

**LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS**

Bill Number: HB 417

52nd Legislature, 1st Session, 2015

Tracking Number: .198996.1

Short Title: Size Adjustment Factor for Certain Schools

Sponsor(s): Representative D. Wonda Johnson

Analyst: Ian Kleats

Date: February 18, 2015

Bill Summary:

HB 417 amends the *Public School Finance Act* to provide additional program units for school districts with one or more large high schools in an urban area and at least five high schools located 20 or more miles from the district's central administrative office in sparsely populated, isolated, rural areas.

Among its provisions, HB 417:

- calculates additional program units on the following basis:
 - (MEM of Eligible High Schools) x 0.5 = Units; and
- defines MEM as the total number of students enrolled on the first reporting date in approved regular high schools that are located 20 or more miles from the central office of the school district in sparsely populated, isolated, rural areas.

If enacted, HB 417 would become effective on June 19, 2015 – 90 days after the end of the legislative session (see “Technical Issues,” below).

Fiscal Impact:

HB 417 does not contain an appropriation.

Fiscal Issues:

According to the Public Education Department (PED) bill analysis:

- only Gallup-McKinley County Schools (GMCS) meets the eligibility requirements for these units;
- six out of a total of eight of Gallup's regular high schools are located 20 miles or more from the central office of the school district and qualify as an eligible high school;
 - Gallup High School and Miyamura High School do not meet the 20-mile criteria; and
- based on data from the first reporting date in school year 2014-2015, eligible GMCS high school membership was 1,344.

Using the 2014-2015 data provided by PED, the following program units would be generated:

$$(\text{MEM of Eligible High Schools}) \times 0.5 = \text{Program Units}$$

$$1,344 \text{ MEM} \times 0.5 = 672 \text{ program units}$$

Based on the FY 15 final unit value of \$4,007.75, these units would generate the following state equalization guarantee (SEG) funding:

$$(\text{FY 15 Final Unit Value}) \times (\text{Program Units}) = \text{SEG Funding}$$

$$\$4,007.75/\text{unit} \times 672 \text{ program units} = \$2,693,208$$

HB 417 does not contain an appropriation. The addition of new units to the public school funding formula, if not fully funded, may dilute the unit value, potentially impairing the ability of school districts and charter schools to meet their local obligations.

Technical Issues:

Because the bill's effective date of June 19, 2015 is prior to the close of FY 15, if HB 417 were enacted, PED would be required to adjust FY 15 SEG distributions to school districts to reflect the addition of the new units. With this consequence in mind, the sponsor may wish to consider an amendment providing an effective date of July 1, 2016 in order to allow PED time to update its data collection systems and worksheets.

As noted in the PED bill analysis, HB 417 specifies that MEM from the first reporting date shall be used in calculating the units used for this size adjustment. This requirement raises several technical issues, including:

- the *Public School Finance Act* provides that, unless stated otherwise, program units for eligible school districts, as defined in HB 417, shall be based on an *average* of the MEM on the prior year's second and third reporting dates; and
- HB 417 does not specify whether the first reporting date is from the prior or current school year.

PED suggests that the Legislature should amend the definition of MEM to align with all other data collection timelines used in calculating a district's program cost, which would be based on the average of the MEM on the prior year's second and third reporting dates.

HB 417 uses several terms that are not defined elsewhere in the *Public School Code*. Because these terms are integral to eligibility, without definitions, PED might be placed in a position of having to define those terms through rule. The sponsor may wish to consider an amendment to define:

- "large high schools" (page 3, line 21);
- "urban area" (page 3, lines 21-22); and
- "sparsely populated, isolated, rural areas" (page 3, line 24, and page 4, line 16).

Substantive Issues:

The PED bill analysis raises the following issues:

- Provisions contained in this bill would serve to dilute the unit value and may have the effect of dis-equalizing the public school funding formula.
- Although a number of districts around the state have schools located 20 or more miles from the central office and although eight school districts have a total MEM of 10,000 or more,¹ only GMCS meets all the criteria to qualify for the adjustment provided in the bill.

Background:

Size Adjustment Program Units

The *Public School Finance Act* provides for several mechanisms that generate additional program units based on school district or school size. The provisions of HB 417 most closely relate to two of these mechanisms: Senior High Units and Rural Isolation Units.

Senior High Units

Current statute provides that an approved public high school with a MEM of less than 400 is eligible for additional program units. The number of additional program units to which a school district is entitled is calculated as the greater of:

$$\text{Units} = (200 - \text{MEM})/200 \times 2.0 \times \text{MEM}$$

or

$$\text{Units} = (400 - \text{MEM})/400 \times 1.6 \times \text{MEM}$$

Based on these formulae:

- where MEM ranges from 0 to 66.5, the formula based on a MEM of 200 generates more units for the district; and
- where MEM is greater than 66.5, the formula based on a MEM of 400 generates more units for the district.

Rural Isolation Units

Sometimes referred to as the “sparsity” factor, the rural isolation factor was added as a size adjustment factor in the public school funding formula in 1976. In 1979, the multiplier in the formula used to calculate the number of rural isolation units to which a district is entitled was increased from 0.2 to 0.5.

¹ Those districts, other than GMCS, with MEM equal to or greater than 10,000 are: Albuquerque Public Schools, Farmington Municipal Schools, Gadsden Independent Schools, Las Cruces Public Schools, Rio Rancho Public Schools, Roswell Independent Schools, and Santa Fe Public Schools.

Current law also provides that “a school district with over 10,000 MEM with a ratio of MEM to senior high schools less than 4,000:1 is eligible for additional program units based on the number of approved regular senior high schools that are not eligible for senior high units...”

The number of additional program units to which an eligible school district is entitled under this subsection is the number of units computed in the following manner:

$$\text{Units} = [(4000 - \text{MEM})/(\# \text{ of High Schools})] \times 0.5$$

The characteristics of this formula indicate that:

- holding MEM constant, a decrease in the number of high schools reduces the number of isolation units that are generated; and
- holding the number of high schools constant, an increase in MEM reduces the number of isolation units that are generated.

Size Adjustment Program Units in Gallup-McKinley County Schools

As explained above, the *Public School Finance Act* provides that the number of rural isolation units generated by a school district is based on the number of approved *regular senior high schools that are not eligible for senior high units*. This means that once a high school becomes eligible for senior high units, it is no longer considered in the calculation of rural isolation units. Historically, only GMCS had qualified for rural isolation units. However, the changing structure of the school district in recent years had resulted in a reduction in the rural isolation units.

From school year 2009-2010 to school year 2011-2012, the number of GMCS high schools not eligible for senior high units decreased from four to two. This reduction created two effects:

- a decrease in the number of rural isolation units, from 501.0 to zero;
- an increase in the number of senior high units, from 452.03 to 632.35; and
- a resulting net decrease to size adjustment units of 320.68.

Because the generation of rural isolation units and senior high units is related, both of these types of units should be viewed together when determining their effect on program cost. To address the reduced units and the impact to program cost, GMCS contacted PED in early 2010 to request that the district be “held harmless” from the reduction in units and the resulting reduction in funding.

In a letter dated May 20, 2010, then-Secretary of Public Education Veronica C. García denied the district’s request for a waiver because “[t]he Secretary of Education only has authority to issue those waivers that are permitted by state law.” The Secretary further explained that she denied the district’s request because “there is no statutory provision available to waive a district’s eligibility for the size adjustment calculation for rural isolation units...”

During the 2011 Legislature, GMCS contacted Legislative Education Study Committee (LESC) staff regarding the issue of rural isolation units. A staff review of the *Public School Finance Act* indicated that:

- the loss in units resulted from a decrease in the number of high schools not eligible for senior high units; and
- the Secretary of Public Education did not have the authority to hold districts harmless from a reduction in rural isolation units.

During the following interim, in accordance with Senate Memorial 70, *Rural Isolation Units Study*, passed by the Senate during the 2011 legislative session, the LESC studied:

- the law and the funding formula calculations for small school size adjustment and rural isolation units; and
- the need for a hold-harmless provision to minimize drastic fluctuations in funding for GMCS.

Committee Referrals:

HEC/HAFC

Related Bills:

SB 500 *Size Adjustment Factor for Certain Schools* (Identical)