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## FISCAL IMPACT REPORT

SPONSOR Soules ORIGINAL DATE 1/27/16 LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_  
SHORT TITLE Public School Funding Adequacy SB 37  
ANALYST Fernandez

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY16	FY17		
	\$362,000.0	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

### SUMMARY

#### Synopsis of Bill

Senate Bill 37 appropriates \$362 million from the general fund to the Public Education Department (PED) for the purpose of addressing adequacy of public school funding through the state equalization guarantee, 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 \$362 million contained in this bill is a recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY17 shall revert to the general fund.

### 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 PJP 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 FY15 to \$362 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.

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.

Finally, revenue growth projected for FY15 is slightly more than \$290 million. If the Legislature were to fund this bill, other critical services would have to be cut.

## **ADMINISTRATIVE IMPLICATIONS**

This bill directs the appropriation to PED, which would distribute the additional funds.

## **TECHNICAL ISSUES**

LESC staff has noted appropriations intended for the state equalization guarantee (SEG) should be directly appropriated to the SEG, rather than to PED.

CTF/jle