

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (www.nmlegis.gov). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

ORIGINAL DATE 02/12/13

SPONSOR HEC LAST UPDATED 02/22/13 HB 158/HECS

SHORT TITLE School Performance-Based Budgeting SB _____

ANALYST Gudgel

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY13	FY14		
	NFI		

(Parenthesis () Indicate Expenditure Decreases)

Relates to Appropriation in the General Appropriation Act

SOURCES OF INFORMATION

LFC Files

Responses Not Received From
Public Education Department (PED)

SUMMARY

Synopsis of Bill

The House Education committee Substitute for House Bill 158 amends the Public School Finance Act to do the following:

- establish performance based budgeting for school districts and charter schools beginning with the 2014-2015 school year;
- increases reporting requirements for school districts that receive at-risk units; and
- increases the cost differential factor for the at-risk index from 0.0915 to 0.1050 beginning with the 2014-2015 school year.

FISCAL IMPLICATIONS

LFC staff estimates the increase in the at-risk index would produce approximately 2,945 new program units. Based on the current unit value of \$3673.54, approximately \$10.8 million would be needed in FY15 to ensure the unit value remains flat.

An increase in program units generated by school districts or charter schools that is not accompanied by an increased appropriation has the effect of diluting the unit value, impacting school districts and charter schools statewide.

SIGNIFICANT ISSUES

The Public Education Department (PED) uses the state equalization guarantee (SEG), also known as the "funding formula," to distribute money to public schools. About 90 percent of a school district's operational revenue is derived through the formula. The formula, designed to guarantee each public school student equal access to programs and services appropriate to educational need despite geographic location or local economic conditions, is enrollment-driven with weighted factors for school and district size, teacher qualifications, students' special needs, and other circumstances. Membership weighted for such factors generates a program unit. The number of units generated by all students statewide is divided into the annual program cost to determine the unit value. School districts may spend formula dollars according to local priorities; however, they must comply with statutory requirements and relevant PED directives.

For FY13, New Mexico will allocate more than \$2.3 billion through its public school funding formula to 89 school districts and 95 charter schools to serve approximately 332 thousand students. On initial implementation, New Mexico's funding formula was nationally recognized as a success in providing equitable public education funding. More than 40 years later, the funding formula still provides comparatively equal access to funding, but it has been amended more than 90 times to reflect changes in public school policy and finance. Recent budget challenges, analysis, and studies by various groups have highlighted acute formula problems. Three recent independent studies have made a series of recommendations to either implement a new formula or adjust the existing formula.

Since 2006, three independent studies have found issues with the public school funding formula. As part of the Funding Formula Study Task Force, the American Institutes for Research published "An Independent Comprehensive Study of the New Mexico Public School Funding Formula" (2008). The study recommended simplifying the funding formula to include student-based factors including higher factors for students in poverty or not fluent in English. In November, 2011, a joint study evaluating the public school funding formula by the Legislative Finance Committee and Legislative Education Study Committee also recommended to simplify the formula and allocate higher at-risk funding. In 2012, the Maddox Foundation of Hobbs, New Mexico commissioned researchers from Syracuse University to conduct a funding formula review. This study also argued for higher funding for at-risk students. Changes proposed in this bill result from further analysis of the public education funding formula and the three aforementioned studies.

At-Risk Funding. The current formula places little weight, as compared with other components and other states’ formulas, on the additional incremental costs associated with educating at-risk students.

Table 5. Selected States' Incremental Funding for At-Risk Students

State	Additional Funding Provided per At-Risk Student
Minnesota	50%
Georgia	30%
Texas	25%
Vermont	25%
South Carolina	25%
Missouri	25%
Oregon	25%
Connecticut	25%
Maine	20%
Louisiana	19%
Michigan	12%
Hawaii	10%
New Mexico	9%
Mississippi	5%

Source; Verstegen and Jordan, 2009

For example, Deming, Gadsden, and Hatch generate some of the lowest per-student funding from the state’s funding formula but serve some of New Mexico’s most disadvantaged students. Studies estimating the additional cost necessary to serve at-risk students vary and range up to 48 percent. Previous LFC evaluations have identified the state’s largest achievement gap is highly influenced by poverty and language status, regardless of ethnicity or race. Typically, additional costs are associated with the need for extended learning time and intervention services, among others. The bill increases funding allocated to school districts and charter schools for at-risk students by almost 15 percent in FY15.

Accountability. Performance-based budgeting requirements were previously required of public school districts and charter schools. Performance-based budgeting requirements are no longer in statute for public schools, resulting in approximately 43 percent of the state’s budget lacking accountability measures connecting performance and budgets. Previous LFC reports have identified the need for greater accountability for the use of non-categorical formula dollars. The bill requires school districts and state-chartered charter schools to submit performance-based budgets that comply with requirements of the Accountability in Government Act.

In addition to performance-based budgeting, the bill also implements increased reporting requirements for school districts and charter schools on how they use the increased at-risk funding to close the achievement gap and improve student outcomes. The bill requires reporting on reading coaches and interventionists, reduced class sizes as high-poverty schools, additional instructional time, tutoring and school- and student-level interventions used to improve academic proficiency, and intended outcomes as a supplement to the required performance-based budget.

PERFORMANCE IMPLICATIONS

The bill would improve student performance by strategically allocating funds toward the state's most needy students. Research has shown that at-risk students need increased intervention and time in the classroom, and more resources would allow districts to invest in programming such as reading interventions, staff such as reading coaches and extended classroom days or years.

Additionally, the bill improves accountability of non-categorical formula dollars.

ADMINISTRATIVE IMPLICATIONS

Changes to the funding formula are minor and should be minimal to implement. Additionally, the Committee Substitute implements changes for the 2014-2015 school year to allow PED the necessary time to plan for implementation.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

There are a number of bills that amend the Public School Finance Act.

SB302 – Home & charter School Student Program Units; HB165 – School Finance Units for Small Districts; HB192 – School Program Units for Certain Personnel; SB359 – School Employee Program Units; SB358 – K-3 Plus Equalization Guarantee Distribution

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Funding inequities will remain for the state's at-risk students.

RSG/blm