

**LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS**

Bill Number: CS/HB 579

52nd Legislature, 1st Session, 2015

Tracking Number: .201370.1

Short Title: Minimum School Equalization Distribution

Sponsor(s): Representative Jason C. Harper and Others

Analyst: Ian Kleats

Date: March 12, 2015

HOUSE EDUCATION COMMITTEE SUBSTITUTE FOR HOUSE BILL 579

Bill Summary:

CS/HB 579 amends the *Public School Finance Act* to create supplemental distributions, subject to legislative appropriations, for school districts that have an average number of program units per MEM¹ that is below the statewide average.

Among its provisions, CS/HB 579:

- removes the word “only” from language limiting the purpose of supplemental distributions the Public Education Department (PED) may make; and
- provides that the final program unit adjustment to raise those school districts receiving the supplemental distribution to the statewide average shall not exceed \$8,000.

If enacted, CS/HB 579 would become effective on June 19, 2015 – 90 days after the end of the legislative session.

Fiscal Impact:

CS/HB 579 does not contain an appropriation.

Fiscal Issues:

CS/HB 579 requires that, subject to legislative appropriation, PED make final program unit adjustments for school districts. However, outside of the **program cost** and **State Equalization Guarantee (SEG) distribution** calculations, program units do not confer any specific level of funding in themselves (see “Background, *Important Funding Formula Terms*,” below). It is assumed that CS/HB 579 is intended to provide a supplemental distribution up to the following amount:

$$\text{Supplemental Distribution} = (\text{Unit Value}) \times (\text{Unit Adjustment})$$

where

$$\text{Unit Adjustment} = \text{MEM} \times [(\text{Statewide Avg. Units per MEM}) - (\text{District Units per MEM})].$$

¹ “MEM” means the total enrollment of qualified students on the current roll of a class or school on a specific day.

Based on the PED FY 15 preliminary funded run with a preliminary unit value of \$4,005.75, CS/HB 579 would:

- grant eligibility for 21 school districts to receive final program unit adjustments; and
- require an additional appropriation to the supplemental distribution of the Public School Fund of approximately \$87.1 million to fully fund the final program unit adjustments.

Technical Issues:

On page 1, line 20, the deletion of the word “only” may result in unintended consequences. Currently, statute offers broad discretion to PED whether to make supplemental distributions but restricts those distributions to five prescribed purposes. The sponsor may wish to consider an amendment restoring the original statute, because this small change in language appears to:

- require that PED make supplemental distributions for listed items, whether or not there is any need; and
- permit PED to make supplemental distributions not included on the prescribed list.

CS/HB 579 uses the term “MEM,” but the reporting date from which those MEM are counted is not specified. The sponsor may wish to consider an amendment specifying that MEM shall be the same as used in calculation of the SEG.

Substantive Issues:

CS/HB 579 provides only for school districts to qualify for final program unit adjustments and distributions, not charter schools. It is unclear why school districts should be brought to funding levels in line with the statewide average but not charter schools. If the provisions of CS/HB 579 extended to those schools:

- 12 locally chartered charter schools would qualify for up to \$3.49 million in supplemental funding; and
- 14 state-chartered charter schools would qualify for up to \$5.52 million in supplemental funding.

Additionally, CS/HB 579 does not amend a section of the *Public School Finance Act* pertaining to the Public School Fund, specifically Section 22-8-14 NMSA 1978, which enumerates specific distributions from the fund. However, this list does not appear to include all supplemental distributions allowed by Section 22-8-30 NMSA 1978, and not including the distribution proposed by CS/HB 579 may not have adverse consequences.

Background:

Important Funding Formula Terms

- **SEG Distribution** – The amount of money (see **Attachment 1, FY 15 Public School Support and Related Appropriations, line 27**) 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 (see **Attachment 1, lines 25-26**), as applicable to each district including 75 percent of funds received by the district through:

- the local 1/2-mill levies;
 - federal forest reserve funds; and
 - the operational portion of federal Impact Aid funds.
- **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 (see **Attachment 1, line 22**).

$$\text{Program Cost} = \text{SEG Distribution} + \text{Credits}$$

- **Unit Value** – A dollar amount (see **top of Attachment 1**) calculated by dividing the legislative appropriation by the total number of units statewide:

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

- **“Above the Line”** – The amounts appropriated to public education in the *General Appropriation Act* each year for the SEG distribution (see **Attachment 1, lines 1-27**).
- **“Below the Line”** – The amounts appropriated to public education in the *General Appropriation Act* each year not dedicated to the SEG distribution, which includes:
 - categorical appropriations for public school transportation, the Indian Education Fund, the Instructional Material Fund, etc. (see **Attachment 1, lines 30-53**);
 - the PED agency budget; and
 - related appropriations to PED for department initiatives.

How the Public School Funding Formula Works

- The SEG, or New Mexico Public School Funding Formula, is an equalized formula, which means that it provides all students with an equal educational opportunity despite differences in local school district wealth.
- The formula establishes the educational need of each school district based on program units (see **Attachment 2, SEG Computation**), which include units based on:
 - grade-level membership;
 - special education membership;
 - bilingual, fine arts, and elementary physical education program participation; and
 - add-on units, which consider other programs and school characteristics.
- Each year, the statewide program cost – the amount of money assumed under the formula to be necessary to provide educational services statewide – is divided by the grand total units to determine the unit value, which is set by the Secretary of Public Education (see **Attachment 3, History of the Unit Value**). As provided by language in the *General Appropriation Act* each year, the Secretary of Public Education:

- sets a preliminary unit value, typically before April, to establish budgets for the following school year; and
- may adjust the unit value once upon final verification of statewide units, but no later than January 31.
- Each school district's or state-chartered charter school's program cost is determined by multiplying the entity's grand total units by the unit value.
- However, a district's program cost does not equal its SEG distribution because the state takes certain credits and deductions as they apply to each district, including 75 percent of:
 - the local 1/2-mill levies;
 - federal forest reserve funds; and
 - the operational portion of federal Impact Aid funds.
- PED distributes the formula dollars directly to districts and state-chartered charter schools.
- Formula dollars received by local districts are discretionary funds – school districts have the latitude to spend their dollars according to local priorities, within statutory and regulatory guidelines.

Committee Referrals:

HEC/HAFC

Related Bills:

HB 162 *Fed Revenue Deduction for Some Schools*

HB 492a *Equalization Guarantee & Federal Funds*

SB 602 *Equalization Guarantee & Federal Funds*

FY 15 PUBLIC SCHOOL SUPPORT AND RELATED APPROPRIATIONS

(dollars in thousands)

Strikethrough indicates Executive Veto

ATTACHMENT 1

	School Year 2013-2014 Final Unit Value = \$3,817.55 School Year 2014-2015 Preliminary Unit Value = \$4,005.75	FY 14 Appropriation Laws 2013, Ch. 227	CS/S 313a	0.275 Percent Sanding	FY 15 Appropriation Laws 2014, Ch. 63
1	PROGRAM COST	\$2,343,438.9	\$2,426,395.8		\$2,426,395.8
2	ENROLLMENT GROWTH	\$6,937.1	\$11,154.8		\$11,154.8
3	INSURANCE COSTS	\$17,566.9	\$13,500.0		\$13,500.0
4	FIXED COSTS	\$3,841.6	\$5,827.8		\$5,827.8
5	1.5 percent ERB Retirement Swap Reversal	\$20,478.4			
6	0.75 percent ERB Retirement Contribution Increase (Final Year)	\$11,166.4	\$11,554.6		\$11,554.6
7	College and Career Readiness (ACT, SAT, PSAT, Explore, Plan)	\$309.4			
8	Compensation Increase (1.0 percent average increase for FY 14)	\$18,657.1			
9	3.0 percent average increase for all certified and non-certified school personnel ¹		\$56,042.9		\$56,042.9 ¹
10	3.0 percent additional average increase for licensed educational assistants ²		\$2,651.9		\$2,651.9 ²
11	Teacher Minimums				
12	Increase Level 1, Level 2 and Level 3 minimums by \$2,000 [language veto] ³		\$10,000.0		\$10,000.0 ³
13	School Counselors - National Board for Professional Teaching Standards (NBPTS) Units (Contingent on enactment of HB 122 or similar legislation) (Legislation did not pass and the \$150,000 appropriation was omitted)				
14	Funding Formula--At-Risk-Increase [appropriation veto] ⁴		\$45,222.0		\$45,222.0 ⁴
15	Funding Formula Change - Micro District Size Adjustment (Contingent on enactment of HB 35 or similar legislation) (HB 35 was enacted) ⁵		\$5,761.6		\$5,761.6 ⁵
16	H4 Science Retest - New Mexico Standards Based Assessment (NMSBA)		\$264.0		\$264.0
17	Reinstitute Statutory Class and Teaching Loads ⁶		\$6,000.0		\$6,000.0 ⁶
18	Reading Interventions/Early Reading Initiative	\$4,000.0			
19	Statewide Formative Assessments (Short Cycle Grades 4-10)		\$1,000.0		\$1,000.0
20	Teacher Mentorship Program for Beginning Teachers		\$1,500.0		\$1,500.0
21	Section 11 Adjustment -- 0.275 percent Sanding Reduction				(\$6,842.4) *
22	PROGRAM COST	\$2,426,395.8	\$2,551,653.4		\$2,544,811.0
23	Dollar Difference over Previous Year's Appropriation		\$125,257.6		\$118,415.2
24	Percent Change		5.2%		4.9%
25	LESS PROJECTED CREDITS	(\$63,000.0)	(\$62,000.0)		(\$62,000.0)
26	LESS OTHER STATE FUNDS (from driver's license fees)	(\$1,500.0)	(\$1,500.0)		(\$1,500.0)
27	STATE EQUALIZATION GUARANTEE (after Executive Action)	\$2,361,895.8	\$2,488,153.4	(\$6,842.4) *	\$2,481,311.0
28	Dollar Difference over Previous Year's Appropriation		\$126,257.6		\$119,415.2
29	Percent Change		5.3%		5.1%
30	CATEGORICAL PUBLIC SCHOOL SUPPORT				
31	TRANSPORTATION				
32	Maintenance and Operations	\$73,759.7	\$75,031.7		\$75,031.7
33	Fuel	\$13,546.4	\$14,659.2		\$14,659.2
34	1.5 percent ERB Retirement Swap Reversal	\$576.0			
35	0.75 percent ERB Retirement Contribution Increase	\$293.8	\$372.2		\$372.2
36	Compensation Increase (1.0 percent average in FY 14; 3.0 percent average in FY 15) ⁷	\$466.4	\$1,772.0		\$1,772.0 ⁷
37	Rental Fees (Contractor-owned buses)	\$11,700.2	\$10,235.7		\$10,235.7
38	Section 11 Adjustment -- 0.275 percent Sanding Reduction				(\$280.7) **
39	TOTAL TRANSPORTATION	\$100,342.5	\$102,070.8	(\$280.7) **	\$101,790.1
40	SUPPLEMENTAL DISTRIBUTIONS				
41	Out-of-state Tuition	\$346.0	\$300.0	(\$0.8)	\$299.2
42	Emergency Supplemental (see also line 94)	\$2,500.0	\$2,000.0	(\$5.5)	\$1,994.5
43	Special Education Maintenance-of-Effort Distribution	\$10,000.0			
44	Dual Credit Instructional Materials ⁸	\$857.0	\$857.0	(\$2.4)	\$854.6 ⁸
45	INSTRUCTIONAL MATERIAL FUND (see also line 95) ⁹	\$20,975.8	\$20,364.6	(\$56.0)	\$20,308.6 ⁹
46	INDIAN EDUCATION FUND (CS/SB 313a appropriation is supplemented by \$675,400 from Other State Funds) ¹⁰	\$1,824.6	\$1,824.6	(\$5.0)	\$1,819.6 ¹⁰
47	K-3 PLUS FUND		see line 69		see line 69
48	PUBLIC SCHOOL READING PROFICIENCY FUND		see line 65		see line 65
49	TEACHER PROFESSIONAL DEVELOPMENT FUND		see line 101		see line 101
50	TOTAL CATEGORICAL	\$136,845.9	\$127,417.0	(\$350.4)	\$127,066.6
51	TOTAL PUBLIC SCHOOL SUPPORT	\$2,498,741.7	\$2,615,570.4	(\$7,192.8)	\$2,608,377.6
52	Dollar Difference Over Previous Year's Appropriation		\$116,828.7		\$109,635.9
53	Percent Change		4.7%		4.4%

Footnotes reference selected language.
Refer to "Other Selected Language" for sanding provisions.

State Equalization Guarantee Computation

	<u>Grade Level/Program Membership</u>	<u>Times</u>	<u>Cost Differential = Units</u>		
Program Units	Kindergarten & 3- and 4-Year-Old DD	FTE MEM	×	1.44	S U M O F U N I T S
	Grade 1	MEM	×	1.20	
	Grades 2-3	MEM	×	1.18	
	Grades 4-6	MEM	×	1.045	
	Grades 7-12	MEM	×	1.25	
	<u>Special Education</u>				
	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		
	<u>Bilingual Education</u>	FTE MEM	×	0.50	
	<u>Fine Arts Education</u>	FTE MEM	×	0.05	
	<u>Elementary Physical Education</u>	FTE MEM	×	0.06	
	= TOTAL PROGRAM UNITS				
Adjusted Program Units	T&E INDEX MULTIPLIER	→	Times Value from 1.000 – 1.500		
	= ADJUSTED PROGRAM UNITS				
	Plus				
Add-on Units	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				
	= TOTAL UNITS				
	Plus Save Harmless Units				
	= TOTAL STATEWIDE UNITS				
	Total Statewide Units × Unit Value = Program Cost				
	– 75% Noncategorical Revenue Credits				
	– Utility Conservation Program Contract Payments				
	– 90% of the Certified Amount (<i>Energy Efficiency and Renewable Energy Bonding Act</i>)				
	= STATE EQUALIZATION GUARANTEE				

NOTE: The provisions of SB 302 (Chapter 113, Laws 2013) providing program units for districts providing coursework to home-schooled students will take effect in the 2014-2015 school year.

HISTORY OF THE UNIT VALUE
(1974-1975 FINAL TO 2014-2015 FINAL)

School Year	Preliminary Unit Value	Final Unit Value	Increase/ (Decrease) from previous year	Percent Difference
1974-1975		\$616.50		
1975-1976		\$703.00	\$86.50	14.0%
1976-1977		\$800.00	\$97.00	13.8%
1977-1978		\$905.00	\$105.00	13.1%
1978-1979		\$1,020.00	\$115.00	12.7%
1979-1980		\$1,145.00	\$125.00	12.3%
1980-1981		\$1,250.00	\$105.00	9.2%
1981-1982		\$1,405.00	\$155.00	12.4%
1982-1983 ¹	\$1,540.00	\$1,511.33	\$106.33	7.6%
1983-1984		\$1,486.00	(\$25.33)	-1.7%
1984-1985		\$1,583.50	\$97.50	6.6%
1985-1986 ²	\$1,608.00	\$1,618.87	\$35.37	2.2%
1986-1987		\$1,612.51	(\$6.36)	-0.4%
1987-1988		\$1,689.00	\$76.49	4.7%
1988-1989		\$1,737.78	\$48.78	2.9%
1989-1990		\$1,811.51	\$73.73	4.2%
1990-1991		\$1,883.74	\$72.23	4.0%
1991-1992		\$1,866.00	(\$17.74)	-0.9%
1992-1993 ³	\$1,851.73	\$1,867.96	\$1.96	0.1%
1993-1994	\$1,927.27	\$1,935.99	\$68.03	3.6%
1994-1995	\$2,015.70	\$2,029.00	\$93.01	4.8%
1995-1996	\$2,113.00	\$2,113.00	\$84.00	4.1%
1996-1997	\$2,125.83	\$2,149.11	\$36.11	1.7%
1997-1998	\$2,175.00	\$2,175.00	\$25.89	1.2%
1998-1999	\$2,322.00	\$2,344.09	\$169.09	7.8%
1999-2000 ⁴	\$2,460.00	\$2,460.00	\$115.91	4.9%
2000-2001	\$2,632.32	\$2,647.56	\$187.56	7.6%
2001-2002	\$2,868.72	\$2,871.01	\$223.45	8.4%
2002-2003	\$2,896.01	\$2,889.89	\$18.88	0.7%
2003-2004	\$2,977.23	\$2,976.20	\$86.31	3.0%
2004-2005	\$3,035.15	\$3,068.70	\$92.50	3.1%
2005-2006 ⁵	\$3,165.02	\$3,198.01	\$129.31	4.2%
2006-2007 ^{5,6}	\$3,444.35	\$3,446.44	\$248.43	7.8%
2007-2008	\$3,645.77	\$3,674.26	\$227.82	6.6%
2008-2009 ⁷	\$3,892.47	\$3,871.79	\$197.53	5.4%
2009-2010	\$3,862.79 ⁸	\$3,792.65 ⁹	(\$79.14)	-2.0%
2010-2011	\$3,712.45 ¹⁰	\$3,712.17 ¹¹	(\$80.48)	-2.1%
2011-2012	\$3,585.97	\$3,598.87	(\$113.30)	-3.1%
2012-2013	\$3,668.18	\$3,673.54 ¹²	\$74.67	2.1%
2013-2014	\$3,817.55	\$3,817.55 ¹²	\$144.01	3.9%
2014-2015	\$4,005.75	\$4,007.75	\$190.20	5.0%

¹ The 1982-1983 General Fund appropriation was reduced by 2.0 percent.
² The final unit value includes \$10.87 due to the ½ mill redistribution (Laws 1985, Chapter 15).
³ The "floating" unit value went into effect.
⁴ The basis for funding changed to the prior-year average membership of the 40th, 80th, and 120th school days.
⁵ For FY 06, appropriated program cost contains an additional \$51.8 million to implement the third year of the five-year phase-in of the three-tiered licensure system. Although this funding was distributed based on need in FY 06, the \$51.8 million was included in the calculation of the unit value in FY 07.
⁶ The basis for funding changed to the prior-year average membership of the 80th and 120th school days.
⁷ The 2009 legislative session solvency measures resulted in a \$20.68 decrease in the FY 09 unit value.
⁸ FY 10 initial unit value comprises \$3,606.40 in General Fund dollars and \$256.39 in federal funding from the *American Recovery and Reinvestment Act of 2009* (ARRA).
⁹ FY 10 final unit value comprises \$3,458.06 in General Fund dollars and \$334.59 in federal ARRA funding.
¹⁰ FY 11 initial unit value comprises \$3,674.75 in General Fund dollars and \$37.70 in federal ARRA funding.
¹¹ FY 11 final unit value comprises \$3,572.34 General Fund, \$37.85 federal ARRA funding and \$101.98 in Education Jobs funding.
¹² The Final FY 13 and FY 14 Unit Values may be adjusted based on a final decision from the U.S. Department of Education regarding a waiver request from maintenance of effort requirements for state-level funding for special education.

Sources: LESC: Issues and Answers, 1982-83; A First Look at NM Public School Budgets, 1983-84 to 1998-99; PED final funded reports 1999-00 to present; and PED correspondence.