LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS

Bill Number: **HJM 46**   **51st Legislature, 1st Session**, **2013**

Tracking Number: **.193460.1**

Short Title: **Study School Funding Formula**

Sponsor: **Representative Sandra Jeff and Others**

Analyst: **David Craig**   Date: **March 10, 2013**

Bill Summary:

HJM 46 requests that the Legislative Education Study committee (LESC), the Legislative
Finance Committee (LFC), and the Public Education Department (PED) cooperate in a study of
the Public School Funding Formula, including issues and/or changes relating to:

- formula equity;
- Impact Aid credits;
- special education maintenance of effort; and
- small school size adjustment.

Among its provisions, the bill requests that:

- the LESC take the lead in conducting the study;
- the study include:

  ➢ school superintendents;
  ➢ district financial officers;
  ➢ Impact Aid and Forest Reserve recipient school districts;
  ➢ charter schools;
  ➢ teachers; and
  ➢ other education and educational finance experts; and

- a report outlining recommended changes to the current funding formula be provided to
  the Legislature by January 1, 2014.

Fiscal Impact:

Legislative memorials do not carry appropriations.

Fiscal Issues:

Among its provisions, HJM 46 states that:

- the State Equalization Guarantee[1] (SEG) is a school district's program cost minus revenue credits;
- the federal government provides federal Forest Reserve and federal Impact Aid funds to certain school districts;
- the state takes credit for 75 percent of these revenues in the same way that it takes credit for a .5 mill levy of school districts[2]; and
- a comparison of three "wealthy" school districts and three Impact Aid school districts indicates that "the poorest and most economically disadvantaged districts are contributing the biggest percentage of local revenue to the statewide school budget."

Background:

Aspects of the Public School Funding Formula

Enacted by the Legislature in 1974, the New Mexico Public School Funding Formula is based on a model developed by the National Education Finance Project in the late 1960s and early 1970s.

The system supports the Legislature's policy that all students are entitled to an equal educational opportunity despite differences in local school district wealth.

The formula is student-driven and recognizes different costs for various educational programs.

Designed to distribute operational funds to school districts in a noncategorical manner, the formula also provides for local school district autonomy. Formula dollars received by local districts are not earmarked for specific programs. Within statutory and regulatory guidelines, school districts have the latitude to spend their dollars according to local priorities.

The establishment of educational need by each school district (based on the number of students enrolled on an average of the prior year's 80th and 120th days and participating in legislatively defined programs) is the first function of the equalization formula. The formula uses cost differentials to reflect the relative costs incurred in providing these programs, making individual student needs the focal point of the formula.

The distribution of funds for each educational program is determined by the calculation of program units. Program units are the product of the number of students enrolled in a given program multiplied by the cost differential assigned to that program in statute. The program units are multiplied by the Training and Experience (T&E) Index in each district to adjust for instructor education and experience.

The following factors are then added to the adjusted program units (which are those units multiplied by the district's T&E Index) if they are applicable:

- Adjustments for school and district size, rural isolation, creation of new districts, at risk, enrollment growth, and National Board for Professional Teaching Standards (NBPTS)-certified teachers.

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[1] Commonly referred to as the Public School Funding Formula.
[2] These credits refer to the revenue credits cited in the memorial that are taken from a school district's program cost to determine a district's SEG.

- The attached table, "State Equalization Guarantee Distribution Formula," provides a graphic illustration of the calculation of units and determination of district revenues.

History of the Formula

The current Public School Funding Formula has been in place for more than three decades and, during that time, has been under constant analysis. The results of these analyses have, for the most part, supported legislative enactment of data-based refinements to the structure of the formula while maintaining the philosophical concepts of educational equity for all students and local control.

In 1995-1996, a major study of the formula took place. The Legislature, the Executive, and the State Board of Education commissioned a comprehensive study of the Public School Funding Formula and jointly appointed members to a task force to coordinate the study. The Public School Funding Formula Task Force selected a consultant, worked with the consulting group as it performed the study, received the results of the study, and made recommendations to the Legislature for changes to the formula, which the Legislature enacted in 1997. In its principal finding, the consulting group concluded that: "When evaluated on the basis of generally accepted standards of equity, the New Mexico Public School Funding Formula is a highly equitable formula…spending disparities are less than in other states" and are "statistically insignificant."

In 2005, the Legislature created the Funding Formula Task Force to address several issues that had arisen since the 1995-1996 study, including the adequacy of current educational programs to address the needs of all students, the alignment of the T&E Index with the three-tiered licensure system for teachers, and fiscal difficulties faced by school districts with a membership of 200 or less. However, the appropriation to fund the study was vetoed. In 2006, the Legislature extended the term of the task force through December 2007 and appropriated dollars for an independent study of the funding formula. As with the last study, an independent contractor was selected to conduct a comprehensive examination of the Public School Funding Formula. Based on the tasks identified in the request for proposals and other discussions, the contractor provided several recommendations and an estimate of the cost of implementing those recommendations to the task force. On January 7, 2008, the task force adopted a discussion draft of a bill that incorporated those recommendations, and the LESC endorsed the task force recommendations on January 14, 2008. This legislation, however, did not pass in either the 2008 or the 2009 legislative sessions.

In the past, states relied primarily on local property taxes to fund both the operational and the capital outlay needs of their school districts. New Mexico decided more than 30 years ago that a change was needed. Since its enactment in 1974, the Public School Funding Formula has been the policy method by which the New Mexico Legislature continues to provide equity in funding for all students relying upon the wealth of the state rather than the property tax wealth of individual districts. In turn, other states have followed New Mexico's example. Now that equity is no longer a primary concern, New Mexico, as are other states, is examining what constitutes an adequate educational program and the amount of funding sufficient to meet the educational needs of its most precious resource, its children.

Important Funding Formula Terms

- **Program Cost** – The amount of money assumed under the formula to be necessary for a given district with a particular configuration of students and educational programs to provide educational services.

- **Unit Value** – A dollar amount calculated by dividing the legislative appropriation by the total number of units statewide:

$$\text{Unit Value} = \frac{\textbf{Program Cost}}{\textbf{Total Statewide Units}}$$

- **State Equalization Guarantee** – The largest single revenue source for public schools, which typically accounts for more than 80 percent of any district's operational revenues. This guarantee represents an attempt to assure all public school students access to programs and services appropriate to their needs despite local geographical or economic conditions. The distribution is noncategorical in nature and encourages local priority initiatives through the absence of categorical funding.

- **State Equalization Guarantee Distribution** – The amount of money distributed to each school district to ensure that the school district's operating revenue, including certain local and federal revenue, is equal to the school district's program cost. In making the distributions, the state takes certain credits and deductions, as applicable to each district.[3]

- **"Save Harmless"** – In determining program cost for a small school district or a charter school with a membership of 200 or fewer students, units are calculated using either the average of the MEM on the 80th and 120th days of the prior year or the 40th day MEM of the current year, whichever is greater. When the number of units calculated on the basis of current year MEM is greater than the number of units calculated on the basis of the prior year averaged MEM, the difference is referred to as "save harmless."

Committee Referrals:

HEC

Related Bills (as of 3/6/13):

HB 158 *School Performance-Based Budgeting*
HB 245 *Stop Some Indian Impact Aid Credits*
HB 459a *Special Education Equalization Guarantee*
HM 98 *Study Funding Formula*
SB 325 *Stop Some Indian Impact Aid Credits*
SB 378 *K-3 Plus Equalization Guarantee Distribution*
SB 379 *Vocational Education Funding Differential*

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[3] The state takes credit for 75 percent of the local .5-mill levies and 75 percent of federal Forest Reserve funds and most Impact Aid (formally PL 874) funds, with the exception of Impact Aid funds for special education or for students living on Indian lands, which remain in the local districts. School districts retain 25 percent for operational or other purposes.

State Equalization Guarantee Computation

Grade Level/Program Membership		Times	Cost Differential	= Units
Kindergarten & 3- and 4-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	
Special Education				
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	
Bilingual Education	FTE MEM	×	0.50	
Fine Arts Education	FTE MEM	×	0.05	
Elementary Physical Education	FTE MEM	×	0.06	

SUM OF UNITS

= TOTAL PROGRAM UNITS

T&E INDEX MULTIPLIER ⟶ Times Value from 1.000 – 1.500

= ADJUSTED PROGRAM UNITS

Plus

D-Level NPTC Special Education Units
Size Units (Elementary/Junior High; Senior High; District; Rural Isolation)
New District Adjustment Units
At-Risk Units
Enrollment Growth Units
National Board for
Professional Teaching Standards Units
Charter School Activities Units
Home School Student Activities Units

= TOTAL UNITS

Plus Save Harmless Units

= GRAND TOTAL UNITS

Grand Total Units × Unit Value = Program Cost

– 75% Noncategorical Revenue Credits
– Utility Conservation Program Contract Payments
– 90% of the Certified Amount (*Energy Efficiency and Renewable Energy Bonding Act*)

= STATE EQUALIZATION GUARANTEE