

NEWLY ELECTED BOARD MEMBER TRAINING

*MODULE II: SCHOOL
BUDGET AND FINANCE,
FIDUCIARY
RESPONSIBILITIES,
FUNDING FORMULA*

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NM School Board
Association

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ADÁN'S BACKGROUND

- Bachelor's Degree and First Career in Engineering – Work Experience at Sandia National Labs and Fortune 500 Research and Development
- Master's Degree and Doctorate Degree in Educational Leadership
- HS Teacher and Principal at Elementary, Middle, & High School
- Superintendent in three New Mexico School Districts
- Executive Director of a Regional Education Cooperative
- NMPED Deputy Cabinet Secretary of Finance and Operations
- NMAA Board of Directors, NMSSA Executive Officer, NM Education Retirement Board Trustee, Southwest Comprehensive Center Advisor Board
- Small Business Owner
- School Board Member

KURT'S BACKGROUND

- Doctorate in Educational Leadership
- Two Master's degrees in education: 1) music and 2) computer science
- Teacher in the Alamogordo Public Schools (11 years)
- Designer, director, and instructor for the International Space Hall of Fame STEAM Camp (3 summers)
- Education policy leader for student achievement, accountability, school improvement, and educational technology - New Mexico State Department of Education (11 years)
- Director of student programs, workforce pipeline initiatives, Math and Science Academy, community giving, and local economic development - Los Alamos National Laboratory (11 years)
- Deputy Secretary of Education and Governor's Education Policy Advisor (4 years)
- Superintendent of the Los Alamos Public Schools (7 years)
- New Mexico Secretary of Education (2 years)

WELCOME, INTRODUCTIONS, & BRIEF TABLE CONVERSATION

1. Introduce yourself: name, district, reason for joining the Board.
2. You have been a Board member for about a month - what surprised you?
3. What questions do you have about the budget?

TOPICS

- Superintendent Role in Finance and Budget Development
- Superintendent's Role
- School Board's Role
- Relationships
- Strategic Planning
- Budget Development and Submission
- PED Budget Approval
- SEG

SUPERINTENDENT'S ROLE

- NMSA 22-5-14
- Local superintendent; powers and duties.
 - A. The local superintendent is the chief executive officer of the school district.
 - B. The local superintendent shall:
 - (1) carry out the educational policies and rules of the state board [department] and local school board;
 - (2) administer and supervise the school district;
 - (3) employ, fix the salaries of, assign, terminate or discharge all employees of the school district;
 - (4) prepare the school district budget based on public schools' recommendations for review and approval by the local school board and the department. The local superintendent shall tell each school principal the approximate amount of money that may be available for his school and provide a school budget template to use in making school budget recommendations; and
 - (5) perform other duties as required by law, the department or the local school board.

SCHOOL BOARD'S ROLE

Fiduciary Responsibility

A fiduciary duty is the legal responsibility to act solely in the best interest of another party.

“Fiduciary” means trust, and a person with a fiduciary duty has a legal obligation to maintain that trust. For example, lawyers have a fiduciary duty to act in the best interest of their clients. Similarly, physicians have a duty to care for, and act in, the best interest of their patients. Likewise, trustees have a duty to manage the assets of a trust for its beneficiaries, and directors to manage corporate assets in the best interest of shareholders.

Source: University of Texas – McCombs School of Business

SCHOOL BOARD'S ROLE

- NMSA 22-8-10. Article 8 – Public School Finance
- Budgets; fixing the operating budget.
 - A. Prior to June 20 of each year, each local school board and each governing board of a charter school shall, at a public hearing of which notice has been published by the local school board or governing board of a charter school, fix the operating budget for the school district or charter school for the ensuing fiscal year. At the discretion of the secretary or the local school board or governing body of a charter school, the department may participate in the public hearing.
 - B. Prior to the public hearing held to fix the operating budget for the school district or charter school, the local school board or governing body of a charter school shall give notice to parents explaining the budget process and inviting parental involvement and input in that process prior to the date for the public hearing. The educational plan submitted by the local school board or the governing body of a charter school to the department shall include information on parental involvement and input.

SCHOOL BOARD'S ROLE

NMSA 22-5-4. Local school boards; powers; duties.

A local school board shall have the following powers or duties:

A. subject to the rules of the department, develop educational policies for the school district;

B. employ a local superintendent for the school district and fix the superintendent's salary;

C. review and approve the annual school district budget;

D. acquire, lease and dispose of property;

E. have the capacity to sue and be sued;

F. acquire property by eminent domain pursuant to the procedures provided in the Eminent Domain Code [[42A-1-1](#) to [42A-1-33](#) NMSA 1978];

G. issue general obligation bonds of the school district;

H. provide for the repair of and maintain all property belonging to the school district;

I. for good cause and upon order of the district court, subpoena witnesses and documents in connection with a hearing concerning any powers or duties of the local school board;

J. except for expenditures for salaries, contract for the expenditure of money according to the provisions of the Procurement Code [[13-1-28](#) to [13-1-199](#) NMSA 1978];

K. adopt rules pertaining to the administration of all powers or duties of the local school board;

L. accept or reject any charitable gift, grant, devise or bequest. The particular gift, grant, devise or bequest accepted shall be considered an asset of the school district or the public school to which it is given;

M. offer and, upon compliance with the conditions of such offer, pay rewards for information leading to the arrest and conviction or other appropriate disciplinary disposition by the courts or juvenile authorities of offenders in case of theft, defacement or destruction of school district property. All such rewards shall be paid from school district funds in accordance with rules promulgated by the department; and

N. give prior approval for any educational program in a public school in the school district that is to be conducted, sponsored, carried on or caused to be carried on by a private organization or agency.

SCHOOL BOARD FINANCE COMMITTEE

- 22-8-12-3 NMSA 1978
- Each local school board shall appoint at least two board members as a finance subcommittee to assist the board in carrying out its budget and finance duties.
- Make recommendations to the local school board in financial planning, including reviews of the school district's revenue and expenditure projections.
- Review of financial statements and periodic monitoring of revenues and expenses.
- Annual budget preparation, oversight, and procurement; also serves as an external monitoring committee on budget and other financial matters.

AUDIT COMMITTEE

- 22-8-12-3 NMSA 1978
- Members - two board members serve with finance staff, a parent of a student attending that school district, and a volunteer with experience in accounting or financial matters.
- Duties - evaluate RFP for finance audit services and recommend an auditor, attend entrance and exit meetings, meet monthly with the auditors during the audit, be accessible to auditors, provide audit status reports to the Board, track audit recommendations, and make recommendations on policy changes to address findings.

SCHOOL DISTRICT LEADERSHIP

My work has made the following clear to me:

- Budget and finance are about more than bean counting. Your budget represents your values. Show me your budget and I will know your values.
- You have been selected to make critical decisions about your organization. Use your role to make good spending decisions.
- Your competent leadership can make a significant difference for students and families.
- Time is needed to implement the most meaningful initiatives.
- Equity is about more than social promotion and graduation.
- Qualified teachers are the most crucial investment in our educational systems.

RELATIONSHIPS

Your approach to the budget process can define critical relationships in your educational system:

- Business Official – Experience, Alignment of Goals and Approach, Trust but Verify
- Faculty and Staff – Avoid Insular Decision-Making, Navigate the CBA Process, and Stand Strong on Important Issues; Retention is about more than compensation.
- Community – Recognize that the Community is the Heart of Your Educational Organization. You have a fiduciary responsibility to the community.
- NMPED – Districts should be communicative and carefully read directions from NMPED.
- Administration – Encourage honest discussion, leverage worksessions, and stand firm when necessary.

STRATEGIC PLANNING

- Foundational to Every Conflict in the Budget Process
- A Quality Strategic Plan is Mutually Complementary to the Budget
- Community-based Data Collection During Strategic Planning can Enhance the Budget Process
- Staff-based Data Collection During Strategic Planning can Enhance the Budget Process
- Last-minute Budget Requests can be directed back to the Strategic Planning Process (either to eliminate consideration or to earmark consideration)
- A Formalized Process for Strategic Planning can Allow for Heated Tensions to be Addressed in an Informal Setting Instead of a Formal Board Meeting

BUDGET: COMMUNITY INPUT

- NMSA 22-8-10. Budgets; fixing the operating budget.
- A. Prior to June 20 of each year, each local school board and each governing board of a charter school shall, at a public hearing of which notice has been published by the local school board or governing board of a charter school, fix the operating budget for the school district or charter school for the ensuing fiscal year. At the discretion of the secretary or the local school board or governing body of a charter school, the department may participate in the public hearing.
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BUDGET: SUBMISSION TO NMPED

- District assigned a submission date by NMPED. These dates are tightly packed and have little room for deviation; however, there is some room for adjustment in dire circumstances.
- Preliminary Review by Designated Budget Analyst
 - Budget Analyst Prepares Analysis Document
 - Budget Analyst Flags any Discrepancies or Deficiencies
- Budget Review Assisted by Contracted Personnel
- Secondary Review by Deputy Secretary or Designee
- Final Approval by the Secretary of Education via Designee
- Iteration with the District can occur at any Process Step

BUDGET: DISCREPANCIES, DEFICIENCIES, RED FLAGS

- Discrepancies Typically Require Remedy
 - Statutory Requirements
 - Mandatory Compensation Changes (Worksheets 4 and 5 – compare every returning employee's compensation)
- BE DELIBERATE
 - Cash Balance Amount
 - Cash Balance Trends
 - Instructional Staffing versus Admin
 - Special Education Population
 - Ancillary Services (\$156K)
 - At-Risk Expenditures
 - Education Plan
 - Growth

PED BUDGET ANALYSIS

- Program Cost Comparison
- Membership (Student Count) Comparison
- Unit Comparison
- Staffing Cost Multiplier Comparison
- Cash Balance
- Emergency Supplemental
- Emergency Reserve
- Function (Universal Chart of Accounts) Comparison (i.e., Direct Instruction, General Administration, Transportation)
- Full Time Equivalent (FTE) Comparison
- Salary Comparison

BUDGET: EMERGENCY SUPPLEMENTAL

- NMPED typically has a very limited amount of supplemental emergency funding to assist in dire situations. Competition is very high.
- Emergency Supplemental brings constraints on hiring, e.g., new positions and compensation increases beyond mandates.
- Bring Exit Plan
- NMPED has the authority to set your budget unilaterally.

BUDGET: MANAGEMENT

- Size of District will Often Define the Degree of Detail of Involvement in Budget Review
- Budget Adjustment Requests
 - Ideally, these are Minimal
 - Ask Questions – If You Wonder, ASK
- Spot Checks (Often in Finance Committee)
 - Statements
 - Checks/Warrants – If You Wonder, ASK
- Deep Dive
 - Shortfalls, Revenue Deficiencies, Enrollment Shifts

TRANSITION FROM FEDERAL EMERGENCY FUNDS

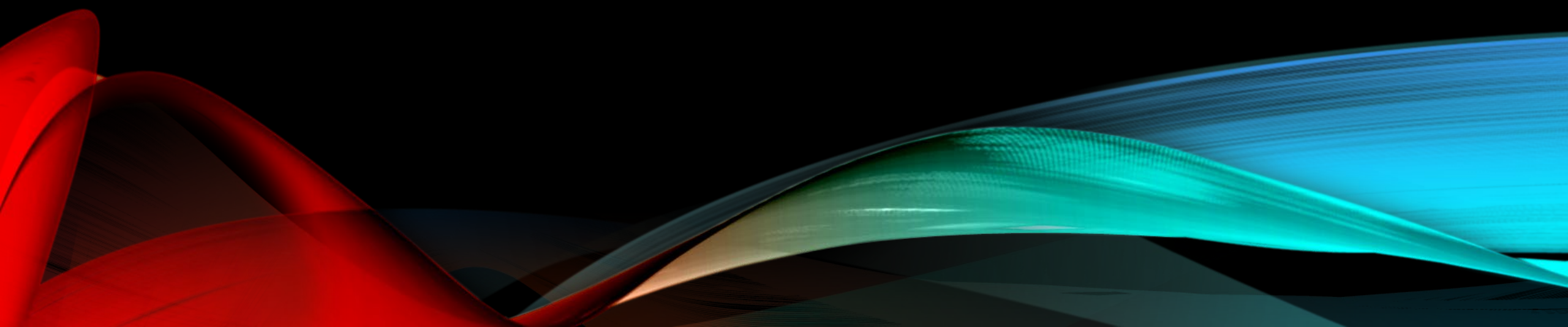
- Maximize Utilization
- Minimize Human Impact
- Attrition
- Identify Positive Student Outcomes
- What did the funding buy?

STATE EQUALIZATION GUARANTEE (SEG)

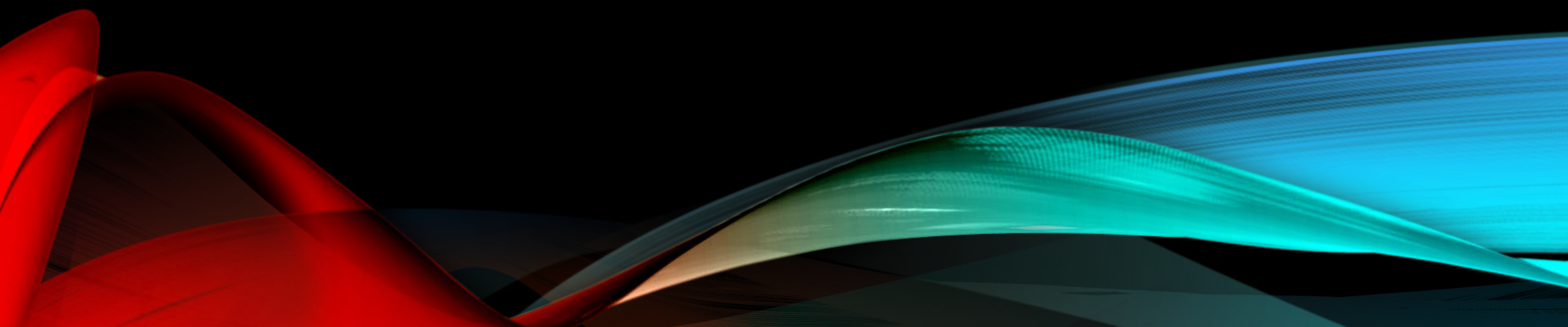
- The funding formula is a funding allocator, not a funding generator.
- Funding is based on prior year numbers: average attendance on average of, 80th, and 120th day.
- The formula determines how much money is allocated to each district.
- Each student generates a certain number of units based on the level of service required to educate the child.
- Teachers generate an increase to the unit value based on years of experience and level of licensure as measured by the Teacher Cost Index (TCI).
- The total SEG is divided by the sum of total units in the state, which determines the unit value.
- Districts multiply their number of units by the unit value and that determines their SEG funding for the year.

STATE EQUALIZATION GUARANTEE (SEG)

910B-5 Spreadsheet



BREAK



TOPICS

- How Public Schools are Funded
 - History
 - Sources of Funding
 - Land Grant Permanent Fund
- The Legislative Process
- NMPED Request
- Executive Request
- LFC Request
- Questions

HISTORY OF SEG FUNDING

- Pre-1974
 - Locally Funded Through Property Taxes
 - Broad Differences Among Districts
 - Significant Impacts of Opportunity
- 1974
 - Equalization Approach Took Credit for 75% of Locally Generated Credits When Calculating SEG
 - The Funding Formula That was Developed was a Major Departure From the Still Common Practice (in other states) of Using Local Property Taxes to Support Local Schools
- 2021*
 - The Equalization Approach Utilizing the Taking of Credits was Eliminated

SOURCES OF FUNDING

- General Fund Revenue
 - General and Gross Receipts Tax
 - Income Tax
 - Interest and Earnings
 - Rents and Royalties
 - Severance Taxes
 - Licensing Fees
- Current Public School Fund
 - According to SIC, distribution on Earnings from Invested Land Grant Permanent Fund (Approximate Fund Value \$26B – Distribution to Public Schools is Approx. \$1B per Year)
 - Land Income

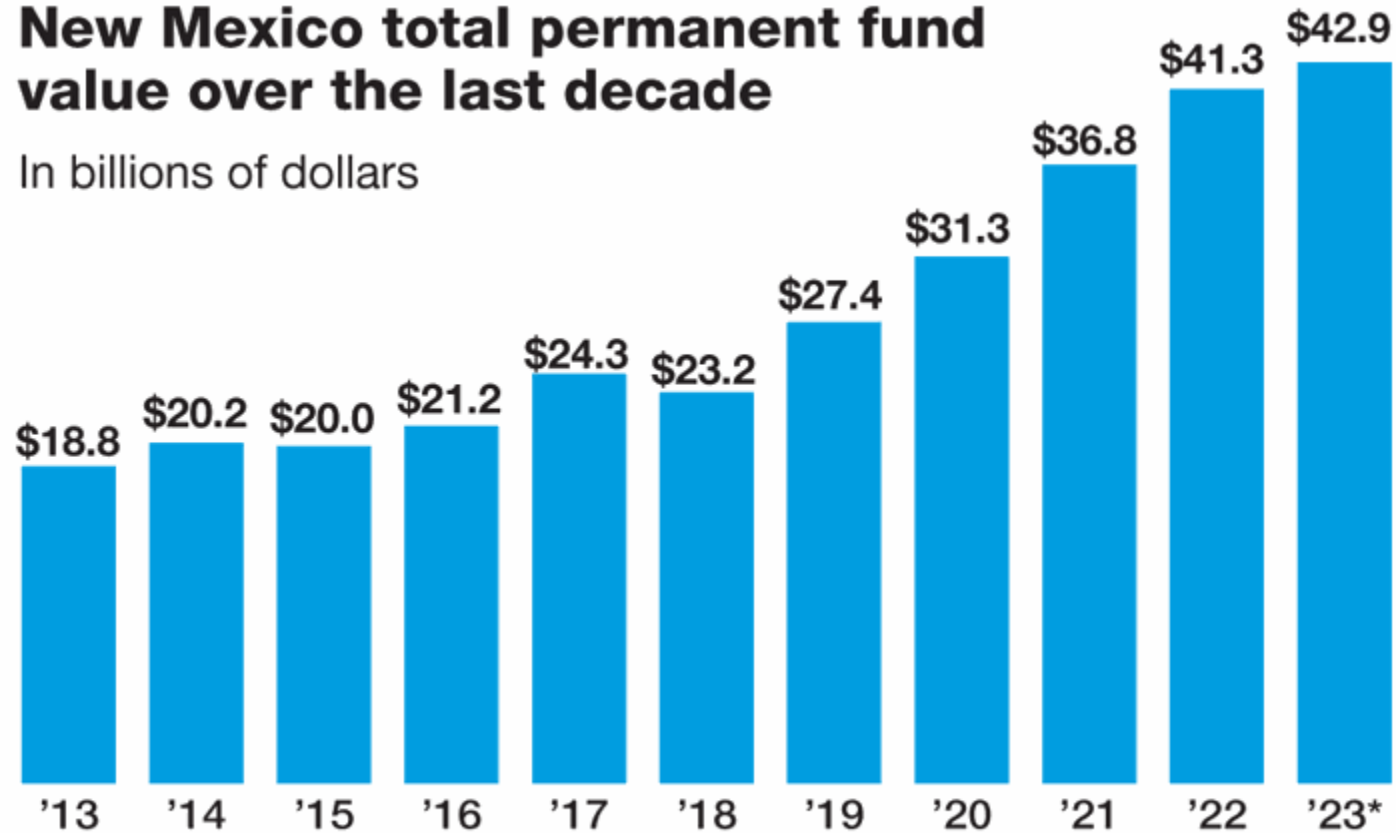
LAND GRANT PERMANENT FUND

- The Land Grant Permanent Fund (LGPF), also known as the Permanent School Fund, is one of the largest funds of its kind in the world (currently approximately \$26B). According to the Albuquerque Journal, NM's LGPF is 33rd largest sovereign wealth fund in the world and only Texas and Alaska have larger similar state funds.
- The LGPF annually provides more than a billion dollars in benefits to New Mexico's public schools, universities, and other beneficiaries (NM SIC website).
- The LGPF was established at statehood in 1912 and receives revenue from the use of lands set aside to support the fund.
- While sometimes referred to as a "rainy day fund", the LGPF is really an endowment that supports many day-to-day operations of the state.
- Caution must be exercised when considering additional withdrawals from the fund.

PERMANENT FUND VALUE

New Mexico total permanent fund value over the last decade

In billions of dollars

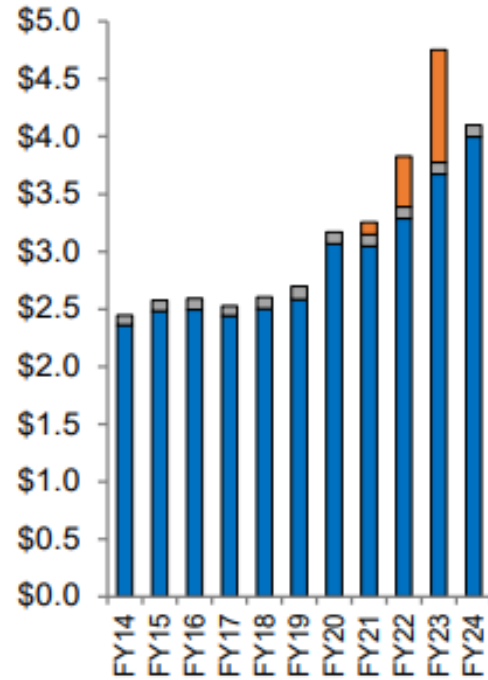


*as of March

Source: State Investment Council

JOURNAL

Formula Funding for Public Schools (in billions)



- Federal Emergency Relief Funds
- Federal Impact Aid and Local Mill Levy
- State Equalization Guarantee

Source: LFC Files

SEG FUNDING HISTORY

FISCAL YEAR (FY) 24 FUNDING

- Recurring FY24 general fund appropriations for public schools will reach \$4.2 billion, an increase of \$302 million, or 7.8%, over the prior year.
- The vast majority of the growth will go toward operational (SEG) funding for schools in the form of increased salaries, new minimum salary levels for principals and educational assistants, and higher employer contributions to retirement and insurance benefits.
- The FY24 budget replaced existing K-5 Plus and Extended Learning Time (ELT) programs with a more flexible K-12 Plus formula and a new minimum requirement of 1,140 instructional hours for all schools.
- Boosted funding for at-risk student interventions, following the new permanent school fund distribution approved by voters in 2022.
- Appropriated \$373 million in nonrecurring funding for interventions, including \$183 million from the public education reform fund for early literacy programs, special education, community schools, teacher pipeline initiatives, and career technical education (CTE) programs, and \$150 million from the public school capital outlay fund for CTE infrastructure, prekindergarten classrooms, security improvements, and school buses.

Source: LFC Post-Session Review

LEGISLATIVE PROCESS

- NMPED is usually in conversation with the Governor's Office regarding their budget request for the next fiscal year by August.
- NMPED is required to submit a budget request to the NM Department of Finance and Administration (DFA) and the Legislative Finance Committee (LFC) by November.
- The Executive Budget Request is released in December. The NMPED and Executive requests have not been identical in recent years.
- As the session starts and progresses, a Dueling Budgets spreadsheet is typically distributed and maintained. Columns usually include, prior year, NMPED, LFC, LESC, and Draft Legislation (HAFC / HB2 – Feed Bill).

LEGISLATIVE PROCESS

- Current year funding is based on prior year enrollment except for growth.
- Recommendations and funded amounts are based on PROJECTIONS – final enrollment data are not available in time for the session.
- Projections often do not align with actual costs.
 - Staffing
 - Insurance
 - Special Programs
- SEG is a funding distribution system not a funding generator.
 - Preliminary Unit Value – Spring Budget (This Number is Backed Into from HB2)
 - Preliminary Funded Run
 - Final Unit Value (January) –This year NMPED Nailed the Preliminary Unit Value: No Change at \$6,241.67
 - Final Funded Run
 - On Average, Each Student Generates 2 Units

FY 25 FUNDING

- NMPED Request
 - \$5.1 billion next fiscal year, almost 21% more than last year. For FY24 NMPED requested \$4.3 billion from the state's general fund and received more than \$4.2 billion.
 - About 68% of the requested increase would come from nonrecurring appropriations requests, including \$30 million for a literacy institute, an initiative backed by the governor, and almost \$24 million for data collection and analysis.
 - Universally free school meals – more than \$58 million collectively to cover this and next school year.
 - Enforcing Accountability – \$32 million in the proposed budget would be appropriated to “school turnaround.”
 - \$20 million would be set aside for “school improvement and transformation”
 - \$126 million ask for 4% salary increases for all public school employees.

Source: Albuquerque Journal

FY 25 FUNDING (CONT.)

- Executive Education Request
 - \$33 million to expand early pre-kindergarten by 1,380 slots
 - \$101.2 million increase to the State Equalization Guarantee Distribution for the necessary adjustment to 180 classroom days
 - \$58.1 million for structured literacy, including \$30 million for a new Structured Literacy Institute
 - \$43.5 million for healthy, universal school meals
 - 3% pay increase (\$96 million) for all educators

Source: Governor's Press Release

FY 25 BUDGET (CONT.)

- LFC Budget Recommendation
 - General fund spending on public schools would increase by \$115 million, representing about 20% of the total increase.
 - Spending on kindergarten through high school would total \$4.42 billion, a 5.8% increase from FY24 levels.
 - \$243 million in nonrecurring, education-related appropriations, including \$52 million from the public education reform fund, to address issues highlighted in the Martinez/Yazzie education sufficiency lawsuit.
 - Almost \$783 million for early childhood services, including \$250 million from the early childhood trust fund.
 - \$223.4 million in general fund revenue for compensation increases for state, public school, and higher education employees. Under the plan, state employees would get an average 4% increase.

Source: LFC Press Release

DUELING BUDGETS SPREADSHEET

School Year 2023-2024 Preliminary Unit Value = \$6,241.67		FY24 GF APPROPRIATION	FY 24 OS/FF APPROPRIATION	FY25 PED REQUEST GF	FY25 PED Request FF/OSF	FY25 Exec Rec GF	FY25 Exec Rec FF/OSF	FY25 LFC Rec GF	FY25 LFC Rec FF/OSF	HAFC Rec GF	HAFC Rec FF/OSF
1	PROGRAM COST	\$3,684,078.0		\$3,976,002.1		\$3,976,002.1		\$3,976,002.1		\$3,976,002.1	
2	<u>UNIT CHANGES</u>										
3	At-Risk Index Factor (0.33)	\$31,526.2									
4	Extended Learning Time Programs (Universal Program Funding)	(\$95,000.0)									
5	K-5 Plus Programs	(\$119,895.9)									
5.1	Other Projected Net Unit Changes							(\$19,915.3)		(\$19,915.3)	
6	K-12 Plus Units	\$50,333.5		\$63,000.0		\$101,152.2		\$60,000.0		\$60,000.0	
7	<u>UNIT VALUE CHANGES</u>										
8	K-5+ and ELTP Targeted Compensation	(\$64,027.5)									
9	Menstrual Products	\$2,000.0	\$1,000.0	\$1,000.0		\$1,000.0					
10	Instructional Hour Requirements (1,140 hours)	\$202,000.0									
11	Salary Increase (Exec FY25: 3%; LFC FY25 4%)	\$139,157.5		\$126,041.5		\$94,531.8		\$125,539.2		\$125,539.2	
12	Salary Increase (1% inflation & health premium costs)	\$27,831.5									
13	Principal Responsibility Factor Increase	\$7,962.4									
14	Minimum Salary Increase for Educational Assistants (\$25k)	\$14,500.0									
15	Increasing Employer Contribution for Health Insurance	\$31,979.5									
16	Instructional Materials (\$55M to \$65M in FY25)	\$12,000.0		\$10,000.0		\$10,000.0					
17	Insurance	\$15,742.0		\$51,900.0		\$41,000.0		\$25,666.7		\$25,666.7	
18	Fixed Costs	\$5,191.4		\$8,011.6		\$5,191.4		\$6,063.3		\$6,063.3	
19	Employer Paid Pension Increase	\$22,123.5									
20	Elementary Physical Education (\$28M to \$41M in FY25)	\$4,000.0		\$13,000.0		\$6,500.0					
21	Fine Arts Program	\$4,100.0									
21.5	Additional Education Reforms (CTE, Mentorship, Early Literacy, Comm. Schools)							\$10,000.0		\$20,000.0	
22	Universal Gifted Screening			\$1,500.0		\$1,500.0					
23	SUBTOTAL PROGRAM COST	\$3,976,002.1	\$1,000.0	\$4,290,465.2		\$4,236,877.5		\$4,183,356.0		\$4,193,356.0	
24	Dollar Change Over Prior Year Appropriation			\$274,453.1		\$260,875.4		\$207,353.9		\$217,353.9	

DUELING BUDGETS SPREADSHEET

- Different Versions
- Figures are in Thousands (add 3 zeros to the end). \$1,000.0 = \$1 million
- Single zero after the decimal, usually indicates that figures are in thousands.
- The Fiscal Year (FY) is year ending. The current FY is 24.
- GF = General Fund
- OSF – Other State Funds
- FF = Federal Funds
- Above State Equalization Guarantee is “Above the Line”*
- Everything Below Related/Other Nonrecurring is “Below the Line”*

MAJOR ISSUES TO WATCH

- Salary Mandates
 - To Average or Not to Average?
 - Collective Bargaining Implications
 - Mandates by Classification
 - How to Handle Federally Funded Employees
- Hours or Days?
- Insurance Premiums – Employee Contributions and PERA versus ERA
- Shift to Early Childhood Education Department (ECECD) along with distributions from Early Childhood Education Fund
- New Directors at LESC and LFC
- State Reserves and Special Endowment Funds
- Above-the-Line, Below-the-Line, (Middle-of-the-Line?)
- Remember Proportionality of Statewide Initiatives – ($\$1,000,000/305,563$ students = $\$3.27/\text{student}$ => $\$655$ for district of 200 Students)

QUESTIONS?

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- <https://ethicsunwrapped.utexas.edu/glossary/fiduciary-duty>