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## Review of the State Equalization Guarantee

New Mexico has historically been a visionary leader in implementing innovative approaches to public school funding that center the needs of students. In creating the state equalization guarantee (SEG), New Mexico led the nation in leveraging student-based budgeting to equalize educational opportunity throughout the state. As other states have emulated New Mexico's approach to public school funding, the Legislature has preserved the foundational premise of the SEG by refining its components to continuously strengthen the formula's responsiveness to local practice and community needs.

While the SEG has evolved to align with the policy goals of the Legislature, there is a critical need to ensure the formula remains adequately responsive to the unique and evolving needs of all students. To do so, periodic reviews of the SEG's methodology are needed, alongside regular monitoring and evaluation. If the formula is found to be inadequately responsive to current needs, legislative action should be encouraged to preserve the philosophical intention and methodological accuracy of the formula.

Pursuant to the requests of House Memorial 51 (HM51) from the 2023 legislative session, the Legislative Education Study Committee (LESC) has completed a comprehensive and collaborative review of the SEG. This report provides an overview of the strengths, challenges, and opportunities associated with the SEG, as identified and discussed by a representative and inclusive working group. In laying out these considerations, this report includes four sections and an appendix of resources.

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Based on the considerations of the working group, this report recommends the LESC initiate a narrow revision of the SEG during the 2024 interim. Any proposed revisions to the SEG will result in legislation that will be brought to the LESC for committee endorsement before the 2025 legislative session.

## Section 1: Executive Summary

When it was initially established in 1974, the SEG was nationally recognized as a model for how student-based budgeting could be leveraged to equalize educational opportunity for all students. Since then, there have been 92 statutory modifications to the SEG, with many of those revisions being intended to address the wide range of emerging and evolving challenges associated with meeting each student's unique needs. Each of these statutory revisions were largely guided by comprehensive, rigorous, and evidence-based evaluations of the formula. But many of the recent revisions to the SEG have primarily been prompted by the findings of the *Martinez-Yazzie* consolidated lawsuit, which cited a need to achieve sufficiency in public education, but did not lay out concrete benchmarks for doing so.

In its response to the *Martinez-Yazzie* lawsuit, the Legislature has significantly increased its appropriation to the SEG, with the formula distribution totaling \$3.969 billion in FY24. At the same time, the Legislature has also significantly invested in implementing innovative programs, like the Extended Learning Time program, K-5 Plus, and K-12 Plus, of which only the K-12 Plus program remains. However, despite these significant changes to the SEG's distribution and methodology, there has not been a comprehensive and collaborative review of the SEG in the last twelve years. Without regular, comprehensive, and collaborative assessments of the formula, it is unclear how recent statutory changes to the formula have affected the SEG's responsiveness to the current and evolving needs of students.

A state's approach to funding its public schools often reflects its broad policy goals around student achievement and educator wellbeing. Incentives, as well as disincentives, are established to build a foundation upon which the legislative body can make sustainable and measurable progress toward its stated policy goals. Staff from the LESC, in partnership with a wide range of stakeholders, completed this review of the SEG to assess the formula's effectiveness in recognizing student need, adequately allocating resources to meet that need, and incentivizing local communities to make sustainable and measurable progress toward the Legislature's collective goals.

In completing this comprehensive and collaborative review of the SEG, LESC staff identified several considerations that may strengthen the formula's responsiveness to the current and evolving needs of students.

### Key Considerations:

1. Assessing the adequacy of the basic program components is critical in establishing a strong foundation for continued growth in student achievement and educator well-being;
2. Recognizing elementary physical education and fine arts programs as core foundational experiences for all students may justify embedding their separate components into the basic program components, consequently ensuring universal access for all students and eliminating the burden of the fine arts application process for local education agencies (LEAs);

3. Assessing whether the Teacher Cost Index (TCI) is aligned with an effective career ladder for all educators is critical in improving educator well-being and incentivizing effective instructional leadership;
4. Assessing whether the size adjustment components can be modified or streamlined may enhance their responsiveness to the unique needs of small and rural LEAs;
5. Modifying the income component of the at-risk index may strengthen its accuracy in identifying concentrations of poverty;
6. Transitioning to a census-based model of funding special education may alleviate administrative workloads and reduce perceived incentives in the SEG that may be contributing to excessive identification of special education students and the excessive hiring of ancillary service providers;
7. Phasing-out the charter school activities, home school activities, and home school student program components may streamline the formula while allowing for the repurposing of their program units to other formula components; and
8. There may be opportunities to embed components in the SEG for career and technical education programs, community schools, Native American students, and English learners.

Based on the considerations of the working group, this report recommends the LESC initiate a narrow revision of the SEG during the 2024 interim. Priorities to consider in a revision of the formula include the basic program components, the TCI, the at-risk index, special education, and the size adjustments. Any proposed revisions to the SEG that emerge from this process will draw on the voices and perspectives of stakeholders throughout the state and will be presented to the LESC for committee endorsement before the 2025 legislative session.

## Background

The SEG is a student-based approach to funding public schools, where the formula's components are primarily responsive to the characteristics of each student. When it was initially established in 1974, the SEG had components for basic program, special education, variances in school and district size, rurality, staffing costs, and enrollment in bilingual and multicultural education programs. This initial model was innovative in its equalization of educational opportunity throughout the state, and has been a model for other states that have since adopted similar approaches to funding public schools.

While there have been 92 statutory revisions to the SEG, the Legislature has largely preserved the foundational philosophy of the formula, in that it should be responsive to the specific needs of students. As student need has evolved, so too has the SEG, with each modification to the formula being intended to increase its responsiveness to the evolving needs of students. An example of this is the at-risk index, which directs supports to low-income students, English learners, and students with high rates of mobility. Other recent additions to the SEG include the K-12 Plus program, the TCI, and the rural population adjustment.

SEG Formula Components with Program Units and Distribution

FY24

Component	Program Units	SEG Distribution	Percentage of SEG Distribution
Grade 7-12	185,836	\$1,159,928,547	29.06%
Grade 4-6	71,370	\$445,470,853	11.16%
At-Risk	60,262	\$376,135,767	9.42%
Grade 2-3	51,406	\$320,856,292	8.04%
Related Services FTE	49,043	\$306,107,101	7.67%
Class A/B Special Education	33,576	\$209,567,191	5.25%
Early Childhood Education	32,988	\$205,897,214	5.16%
Grade 1	26,550	\$165,716,339	4.15%
Teacher Cost Index	24,662	\$153,933,582	3.86%
Class D Special Education	16,380	\$102,238,555	2.56%
K-12 Plus Tier 1	16,045	\$100,146,072	2.51%
School Size	11,011	\$68,730,056	1.72%
Class C Special Education	8,678	\$54,165,212	1.36%
Fine Arts Programs	8,514	\$53,140,942	1.33%
Bilingual	7,991	\$49,877,684	1.25%
Elementary Physical Education	7,726	\$48,220,833	1.21%
3- and 4-Year-Old Developmentally Delayed	6,973	\$43,523,165	1.09%
District Size	6,511	\$40,639,339	1.02%
Rural Size	5,901	\$36,834,435	0.92%
Growth @ 1.5 Units	3,361	\$20,981,318	0.53%
K-12 Plus Tier 2	2,143	\$13,377,172	0.34%
Growth @ 0.5 Units	1,412	\$8,814,798	0.22%
National Board Certified Teachers	1,137	\$7,096,779	0.18%
Home School Activities	36	\$224,700	0.01%
Charter School Activities	35	\$215,962	0.01%
Home School Student Programs	31	\$193,492	0.00%
<b>TOTAL</b>	<b>639,578</b>	<b>\$3,992,033,398</b>	<b>100.00%</b>

Source: LESC Files



As the SEG has evolved in response to student need, the concept of ensuring sufficiency for all students has been an enduring topic for the Legislature. This concept has emerged in several reviews of the SEG, including the independent study completed in 2008 by the American Institutes of Research (AIR). The AIR [study](#) made a broad determination of what constituted sufficiency in public education, primarily in terms of topline appropriations to the SEG, and then made several recommendations for how the Legislature could achieve sufficiency. Other recommendations centered on a theme of simplifying the SEG, which the study found to be somewhat complex. While few of the study's recommendations were enacted in the immediate aftermath of its release, primarily due to fiscal constraints during the 2008 financial crisis, the study's findings have been continuously cited by policymakers, advocates, and other stakeholders as an enduring roadmap for achieving sufficiency in public education.

In 2011, a [joint study](#) of the SEG was completed by LESC and Legislative Finance Committee (LFC) staff. The focus of this report largely centered on a general goal of simplifying and modernizing the SEG rather than laying out a roadmap for achieving sufficiency in public education (see **Appendix 1** for an overview of findings from prior SEG reviews). While several statutory changes to the SEG took place following the release of the joint study, the Legislature did not take action on key pieces of the study's recommendations, including the creation of a separate component for English learners, the use of Free and Reduced Price Lunch (FRPL) as a proxy for poverty, the use of a census-based model of funding special education, and the elimination of components generating too few units.

In 2018, the First Judicial Court issued a final judgement in the *Martinez-Yazzie* consolidated lawsuit, finding the state had failed to provide a sufficient education for English learners, Native American students, students with disabilities, and students from low-income families. The court cited graduation rates, student proficiency rates, and high college remediation rates as indicators of how the state had not met its constitutional obligation to ensure students were college, career, and civics ready. Based on these findings, the court instructed the state to provide additional resources, including instructional materials, high-quality personnel, and curricular offerings, as was necessary to provide a sufficient education for all students. The court did not, however, prescribe specific remedies and deferred decisions on achieving sufficiency to the Legislature.

While the First Judicial Court found the state to have not provided particular students with access to a sufficient public education, it did not prescribe specific remedies for achieving sufficiency in public education.

As a result of the court's ruling, the Legislature has significantly increased its investment in public schools, with its appropriation to the SEG totaling \$3.969 billion in FY24. Several modifications have also been made to the framework of the SEG, including substantial increases to the At-Risk factor, the introduction of the TCI, and the establishment of the K-12 Plus program. Yet, despite these substantial changes to the SEG, there has not been a comprehensive or collaborative review of the formula in the last twelve years.

To ensure the formula remains adequately responsive to the current and evolving needs of students, the House of Representatives adopted House Memorial 51 (HM51) during the first session of the 56th Legislature. HM51 requested the LESC complete a collaborative review of the SEG during the 2023 interim and grounded

its request in the extended period of time since prior formula reviews, the lack of recent statutory modifications to several components in the formula, and the continuous statutory modification of other components. The results of the review are due to the LESC, LFC, and the Office of the Governor by the beginning of the 2025 regular legislative session.

## Compliance with HM51

To comply with the legislative requests of HM51, the LESC assembled a working group that was representative of stakeholders from across the state (see **Appendix 2** for a list of working group members). Staff was intentional in ensuring the group was diverse in its professional and geographic backgrounds, with a virtual component provided for members who could not periodically travel to Santa Fe, so as to ensure equitable access for all participants.

The working group held six sessions in Santa Fe, with each session focusing on specific components of the SEG. To support the working group, LESC staff presented background information for each formula component, including its history and methodology, findings of prior SEG reviews, and quantitative information on the distributional impact of each component in the SEG.

LESC staff tasked the working group with:

- Identifying existing challenges, strengths, and opportunities related to the SEG;
- Identifying what constitutes adequacy in the context of the SEG; and
- Building consensus on whether the SEG is responsive to the current and evolving needs of all students.

These collective goals were central components in framing the working group's conversations around the SEG and formed a strong foundation for guiding a potential revision of the SEG during the 2024 interim.

This report provides an overview of the general trends that emerged from the working group, along with additional context and considerations provided by LESC staff.

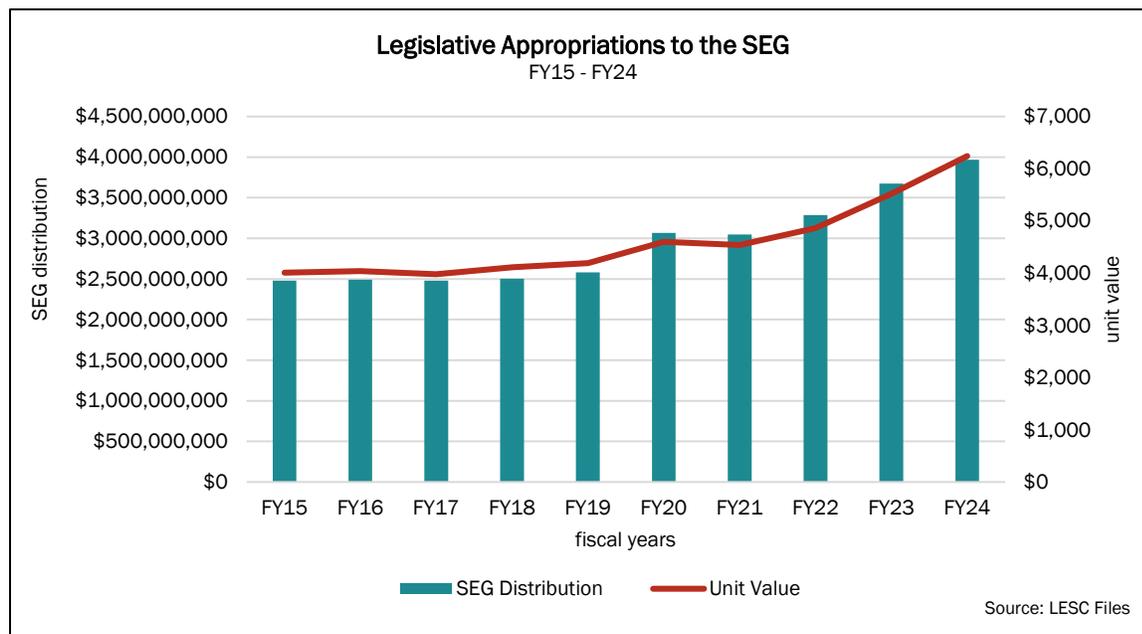
## Mechanisms, Underlying Principles, and General Trends

The central underlying principle of the SEG is the equalization of educational opportunity throughout the state. By adopting this student-based approach to funding public schools, the Legislature leverages the unique characteristics of students as objective and measurable metrics for distributing funds to the school districts and charter schools that serve them. In doing so, New Mexico has designed a framework for funding public schools that ensures each student has an opportunity to receive an adequate public education regardless of their communities' ability to leverage local funds for the operation of public schools.

To allocate funds to public schools, the Legislature establishes a single, statewide appropriation for the SEG, which is then allocated to each school district and charter school based on the number of program units they generate. Units,

although primarily based on student enrollment, are weighted for teacher qualifications, variances in rurality and school size, the special needs of students, and a variety of other factors (see **Appendix 3** for an overview of all formula components). To determine the unit value, the Public Education Department (PED) divides the legislative appropriation to the SEG by the total number of program units generated statewide.

As indicated in the chart below, strong revenue growth from oil and gas production has generated considerable resources that the Legislature has leveraged to increase its support for public schools. This influx of revenue has resulted in significant increases to the SEG distribution, which is now approximately 63 percent higher than FY15. Strong growth in appropriations, combined with declining student enrollment, have also led to substantial growth in the unit value.



The Public School Finance Act establishes the use of student membership, or “MEM,” as the metric for calculating program units. Statute requires that each student enrolled at least half-time in grades 1 through 12 count as 1 MEM. While students in full-day kindergarten programs also count as 1 MEM, those in half-day programs and 3- and 4-year-old students with developmental delays are counted as 0.5 MEM. An LEA’s funded membership is equal to the average number of students enrolled on the second and third reporting dates of the prior school year.

Generally, while certain programs have mandatory requirements or require that LEAs prioritize programs and methods that are evidence-based and linked to student achievement, the use of formula distributions is largely discretionary. This broad range of flexibility allows local leaders to leverage their SEG distributions in whichever ways best meet the specific needs of their communities. At the same time, the flexible and discretionary nature of the SEG encourages district and school leaders to strategically leverage their funds to minimize costs and potentially repurpose resources to support local priorities in ways that increase student achievement.

## Section 2: Review of SEG Components

Each component of the SEG was discussed in a public session of the public school funding formula working group. To assist the group in completing its review of the SEG, LESC staff provided all pertinent information related to each SEG component, including its history and methodology, findings of prior SEG reviews, and an LEA-level overview of program units attributable to each component. This report lays out the mechanisms of each component, the general trends that emerged during the working group’s collaborative reflections, and considerations the Legislature may study further in a potential revision of the SEG.

### Basic Program

#### Basic Program

FY24

Grade Level	Factor	Units	SEG Distribution
Half-Day Kindergarten	0.720	2,999	\$18,717,520
Full-Day Kindergarten	1.440	29,989	\$187,179,693
1	1.200	26,550	\$165,716,338
2 - 3	1.180	51,405	\$320,856,292
4 - 6	1.045	71,370	\$445,470,853
7 - 12	1.250	185,836	\$1,159,928,547
<b>TOTAL</b>		<b>368,150</b>	<b>\$2,297,869,244</b>

Source: LESC Files

The core foundation of the SEG is rooted in its basic program components, where a large majority of the formula’s program units are generated. Unlike many of the other components of the SEG that are responsive to the supplemental needs of particular students, the basic program components are intended to reflect the foundational costs of serving all students. In other words, the basic program components provide a base distribution that meets the basic needs of students, without taking into account the cost of meeting additional needs, such as those for students with disabilities. Costs exceeding this base distribution, such as those for serving low-income or mobile students, are embedded in other components of the formula.

#### Original Basic Program Components of the SEG

Grade Level	Original Differentials	1976 Revisions
Early Childhood	1.100	1.300
1 - 3	1.100	1.100
4 - 6	1.000	1.000
7 - 9	1.200	1.250
10 - 12	1.400	1.250
Vocational Education	0.800	0.000

Source: LESC Files

In its original iteration, the SEG contained four cost differentials for basic program. The base unit, weighted at 1.0, were students enrolled in grades four through six. Separate cost differentials were established for all other grades that were relative to the base unit, with kindergarten through grade three weighted at 1.1, grades seven through nine weighted at 1.2, and grades ten through twelve weighted at 1.4. At the time, vocational education was supported through a separate cost differential of 0.8, meaning a high school student enrolled in a vocational education program was generating a total of 2.2 program units through the basic program and vocational education components.

Shortly after the formula’s adoption in 1974, the Legislature commissioned two cost studies of the SEG that were tasked with comparing the formula weights to average local costs, with a primary focus on the basic program

components. Their results contributed to several revisions of the formula in 1976 when the Legislature eliminated the two separate weights for grades seven through twelve and combined them into a single weight of 1.25. Vocational education, and its separate weight of 0.8, were embedded into the cost differential for grades seven through twelve, which we now refer to as the secondary factor.

Later studies of the formula found it was functioning well in that its cost differentials were aligned with local practice. The underlying methodology and structure of the SEG was also well-perceived by stakeholders, who advocated for the preservation of the SEG's approach to equity, its non-interference with local autonomy, and its de-categorization of public school funds. However, these positive sentiments of the formula's initial framework, along with revenue constraints during the 1980s, ultimately created resistance toward proposals that would modify existing components or introduce new components to the formula.

This reluctance to adapt the formula led to extended periods of time in which the basic program components were not modified to account for changes in local practice or to align with emerging research on meeting the holistic needs of students. So much so, that the 1976 revisions to the secondary factor were the last modifications to that differential, meaning there has been a 47 year gap since the last revision to the secondary factor (see **Appendix 4** for a historical overview of statutory revisions to the SEG). This extended period of time between revisions suggests the secondary factor may no longer be aligned with the costs of adequately serving middle and high school students in accordance with what communities now expect from their public schools.

The most recent changes to the basic program components took place in 1993, upon the establishment of class size requirements. To support the additional costs associated with meeting these statutory requirements, the Legislature increased each of the primary school cost differentials, with early childhood increasing from 1.3 to 1.44, grade one increasing from 1.1 to 1.2, grades two and three increasing from 1.1 to 1.18, and the base unit for grades four through six increasing from 1.0 to 1.045. The Legislature did not, however, modify the secondary factor.

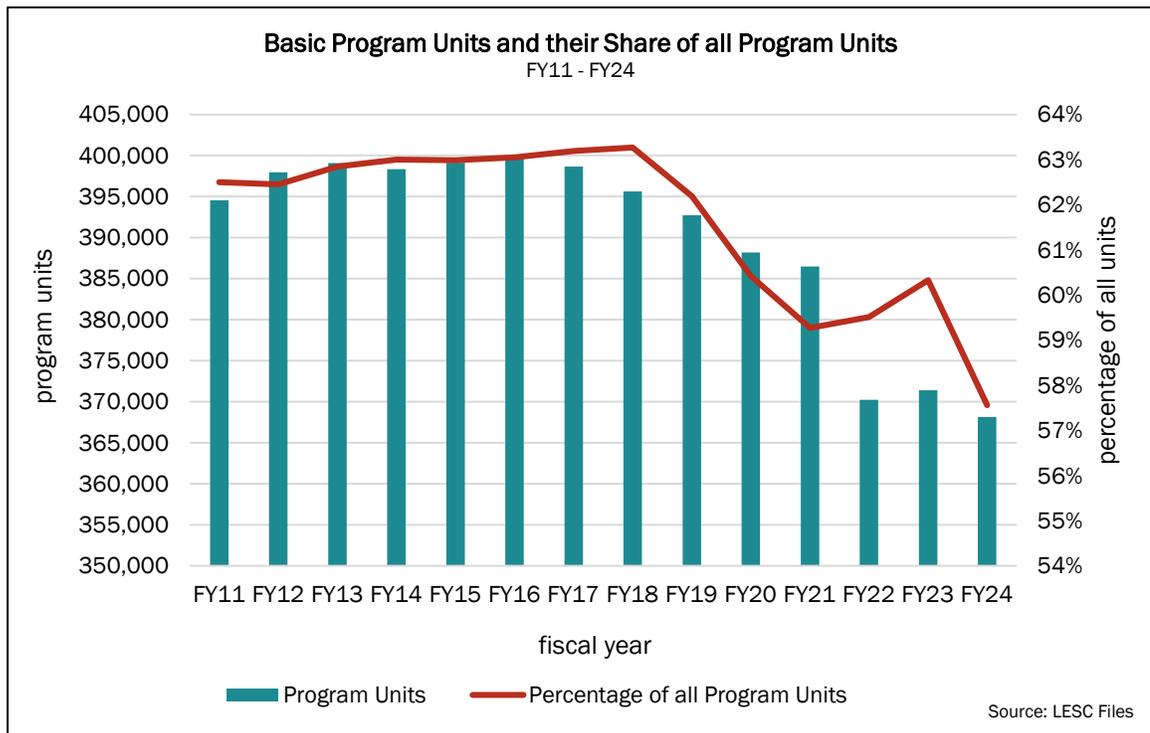
Upon the establishment of class size requirements, the basic program components were modified to primarily align with the assumed costs of meeting those requirements. At the core of these assumed costs is the compensation and benefits for each licensed teacher, below a baseline assumption that is discussed in the section on the TCI, as well as the compensation and benefits for educational assistants, if their support is required in statute. Other costs are also assumed to be embedded in the basic program components, including utilities, instructional materials, school and general office administration, janitorial staff, and other expenses associated with adequately operating a public school.

The basic program components are primarily aligned with the assumed costs of meeting statutory class size requirements, with additional supports for instructional materials, administrative staff, and other expenses associated with adequately operating a public school.

Importantly, there are specific costs that are not typically assumed to be embedded in the basic program components, such as the cost of providing elementary fine arts and physical education courses. These programs have separate

components in the SEG that generate program units for students participating in that elementary programming, and so the basic program units are not directly responsive to those costs, either at the elementary or secondary level. Other areas of student need, such as programs and services for students with disabilities and interventions for low-income students and English learners, are also supported in separate formula components.

Basic program has historically been the largest source of program units in the SEG, with these components generating approximately 57 percent of all program units in the formula. However, this percentage has declined in recent years as the Legislature has modified other components of the SEG to further support areas it has deemed priorities (see **Appendix 5** for an overview of program units generated by each component of the SEG). The most recent examples include significant investments in both the at-risk index and the K-12 Plus program.



Because the Legislature has primarily modified other formula components, largely in response to the *Martinez-Yazzie* consolidated lawsuit, a primary consideration for the working group was whether the basic program components are adequately responsive to the evolving needs of students. While broad and expansive in its scope, this question is a foundational component in much of the work that is needed to build an adequate and responsive public education system. Everything from the LESC’s ongoing work around secondary school redesign, to attendance and chronic absenteeism, to literacy and mathematics, is rooted in the adequacy and responsiveness of the SEG’s basic program components.

Because of this, the working group continuously alluded to the true cost of adequately serving a public school student. While prior reviews of the SEG have established a framework for identifying the various costs associated with adequately operating a public school, those reviews laid out their considerations

based on the context at the time they were written. As alluded to by the working group, public education has evolved and so too have the needs of students and the expectations placed on educators. These changing dynamics and expectations may require a renewed focus on establishing consensus on the personnel and programmatic components that are embedded in our collective interpretation of a truly adequate and responsive public education system.

Apart from its focus on the true cost of adequately operating a public school, the working group also expressed concern that the formula no longer has a base unit in its basic program components. Without this base unit, New Mexico is largely misaligned with practices in other states that are using a foundation model of funding public schools, as several states have established a base unit of 1.0 for a particular range of grade levels. That range varies significantly by state, but most often, the base unit includes some combination of grades four through eight.

Without a base unit in its basic program components, New Mexico is largely misaligned with practices in other states that are using a foundation model of funding public schools.

Another key consideration revolved around the secondary factor, where the working group posed questions around whether there is a standardized cost in serving middle and high school students. Research suggests there are unique costs in providing particular courses to secondary students, with advanced placement, honors courses, and international baccalaureate requiring significantly higher investments than general education or remedial courses. At the same time, foreign language and electives may also require higher costs on a per-student basis than math and English courses. Based on this existing research, the differentiation in college and career pathways at the high school level are a unique cost that are often not fully incurred by middle schools. This suggests the SEG may require further assessment of whether the secondary factor is responsive to the variances in costs between providing sufficiency in middle and high schools.

However, completing such an assessment must go beyond a narrow consideration of the costs associated with satisfying class size requirements. It must also take into account the variances in cost of serving particular students, in particular grade levels, in particular programmatic settings. This may mean questioning our collective assumption that the cost of serving a high school student enrolled in advanced placement courses is the same as a student who is primarily enrolled in general education courses. While that may be an excessively complex approach to distinguishing the unique costs of serving students, the process of building a responsive and adequate system of funding public education should begin with explicitly acknowledging this level of nuance in each student's personal academic journey.

If the Legislature were to revise the basic program cost differentials, likely considerations could include the establishment of a new base unit, with grades four through six being likely candidates for that base unit. Other considerations could include modifying the cost differentials for kindergarten through grade three to ensure they adequately support the comprehensive costs of complying with the class size requirements outlined in statute. Modifying the cost differential for grades seven through twelve could also be a critical component in the Legislature's ongoing work around secondary school redesign, where the cost

differential should adequately support the Legislature’s evolving vision for middle and high school.

### Elementary Fine Arts Programs

#### Elementary Fine Arts Programs

FY24

Component	Factor	Units	SEG Distribution
Elementary Fine Arts	0.055	8,514	\$53,140,942
<b>Total</b>		<b>8,514</b>	<b>\$53,140,942</b>

Source: LESC Files

An LEA generates additional program units for elementary fine arts programs by multiplying student membership in programs meeting the requirements outlined in the Fine Arts Education Act by a cost differential of 0.055. The purpose of the Fine Arts Education Act is to encourage school districts and charter schools to offer fine arts activities to elementary school students, including visual arts, music, theater, and dance. In FY24, only one school district did not generate elementary fine arts program units, along with forty-six charter schools, or just under half of all charter schools currently in operation.

Much of the discussion among the working group centered on the intended purpose of the elementary fine arts factor and whether it was meant to pay for programming or the personnel costs associated with having an educator in place to offer those programs. A stakeholder review of five school districts found elementary fine arts formula funding is being leveraged to support a range of costs, including educator compensation, professional development, supplies, equipment, and student travel. While local staffing and programmatic decisions vary by LEA, particularly because statute does not require a licensed teacher be leveraged in providing a fine arts programs—certified school instructors must supervise those teaching the program if those persons are not licensed—in general, the fine arts factor may not be adequately responsive to the comprehensive costs of providing an elementary fine arts program.

A separate point of conversation among the working group revolved around whether elementary fine arts programs are a core foundational experience all students should have access to. While statute does not require that an elementary student participate in a fine arts program, a large majority of students throughout New Mexico currently have access to qualifying fine arts programs, with one school district and forty-six charter schools not providing qualifying programming. This formula component is distinct from elementary physical education programs, which LEAs are required to provide to all students, but that also generate program units through a separate component of the formula.

If the collective vision of the Legislature is that elementary fine arts programs are a core foundational experience that all students should participate in, the Legislature may consider embedding the elementary fine arts factor in the basic program components for kindergarten through grade six. By doing so, the Legislature could signal its intent to embed fine arts programming as a core foundational experience for all students while also alleviating the administrative burden associated with LEAs having to annually request funding for qualifying fine arts programs.

## Elementary Physical Education Programs

Statute requires all students in kindergarten through grade six participate in a physical education course. To qualify for elementary physical education funding through the SEG, a physical education program must be offered in an elementary school and be taught by a certified teacher with a license endorsement for physical education. Each elementary student in a qualifying physical education program generates 0.06 program units.

Elementary Physical Education Programs  
FY24

Component	Factor	Units	SEG Distribution
Physical Education	0.060	7,726	\$48,220,833
<b>TOTAL</b>		<b>7,726</b>	<b>\$48,220,833</b>

Source: LESC Files

While statute requires all elementary students participate in a physical education program, the elementary physical education component has only recently been fully implemented. Initially, the Legislature's intent was for physical education funding to be phased in over time, beginning with schools that had the highest percentages of students from low-income families, elementary schools serving an entire district, and schools with available space. As the financial crisis of 2008 constricted the Legislature's ability to sustain existing appropriations, the initial \$16 million appropriation to the SEG for elementary physical education programs was not increased to support the component's full implementation.

Because of this, schools originally funded remained the only schools receiving physical education formula funding. Language typically included in the General Appropriations Act (GAA) directed PED to limit the number of program units for elementary physical education, based on available funds. In FY23, however, the Legislature removed this language from the GAA, opening up the program to new LEAs. To complete the implementation of the elementary physical education program, the Legislature also increased its appropriation to the SEG by a total of \$12 million in FY23 and FY24, bringing total recurring support for elementary physical education programs to \$28 million.

Similar to the working group's considerations around elementary fine arts, much of the conversation revolved around what the elementary physical education program component is intended to pay for. However, unlike elementary fine arts programs, statute explicitly requires an elementary physical education program be taught by a certified teacher with a license endorsement for physical education. By imposing this statutory requirement, the Legislature has essentially split the cost of providing an elementary physical education program into several portions, with basic program, the TCI, and the elementary physical education program component all playing a role in supporting these programs.

When the Legislature enacted a statute requiring every elementary student participate in a physical education program, it indicated physical education is a core foundational experience for all elementary students in New Mexico. With universal access to elementary physical education programs now in place, the Legislature may consider incorporating the elementary physical education program component into the basic program cost differentials for kindergarten through grade six.

## Bilingual Multicultural Education Programs

### Bilingual and Multicultural Education Programs

FY24

Component	Factor	Units	SEG Distribution
Bilingual Multicultural Education	0.500	7.991	\$49,877,684
<b>TOTAL</b>		<b>7,991</b>	<b>\$49,877,684</b>

Source: LESC Files

The Legislature supports bilingual multicultural education programs (BMEPs) with a cost differential that counts each full-time-equivalent student enrolled in an eligible program. The number of BMEP units is determined by multiplying the full-time-equivalent (FTE) student membership in qualifying programs, as defined by the Bilingual Multicultural Education Act (BMEA), by a cost differential of 0.50. Students in a BMEP receive different levels of service—ranging from one to three hours—and that service level is used to determine their FTE.

Of primary concern to the working group was whether having a cost differential that is exclusively generated by students enrolled in a qualifying BMEP is adequately meeting the unique needs of all English learners. Currently, formula funding for bilingual and multicultural education is contingent on an LEA having implemented a BMEP that is aligned with PED requirements. Many LEAs, even those with large English learner populations, have chosen to not implement a BMEP. Consequently, they do not generate formula funding that is exclusive for the programs and services an English learner may need. Instead, English learners are one of three components in the at-risk index (see [page 20](#)), which is based on three-year averages, does not have a mechanism in place to require funds be spent on English learners, and is somewhat ineffective in distinguishing the proportion of at-risk funds that are attributable to English learners.

Prior reviews of the SEG recommended the BMEP factor be replaced with a separate component for English learners so as to expand the range of students who generate additional units beyond those in a qualifying BMEP. While this consideration was not enacted by the Legislature, it is important to note English learners were identified in the *Martinez-Yazzie* consolidated lawsuit as one of the four student groups that were deprived of a constitutionally sufficient education. Adequately meeting the needs of this broad range of students is consequently of critical importance in achieving sufficiency in public education and satisfying the requirements of the *Martinez-Yazzie* lawsuit. However, it is also important to preserve the formula's responsiveness to the needs of all students who choose to enroll in a high-quality BMEP, like dual-language models, particularly as the state constitution maintains both English and Spanish as official languages.

To address the findings of the *Martinez-Yazzie* consolidated lawsuit, the Legislature may consider eliminating the English learner component of the at-risk index and replacing it with an entirely separate cost differential for English learners. This could ensure all LEAs are generating units for the total number of English learners they serve while also preserving funding for those with a certified BMEP already in place. Having a separate component for English learners could also serve as a signal to LEAs that they should be leveraging the resulting funds on the English learners who generate those units.

## Teacher Cost Index

The TCI generates additional program units to offset the higher costs of licensed teachers with more advanced licenses and years of experience. To do so, the TCI uses a matrix that assigns an index to each licensed teacher, depending on their licensure level and years of experience. In general, the more years of experience and higher level of licensure a teacher has, the higher their index will be in the TCI. These individual indexes are then added together at the LEA level to calculate the average index across each LEA. That average is then multiplied by each LEA's total basic program units and the resulting units are referred to as an LEA's adjusted program units. Unlike the training and experience index (T&E) it replaced, which focused more on degree attainment, the TCI is solely aligned with the provisions of the three-tier licensure system.

### Staffing Cost Multiplier

FY24

Component	Units	SEG Distribution
Teacher Cost Index	24,662	\$153,933,582
<b>TOTAL</b>	<b>24,662</b>	<b>\$153,933,582</b>

Source: LESC Files

### Teacher Cost Index

FY24

Licensure Level	Years of Experience				
	0-2	3-5	6-8	9-15	15+
Level I	0.775	0.785	0.800		
Level II		0.994	1.023	1.050	1.123
Level III			1.184	1.208	1.277

Source: LESC Files

Statute establishes minimum salaries for all licensed teachers that correspond with their licensure level. Currently, a Level I licensed teacher earns at least \$50 thousand, Level II earns at least \$60 thousand, and Level III earns at least \$70 thousand. An LEA may establish higher minimum salaries in their local salary schedules, with many LEAs having increased the minimum compensation for their licensed teachers to accommodate the recent statutory increase in instructional hours. If a school district or charter school also participates in the K-12 Plus program, that LEA may also establish higher minimum salaries for their licensed teachers, depending on the number of instructional days in their school calendar.

Despite this variability in local salary schedules, the SEG is primarily designed to generate program units in alignment with the assumed costs incurred by an LEA in complying with the three-tier licensure system. It does so by embedding a large portion of the cost of compensating licensed teachers in the basic program components. These components, as referenced in the section on basic program, are intended to pay for the compensation of all licensed teachers below a specific baseline assumption. Because a Level I license is considered to be provisional, the Legislature recognizes a Level II licensed teacher with between three and five years of experience as the TCI's baseline assumption. All compensation costs above that baseline assumption are assumed to be embedded in the TCI.

An analysis by LESC staff found the TCI, as currently designed, is largely aligned with the costs of providing statutory minimum salaries. Overall, most school districts and charter schools that have closely aligned their salary schedules with the minimum salaries established in statute have largely been made whole by the

TCI. Meanwhile, many LEAs that have established significantly higher salaries in their local schedules have seen moderate to significant shortfalls in their formula distributions resulting from the TCI. This, of course, is the result of local decisions that deviate from the assumptions embedded in the SEG, and consequently, the resulting shortfalls cannot be exclusively attributed to the TCI.

### Median Teacher Salaries Compared to TCI Assumptions

FY23

Licensure Level	Years of Experience				
	0-2	3-5	6-8	9-15	15+
Level I	Est: \$45,849 Act: <u>\$50,302</u> Diff: (4,453)	Est: \$47,671 Act: <u>\$50,487</u> Diff: (\$2,816)	Est: \$48,582 Act: <u>\$50,487</u> Diff: (\$1,905)		
Level II		Est: \$60,363 Act: <u>\$60,727</u> Diff: (\$364)	Est: \$62,124 Act: <u>\$61,475</u> Diff: \$649	Est: \$63,764 Act: <u>\$62,066</u> Diff: \$1,697	Est: \$68,196 Act: <u>\$63,355</u> Diff: \$4,841
Level III			Est: \$71,901 Act: <u>\$70,700</u> Diff: \$1,201	Est: \$73,358 Act: <u>\$71,311</u> Diff: \$2,047	Est: \$77,548 Act: <u>\$72,200</u> Diff: \$5,348

Source: LESC Files

The working group heard from stakeholders on several challenges associated with the TCI, including the lack of consideration the TCI places on the increased costs of retaining licensed teachers with more than fifteen years of experience. Stakeholders indicated that without a mechanism in the TCI that is responsive to the costs of licensed teachers with more than fifteen years of experience, the TCI is not aligned with the provisions of the Educational Retirement Board. This means a teacher must continue working for substantially longer than fifteen years to qualify for their pension, but the TCI does not contain higher indices for those teachers. Therefore, a teacher who remains in the workforce for the duration of their pension eligibility requirements is earning progressively higher salaries that are not taken into account by the TCI.

Of additional concern to stakeholders was the use of prior-year data in the TCI calculations, which means an LEA may have to cover the cost of Level II and III teachers in their first year of employment without support from the TCI. The nuances of licensure advancement are also of concern to LEAs, primarily because licensure advancement can take place at any point in a fiscal year. Therefore, if a teacher were to advance in their licensure during the mid-point of a fiscal year, the LEA must cover the cost of their increased compensation in that year, before their updated licensure has an impact on the LEA's TCI. Compaction also concerns stakeholders, as some local salary schedules do not adequately differentiate on

the basis of experience or education, partially because the mechanisms of the TCI do not align with the nuanced structure of some local salary schedules.

Other unique challenges for small LEAs that were highlighted by stakeholders included the year-over-year variability of the TCI. Because small LEAs have few licensed teachers, the resignation or retirement of a Level III teacher may have a significant adverse impact on their overall index. The formula then constricts these LEAs even more because the TCI is solely multiplied against an LEA's basic program units, of which many small LEAs have relatively few. While an argument can be made the formula's size adjustment components are intended to account for these diseconomies of scale (see **page 25**), these challenges still indicate the TCI may not be adequately responsive to the unique needs of small LEAs.

In their consideration of the TCI, members of the working group spoke extensively of the underlying philosophy of the SEG, in that the formula is designed to be responsive to the characteristics and needs of students, rather than those of licensed educators and the broader range of public school personnel. Maintaining this underlying philosophy was an important goal of the working group, many of whom indicated the formula should remain student-based, but still have some embedded components that support the recruitment and retention of a healthy educator workforce. This likely means having a responsive staffing cost multiplier that adequately supports competitive and differentiated compensation, encourages innovative approaches to staffing models, and adequately incentivizes professional development.

While maintaining the underlying student-based philosophy of the SEG is critical, the formula should also be responsive to the comprehensive costs of recruiting and retaining a high-quality educator workforce.

Of related concern to the working group was the structure of the three-tier licensure system itself, which some believe may no longer be adequately serving as an effective career ladder. Since 2009, there have been two LFC [evaluations](#) that assessed the effect of Level III teachers on student outcomes, both of which found Level III teachers were not significantly more effective in increasing student achievement than Level I teachers. While these studies were completed prior to the introduction of teacher residency programs, the Ed Fellows program, micro-credentials, and training for structured literacy, the studies still suggest a potential misalignment between the licensure system and teacher effectiveness.

A proposal heard by the working group included the concept of a Level IV license, where a teacher would be required to take on an instructional leadership role in their school, which may be one approach to alleviating a potential misalignment between the licensure system and teacher effectiveness. This approach could mirror the opportunity culture model being implemented in Carlsbad Municipal Schools, where multi-classroom leaders (MCLs) guide other teachers in lesson planning, data analysis, instructional changes, and the creation of a tutoring culture. These MCLs are teachers with proven records of high-growth student learning who take on added responsibilities, including observing, coaching, co-teaching, and modeling instruction, and receive additional compensation for those responsibilities. While this model is only in its first year of implementation, and rigorous assessment will be needed of its impact on student achievement and educator well-being, it does present a unique approach that could be assessed for potential incorporation in the licensure system and in the SEG.

If the Legislature pursues a revision of the SEG, the TCI should be considered a priority for further assessment. Key considerations in an assessment of the TCI should include whether the TCI is adequately responsive to the comprehensive costs of compensating licensed teachers with more than fifteen years of experience, how greater stability could be embedded in the TCI for smaller LEAs, and whether the TCI and the licensure system should be modified to incorporate a Level IV license.

### K-12 Plus

**K-12 Plus**  
FY24

Tier Level	Factor	Units	SEG Distribution
Tier 1	0.012	16,045	\$100,146,072
Tier 2	0.016	2,143	\$13,377,172
<b>TOTAL</b>		<b>18,188</b>	<b>\$113,523,244</b>

Source: LESC Files

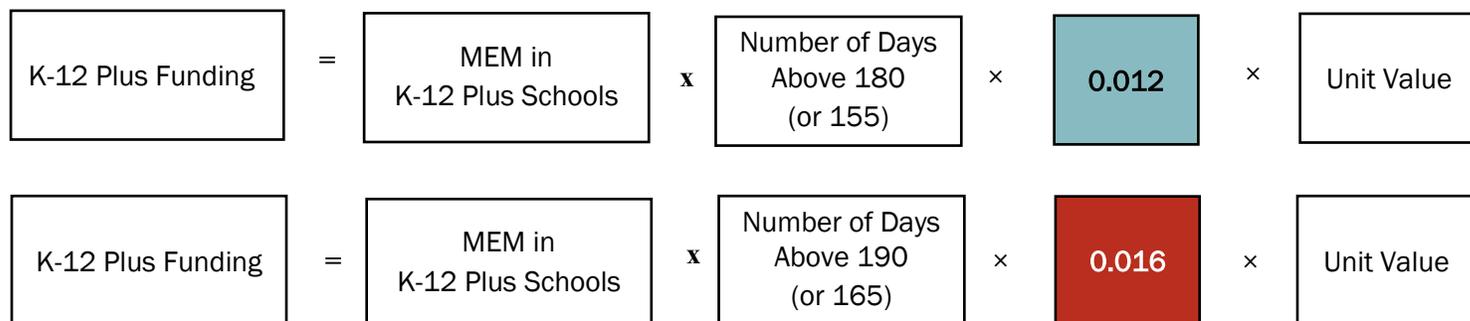
The K-12 Plus program generates additional program units if an LEA exceeds a particular number of instructional days. In doing so, the SEG aligns with the Legislature’s commitment to learning time as a key component in increasing student achievement and complying with the findings of the *Martinez-Yazzie* consolidated lawsuit. Prior iterations of learning time initiatives, such as K-5 Plus and the Extended Learning Time program (ELTP), received significant appropriations over a period of several years. But a lack of local buy-in and general resistance to each program’s requirements resulted in low take-up across the state that ultimately resulted in substantial reversions of funding.

To alleviate these challenges, the Legislature appropriated \$312.3 million in FY24 to support the enactment of House Bill 130 (H130), which increased the minimum instructional hours for all students to 1,140, phased-out K-5 Plus and ELTP, and established the K-12 Plus program. Each LEA has a wide range of statutory discretion in meeting the revised instructional hour requirements, including the use of four-day school weeks. Although, statute now encourages the addition of instructional days to school calendars by providing additional program units to those that exceed certain thresholds.

A proposed administrative rule would require all LEAs provide at least 180 days of instruction and that at least half of all school weeks be five-day weeks. If enacted, this rule could disrupt the legislative intent of the K-12 Plus program and may require a revision of the formula’s respective components.

An LEA may generate these program units in two “tiers” of the K-12 Plus program, which provides additional program units for “K-12 Plus days,” but allows LEAs to participate in any number of days they decide at a local level. “Tier 1” includes a cost differential of 0.012 per student for each instructional day over 180 days, or 155 days in four-day school districts, and “Tier 2” includes a cost differential of 0.016 per student for each instructional day over 190 days, or 165 days in four-day school districts. LEAs that were already providing instructional days in excess of these thresholds may leverage their resulting units on investments in other local needs, while those that choose to increase their instructional days above the thresholds may generally do so in ways that are responsive to their local context.

## Method of Calculating K-12 Plus Funding



According to an [LESC analysis](#), enactment of HB130 contributed to an increase in instructional time in most LEAs, both in terms of hours and days. Overall, schools with five-day weeks added an average of 3.3 instructional days at the elementary level and 1.6 at the secondary level. Those with four-day weeks added an average of 5.5 instructional days at the elementary level and 4.6 days at the secondary level. Much of the new instructional hours occurred in the elementary grades, where schools added between 93 and 98 additional instructional hours, compared to a range of 11 to 41 hours in secondary schools.

There are a range of stakeholder concerns related to the increase in instructional time, many of which are programmatic or relate to specific provisions of the statute that are beyond the fiscal components of the K-12 Plus program. But among the concerns that do relate to the cost differentials themselves is their perceived inadequacy in supporting the comprehensive costs of operating public schools for an extended number of instructional days. Some examples include the costs of personnel that are federally funded, for whom the influx of state funding was not necessarily intended for. Although, supporting personnel with federal money remains a local decision that does not necessarily indicate a flaw in the framework of the K-12 Plus program.

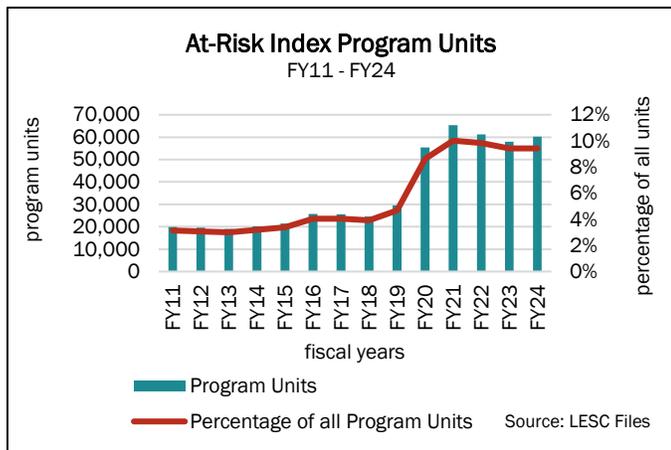
It is also important to note the enactment of HB130 was paired with significant funding in the SEG, with no regard to whether an LEA was already providing more than 1,140 instructional hours. As with all distributions in the formula, LEAs had significant flexibility in leveraging the \$202 million that was appropriated for the increase in instructional hour requirements. These funds could have been used for increased compensation for existing teachers, the recruitment of new teachers, or for the broader and more comprehensive costs of operating a public school. Whether those supports are adequate in supporting these costs is now a consideration for the basic program components, with the cost differentials for the K-12 Plus program being largely separate from that conversation.

This report does not propose the programmatic components of HB130 be revised in any significant form, but if the Legislature were to revisit the fiscal framework of the K-12 Plus program, it may consider revising the tier differentials to accommodate local needs. Other considerations may be more closely aligned with the programmatic components of the program, such as the number of professional learning hours that may be included in instructional hour minimums. But this consideration, on its own, may not require a revision to the SEG.

**At-Risk Index**  
FY24

Components	Factor	Units	SEG Distribution
Title I, English Learners, and Mobility	0.33	60,262	\$376,135,767
<b>Total</b>		<b>60,262</b>	<b>\$376,135,767</b>

Source: LESC Files



Source: LESC Files

**LEAs with the Lowest and Highest At-Risk Indexes**  
FY24

LEA	At-Risk Index	Percentage of all Units
Magdalena	0.455	13.26%
Cuba	0.400	13.43%
Vaughn	0.366	5.00%
Zuni	0.354	14.64%
Hatch	0.323	13.58%
Maxwell	0.063	1.55%
Des Moines	0.063	1.62%
Mosquero	0.057	1.29%
Grady	0.056	1.80%
Los Alamos	0.044	2.24%

Source: LESC Files

**At-Risk Index**

The SEG generates additional program units to address the needs of students who the Legislature has collectively determined to be “at-risk.” These students include those identified as low-income as defined by Title I of the federal Elementary and Secondary Education Act, English learners as defined by the United States Department of Education, and mobile students as defined by PED. To determine the at-risk index for each school district, the three-year average percentages of the three aforementioned components are added together and multiplied by a cost differential of 0.33. A school district’s at-risk index is then multiplied by its total membership to determine the number of at-risk program units it is entitled to. Importantly, a charter school is assigned the at-risk index of the school district it is geographically located in.

Since its creation in 1997, there have been five legislative revisions to the at-risk index, which have cumulatively increased the at-risk factor from 0.0915 to 0.33. As its cost differential has increased, so too has the proportion of all program units that are attributable to the at-risk index. Preliminary estimates from FY24 indicate approximately 10 percent of all program units will be attributable to the at-risk index, with a total distribution of approximately \$376 million. This is up from just under 4 percent in FY11, when the value of the program units attributable to the at-risk index was approximately \$78 million.

Significant variances exist in student need across the state, as indicated in LEA-level at-risk indexes and in the local proportion of program units that are attributable to the at-risk index. In FY24, Magdalena Municipal School District had the highest at-risk index in the state, with approximately 13 percent of its program units being generated by the Index. Magdalena Municipal School’s Title I eligibility was by far the largest contributor to its at-risk index, with approximately 98 percent of Magdalena’s students being reported as eligible for Title I. In contrast,

Los Alamos Public Schools had the state's lowest at-risk index in FY24, with approximately 2 percent of its program units being attributable to the index.

The working group raised a wide range of concerns related to the at-risk index, including a lack of accountability in how at-risk funds are used at the local level. While statute provides guidance for how LEAs can leverage their at-risk funds, many LEAs may be spending a portion of those funds to support expenses that may not be aligned with the needs of at-risk students. This potentially undermines the legislative intent of the at-risk index and calls into question whether an accountability framework, such as spending targets, may be needed to ensure at-risk funds are being appropriately leveraged at the local level.

Another concern for the working group was the lack of a formal mechanism in the at-risk index that is responsive to the variances in student characteristics between charter schools and the school district they are located in. Statutory provisions that require a charter school be assigned the at-risk index of the school district it is geographically located in are largely a vestige of the Legislature's initial approach to at-risk funding. When the at-risk index was created in 1997, the Legislature intended for the component to identify conditions that existed in a particular geographic area. Initially, this approach was largely responsive to the needs of local communities, particularly because there were only five charter schools in the state. As the number and geographic diversity of charter schools has increased, this statutory provision has contributed to the at-risk index becoming increasingly unresponsive to the unique student populations that some charter schools serve, relative to the broader communities they are located in.

In addition to the at-risk index's perceived disconnection from the unique needs of charter schools, there were also concerns with the reliability of leveraging Title I eligibility data as a proxy for identifying student poverty. Because Title I draws on U.S. Census statistics to identify student poverty, the resulting data may be distorted or unreliable when external events disrupt the ability of the federal government to complete an accurate census. Federal provisions allowing school-wide Title I programs may have also eroded the reliability of leveraging Title I eligibility data in accurately identifying student poverty, particularly because all students in a school-wide program are classified as eligible for Title I when that data is embedded in the at-risk index. These dynamics may be creating a significant distortion in how the at-risk index identifies poverty at the LEA-level, thereby contributing to a potential misallocation of program units.

One approach in addressing these challenges may be the incorporation of the family income index (FII) in the at-risk index, in place of Title I. The FII was initially designed with the intention of strengthening New Mexico's ability to identify concentrations of poverty (see this [LESC report](#) for an overview of the FII). To do so, it uses a three-step process that draws on household income information from state income tax forms, public benefits, and the United States Census. The key distinction of the FII is its ability to identify concentrations of poverty at the school-site level, unlike the at-risk index, which uses district-level poverty in its methodology. By using a more granular approach to

Leveraging the family income index as an indicator for poverty may strengthen the SEG's ability to identify concentrations of poverty, thereby enhancing the precision of the formula in allocating at-risk program units to the LEAs with the most need.

identifying student poverty, the FII can yield meaningful insight into the variances in poverty that exist in particular communities, which can then guide the allocation of program units to LEAs serving students with the most need. At the same time, the embedding of the FII in the SEG may also allow charter schools to generate a unique at-risk index, thereby recognizing the potential variances in poverty that may exist between a charter school and the school district they are geographically located in.

Based on these considerations, this report recommends the at-risk index be considered a priority for revision, with a primary focus on revising the component’s approach to identifying student poverty.

### Special Education

**Special Education**  
FY24

Class or Component	Factor	Units	SEG Distribution
Class A/B	0.700	33,576	\$209,567,191
Class C	1.000	8,678	\$54,165,212
Class D	2.000	16,380	\$102,238,555
3- & 4-Year-Old DD	2.000	6,973	\$43,523,165
Ancillary	25.000	49,043	\$306,107,101
<b>Total</b>		<b>114,649</b>	<b>\$715,601,224</b>

Source: LESC Files

An LEA receives program units for students who qualify as “exceptional” because their educational needs cannot be met in a general classroom setting. There are five cost differentials for special education and related services, with four being generated depending on a student’s level of need, according to their Individualized Education Plan (IEP). A separate cost differential generates program units based on the number of certified or licensed staff providing diagnostic services or speech therapy and other ancillary services. These personnel typically include audiologists, diagnosticians, school psychologists, speech and language pathologists, rehabilitation counselors, and a range of other positions.

### Student Classifications

Class	Statute	PED Guidance
A	Minimal	10% or less of the school day
B	Moderate	11-49% of the school day
C	Extensive	50% of the school day or more
D	Maximum	Approaching a full school day or 3- & 4-Year-Old DD

Source: LESC Files

Currently, the framework for classifying a special education student in one of the four formula classes is based on statute, where 22-8-21 NMSA 1978 requires a student be classified as requiring minimal, moderate, extensive, or maximum services. Guidance from PED clarifies the thresholds between these classes as being 10 percent or less of the school day for minimal services, between 11 percent and 49 percent for moderate services, more than 50 percent for extensive services, and approaching a full

instructional day for maximum services. Three- and four-year old students who are developmentally delayed are classified in Class D. Ambiguity remains, however, in regards to the thresholds for Class C and D, where vague language in the Department’s guidance may be contributing to variances in how LEAs classify students, and consequently in how many program units those students generate.

Significant local variances exist in the proportion of program units that are attributable to special education. Preliminary FY24 data indicates the Albuquerque Sign Language Academy generated approximately 66 percent of its program units from special education, with 75 percent of those units being attributable to its 16 ancillary FTE. In contrast, the Six Directions Indigenous School generated approximately 3 percent of its program units from the special education components. It is important to note an LEA generating a high proportion of its program units from special education may not necessarily be serving a higher than average rate of special education students, nor does it suggest their students have a higher than average level of need. Instead, local staffing models, consistency and equity in approaches to student identification, and the availability of early intervention services are all factors that must be taken into account in assessing the concentration of students receiving special education services in any one LEA.

**LEAs with the Highest and Lowest Proportions of Special Education Units**

FY24

LEA	Special Education as a Percentage of all Units
Albuquerque Sign Language Academy	66.04%
School of Dreams Academy	30.77%
Mark Armijo Academy	28.50%
Cottonwood Valley	27.96%
Native American Community Academy	27.96%
Middle College High School	3.95%
Raices del Saber Xinachtli Community School	3.63%
Roy Municipal Schools	3.03%
Six Directions Indigenous School	2.75%
Explore Academy – Rio Rancho	0.00%

Source: LESC Files

Prior reviews of the SEG made similar determinations regarding the special education components, including a perception the formula incentivizes LEAs to identify high levels of Class C and D students, incentivizes LEAs to hire an excessive number of ancillary staff, and fails to incentivize LEAs to pursue rigorous preventative interventions. To remedy these concerns, the AIR and the Joint LESC-LFC studies recommended the adoption of a census-based funding system that would assume a standardized special education identification rate and provide a single cost differential for those students. By adopting this model of funding special education, the prior reviews suggested the Legislature could remove the formula’s perceived incentives and alleviate the administrative burden associated with categorizing students by their levels of need.

The concept of a census-based model of funding special education also emerged in a separate [LESC review of special education programs and services](#), where stakeholders spoke of the need to ensure adequacy, transparency, and flexibility in funding for special education. Several stakeholders suggested a census-based model of funding special education could achieve all three of the aforementioned goals, while simultaneously alleviating the administrative workloads associated with classifying students by their levels of need.

Due to the alignment between the findings of prior SEG reviews and the LESC’s current work on special education, LESC staff asked the working group to focus its deliberation on the concept of a census-based approach to funding special education. Several key themes emerged during this discussion, including a general

concern that a census-based approach may not recognize the variances in the cost of serving students with different needs. Other considerations focused on the potential funding shortfalls an LEA may experience if they serve a disproportionate number of special education students, or the funding windfall an LEA may receive if their proportion of students is below the proposed threshold. There was, however, a general interest among the working group in exploring the removal of incentivizes that may be contributing to elevated student identification rates or the hiring of an excessive number of ancillary staff.

One alternative consideration emerged from the working group that highlighted the potential for designing a series of components that would be responsive to the specific diagnosis of a student. In other words, the formula would generate a different number of program units depending on whether a student was identified as having autism, speech delays, or a number of other disabilities. This model would emulate that of Arizona, where a portion of state funding for special education depends on the student's disability and their educational setting. Adopting this model of funding special education could enhance the formula's responsiveness to the actual needs of students but may also present an excessively complex approach to supporting special education programs and services.

While the working group did not elevate this approach as one to emulate, this model did highlight the potential need to quantify the costs of adequately serving students with specific disabilities. This could again emulate the approach that Arizona has established in funding special education, where its add-on weights are responsive to the differentiated costs of serving particular disabilities in particular educational settings. By assessing the costs of serving specific disabilities, both in terms of programming and the ancillary personnel that are typically required, the Legislature could ensure each of the special education components, as they are currently designed, are adequately responsive to those comprehensive costs.

In addition to a general focus on ensuring adequacy in the SEG's components for special education, the Legislature may also consider expanding its use of high-cost funding, where an LEA may receive supplemental funding if the cost of serving a specific student exceeds an explicitly defined threshold. The Department already maintains a similar high-cost fund, referred to as Punte para los Niños, which PED limits to students whose total costs exceed three times the state's average per-pupil costs. However, the fund only received a \$2.1 million set-aside from the federal Individual with Disabilities Act in FY24, and some stakeholders have reported difficulties in accessing those funds. Absent a significant departure from the Legislature's current approach to funding special education, high-cost funding may provide adequate support when the cost of serving a particular student exceeds the fiscal capacity of an LEA.

If the Legislature pursues a revision of the special education components, the adoption of a census-based model may be a primary consideration for further assessment. Alternatively, the Legislature could choose to maintain its current framework for supporting special education programs and services, while focusing on ensuring adequacy in funding by revising their respective cost differentials in the SEG, based on a comprehensive cost analysis for each category of disability. Other considerations, however, may emerge from the LESC's ongoing review of special education programs and services, including a refined approach to high-cost funding for students receiving a large degree of services.

## Size Adjustments

Because small and rural LEAs are disadvantaged by diseconomies of scale, the SEG allocates additional program units based on the size of a school, the size of a school district, and the rurality of a geographic area. In doing so, the SEG accounts for the higher per-student costs incurred by smaller LEAs, as well as the unique costs associated with serving largely rural communities. These components, however, have been significantly modified in recent years, with the phase-out of supports for some small schools and the introduction of the rural population component. Ensuring each of the size adjustment components continue to be adequately responsive to the unique costs of supporting small and rural LEAs should consequently be of critical importance in a potential revision of the SEG.

Component	Units	SEG Distribution
School Size	11,011	\$68,730,056
District Size	4,867	\$30,378,033
Micro-District	1,644	\$10,261,305
Rural Population	5,901	\$36,834,435
<b>TOTAL</b>	<b>23,424</b>	<b>\$146,203,829</b>

Source: LESC Files

Currently, elementary and middle schools with fewer than 200 students and high schools with fewer than 400 students generate additional program units through a calculation that increases units as the school approaches the midpoint of the size limit then slowly decreases units until the school site hits the maximum enrollment allowed to receive funding. In previous years, some school districts and charter schools may have exploited loopholes in the small school factor to boost their per-student funding by establishing multiple small schools at the same location or at a nearby location. At the time, this was deemed an allowable exercise of local autonomy, as statute allowed multiple schools to share a building and teaching staff and be led by the same principal and still be classified as separate school sites.

These manipulations of the size adjustment component were referenced in the *Martinez-Yazzie* consolidated lawsuit, with the court suggesting this practice diverted resources away from programs that were intended to support at-risk students. In response to the court's findings, the Legislature began a five-year phase out of small school funding for large districts. As of FY24, no school in a district with more than 2,000 students may receive small school units.

Districts with fewer than 4,000 students may generate additional program units through the small district size component. To qualify for these units, PED must certify the district has implemented practices to reduce inefficiencies, such as sharing services through a regional education cooperative. In 2014, the Legislature also added a component for school districts with fewer than 200 students to reduce the need for annual emergency supplemental appropriations. The introduction of this component has been relatively effective in decreasing the number of school districts requesting emergency supplemental supports, with only three school districts having done so in FY23.

Although most size adjustment program units are generated by school districts with small student memberships, some larger school districts have many students spread over a large geographic area. Traditionally, these school districts were eligible for small school units, but with the phase-out of that factor for districts with more than 2,000 students, these school districts are no longer eligible for

**LEAs with the Highest Proportion of Size Adjustment Units**

FY24

LEA	Size Adjustment as a Percentage of all Units
House	70.74%
Vaughn	67.10%
Roy	65.11%
Mosquero	61.95%
Wagon Mound	61.80%
Corona	60.60%
Maxwell	56.04%
Reserve	55.81%
Des Moines	53.88%
Springer	53.56%

Source: LESC Files

small school units. To replace these units for large rural districts, the Legislature created a component for LEAs where at least 40 percent of the population lives in a rural area, as defined by the United States Census Bureau. The number of rural population units is calculated by multiplying the percentage of the LEA's population that is classified as living in a rural area by the LEA's membership and then by a cost differential of 0.15.

Each of the size adjustment components plays a critical role in providing additional supports to a large majority of LEAs throughout the state. But it is also important to emphasize there have been a significant number of changes to these components in recent years, each of which was responding to a specific challenge by inadvertently adding another layer of complexity to the formula. At the same time, there were several assumptions made about the membership thresholds at which an LEA should generate size adjustment program units, such as the 2,000 threshold for school size, 4,000 threshold for district size, 200 for micro-districts, and 40 percent for rural population. While these assumptions capture the student memberships of a large majority of LEAs across the state, it is unclear whether they are truly responsive to the unique costs of serving small and largely rural communities.

While the working group considered each of these topics, their focus centered on whether the size components are adequately complimentary of the basic program components. In an analysis of the size adjustment components, LESC staff found a significant proportion of small and rural LEA's program units were attributable to the size adjustment components. This is in contrast to many large and urban LEAs, whose student memberships generated a large number of basic program units, which in most cases represented a substantial majority of their program units. Even though this contrast indicates the formula is working as intended, it also raises a series of questions of whether the basic program components should provide a particular level of support to all LEAs.

With many small school districts relying on size adjustments for a significant proportion of their program units, policymakers may consider whether the basic program components should provide a particular level of support to all LEAs, regardless of their size.

Vaughn Municipal Schools is an example of an LEA predominately relying on size adjustments for a majority of its program units, with the district generating 67 percent of its preliminary FY24 program units from the size adjustments. Preliminary data from FY24 indicates Vaughn Municipal Schools has a student membership of 46, who generate 54 basic program units, or 16 percent of its total preliminary program units. In contrast, the district generated 226 program units

from the size adjustment components, with 154 of those units being attributed to the micro-district factor. The district's other size adjustment units largely come from the school size component and the rural population adjustment.

Similar to Vaughn Municipal Schools, Mountainair Public Schools serves a largely rural community with several small schools, so it generates a significant number of school size and rural population adjustment units. These size adjustment units represent 36 percent of the district's total units, which is significantly lower than the proportion in Vaughn Municipal Schools. However, even though these districts share similar challenges in navigating diseconomies of scale, Mountainair Public School's student membership of 200 places it just beyond the threshold for generating micro-district program units. If the school district were to see a decline in membership of at least one student, it would then qualify for micro-district units, at a rate of one program unit for each student below the threshold.

The variances and similarities between Vaughn Municipal Schools and Mountainair Public Schools are an example of how the embedded thresholds in the size adjustments can significantly impact the units generated by small LEAs. These factors contributed to a conversation among the working group around the potential for streamlining or consolidating the size adjustment components in ways that would prevent those thresholds from adversely impacting LEAs of relatively similar size. One consideration referenced the proposal in the AIR study that would have established a single enrollment adjustment in the formula. The methodology of this adjustment took the form of an exponential line, where the smallest school district would generate the highest adjustment, and the adjustment factor would then decrease for LEAs with higher student memberships. This approach would remove the thresholds from the size adjustments and replace them with an approach that is comprehensively and equitably responsive to the variances in economies of scale.

Finally, the working group considered a general idea around performance-based budgeting and embedded incentivizes for LEAs that consolidate programs and services. Several states incorporate comprehensive and long-term incentives in their formulas for small LEAs that choose to consolidate, such as lower local match rates for capital outlay projects and temporary increases in base formula distributions. However, the SEG does not have a mechanism in place that incentivizes innovative approaches to alleviating diseconomies of scale. While encouraging the consolidation of school districts is not the goal of this report, the Legislature may consider embedding incentivizes in the SEG that encourage regional partnerships in offering particular programs and services, such as special education, language programs, and career and technical education (CTE) programs.

While the SEG does not have a mechanism in place that incentivizes innovative approaches to alleviating diseconomies of scale, the Legislature may consider encouraging regional partnerships in offering special education, language, and CTE programs.

If the Legislature pursues a revision of the size adjustment components, it may consider exploring the potential for streamlining or consolidating these components. Other approaches, however, may include assessing whether the embedded thresholds in the existing size adjustments are adequately responsive to the variances in diseconomies of scale that small and rural LEAs experience.

**Enrollment Growth**  
FY24

Component	Factor	Units	SEG Distribution
Growth A	1.500	3,361	\$20,981,318
Growth B	0.500	1,412	\$8,814,798
<b>Total</b>		<b>4,773</b>	<b>\$29,796,116</b>

Source: LESC Files

**Enrollment Growth**

An LEA whose student membership grows by at least 1 percent from the first reporting date of the prior school year to the first reporting date of the current school year is eligible for enrollment growth program units. An LEA with student membership growth of at least 1 percent receives 1.5 program units for each new student and 0.5 program units for each student above 1 percent of current year enrollment. All LEAs, regardless of their size, are eligible for enrollment growth program units at the same cost differentials.

**LEAs with the Highest Proportion of Enrollment Growth Units**  
FY24

LEA	Enrollment Growth as a Percentage of all Units
Thrive Community School	58.56%
Rio Grande Academy of Fine Arts	40.69%
Explore Academy – Las Cruces	39.25%
Voz Collegiate Preparatory Charter School	35.51%
ACES Technical Charter School	35.01%
William & Josephine Dorn Community Charter School	26.80%
Solare Collegiate Charter School	22.85%
Raices del Saber: Bilingual Charter School	21.08%
Explore Academy – Rio Rancho	20.94%
Sandoval Academy of Bilingual Education	18.02%

Source: LESC Files

Charter schools generated 73 percent of all enrollment growth units in FY24. The largest beneficiary is Explore Academy, which generated 601 enrollment growth units in FY24, or approximately 21 percent of its total program units. However, large variances exist among charter schools in the proportion of their program units that are attributable to enrollment growth, with Thrive Community School having 59 percent of its program units being attributable to enrollment growth.

Some pockets of enrollment growth also exist in school districts, with 22 school districts generating a total of 1,245 enrollment growth units in FY24. A near majority of these units were generated by the Gadsden Independent School District and Gallup-McKinley County Schools, which both serve approximately 12 thousand students. For school districts of this size, generating enrollment growth units is somewhat difficult because they must gain approximately 120 students just to qualify for those units. Yet, while both the Gadsden Independent School District and Gallup-McKinley County Schools experienced enrollment growth beyond that 1 percent threshold, and consequently generated a near majority of all enrollment growth units generated by school districts statewide, those units only represent approximately 1 percent of their total preliminary program units.

One primary consideration relating to the enrollment growth components is whether they are adequately responsive to the comprehensive costs of serving a particular number of new students. For many large and urban school districts, there may be marginal costs associated with serving new students, largely

because some LEAs have some form of excess capacity, either in terms of facilities or class loads. That is why the SEG establishes a relatively high growth threshold that many school districts are unlikely to meet in a period of declining student enrollment. High-growth districts, like the Gadsden Independent School District and Gallup-McKinley County Schools, generate these units because the formula assumes the LEA cannot absorb the added costs of the personnel and other comprehensive costs associated with serving a particular number of new students.

Unlike many large or urban school districts, a charter school typically does not have the same economies of scale, nor do they typically have excess capacity, primarily in terms of personnel. However, unlike a school district, a charter school must request an increase in its enrollment cap. A charter school that requests such an increase must comply with guidance from their authorizing body, which makes a final determination of whether a charter school has fulfilled the requirements for increasing its student enrollment cap. Therefore, a charter school can, to a certain extent, plan ahead for how it is going to meet those added costs, whereas school districts typically have limited indication of whether they're going to experience a particular rate of growth in student enrollment.

In the next several years, declining student enrollment may be a defining trend for many public schools. Even in regions experiencing enrollment growth, like the Gadsden Independent School District, growth is often unevenly distributed throughout the school district. Difficult decisions about consolidating facilities or revising staffing models may consequently be an increasingly common trend, such as the Gadsden Independent School District's recent decision to close elementary schools in communities with declining enrollment. But for LEAs experiencing enrollment growth, the SEG must be adequately responsive to the comprehensive costs of serving students.

If the Legislature initiates a revision of the SEG, it should assess whether the enrollment growth components are adequately responsive to the incremental costs associated with serving a particular number of new students.

### Home School Student Programs

Students enrolled in a home school program may enroll in courses at a traditional public school, provided they do not exceed a course load that would make them a student of that school. Statute defines this threshold as one-half of the minimum courses required by PED. Upon the enrollment of a home school student, the school district generates 0.25 program units for each course a home school student enrolls in. For example, if a home school student enrolls in three courses during an academic year, the school district would generate 0.75 program units through the home school student program component.

### Home School Student Programs

FY24

Component	Factor	Units	SEG Distribution
Home School Student Programs	0.250	31	\$193,492
<b>Total</b>		<b>31</b>	<b>\$193,492</b>

Source: LESC Files

All recent reviews of the SEG have recommended the elimination of the home school student programs component. These reviews largely centered their

recommendations around a broad goal of simplifying and streamlining the SEG. However, the Legislature has not adopted these recommendations.

This component is unique in that it assumes the cost of serving a single student in any one secondary course is equivalent to 0.25 program units, or \$1,560 at the preliminary FY24 unit value. Yet, current requirements for high school graduation require the completion of twenty-four courses, or an average of six courses each academic year. This means the secondary factor of 1.25 is equivalent to a cost differential of approximately 0.21 for each course an average high school student completes in a given academic year. While the secondary factor may assume there are unique economies of scale associated with full-time enrollment, it is unclear whether those economies of scale are sufficient to justify the lower cost assumptions that are embedded in the secondary factor.

Alternatively, New Mexico’s approach in supporting secondary students may be flawed in that the SEG assumes there are no variances in the cost of providing different courses. As they are currently designed, both the home school student program component and the secondary factor do not take into account the type of courses a student enrolls in, nor do they take into account the unique costs that may be associated with providing a particular course. Without a mechanism responsive to these differentiated costs, an LEA must adequately serve all students, regardless of whether they enroll in a career and technical education course, a calculus course, or an English course, with no distinction in the formula.

In alignment with prior reviews of the SEG, a revision of the formula may entail the repeal of the home school student programs component. However, if the Legislature chooses to retain the component, it may be beneficial to complete a comprehensive analysis of the true costs associated with serving particular students in different educational settings. Leveraging this analysis to align the cost assumptions that are embedded in the home school student program component and the secondary factor could then build a foundation upon which the formula is adequately responsive to the differentiated needs of all students.

### Home School Student Activities

#### Home School Student Activities

FY24

Component	Factor	Units	SEG Distribution
Home School Student Activities	0.100	36	\$224,700
<b>Total</b>		<b>36</b>	<b>\$224,700</b>

Source: LESC Files

Home school students may participate in up to three athletic, co-curricular, and extracurricular activities through their local school district, including sports and cheerleading, speech and debate, choir and band, theater, chess, mock trial, and science competitions. Each participating student generates 0.1 program units for their local school district, with no consideration provided for the number of activities the student participates in.

All recent reviews of the SEG have recommended the elimination of the home school student activities component. Similar to the home school student program component, these reviews largely centered their recommendations around a broad goal of simplifying and streamlining the SEG. However, the Legislature has not adopted these recommendations.

These recommendations guided the LESC’s primary question for the working group, with the group asked to reflect on whether the Legislature should maintain a separate component for home school students participating in student activities at a traditional public school. While the group did not express strong sentiments in favor or opposition of retaining the component, there was an important question posed by the group related to the rights and privileges afforded to students enrolled in a home school program to participate in school activities.

There are a myriad of federal statutes and regulations that provide guidance on this topic and there is extensive debate on whether case law explicitly allows home schooling, or whether prior rulings by the United States Supreme Court merely imply such a right. Legal scholars often cite the Supreme Court’s rulings in Meyer v. Nebraska, Pierce v. Society of Sisters, and Farrington v. Tokushige as having established a basic constitutional right of parents to home school their children. In general, most courts now recognize the constitutional right to choose a home education, with every state providing statutory protections for these students.

While case law and statute generally align on the right of students to enroll in a home school program, there is debate on the extent of those student’s rights and privileges. One of the most pervasive conversations in this policy space often revolves around special education, where home school students have a right to evaluations but they may not necessarily have a right to receive services.

By providing a separate component in the SEG that is designed to meet the costs of serving home school students, the Legislature may be indicating a home school student has a certain range of rights and privileges that a public school is obligated to meet. A revision of the SEG may explore this question further, specifically as it relates to special education.

### Charter School Student Activities

Charter school students may participate in up to three athletic, co-curricular, and extracurricular activities through their local school district, including sports and cheerleading, speech and debate, choir and band, theater, chess, mock trial, and science competitions. Each student that does so generates 0.1 program units for the local school district, with no consideration provided for the number of activities the student participates in.

**Charter School Student Activities**

FY24

Component	Factor	Units	SEG Distribution
Charter School Student Activities	0.100	36	\$224,700
<b>Total</b>		<b>36</b>	<b>\$224,700</b>

Source: LESC Files

All recent reviews of the SEG have recommended the elimination of the charter school student activities component. Like those for the home school student program unit and home school student activities, these reviews largely centered their recommendations around a broad goal of simplifying and streamlining the SEG. However, the Legislature has not adopted these recommendations.

These recommendations guided the LESC’s primary question for the working group, but similar to the student activities component for home school students,

there was a lack of strong sentiments in favor or opposition to the removal of this component from the SEG. However, similar to the components for home school student programs and the home school student activities, any attempt to simplify or streamline the SEG could begin with the potential repeal of the charter school student activities component.

## Section 3: Missing Components

While the working group primarily focused on reviewing the formula’s existing components, the group also considered whether there are opportunities to embed new components in the formula. Four considerations emerged from this conversation, including: CTE programs, community schools, Native American students, and English learners. This report proposes all four considerations be assessed for potential inclusion or modification in the SEG, either as separate components or by an addition of recurring funding to the formula distribution.

### Career and Technical Education

CTE programs allow students to personalize their education based on their unique career interests and learning needs. In FY24, the Legislature appropriated \$40 million in non-recurring supports for CTE programs, which PED is using to support the NextGen CTE Pilot Project, work-based learning, and Innovation Zones. Apart from these non-recurring supports, however, there is no formal mechanism in the SEG that directly supports the infrastructure or programmatic components of CTE programs.

Sources of Funding for CTE Programs

FY24		
Appropriation Source	Funding	Programming Supported
Legislative Appropriation	\$40 million	NextGen Pilot Program Innovation Zones Work-Based Learning
Carl Perkins	\$10.1 million	Secondary CTE programs, post-secondary CTE programs, and state leadership
Public School Capital Outlay Fund	\$65 million*	Infrastructure

Source: LESC Files

\*LEAs have discretion in leveraging their PSCOF distributions.

In a presentation from Hobbs Municipal Schools, the working group heard of the extensive costs associated with building and sustaining comprehensive CTE pathways. One significant barrier is the cost of purchasing equipment, which often requires several million dollars of up-front investment, depending on the size and subject of the pathway. The Legislature is currently supporting LEAs in meeting these initial costs with a \$65 million distribution from the public school capital outlay fund (PSCOF) but sustained investments may be needed to adequately support the expansion of CTE programs throughout the state.

Apart from these initial expenses, there are also significant costs associated with sustaining differentiation in programming, with Hobbs Municipal Schools estimating the average cost of a CTE pathway is approximately \$2,000 more per student than a general classroom setting. These costs vary significantly by CTE program, with some pathways requiring specialized equipment, lower class sizes, or more rigorous programming. Geographic location also plays a role in increasing the costs of providing CTE programs, with large and urban LEAs often benefiting from economies of scale and access to community partnerships.

The average cost of providing a CTE pathway in Hobbs Municipal Schools is approximately \$2,000 more per student than serving a student in a general classroom setting.

Based on its experience in providing comprehensive CTE pathways, Hobbs Municipal Schools recommended the adoption of a separate CTE component in the SEG, with the resulting program units being generated exclusively by students who complete a CTE pathway.

In its consideration of Hobbs Municipal Schools’ proposal, the working group largely agreed on the need for providing adequate and recurring funding for CTE programs. Differences of opinion, however, emerged in how those programs could best be supported, with some working group members supporting the concept of embedding CTE programs as a separate component in the formula. Others alluded to the potential for embedding CTE programs in the secondary factor to account for the costs of providing those programs to all students.

Both of these considerations highlight the need to quantify the cost of providing particular CTE pathways. If the per-student cost of providing CTE programs in Hobbs Municipal Schools were used as a proxy, a potential cost differential for CTE programs could be as high as 0.33. However, this estimate assumes there are no variances in the cost of providing different programs, either by subject, rigor, or geographic area.

A formula component in the SEG should incentivize pathways that allow students to build differentiated skills and directly support regional economic development initiatives.

The working group also considered whether a CTE component should incentivize pathways that directly support regional economic development initiatives, such as energy pathways in the southeast and northwest regions of the state, manufacturing and agricultural pathways in Doña Ana County, and technology and engineering pathways in Sandoval County. By embedding these incentives in the SEG, the Legislature could support students in gaining the differentiated skills they need to effectively engage in critical industries, as well as building the qualified workforce needed to support various economic development initiatives taking place throughout the state.

Based on the feedback received from the working group, this report proposes a revision of the SEG assess the feasibility and effectiveness of either embedding CTE as a separate component of the formula or ensuring the secondary factor is adequately responsive to the costs of providing those programs. If the Legislature were to embed CTE programs in the SEG, it should do so in a way that encourages student progression through high-quality programs, incentivizes positive student outcomes, and rewards efficiency and innovation.

### Community Schools

Community schools are a whole child strategy that build collaborative and inclusive spaces where the holistic needs of students are met through community partnerships and parent engagement. There are six key practices for whole school transformation, including: powerful student and family engagement, collaborative leadership, shared power and voice, expanded culturally enriched learning opportunities, rigorous community-connected classroom instruction, culture of belonging, safety, and care, and integrated systems of support. Together, these form the Community Schools Model, which has been framed as a potential strategy for responding to the findings of the *Martinez-Yazzie* consolidated lawsuit, with a specific focus on alleviating

#### Six Key Practices of the Community Schools Strategy

Powerful student and family engagement
Collaborative leadership, shared power and voice
Expanded culturally enriched learning opportunities
Rigorous community-connected classroom instruction
Culture of belonging, safety, and care
Integrated systems of support

Source: LESC Files

the disparities in student opportunity and outcomes that are rooted in poverty.

The Legislature has continuously indicated its support for the concept of community schools, beginning with the enactment and subsequent amendment of the Community Schools Act in 2019. This statute, as amended, provides LEAs with guidelines on how to implement New Mexico's Community School Framework. To support the design and implementation of community schools, the Legislature appropriated \$10 million in FY24, with the funds currently being leveraged by PED to support \$50 thousand planning grants, \$150 thousand implementation grants, and one-year renewal grants of varying sizes. However, these supports, while significant, are non-recurring.

Community schools are currently supported with \$10 million in non-recurring supports, with PED leveraging those funds to provide \$50 thousand planning grants, \$150 thousand implementation grants, and renewal grants of varying sizes.

In a presentation by the New Mexico Coalition for Community Schools, stakeholders spoke of the need to ensure recurring funding for the continuous improvement of the community schools strategy. Of primary importance to stakeholders was ensuring adequate recurring supports for the community schools fund, so as to support planning, implementation, and capacity building initiatives throughout the state. While the stakeholder presentation did not directly recommend the embedding of community schools in the SEG, it did propose the design of a validation of quality implementation process that would ultimately allow an LEA to access formula or categorical funding for community schools.

Members of the working group largely agreed on the need for students to have broad access to holistic supports and differentiation in programming. Community schools, along with CTE programs, are both unique opportunities in providing these holistic, differentiated, and interlocked supports. However, community schools, as a concept and a practice, are relatively new approaches to supporting the holistic needs of students. While there are several communities that have historically maintained similar approaches to strengthening the conditions for student learning, the implementation of the community schools model may require further refinement before a component is considered for inclusion in the SEG.

Based on the feedback of the working group, this report proposes that a revision of the SEG further assess whether community schools should be embedded as a separate component in the SEG. Other considerations may include a cost-share model where LEAs that leverage their formula distributions on designing or implementing a community school may also qualify for matching funds from a below-the-line appropriation.

### **Native American Students**

Meeting the unique and diverse needs of Native American students is critical in ensuring those students have access to a responsive and adequate system of public education. Several funding mechanisms for supporting those students are already in place, such as the Indian education fund, which received an appropriation of \$20 million in FY24. Several components in the SEG are also responsive to Native American students, including the at-risk index, the BMEP component, and the

rural population component. However, the SEG does not have a separate component that generates units based on the enrollment of Native American students.

**LEAs with the Highest Proportions of Native American Students**

FY22

LEA	Percentage of Students who Identify as Native American
Dził Dítł'ooí (DEAP)	100.0%
San Diego Riverside Charter School	100.0%
Zuni Public Schools	98.3%
Dream Diné Charter School	97.7%
Eunice Municipal Schools	95.3%
Walatowa High Charter School	94.9%
Dulce Independent Schools	92.8%
Central Consolidated Schools	89.2%
Native American Community Academy	83.1%
Gallup-McKinley County Schools	72.9%

Source: LESC Files

In a presentation to the working group by the Tribal Education Alliance and New Mexico Voices for Children, stakeholders indicated the lack of a formula component for Native American students is a primary reason why they believe the formula is not responsive to those students. This argument is primarily based on an assertion the formula does not directly incentivize LEAs to provide Native American students with adequate access to relevant programs and services. One example was a perception from stakeholders that LEAs place a lower emphasis on providing adequate support to tribal language programs, even though an LEA can generate the same number of program units through the BMEP cost differential for any students enrolled in a BMEP. Stakeholders believe a component for Native Americans would incentivize LEAs to more appropriately meet the needs of those students.

While the stakeholders did not recommend any one approach to embedding Native American students in the SEG, they did suggest incorporating those students as a component in the at-risk index. Doing so would ensure the at-risk index is inclusive of all four student groups that were identified in the *Martinez-Yazzie* consolidated lawsuit. Other considerations included creating a separate formula adjustment that would generate program units depending on the number of Native American students who are enrolled in an LEA.

Several questions related to these proposals emerged from the working group that largely centered on why the stakeholders believe the SEG is not adequately responsive to the needs of Native American students. Of specific interest to the working group was why the BMEP factor is not perceived to be sufficient in supporting tribal language programs, whether the Legislature's investments in educator recruitment and retention have had an impact on educator diversity, and what the specific costs are for serving Native American students. Another key question posed by the working group related to the removal of credits for Impact Aid, specifically whether the resulting infusion of funds should be taken into consideration in a conversation around adequacy.

In response to these questions, the stakeholders indicated the discretionary nature of the formula is not designed with the intention of targeting supports to tribal language programs. Additionally, they stated there are unique costs associated with supporting tribal language programs that the BMEP factor does not adequately support, an example of which may be the statutory requirement that

a tribal language instructor receive the same minimum salary as a Level I licensed teacher. On the topic of Impact Aid, the stakeholders emphasized they view those federal funds as being entirely separate and distinct from a conversation related to adequacy in state funding.

Based on the feedback received from the working group, this report recommends that a revision of the SEG assess whether the formula in its entirety is adequately responsive to the unique needs of Native American students. Of primary importance should be assessing the adequacy and responsiveness of the BMEP factor, the size adjustments, and the at-risk index.

### English Learners

An English learner is a student who enters the public education system with a home language other than English, or whose proficiency in English does not allow them to access the English-taught curriculum. These students are currently recognized in the SEG as one of the three components of the at-risk index, with the other two components being income and mobility. As referenced in this report’s section on the at-risk index (see **page 20**), an LEA’s three-year average of students who are identified as English learners is added to its income and mobility rates, and that total rate is then multiplied by the at-risk factor. The resulting number is then multiplied by an LEA’s membership to generate the number of at-risk program units it is entitled to.

English learners were referenced in the *Martinez-Yazzie* consolidated lawsuit as one of the four student groups who were deprived of a “sufficient” public education. In response to the ruling, the Legislature has significantly increased the at-risk factor, with the most recent statutory revision of the SEG having increased the at-risk factor from 0.30 to its current cost differential of 0.33. Preliminary estimates indicate the at-risk index may distribute approximately \$376 million, at the preliminary FY24 unit value. However, because of the discretionary nature of the SEG, these funds are not required to be spent on English learners.

Prior SEG reviews recommended the BMEP cost differential be replaced with a separate component for English learners. These recommendations would expand the range of students who generate additional units beyond those who are enrolled in a qualifying BMEP. Instead, all LEAs would generate additional program units based on the number of English learners they serve. In doing so, there would not only be a greater range of flexibility in the language programs each LEA implements, but a separate component could also act as a signal to LEAs that they should be leveraging the resulting funds on the English learners who generate those additional units.

**LEAs with the Highest Proportions of English Learners**  
FY22

LEA	Percentage of Students who are English Learners
Walatowa High Charter School	69.2%
San Diego Riverside Charter School	64.2%
Christine Duncan's Heritage Academy Charter School	57.3%
Middle College High School - Gallup	47.7%
Hatch Valley Public Schools	46.9%
South Valley Academy	44.8%
La Academia de Esperanza	43.5%
El Camino Real Academy	43.4%
Zuni Public Schools	41.5%
Dulce Independent Schools	40.9%

Source: LESC Files

While the working group did not discuss this consideration at length, this consideration does closely align with the group’s consideration around the BMEP component (see **page 14**). In that conversation, the working group expressed concerns that formula funding for bilingual multicultural education is contingent on an LEA having implemented a BMEP that is aligned with PED requirements. Many LEAs, even those with large English learner populations, have chosen to not implement a BMEP. Consequently, they do not generate formula funding that is exclusive for the programs and services an English learner may require.

Based on the feedback of the working group, this report proposes a revision of the SEG assess whether the English learner component of the at-risk index should be modified as a separate component of the SEG. If the Legislature were to consider a modification of the existing English learner component, it may consider embedding this component in place of the existing BMEP component, or as a supplemental component to the BMEP factor.

## Section 4: Recommendation

If the collective goal of the Legislature is to adequately meet the comprehensive needs of students in ways that are meaningful, responsive, and community driven, revising the SEG may be an opportunity to ensure state funds are allocated equitably, effectively, and in a well-targeted way. In doing so, the Legislature should:

- Authorize LESC staff to lead a narrow revision of the SEG during the 2024 legislative interim.

This recommendation will result in legislation that will be presented to the LESC for committee endorsement before the 2025 regular legislative session.

**APPENDIX 1: Recommendations of Prior SEG Reviews**

<b>Formula Component</b>	<b>American Institute of Research (2008)</b>	<b>LESC/LFC Formula Evaluation (2011)</b>
<b>Grade Level Weights</b>	Cost differential weights of 1.15 for grades K-5, 1.02 for grades 6-8, and 1.0 for grades 9-12.	No change
<b>Special Education</b>	Census-based special education identification rate of 16 percent of students multiplied by a cost differential of 1.723.	Census-based special education identification rate of 16 percent of students multiplied by a cost differential of 2.0.
<b>Bilingual Program</b>	Replace with an EL component	Replace with an EL component
<b>Elementary Fine Arts</b>	Remove	Remove
<b>Elementary Physical Education</b>	Remove	Remove
<b>Growth</b>	Remove growth units and instead fund school districts and charter schools on the larger pupil count of either the prior year's 80th and 120th day average enrollment or the current year's 40th day enrollment.	Phase out growth units for charters and create a categorical funding program to fund first year charters and annual charter growth.
<b>Training &amp; Experience (T&amp;E) Index</b>	Replace with an "Index of Staff Qualifications" (ISQ) based on teacher licensure, academic credentials, and years of experience.	Replace with an "Effective Teacher Index" based on a teacher's licensure level.
<b>National Board Certification</b>	Remove and fund through a categorical program.	No change
<b>Home/Charter School Activities</b>	Remove	Remove
<b>Size Adjustments</b>	Replace all size adjustments with a set of enrollment size cost differentials for school districts and a separate set of weights for charters schools.	Replace all size adjustments with a new district size adjustment based on the total current size unit allocation to districts.

Source: LESL & LFC Files

**APPENDIX 2: SEG Review Working Group Members**

<b>Name</b>	<b>Title</b>	<b>Organization</b>
Arsenio Romero	Secretary	Public Education Department
Carol Gonzales	Business Operations Administrator	Central Consolidated School District
Charles Sallee	Director	Legislative Finance Committee
Debra M. Sariñana	Representative, District 21	New Mexico House of Representatives
Ellen Bernstein	President	American Federation of Teachers, New Mexico
Gwen Perea Warmiment	Director	Legislative Education Study Committee
Hannah Weeks	Director	Aldo Leopold Charter School
Hope Morales	Executive Director	Teach Plus New Mexico
Joe Guillen	Executive Director	New Mexico School Boards Association
Joy Garratt	Representative, District 29	New Mexico House of Representatives
Martin Romine	Chief Financial Officer	Zuni Public School District
Mary Parr-Sanchez	President	National Education Association, New Mexico
Matt Montaña	Superintendent	Bernalillo Public Schools
Matt Pahl	Executive Director	Public Charter Schools of New Mexico
Sara Cordova	Director, School Budget Bureau	Public Education Department
Stan Rounds	Executive Director	New Mexico Coalition of Education Leaders
Steven Heil	Policy Analyst	Public Education Department
Sunny Liu	Principal Analyst	Legislative Finance Committee
Teresa Casias	School Business Official	Wagon Mound Municipal Schools
Tim Hand	Founder	Ocotillo Strategies
Travis Dempsey	Superintendent	Gadsden Independent School District
Will Hawkins	Superintendent	Silver Consolidated Schools

APPENDIX 3: State Equalization Guarantee Computation, FY24				
	Grade Level/Program Membership		Times	Cost Differential = Units
Basic Program Units	Kindergarten & Three- and Four-Year-Old DD	FTE MEM	×	1.44
	Grade 1	MEM	×	1.20
	Grades 2-3	MEM	×	1.18
	Grades 4-6	MEM	×	1.045
	Grades 7-12	MEM	×	1.25
				<b>SUM OF UNITS</b>
Staffing Cost Multiplier	Staffing Cost Multiplier:	= TOTAL PROGRAM UNITS		
	Teacher Cost Index (years of experience and licensure level)	Times Value from 1.000 to 1.277		
		= ADJUSTED PROGRAM UNITS		
	<b>PLUS</b>			
Special Education Units	Related Services (Ancillary)	FTE STAFF	×	25.00
	A/B Level Service Add-on	MEM	×	0.70
	C Level Service Add-on	MEM	×	1.00
	D Level Service Add-on	MEM	×	2.00
	3- and 4-Year-Old DD Program Add-on	MEM	×	2.00
Special Program Units	<u>Bilingual Education</u>	FTE MEM	×	0.50
	<u>Fine Arts Education</u>	FTE MEM	×	0.055
	<u>Elementary Physical Education</u>	MEM	×	0.06
	<u>K-12 Plus (Days between 181 &amp; 190 OR 156 &amp; 165)</u>	MEM	×	0.012
	<u>K-12 Plus (Days between 191 &amp; 205 OR 166 &amp; 175)</u>	MEM	×	0.016
Size Units				Elementary/Jr. High Size Units
				Senior High Size Units
				District Size Units
				Micro District Size Units
				Rural Population Units
	Percentage of ((Title I + English Learners + Student Mobility) * 0.33) * Total MEM			At-Risk Units
	Enrollment Growth Units			
Add-on Units	National Board for Professional Teaching Standards Units			
	Charter School Activities Units			
	Home School Activities and Program Units			
	= TOTAL UNITS			
	+ Save Harmless Units			
	= GRAND TOTAL PROGRAM UNITS			
	Grand Total × Unit Value = Program Cost			
	- Utility Conservation Program Contract Payments			
	- 90% of the Certified Amount ( <i>Energy Efficiency and Renewable Energy Bonding Act</i> )			
	= STATE EQUALIZATION GUARANTEE			

Source: LESC

**APPENDIX 4: Last Statutory Revisions to Formula Cost  
Differentials**

	<b>Component</b>	<b>Last Statutory Revision</b>	
<b>1</b>	3/4 Year Old Developmentally Delayed	1997	<b>1</b>
<b>2</b>	At-Risk	2023	<b>2</b>
<b>3</b>	Bilingual Multicultural Education	1993	<b>3</b>
<b>4</b>	Charter School Activities	2006	<b>4</b>
<b>5</b>	Class A/B Special Education	1997	<b>5</b>
<b>6</b>	Class C Special Education	1997	<b>6</b>
<b>7</b>	Class D Special Education	1997	<b>7</b>
<b>8</b>	District Size	2014	<b>8</b>
<b>9</b>	Early Childhood Education	1990	<b>9</b>
<b>10</b>	Elementary Physical Education	2007	<b>10</b>
<b>11</b>	Enrollment Growth @ 0.5 Units	2003	<b>11</b>
<b>12</b>	Enrollment Growth @ 1.5 Units	2003	<b>12</b>
<b>13</b>	Elementary Fine Arts Programs	2023	<b>13</b>
<b>14</b>	Grade 1	1993	<b>14</b>
<b>15</b>	Grades 2-3	1993	<b>15</b>
<b>16</b>	Grades 4-6	1993	<b>16</b>
<b>17</b>	Grades 7-12	1976	<b>17</b>
<b>18</b>	Home School Activities	2007	<b>18</b>
<b>19</b>	Home School Student Programs	2013	<b>19</b>
<b>20</b>	K-12 Plus Tier 1	2023	<b>20</b>
<b>21</b>	K-12 Plus Tier 2	2023	<b>21</b>
<b>22</b>	National Board Certified Teachers	2003	<b>22</b>
<b>23</b>	Related Services (Ancillary)	1997	<b>23</b>
<b>24</b>	Rural Size	2019	<b>24</b>
<b>25</b>	School Size	2019	<b>25</b>
<b>26</b>	Teacher Cost Index	2018	<b>26</b>

Source: LESC Files

**APPENDIX 5: Program Units by Fiscal Year**

FY20 - FY24

Funding Formula Component	FY20	FY21	FY22	FY23	FY24*	FY20 - FY24 Change		
						Units	%	
1 Grades 7-12	184,223	186,348	186,951	188,101	185,836	1,614	0.9%	1
2 Grades 4-6	81,619	79,591	73,922	71,928	71,370	(10,248)	-12.6%	2
3 At-Risk	55,378	65,297	61,297	57,985	60,262	4,884	8.8%	3
4 Grades 2-3	56,664	55,472	51,684	52,080	51,406	(5,258)	-9.3%	4
5 Special Education Ancillary Services	45,832	46,513	48,946	47,565	49,043	3,211	7.0%	5
6 A/B-Level Special Education	32,509	33,093	31,768	32,155	33,576	1,066	3.3%	6
7 Early Childhood Education	37,324	36,971	31,801	33,688	32,988	(4,336)	-11.6%	7
8 Grade 1	28,354	28,085	25,879	25,581	26,550	(1,804)	-6.4%	8
9 Staffing Cost Multiplier	31,839	30,093	26,594	23,084	24,662	(7,177)	-22.5%	9
10 K-12 Plus					18,188	18,188	100.0%	10
11 D-Level Special Education	17,463	17,056	16,773	16,329	16,380	(1,083)	-6.2%	11
12 School Size Adjustment	19,280	17,278	15,464	13,195	11,011	(8,268)	-42.9%	12
13 C-Level Special Education	9,172	9,300	8,839	8,769	8,678	(494)	-5.4%	13
14 Elementary Fine Arts	8,127	8,278	7,600	7,541	8,514	387	4.8%	14
15 Bilingual Education	8,011	7,976	7,629	7,771	7,991	(20)	-0.3%	15
16 Elementary Physical Education	3,908	3,735	3,736	6,810	7,726	3,818	97.7%	16
17 3Y/4Y DD Special Education	8,251	8,149	6,432	6,044	6,973	(1,278)	-15.5%	17
18 Rural Population Adjustment	1,217	2,434	3,522	4,704	5,901	4,684	384.9%	18
19 District Size Adjustment	4,814	4,829	4,876	4,868	4,867	53	1.1%	19
20 Growth Units	5,363	7,696	5,405	4,263	4,774	(589)	-11.0%	20
21 Micro-District Size Adjustment	1,672	1,612	1,673	1,644	1,644	(28)	-1.7%	21
22 National Board Certified Teacher Units	1,097	1,116	1,116	1,137	1,137	41	3.7%	22
23 Home School Student Activities	18	19	19	20	36	18	101.1%	23
24 Charter School Activities	20	17	13	22	35	15	73.9%	24
25 Home School Student Courses	41	36	30	26	31	(10)	-24.8%	25
26 Save Harmless	230	999	129	283	-	(230)	-100.0%	26
<b>GRAND TOTAL</b>	<b>642,423</b>	<b>651,992</b>	<b>622,098</b>	<b>615,596</b>	<b>639,578</b>	<b>(2,846)</b>	<b>-0.4%</b>	

Source: LESC Files

\* Preliminary program units for FY24

**APPENDIX 6: Legislation Related to the State Equalization Guarantee**

2021 - 2023

	<b>Legislative Session</b>	<b>Bill Number</b>	<b>Short Title</b>	<b>Final Location</b>	
1	2021 Regular Legislative Session	<a href="#">HB6</a>	State Equalization Guarantee Distributions	Chapter 52	1
2		<a href="#">HB84</a>	Native Language Education Program Unit	HAFC	2
3		<a href="#">HB135</a>	School Opportunity & Equity Index	HAFC	3
4		<a href="#">HB138</a>	Increase Fine Arts Education Program Unit	SFC	4
5		<a href="#">HB171</a>	Program Units For Certain School Personnel	SFC	5
6		<a href="#">HB175</a>	School Funding & Losses From Pandemic	HAFC	6
7		<a href="#">SB41</a>	School Funding Changes	HEC	7
8		<a href="#">SB225</a>	Use Of Some Revenue For School Funding	SFC	8
9		<a href="#">SJR8</a>	Statewide Millage For Schools, Ca	STBTC	9
10		<a href="#">HJM5</a>	Study Effects Of Funding Formula Changes	Passed	10
11		<a href="#">HM24</a>	Study Funding Formula At-Risk Index	Passed	11
12	2022 Regular Legislative Session	<a href="#">HB45</a>	Program Units For Licensed School Employees	HPREF	12
13	2023 Regular Legislative Session	<a href="#">HB130</a>	K-12 Plus Program	Chapter 19	13
14		<a href="#">HB199</a>	Increase School At-Risk Index	Chapter 148	14
15		<a href="#">SB108</a>	Career Technical Education Program Unit	HEC	15
16		<a href="#">HM51</a>	Study Public School Funding Formula	Passed	16

Source: LESC Files