula over a five-year period. The bill would align the training and experience index with the three-tier teacher licensure system, decrease the small-school adjustment factor for charter schools, and continue to increase the at-risk factor. In response to Representative Varela, Mr. Sallee said the bill would decrease the small-school adjustment for charter schools to 50 percent of the current subsidy levels. In response to Representative Larranaga, Mr. Sallee said New Mexico's at-risk weight is one of the lowest in the country. By increasing the at-risk weight from 0.106 to 0.15, the state would move to a level recommended by multiple reports. Representative Hall moved to adopt endorsement of the bill, seconded by Representative Varela. Mr. Sallee said Senator Roch and Senator Morales, both members of the LESC, might be sponsoring the bill.

Mr. Sallee then discussed a potential bill that would make some clarifications to the enrollment growth definitions. The bill would eliminate the double funding of students in newly phased-in grades who count in the current-year student membership in the calculation of program units and also count in the calculation of enrollment growth units. Representative Lundstrom moved to adopt endorsement of the bill, seconded by Senator Cisneros. Chairman Smith said the bill would be sponsored by Representative Hall.

Discussing the third piece of potential legislation, Mr. Sallee said the bill would create a new section of the Public School Finance Act to create a separate transportation distribution for school districts and state-chartered charter schools. The bill would require state-chartered charter schools to revert 100 percent of their unspent allocation for transportation. It would also limit transportation to the boundaries of a school district in which the school is geographically located and establish bus routes. In response to Senator Beffort, Mr. Sallee said, like school districts, charter schools cannot use transportation funds for other purposes. Senator Cisneros moved to adopt endorsement of the bill, seconded by Representative Hall.

Jonas Armstrong, analyst for the LFC, discussed the fourth potential bill, which would require universities and colleges to charge students from the states of Chihuahua and Sonora no more than 150 percent of in-state tuition rates. A letter from New Mexico State University in support of the proposal was distributed to the committee. Members expressed concern about the impact to higher education institutions and declined to endorse the proposal.

The last piece of potential legislation discussed was a memorial that would establish a task force on New Mexico-Chihuahua relations to be led by the Economic Development Department and

Border Authority. The group would include representation from appropriate legislative committees, executive agencies, higher education institutions, and other stakeholders. Senator Cisneros moved to adopt endorsement of the memorial, seconded by Representative Hall, and Senator Smith was selected to sponsor the memorial.

Miscellaneous Business

Action Items.

Approval of December and November Minutes. Senator Cisneros moved to adopt December's and November's meeting minutes, seconded by Representative Hall. The motion carried.

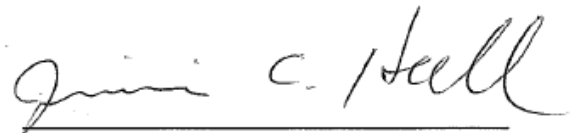
Information Items

Review of Monthly Financial Reports

David Abbey, director, LFC, briefed the committee on information items.

With no further business, the meeting adjourned at 11:33 a.m.



John Arthur Smith, Chairman

Jimmie C. Hall, Vice Chairman