

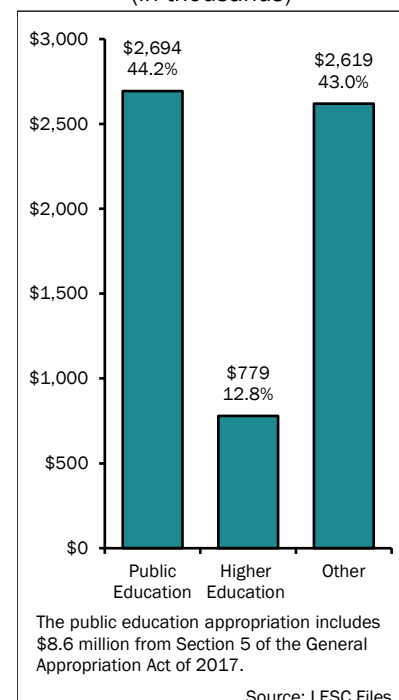
Public Education Department and Public School Support Appropriation Requests

Introduction

The FY19 budget request from the Public Education Department (PED) marks the first time in this administration that the department has not requested the Legislature increase statewide program cost — the amount of money the state assumes school districts and charter schools need to operate — in a year for which the state is projecting new money will be available. While August 2017 consensus general fund revenue estimates projected a slim 3.4 percent for FY18 year-end cash reserves, the estimate included a projection of \$25 million in new money for FY19, an improvement from last year’s revenue projections, which showed no new money for FY18. During the 2017 regular legislative session, policymakers responded to significant declines in FY17 general fund revenue collections by holding FY18 appropriations for many state agencies flat with reduced FY17 budgets and by searching for nonrecurring revenue that would allow the state to remain solvent. With over 44 percent of recurring general fund appropriations, it was necessary for the austerity measures enacted in FY17 to affect public schools; however, the Legislature continued to prioritize public school appropriations, providing a small increase in FY18, while other agencies were held flat or reduced.

Throughout the 2017 interim, general fund revenue tracking reports from the Legislative Finance Committee (LFC) showed an improving financial picture for the state, with actual revenues surpassing projected revenues in each month between February and May, and December 2017 consensus revenue projections showed \$199 million in new money for FY19, although this projection was not publicly available until the week after PED was required to submit its budget. Despite the lack of publicly available revenue projections, many other state agencies requested increased general fund budgets for FY19. For example, the Children, Youth and Families Department (CYFD) requested a \$26 million increase to their general fund budget, more than the entire amount of new money projected at the time they submitted their budget request. During testimony before LFC, PED indicated its budget request was based on August 2017 projections and that the department was willing to reconsider its request in light of the December forecast; PED indicated additional funds would be requested “where we can get the best return on the state’s money.”

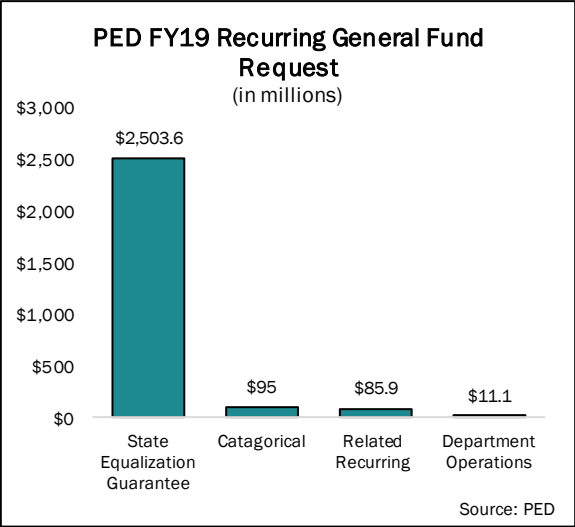
FY18 Recurring General Fund Appropriations
(in thousands)



For FY19, the Public Education Department (PED) requested a total of \$2.696 billion in recurring general fund revenue for public schools, flat from FY18. Due to limited recurring general fund revenue for FY18, the Legislature appropriated \$10.6 million in Section 5 of the General Appropriation Act of 2017, which LFC and the Department of Finance and Administration (DFA) considered to be “special recurring” appropriations. PED requested these funds from recurring revenue for FY19. PED requested flat funding for program cost but increased its request for the state equalization guarantee (SEG) distribution due to a projected decrease in federal and local revenue credits. PED’s request included \$573 thousand more for categorical appropriations and \$2.3 million less for related recurring “below-the-line” initiatives.

FY19 Public School Support Request

For FY19, PED requested \$2.599 billion in recurring general fund appropriations for public school support, up \$2.3 million, or 0.1 percent from FY18 appropriations, including the two Section 5 special recurring appropriations. The majority of public school support appropriations are distributed to school districts and charter schools based on formulas through the transportation distribution, the instructional materials fund, and the state equalization guarantee distribution, also known as the “funding formula.” Other categorical appropriations include funds for Indian education, emergency distributions, dual credit instructional materials, out-of-state tuition payments to neighboring state school districts, and standards-based assessments. In addition to general fund revenue, PED’s request for public school support included \$25.7 million in other state funds: \$25 million from the public school capital outlay fund and \$675 thousand from the Indian education fund. For a detailed breakdown of PED’s FY19 budget request, see **Attachment A: Public School Support and Related Appropriations for FY19.**

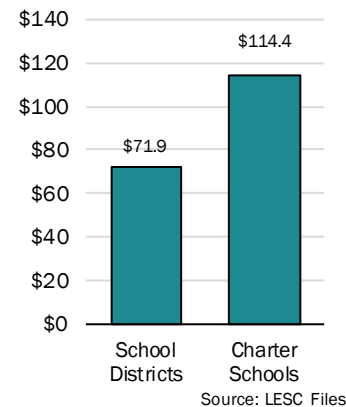


Program Cost and State Equalization Guarantee (Attachment A, Lines 1-12)

PED’s FY19 budget request holds program cost flat with FY18 at \$2.568 billion. More than 95 percent of school districts’ and charter schools’ operational funding is generated through the public school funding formula, an enrollment-driven formula that allocates program units to school districts and charter schools in an equalized manner, with weighted factors for school and district size, teacher qualifications, students’ special needs, and other circumstances. School districts and charter schools that generate more program units per student receive more per student funding in recognition of higher costs to educate students. To determine funding for school districts and charter schools, PED divides the total amount of revenue available for program cost by the total number of program units generated by all school districts and charter schools to establish a “unit value.” The department’s flat funding request does not necessarily mean the unit value would not change or that each school district and charter school would receive the same amount of funding in FY19.

Enrollment Patterns. Even in a flat funding scenario, changes in enrollment, student demographics, and teacher qualifications would likely lead to changes in how funding is divided between school districts and charter schools. In recent years, expansion of the charter school sector has resulted in charter schools generating a larger share of formula funding. Because of increased enrollment, 61 percent of the additional money appropriated to the funding formula between FY08 and FY17 has gone to charter schools. According to the New Mexico Coalition for Charter Schools, two or three charter schools are scheduled to open in FY19, but this could be offset by the closure of several existing charter schools at the end of FY18. The creation of new charter schools occurs outside of the appropriation process and in years where the number of charter schools has grown, PED has not requested, and the Legislature typically has not provided, additional appropriations for new charter schools. It remains unclear if any charter schools will close at the end of FY18 because the charter renewal and appeal process is still ongoing; although PED has recommended the closure of a number of low-performing charter schools, including New Mexico Connections Academy, the state’s largest charter school. In December, the Public Education Commission voted not to renew the charter of three schools, including New Mexico Connections Academy.

Share of Increased Formula Funding from FY08 to FY17
(in millions)



School districts and charter schools could collectively see a decline in the number of students served. Overall student enrollment stood under 330 thousand students in October 2016, the most recent year for which data is available, which is relatively stable when compared with October 2013 enrollment of 331 thousand students. But over that period, the size of kindergarten classes has been steadily decreasing, from 28 thousand in 2013 to 25 thousand in 2017. It remains unclear if these trends will continue in the future. If the cohort of kindergarten students entering school continues to be less than the state has seen in prior years, enrollment could continue to fall.

Program Unit Changes. Some school districts may also see significant swings in funding due to fluctuations in their training and experience (T&E) indexes, which can have a significant impact on school district or charter schools program unit generation because it acts as a multiplier against a large block of program units. As teachers with more experience and more advanced academic degrees have left the system, the statewide average T&E index has fallen from 1.102 in FY12 to 1.08 in FY17 and the number of program units generated fell from 54 thousand in FY12 to 42 thousand in FY17. While the downward trend is clear, it is likely the T&E index is leveling off. Between FY13 and FY15, the index dropped by 0.006 per year, but between FY17 and FY18 the index dropped by only 0.001. Further, because the T&E index cannot go below 1 there is a limit to how far the T&E index can fall. In FY18, the T&E index is at its lowest level since at least 1986, and potentially at its lowest level since the funding formula was adopted in 1975.

AVERAGE T&E INDEX AND PROGRAM UNITS

Year	Index Average	Units
FY09	1.099	51,675
FY10	1.098	51,414
FY11	1.100	52,830
FY12	1.102	54,397
FY13	1.101	53,727
FY14	1.095	50,246
FY15	1.089	47,313
FY16	1.083	43,963
FY17	1.080	42,416
FY18*	1.079	41,422

Source: LESC Files

*FY18 program units are preliminary

Preliminary FY18 program units are significantly below prior years preliminary program units. Preliminary data indicates the formula generated 623.4 thousand program units, down from the 630.6 thousand units initially budgeted in FY17 and from final FY17 program units of 630.9 thousand. Some

of this reduction is the result of changes to the general appropriation act (GAA). Historically, the GAA has included language which PED interpreted as allowing charter schools to include current year enrollment in newly phased-in grade levels in their enrollment base, while most enrollment was based only on prior year totals. As a result, FY17 totals included first-year students in phased-in grade levels, while FY18 will not. Although this may decrease program units in FY18, this is a one-time occurrence, and a similar decrease should not be expected for FY19.

CREDITS FOR FEDERAL AND LOCAL REVENUE

(in millions)

Year	Budget Assumption	Actual Credit
FY09	\$55.4	\$87.4
FY10	\$64.4	\$78.9
FY11	\$59.4	\$77.0
FY12	\$68.4	\$70.9
FY13	\$69.0	\$66.7
FY14	\$63.0	\$61.8
FY15	\$62.0	\$72.3
FY16	\$56.0	\$75.4
FY17	\$64.0	\$65.0
FY18	\$60.8	

Source: LESC Files

State Equalization Guarantee and Federal and Local Revenue Credits (Lines 10-12).

For FY19, PED requested a \$1.8 million increase for the SEG distribution to account for projected decreases in federal and local revenue credits. School districts and charter schools receive additional operational funding from three other funding sources: federal Impact Aid, federal forest reserve payments, and the local half mill levy. To maintain an equalized funding formula, state law takes credit for 75 percent of these revenues, which are received directly by school districts and charter schools, reducing the amount of general fund support the state is required to make through the SEG. For FY19, PED projects these credits will be \$59 million, or \$1.8 million less than the amount assumed by the Legislature for FY18. The largest component of these credits comes from federal Impact Aid. Unlike most other federal grant programs for education, Impact Aid is funded in the current federal fiscal year and Congress and the president have not agreed to a final federal FY18 budget. The lack of information from Washington makes it difficult to project Impact Aid credits, even when federal budgets are passed on time, but lack of information on the current fiscal year makes it even more difficult for FY19. PED typically uses a conservative estimate of federal Impact Aid to account for potential reductions at the federal level.

Insurance and Other Costs. PED did not request additional funds for increases in medical or risk insurance costs. During FY17, both the New Mexico Public Schools Insurance Authority (NMPSIA) and Albuquerque Public Schools (APS) made plan design changes that limited health insurance premium increases but increased out-of-pocket costs for employees. For FY19, NMPSIA requested an increase to the SEG of \$17.7 million to cover the employer’s share of premium increases that would forego any plan design changes and to rebuild NMPSIA’s fund balances, which are currently below agency targets. NMPSIA’s FY19 request is based on an increase of 10.4 percent for health insurance premiums and 6.6 percent for risk premiums. Typically, NMPSIA asks for a larger increase in premiums than is actually passed on to school districts and charter schools, partly due to effective loss prevention efforts and plan design changes to keep up with healthcare cost trends. For FY19, APS did not request increases for insurance costs, although the school district will receive about one quarter of additional formula funds appropriated for insurance. In November, APS staff told LESC that the school district’s plans were based on the assumption the Legislature would not provide additional funding in FY19, but APS would welcome additional funding for fixed costs.

Sufficiency Lawsuits. The state remains involved in two lawsuits alleging the amount of revenue appropriated by the Legislature for public education is



insufficient to meet the constitutional mandate to establish and maintain a “uniform system of free public schools sufficient for the education of, and open to, all the children of school age in the state.” The cases were argued this summer in Santa Fe and a ruling is expected in the spring of 2018. One key argument raised by the plaintiffs is that the share of funding received by public education has fallen since the 1980s. While precipitous drops in general fund revenues may have necessitated reductions in recent years, the Legislature has continually shown a willingness to prioritize public education funding. The Legislature has also attempted to address other allegations in the lawsuits. In 2017, the Legislature approved changes to the funding formula’s at-risk index, which the plaintiffs argued did not provide enough weight to cover the increased costs to educate at-risk students, and to the T&E index, which the plaintiffs argued favored wealthier schools. These funding formula changes were ultimately vetoed by the governor. In addition, the lawsuits argued that the dramatic increase in related recurring “below-the-line” initiative funding has a disequalizing effect on the funding formula. The plaintiffs have argued the state should increase education funding by \$600 million, based on the 2008 study of the funding formula from the American Institutes for Research, which called for an additional \$300 million in formula funding.

Categorical Appropriations (Lines 15-33)

For FY19, PED requested \$95 million in recurring general fund revenue for categorical appropriations — including transportation, instructional materials, supplemental distributions, the Indian education fund, dual credit instructional materials, and standards based assessments — an increase of \$573 thousand, or 0.6 percent from FY18 appropriations, and \$25.7 million in other state funds. Categorical appropriations supplement a school district’s or charter school’s operational revenue and are restricted to the purpose for which they are appropriated. Laws 2016 (2nd S.S), Chapter 2 (Senate Bill 4) authorized the annual appropriation of up to \$25 million in public school capital outlay fund (PSCOF) revenue for the transportation distribution and the instructional material fund from FY18 through FY22. PED requested \$16.9 million in PSCOF revenue for transportation and \$8.1 million for the instructional material fund.

Transportation Distribution (Lines 16-25). For FY19, PED requested a total of \$97.3 million for school transportation, an increase of \$500 thousand, or 0.5 percent, from FY18 appropriations. The department’s request included \$80.4 million in general fund revenue and \$16.9 million in PSCOF revenue. In recent years, transportation funding has been reduced to prioritize other public education appropriation and remains lower than the FY15 high of \$102.1 million. As a result, school districts continue to spend operational funds to supplement their transportation distributions. In FY16, the most recent year for which PED has published data, school districts and charter schools spent \$104.1 million on student transportation, or \$6.2 million more than the \$97.8 provided for transportation. In recent years, the Legislature included language in the GAA to provide for separate transportation distributions for school districts and state-chartered charter schools. In FY15 and earlier, state-chartered charter schools were reverting significant amounts of transportation funding because the allocation to state-chartered charter schools were not aligned with their expenses. Since FY17, the GAA has required 100 percent

TRANSPORTATION FUNDING
(in millions)

FY09	\$111.0
FY10	\$103.2
FY11	\$98.3
FY12	\$94.1
FY13	\$96.7
FY14	\$100.3
FY15	\$102.1
FY16	\$97.8
FY17	\$85.3
FY18*	\$96.8

Source: LESC Files

*Includes public school capital outlay funds

of the year-end transportation fund balances for state-chartered charter schools revert to the transportation emergency fund.

Significantly more was appropriated for instructional materials during the last science adoption cycle than has been allocated in recent years. In FY13, the most recent science adoption cycle, \$28.5 million was appropriated, more than 2.5 times the amount requested by PED for FY19.

Instructional Material Fund (Line 29). The department’s request for instructional materials funding for FY19 totaled \$10.6 million, or \$73 thousand more than FY18 appropriations. The request included \$2.5 million in recurring general fund revenue and \$8.1 million in PSCOF revenue. The FY19 adoption cycle was originally set to include science, health, and physical education but PED delayed the adoption of science materials until FY20. With only health and physical education, the FY19 cycle will be less costly than a cycle that includes science materials. At the same time, PED recently adopted the New Mexico STEM Ready Science Standards with full implementation scheduled for July 2018. Because of the new standards, many school districts and charter schools may choose to save a portion of their FY19 instructional materials allocations to purchase new science materials aligned with the new standards.

Recent court cases have led to some uncertainty regarding the use of state funds to purchase instructional materials for private schools. In *Moses v. Skandera*, the New Mexico Supreme Court ruled the allocation of instructional materials paid for by the state to private and sectarian schools violated the New Mexico Constitution’s explicit prohibition against using public funds to support sectarian, denominational, or private schools. In 2017, the U.S. Supreme Court found the U.S. Constitution prohibits a state from declining to provide a public benefit that is otherwise available based on an organization’s religious status. Following that decision, the U.S. Supreme Court ordered the New Mexico Supreme Court to review the *Moses* case, which was pending appeal, in light of the U.S. Supreme Court’s decision. The New Mexico Supreme Court heard arguments revisiting the case in November but could reach the same conclusion on review. New Mexico’s constitution prohibits the use of public funds to support any private school, not merely those private schools that are religious in character.

In *Trinity Lutheran Church v. Comer*, the U.S. Supreme Court held that the State of Missouri could not deny a church’s application for a playground resurfacing grant that is generally available to both public and private organizations solely because the applicant is a church. The case did not involve funds that were restricted solely to public entities.

Emergency Supplemental Appropriation by Year
(in thousands)

	GAA of 2016	GAA of 2017	PED Request
Section 4 (Recurring)	\$1,500	\$1,000	\$3,000
Section 5 (Speical Recurring)			
For use in FY18		\$2,000	
Section 5 (Nonrecurring)			
For use in FY16 or FY17	\$2,000		
For use in FY17 or FY18		\$1,000	
For use in FY18 or FY19			\$1,500
Total	\$3,500	\$4,000	\$4,500

Source: LESC Files

In addition to the \$3.5 million in new appropriations, the GAA of 2016 included language reauthorizing any unspent funds from a \$2 million emergency supplemental appropriation in the GAA of 2015.

The GAA of 2017 included language allowing PED use appropriations for select related recurring initiatives for emergency supplemental distributions in FY18; however, the governor line-item vetoed the language.

Emergency Supplemental Funding (Lines 28, 71-74). For FY19, PED requested \$3 million in recurring general fund revenue for emergency funding to school districts experiencing a shortfall, flat with FY18 when including the \$2 million “special recurring” appropriation. In addition, PED also requested \$1.5 million in nonrecurring revenue for emergency supplemental. For FY18, emergency supplemental appropriations from all sources totaled \$4 million. While \$1 million of that could have been spent in FY17 or FY18, it does not appear PED allocated any of those funds in FY17. For FY19, PED is requesting \$4.5 million in recurring and nonrecurring funds, although \$1.5 million of that total could be spent in FY18 or FY19. In FY17, PED allocated \$4.6 million in emergency supplemental funding to 17 school districts.



Emergency supplemental funding provides operational funding for school districts outside of the funding formula. Despite the name, many school districts receiving emergency supplemental depend on annual allocations. Although the total amount of emergency supplemental funding has decreased since the Legislature amended the funding formula to allocate additional program units to “micro-districts” in FY15, many school districts continue to rely on yearly emergency supplemental allocations. Of the 22 school districts that have received funding in the past three years, half have required annual emergency supplemental allocations.

Special Appropriation Requests (Lines 72-76)

PED requested \$4.5 million in nonrecurring special appropriations, including the \$1.5 million in nonrecurring funds for emergency supplemental. PED also requested \$1.5 million to fund military base expansion. Holloman Air Force Base near Alamogordo could potentially see significant growth if the base is selected as the permanent home for F-16s that have been stationed there on an interim basis. Alamogordo Public Schools officials indicate they may see an additional 200 students too late in the current school year to generate any enrollment growth program units. PED indicated the school district would be required to provide evidence of new students, but the request does not indicate if the department will require the school district to document additional costs prior to receiving additional funds.

PED requested \$1.5 million for legal fees related to defending the state against multiple lawsuits. While prior year appropriations for legal fees have been limited to cover fees associated with the two sufficiency lawsuits, PED requested the appropriation cover lawsuits regarding Impact Aid and the teacher evaluation system. Since FY15, the Legislature has authorized \$4.4 million for legal fees related to the sufficiency lawsuits.

FY19 Request for the Public Education Department

PED Operating Budget (line 64)

For FY19, PED requested approximately \$43.3 million for department operations, flat with the FY18 operating budget and a decrease of \$8.9 million, or 17 percent, from FY17 expenditures, from the following sources: \$11.1 million in general fund revenue (flat with the FY18 operating budget and flat with FY17 expenditures); \$45 thousand in Medicaid funds transferred from the Human Services Department (HSD) for behavioral health services (a slight increase of \$9,000, which is consistent with the HSD behavioral health memorandum of understanding, and an increase of \$20 thousand, or 44.9 percent, from FY17 expenditures); \$28.1 million from federal revenue sources (flat with the FY18 operating budget and a decrease of \$8.5 million, or 23.2 percent, from FY17 expenditures); and \$4.1 million from other state funds (flat with the FY18 operating budget and a slight decrease of \$52 thousand, or 1.3 percent, from FY17 expenditures), including educator licensure fees and the 2 percent administrative withholding from state-chartered charter school’s state equalization guarantee distribution.

In September 2017, PED received a \$22.5 million grant from the U.S. Department of Education (USDE) for charter school expansion. The funds will be distributed over five years to launch 22 new charter schools and expand eight charter schools. Additionally, PED will work to improve charter school authorizing practices, and the fiscal and organizational performance of the charter school sector. This USDE grant was not included within PED’s FY19 appropriation request.

PED requested a higher federal Title I funding amount due to changes made under the federal Every Student Succeeds Act (ESSA). Under ESSA, a state is required to withhold 7 percent of Title I, Part A awards for statewide activities that support low-income students. A state has the option to withhold an additional 3 percent of Title I awards for direct student services. PED requested \$1.8 million in Title I funding, an increase of \$374 thousand, or 20.8 percent, from the FY18 operating budget and an increase of \$524.7 thousand, or 29.2 percent from FY17 expenditures.

PED SALARIES AND EMPLOYEE BENEFITS NOT INCLUDED IN OPERATING BUDGET

Appropriation	Budget
Interventions and Supports	\$445,000
Prekindergarten	\$300,000
Indian Education Fund	\$250,000
K-3 Plus	\$220,000
NMTEACH Evaluation System	\$150,000
Teachers Pursuing Excellence	\$140,000
Parent Portal	\$92,000
Early Reading Initiative	\$45,000
TOTAL	\$1,642,000

Source: SHARE

The FY19 request is slightly different from FY18 budgeted expenditures, and includes the following: \$18.8 million for personnel, an increase of \$133 thousand, or 0.7 percent from the FY18 budget; \$20.1 million for FY19 contractual services, a slight decrease of \$60 thousand, or 0.3 percent from the FY18 budget; and \$4.3 million for the other FY19 expenditures, a decrease of approximately \$64 thousand, or 0.1 percent from the FY18 budget.

PED requested 280.2 FTE, significantly higher than the 240.8 FTE assumed by the Legislature in FY18, resulting in an inflated unfunded vacancy rate. PED’s vacancy rate has fluctuated over the past few years. PED had an annual average vacancy rate of 8 percent in FY15 and 3 percent in FY16 based on 240.8 FTE. The department ended FY17 with a vacancy rate of 9.5 percent.

HISTORY OF PED SALARIES AND BENEFITS NOT INCLUDED IN OPERATING BUDGET

Year	Budget	Actual
FY13	\$1,180,488	\$767,204
FY14	\$1,175,437	\$897,872
FY15	\$1,184,071	\$938,931
FY16	\$1,469,450	\$1,220,813
FY17	\$1,362,761	\$1,194,276
FY18	\$1,642,000	

Source: SHARE

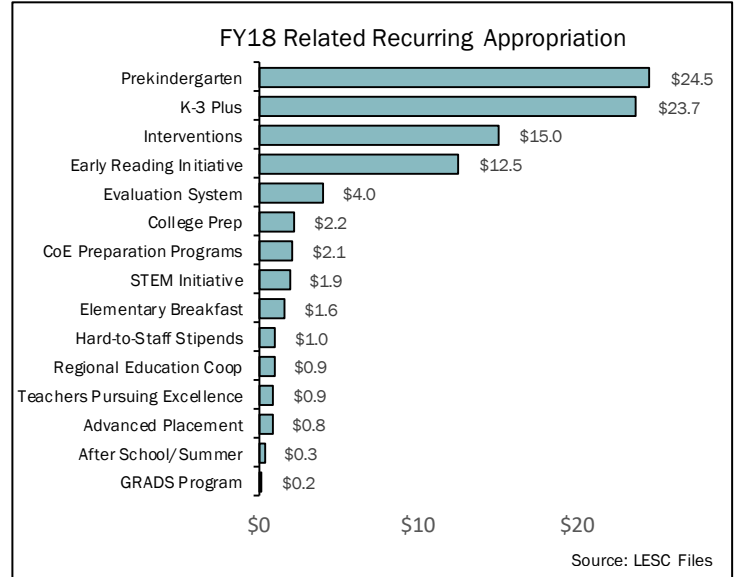
As in prior years, the department used portions of related recurring “below-the-line” appropriations to support department personnel in FY17 and FY18. These amounts do not appear in the department’s budget request and when requesting initiative funding, PED does not indicate how much they will use to support department staff. In FY18, PED budgeted \$1.4 million in the department’s personal services and employee benefits category from below-the-line initiatives, which is \$200 thousand more than the amount budgeted in FY17. It is not clear if PED will reduce support from FY19 initiatives to reflect a lower request for initiative funding for FY19.

Related Recurring Appropriations (lines 37-58)

For FY19, PED requested a total of \$85.9 million in initiative funding, \$2.3 million or 2.6 percent less than FY18 appropriations. PED told the LFC that it had reviewed current initiatives for efficiency and effectiveness and had reduced requests and prioritized funds to some initiatives.

Early Childhood Education Initiatives. In recent years, the Legislature has prioritized programs that support early childhood learning, and PED’s FY19 request showed general support to prioritize early childhood education. For FY19, PED requested \$59.1 million for four programs intended to support high quality learning for students in kindergarten through third grade, up \$337 thousand or 0.6 percent from FY18.

Prekindergarten (Line 40). PED requested \$25 million in recurring general fund revenue for prekindergarten and \$3.5 million in temporary assistance for needy families revenue, up \$4 million or 19 percent from FY18 appropriations. In FY18, prekindergarten programs funded through PED are serving 5,209 4-year-old children, down slightly from the 5,234 students that were funded in FY17. According to the National Institute of Early Education Research, New Mexico ranked 20th in state spending for early childhood education. Most children remain in half-day prekindergarten programs, although PED has focused on expanding extended-day programs. In addition to the PED program, CYFD funds prekindergarten spaces. Estimates from LFC indicate it would require an additional \$34 million to cover all children that are eligible for prekindergarten.



Research from LFC indicates third grade students who participated in a state-funded prekindergarten program performed significantly better on the Partnership for Assessment of Readiness for College and Careers assessment than their peers that did not, regardless of income level. When combined with the K-3 Plus extended school year program, the two programs can close the achievement gap entirely by kindergarten.

K-3 Plus (Line 39). PED requested \$24 million for K-3 Plus, up \$300 thousand or 1.3 percent from FY18. K-3 Plus increases the school year by 25 days in high poverty or low performing elementary schools. Research from Utah State University indicates K-3 Plus is effective in increasing student performance, particularly if a student maintains the same teacher for both K-3 Plus and the regular school year.

Because PED did not limit growth in K-3 Plus participation after school districts and charter schools had received initial summer 2016 awards, PED significantly reduced the number of students that participated in K-3 Plus in summer 2017 programs; 25 percent fewer student slots were funded by the department. Because many K-3 Plus programs span two fiscal years, the FY17 appropriation and existing fund balance funded July and August programs in 2016 and June programs in 2017. While the FY18 appropriation restored FY17 solvency cuts, PED’s use of fund balance to fund summer 2016 programs meant there was significantly less money available for summer 2017 programs, and the department withheld \$10 million of the FY18 appropriation to be able to fund June 2018 programs. Legislative staff voiced concerns over the reductions in light of the withheld funds, urging PED to use the withheld funds and ask the Legislature to appropriate additional nonrecurring funds for June 2018 programs. Legislative staff were also concerned that the reductions imposed by PED to summer 2017 programs would negatively impact summer 2018 student recruitment. Ideally, the department would award funds in summer 2018 to serve 20 thousand students, consistent with the number of students that participated in summer 2016.

**K-3 PLUS
ENROLLMENT BY
SUMMER**

2012	7,163
2013	11,639
2014	18,056
2015	19,383
2016	20,166
2017*	15,050

Source: LESC Files

*Based on awards; final enrollment not available

Legislative staff estimate PED could need as much as \$26 million next summer to increase slots to 20 thousand.

Early Reading Initiative (Line 41). The department requested \$9.1 million for the early reading initiative, down \$3.4 million or 27 percent from FY18 appropriations. PED told LFC it had prioritized funding to other initiatives, including the STEM initiative, resulting in a decrease for Reads to Lead funding. Prior to FY17, every school district and charter school that met certain criteria was allocated Reads to Lead funding, but in FY17 and FY18, the department awarded grants competitively. Schools districts and charter schools with reading growth in the top quartile were automatically awarded funding while other school district and charter schools received funding based on PED's assessment of the entity's application.

In FY17, PED spent \$2.6 million in initiative funds on the department's IT transformation project. Available funds were pieced together from several programs:

- \$700 thousand from college of education preparation programs;
- \$483 thousand from the early reading initiative;
- \$457 thousand from pay-for-performance;
- \$328 thousand from interventions and supports;
- \$150 thousand from college preparation and dropout prevention; and,
- \$45 thousand from parent portal.

In FY18, PED indicated it awarded \$7.9 million to school districts and charter schools. In addition, the department provides the kindergarten to third grade reading assessment (Istation) for all school districts and charter schools and provides funds for the governor's first grade books initiative. PED's request did not indicate if the department intends to cut grants to public schools in FY19 to account for the reduced appropriation request; however, spending from FY17 indicates the department may be able to focus the cuts to other areas. In FY17, PED spent \$483 thousand in early reading initiative funding on the department's IT transformation project. In addition, the department used \$706 thousand to supplement K-3 Plus funds in FY17.

Elementary Breakfast (Line 42). PED requested \$1 million for the elementary breakfast program, down \$600 thousand, or 40 percent from FY18 appropriations. State law requires elementary schools with at least 85 percent of students eligible for free or reduced-fee lunch to provide free breakfast to all students attending that school. While much of the cost for these programs are covered by federal dollars, PED indicates 239 schools were awarded breakfast funding for FY18 to cover costs not provided by the federal program. In FY17, the department distributed \$1.5 million and 78 thousand students were served in schools with elementary breakfast programs. In its budget request, PED notes the positive academic and behavioral effects associated with breakfast, but it is not clear from the request why PED requested decreased funds.

Interventions and Supports Initiative (Lines 52 and 56). For FY19, PED requested \$15 million for the department's interventions and supports initiatives, flat from the FY18 appropriation. In its request, PED indicated the program will provide funding for several initiatives though the department's request provides very little detail about how much will be allocated to each program.

Blended Learning. PED noted it will use FY19 interventions funds to launch and support programs that blend online and supervised learning and promote supplemental online courses, including Advanced Placement courses. Prior to FY19, PED requested funds separately for IDEAL-NM, an online learning initiative. In FY17, the department

received \$250 thousand for the IDEAL-NM initiative but the Legislature eliminated the appropriation for IDEAL-NM in FY18.

Truancy and Dropout Prevention Coaches. PED indicated it will use interventions funds to support a program to provide coaches to work with habitually truant students, with the goal of reducing habitual truancy and decreasing the high school dropout rate. In FY17 and FY18, PED allocated \$3.3 million to the program but said total demand was \$6.5 million. PED does not indicate if its request continues the program at current funding levels or provides additional resources for unmet demand. Data reviewed by legislative staff indicate mixed results from the FY16 program. While some schools saw remarkable results, others actually saw increases in habitual truancy. For FY18, the department aligned the initiative to the U.S. Department of Education’s “Every Student, Every Day” toolkit.

Principals Pursuing Excellence (PPE). PED indicated the interventions appropriation will continue to support the department’s school leader mentorship and professional development program. In FY18, the department budgeted \$1.8 million for PPE, up from \$1.1 million in FY17. To support the initiative, PED enters into an agreement with Northern REC #2, which contracts with approved vendors and pays stipends to participants. Of the \$1.8 million budgeted in FY18, \$575 thousand was for stipends and \$300 thousand for contractual services with approved vendors. The agreement includes \$863 thousand for materials and supplies, as well as the costs associated with arranging facilities, mileage, and event planning for training sessions.

Teacher Pursuing Excellence (TPE). PED indicated it will continue to use interventions funds to support a two-year teacher mentorship program targeted to the state’s lowest performing schools and lowest performing teachers. Although TPE receives a \$900 thousand appropriation through a separate line item, PED uses interventions funds to supplement that appropriation. In FY18 the department budgeted \$140 thousand of the TPE appropriation for department staff salaries and benefits.

For FY18, PED budgeted \$2.4 million for TPE, up \$81 thousand from FY17. Stipends account for a larger portion of the TPE budget than the PPE budget, accounting for more than half of the budget. In FY18, PED appears to be reducing REC administrative fees. In FY17, the department budgeted \$199 thousand, or 6.2 percent in PPE and TPE administrative fees, but despite a larger budget, PED only allocated \$143 thousand, or 3.6 percent for FY18.

Pay for Performance. PED indicated intervention funds would be used to continue the department’s pay for performance initiative. In previous years, the department requested pay for performance funds through a separate line item. PED indicated eight school districts and two charter schools will participate in the program in FY18 and the department has allocated \$4.5 million for the program, which provides

FY17 AND FY18 BUDGETS FOR PPE

(in thousands)

	FY17	FY18
Subcontract	\$130	\$300
Stipends	\$423	\$575
Event Planner	\$60	\$60
Materials	\$30	\$50
Purchased Services	\$400	\$753
REC Admin Fee	\$65	\$62
Total	\$1,108	\$1,800

Source: Intergovernmental agreements between PED and Northern REC #2

FY17 AND FY18 BUDGETS FOR TPE

(in thousands)

	FY17	FY18
Subcontract	\$121	\$250
Stipends	\$1,393	\$1,400
Event Planner	\$60	\$60
Materials	\$71	\$50
Purchased Services	\$500	\$519
REC Admin Fee	\$134	\$81
Total	\$2,279	\$2,360

Source: Intergovernmental agreements between PED and Northern REC #2

In July 2017, PED reclassified \$507 thousand in expenses originally paid with the FY17 pay for performance appropriation to the FY17 appropriations for interventions and support and standards based assessment. For FY18, the Legislature reauthorized unspent appropriations for certain initiatives for the same purpose, including pay for performance. By reclassifying expenses, PED effectively increased FY18 initiative appropriation at the expense of funds that would have otherwise reverted to the general fund.

additional compensation to teachers in participating school districts or charter schools that are rated effective, highly effective, or exemplary, based on the NMTEACH evaluation system.

The turnover rate of school districts and charter schools participating in pay for performance is high. Of the 25 school districts and charter schools that participated in FY17, only six received an award in FY18. In FY17, Santa Fe Public Schools received \$2.9 million of the \$6.4 million distributed, or 46.2 percent, but did not receive an award in FY18. It is unclear if school districts and charter schools declined to apply for funds in FY18 or if the same schools applied but did not receive an award. PED also has a history of spending pay for performance initiative funding on expenses that do not appear to relate to the initiative, including more than \$1.7 million on department IT projects and \$120 thousand to audit IDEAL-NM coursework in FY17.

Teaching Support for Low-Income Students. In previous years, PED has requested separate initiative funding for a non-profit organization to recruit, train, and manage mentorship and professional development for teachers to be placed in “D” and “F” schools with at least 60 percent of students eligible for free or reduced-fee lunch. PED provided no details for this initiative, so it is unclear if this initiative will continue the existing program in FY19. In FY17, Teach for America received the \$500 thousand grant from this appropriation, in addition to \$400 thousand in Indian education fund dollars.

In October 2017, PED encumbered \$60 thousand in funds from the FY17 pay for performance appropriation to Kleo, Inc. for fees related to providing virtual debit cards to teachers for classroom supplies. The unspent FY17 funds had been reauthorized in FY18 for the same purpose. The Legislature did not authorize a classroom supplies initiative for FY18.

Teacher Supply Program. In previous years, PED has requested initiative funds separately for a program that provides New Mexico teachers with \$100 gift cards for classroom supplies and the Legislature provided nonrecurring dollars for that program. In FY17, language included in the general appropriation act authorized PED to use unspent FY16 initiative appropriations for a teacher supply program. Although similar language was not included in the General Appropriation Act of 2017, it appears PED has entered into a contract to continue the initiative, possibly using unspent FY17 pay-for-performance appropriation that was reauthorized in FY18 for the same purpose.

Other Programs. The department indicated it will continue to use interventions funds to support school turnaround programs. In FY17, the department allocated \$2.2 million to three regional education cooperatives (RECs) to support the Priority Schools Bureau, including the development of the Web EPSS strategic planning tool (now NM DASH) and \$917 thousand to the University of Oklahoma to support the UVA turnaround program. PED’s FY19 request indicates it will continue to provide training and support for NM DASH and support for the UVA school turnaround program.

In FY17, PED allocated \$541 thousand of STEM funding for the department’s STEM and hard-to-staff teacher initiative. Legislative staff have requested data to examine what impact receipt of a stipend has teacher turnover and student performance. To date, legislative staff have not been able to access student-level data to examine the results.

Science, Technology, Engineering, and Math (STEM) Initiative. For FY19, PED requested \$3 million, up from \$1.9 million in FY18. This initiative funds professional development programs for math and science teachers and PED indicates there is unmet demand for these

programs. Demand for science-related professional development could rise in FY19. Beginning in FY19, the department will implement the New Mexico STEM Ready Science Standards. While the department's request highlights existing professional development programs, it is not clear if PED will focus additional resources on expanding existing professional development opportunities or will provide additional resources to school districts and charter schools to ensure their curriculum is aligned with the new standards.

Other Initiatives. For some initiatives, PED indicated it was able to scale back appropriation requests because prior year appropriations have made those programs sustainable at lower levels. For example, the colleges of education teacher and school leader preparation programs request was reduced to \$1 million for FY19 from \$2.1 million in FY18. That initiative provided start-up funds to colleges of education for alternative teacher and school leader preparation programs. Additionally, the request for the NMTEACH evaluation system was reduced because the department has built sustainable systems. PED indicates the \$2.5 million request (down from \$4 million) will support annual trainings.

PED requested \$1 million for regional education cooperative (REC) operations, an increase of \$65 thousand from FY18 appropriation. The request indicated the creation of a new REC, bringing the total number to 10. Currently, the northwest corner of the state is the only area not covered by an REC. Prior to 1993, REC #1 served school districts in San Juan and McKinley counties. The Regional Cooperative Education Act allows local school boards to form RECs, with the approval of PED, to provide educational services. Most REC revenue comes from contracts with member school districts and intergovernmental agreements with PED, but since FY09, RECs have received a related recurring initiative appropriation to offset operational costs. RECs tend to serve smaller school districts that are unable to take advantage of economies of scale. Currently, only two of the 15 largest districts are members of RECs; although that could change if a new REC opened in the northwest corner of the state, where three of the 15 largest school districts are located.

In FY17, PED entered into intergovernmental agreements with regional education cooperatives (REC) totaling more than \$20 million in related recurring initiative funding. In some cases these contracts required the REC to subcontract with a particular organization or with an individual selected by PED, who would then perform the services required by PED. The REC would typically receive an administrative fee of between 5 and 9 percent for administering the contract.

Between FY10 and FY17, REC budgets have nearly doubled, with revenue collections rising from \$26.5 million to \$52.4 million. REC #9 has been responsible for much of that growth, with revenues rising from \$8 million in FY10 to \$21.4 million in FY17. Some of that growth has been due to intergovernmental agreements between the RECs and PED. The department will enter into agreements with RECs to provide fiscal management services for a department initiative funded with either federal or related recurring initiative dollars. Although substantial, the growth in REC budgets has not been uniform across RECs. Some RECs actually have seen little if any growth since FY10.

PUBLIC SCHOOL SUPPORT AND RELATED APPROPRIATIONS FOR FY19

(in thousands of dollars)

School Year 2017-2018 Initial Unit Value = \$4,053.55			FY18 OpBud	FY19 PED Request
1	PROGRAM COST		\$2,550,192.4	\$2,567,558.7
2	<u>UNIT CHANGES</u>			
3	Other Projected Net Unit Changes		(\$3,183.7)	
4	<u>UNIT VALUE CHANGES</u>			
5	Restore Some Special Session Cuts		\$12,000.0	
6	Section 5 Recurring Special Appropriation to the State Equalization Guarantee		\$8,550.0 ¹	
7	SUBTOTAL PROGRAM COST		\$2,567,558.7	\$2,567,558.7
8	Dollar Increase/Decrease From Prior Year Appropriation		\$17,366.3	\$0.0
9	Percentage Increase/Decrease		0.7%	0.0%
10	LESS PROJECTED CREDITS (FY16 Actuals \$75.4 million)		(\$60,750.0) ²	(\$59,000.0)
11	LESS OTHER STATE FUNDS (From Driver's License Fees)		(\$5,000.0)	(\$5,000.0)
12	STATE EQUALIZATION GUARANTEE		\$2,501,808.7	\$2,503,558.7
13	Dollar Increase/Decrease From Prior Year Appropriation		\$20,616.3	\$1,750.0
14	Percentage Increase/Decrease		0.8%	0.1%
15	CATEGORICAL PUBLIC SCHOOL SUPPORT			
16	TRANSPORTATION - School District (PED request includes District and Charter)			
17	Maintenance and Operations		\$61,778.4	\$61,778.4
18	Fuel		\$11,092.9	\$11,092.9
19	Rental Fees (Contractor-Owned Buses)		\$7,542.6	\$7,542.6
20	Subtotal School District Transportation		\$80,413.9 ³	\$80,413.9
21	TRANSPORTATION - State-Chartered Charter School (with language)			
22	Rental Fees (Contractor-Owned Buses)		\$315.7	
23	Subtotal Charter School Transportation		\$1,927.0 ³	
25	SUBTOTAL TRANSPORTATION		\$82,340.9 ⁴	\$80,413.9 ⁵
26	SUPPLEMENTAL DISTRIBUTIONS			
27	Out-of-State Tuition		\$300.0	\$300.0
28	Emergency Supplemental		\$1,000.0	\$3,000.0
29	Instructional Material Fund		⁴	\$2,500.0 ⁵
30	Dual Credit Instructional Materials		\$1,000.0	\$1,000.0
31	PARCC Standards-Based Assessments (English Language Arts and Math)		\$6,000.0	\$6,000.0
32	Indian Education Fund		\$1,824.6 ⁶	\$1,824.6 ⁶
33	TOTAL CATEGORICAL		\$92,465.5	\$95,038.5
34	TOTAL PUBLIC SCHOOL SUPPORT		\$2,594,274.2	\$2,598,597.2
35	Dollar Increase/Decrease From Prior Year Appropriation		\$14,041.7	\$4,323.0
36	Percentage Increase/Decrease		0.5%	0.2%
37	RELATED REQUESTS: RECURRING			
38	Regional Education Cooperatives Operations		\$935.0	\$1,000.0
39	K-3 Plus Fund		\$23,700.0	\$24,000.0
40	Public Prekindergarten Fund		\$21,000.0 ⁷	\$25,000.0 ⁷
41	Early Reading Initiative		\$12,500.0	\$9,137.0
42	Breakfast for Elementary Students		\$1,600.0	\$1,000.0
43	After-School and Summer Enrichment Programs		\$325.0	
44	Teacher and School Leader Programs and Supports for Training, Preparation, Recruitment, and Retention		⁸	
45	Teaching Support in Schools with a High Proportion of Low-Income Students		⁸	
46	NMTeach Evaluation System		\$4,000.0	\$2,500.0
47	Science, Technology, Engineering, and Math Initiative		\$1,900.0	\$3,000.0
48	Teacher and School Leader Preparation Programs		\$2,100.0	\$1,000.0
49	New Mexico Cyber Academy (IDEAL-NM)		⁸	
50	College Preparation, Career Readiness, and Dropout Prevention		\$2,200.0	\$1,500.0
51	Advanced Placement		\$825.0	\$825.0
52	Interventions and Support for Students, Struggling Schools, Parents, and Teachers		\$15,000.0	\$15,000.0
53	Parent Portal		⁸	
54	New Mexico Grown Fruits and Vegetables		⁸	
55	GRADS - Teen Pregnancy Prevention		\$200.0	\$200.0
56	Teacher Mentorship - Teachers Pursuing Excellence		\$900.0	\$900.0

PUBLIC SCHOOL SUPPORT AND RELATED APPROPRIATIONS FOR FY19

(in thousands of dollars)

School Year 2017-2018 Initial Unit Value = \$4,053.55			FY18 OpBud	FY19 PED Request
57	Stipends for Teachers in Hard to Staff Areas		\$1,000.0 ⁸	\$800.0
58	TOTAL RELATED APPROPRIATIONS: RECURRING		\$88,185.0	\$85,862.0
59	Dollar Increase/Decrease From Prior Year Appropriation		(\$2,946.7)	(\$2,323.0)
60	Percentage Increase		-3.2%	-2.5%
61	SUBTOTAL PUBLIC EDUCATION FUNDING		\$2,682,459.2	\$2,684,459.2
62	Dollar Increase/Decrease From Prior Year Appropriation		\$11,095.0	\$2,000.0
63	Percentage Increase		0.4%	0.1%
64	PUBLIC EDUCATION DEPARTMENT		\$11,065.3	\$11,065.3
65	Dollar Increase/Decrease From Prior Year Appropriation		\$0.0	\$0.0
66	Percentage Increase		0.0%	0.0%
67	GRAND TOTAL		\$2,693,524.5	\$2,695,524.5
68	Dollar Increase/Decrease From Prior Year Appropriation		\$11,095.0	\$2,000.0
69	Percentage Increase		0.4%	0.1%
70	SECTION 5 - RECURRING SPECIAL APPROPRIATION			
71	Emergency Supplemental Funding for School Districts in FY18		\$2,000.0	
72	SECTION 5 - SPECIAL APPROPRIATION			
73	Emergency Supplemental Funding for School Districts in FY17 and FY18		\$1,000.0	
74	Emergency Supplemental Funding for School Districts in FY18 and FY19			\$1,500.0
75	Emergency Military Base Expansion Support			\$1,500.0
76	Sufficiency Lawsuit Fees		\$1,250.0 ⁹	\$1,500.0

Source: LESC

¹Section 5 of the General Appropriation Act of 2017 appropriated \$8.6 million in nonrecurring revenue to the state equalization guarantee that the Legislative Finance Committee considers to be recurring.

²The GAA of 2017 assumed \$750 thousand in federal Impact Aid credits for state-chartered charter schools pursuant to Laws 2017, Chapter 78 (Senate Bill 135).

³The General Appropriation Act of 2017 included separate transportation distributions for school districts and state-chartered charter schools. The governor vetoed the separate distributions, effectively rendering a single transportation appropriation.

⁴Laws 2016 (2nd S.S.), Chapter 2 (Senate Bill 4) authorized up to \$25 million in annual appropriations to the instructional material fund and transportation distribution from public school capital outlay fund (PSCOF) in FY18 to FY22. The GAA of 2017 appropriated \$14.5 million to school district transportation and \$10.5 million to the instructional material fund from PSCOF and included flexibility language allowing the use of funds appropriated for transportation and instructional materials for either purpose.

⁵For FY19, PED requests a total of \$25 million from the public school capital outlay fund; \$16.9 million for transportation and \$8.1 million for the instructional material fund.

⁶The GAA of 2017 included \$675.4 thousand from the Indian education fund balance. For FY19, PED requests \$675.4 thousand from the Indian education fund balance.

⁷The GAA of 2017 included \$3.5 million in temporary assistance for needy families funds for prekindergarten. For FY19, PED requests \$3.5 million in temporary assistance for needy families funds for prekindergarten.

⁸The GAA of 2017 reauthorized select unspent FY17 initiative appropriations for the same purpose in FY18.

⁹The GAA of 2017 authorized PED to use up to \$750 thousand from remaining balances in select initiative appropriations (excluding appropriations for regional education cooperatives, K-3 Plus, prekindergarten, and early reading) for legal fees related to defending the state in Martinez v. State of New Mexico (No. D-101-CV-2014-00793) and Yazzie v. State of New Mexico (No. D-101-CV-2014-02224).