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FISCAL IMPACT REPORT

ORIGINAL DATE 01/23/14

SPONSOR Varela & Sapien LAST UPDATED 02/27/14 HB 19/aHEC/aHAFC

SHORT TITLE Update School Finance At-Risk Index SB _____

ANALYST Gudgel

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY14	FY15		
	See Fiscal Implications	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

Relates to Appropriation in the Public School Support section of the General Appropriation Act

SOURCES OF INFORMATION

LFC Files

Responses Not Received From
Public Education Department (PED)

SUMMARY

Synopsis of HAFC Amendment

House Appropriations and Finance Committee Amendment to House Bill 19 eliminates the \$12 million appropriation.

Synopsis of HEC Amendment

House Education Committee Amendment to House Bill 19 removes the following language proposed by HB 19 requiring school districts receiving at-risk units to include a report on specific services “including reading coaches, additional instructional time, tutoring and school- and student-level interventions to improve academic proficiency together with intended outcomes related to the specified services” and replaces this with more general language requiring the report to include services “implemented to improve the academic success of at-risk students.” The amendment defines an at risk student as one that qualifies to be counted in the calculation of the at-risk index (an English language learner, a Title 1 student, and students counted in the mobility calculation). The amendment decreases the proposed increase to the at-risk index from 0.115 to 0.106 and decreases the appropriation to \$12 million to cover the additional units created. Lastly, the bill implements the changes to the funding formula in the 2015-2016 school year while making the appropriation available during the 2014-2015 school year.

Synopsis of Original Bill

House Bill 19, endorsed by the Legislative Finance Committee (LFC), amends the Public School Finance Act to do the following:

- Require school districts and charter schools receiving at-risk program units to include a report of services provided, including reading coaches, additional instructional time, tutoring and school and student-level interventions to improve academic proficiency together with intended outcomes related to the specified services; and
- Increases the cost differential factor for the at-risk index from 0.0915 to 0.115 beginning with the 2014-2015 school year; and
- Appropriates \$20 million from the general fund to the public education department for distribution through the state equalization guarantee for expenditure in FY15 to pay for the additional program units created.

FISCAL IMPLICATIONS

HAFC struck the appropriation contained in this bill. Senate Bill 313 (the General Appropriation Act of 2014) includes \$15.2 million for at-risk students in FY14.

The LFC recommendation for public school support included \$20 million to increase the at risk index from 0.0915 to 0.115 in FY15.

Generally, an increase in program units generated by school districts or charter schools that is not accompanied by an appropriation has the effect of diluting the unit value, impacting school districts and charter schools statewide. Because the bill includes sufficient funds to fully fund the new units, the unit value will not be diluted.

LFC staff estimates the increase in the at-risk index pursuant to the HEC amendment will result in approximately 3,100 new program units in FY16.

SIGNIFICANT ISSUES

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 FY14, New Mexico will allocate more than \$2.4 billion through its public school funding formula to 89 school districts and almost 100 charter schools to serve more than 330 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 LFC and Legislative Education Study Committee also recommended simplifying the formula and allocating higher funding for at-risk students. 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.

Additionally, the of the more than \$2.4 billion distributed through the funding formula, only 3 percent of this funding will be allocated to serve at risk students, or approximately \$70 million.

Accountability. 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, additional instructional time, tutoring and school- and student level interventions to improve academic proficiency and intended outcomes.

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.

Additional reporting burden will be placed on school districts receiving these funds; however, the increased reporting should improve accountability of formula funding.

ALTERNATIVES

Continue to allocate targeted funds to school districts and charter schools to serve at risk students through related recurring “below-the-line” initiatives.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

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

RSG/ds:jl