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## FISCAL IMPACT REPORT

SPONSOR Soules ORIGINAL DATE 1/25/17  
 LAST UPDATED 3/15/17 HB \_\_\_\_\_

SHORT TITLE Public School Funding Sufficiency SB 35

ANALYST Liu

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY17	FY18		
	\$368,500.0	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to Public School Support Appropriation in the General Appropriation Act

### SOURCES OF INFORMATION

LFC Files  
 Legislative Education Study Committee (LESC) Files

Responses Received From  
 Public Education Department (PED)  
 Attorney General’s Office (AGO)

### SUMMARY

#### Synopsis of Bill

Senate Bill 35 appropriates \$368.5 million from the general fund to PED to distribute through the state equalization guarantee (SEG) for expenditure in FY18. The amount is based on the funding increase recommended in the 2008 American Institutes for Research (AIR) study of the New Mexico public school funding formula.

### FISCAL IMPLICATIONS

The appropriation of \$368.5 million contained in this bill is a recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY18 shall revert to the general fund. New Mexico remains under a sufficiency lawsuit asserting that poor and disparate student performance is associated with insufficient funding for public education as noted in the 2008 AIR study. PED received \$1.2 million in FY17 for sufficiency lawsuit fees and has requested \$3.8 million in special and supplemental appropriations to address these legal fees for the remainder of FY17 and end of FY18.

Market pricing for oil and gas commodities collapsed contributing to weakened revenue projections for FY17 and FY18. Gross receipts, compensating tax, corporate income tax, and severance tax revenues also declined as various other sectors grew at a very slow pace. As of January 25, 2017, pending enactment of solvency bills, estimated ending balances for FY17 and FY18 amounted to \$166.3 million and \$44 million, respectively. If the Legislature were to fund this bill, other critical services would have to be cut.

## SIGNIFICANT ISSUES

In 2008, AIR released a report in which a significant increase to school funding was recommended. However, the study also pointed to questions with the current funding formula, especially in reference to at-risk students, stating that funding was not being properly allocated to those most in need, and recommended significant changes to the funding formula itself to correct inequities in the formula, including at-risk students, charter schools, and special education. For example, the study identified a wide range of special education funding rates across districts and recommended more equity in funding distribution. An appropriation without accompanying changes to the funding formula may continue to fail to allocate resources where they are most needed. LFC staff is concerned that simply increasing appropriations without addressing inequalities in the funding formula will continue to allocate funding in a way that is not aligned to need.

According to previous LFC analysis during the 2009 legislative session, the 2008 AIR study of the public education funding formula was developed using a “costing-out” study focusing on the cost differences between current expenditures and a “model school” determined by a Professional Judgment Panel (PJP). AIR relied on the work of PJPs to determine what resources are needed to meet educational sufficiency. Although each PJP received instructions to keep costs in mind when making recommendations, it appears some of the recommendations amounted to wish lists given unlimited resources. Using this information, AIR initially estimated a sufficiency cost of \$850 million. Recognizing this number was too large, the professional advisory panel (PAP) convened to review the data and make changes as needed to bring resource allocation to a more reasonable level. These changes focused on resources for both the base program and the four focus areas. The result of this work was the final recommendation of approximately \$340 million, which has been adjusted for FY18 to \$368.5 million. Depending on the scope of changes or the views of different panels, this amount could be much higher or much lower. As a result, there is skepticism as to whether the estimate arrived at is accurate.

PED notes in the testimony before LESC, as the AIR study was wrapping up, the principal investigator noted that it would require more than \$900 million to implement the provisions of the study. In response to the backlash from legislators, members of the taskforce modified various components of the proposed funding formula in order to bring the amount to a more acceptable level. The more than \$320 million recommended by the study was the amount determined to be acceptable and was used as the starting point in seeking additional funding without asking for additional school days, longer school years or more accountability from educational staff.

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.

**ADMINISTRATIVE IMPLICATIONS**

This bill directs the appropriation to PED, which would distribute the additional funds. PED notes the administrative impacts would be minimal.

**RELATIONSHIP**

This bill relates to the public school support appropriation in the General Appropriation Act.

**WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

AGO notes insufficient funding for public education in New Mexico could result in lawsuits against the state.

SL/jle