Progress Report

Legislative Finance Committee
Legislative Education Study Committee
September 2017

Modernizing the Public Education Funding Formula

Summary

New Mexico will spend roughly $2.7 billion on public education in FY18, the biggest slice of the budget pie. This funding is mostly distributed to the state's 89 school districts and 99 charter schools through a funding formula called the state equalization guarantee (SEG). While the formula attempts to address the specific needs of students by including multipliers for students with special needs, small schools, and other factors that reflect greater educational need or other higher costs, some policymakers have noted the formula is overly complicated and falls short in some areas. In 2011, the Legislative Finance Committee (LFC) and the Legislative Education Study Committee (LESC) published a joint program evaluation of the funding formula that recommended updating several components of the formula, including the at-risk student index, the teacher training and experience (T&E) index, special education components, and small school size adjustments.

The Evaluation: The joint LFC/LESC evaluation, *Evaluation of the Public School Funding Formula*, (November 2011) examined the efficiency and fairness of the funding formula. The evaluation also revisited the significant findings and recommendations from previous funding formula studies. LFC and LESC staff analyzed the efficacy of the formula's different components, reviewed formula regulations and guidance materials, and conducted field visits to school districts and charter schools. The 2011 evaluation recommended statutory changes to the formula's components and administrative changes to the regulation and oversight of the formula.

Several major recommended changes from the 2011 evaluation have not been enacted or implemented. While the Legislature considered a number of the recommended changes, only a modest increase to the at-risk index has been implemented to date. New Mexico still needs significant changes to its public education funding formula to more equitably direct resources to students who need them most. The formula's size adjustment components inefficiently and inequitably allocate funds to small districts and schools. Small school size adjustments incentivize inefficiencies of scale and direct size adjustment funding to large school districts. Because the formula bases special education funding on headcount, it encourages over-identification. These and other components need additional study and action.

The Public Education Department (PED) has made some progress on the administration and oversight of the formula but could improve. PED developed an audit group in 2011 that conducts data validation audits of individual formula components; however, the group audits only a handful of school districts and charter schools. The 2011 evaluation found that some of PED's formula regulations and guidance contained inconsistencies. PED has resolved some of these issues but others remain unaddressed.

Legislative EDucation Study Committee

New Mexico Legislative Finance Committee

Background Information

Table 1: State School Finance Systems by State in 2014	
School Finance Systems	**States**
Foundation program, based on guaranteed per-pupil or per-teacher funding (37 States)	AK, AL, AZ, AR, CA, CT, CO, DE, FL, ID, IN, IA, KS, ME, MA, MI, MN, MS, MO, NE, NV, NH, NJ, **NM**, NY, ND, OH, OR, PA, RI, SC, SD, TN, VA, WA, WV, WY
District equalization system, varies state funding based on local tax rates (two states)	VT, WI
Full state funding (one state)	HI
Flat state grant per-pupil (one state)	NC
Combination/tiered system (nine states)	GA, IL, KY, LA, MT, MD, OK, TX, UT

Source: Verstegen, D.A. (2014). *How do States Pay for Schools? Update of 50-State Survey of Finance Policies and Programs.* University of Nevada, Reno.

Table 2: Common Models for Studying Public Education Funding Adequacy	
Evidence-Based Model	Identifies evidence-based successful educational practices and estimates the costs of scaling up those practices statewide
Professional Judgment Model	Asks groups of education stakeholders to design model schools and then estimates the costs of creating those schools
Successful School District Model	Examines the expenditures of high performing school districts, or schools, and then estimates the costs of replicating their practices across all school districts or schools

Source: Education Commission of the States (2007) *A Survey of Finance Adequacy Studies*

Funding Formula History

New Mexico's public education funding formula is a national model for equitable public school funding. Prior to the 1970s, most states funded public school operations primarily through local property tax revenues. Funding of public school operations in this manner created financial inequities among school districts due to differences in local property wealth. New Mexico was one of the first states in the nation to adopt a public school finance system where public school operations were primarily funded at the state level. The New Mexico funding formula, enacted in 1974, uses a model designed by the federal National Education Finance Project during the late 1960s and early 1970s. As of 2014, 37 states had a public school finance system like New Mexico where the state provides a guaranteed per-pupil or per-teacher foundational level of funding for public schools.

New Mexico provides more state funding for public education than most states. While many states have adopted foundation programs, many continue to rely on local property taxes for public education funding. In such states, schools in property-rich areas typically receive more funding than schools in property-poor areas. According to data from the U.S. Census Bureau, New Mexico ranks 5th highest in the percentage of total public school revenue from state sources.

Recent Funding Formula Studies

The New Mexico funding formula has been the subject of continual study and revision since its inception in 1974. Funding formula statutes have been modified over 80 times. Three major studies have examined the funding formula since 2005: a 2008 American Institute of Research (AIR) study, the 2011 joint LFC/LESC program evaluation, and a 2012 study commissioned by the J.F. Maddox Foundation, a Lea County education non-profit. Although the studies differed in purpose and scope, all three identified similar issues regarding the formula's T&E index, special education components, school size adjustments, and overall complexity. The studies made overlapping recommendations to address these issues (Appendix A).

In 2005, the Legislature established a Funding Formula Task Force, appointed by the Legislative Council and governor. The task force contracted with AIR in 2006 to estimate the costs of a sufficient education system and revise the formula. AIR and the task force submitted their final reports to the Legislature in 2008. In addition to proposing formula changes, the 2008 AIR study conducted a professional judgment assessment (Table 2) of the sufficiency of New Mexico education funding, that recommended a 14.5 percent, or $335.7 million, increase. The 2011 LFC/LESC evaluation examined many of the AIR's recommendations while also identifying new formula issues.

In 2012, the J.F. Maddox Foundation of Hobbs, New Mexico commissioned researchers from Syracuse University to assess how different formula components affect the funding for the Hobbs Municipal School District. The Maddox Foundation study proposed formula changes which would have yielded a 7.5 percent increase in per-pupil formula funding for Hobbs.

New Mexico still needs significant changes to its public education funding formula.

Although the Legislature passed important funding formula changes, more is needed to modernize the formula. Recent laws were enacted to improve the formula's equity, such as increasing funding for at-risk students, creating a new formula component for micro-sized school districts with fewer than 200 students, and taking the same credit for Impact Aid (federal funding for school districts impacted by tax-exempt federal property) for state-chartered charter schools and school districts (Table 3). The Legislature also passed bills during the 2017 regular session to reform the training and experience (T&E) index (Senate Bill 30) and prevent the double-counting of certain students (Senate Bill 39). Both bills were vetoed (Appendix B). Despite these legislative efforts, more changes are needed to enhance equity, more accurately reflect educational cost differences, and reduce gaming of the formula for additional funding.

Table 3: Legislative Funding Formula Changes since 2012

Laws 2017, Chapter 78 (Senate Bill 135)	Takes credit for state-chartered charter schools' Impact Aid
Laws 2014, Chapter 55 (House Bill 19)	Increased the at-risk cost differential from 0.0915 to 0.106 increasing at-risk funding
Laws 2014, Chapter 57 (House Bill 35)	Created a new formula component providing additional units to school districts with a total student membership (MEM) of less than 200
Laws 2014, Chapter 61 (Senate Bill 153)	Disallowed school districts from including home school student program units in their T&E index
Laws 2013, Chapter 113 (Senate Bill 302)	Created new components allowing public schools to generate program units for home and charter school students taking classes at public schools
Laws 2012, Chapter 23 (House Bill 109)	Modified the home school student activities unit calculation to include all student activities instead of just athletics

Sources: LFC, LESC, and LCS Files

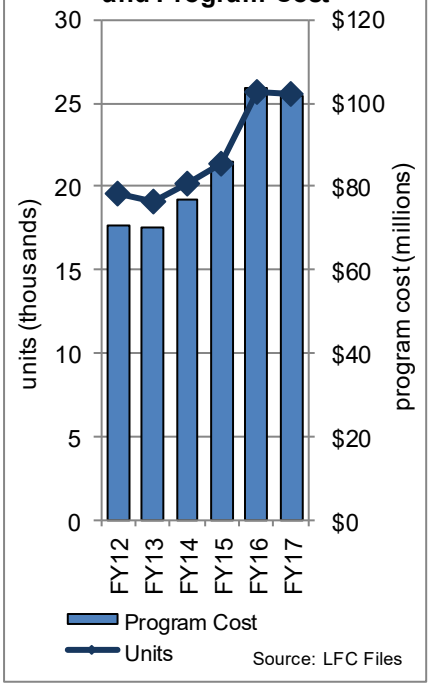
At-Risk Index

Changes enacted by the Legislature in 2014 increased funding for at-risk students. The formula identifies at-risk students through income, English proficiency, and mobility. The formula multiplies each school district's and charter school's three-year average rate of at-risk students by a cost differential to calculate an at-risk index value. The school district's or charter school's at-risk index value is then multiplied by the school district's or charter school's entire student "membership", or MEM, an average of the 80th- and 120th-day enrollment, to generate units.

The Legislature, to address educational equity, increased the at-risk cost differential and funding for at-risk students. In 2014, the Legislature increased the at-risk cost differential from 0.0915 to 0.106, which substantially increased the funding provided for at-risk students. After becoming effective in FY16, at-risk units increased by 20 percent (4,242 units) over FY15 and program cost funding for at-risk students increased by 21 percent ($17.7 million). Raising the at-risk cost differential in FY16 to 0.106 generated 3,511 more at-risk units ($14.2 million in program cost). At-risk units have also grown as a proportion of total formula units from 3.1 percent in FY12 to 4 percent in FY17.

New Mexico's cost differential for at-risk students is still relatively low when compared with the at-risk cost differentials of other states. The 2011 LFC/LESC evaluation recommended increasing New Mexico's at-risk cost differential to 0.15. A follow up review of the states studied in the 2011 evaluation indicates New Mexico's cost differential for at-risk students still remains comparatively low even with the 2016 increase (Appendix C). The 2011 evaluation's recommendation for an at-risk cost differential of 0.15 is still valid. During the 2017 regular session, the Legislature passed but the governor vetoed Senate Bill 30, which included language to increase the at-risk cost differential from 0.106 to 0.15.

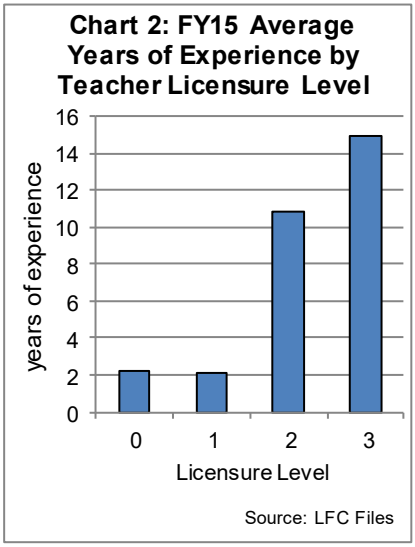
Chart 1: At-Risk Units and Program Cost

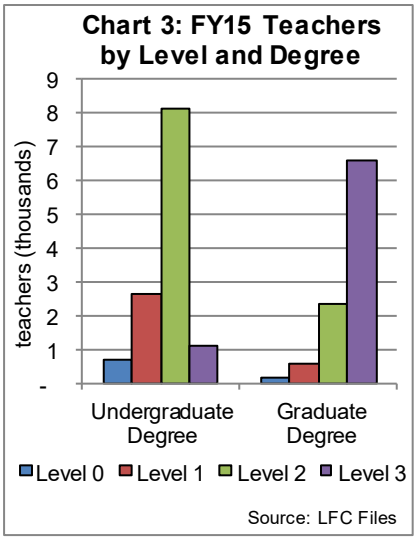


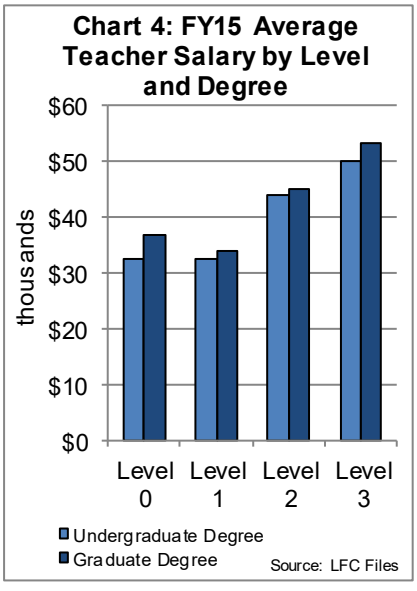
Source: LFC Files

Training and Experience Index

The training and experience (T&E) index is a staffing cost multiplier that provides additional funding to school districts and charter schools for teachers with higher academic credentials and years of experience. The School Personnel Act defines minimum salaries for teachers at each licensure level within the state's three-tiered licensure system. The T&E index still remains unchanged almost 15 years after the







three-tiered licensure system was enacted. The T&E index has some alignment with the licensure system: In FY15, teachers with higher licensure levels had higher average levels of experience and the majority of teachers with a graduate degree had level three licensure. However, teacher salary is determined more by licensure level than by highest academic degree, which makes it problematic for school districts and charter schools that the T&E index is not aligned to the teacher licensure system and school salary needs.

During the 2017 regular session, the Legislature passed and the governor vetoed Senate Bill 30, which replaced the T&E index with an index aligned with the teacher licensure system. The 2011 evaluation recommended replacing the T&E index with an index based on teacher licensure levels. Senate Bill 30 proposed amending the T&E index to include weights based on both teacher licensure levels and years of experience. Senate Bill 30 was formally endorsed by both LFC and LESC.

The T&E index, as currently structured, favors school districts and charter schools able to afford more experienced staff and discretionary programs, which poses equity issues. Under current law, a school district's or charter school's T&E index acts as a multiplier not only for basic program units, but also for special education, bilingual education, elementary fine arts, and elementary physical education program units. Multiplying the units for these programs by the T&E index has a substantial fiscal impact. In FY17, including these units in the T&E calculation accounted for an additional 10,509 units and $41.8 million in program cost. The costs associated with these programs are funded by other formula components, but the additional funding from the T&E index provides school districts and charter schools with a high T&E index with more resources to recruit and retain experienced teachers. Senate Bill 30 multiplied the T&E index by only basic program units, reducing the impact T&E has on funding formula distribution. The Legislature should consider similar legislation during the 2018 session.

Size Adjustment Units

Charter schools receive size adjustment funding even though state statute does not authorize charter schools to receive size adjustments. Statutory language states only school districts are entitled to size adjustment units; however, PED has allowed charter schools to generate size adjustment units. Section 22-8-23 NMSA 1978 prohibits schools established to provide "special programs, including but not limited to vocational and alternative education," from generating size adjustment units. Charter schools could be interpreted as being special programs based on the purpose of the Charter Schools Act (Section 22-8B-3 NMSA 1978) "to enable individual schools to structure their educational curriculum to encourage the use of different and innovative teaching methods,". Although school districts receive more school size adjustments units than charter schools, school size adjustments have a greater impact on charter schools. In FY17, charter schools generated 32.5 percent and school districts generated 67.5 percent of total size adjustment units. Size adjustment units accounted for more than 30 percent of total FY17 units for 24 of New Mexico's 99 charter schools and three of 89 school districts.

School size adjustments may incentivize, rather than just alleviate, inefficiencies of scale. Schools can share facilities, or a campus, with another school and also receive small school size adjustment units. Fiscal year 2018 preliminary school size adjustment data indicate that 15 schools adjacent to, or sharing a facility with, another school of the same grade level will generate around

627 school size units and $2.5 million in program cost (Appendix D). For example, Lovington Freshman Academy generates small school size adjustment units and operates in the same location as Lovington High School. Arrowhead Park Medical Academy and Arrowhead Park Early College High School share the same campus and generate size adjustment units. Estancia Lower Elementary and Van Stone Elementary are both adjacent to Estancia Upper Elementary and generate small school size adjustment units.

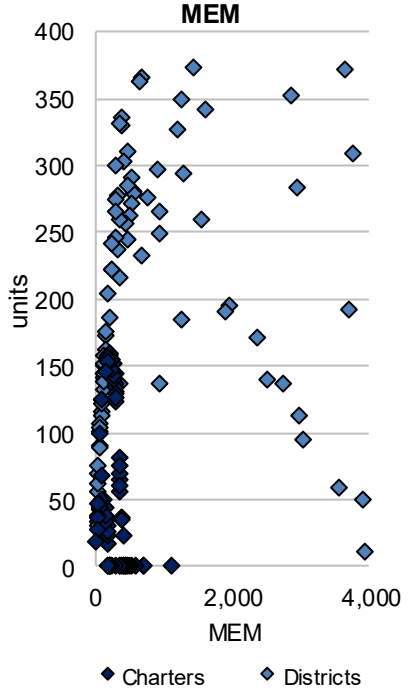
Size adjustment formula components, in the aggregate, do not efficiently direct funds to school districts with low enrollment. School districts with less than 2,000 MEM generated only 54 percent of total size adjustment units in FY17, indicating a weak relationship between a school district's MEM and the number of size adjustment units it receives. The 2011 evaluation recommended replacing the current size adjustment components with a revised school district size adjustment component that efficiently directs funding to districts with low MEM. Chart 5 shows the current relationship between MEM and size units for school districts and charter schools with fewer than 4,000 MEM. Seventy four out of 89 school districts, or 83 percent, had fewer than 4,000 MEM. Chart 6 shows the relationship between FY17 district MEM and size units using a hypothetical district size adjustment generating units based solely on district MEM.

Since FY10, the 10 largest school districts have seen the number of size adjustment units nearly double from 1,365 to 2,622, and they will receive $10.6 million in size funding based on the preliminary FY18 unit value. In FY10, Gallup-McKinley County School District received more than 80 percent of the size adjustment program units generated by large school districts, mostly in the form of units designed to compensate a large, rural school district. However, by FY18, Gallup received fewer size adjustment program units, while seven other large school districts saw a 485 percent increase in the number of size units generated. While two large school districts continue to receive no size funding, three school districts that did not receive size funding in FY10 will generate additional units in FY18 (Appendix E).

The number of size adjustments units claimed by large school districts has been growing and much of the growth comes from high schools offering special programs such as early college high schools, magnet schools, or credit recovery programs. Similar to charter schools, statute appears to preclude these schools from generating size adjustment program units, but PED considers these schools to be eligible. PED continues to request initiative funding to open new early college high schools. In FY18, school-district-operated early college high schools and other special programs will generate $6.2 million in size adjustment funding, based on the FY18 initial unit value (Appendix F).

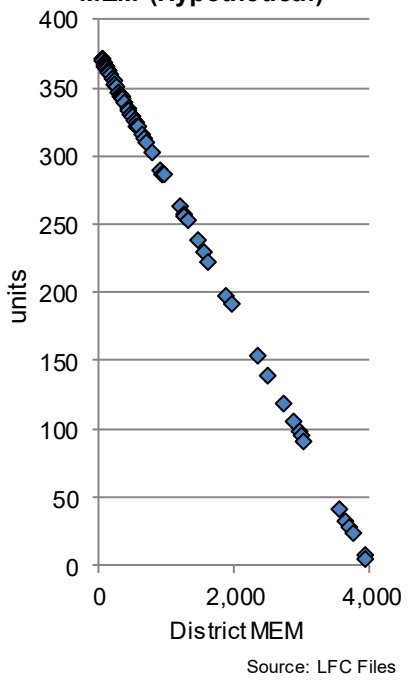
The Legislature should consider either discontinuing or revising the rural isolation component since it has not generated any units since FY11. Rural isolation units are generated by the number of senior high schools ineligible for small school size units in school districts with over 10,000 MEM and a MEM to senior high school ratio of 4,000:1. The rural isolation formula component generated zero units for school districts and charter schools from FY12 through FY17. The Gallup-McKinley County School District was the only entity to generate rural isolation units (29 units) in FY11. The 2011 evaluation recommended discontinuing the rural isolation component. However, the Legislature should also consider revising the rural isolation component to better assist school districts ineligible for size adjustments but have isolated schools.

Chart 5: FY17 MEM and Size Units for Districts and Charters with <4,000 MEM

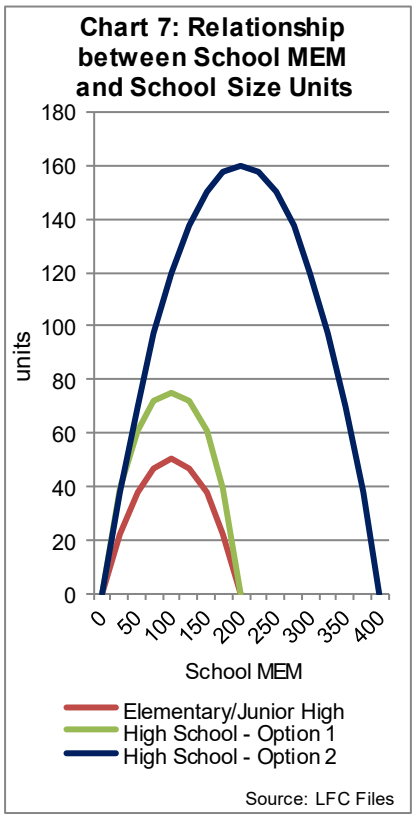


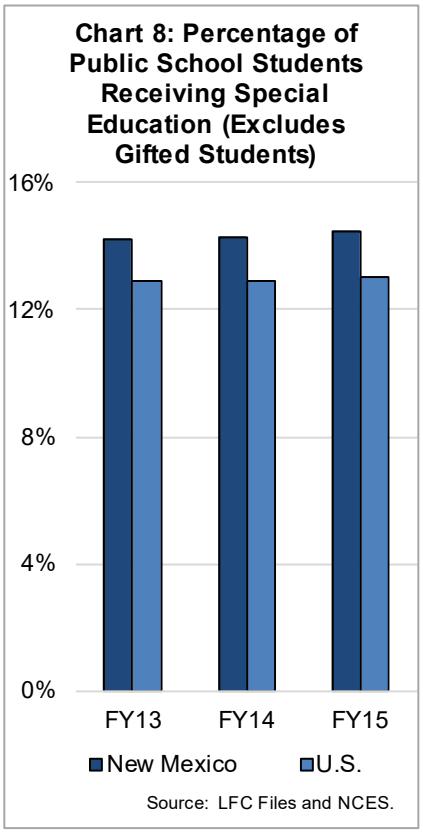
Source: LFC Files

Chart 6: FY17 District MEM and Size Units for Districts with <4,000 MEM (Hypothetical)



Source: LFC Files





Special Education

Formula funding for special education is based on headcount, which potentially encourages over-identification and discourages investment in early interventions. New Mexico has a higher proportion of its public school students in special education than the U.S. as a whole. Based on formula data and a 2017 report from the National Center for Education Statistics (NCES), the proportion of public school students with disabilities was 14.4 percent in New Mexico and 13 percent in the U.S. in FY15. The 2011 LFC/LESC formula evaluation and a 2013 LFC special education evaluation recommended funding special education according to a census-based identification rate, which assumes all school districts and charter schools have the same proportion of special education students. According to a 2015 Education Commission of the States report, six states (Alabama, Alaska, California, Idaho, Massachusetts, and New Jersey) use a census-based funding approach for special education programs.

Funding formula components for special education are not aligned with federal expectations of state funding of special education. To qualify for special education funding under the federal Individuals with Disabilities Education Act (IDEA), states must make available special education funding that is greater than or equal to the amount made available in the prior year, called maintenance-of-effort. But since 2004, intervention models made possible by IDEA have prevented some students from needing higher levels of service, which are more heavily weighted in the funding formula, adding to the state's failure to meet federal maintenance-of-effect (MOE) requirements in certain years. Shifting to a census-based funding approach for special education may reduce MOE challenges due to falling D-level MEM, but further study is needed before the Legislature should consider a census-based funding approach.

Growth Units

School districts and charter schools receive growth units for annual enrollment growth at or above one percent. Charter schools can easily generate growth units due to planned enrollment and small school sizes. In FY17, 79 percent of growth units were generated by state-chartered charter schools (63 percent) and locally chartered charter schools (16 percent). From FY12 through FY17, state-chartered charter schools had greater MEM increases and generated more growth units than school districts or locally chartered charter schools. Charter schools have an advantage in generating growth units because most charter schools have fewer than 200 students and can achieve at least one percent enrollment growth more easily than a school district. The 2011 evaluation recommended funding charter school growth through a categorical program instead of growth units.

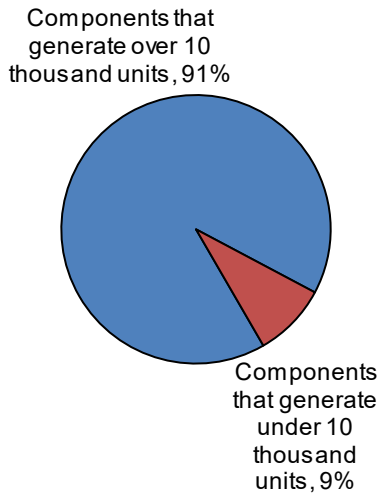
During the 2017 regular session, the Legislature removed language historically included in the General Appropriation Act (GAA) that allowed some charter schools to receive double funding for first year programs. Newly created programs will no longer receive funding in their first year. Typically, school districts and charter schools generate program units based on prior-year enrollment. Language historically included in the GAA allowed school districts and charter schools beginning a "new formula-based program" to generate funding based on current enrollment because no prior-year enrollment existed. Under both the current and last administration, charter schools that are phasing in new grade levels have been allowed to generate additional basic program units while also generating enrollment growth program units for those same students. In previous years, the

Legislature attempted to close this loophole, but language in the GAA eliminating the double funding was line-item vetoed or not implemented with fidelity. Further, legislation passed during the 2017 regular session (Senate Bill 39) to prohibit the double funding of first year programs in statute was vetoed.

Formula Complexity

The formula has many components that generate few units, making the formula unnecessarily complex. The majority of formula components generate a small proportion of the formula's total units. In FY17, 17 of the formula's 28 components generated fewer than 10 thousand units out of 630,921 units (Appendix G). The 17 components together account for 9 percent of total units (Chart 9). The 2011 formula evaluation recommended discontinuing formula components that do not generate a significant number of units or fund statewide programs. The evaluation noted discontinuing smaller components would reduce the complexity and cost of administering the formula.

Chart 9: FY17 Formula Units



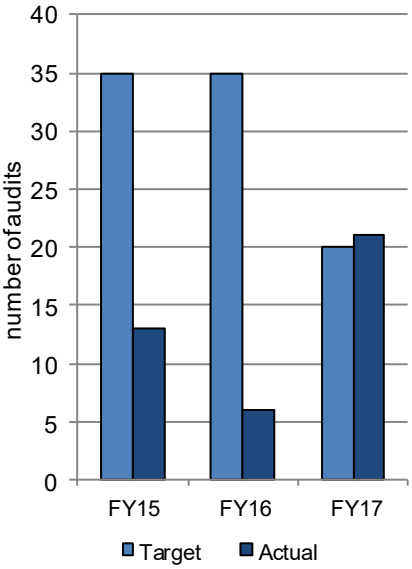
Source: LFC Files

PED has enhanced its administration and oversight of the formula but could improve further.

Formula Audits

PED has improved its audit function since 2011, but very few school districts and charter schools have their formula data audited each year. The 2011 formula evaluation recommended that PED form a new audit group of sufficient size and skill to conduct formula data audits according to commonly accepted auditing standards. PED created a new audit group in 2011 comprising of four full-time equivalent (FTE) employees responsible for conducting financial oversight audits, T&E data audits, and special audits. The audit group focuses on T&E index data since the data for other formula components are reviewed by different PED bureaus. PED adjusts T&E index values based on the results of its data audits. In FY17, the audit group completed 21 formula data audits, a notable improvement from the six audits completed in FY16 (Chart 10).

Chart 10: PED Funding Formula Data Validation Audits

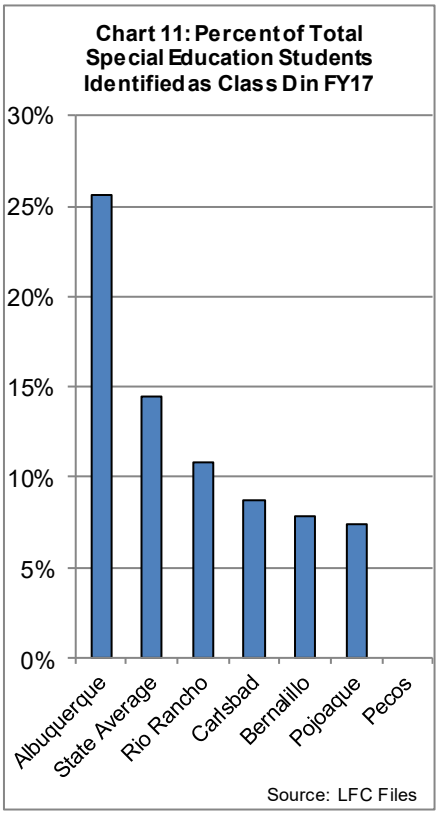


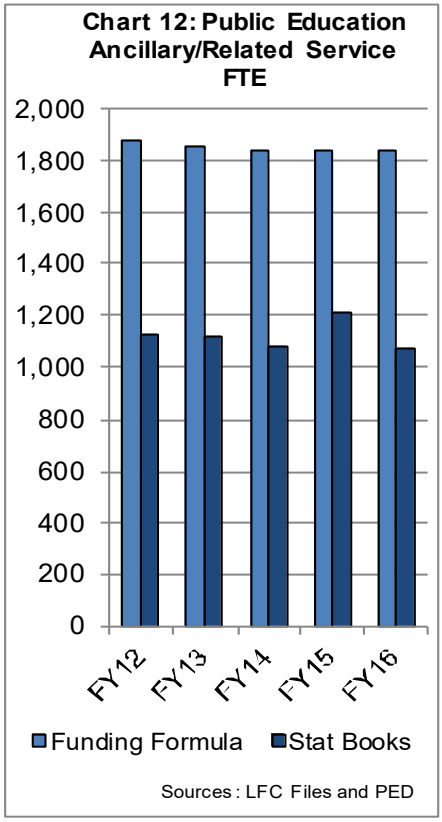
Source: LFC Files

PED data validation audits and associated training appear to have reduced the number of incorrect files identified during T&E audits. T&E audit findings commonly identify missing or incomplete documentation regarding teacher licensure, experience, or employment contracts. In 2011, 54 percent of files in the PED auditor's sample were identified as incorrect. According to the FY16 audit reports reviewed by legislative staff, that number has fallen to 32 percent, possibly due to increased education of school district and charter school business staff. In 2012, PED posted a draft audit manual on its website. PED audit group staff have also conducted presentations for school business officials on common errors that lead to audit findings.

Identifying English Learners

New Mexico policies and procedures for identifying English learner (EL) students are more standardized statewide than in 2011 due to PED's development of a standardized home language usage survey in multiple languages and guidance materials for public school staff. Federal law requires states to assess EL students using valid and reliable assessments (20 U.S.C. §6311). The 2011 formula





evaluation noted inconsistencies among the home language surveys school districts used to identify students' potential EL status. The 2011 evaluation stated such inconsistencies could impact the validity and reliability of the surveys. The federal Every Student Succeeds Act (ESSA) of 2015 requires states to adopt statewide standardized criteria for identifying and assessing EL students.

Special Education Regulations

PED rules set ambiguous service time thresholds for C- and D-level special education students, which impacts the consistency of special education identification and funding. A special education student's individualized education plan (IEP) team classifies a student as A-, B-, C-, or D-level based on the necessary special education service time the student requires. The proportion of total special education students identified as D-level varies widely across school districts and charter schools, which suggests inconsistent identification practices. In FY17, the percentage of total special education students identified as D-level across school districts and charter schools ranged from 0 percent to 30 percent. PED rules set clear service time thresholds for A- and B-level students but less clear thresholds for C-level students (50 percent of the school day or more) and D-level students (approaching a full school day).

Inconsistent definitions and reporting of ancillary service personnel could impact the equity and transparency of special education funding. The 2011 formula evaluation noted PED defines ancillary service positions differently across its guidance materials, which could lead to the inconsistent classification of ancillary service personnel across public schools. PED has not changed these definitions in its technical manuals and administrative code (Appendix H). PED's operating budget management system (OBMS) reports on the funding for contracted ancillary services staff but does not list FTE for contracted staff. In FY17, 42 percent of formula-funded ancillary service FTE were contract FTE and not listed in the PED OBMS or financial statistics books.

PED regulations do not establish clear caseload minimums for special education ancillary and related-service personnel. The 2011 evaluation recommended PED promulgate rules establishing consistent caseload minimums for special education ancillary and related-service personnel. Subsection I of Section 6.29.1.9 NMAC sets maximum caseload ratios of ancillary service providers to the number and classification of special education students. This section of rule does not set minimum caseload requirements. Inconsistent minimum caseloads for ancillary and related-service personnel impacts formula equity.

Elementary Physical Education

Elementary physical education program funding does not reflect elementary physical education enrollment. When adding the elementary physical education component to the funding formula, the component was to be phased in as funding became available. The Legislature funded additional program units in FY07 and FY08, but since that time no additional money has been added. An estimated $23 million to $29 million would be required to fully fund elementary physical education units. Due to the phase-in, the number of elementary physical education program units generated by the same 55 school districts and two charter schools has remained constant from FY09 through FY17. As a result, school districts that have lost enrollment are currently being funded for more

elementary physical education students than are enrolled, resulting in $300 thousand to $800 thousand in excess funding.

Early Childhood Education

Research shows the positive effects of early childhood education on student academic achievement. The Legislature funds K-3 Plus and prekindergarten early childhood education programs through line-item appropriations separate from the funding formula. PED distributes the funding for these programs to school districts and charter schools within the parameters of statutory requirements. As the demand for and participation in early childhood education has grown in recent years, the Legislature should consider studying the feasibility of funding early childhood education programs statewide through the funding formula.

Updated Recommendations

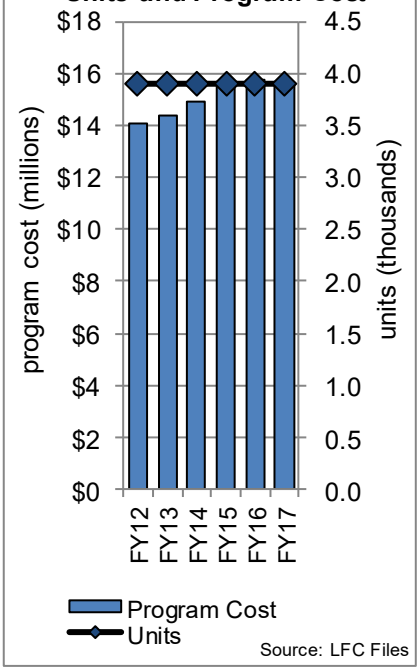
The Legislature should consider the following recommendations:

- Increase the at-risk index cost differential from 0.106 to 0.15,
- Replace the current T&E index with an index aligned with the state's three-tiered licensure system that acts as a multiplier for basic program units only,
- Replace current size adjustments with a revised district size adjustment,
- Study the feasibility of funding special education based on a census rate,
- Phase out growth units for charter schools and create a categorical program to fund first year charter schools and annual charter growth,
- Remove small formula components that historically have generated fewer than 10 thousand units,
- Change language in the GAA to ensure school districts and charter schools generating elementary physical education program units are funded based on actual enrollment,
- Study the feasibility of funding K-3 Plus and prekindergarten as categorical programs or funding formula components.

PED should consider the following recommendations:

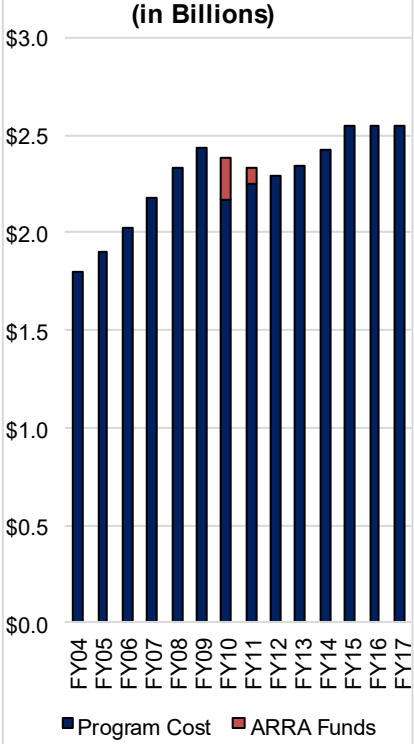
- Increase the number of data validation audits completed each year,
- Publish and archive completed formula data audits online,
- Promulgate rules clarifying the service time thresholds needed to classify a student as a C- or D-level special education student,
- Define ancillary service personnel consistently in all guidance materials,
- Set caseload minimums for ancillary service providers based on the number and classification level of special education students.

Chart 13: Elementary Physical Education Units and Program Cost



Source: LFC Files

Chart 14: New Mexico Public School Funding (in Billions)



Source: LFC Files

Status of Key Recommendations

Finding: New Mexico needs to update the public school funding formula to ensure efficient allocation of resources aligned with recent education policy.

Recommendation	Status			Comments
	No Action	Progressing	Complete	
The Legislature should consider eliminating components that generate few units or are not funding statewide programs.		✓		In FY17, over half of the formula's components generated fewer than 10,000 units out of 630,921 total units.
The Legislature should consider adjusting the at-risk index to pay a cost differential of 0.15 for the percentage of districts' students identified as eligible for the free and reduced lunch program.		✓		Laws 2014, Chapter 55 (House Bill 19) increased the funding for educating at-risk students by increasing the at-risk cost differential from 0.0915 to 0.106.
The Legislature should consider changing bilingual funding to direct a cost differential of 0.15 toward EL students statewide.	✓			EL students are counted in the formula's at-risk index calculation along with Title I eligible and highly mobile students.
The Legislature should consider replacing the T&E index with an "effective" teacher index that multiplies grade-level program units with the following values corresponding to licensure: level 1 – 0.75, level 2 – 1, and level 3 – 1.25.		✓		During the 2017 regular session, the Legislature passed Senate Bill 30 which would have established a Teacher Cost Index (TCI) aligned with the state's three-tiered teacher licensure and salary system. Senate Bill 30 was vetoed.
The Legislature should consider repealing all current size adjustment components of the formula and create a new district size adjustment that institutes a new formula using the current size unit allocation to districts.	✓			The funding formula has the following size adjustment components: elementary/junior high school size adjustments, senior high school size adjustments, district size adjustments, micro district size adjustments, and rural isolation size adjustments.
The Legislature should consider moving to a census-based special education funding model that funds districts for serving 16 percent of district students at a cost differential of two.	✓			No changes have been made to the special education components of the funding formula. Special education maintenance of effort requirements would need to be considered.
The Legislature should consider phasing out growth units for charter schools and create a categorical funding program to fund 1st year charter schools and charter school growth.	✓			In FY17, 79 percent of growth units were generated by state-chartered charter schools (63 percent) and locally chartered charter schools (16 percent).

Finding: A lack of clear PED guidance results in inconsistent funding of districts and charter schools.

Recommendation	Status			Comments
	No Action	Progressing	Complete	
PED should develop a written methodology to determine the initial unit value and a succession plan for those currently determining the value.				PED has not published a written methodology regarding how the initial unit value is determined. PED has stated that it has an succession plan for those determining the unit value.
PED should count only instructional staff in the T&E index calculation as defined in the PED *Uniform Chart of Accounts Manual*, excluding all instructional support providers (related-service and ancillary staff).				The PED *Uniform Chart of Accounts* (UCOA) categorizes teachers as being instructional staff and defines ancillary/related-service as student support services staff. Section 22-1-2.F NMSA 1978 defines certain ancillary and related-service personnel as instructional support providers.
PED should work with the Legislature on a consistent definition of a half year of experience as it relates to the T&E index so that years of experience are counted consistently and accurately across districts and charters.				PED's current *Manual for the Calculation of the T&E Index* (T&E index manual) states that school districts and charters may choose to round up a half year of experience based on local school district and charter school salary schedules.
PED should discourage policies requiring employees who are counted in the T&E index to earn master's degrees.				PED has not promulgated rules or published guidance discouraging local policies requiring employees counted in the T&E index to earn a master's degree.
Promulgate a rule to clarify the definition of instructional positions for use in the T&E calculation index.				The PED *Public School Accounting and Budgeting* (PSAB) manual and the T&E index manual define 18 job codes within the UCOA as instructional for the T&E index. These job codes include teachers, nurses, special education ancillary staff, and instructional support staff. The UCOA itself categorizes teacher job codes as instructional staff and defines nurses and ancillary job codes as student support staff.
Promulgate requirements for districts to follow for reporting funding formula data that include identifying the procedures for having records of official transcripts and procedures for verification of staff experience for the T&E calculation.				PED has not promulgated rules for the reporting of funding formula data. PED's T&E index manual provides guidance on training and experience verification and recordkeeping.

Finding: A lack of clear PED guidance results in inconsistent funding of districts and charter schools.

Recommendation	Status			Comments
	No Action	Progressing	Complete	
PED should develop a reliable and valid survey instrument for identifying primary home language other than English (PHLOTE).				The PED developed a standardized home language usage survey in multiple languages and guidance materials for public school staff.
PED should implement a home language survey for use by all districts and charters that is valid, reliable, and developed in accordance with state and federal guidelines.				See comment above.
PED should require that districts and charters develop and describe specific procedures to ensure that all students who have a PHLOTE are identified at school.				PED developed standardized policies and criteria for EL identification.
PED should create a rule that institutes a process for approving public schools to be included in formula calculations that ensures the necessity of those schools.				Subsection G of 6.29.1.9 NMAC requires PED approval of all district requests to open or close schools. The criteria for determining the necessity of a school is not defined in rule or law.
PED should create a rule that defines the percentage of service time needed to classify a student as a class A, B, C, and D-level special education student.				Section 22-8-21 NMSA 1978 defines A, B, C, and D programs for students requiring minimum, moderate, extensive, and maximum amounts of special education. Subsection I of 6.29.1.9 NMAC ties these identifications to specific service time percentages except for D-level programs which are defined as “approaching a full day”.
PED should set ratios for the amount of ancillary service providers to the number and classification level of special education students, as permitted by statute.				Subsection I of 6.29.1.9 NMAC sets maximum caseload ratios of ancillary service providers to the number and classification of special education students. This section of rule does not set minimum caseload requirements.
PED should delay implementing any change in funding to school districts for “speech-only” students until the Legislature has addressed this issue.				Statute does not define developmentally delayed as developmentally disabled. PED guidance allows speech delayed children to be counted as class A or B special education students.
PED should notify all districts and charters of the statutory requirement regarding identification of developmentally delayed children to include both standardized testing criteria and professional judgment because differing practices regarding this guidance exist.				The PED 2017 New Mexico Technical Evaluation and Assessment Manual (NM TEAM) notes that the classification of developmentally delayed requires standardized testing criteria and professional judgment. (p.96)
PED should improve communication with districts and charters to ensure that appropriate staff receives updated or changed guidance.				The PED 2017 Spring Budget Workshop included guidance presentations on operating budget preparation, T&E reporting, and formula audits.

Finding: The PED does not have a sufficient program audit function to ensure that district and charter funding formula data is consistent with rule and statute.

Recommendation	Status			Comments
	No Action	Progressing	Complete	
PED should develop a new audit unit of sufficient size and skill to meet current administrative requirements for responsibly administering the funding formula.				PED has an Accounting & Audit Bureau within its Administrative Services Division. The audit group consists of 4 FTE. PED completed 13 audits in FY15, 6 audits in FY16, and 21 audits in FY17.
PED should develop a new audit unit that reports directly to the Secretary and follows commonly accepted auditing standards, including holding entrance and exit conferences.				PED has an Accounting & Audit Bureau within its Administrative Services Division. PED has posted a draft audit manual on its website which contains commonly accepted auditing standards such as entrance and exit conferences.

Appendix A: Recent Funding Formula Studies with Recommended Formula Changes

Formula Component	American Institute of Research (2008)	LFC/LESC Formula Evaluation (2011)	J.F. Maddox Foundation (2012)
Grade Level Weights	Cost differential weights of 1.15 for grades K-5, 1.02 for grades 6-8,and 1.0 for grades 9-12.	No change	Cost differential weight of 1.2 for grades 7-12.
Special Education	Census based special education identification rate of 16 percent of students multiplied by a cost differential weight of 1.723.	Census based special education identification rate of 16 percent of students multiplied by a cost differential weight of 2.0.	Census based special education identification rate of 16 percent of students multiplied by a cost differential weight of 2.0
Bilingual Program	Replace with an EL component	Replace with an EL component	Replace with an EL component
Fine Arts	Remove	Remove	Remove
P.E.	Remove	Remove	Remove
Growth	Remove growth units and instead fund districts and schools on the larger pupil count of either the prior year's 80th and 120th day average enrollment or the current year's 40th day enrollment.	Phase out growth units for charters; create a categorical funding program to fund first year charters and annual charter growth.	Repeal growth units for charters.
Training & Experience (T&E) Index	Replace with an "Index of Staff Qualifications" (ISQ) based on teacher licensure, academic credentials, and years of experience.	Replace with an "Effective Teacher Index" based on teacher licensure level.	Remove
National Board Cert.	Remove and fund through a categorical program.	No change	No change
Home/Charter School Activities	Remove	Remove	Remove
Size Adjustments	Replace all size adjustments with a set of enrollment size cost differential weights for school districts and a separate set of weights for charters schools.	Replace all size adjustments with a new district size adjustment based on the total current size unit allocation to districts.	Use the enrollment size cost differential weights for school districts from the American Institute of Research (AIR) 2008 study factor. Remove size adjustments for charters.

Source: LFC and LESC Files

Appendix B: Funding Formula Legislation, 2012 through 2017

Legislative Session	Bill Number	Bill Title	Bill Location
2012 Regular Session	HB129	Home School Student Program Units Calculation	Laws 2012, Chapter 23
	HB228	New Public School Funding Formula	API
	HB229	Public School Funding Formula Changes	API
	SB112	"School-Age Person" Definition	API
2013 Regular Session	HB158	School Performance-Based Budgeting	API
	HB192	School Program Units for Certain Personnel	Vetoed
	HB245	Stop Some Indian Impact Aid Credits	API
	HB302	Home & Charter School Student Program Units	Laws 2013, Chapter 113
	HB459	Special Education Equalization Guarantee	API
	HB523	School State-Support Reserve Reimbursement	API
	SB165	School Finance Units for Small Districts	API
	SB325	Stop Some Indian Impact Aid Credits	API
	SB359	School Employee Program Units	API
	SB378	K-3 Plus Equalization Guarantee Distribution	API
	SB379	Vocational Education Funding Differential	API
	SB433	Public School Physical Education & Funding	API
2014 Regular Session	HB13	School Equalization Guarantee "Local Revenue"	API
	HB19	Update School Finance At-Risk Index	Laws 2014, Chapter 55
	HB35	Additional Funding Units for Some Schools	Laws 2014, Chapter 57
	HB37	Equalization Distribution to Certain Schools	API
	HB122	Licensed School Employee Program Units	API
	HB345	School Finance "Local Revenue"	API
	SB153	Home School Program Unit Calculations	Laws 2014, Chapter 61
	SB178	School Equalization Guarantee for P.E.	API
	SB199	Vocational Differential in Funding Formula	API
	SB310	School District "Local Revenue"	API
2015 Regular Session	HB34	Science, Tech, & Math Coach Program Units	API
	HB140	Private School Activities Unit	API
	HB159	Science, Tech, & Math Coach Program Units	API
	HB162	Fed Revenue Deduction for Some Schools	API
	HB173	Additional Funding Formula Units	API
	HB400	Program Units for Certain School Employees	API
	HB417	Size Adjustment Factor for Certain Schools	API
	HB492	Equalization Guarantee & Federal Funds	API
	HB552	School Investment of Public Money	API
	HB579	Minimum School Equalization Distribution	API
	SB102	Private School Activities Program Unit	API
	SB186	Restore Funding Formula Vocational Differential	API
	SB500	Size Adjustment Factor for Certain Schools	API
	SB563	Increase School Hours & Days	API
	SB581	Nat'l Board Certification to T&E	API
	SB602	Equalization Guarantee & Federal Funds	API
	SB640	New Public School Funding Formula	API
2016 Regular Session	HB209	Minimum School Equalization Distribution	API
	SB32	Nat'l Board Certification to Teacher T&E	API
	SB141	Public School Funding Formula Amendments	API
	SB165	School "Current Year MEM" Calculation	API
2017 Regular Session	HB130	School Program Units for School Employees	API
	HB273	Charter School Changes	API
	HB454	Chartering of Virtual Charter Schools	API
	SB30	Establish & Study Teacher Cost Index	Vetoed
	SB39	"Current Year MEM" in School Code	Vetoed
	SB89	School District Size Limits	API
	SB135	Charter Schools in School Districts	Laws 2017, Chapter 78
	SB200	Certified School Employee Program Units	Vetoed
	SB256	K-6 Minimum School Hours & Days	API
	SB279	SEG Size Adjustment Unit Eligibility	API
	SB305	Charter School Equalization Guarantee	API
	SB526	School District Size Adjustment Units	API

Sources: LFC, LESC, and LCS Files
API: Action Postponed Indefinitely

Appendix C: Comparison of State Cost-differentials for At-Risk Students in 2016

State	Additional Funding per At-Risk Student	Change since 2009
Minnesota	60%	10%
Connecticut	33%	5%
Georgia	31%	1%
Missouri	30%	5%
Oregon	25%	-
Vermont	25%	-
Louisiana	22%	3%
Texas	20%	-5%
South Carolina	20%	-5%
Maine	15%	5%
Michigan	12%	-
New Mexico	11%	1%
Hawaii	10%	-
Mississippi	5%	-

Sources: ECS (2016) *The Importance of At-Risk Funding*; Georgia Department of Education (2016) *FY16 FTE Data Collection Program Codes and Weights*.

Appendix D: Preliminary FY18 School Size Adjustment Units for Adjacent Schools

DISTRICT	LOCATION NAME	ADDRESS	FY17 40 DAY ENROLL	FY18 SIZE UNITS	PROGRAM COST
ABQ	DEL NORTE HIGH	5323 Montgomery Blvd. NE Albuquerque, NM 87109	1167	0.0	$0
ABQ	NEX GEN ACADEMY	5325 Montgomery Blvd. NE Albuquerque, NM 87109	341	84.4	$342,018
ESTANCIA	LOWER ELEMENTARY	119 N 7th St., Estancia, NM 87016	51	34.6	$140,249
ESTANCIA	UPPER ELEMENTARY	303 N 7th St., Estancia, NM 87016	236	0.0	$0
ESTANCIA	VAN STONE ELEMENTARY	809 W Joseph, Estancia NM 87016	47	35.1	$142,478
LAS CRUCES	ARROWHEAD PARK MEDICAL ACADEMY	3600 Arrowhead Dr, Las Cruces, NM 88003	179	158.1	$640,720
LAS CRUCES	EARLY COLLEGE HIGH SCHOOL	3600 Arrowhead Drive, Las Cruces, NM 88003	393	18.6	$75,493
LAS VEGAS	LOS NINOS ELEMENTARY	474 Legion Dr, Las Vegas, NM 87701	158	37.5	$152,008
LAS VEGAS	SIERRA VISTA ELEMENTARY	475 Legion Dr, Las Vegas, NM 87701	148	41.0	$166,070
LOVINGTON	LOVINGTON FRESHMAN ACADEMY	701 W. Avenue K, Lovington, NM 88260	275	147.7	$598,624
LOVINGTON	LOVINGTON HIGH	701 W. Avenue K, Lovington, NM 88260	623	0.0	$0
POJOAQUE	POJOAQUE MIDDLE	1574 State Road 502 West Santa Fe, NM 87506	330	0.0	$0
POJOAQUE	SIXTH GRADE ACADEMY	1574 State Road 502 West Santa Fe, NM 87506	155	34.6	$140,249
T OR C	SIERRA ELEMENTARY	1500 N Silver St, Truth or Consequences, NM 87901	157	35.1	$142,478
T OR C	T OR C ELEMENTARY	1500 N Silver St, Truth or Consequences, NM 87901	395	0.0	$0
TOTAL				**626.7**	**$2,540,388**

Sources: PED, PSFA, APS, and Google Maps

Note: If all schools in the same location were combined none of them would generate size adjustment program units.

FY18 Preliminary Unit Value: $4,053.55

Appendix E: Size Adjustment Units for 10 Largest School Districts from FY10 to FY18

School District	FY10 Size Units	FY18 Size Units	Value of FY18 Units	Unit Change
ALBUQUERQUE	2.955	424.540	$1,720,894	421.6
LAS CRUCES	62.324	176.688	$716,214	114.4
RIO RANCHO	0.000	0.000	$0	0.0
GADSDEN	0.000	158.151	$641,073	158.2
SANTA FE	169.804	532.906	$2,160,161	363.1
GALLUP*	1,096.917	1,054.414	$4,274,120	-42.5
FARMINGTON	0.000	95.991	$389,104	96.0
ROSWELL	0.000	130.071	$527,249	130.1
HOBBS	32.889	48.799	$197,809	15.9
LOS LUNAS	0.000	0.000	$0	0.0
TOTAL	**1,364.889**	**2,621.560**	**$10,626,625**	**1,256.7**
STATEWIDE SIZE UNITS	**25,024.210**	**27,948.783**	**$113,291,789**	**2,924.6**
PERCENT OF SIZE UNITS	**5.5%**	**9.4%**		**3.9%**

*Includes Rural Isolation Units

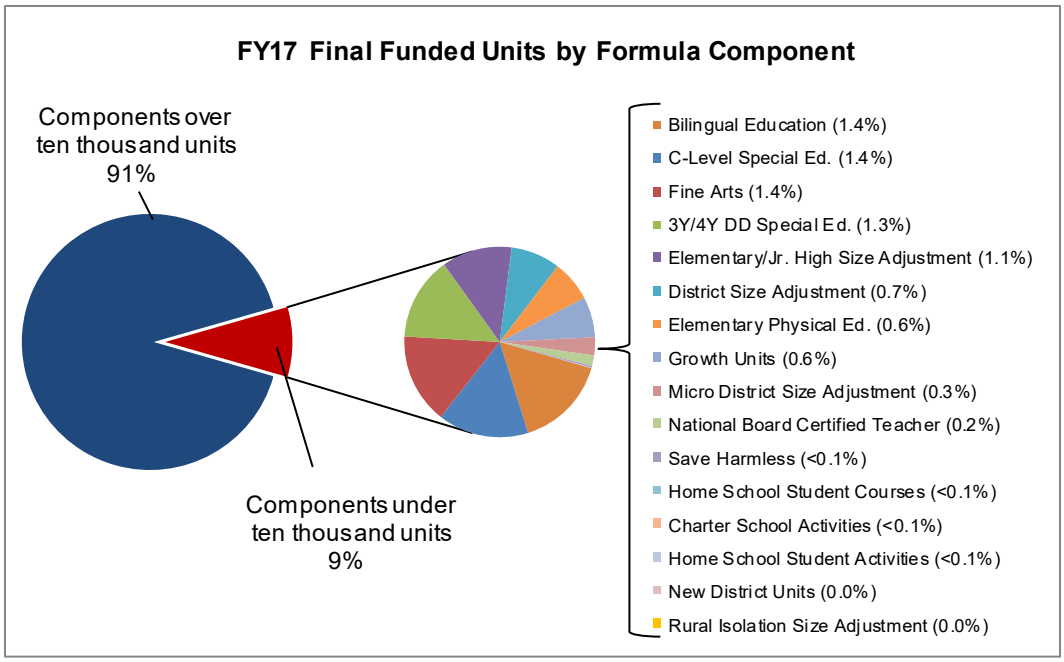
Source: LESC Files

Appendix F: FY18 School District Early College High Schools and Special Programs

School Site	School District	Grades	FY18 Size Units	Value of Units
College & Career High	Albuquerque	10-12	146.311	$593,079
Ecademy Virtual High	Albuquerque	9-12	159.975	$648,467
Nex Gen Academy	Albuquerque	10-12	84.375	$342,018
Carlsbad Early College	Carlsbad	9-11	157.5	$638,434
San Juan College High School	Farmington	9	95.991	$389,104
Alta Vista Early College High School	Gadsden	9-12	158.151	$641,073
Arrow Park Medical	Las Cruces	9-11	158.064	$640,720
Early College High School	Las Cruces	9-12	18.624	$75,493
Early College High	Roswell	9-12	130.071	$527,249
Early College Opportunity	Santa Fe	9-11	144.871	$587,242
Mandela Intermediate Magnet	Santa Fe	7-10	158.400	$642,082
Santa Fe Engage	Santa Fe	9-12	108.016	$437,848
TOTAL			**1,520.349**	**$6,162,811**

Source: LESC Files

Appendix G: FY17 Final Funded Units by Formula Component



Formula Component	FY17 Units	Percentage of Total
Grades 7-12	184,754	29.3%
Grades 4-6	79,829	12.7%
Grades 2-3	63,000	10.0%
Special Ed Ancillary Services	44,497	7.1%
T&E Index	42,286	6.7%
ECE	39,189	6.2%
Grade 1	31,885	5.1%
A/B-Level Special Ed.	30,858	4.9%
At-Risk Index	25,518	4.0%
D-Level Special Ed.	18,587	2.9%
Senior High Size Adjustment	14,479	2.3%
Bilingual Education	8,820	1.4%
C-Level Special Ed.	8,639	1.4%
Elementary Fine Arts	8,585	1.4%
3Y/4Y DD Special Ed.	7,943	1.3%
Elementary/Jr. High Size Adjustment	6,682	1.1%
District Size Adjustment	4,689	0.7%
Elementary Physical Ed.	3,908	0.6%
Growth Units	3,835	0.6%
Micro District Size Adjustment	1,719	0.3%
National Board Certified Teacher	1,013	0.2%
Save Harmless	162	<0.1%
Home School Student Courses	24	<0.1%
Charter School Activities	12	<0.1%
Home School Student Activities	10	<0.1%
D-Level NPTC Special Ed.	0	0.0%
New District Adjustment	0	0.0%
Rural Isolation Size Adjustment	0	0.0%
Grand Total	**630,921**	**100%**

Source: LFC Files

Appendix H: Guidance on Ancillary and Related-Service Positions

PED Definitions of Ancillary Service Providers		
Reference	**Number of Related-Service Positions**	**Reference Section**
SY18 STARS Technical Manual Volume I	12	Staff to be Reported in STARS (p.14)
SY18 STARS Technical Manual Volume II	16	Staff Assignment Descriptions (p.90)
	10	Guidelines for Calculating SEG Funded Related-Services FTE (p.136)
NMAC Title 6, Chapter 63 - Licensure Requirements for Ancillary and Support Personnel	15	Licensure for Instructional Support Providers (6.63.3.7 NMAC)
Uniform Chart of Accounts (UCOA)	9	Job Codes 1311 through 1319 - Ancillary, Diagnostic, and Non-Instructional Special Education Assistants.

Sources: PED and NMAC

Appendix I: Final Formula Units from FY12 through FY17

Funding Formula Component	FY12	FY13	FY14	FY15	FY16	FY17	FY12 to FY17 Change	
							Units	%
At-Risk	19,602	19,067	20,126	21,424	25,667	25,518	5,916	30.2%
A/B-Level Special Ed.	26,775	27,855	28,249	28,963	29,813	30,858	4,083	15.2%
Grades 7-12	181,873	182,556	181,752	182,888	183,978	184,754	2,881	1.6%
Grades 2-3	61,209	61,331	61,178	61,132	62,136	63,000	1,791	2.9%
Micro District Size Adjustment*	-	-	-	1,616	1,669	1,719	1,719	100.0%
Senior High Size Adjustment	13,779	14,165	14,144	14,310	14,670	14,479	700	5.1%
Fine Arts	8,211	8,271	8,341	8,308	8,339	8,585	375	4.6%
National Board Certified Units	680	786	857	941	1,029	1,013	333	49.0%
C-Level Special Ed.	8,563	8,360	8,444	8,572	8,390	8,639	77	0.9%
Home School Student Courses**	-	-	-	21	15	24	24	100.0%
Charter School Activities	3	3	7	7	12	12	9	346.3%
Home School Student Activities	2	3	7	7	8	10	8	395.0%
Elementary Physical Ed.	3,908	3,908	3,908	3,908	3,908	3,908	0	0.0%
Rural Isolation Size Adjustment	0	0	0	0	0	0	0	0.0%
D-Level NPTC Special Ed.	0	0	0	0	0	0	0	0.0%
New District Adjustment	0	0	0	0	0	0	0	0.0%
Elementary/Jr. High Size Adjustment	6,768	6,927	7,001	6,862	6,778	6,682	(87)	-1.3%
Growth Units	3,926	4,386	5,297	6,032	3,991	3,835	(91)	-2.3%
Save Harmless	248	225	213	102	189	162	(86)	-34.8%
Grade 1	32,021	32,032	32,201	32,863	32,575	31,885	(137)	-0.4%
District Size Adjustment	4,880	4,799	4,785	4,733	4,735	4,689	(191)	-3.9%
Grades 4-6	80,203	80,430	79,908	79,265	79,269	79,829	(374)	-0.5%
D-Level Special Ed.	19,337	18,916	18,638	18,058	18,194	18,587	(750)	-3.9%
Bilingual Education	9,776	9,595	9,573	9,431	9,136	8,820	(955)	-9.8%
Special Ed Ancillary Services	46,926	46,254	46,033	45,940	45,921	44,497	(2,429)	-5.2%
ECE	42,638	42,746	43,324	42,960	41,923	39,189	(3,449)	-8.1%
3Y/4Y DD Special Ed.	11,472	8,618	8,050	7,957	7,883	7,943	(3,529)	-30.8%
T&E	54,397	53,727	50,246	47,313	43,963	42,286	(12,111)	-22.3%
Grand Total	**637,195**	**634,960**	**632,281**	**633,612**	**634,190**	**630,921**	**(6,274)**	**-1.0%**

Source: LFC Files

*Established by Laws 2014, Chapter 57.

**Established by Laws 2013, Chapter 113.