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FISCAL IMPACT REPORT

ORIGINAL DATE 02/18/14

SPONSOR Jeff LAST UPDATED _____ HB HM100

SHORT TITLE Funding Formula Task Force SB _____

ANALYST Gudgel

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY14	FY15	FY16	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		TBD				Legislative Budgets

(Parenthesis () Indicate Expenditure Decreases)

Relates to Appropriation in the General Appropriation Act

SOURCES OF INFORMATION

LFC Files

SUMMARY

Synopsis of Bill

House Memorial 100 requests Legislative Council, the Public Education Department, the Legislative Education Study Committee and the Legislative Finance Committee to appoint a task force to undertake a study of recent research and reviews of the public education funding formula and other research and reviews relevant to improving the efficacy and sufficiency of the state's public education funding formula.

The memorial establishes a task force composed of the following: three House members and three Senate members appointed by Legislative Council; three members appointed by the Governor; three school superintendents appointed by the New Mexico Coalition of leaders; the president of the New Mexico School Boards Association; and one member of a statewide teacher organization appointed by Legislative Council. LCS, PED, LESC and LFC are to staff the task force.

FISCAL IMPLICATIONS

The memorial does not contain an appropriation.

Senate Bill 313 (the General Appropriation Act of 2014) as adopted by SFC includes an increase of \$171 million for public schools in FY15, or 6.6 percent. The bill recommends a total spending level of \$2.74 billion. The bill includes \$2.50 billion for the state equalization guarantee distribution, an increase of \$142 million, or 6 percent that will be distributed through the funding formula.

SIGNIFICANT ISSUES

Article XII, Section 1 of the New Mexico Constitution requires the state to establish and maintain “A uniform system of free public schools sufficient for the education of, and open to, all the children of school age in the state...”

The objective of the Public School Finance Act (Sections 22-8-17 through 22-8-25 NMSA 1978) is to equalize educational opportunity at the highest possible revenue level and guarantee each public school student equal access to programs and services appropriate to educational need, despite geographic location or local economic conditions. The distribution is in the form of a block grant, which allows local boards to determine priorities. More than 90 percent of a school district’s operational revenue is generated from the state equalization guarantee (SEG), the mechanism used to distribute funds appropriated to PED for distribution to individual school districts.

Over the past 9 years, three comprehensive studies of the New Mexico public education funding formula have been completed. Prior to these three studies, the last comprehensive review of the funding formula was in 1996. That study found that the formula continued to distribute funds equally and recommended few changes. Subsequent changes to the formula (i.e. training and experience, elementary fine arts) have been reactive without significant consideration to the overall impact on distributions. School districts complain that distributions through the SEG have not been sufficient to meet annual operational costs, particularly with what the districts refer to as “mandated expenditures.” However, even if sufficient funding is appropriated statewide to meet these requirements, when distributed through the formula, some districts receive far less than required, especially those with less experienced teachers.

To address these issues, the Legislature established a task force and appropriated funds to contract with the American Institutes for Research (AIR) in 2005 for a comprehensive independent review of the states funding formula. The resulting report presented the results of 16 months of effort by AIR to determine the cost of a sufficient education for all public education students in New Mexico. To answer the question, “What is the cost of providing all New Mexico public school students with a sufficient education and how should the state equitably distribute these resources so that all students have the opportunity to meet the goals set forth by the public and the state,” the project included three major components: a public engagement process to clarify the goals of public education and define the concept of sufficiency; a component to determine the cost of a sufficient education; and the development of a new school funding formula. The study recommended \$334.7 million new dollars should be allocated to public schools to achieve sufficiency. The study also proposed a new funding formula, substantially different from the existing formula in the manner with which allocations are calculated, focused on pupil need based on four separate measures: student poverty, English language learner status, student mobility, and special education needs.

The AIR proposed formula adjusts for the differences in the cost of operations of middle schools and high schools, compared with elementary schools, and includes adjustments for differences in the scale of operational costs of districts and charter schools, particularly those associated with small schools and districts. The proposed formula accounted for many of the unit adjustments currently in place, broke out the factors in the at-risk index into three separate components, simplified the collection of pupil need variables, and retained the simplicity of a basic pupil-weighted system. Of note is that the proposed formula includes an index of staff qualification

(ISQ) that considers staff training and education, much like the old training and experience index but aligned with the three-tier licensure system.

The proposed formula called for more than \$330 million new dollars and has never been implemented. Discussions relating to the proposed funding formula generally focused on the money identified as needed to fully implement the formula. Missing in the discussion generally was the need to address the way the formula distributes funding to school districts and charter schools.

This approach used to determining sufficiency in the AIR study is referred to as a costing-out study focusing on the cost differences between current expenditures and a “model school” determined by a PJP. Eric Hanushek, senior fellow at the Hoover Institution of Stanford University in *Science Violated: Spending Projections and the “Costing Out” of an Adequate Education*, (2006), notes that “costing out studies” should be interpreted as political documents, not as scientific studies, and are generally used by parties interested in increasing spending for education. He further notes these studies provide spending projections that incorporate, and in general lock in, current inefficient uses of school funds. A number of school district inefficiencies identified in recent LFC performance evaluations and concerns with operational decisions made by some school districts lead to concerns whether additional funding will lead to improved outcomes.

Since the AIR study, Legislative Education Study Committee and Legislative Finance Committee staff conducted a study of the public education funding formula. The report notes the state’s public school formula is too complicated and difficult to administer. Some elements of the funding formula create incentives that run contrary to, or do not effectively support, recent education policy and research. The combination of unclear statutes, rules and weakening management and oversight have undermined the fair and effective allocation of resources. As a result some public schools can, and do, make decisions to maximize their revenue at the expense of others. These practices, though “within the rules,” raise serious concerns over basic fairness and undermine the equitable distribution of taxpayer dollars to educate New Mexico’s children. Finally, greater accountability for the use of these non-categorical dollars is necessary, particularly given the sizable investment taxpayers have made and the stubbornly small improvements the system has shown.

This joint staff report included recommendations to modernize the state’s funding formula that, if implemented, will make the formula more effective, fair, transparent, simpler to understand and administer, and less prone to manipulation by local decision-making. The full report is available at:

<http://www.nmlegis.gov/lcs/lfc/lfcdocs/perfaudit/A-3-A-9%20Final%20Draft%20%20Public%20School%20Funding%20Formula%20Evaluation.pdf>

In addition to the above mentioned studies, the J.F. Maddox Foundation contracted with Syracuse University to examine the distribution of SEG funding in New Mexico with a particular focus on Hobbs Municipal School District. This study noted the New Mexico public education funding formula does not do well on transparency, efficiency, or equity grounds. The SEG is very complex, making it difficult for school districts to determine how aid is calculated and what accounts for differences in SEG funding across schools and districts. The complexity provides strong incentives for districts to make inefficient resource allocation decisions to increase their aid. Additionally, the study found there is large variation in SEG funding across districts that

does not appear to improve educational adequacy. Districts receiving the highest SEG distributions are generally those with the lowest child poverty rates and the highest property wealth, while the lowest SEG funding goes to low-wealth and high-poverty school districts.

These three studies generally made similar recommendations regarding updating the state's funding formula to ensure resources are allocated where they are most needed. More recently LFC staff worked with a group of superintendents during the 2012 interim to study these same issues.

While arguably less important than more effectively distributing appropriations to meet student need, the estimated cost of “sufficient funding” overshadows most discussions related to the public education funding formula. **Most superintendents agree that that moving additional resources to schools with higher need is logical but are unwilling to support any plan that does not provide more money for their districts.**

ADMINISTRATIVE IMPLICATIONS

LCS, PED, LESC and LFC will be required to staff the task force. Likely, this will require significant investment of staff time and resources.

RELATED

House Bill 19 increases the funding formula factor for at-risk students.

House Bill 35 creates a funding formula factor for school districts with fewer than 200 students.

POSSIBLE QUESTIONS

- If three independent studies recommend making similar changes to the state's funding formula, is there a need to convene another task force to study the same issues?
- Is it likely that a court case would result in a decree that a specified amount of funding is “sufficient”?

RSG/jl