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FISCAL IMPACT REPORT

SPONSOR	Herrera/Sariñana/Garratt/Trujillo/Romero, GA	LAST UPDATED	
		ORIGINAL DATE	2/22/23
SHORT TITLE	Study Public School Funding Formula	BILL NUMBER	House Memorial 51
		ANALYST	Liu

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT* (dollars in thousands)

	FY23	FY24	FY25	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		No fiscal impact				

Parentheses () indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Relates to HB130, HB181, HB194, HB199, SB108

Sources of Information

LFC Files
Legislative Education Study Committee (LESC) Files

Responses Received From
Public School Facilities Authority (PSFA)

No Response Received
Public Education Department (PED)
Department of Finance and Administration (DFA)

SUMMARY

Synopsis of House Memorial 51

House Memorial 51 requests LESC, in collaboration with LFC, PED, DFA, PSFA, Public School Capital Outlay Council (PSCOC), New Mexico Association of School Business Officials (NMASBO), and New Mexico Coalition of Educational Leaders (NMCEL), to study the public education funding formula and assess whether the formula is meeting a uniform and sufficient education for all students. The study will be reported to LESC, LFC, and the governor before the 2025 legislative session.

FISCAL IMPLICATIONS

The memorial does not carry an appropriation and requests LESC to conduct a study of the public school funding formula, in consultation with other agencies and organizations. Current

law already requires LESC to conduct a continuing study of all education in New Mexico and the laws governing such education and the policies and costs of the New Mexico educational system. As such, this memorial has no fiscal impact.

SIGNIFICANT ISSUES

In place for nearly half a century, New Mexico’s public school funding formula has been under constant analysis. For the most part, the results of these analyses have supported statutory data-based refinements to the structure of the formula while maintaining the philosophical concept of educational equity for all students.

In response to concerns about the fairness and credibility of the formula, the State Board of Education, the Legislature, and the Executive in 1995 made commitments to support an independent, comprehensive study of the funding formula. Completed in 1996, the principal finding of the study concluded the following: “When evaluated on the basis of generally accepted standards of equity, the New Mexico public school funding formula is a highly equitable formula. . . . [S]pending disparities are less than in other states and statistically insignificant.”

In 2008, the Legislature commissioned the American Institutes for Research (AIR) to study and determine the cost of a sufficient education for all public schools in New Mexico. Findings suggested at the time that state support for public schools should increase by \$335.8 million to extend the school year, add afterschool hours, provide summer programs, reduce class sizes, and hire appropriate school personnel. The most expensive component of AIR’s cost proposal was extending the school year to include 185 instructional days for students and four planning days for teachers (about 1,512 hours). The study further recommended changes to at-risk student funding components and size adjustment units within the formula.

On February 14, 2019, the 1st Judicial District Court issued a final judgment and order on the consolidated *Martinez v. New Mexico* and *Yazzie v. New Mexico* education sufficiency lawsuits, and found that New Mexico’s public education system failed to provide a constitutionally sufficient education for at-risk students, particularly English language learners, Native American students, and special education students. The court’s findings suggested overall public school funding levels, financing methods, and PED oversight were deficient. As such, the court enjoined the state to provide sufficient resources, including instructional materials, properly trained staff, and curricular offerings, necessary for providing the opportunity for a sufficient education for all at-risk students.

Additionally, the court noted the state would need a system of accountability to measure whether the programs and services actually provided the opportunity for a sound basic education and to assure that local school districts spent funds provided in a way that efficiently and effectively met the needs of at-risk students. However, the court stopped short of prescribing specific remedies and deferred decisions on how to achieve education sufficiency to the legislative and executive branch instead. PSFA notes establishing a committee of key agencies to assess the adequacy of the public education funding formula may assist in providing remedies to the *Martinez-Yazzie* lawsuit.

ADMINISTRATIVE IMPLICATIONS

Provisions of the memorial would require LESC to collaborate with LFC, PED, DFA, PSFA, PSCOC, NMASBO, and NMCEL to study the public education funding formula for the next two years and report the results of the study to LESC, LFC, and governor before the 2025 legislative session. PSFA notes the work and commitment from PSCOC and PSFA may be significant and affect agency operations.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

This memorial relates to House Bill 130, which establishes a K-12 Plus program factor in the funding formula and repeals K-5 Plus and Extended Learning Time (ELT) programs; House Bill 181, which expands school personnel generating funding for National Board certification; House Bill 194, which establishes a K-12 Plus program factor in the funding formula, increases the at-risk index multiplier, and repeals K-5 Plus and Extended Learning Time (ELT) programs; House Bill 199, which increases the at-risk index multiplier and fine arts formula weight; and Senate Bill 108, which creates a career technical education formula factor.

OTHER SUBSTANTIVE ISSUES

The New Mexico public school funding formula is based on a model developed by the National Education Finance Project (NEFP) in the late 1960s and early 1970s. One of the projects of the NEFP was to develop a computer model to simulate the fiscal consequences of alternative decisions in regard to the financing of public elementary and secondary education. As a tool for better decision making, the model had great potential because of the variety of data that could be accommodated and the ease with which new data could be added and new decision options made available. And after adapting the NEFP model to construct a computer model matching conditions in New Mexico, the “tools” were available to begin a detailed study of public schools in New Mexico and, subsequently, to develop a proposal for a new school finance plan.

Appointed by the governor in the summer of 1973, the Advisory Committee on School Finance was composed of a broad cross section of educational interests, including parents, teachers, administrators, and legislators. The committee established the basic philosophy and direction of the project and met monthly to review progress and to give direction for future work.

The committee’s initial task was to define educational need. Committee members discussed many elements, including some already included in statute, such as the additional costs associated with secondary schools, which had been recognized in public school funding in New Mexico since the 1930s; the differential weighting of students by grade level and size of school, which had been recognized since 1960s; and the necessity of supporting adequate staffing patterns.

The committee’s second task was to devise a school finance formula based upon a comprehensive definition of educational need that would equitably fund this need throughout the state. The committee’s guiding philosophy was the equalization of educational opportunity for all children in New Mexico.

Past school funding methods, however, had created a high degree of disequalization among districts because of differences in local wealth. The gap between rich and poor districts was enormous, and the revenue that would be required to reach full equalization with the richest districts was staggering. Thus, while it was unreasonable and impracticable to equalize at the

highest level, any lower level would result in certain districts' losing revenue. The goal of the new formula, therefore, was clear: to equalize educational opportunity at the highest possible revenue level while minimizing the financial loss to the richest districts.

As the result of the committee's work, the 1974 New Mexico Legislature enacted the Public School Finance Act, which has been widely acclaimed as one of the most innovative of the school finance plans currently being used across the country.

The formula is designed to distribute operational funds to school districts objectively and in a non- categorical manner while providing for local school district autonomy. Formula dollars received by local districts are not earmarked for specific programs. Within statutory and regulatory guidelines, school districts have the latitude to spend their dollars according to local priorities.

The intent of the 1974 Public School Finance Act [22-8-17 through 25 NMSA 1978] is to equalize financial opportunity at the highest possible revenue level and to guarantee each New Mexico public school student equal access to programs and services appropriate to his or her educational needs regardless of geographic location or local economic conditions. Through the absence of categorical funding and fund "tracking," the act also seeks to encourage local school district initiatives in seeking more efficient and effective means of achieving desirable educational goals.

The formula uses cost differentials to reflect the costs associated with providing educational services to students all of whom have differing needs. For example, research indicates that educating high school students costs more than educating first graders and that additional funding is required for the provision of bilingual education and special education services.

According to the Education Commission of the States, New Mexico uses a student-based foundation formula, which is a base amount of funding per student with additional money or weights added to provide additional support to students with a higher need. There are at least 33 states and the District of Columbia that use a student-based foundation formula; 10 states use a resource-based allocation formula, five states have a hybrid of student-based and resource-based approaches, and two states use a guaranteed tax base or tax-levy equalization formula.

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