

Revision of the State Equalization Guarantee

October 16, 2024



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Background

During the 2023 legislative session, the Legislature passed House Memorial 51 (HM51), which requested the Legislative Education Study Committee (LESC) complete a comprehensive review of the State Equalization Guarantee (SEG). In its collaborative review of the SEG, the collective goals of the working group were:


- 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.

In October 2023, the working group found there was a need to revise the SEG to improve the responsiveness, accuracy, and adequacy of the formula's methodology.

On October 3, 2024, the working group held its final meeting, where it indicated its support for LESC staff's proposal for revising the SEG.

Public School Finance in New Mexico

- The SEG was created in 1974 to equalize funding using differentials to determine the funding each school district and charter school is entitled to.
- Since its creation in 1974, the SEG has been modified more than 80 times.
- The most recent revisions to the SEG were an increase to the at-risk factor, an increase to the fine arts factor, the phase-out of K-5 Plus and Extended Learning Time Programs, and the introduction of the K-12 Plus Program.
- In FY25, the Legislature appropriated \$4.17 billion to the SEG for distribution to public schools.



PRIMER Public School Funding Formula Overview

June 2023

The Public School Finance Act, enacted in 1974, created the state equalization guarantee (SEG) and sets out the "funding formula," which is designed to equitably distribute state resources for the operation of school districts and charter schools. Prior to the act, differences in local wealth led to significant differences in the public education resources available across the state.

New Mexico's funding formula, nationally recognized for its innovation, is based on models developed by the National Educational Finance Project, a 1968 effort by the U.S. Office of Education. While some states use highly variable local property taxes to fund their schools, New Mexico school funding relies on evenly distributing the state's revenues.

The formula, designed to equalize educational opportunity, allocates the same amount of funding for students in the same circumstances, starting with grade level and with additional funding for additional need. For example, a first grade student receiving special education services generates the same amount of funding as every other first grade student in the state receiving the same level of special education services, regardless of where they live.

The Public School Finance Act allows the Legislature to set a single, statewide amount for public school funding, which is then allocated to each school district and charter school based on their number of program units. Units, although primarily based on student enrollment, are weighted for school size, teacher qualifications, the special needs of students, and other factors. In Fiscal Year 2024 (FY24), the formula will have 17 components. To determine the value of each program unit, the Public Education Department (PED) divides the appropriation to the SEG by a forecast of the statewide total number of program units.

Generally, the use of formula funds – 75 percent of a school district's or charter school's operating budget, on average – is discretionary. However, some programs have mandatory requirements and PED is required to ensure schools prioritize programs and methods linked to student achievement. This allows local school officials to spend funding formula dollars to best meet the specific needs of their communities and encourages schools to minimize costs to allow funding to be used for other priorities.

	Program Units	Final Unit Value	Program Cost
FY21	651,992	\$4,536,75	\$2,917,925,596
FY22	622,098	\$4,863,00	\$3,025,263,206
FY23	615,596	\$5,522.50	\$3,399,627,541

Source: LESC Files

Enrollment in each grade, including kindergarten, is multiplied by factors ranging from 0.72 to 1.44.

Early Childhood and Basic Units

Staffing Cost Multiplier × The staffing cost index is intended to cover the higher cost of more experienced teachers.

Adjusted Program Units

Special Education The multiplier for special education students depends on need, with additional funds for ancillary staff.

Bilingual and Multicultural Services Bilingual multicultural programs that meet standards generate an additional 0.5 units per student.

Elementary Programs Fine Arts, Physical Education Elementary fine arts and PE programs generate additional units per student.

K-12 Plus Programs The K-12 Plus program generates funding for extra school days.

School and District Size The school and district size factors compensate certain schools for higher per-student costs.

At-Risk Funding for the higher cost of educating at-risk students is based on research-based indicators.

Enrollment Growth and Save Harmless Growth funding is intended to cover the cost of students enrolled after the official count.

National Board Certification The board certification unit generates funds for a bonus for board certified personnel.

Charter and Home School Student Add Ons Charter school and home school students may participate in school district activities and classes.

Basic Program Units

Grade Level/Program Membership	Times	Cost Differential = 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

Staffing Cost Multiplier

Teacher Cost Index (years of experience and licensure level) → Times Value from 1.000 to 1.277

Special Education Units

Special Education	Times	Value
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

Special Program	Times	Value
Bilingual Education	FTE MEM ×	0.50
Fine Arts Education	FTE MEM ×	0.055
Elementary Physical Education	MEM ×	0.06
K-12 Plus (Days between 181 & 190 OR 156 & 165)	MEM ×	0.012
K-12 Plus (Days between 191 & 205 OR 166 & 175)	MEM ×	0.016

Size Units

Size Units	Value
Elementary/Jr. High Size Units	
Senior High Size Units	
District Size Units	
Micro District Size Units	
Rural Population Units	

Add-on Units

Add-on Units	Value
National Board for Professional Teaching Standards Units	
Charter School Activities Units	
Home School Activities and Program Units	

Total Units

× **Unit Value**

= **Program Cost**

- **Energy Conservation Credits**

= **State Equalization Guarantee Distribution**

State Equalization Guarantee Computation, FY24

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SUM OF UNITS			

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Add-on Units

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Home School Activities and Program Units	

At-Risk Units

Percentage of ((Title I + English Learners + Student Mobility) × 0.33) + Total MEM

Enrollment Growth Units

Grand Total Program Units

Grand Total × Unit Value = Program Cost

- Utility Conservation Program Contract Payments

- 90% of the Certified Amount (Energy Efficiency and Renewable Energy Bonding Act)

= STATE EQUALIZATION GUARANTEE

Martinez-Yazzie Education Sufficiency Lawsuit

In 2018, the First Judicial District Court noted funding shortfalls for the following:

- Instructional materials and access to technology;
- Programs serving at-risk students, including pre-kindergarten, K-3 Plus, summer school, smaller class sizes, and reading programs; and
- Quality teachers, which correlate with lower academic outcomes of students considered to be at-risk and maintain disparities in outcomes between students with at-risk factors and students without at-risk factors.

The court also noted several statutes are not being adequately implemented, including the Bilingual Multicultural Education Act, the Indian Education Act, and the Hispanic Education Act, effectively leading to a system that is not adequately responsive to the unique and diverse needs of New Mexico's students.

American Institutes for Research (AIR) Study

In 2008, AIR completed an independent study of the SEG and made determinations for what the state should do to provide students with a sufficient public education.

The key recommendations included a proposal for simplifying the formula and incorporating separate adjustments for poverty, English learners, and mobility.

The study determined a program cost of \$2.635 billion would achieve sufficiency, a \$334.7 million increase from the FY08 budgeted program cost, or 14.5 percent.



LESC - LFC Joint Evaluation of SEG

In 2011, a joint evaluation determined the following select revisions should be made to the SEG:

- Revising the at-risk index with a cost differential of 0.15 for the percentage of students identified as eligible for the free and reduced-price lunch program;
- Modifying the bilingual component with a cost differential of 0.15 for English learners; and
- Removing the mobility component from the SEG.

While these recommendations were not comprehensively implemented by the Legislature, they are the foundation for LESC staff's current proposal.



The image shows the cover page of a report. The title 'Evaluation of the Public School Funding Formula' is centered in red text. Below it is a horizontal red line. Underneath the line, the text 'A Joint Study – Legislative Finance Committee Legislative Education Study Committee' is centered in black. At the bottom of the page, the date 'November 16, 2011' is centered in black.

Evaluation of the Public School Funding Formula

A Joint Study –
Legislative Finance Committee
Legislative Education Study Committee

November 16, 2011

Legislative Actions Since the AIR Study

Between FY08 and FY25, the Legislature increased the SEG appropriation from \$2.388 billion to \$4.17 billion, an increase of \$1.8 billion, or 75 percent.

Key legislative actions since the completion of the AIR study include:

- More than tripled the at-risk Index factor from 0.0915 to 0.330;
- Increased the fine arts factor from 0.05 to 0.055;
- Created the K-5 Plus and Extended Learning Time Programs, and later consolidated these programs into K-12 Plus;
- Phased-in the Teacher Cost Index, and phased-out of the T&E Index;
- Phased-out the small-school size adjustment for districts with more than 2,000 students;
- Phased-in the rural population adjustment when at least 40 percent of an LEA's population lives in a rural area; and
- Eliminated credits taken for Impact Aid, forest reserve funds, and the half-mill levy.

The Legislature has continued to prioritize flexibility and equity in its funding of public schools.

Basic Program Funding

The SEG provides a cost differential depending on a student’s grade level, with much of the cost assumptions centered on personnel costs associated with meeting class size requirements.

In FY25, approximately 56.2 percent of all program units in the SEG are attributable to the basic program components.

In FY25, the basic program components may generate 361,875 program units, or \$2.4 billion at the preliminary unit value of \$6,553.75.

The last revisions to the basic program weights were in 1993, with the secondary factor having last been revised in 1976.

Grade Level	SEG Weight	FY25 SEG Distribution
Early Childhood	1.440 & 0.770	\$208.4 million
1	1.200	\$164.9 million
2 – 3	1.180	\$336.1 million
4 – 6	1.045	\$460.4 million
7 – 12	1.250	\$1.202 billion

Source: LESC Files

Considerations for Basic Program

The LESC staff will **propose an increase of 0.05 to the secondary factor** to support recurring funding for differentiation in programming, including:

- Career and technical education programs;
- Secondary fine arts programs; and
- Broader academic, social, and emotional supports for all secondary students.

The LESC staff will **recommend an appropriation to the SEG** to fund the cost of this revision.

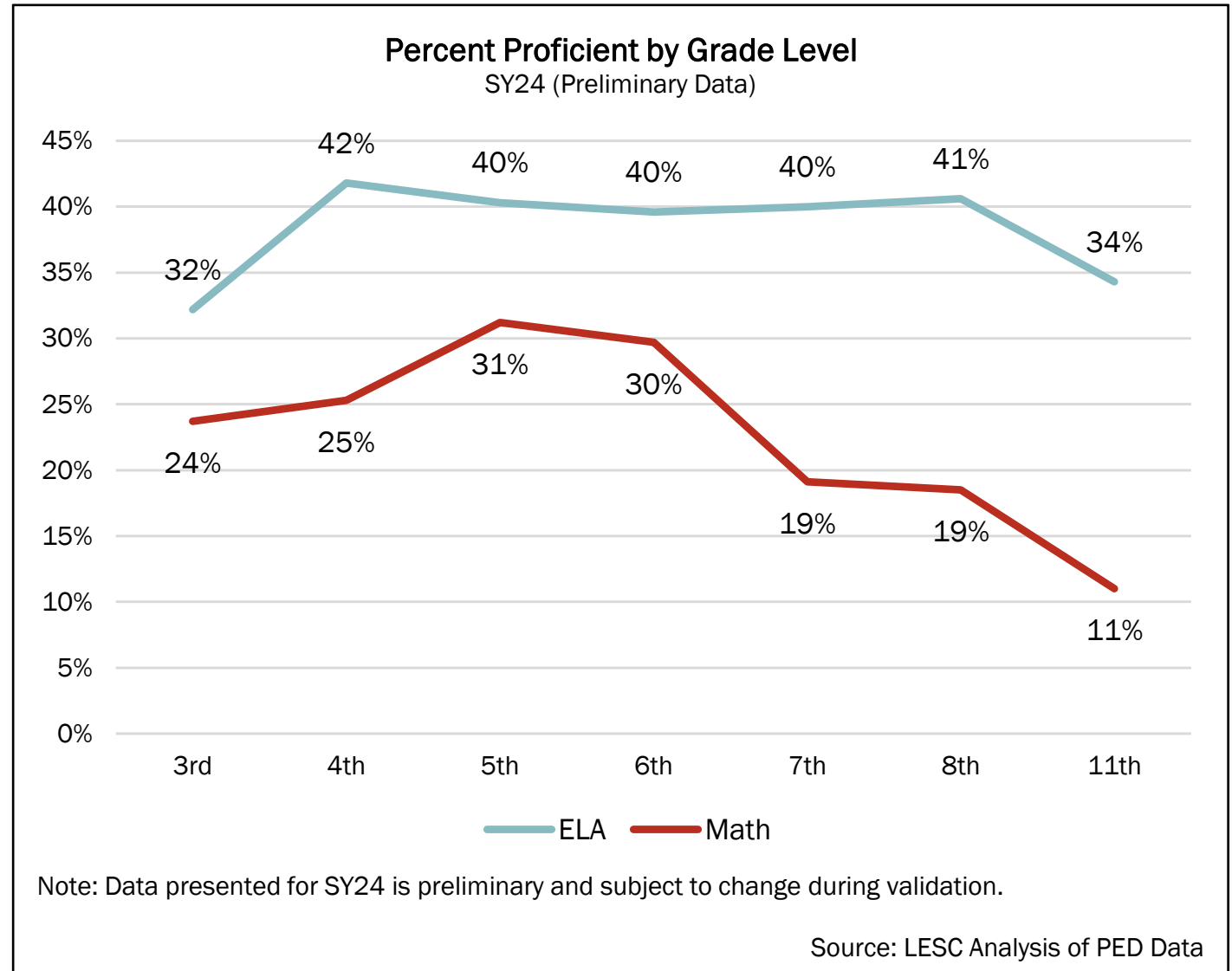
The SEG revision working group suggested the inclusion of 6th grade in the secondary factor, for which LESC staff has included an attachment for potential fiscal impact.

Attachment included for LEA breakdown

Proficiency rates in English language arts (ELA) and math tend to decline at secondary grade levels.

In English, about 40 to 41 percent of middle school students are proficient in ELA. This rate declines to 34 percent proficient in 11th grade.

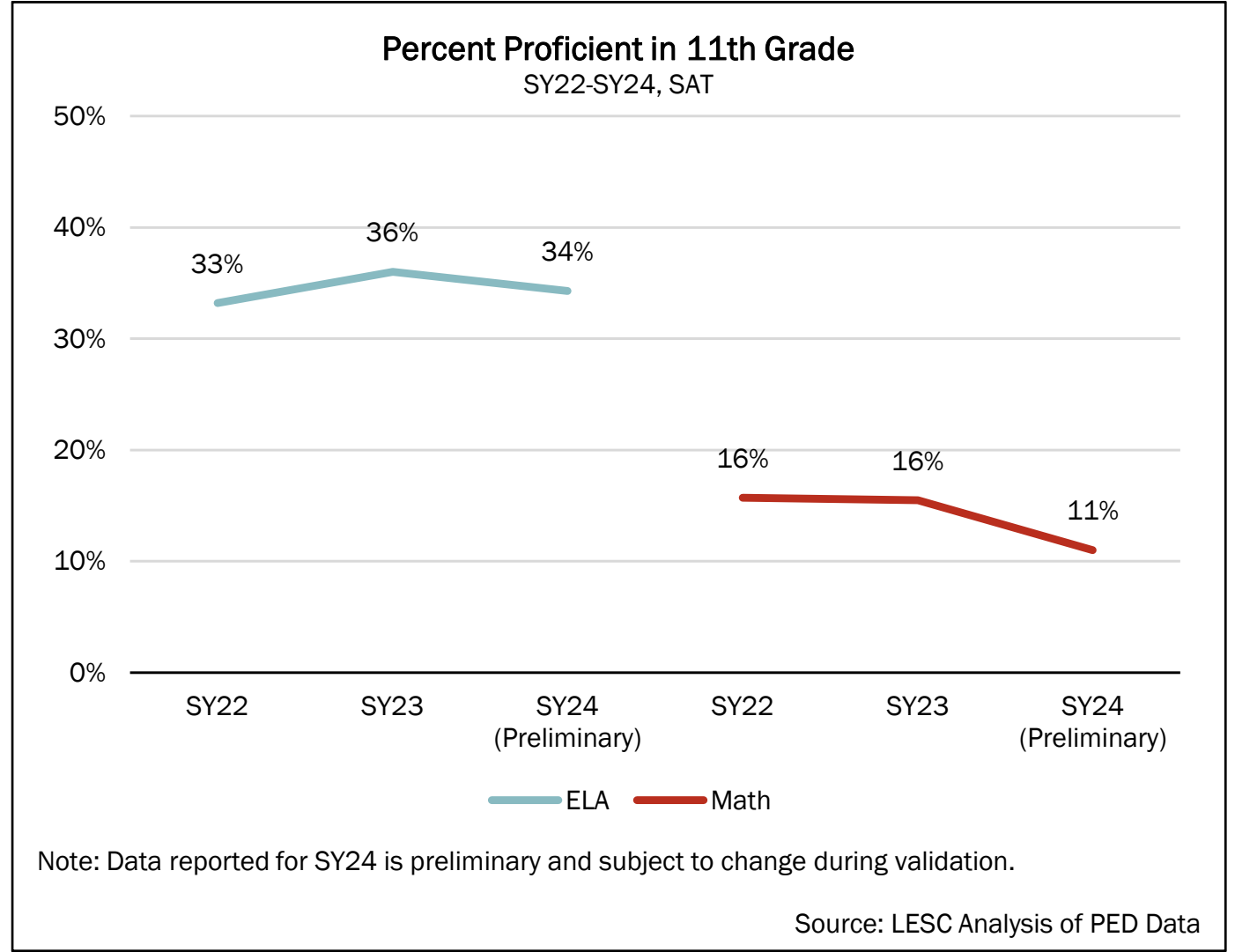
In math, students begin to decline in proficiency beginning in sixth grade. Last year, only 11 percent of 11th grade students were proficient in math.



In New Mexico high schools, proficiency has not grown over the past three years.

In English, 11th grade students declined modestly from 36 percent proficient to 34 percent proficient.

In math, 11th grade students declined from 16 percent proficient to 11 percent proficient.



Improving student outcomes begins with improving the experience of secondary school.

According to a 2024 national study from the Walton Family Foundation and Gallup:

About half of all students feel they do not “get to do what they do best” at school;

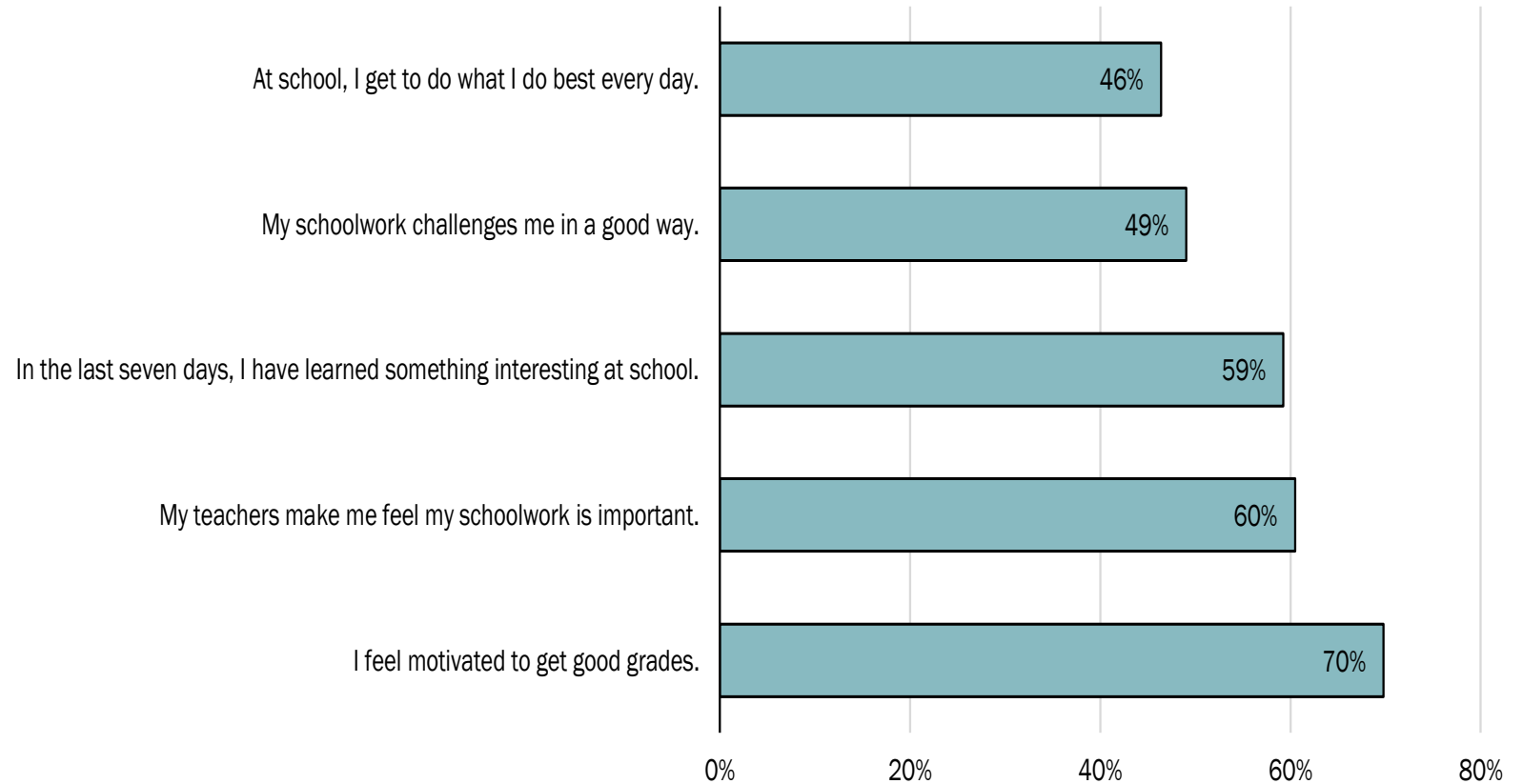
About half of all students do not feel “challenged in a good way” by school;

About two in five students feel the work they do at school is not interesting or important.

The LESC has been focused on secondary school redesign for several years, which recently resulted in the revision of the high school graduation requirements.

Student Engagement among Secondary Students

Select Questions from National Poll of 11-19 Year Olds



Source: Gallup and the Walton Family Foundation

At-Risk Funding

An LEA generates program units through the at-risk index based on a three-year average of three separate components, including:

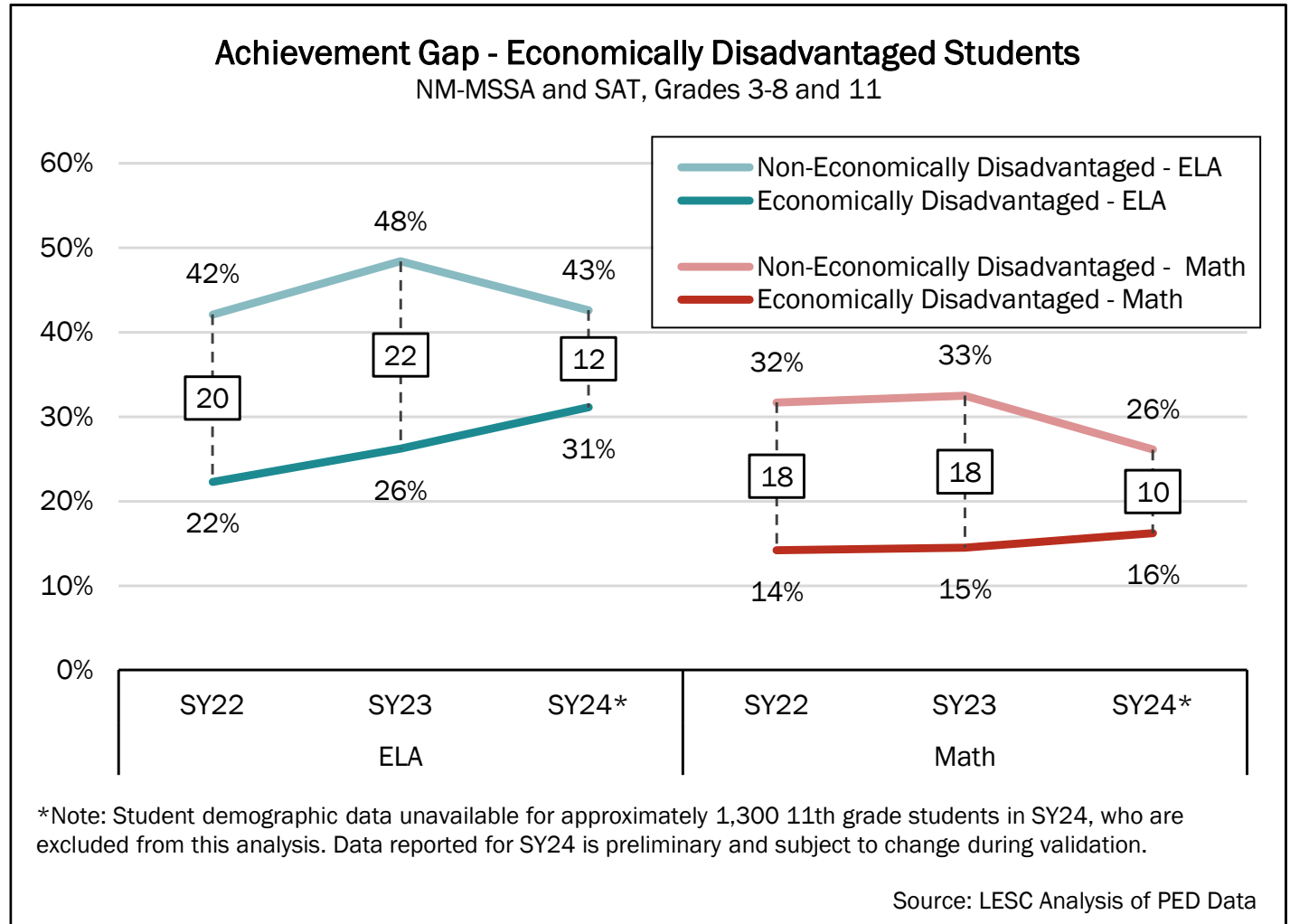
- The percentage of membership used to calculate Title I allocations,
- The percentage of membership classified as English learners, and
- Student mobility.

The sum of these components is multiplied by 0.33 and then by the LEA's membership.

For FY25, the at-risk index is anticipated to generate approximately 57,971 program units, or \$379.9 million in funding at the preliminary unit value of \$6,553.75.

A focus on the *Martinez-Yazzie* lawsuit and investments in the at-risk index may have helped economically disadvantaged students stay resilient against strong social factors, while achievement among non-economically disadvantaged students decreased.

While non-economically disadvantaged students appeared to have decreased in both ELA and math proficiency, economically disadvantaged students saw a large increase in ELA proficiency and a modest increase in math.



LESC Student Growth Framework

Economically disadvantaged students and English learners tend to have a harder time reaching “proficiency.”

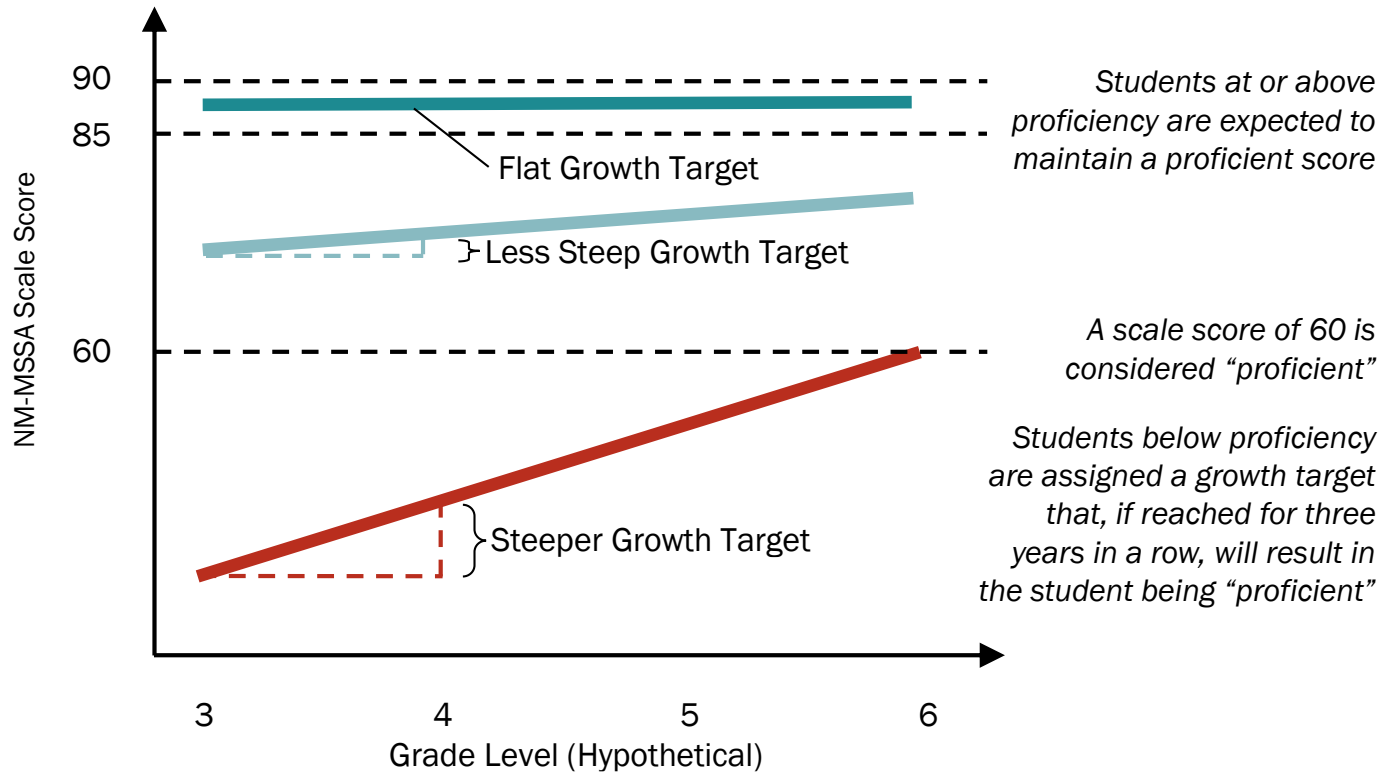
To better understand differences in student achievement, LESL staff have begun evaluating student growth over time.

The LESL growth framework creates growth targets for individual students based on their prior year test scores under a simple expectation:

Students should reach proficiency within three years.

Based on these growth targets, staff can evaluate whether students are growing in a meaningful trajectory that will result in them reaching proficiency.

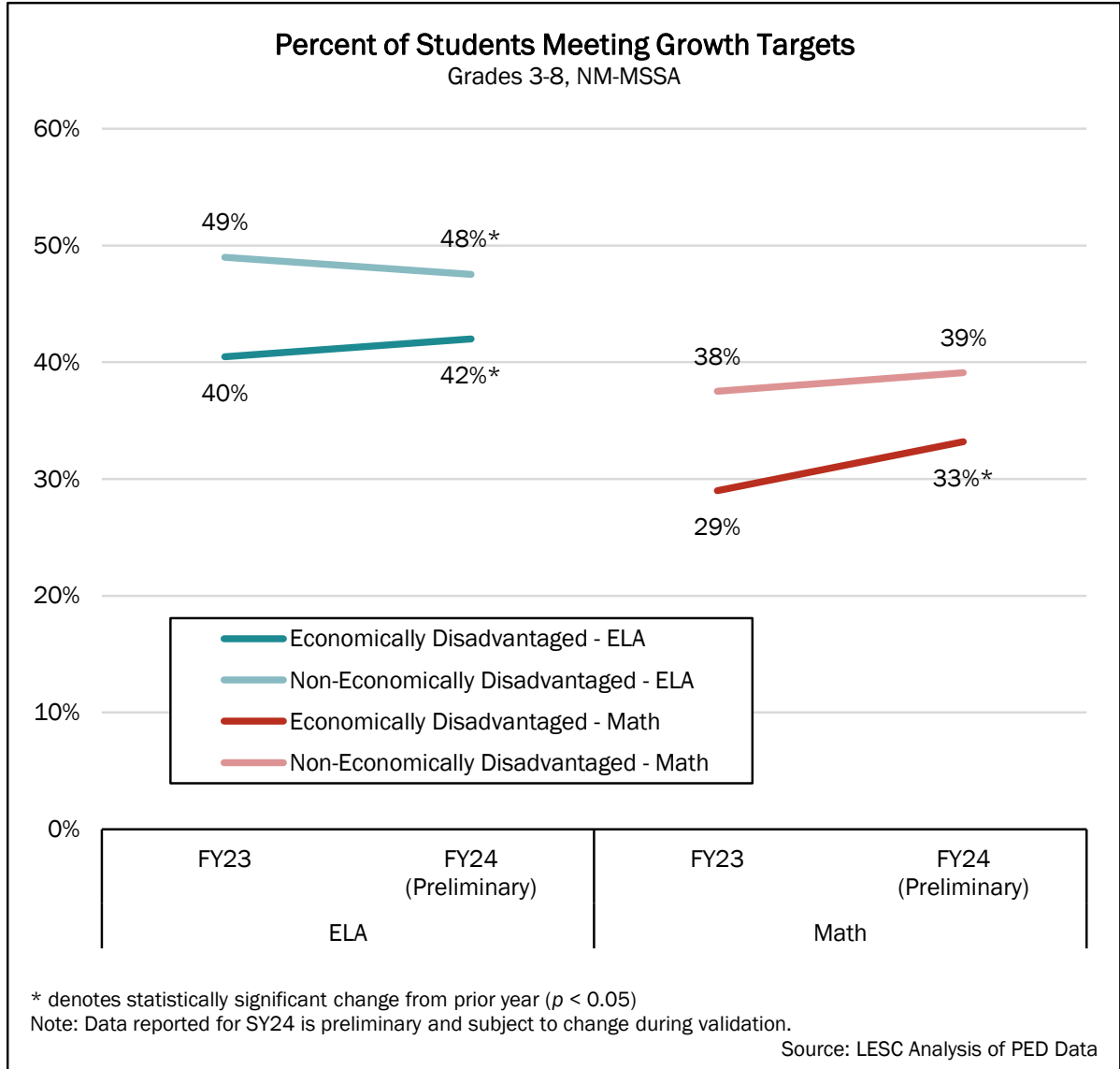
Visualization of Growth Targets based on LESL Student Growth Framework



Source: LESL Files

The percent of economically disadvantaged students meeting their growth targets increased from 40 percent to 42 percent in ELA, and from 29 percent to 33 percent in math.

Conversely, slightly fewer non-economically disadvantaged students met their ELA growth targets, down from 49 percent to 48 percent, while slightly more non-economically disadvantaged students met their growth targets, up from 38 percent to 39 percent.

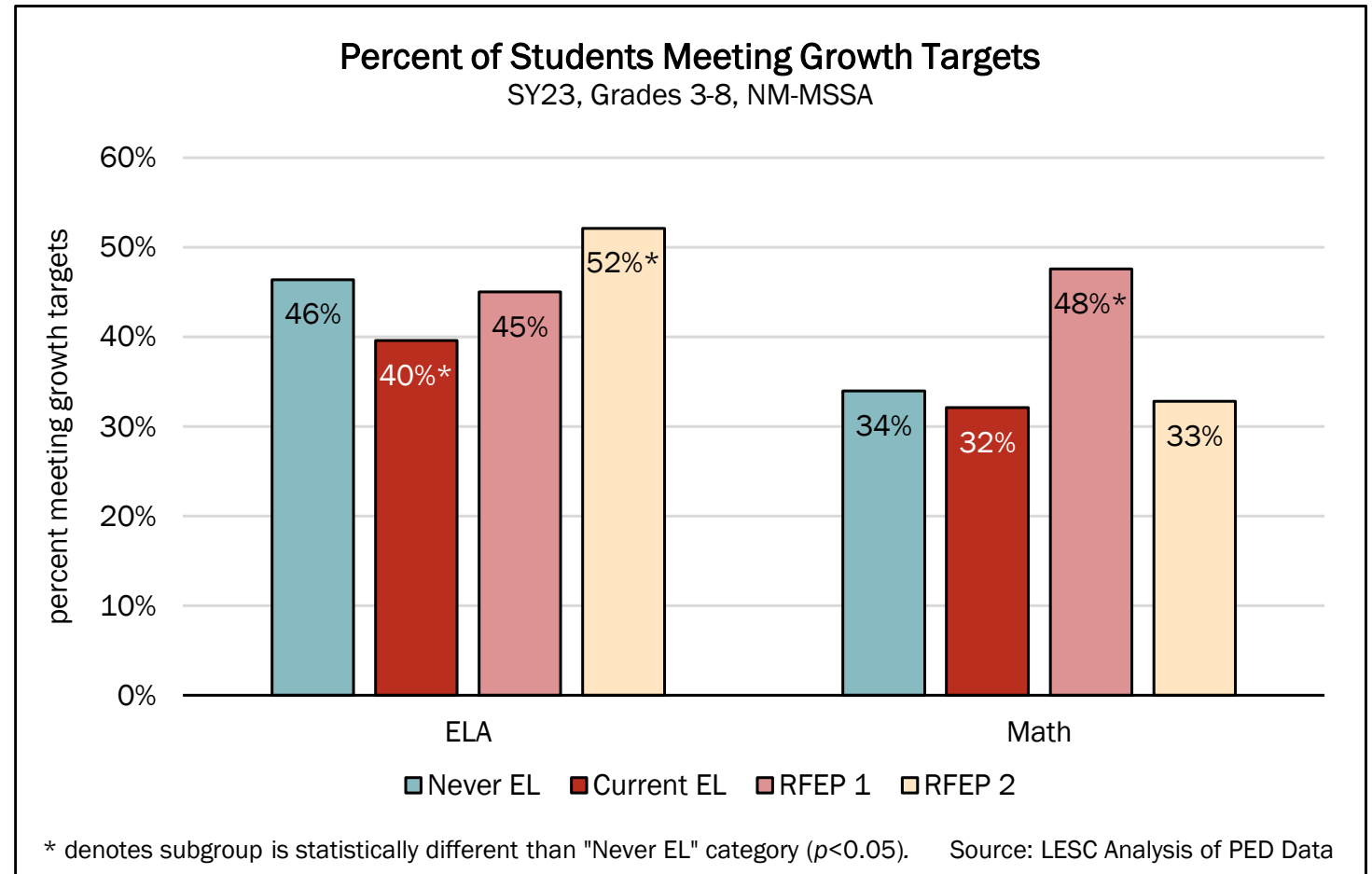


English learners (ELs) tend to also face challenges reaching proficiency and growth targets, but with adequate supports can begin to outpace their non-EL peers.

Students can “exit” EL status by passing the ACCESS 2.0 for ELs assessment. These students become reclassified fluent English proficient (RFEP).

In New Mexico, RFEP students tend to catch up to non-English learners in ELA proficiency. The percentage of first-year RFEP students who met their growth targets in ELA in SY23 was comparable to the percentage of native English speakers. Students who are two-years out of EL status (RFEP 2) see significantly higher rates of English proficiency.

In math, English fluency makes less of a difference in meeting growth targets.



Considerations for the At-Risk Index

LESC staff will **propose a revision of the at-risk index**, including:

- Embedding the methodology of the Family Income Index (FII) as the SEG's indicator for poverty;
- Creating a standalone component for English learners and reclassified students; and
- Eliminating the mobility component.

Each of these considerations is responsive to the findings of the *Martinez-Yazzie* education sufficiency lawsuit and are aligned with recommendations of the 2011 joint LESC-LFC evaluation of the SEG.

Revising the Poverty Indicator

LESC staff will **propose the three-stage income identification process of the FII be used as the SEG's indicator for poverty**. Inclusion of the FII methodology accomplishes the following:

- Provides clarity for LEAs in the amount of funding that is designated for low-income students;
- Expands the SEG's poverty threshold to 130 percent of the federal poverty line;
- Ensures each charter school has a unique poverty indicator;
- Allows for executive and legislative audits of poverty data to ensure accuracy;
- Strengthens the ability of the SEG to identify fluctuations in the household income of each student;
- Allows future legislatures to revise the poverty threshold as needed; and
- Encourages cross-agency collaboration and data-sharing.

LESC staff will **recommend an appropriation to the SEG** to fund the cost of this revision.

Attachment included for LEA breakdown

Revising the English Learner Component

LESC staff will **propose a standalone differential for English learners and students in the first two years of reclassification**. A standalone EL factor accomplishes the following:

- Creates a standalone component that centers the needs of English learners;
- Creates a unique indicator for charter schools;
- Incentivizes LEAs to intentionally leverage this specific funding for meeting the needs of English learners and ultimately reclassifying those students;
- Supports the continued needs of reclassified students by providing funding for two additional years; and
- Strengthens the alignment with administrative rule requirements (6.29.5.12 NMAC) that all reclassified students be monitored for academic progress for two years.

LESC staff will **recommend an appropriation to the SEG** to fund the cost of this revision.

Attachment included for LEA breakdown

Eliminating the Mobility Component

LESC staff will recommend removing the mobility component from the SEG and reallocating its proportional share of funding to the poverty indicator. Removing the mobility component accomplishes the following:

- Eliminates a significant administrative burden for both the Public Education Department and LEAs;
- Alleviates the potential for error in the collection of local data; and
- Promotes a focus on alleviating the effects of poverty by providing supports that align with existing statutory requirements for students identified as “at-risk.”

LESC staff may not recommend an appropriation to the SEG to support this revision.

Attachment included for LEA breakdown

Next Steps

- Staff will revise the framework and modeling of the revision proposal, depending on the feedback received from members of the LESC.
- Staff will engage with external partners to detail the potential impact of the proposal.
- Staff will prepare legislative text for review by LESC members.

Thank You

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