



Date: April 24, 2017

Prepared By: Joseph W. Simon

Purpose: Review the funding formula, the FY19 preliminary unit value, and projections for total program units in FY19.

Witness: Joseph Simon, Senior Fiscal Analyst, LESC

Expected Outcome: Better understanding of FY19 public school funding.

Fiscal Year 2019 Preliminary Unit Value

Background

For FY19, the Legislature approved a public education budget that assumed a 3.1 percent increase to total statewide program cost – the amount the state assumes all school districts and charter schools need to operate – and included several requirements school districts and charter schools would have to implement when setting their FY19 budgets in the last quarter of FY18. The FY19 budget included language that required school districts and charter schools to increase teacher pay by an average of 2.5 percent and increase pay for other staff by an average of 2 percent. Additionally, statutory minimum salaries were increased by \$2,000 at each level of teacher licensure and additional funding was included to better serve at-risk students.

In April, the Public Education Department (PED) announced the preliminary FY19 unit value at \$4,159.23 per unit, up \$74.97, or 1.8 percent, from the final FY18 unit value. Many school district and charter school officials are concerned a 1.8 percent increase in the unit value is insufficient to cover the costs of the mandated salary increases. If school districts' and charter schools' initial FY19 budgets are insufficient to cover the costs of the mandated increases, other educational programs could suffer.

In prior years, PED has typically used conservative estimates when setting the preliminary unit value. As a result, school districts and charter schools are required to base their budgets on a lower amount than was approved by the Legislature during the appropriation process. School districts and charter schools typically receive a budget increase when the final unit value is set in January, about half way through the school year. These preliminary estimates limit the amount school districts and charter schools plan on receiving while developing their annual budget each spring. PED adopts these conservative assumptions to minimize the risk that school districts and charter schools will receive a sudden and unexpected budget cut more than halfway through the school year. Under the current system, setting the preliminary unit value represents a balancing act between ensuring school districts and charter schools receive the funds appropriated by the Legislature and avoiding mid-year budget cuts for public schools.

Program Cost Changes and SEG Reversions

Year	Program Cost Change from Budget to Final	Estimated SEG Reversion
FY13	\$23,790,281	\$292,531
FY14	\$7,795,521	\$11,791,239
FY15	\$18,303,782	\$16,007,618
FY16	\$12,377,960	\$12,992,436
FY17*	-\$37,035,085	\$40,353,529
FY18	\$17,481,954	

*Laws 2016(2nd S.S.), Chapter 6 required PED to set the final unit value 1.5 percent lower than the preliminary FY17 unit value. These figures do not account for the \$40.8 million cash balance credit.

Source: LESC Files

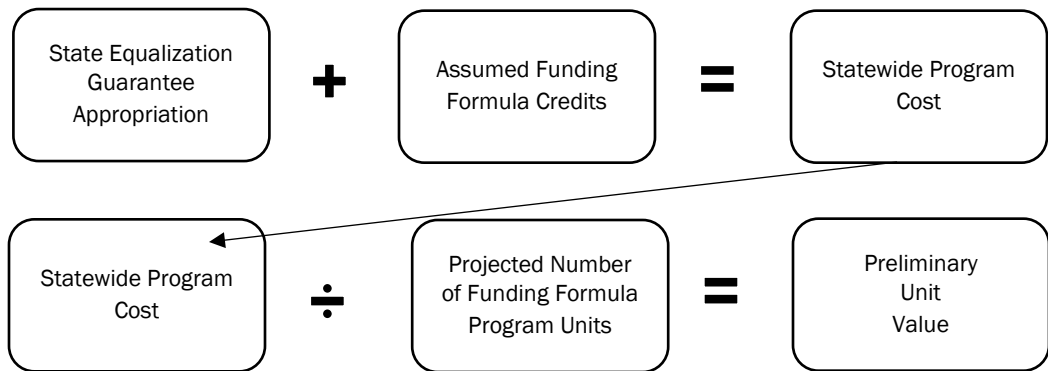
How the Unit Value is Calculated

Program units are allocated by the funding formula based on enrollment, student need, and other factors specific to the school district or charter school and the students population.

The **unit value** is the amount school districts and charter schools receive for each program unit.

Program cost is the amount of formula funding that a school district or charter school will receive and is equal to the number of program units times the unit value. All school districts and charter schools are guaranteed to receive their program cost.

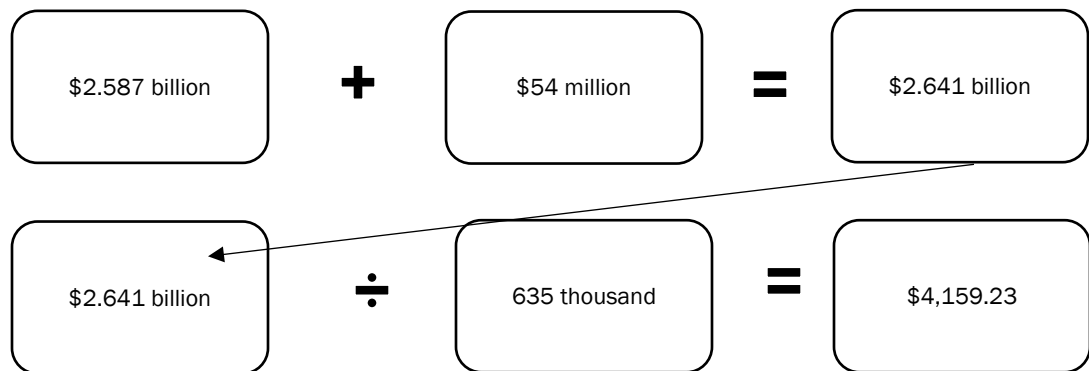
Each year, the preliminary unit value is set based on three numbers: the appropriation to the state equalization guarantee distribution (SEG), an estimate of funding formula credits for federal and local revenue, and a projection of the number of program units the funding formula will generate. The calculation starts with the amount appropriated to the SEG. Because the funding formula takes credit for federal and local revenue received by school districts and charter schools, this does not represent the total amount the Legislature assumed school districts and charter schools will need to operate. To calculate that amount, known as the program cost, PED estimates the total amount of credits and add that to SEG appropriation. Once PED has estimated statewide program cost, the department can determine the preliminary unit value by dividing the number of program units PED expects all school districts and charter schools to generate by the total statewide program cost.



FY19 Preliminary Unit Value Calculation

Most formula funding for FY19 will be based on data from December 2017 and February 2018. Enrollment growth program units and funding for new charter schools will be based on data from October 2018.

For FY19, the total SEG appropriation is \$2.587 billion, PED anticipates \$54 in funding formula credits, PED estimates total statewide program units of about 635 thousand, up 9,600 program units, or 1.5 percent.



Many school districts and charter schools anticipated a unit value increase larger than 1.8 percent because the total program cost assumed by the Legislature during the appropriation process was up 3.1 percent from the previous year. However, this does not account for a projected increase in the number of program units or a more cautious estimated of funding formula credits than was proposed in the executive budget recommendation.

Based on prior year experience, PED may be overestimating the number of program units that school districts and charter schools will generate in FY19. In FY18, PED set the preliminary unit value based on a projection of 632 thousand program units. In response to concerns PED was overestimating program units, the Legislature included language in the Supplemental General Appropriations Act of 2017 that allowed PED to increase the preliminary unit value by up to \$16 prior to the start of the school year. The language authorized PED to use, with Board of Finance approval, up to \$10 million in general fund operating reserves to support an increased unit value. PED did not make use of this provision, although the department set the final unit value \$30.71 higher than the preliminary unit value because 625 thousand program units were generated statewide, 7,000 less than anticipated.

Prior Year Projections of Program Units

Year	Projected Units	Final Units	Change
FY15	633,541	633,612	71
FY16	637,905	634,190	(3,715)
FY17	637,335	630,922	(6,413)
FY18	632,483	625,462	(7,021)

Source: LESC Files

Projected Unit Changes in FY19

Changes to the funding formula that were approved by the Legislature during the 2018 Legislative session coupled with increases in the instructional staff training and experience (T&E) index and the number of special education ancillary service providers indicate school districts and charter schools will generate more program units in FY19, although some of this unit growth could be offset by declining enrollment. When calculating the total change in school funding, both the increase in the unit value and the increase in the number of program units are important. For FY19, legislative staff anticipate most school districts and charter schools will receive increased funding, partly attributed to increases in the unit value and partly attributed to increases in the number of program units.

Student Membership and Basic Program Units

The New Mexico funding formula is largely driven by student enrollment. School districts and charter schools generate basic program units for each student at a particular grade level. As a result, when student membership — the total number of full-time equivalent students eligible to generate formula funding — increases, the total number of program units is expected to increase. Basic program units account for more than 63 percent of all program units.

In recent years, the number of students enrolled in New Mexico school districts and charter schools has decreased. Statewide student membership fell from 332 thousand in FY16 to 329 thousand in FY18. Over this same period, basic program units decreased 1 percent, from 400 thousand program units to 396 thousand program units.

Statewide Student Membership

School Year	October	Average December/ February	Percent Change
2013-2014	332,777	331,187	-0.5%
2014-2015	333,478	331,955	-0.5%
2015-2016	332,666	331,370	-0.4%
2016-2017	331,197	329,039	-0.7%
2017-2018	328,699		

Source: LESC Files

Legislative staff expect funded student membership to continue to decrease in FY19. PED has not yet provided FY19 student membership; however, October 2017 data showed statewide membership totaled 328,699. Historically, October enrollment is greater than average enrollment in December and February of the same school year, the dates used to calculate almost all basic program units in the following school year. A small number of basic program units for new charters schools are based on current year enrollment. As a result, legislative staff expect school districts and charter schools to generate fewer basic program units in FY19.

Special Education

According to PED, school districts and charter schools have increased the number of special education ancillary services staff, which will lead to increased program units in FY19. In FY14 through FY16, school districts and charter schools generated about 46 thousand ancillary services provider program units. By FY18, that number had fallen to less than 43 thousand units. It is unclear exactly what led to the significant reductions in FY18 ancillary units; it could have been the result of a prior PED review

of claimed ancillary services personnel or could be related to the economic downturn of the past several years. It is also unclear why the FY19 units increased significantly. It does not appear that school districts and charter schools affected by the FY16 review of ancillary services FTE were more likely to increase the number ancillary service providers that will be funded in FY19.

In the past, program units for special education ancillary service providers have been identified as an area that can be “gamed” by school districts and charter schools to generate additional funding. Each FTE generates 25 program units, or about \$103 thousand.

Training and Experience Index

After years of declines, the statewide average training and experience index (T&E index) reached record lows in FY18 and will increase in FY19, according to data from PED. Since FY09, the number of program units generated by the T&E index has fallen by more than 10 thousand program units, as teachers with more experience and more

advanced degrees have left the teaching profession. Between FY18 and FY19, the T&E index increased from 1.078 to 1.081. Although this increase seems small, the T&E index is multiplied by about 84 percent of total program units and small increases or decreases can generate large swings in program units. For example, had the higher T&E index been in place in FY18, it would have generated 1,300 additional program units.

Training and Experience Index

Year	Statewide Average T&E Index	T&E Program Units
FY14	1.095	50,246
FY15	1.089	47,313
FY16	1.083	43,963
FY17	1.080	42,286
FY18	1.078	41,422
FY19	1.081	

Source: LESC Files

However, the FY19 increases in the T&E index may be offset by declines in student membership because the funding formula generates T&E program units for school districts and charter schools by multiplying several funding formula factors by the T&E index, including basic program units. See **Attachment A: State Equalization Guarantee Computation**.



At-Risk Program Units

At-risk program units will increase substantially in FY19 due to Laws 2018, Chapter 55 (House Bill 188). Chapter 55 increased the multiplier for the at-risk index 22.6 percent, from 0.106 to 0.13, resulting in an estimated increase of about 5,100 program units. The Legislature included \$22.5 million in the FY19 budget to offset the increase in units, enough to fund roughly 5,400 program units at the FY19 preliminary unit value. As a result, budget increases related to the at-risk multiplier increase will be reflected in increased unit generation and not increases to the unit value.

Most school districts and charter schools should see additional at-risk program units in FY19. However, at-risk program units are based on overall student membership and it is possible a handful of small school districts or charter schools with significant enrollment decreases will see a slight decrease in total at-risk units.

Enrollment Growth and Charter School Units

The closure of several charter schools could also have a negative impact on the number of program units. In December, three charter schools were denied renewal by the Public Education Commission: Anthony Charter School (Gadsden), Taos International School (Taos), and the state's largest charter school, New Mexico Connections Academy (Santa Fe). The Academy of Trades and Technology, currently a state-chartered charter school, sought renewal from Albuquerque Public Schools but was not approved. These four charter schools enrolled about 2,100 students in October 2017 and generated about 4,000 program units in FY18. It remains unclear if all four charter schools will close — New Mexico Connections Academy has challenged the closure decision in court — the closure of multiple charter schools could represent a significant decrease in program units. It is unclear if PED's unit value assumptions anticipate the closure of any of these charter schools.

However, the closure of several charter schools could increase the number of enrollment growth program units. School districts and charter schools generate enrollment growth program units when their October student membership is more than 1 percent greater than the prior year. Because enrollment growth is based on current-year data, PED is uncertain how many enrollment growth program units will materialize in FY19, but with potentially thousands of students in closed charter schools looking for new schools, FY19 could see larger than average enrollment growth.

Three charter schools have been authorized to open in FY19. According to charter school applications filed with the PEC, the three opening charter schools estimated they would generate a

**Change in Program Units for First Year Charter Schools
FY14 through FY18**

Charter School (Year Opened)	Preliminary Units	Final Units	Change
Dream Diné (FY15)	102.479	40.33	-60.6%
Dził Dít'ooí (DEAP) (FY16)	86.922	57.189	-34.2%
Explore Academy (FY15)	503.813	386.619	-23.3%
Health Leadership (FY14)	283.993	233.558	-17.8%
Health Sciences Acad. (FY15)	454.588	433.393	-4.7%
La Jicarita (FY14)	115.639	93.251	-19.4%
NM Connections (FY14)	683.546	714.69	4.6%
Pecos Connections (FY17)	746.714	503.769	-32.5%
Sandoval Academy (FY16)	220.17	104.599	-52.5%
Siembra Leadership (FY17)	203.456	92.961	-54.3%
Six Directions (FY17)	106.037	113.283	6.8%
Student Athlete HQ (FY18)	260.75	217.576	-16.6%
Taos International (FY15)	214.862	152.106	-29.2%
Technology Leadership (FY16)	238.793	240.499	0.7%
Average Change (Unweighted)			-23.8%

Source: LESC Files

Charter school approval takes place outside of the legislative budget process and PED typically does not request nor has the Legislature historically appropriated additional funds for new charter school openings.

total of 980 program units; however, it is not unusual for charter schools to overestimate the number of program units in their first year of operation and PED will likely not allow the charter schools to budget all of the program units anticipated on the application.

Each of the charter schools included program units for school districts under 4,000 students and micro-district size adjustment program units in their estimates, but PED does not allocate these units to charter schools. Staff estimate these new charter schools will generate between 200 and 250 program units each, based on historical data.

Impact Aid

Federal Impact Aid revenue received by school districts and state-chartered charter schools can have a significant impact on the funding formula. To maintain an equitable school finance system, the funding formula takes credit for 75 percent of federal Impact Aid received by school districts and state-chartered charters schools and school district revenue from federal forest reserve payments and the half mill levy. In FY17, the state took credit for \$65 million in state and local revenue, \$49.7 million of that from federal Impact Aid.

Unlike many other federal grants for education, Impact Aid is “current-year funded,” meaning funds received by school districts and state-chartered charter schools in state FY18 are mostly from the federal FY18 appropriation. As a result, PED must estimate FY19 Impact Aid before the appropriation is approved by Congress and the president. For FY19, the president’s budget included a \$5 billion reduction for K-12 federal education appropriations, including a significant cut to Impact Aid. However, it is unclear if Congress will agree to the proposed cut. The president’s FY18 budget also contained proposals for large reductions to education grant programs that were not included when the federal budget was approved in March 2018.

Funding Formula Credits History

Year	Credits for Impact Aid	Total Funding Formula Credits
FY09	\$67,582,750	\$87,357,126
FY10	\$60,271,578	\$78,909,878
FY11	\$57,117,047	\$77,002,957
FY12	\$52,723,165	\$70,902,827
FY13	\$49,324,907	\$66,740,653
FY14	\$43,242,029	\$61,818,035
FY15	\$56,810,717	\$72,283,546
FY16	\$54,315,844	\$75,405,491
FY17	\$49,700,238	\$64,998,362

Source: LESC Files

As a result of the ongoing budget uncertainty at the federal level, PED has reduced estimated funding formula credits assumed in the unit value calculation. For FY19, PED assumed total funding formula credits of \$54 million, \$5 million less than the department proposed in December and assumed by the Legislature when passing the budget.

Legislative Staff Estimates

Legislative staff analysis indicates PED may have overestimated FY19 program units by between 3,000 and 4,000 program units, which is consistent with prior year overestimation by the department. However, there may be other reasons staff estimates are below PED’s. PED set the preliminary unit value based on enrollment information from December 2017, but PED has yet to fulfill a request to provide this information to legislative staff. As a result, estimates are based on information enrollment data from October 2017, modified to account for the changes that typically occur in program units between October, December, and February of a

given school year. Some factors, including the number of enrollment growth program units and unit changes due to charter schools opening and closing are more difficult to predict. Legislative staff will update assumptions to account for better quality data once it receives additional information from PED.

Conclusion

While both legislative staff and PED anticipate total program units to increase from FY18, based on the available data, it appears school districts and charter schools will not be able to set FY19 budgets based on the total amount appropriated by the Legislature. While this is consistent with prior years, it represents a significant budgetary challenge for school districts and charter schools statewide.

After PED set the preliminary unit value, Legislative Finance Committee staff requested PED consider resetting the preliminary unit value higher than \$4,159.23 to allow school districts and charter schools access to additional funds prior to the start of the school year. Based on the available data, it appears the department may have over-estimated program units, which would mean the department has sufficient funds to support an increase. Given the current national discussion involving adequate teacher pay, it is important to ensure school districts and charter schools have sufficient funds to provide the promised pay increases.

In FY18, school districts' and charter schools' preliminary state equalization guarantee distributions totaled \$2.465 billion, \$41.4 million less than the \$2.506 billion appropriated by the Legislature for FY18.

LESC could also use this interim to consider ways to improve the alignment of legislative appropriations and initial school district and charter school budgets. During the previous administration, PED and legislative staff met to form a consensus around the number of program units school districts and charter schools would generate and agreed on a preliminary unit value that struck a balance between allocating the full appropriation and minimizing the risks of mid-year budget cuts. The Legislature could also consider changes to statute or General Appropriation Act language that could encourage PED to adopt less conservative assumptions. During the 2017 special session, the Legislature approved language that attempted to encourage PED to use less conservative assumptions, but this was ultimately unused by the department. For FY20, a new Legislature and governor may need to work together to ensure school districts and charter schools are given improved access to appropriated funds at the beginning of the school year.

State Equalization Guarantee Computation				
	Grade Level/Program Membership		Times	Cost Differential = Units
Basic Program Units	Kindergarten & 3- and 4-Year-Old DD	FTE MEM	×	1.44
	Grade 1	MEM	×	1.20
	Grades 2-3	MEM	×	1.18
	Grades 4-6	MEM	×	1.045
	Grades 7-12	MEM	×	1.25
Special Education				
Special Education Units	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
Special Program Units	<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
SUM OF UNITS				
= TOTAL PROGRAM UNITS				
T&E Adjustment	T&E INDEX MULTIPLIER	→ Times Value from 1.000 to 1.500		
	= ADJUSTED PROGRAM UNITS			
Size Units	Plus			
	Elementary/Jr. High Size Units			
	Senior High Size Units			
	District Size Units			
	Micro District Size Units			
Rural Isolation Units				
At-Risk Units				
Enrollment Growth Units				
Add-on Units	National Board for Professional Teaching Standards Units			
	Charter School Activities Units			
	Home School Activities and Program 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				

Student Membership and Program Units: 10 Year History

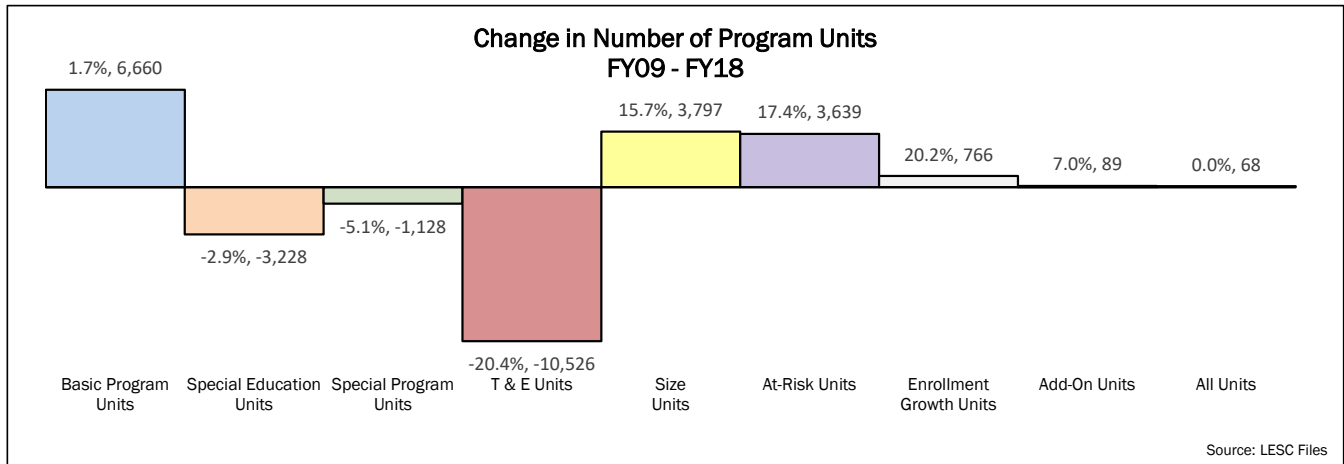
School Year	Student Membership	Basic Program Units	Special Education Units	Special Program Units	T & E Units	Size Units	At-Risk Units	Enrollment Growth Units	Add-On Units ¹	Grand Total
2008-2009	322,680	388,959	112,755	21,905	51,675	24,108	20,920	3,790	1,281	625,393
2009-2010	324,105	390,448	111,699	21,778	51,414	25,024	20,621	6,150	704	627,839
2010-2011	327,561	394,554	111,665	21,691	52,830	25,176	19,856	4,694	802	631,267
2011-2012	330,414	397,944	113,073	21,894	54,397	25,427	19,602	3,926	933	637,195
2012-2013 ²	331,365	399,095	110,002	21,774	53,727	25,892	19,067	4,386	1,017	634,960
2013-2014	330,635	398,363	109,414	21,822	50,246	25,930	20,126	5,297	1,084	632,282
2014-2015 ³	331,187	399,107	109,490	21,646	47,313	27,520	21,424	6,032	1,079	633,612
2015-2016	331,955	399,881	110,201	21,383	43,963	27,853	25,667	3,991	1,252	634,190
2016-2017	331,370	398,657	110,524	21,313	42,286	27,567	25,518	3,835	1,222	630,922
2017-2018	329,039	395,619	109,527	20,777	41,149	27,905	24,559	4,556	1,370	625,462

Source: LESC Files

¹Add-on units include program units for national board certified teachers, charter school activities, home schools students taking academic courses from a school district, and home school students participating in school district sponsored activities.

²Beginning with FY13, 3- and 4-year olds who required speech-only services were counted as A/B special education students and generated 0.7 program units.

³Beginning with FY15, school districts with less than 200 MEM generate additional size adjustment program units, and school districts may generate program units for home school students taking academic courses from a school district.



Source: LESC Files

VALUE OF PROGRAM UNITS

(in thousands)

School Year	Student Membership	Basic Program Units	Special Education Units	Special Program Units	T & E Units	Size Units	At-Risk Units	Enrollment Growth Units	Add-On Units	Program Cost
2008-2009	322.7	\$ 1,505,967	\$ 436,565	\$ 84,811	\$ 200,075	\$ 93,342	\$ 80,998	\$ 14,675	\$ 4,959	\$ 2,421,392
2009-2010 ¹	324.1	\$ 1,480,834	\$ 423,635	\$ 82,597	\$ 194,997	\$ 94,908	\$ 78,208	\$ 23,325	\$ 2,670	\$ 2,381,174
2010-2011 ²	327.6	\$ 1,464,651	\$ 414,519	\$ 80,520	\$ 196,114	\$ 93,456	\$ 73,708	\$ 17,426	\$ 2,978	\$ 2,343,371
2011-2012	330.4	\$ 1,432,149	\$ 406,934	\$ 78,794	\$ 195,768	\$ 91,508	\$ 70,544	\$ 14,128	\$ 3,356	\$ 2,293,183
2012-2013	331.4	\$ 1,466,093	\$ 404,095	\$ 79,987	\$ 197,367	\$ 95,115	\$ 70,043	\$ 16,113	\$ 3,737	\$ 2,332,551
2013-2014	330.6	\$ 1,520,771	\$ 417,693	\$ 83,307	\$ 191,817	\$ 98,989	\$ 76,832	\$ 20,222	\$ 4,138	\$ 2,413,768
2014-2015	331.2	\$ 1,599,522	\$ 438,808	\$ 86,753	\$ 189,619	\$ 110,294	\$ 85,864	\$ 24,174	\$ 4,323	\$ 2,539,357
2015-2016	332.0	\$ 1,614,621	\$ 444,962	\$ 86,338	\$ 177,510	\$ 112,462	\$ 103,635	\$ 16,115	\$ 5,057	\$ 2,560,699
2016-2017	331.4	\$ 1,586,507	\$ 439,844	\$ 84,819	\$ 168,283	\$ 109,708	\$ 101,553	\$ 15,261	\$ 4,862	\$ 2,510,837
2017-2018	329.0	\$ 1,615,810	\$ 447,337	\$ 84,859	\$ 168,063	\$ 113,970	\$ 100,307	\$ 18,608	\$ 5,594	\$ 2,554,548

¹For FY10, program cost included \$210 million in federal American Recovery and Reinvestment Act (ARRA) funds.

²For FY11, program cost included \$88.3 million in federal ARRA and education jobs fund revenue.

Source: LESC Files