FISCAL IMPACT REPORT

BILL NUMBER: Senate Bill 178

SHORT TITLE: School Finance Changes

SPONSOR: Muñoz

LAST UPDATE:

ORIGINAL DATE: 2/2/26

ANALYST: Liu

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY27	FY28	FY29	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Public Schools	$0.0 - $388,557.8	$0.0 - $388,557.8	$0.0 - $388,557.8	$0.0 - $1,165,673.4	Recurring	General Fund
School Districts	($0.0 - $388,557.8)	($0.0 - $388,557.8)	($0.0 - $388,557.8)	($0.0 - $1,165,673.4)	Recurring	General Fund
School Cash Balances	($0.0 - $264,382.7)	($0.0 - $264,382.7)	($0.0 - $264,382.7)	($0.0 - $793,148.2)	Nonrecurring	Other State Funds
PED	Indeterminate	Indeterminate	$0.0 - $4,575.0	$0.0 - $4,575.0	Nonrecurring	General Fund
Total	($0.0 - $264,382.7)	($0.0 - $264,382.7)	($0.0 - $259,807.7)	($0.0 - $788,573.2)	Nonrecurring	Other state funds

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Relates to Senate Bill 34

Sources of Information

LFC Files
Legislative Education Study Committee (LESC) Files

Agency or Agencies Providing Analysis
Regional Education Cooperatives

Because of the short timeframe between the introduction of this bill and its first hearing, LFC has yet to receive analysis from state, education, or judicial agencies. This analysis could be updated if that analysis is received.

SUMMARY

Synopsis of Senate Bill 178

Senate Bill 178 (SB178) requires local school boards in larger districts (more than 2,000 students) to allocate 90 percent of the state equalization guarantee (SEG) distribution to the public schools that respectively generated the program units in the funding formula. Any district that fails to make this allocation requirement will be subjected to unrestricted operational cash balance limits.

The bill also requires every district and charter to submit a 3-year evidence-based spending plan to improve outcomes for the *Martinez-Yazzie* at-risk student subgroups. If the Public Education Department (PED) determines a public school's at-risk students have not made adequate progress in a year, the district must provide training, curriculum, and materials deemed appropriate by PED for that school. If a public school fails to meet adequate progress in 3 years, PED will contract an expert level 3 teacher or principal to revamp programming at the school. If a public school meets or exceeds adequate progress, the school will be eligible to receive discretionary funding for at-risk student programs.

The bill applies the aforementioned provisions related to SEG allocations, cash balance limits, evidence-based spending plans, and PED oversight of schools only between FY27 and FY31 before repealing these requirements on July 1, 2031.

The bill further requires districts with more than 2,000 students to report how the SEG distribution at these schools are allocated to improve the outcomes of at-risk student subgroups as named in the *Martinez-Yazzie* education lawsuit. This provision does not have a delayed repeal.

FISCAL IMPLICATIONS

This bill does not contain an appropriation but requires larger school districts to allocate 90 percent of SEG distributions to their schools that generated the program units or be subjected to cash balance limits. These limits are:

- 18 percent of budgeted expenditures for districts with a program cost less than $7.5 million,
- 12 percent of budgeted expenditures for districts with a program cost between $7.5 million and $15 million,
- 10 percent of budgeted expenditures for districts with a program cost between $15 million and $35 million,
- 8 percent of budgeted expenditures for districts with a program cost between $35 million and $300 million, and
- 5 percent of budgeted expenditures for districts with a program cost over $300 million.

Currently, the bill's SEG allocation and cash balance provisions only apply to the 27 school districts which have more than 2,000 students enrolled (see Attachment). The only charter school with more than 2,000 students is Mission Achievement and Success; however, the bill's provisions on allocations and cash limits do not appear to apply to charter schools.

The bill requires these 27 districts to allocate at least 90 percent of SEG distributions to their public schools. In FY26, these districts budgeted an average of 78 percent of operational funds (i.e. SEG) for instruction, instructional support services, school administration, and student support services. None appear to currently budget more than 86 percent to these functions. Assuming all 27 districts comply with the 90 percent reallocation, their schools would receive an estimated $388.6 million in additional SEG funding.

If any of the 27 districts fails to allocate 90 percent of their SEG distribution to their schools, the bill establishes the limits on unrestricted cash balances. The bill does not define "budgeted expenditures," which could entail all expenditures (e.g. operational, capital outlay, restricted grant programs, debt service, etc.) and be essentially ineffectual (see Technical Issues). This fiscal impact analysis assumes budgeted expenditures only pertains to budgeted operational expenditures. The bill does not detail what happens to unrestricted cash balances that exceed the limits (see Technical Issues)—whether districts must budget them in a restricted account or revert balances back to the state general fund. However, provisions of this bill would affect up to $264.4 million in unrestricted cash balances in these 27 districts above the contemplated limitations.

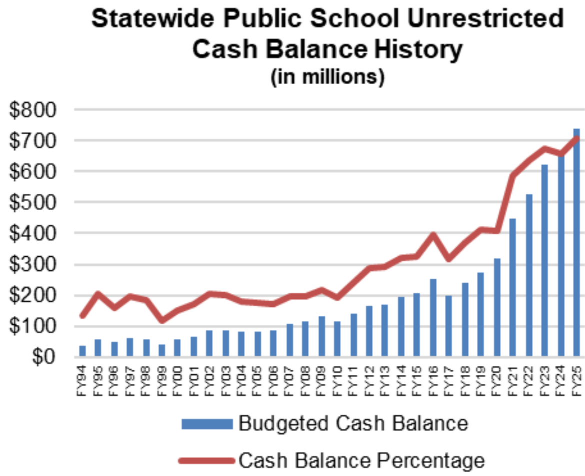
Provisions of the bill require PED to contract with an expert level 3A teacher or level 3B school administrator to revamp programming at schools that have failed to make adequate progress after three years. This fiscal impact analysis assumes the minimum cost of $75 thousand for each level 3 educator and 61 schools that fail to meet adequate progress within 3 years. Currently, 61 schools are designated as needing state intervention or support due to being in the lowest performance levels of the state's accountability framework.

SIGNIFICANT ISSUES

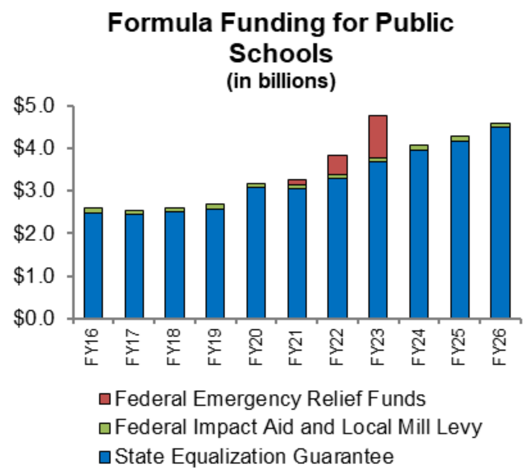
In 2018, the 1st Judicial District Court ruled in the *Martinez-Yazzie* education sufficiency lawsuit that New Mexico's education system was not constitutionally sufficient nor uniform for all students. The court found outcomes were especially low for four at-risk student groups: Native American students, English language learners, students with disabilities, and economically-disadvantaged students and ordered the state to take immediate steps to provide a sufficient education for these at-risk student groups.

The court also found PED failed to provide verifiable evidence that its programs were working, and while the programs might have been worthwhile, participation was too limited and funding too inconsistent to support a constitutionally sufficient education system. The court noted additional resources should be directed to evidence-based programs to improve the performance of at-risk students and to focus on how money was used as opposed to how much was spent.

Since the court ruling, the state has increased general fund appropriations for public schools by over $2 billion, or 70 percent. Over the same period, unrestricted school cash balances also grew by $464.7 million, or 170 percent.



Source: LESC, PED, and LFC Files



Source: LFC Files

School districts and charter schools require cash balances for a variety of reasons, including: making upfront payments for state and federal grant programs that operate on a reimbursement basis, maintaining bond ratings, providing start-up costs for operating expenses when opening a new school, and saving money to pay for large upcoming costs, such as textbooks or capital spending. Available cash at the end of the year is particularly important for most school district and charter schools because pre-paid risk insurance premiums are due in full to the New Mexico Public Schools Insurance Authority early in the fiscal year. Charter schools indicate saving operational cash for capital purposes is particularly important because of limited access to capital funding through local mill levies.

Conservative budget assumptions by PED have also historically contributed to increased cash balance levels. While school districts and charters schools prepare yearly budgets based on the initial unit value set before the start of the fiscal year, school districts and charter schools typically see an increase to their program cost after PED adjusts the unit value in January. Budget increases later in the school year may limit the ability of school districts and charter schools to invest those funds in needed educational programs at the beginning of the school year.

From 2003 to 2011, state law limited the amount of operational cash school districts and charter schools could carry forward into the next fiscal year without paying a penalty. Laws 2003, Chapter 155 (HB 745) set caps based on the program cost of a school district or charter school. Those caps were amended multiple times before being repealed in 2011, as shown below:

Program Cost Bracket	Laws 2003, Chp. 155 (HB 745)	Laws 2004, Chp. 60 (HB 158)	Laws 2006, Chp. 95 (SB 450)	Laws 2007, Chp. 122 (HB 59)	Laws 2011, Chp. 39 (HB 47)
< $5 million	9%	9%	15%	18%	Repealed
$5 million to $10 million	7.5%	7.5%	12%	12%	Repealed
$10 million to $25 million	6%	6%	9%	10%	Repealed
$25 million to $200 million	4.5%	4.5%	7%	8%	Repealed
>$200 million	2.5%	2.5%	5%	5%	Repealed

Source: LESC

The statutory limits were based on a school district or charter school's budget for the next fiscal year. For example, a school district's FY06 end-of-year cash balance limit was set as a percentage of the school district's budgeted operational expenses in FY07. Amounts over that limit were subject to a penalty in the form of an SEG reduction. School districts with more than $200 million in program cost (Albuquerque Public Schools) paid a 20 percent penalty on cash balances above the limit, while other school districts and charter schools paid a penalty of 18 percent. For example, if Albuquerque held $15 million in cash and had a $10 million cap, the school district would pay a penalty equal to 20 percent of $5 million, or $1 million.

In FY04, the Legislature took credit for school cash balances by reducing SEG payments that year by $16.4 million. No credit was taken in FY05 and the statutory limits went into effect beginning in FY06. Between FY06 and FY11, nine school districts and 34 charter schools paid a total of $2.3 million in penalties before the limits were repealed. In response to budget solvency issues in FY17, the Legislature also took credit for school cash balances by reducing SEG payments that year by $46.1 million.

PERFORMANCE IMPLICATIONS

It is unclear whether increasing budgeted allocations to public schools alone will change at-risk student academic outcomes. A 2024 LESC analysis of the family income index (FII) pilot program, which appropriated $55 million directly to some of the highest poverty school sites between FY22 and FY25, found no statistically significant effect on schools meeting student reading or math growth when compared with peer schools. LESC noted the results indicate the FII pilot, while well intentioned, may have suffered from several implementation issues, including initial spending restrictions, a potential lack of administrative or instructional capacity to implement interventions, and systemic barriers faced by high-poverty schools.

ADMINISTRATIVE IMPLICATIONS

Provisions of this bill would require districts with at least 2,000 students to report on how the district is allocating SEG or other revenue at each public school to improve the academic outcomes of at-risk students. Additionally, between FY27 and FY31, the bill requires all school districts and charter schools to submit a three-year evidence-based spending plan that describes how the SEG will be used to provide culturally and linguistically relevant education that improves academic outcomes for at-risk students at each public school. PED must provide a tool for this reporting requirement that includes culturally and linguistically relevant goals and metrics.

The bill further requires PED to track and report academic outcomes tied to program funding for at-risk students at each public school and set adequate progress measures for these students between FY27 and FY31. PED must determine appropriate instructional materials, training, and reassessments of curriculum for schools that fail to meet adequate progress each year. Additionally, PED must contract with an expert level 3A teacher or level 3B school administrator to revamp programming at schools that fail to meet adequate progress within three years. In FY26, PED designated 61 schools as needing additional intervention or support due to low performance in one or more areas.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

This bill relates to Senate Bill 34, which requires PED to publish preliminary state accountability data on September 1.

TECHNICAL ISSUES

Provisions of this bill set cash balance limitations based on budgeted expenditures, which is undefined. For example, Albuquerque Public Schools had total budgeted expenditures of $2.3 billion from all funding sources, meaning if the 5 percent cash balance limit were applied, it would set a cap of $114 million—significantly higher than the district's unrestricted operational cash balance of $79.6 million. If budgeted expenditures only refers to budgeted operational expenditures, then Albuquerque Public School's expenditures would drop to $1 billion, effectively capping cash balances at $54.2 million. As such, the sponsor may want to clarify the definition for "budgeted expenditures."

Provisions of this bill do not detail what happens to the unrestricted cash balances that exceed the statutory targets for noncompliant districts outlined in the bill. The sponsor may want to clarify if the balances must be budgeted into a more restrictive account or reverted to the state. Alternatively, a portion of excessive balances could revert to the state, much like the cash balance penalties imposed between FY06 and FY11.

OTHER SUBSTANTIVE ISSUES

In FY24, PED requested amendments to its federal Every Student Succeeds Act (ESSA) plan that included changes to the calculations for determining school accountability designations. A 2025 LFC policy spotlight found 28 schools exited more severe intervention categories in FY24 despite declining academic performance, indicating the shift in designation was primarily due to changes in the score calculation. As a result, the number of schools designated for additional PED support decreased substantially from 249 schools in FY23 to 76 schools in FY24.

In FY25, PED reported 19 schools improved student achievement enough to raise their school designations to higher tiers, with two reaching the highest performance tier (Spotlight) and 15 exiting tiers requiring state interventions. While the total number of schools needing interventions fell from 76 schools in FY24 to 61 schools in FY25, 24 schools out of the 25 schools with the more rigorous intervention (MRI) status, or lowest performance, maintained the same MRI designation from the prior year. Under New Mexico's updated ESSA plan, any school failing to exit MRI designation after three years of intervention will be subject to more forceful restructuring, including a restart, redesign, or closure of the school.

Attachments

1. Districts Meeting Enrollment Threshold and Subject to Bill Provisions

SL/dw/sgs/ct

DISTRICT/CHARTER	GRAND TOTAL PROGRAM COST	STUDENT MEMBERSHIP	UNRESTRICTED CASH BALANCE	CASH PERCENT (of Program Cost)	SB178 CASH LIMIT (of Program Cost)	CASH ABOVE SB178 LIMIT	EST. BUDGETED EXPENDITURES FOR SCHOOLS	EST. ALLOCATION NEEDED FOR 90%
Albuquerque	$ 1,003,990,482	63,883	$ 79,617,080	8%	5%	$ 29,417,556	86%	$ 47,388,890
Las Cruces	$ 318,572,513	21,889	$ 39,773,618	12%	5%	$ 23,844,992	84%	$ 22,238,739
Rio Rancho	$ 230,344,782	15,919	$ 27,376,879	12%	8%	$ 8,949,296	78%	$ 29,348,221
Gallup-Mckinley	$ 193,341,106	12,557	$ 46,880,964	24%	8%	$ 31,413,676	78%	$ 29,372,601
Gadsden	$ 180,197,517	11,251	$ 66,251,111	37%	8%	$ 51,835,310	69%	$ 47,662,261
Farmington	$ 137,115,923	10,440	$ 16,005,470	12%	8%	$ 5,036,196	74%	$ 26,414,602
Santa Fe	$ 148,036,123	10,299	$ 13,809,451	9%	8%	$ 1,966,561	80%	$ 16,523,067
Hobbs	$ 140,223,555	9,821	$ 29,468,875	21%	8%	$ 18,250,991	86%	$ 6,587,604
Roswell	$ 124,160,161	8,557	$ 20,088,116	16%	8%	$ 10,155,303	79%	$ 15,640,231
Los Lunas	$ 110,465,602	7,921	$ 31,219,462	28%	8%	$ 22,382,214	78%	$ 17,283,379
Clovis	$ 93,646,931	6,986	$ 18,097,776	19%	8%	$ 10,606,022	80%	$ 10,438,317
Carlsbad	$ 95,808,924	6,981	$ 6,673,228	7%	8%	$ -	78%	$ 11,957,190
Alamogordo	$ 65,576,331	5,005	$ 2,564,567	4%	8%	$ -	81%	$ 6,152,213
Deming	$ 71,378,590	4,639	$ 78,466	0%	8%	$ -	76%	$ 11,634,012
Central Consolidated	$ 65,946,917	4,317	$ 7,506,965	11%	8%	$ 2,231,212	85%	$ 3,483,686
Artesia	$ 48,023,985	3,676	$ 6,094,342	13%	8%	$ 2,252,423	82%	$ 4,415,097
Los Alamos	$ 47,175,878	3,480	$ 1,566,424	3%	8%	$ -	78%	$ 6,375,256
Belen	$ 50,420,087	3,409	$ 14,663,278	29%	8%	$ 10,629,671	64%	$ 16,258,532
Lovington	$ 55,659,433	3,289	$ 6,292,616	11%	8%	$ 1,839,862	83%	$ 3,849,779
Grants	$ 43,015,825	2,957	$ 9,321,507	22%	8%	$ 5,880,241	71%	$ 11,311,178
Bernalillo	$ 44,089,867	2,602	$ 11,985,232	27%	8%	$ 8,458,042	69%	$ 12,219,893
Espanola	$ 39,864,807	2,557	$ 7,954,085	20%	8%	$ 4,764,900	71%	$ 9,110,910
Portales	$ 35,891,118	2,381	$ 4,359,225	12%	8%	$ 1,487,935	82%	$ 3,035,518
Bloomfield	$ 34,047,021	2,265	$ 12,685,124	37%	10%	$ 9,280,422	75%	$ 7,191,756
Moriarty-Edgewood	$ 33,932,289	2,233	$ 4,352,819	13%	10%	$ 959,590	80%	$ 3,741,182
Aztec	$ 29,661,558	2,124	$ 4,153,766	14%	10%	$ 1,187,610	75%	$ 5,218,024
Silver City	$ 30,848,686	2,068	$ 4,637,567	15%	10%	$ 1,552,698	79%	$ 3,705,636
TOTAL	**$ 3,471,436,014**	**233,504**	**$ 493,478,013**	**16%**	**8%**	**$ 264,382,724**	**78%**	**$ 388,557,774**