LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS
57th Legislature, 2nd Session, 2026

Bill Number SB178 **Sponsor** Muñoz

Tracking Number .232972.4 **Committee Referrals** SEC/SFC

Short Title School Finance Changes

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Analyst Estupiñan **Last Updated**

BILL SUMMARY

Synopsis of Bill

Senate Bill 178 (SB178) requires school districts with more than 2,000 students to allocate at least 90 percent of their state equalization guarantee (SEG) distribution to the schools that generated the program units in the public school funding formula. If a school district does not comply with the 90 percent distribution requirement, it would be required to comply with limits on the size of its unrestricted operational cash balance. These limits would vary depending on the amount of the school district's budgeted expenditures.

SB178 also requires school districts and charter schools to submit a three-year evidence-based spending plan to the Public Education Department (PED) detailing how they will improve outcomes for students identified as at-risk by the *Martinez-Yazzie* consolidated education sufficiency lawsuit. If outcomes among those students have not adequately improved within one school year, the school district or charter school would be required to provide additional professional development, curriculum support, and other materials. If student outcomes have not adequately improved over a three-year period, SB178 would require the department to contract with a level 3A teacher or level 3B administrator to revise the school's curriculum, instructional materials, class scheduling, extended time offerings, and professional development or any other changes to improve outcomes.

If PED determines a school has achieved adequate progress in improving student outcomes, that school would be eligible to receive additional discretionary funding to continue supporting at-risk students.

SB178 enforces the provisions related to SEG allocations, cash balance limits, evidence-based spending plans, and PED oversight between FY27 and FY31, and would repeal these requirements on July 1, 2031. SB178's requirement that school districts with more than 2,000 students report how they intend to use their SEG funding on improving outcomes among at-risk students does not have a delayed repeal.

The bill does not carry an effective date and, as a result, would go into effect 90 days after the Legislature adjourns if enacted, or May 20, 2026.

FISCAL IMPACT

The bill does not contain an appropriation.

For FY27, the House Appropriations and Finance Committee Substitute for House Bills 2 and 3 (HB2/HAFCS) includes a $4.6 billion appropriation to the SEG, a $112.6 million increase over FY26, or 2.5 percent.

The Public School Finance Act gives significant discretion to school districts and charter schools in how they use SEG funding, the public school funding formula, at the local level, provided they comply with state and federal statutes, including minimum instructional hour requirements, class size limits, and educator qualifications. However, the SEG is a student-based approach to funding public schools, where the characteristics of students are a primary factor in how the SEG allocates funding to public schools. For example, a low-income student who is identified as an English learner would generate funding for their school district or charter school through the basic program factors in the SEG, the at-risk factor, the English learner factor, and other factors in the public school funding formula. Each of these factors are designed to allocate additional funding so the unique needs of each student can be adequately met at the local level.

Currently, there are no statutory requirements or general guidelines for the proportion of funding that must be used to support specific students in specific schools, nor are there statutory requirements for the amounts of unrestricted operational cash balances a school district or charter school may hold.

SUBSTANTIVE ISSUES

***Martinez-Yazzie* Sufficiency Lawsuit.** The *Martinez-Yazzie* consolidated education sufficiency lawsuit, first filed in 2014, remains a critical component of education policy, funding, and programming in New Mexico, underscoring the need for systemic changes to ensure students have access to the resources and opportunities they need to succeed. Filed on behalf of at-risk students—which the court defined as economically disadvantaged students, English learners, Native American students, and students with disabilities—the case highlighted disparities in kindergarten through 12th grade (K-12) educational access and outcomes. As these groups collectively make up about 70 percent of New Mexico's students, the court essentially ruled most of the state's students are not being served by the current K-12 public education system.

Following several years of hearings, the court called for comprehensive reforms, including the creation of a remedial action plan, revised funding mechanisms, and accountability systems to ensure the needs of at-risk students are adequately addressed. Despite significant and meaningful subsequent investments and initiatives in education, the challenges identified in the lawsuit persist.

In response to the ruling, the Legislature has taken steps to address the findings of the case, including increasing general fund appropriations for K-12 public education by around $2 billion, or 70 percent. The Legislature has also made significant nonrecurring investments in public education, including the summer literacy program, out-of-school time learning, educator fellows, teacher residencies, and community schools, totaling around $309.1 million in FY26.

Existing Frameworks for Directing SEG Funding Toward At-Risk Students. While the SEG is a largely discretionary source of funding for public schools, there are statutory and regulatory frameworks in place that encourage school districts and charter schools to allocate certain portions of funding to at-risk students. One of these statutory frameworks is Section 22-2-2 NMSA 1978, which requires PED to accredit schools based on their student outcomes and staff preparation. In 2024, PED promulgated New Mexico Administrative Code (NMAC) 6.19.4 that establishes 10 components that will be used in assessing accreditation, including program plans, budgeted and actual expenditures, enrollment, class loads, caseloads, subjects of instruction, and student needs assessments.

As part of the budgeted and actual expenditures requirements of the accreditation process, school districts and charter schools are required to design their budgets around their education plans and school plans developed at each school site. School districts and charter schools are also required to budget as much expenditures on special education, at-risk programs, and gifted education as these students generate for revenue in the SEG distribution. PED's School Budget Bureau then analyzes budgets prior to the start of each fiscal year and collects quarterly expenditure reports on how school districts and charter schools support the needs of those student groups.

In FY26, these accreditation requirements will apply to approximately $840.4 million in SEG funding for special education and gifted students and $306.6 million in at-risk funding, or about 25.5 percent of all funding distributed through the SEG. The accreditation process could potentially be refined to include the $125.2 million in SEG funding for English learners in the future.

Statute and rule also require numerous needs assessments, which use data and stakeholder-driven processes to identify obstacles to student performance, design and implement responses to obstacles, and track the impact of resource allocations. In FY26, PED identified 16 programs that require a needs assessment, including federal formula grants and nonrecurring below-the-line programs, such as community schools.

Long-Term Planning. SB178 emphasizes long-term planning as a tool in improving student outcomes, primarily through the bill's requirement that school districts and charter schools submit a three-year evidence-based spending plan that describes how SEG funding will be used to improve academic outcomes for Native American students, low-income students, English learner students and special education students at each school. This requirement addresses a gap in New Mexico's public education system where some school districts and charter schools have focused on improving student outcomes through short-term and reactionary strategies. As a result, New Mexico has a largely disconnected public education system where the Legislature, PED, and school districts and charter schools are moving toward achieving different strategic objectives, on different timelines, with different benchmarks for measuring success.

At the LESC's interim meeting in December 2025, staff presented on long-term strategic resource management in New Mexico's public education system, where the Legislature, PED, and public schools could actively engage in a mutually supportive approach to improving student outcomes. To do so, the Legislature could focus on providing adequate, responsive, and sustainable funding to support locally responsive programming. School districts and charter schools could support this process by developing long-term strategic plans for addressing their communities' needs. These plans could identify a cohesive vision for what public education should look like in each school district and charter school and use long-term strategic resource management to identify the programming, staffing, and facilities they would need to achieve that vision.

Limits on Cash Balances. Between 2003 and 2011, state statute set limits on the amount of operational cash school districts and charter schools could carry forward into the next fiscal year without incurring a penalty in their SEG distribution, based on a predetermined percentage of a school district's or charter school's program cost. If a school district or charter school exceeded those caps, they would receive a reduction to their SEG distribution. These limits on unrestricted operational cash balances were amended multiple times to increase the caps before the limits were completely repealed in 2011.

SB178 reestablishes limits on unrestricted operational cash balances if they do not comply with the requirement to allocate at least 90 percent of SEG distributions to the schools that generated that funding as follows:

- 18 percent of budgeted expenditures for school districts with a program cost less than $7.5 million;
- 12 percent of budgeted expenditures for school districts with a program cost between $7.5 million and $15 million;
- 10 percent of budgeted expenditures for school districts with a program cost between $15 million and $35 million;
- 8 percent of budgeted expenditures for school districts with a program cost between $35 million and $300 million; and
- 5 percent of budgeted expenditures for school districts with a program cost over $300 million.

SB178 does not appear to establish similar limits on charter schools.

In FY26, school districts and charter schools reported about $696 million in unrestricted operational cash balances, a decrease of $42.1 million from FY25. This was the first year-over-year decrease in unrestricted operational cash balances since FY17.

ADMINISTRATIVE IMPLICATIONS

School districts and charter schools would be required to draft three-year evidence-based spending plans that describe how they will use their SEG distribution to provide culturally and linguistically relevant education that improves outcomes for at-risk students at each public school. The department would be required to provide a tool for this reporting requirement that includes culturally and linguistically relevant goals and metrics, to track and report academic outcomes tied to program funding for at-risk students at each public school, and set adequate progress measures for these students between FY27 and FY31. SB178 requires PED to determine appropriate instructional materials, training, and reassessments of curriculum for schools that do not meet adequate progress each school year. PED would also have to contract with a level 3A teacher or level 3B administrator to revise programming at schools that do not meet adequate progress within three school years.

TECHNICAL ISSUES

SB178 sets limits on unrestricted operational cash balances based on budgeted expenditures, but does not define "budgeted expenditures."

SOURCES OF INFORMATION

- LESC Files

- Legislative Finance Committee (LFC) Files
- Public Education Department (PED)
- Regional Education Cooperatives (RECs)

DE/clh/mca/jkh