

LFC Requester:	Sunny Liu
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**AGENCY BILL ANALYSIS
2017 REGULAR SESSION**

WITHIN 24 HOURS OF BILL POSTING, EMAIL ANALYSIS TO:

LFC@NMLEGIS.GOV

and

DFA@STATE.NM.US

{Include the bill no. in the email subject line, e.g., HB2, and only attach one bill analysis and related documentation per email message}

SECTION I: GENERAL INFORMATION

{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}

Check all that apply: Date 2/4/17
Original **Amendment** **Bill No:** SB30
Correction **Substitute**

Sponsor: Senator Howie C. Morales **Agency Code:** 924
Representative Dennis J. Roch
Short Title: ESTABLISH & STUDY **Person Writing** Aguilar/Burrell
TEACHER COST INDEX **Phone:** 505-827-6519 **Email** Paulj.aguilar@state.nm.us

SECTION II: FISCAL IMPACT

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY17	FY18	FY19	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		Significant	Significant		Recurring	School District and Charter School Revenues

(Parenthesis () Indicate Expenditure Decreases)

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis:

SB30 amends the public school funding formula in the following ways: (1) establishes a teacher cost index for FY19 through FY22 that is to replace the current Training and Experience (T&E) Index, (2) phases out a percentage of small school size units for certain charter schools over 5 years, and (3) increases the at-risk index multiplier over 5 years. The bill also modifies the public school funding formula by using the T&E index as a multiplier for only basic program units.

FISCAL IMPLICATIONS

Based on the provisions contained in the bill, three items in the public school funding formula would need to be modified for use in FY18. These are: (1) increase the at-risk multiplier to 0.112, (2) apply the 90% allowance of school size units for charter schools that have been in operation during the 2016-2017 school year, and (3) use the T&E index as a multiplier for only basic program units.

Comparing the FY17 final funded run with the initial unit value of \$3,979.63 to a modified version of the same final funded run with the increased at-risk index multiplier and the 90% allowance of school size units for charter schools (that have been in operation during the 2016-2017 school year) reveals the following (**assuming flat funding**):

- (1) Total Units decrease by 9,487.035 and units are redistributed.
- (2) Assuming that no new dollars are added, the unit value would increase from \$3,979.63 to \$4,040.37 (an increase of \$60.74) to pay for the redistributed units.
- (3) The total amount of money needed to fund the save-harmless for FY18 would be \$6,208,686.50 for 87 entities (53 charter schools and 34 school districts).

Attached is a spreadsheet which shows a comparison for each district and charter school using the current program cost and the program cost with the SB30 modifications for FY18 with flat funding.

SIGNIFICANT ISSUES

There are nine sections to the bill. Each section is described in detail below.

Section 1 adds language that modifies the Program Cost calculation for charter schools to clarify how the at-risk index, the T&E index and the teacher cost index is to be applied for new and existing charter schools.

Section 2 modifies how the program cost is to be calculated by phasing-in/replacing the T&E with a staffing cost multiplier that is to be used only for basic units. It creates the staffing cost multiplier that will replace the T&E index in the following manner:

FY18- the staffing cost multiplier (SCM) will be equal to the T&E index.

FY19 –the SCM will be the weighted average of the T&E at 75% and the new teacher cost index (TCI) at 25%.

FY20 - the SCM will be the weighted average of the T&E at 50% and the new teacher cost index (TCI) at 50%.

FY21 - the SCM will be the weighted average of the T&E at 25% and the new teacher cost index (TCI) at 75%.

FY22 and subsequent years - the SCM will be the new teacher cost index (TCI).

Section 3 creates separate calculations of school size units for school districts and charter schools. It modifies school size units for charter schools and allows charter schools (with less than a 400 membership) to continue to receive school size units but reduces them over time in the following manner:

Charter schools in operation during the 2016-2017 school year.

FY18 – a charter school will receive 90% of the computed school size units.

FY19 – a charter school will receive 80% of the computed school size units.

FY20 – a charter school will receive 70% of the computed school size units.

FY21 – a charter school will receive 60% of the computed school size units.

FY22 and subsequent years – a charter school will receive 60% of the computed school size units.

Charter schools that will begin operations during the 2017-2018 (and subsequent school years) are impacted in the following manner.

- (1) A charter school in its first year of operation is to receive 100% of their school size units.
- (2) A charter school in its second year of operation is to receive 90% of the computed school size units.
- (3) A charter school in its third year of operation is to receive 80% of the computed school size units.
- (4) A charter school in its fourth year of operation is to receive 70% of the computed school size units.
- (5) A charter school in its fifth year of operation is to receive 60% of the computed school size units.
- (6) A charter school in its sixth year and subsequent years of operation is to receive 50% of the computed school size units.

This may cause funding issues for some smaller charter schools that rely on size adjustments to generate enough revenue for operational purposes.

In addition, the way the bill is written, it could be interpreted that a charter school is eligible to receive both elementary and senior size units if they offer a K-12 program. (See technical issues.)

Section 4 modifies the growth unit calculation in the funding formula by modifying the current MEM definition by subtracting out MEM reported on the first reporting date of the current year that is included in the calculation of a school district's or charter schools program cost. This will affect the funding of new programs in that schools will no longer be able to claim growth units for new programs. This may result in underfunding of new programs **Section 5** modifies the at-

risk index by phasing in increases to the multiplier used to determine the at-risk index for districts in the following manner:

FY18 – changes the multiplier from the current 0.106 to 0.112.

FY19 – increases the multiplier to 0.121.

FY20 – increases the multiplier to 0.131.

FY21- increases the multiplier to 0.140.

FY22 and subsequent years – increases the multiplier to 0.150.

As the multiplier increases this could add a significant amount of statewide units over time.

Section 6 adds new material that provides for a Teacher Cost Index (TCI) that is to replace the T&E index in FY19.

The matrix used to determine the TCI is based on the three tier system and years of experience.

This section also provides that the PED, the LFC and LESC are to jointly gather data, conduct an analysis and submit a report by November 1 of each year to the Governor, the LESC and LFC which will contain the following info:

- (1) alignment of the weight of the matrix and their relationship to actual cost differences,
- (2) an analysis of data on relationships among teacher licensure level, educational attainment, years of experience and salary and,
- (3) any recommended changes to the TCI and to this section of the Public School Finance Act.

Section 7 modifies that beginning in FY19, the TCI is to be used to calculate program cost and SEG.

Section 8 provides a temporary safe harmless provision by having PED implement a program to maintain school districts' and charter schools' program costs in cases of reductions as a result of this act. This is to be done by using funds appropriated by the legislature. The bill also provides that the safe harmless is to be reduced over time in the following manner:

FY18 – 100% of the FY17 program cost calculations (only in the case that the reduction occurred solely as a result of the implementation of this act).

FY19- 75% of the FY18 program cost calculations (only in the case that the reduction occurred solely as a result of the implementation of this act).

FY20- 50% of the FY20 program cost calculations (only in the case that the reduction occurred solely as a result of the implementation of this act). **The bill refers to FY20 as a comparison. It appears that it should be referring to FY19 (the prior year) to be in congruence with the earlier provisions. See Technical Issues.**

It provides that a report must be made by the PED to the LFC and the LESC on program cost

calculations for charters and districts where these calculations have resulted in decreases as a result of these changes contained in the legislation.

Section 9 provides that the effective date of the provisions of this act is to be July 1, 2017.

ADMINISTRATIVE IMPLICATIONS

The PED will need to modify all of the funding formula worksheets used to compute the state equalization guarantee for school districts and charter schools. The unit value calculation will need to be modified to capture the impact of these additional minimum requirements to the funding formula.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Any modification to the public school funding formula will require a fiscal year to modify the existing data collection systems and worksheets before they can be fully implemented.

The bill relates to the State Equalization Guarantee (SEG) appropriation contained in the General Appropriations Act.

TECHNICAL ISSUES

Page 9, line 11 could be interpreted to mean that every charter school is eligible to receive both elementary and senior size units if they offer a K-12 program. This could substantially increase the amount of size units a charter school receives.

Page 23, line 21, refers to fiscal year 2020. It appears that this should be referring to fiscal year 2019 in order to be in congruence with the earlier provisions for save harmless.

AMENDMENTS

The sponsors may wish to consider the following amendments:

Page 9, line 11, replace “the sum” with “either” and strike the word “of.”

Page 9, line 12, replace “and” with “or.”

Page 23, line 21, replace “2020” with “2019.”