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Purpose: Provide an overview of New Mexico's public school funding formula

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Expected Outcome: Better understanding of how state funding is allocated to school districts and charter schools.

Overview of the Public School Funding Formula

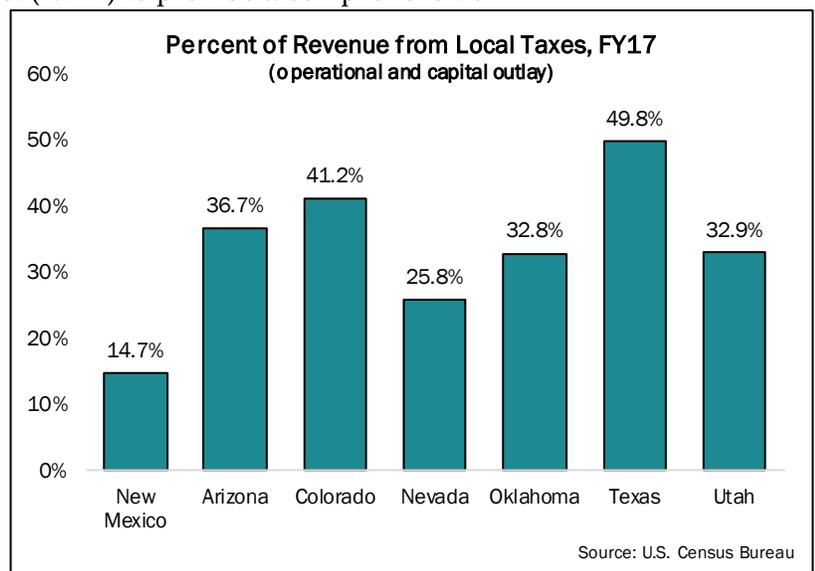
Background

In 1974, the Legislature adopted the Public School Finance Act, which created the state equalization guarantee (SEG) distribution and sets out the methodology the Public Education Department (PED) must use to allocate operational funding appropriated by the Legislature to school districts and charter schools. This methodology – commonly called the “funding formula” – is designed to objectively distribute state resources to school districts and charter schools. Prior to the adoption of the Public School Finance Act, differences in local wealth led to vast differences in the resources available for public education. To equalize educational funding, the Public School Finance Act allows the state to set the amount of funding needed statewide. See **Attachment A: Public School Support Appropriation for FY20**. The funding formula then distributes funding to each school district and charter school based on their student population and unique circumstances of the school district or charter school.

New Mexico's Funding Formula in the National Context

New Mexico's funding formula was developed at a time when national experts were reconsidering how public schools were funded. In 1968, the U.S. Office of Education created the National Educational Finance Project (NEFP) to provide a comprehensive study of school finance. A key consideration of this study was the importance of equity when deciding how to finance public schools. When designing New Mexico's funding formula, policymakers based the system on the models developed by NEFP, leading to a funding formula that has been recognized as one of the most innovative in the country.

Many states choose to fund their schools through local property taxes, which can lead to disparities in school funding, based on the relative property value per student within a school district. Compared with other states, New Mexico schools rely less on the use of local revenue sources such as property tax



revenue to fund schools. According to data from the U.S. Census Bureau, New Mexico is the fourth least reliant on local sources of revenue, after Vermont, Arkansas and Hawaii, which has only one school district and does not fund schools with local tax revenue. In New Mexico, almost all of the property tax revenue raised by school districts is for capital outlay expenses.

Property taxes levied by school districts for capital outlay or construction costs paid directly by the Public Schools Facilities Authority are not considered in the funding formula. While state laws governing capital outlay contain provisions that attempt to equalize capital outlay revenue based on the ability to pay, some school districts have argued the current system fails to equalize capital outlay revenue in the same way.

Revenue Considered in the Funding Formula

New Mexico’s funding formula considers revenue from four sources: SEG distribution, 75 percent of federal Impact Aid grants received by school districts and state-chartered charter schools for operational purposes, 75 percent of federal forest reserve payments, and 75 percent of the half mill property tax levied for operational purposes. The SEG distribution is appropriated each year by the Legislature and distributed to school districts and charter schools by PED. School districts and charter schools receive the other revenue sources directly and PED reduces a school district’s or charter school’s SEG distribution payment to take credit for those revenues.

The total of these four funding sources is equal to the statewide “program cost,” which is the amount of money the state assumes a school district or charter school needs to operate in a given year. Under state law, each school district and charter school is guaranteed to receive its full program cost, although the amount of each school district’s and charter school’s SEG distribution payment will vary, based on the amount of other revenues the school district or charter school receives. On a statewide basis, the revenue sources considered by the funding formula account for 79 percent of total non-capital funding.

Revenues in Lieu of Taxes and Operational Fund Grants Not Considered by the Public School Funding Formula

Revenue Source	Number of School Districts	Total Amount
Industrial Revenue Bonds	6	\$3,570,647
Wind Farms	14	\$2,000,006
LANL Operational Grant	1	\$8,000,000

Source: LESC Files

Note: Industrial revenue bond payments and wind farm payments are classified as “revenue in lieu of taxes” by PED’s uniform chart of accounts. The LANL payment is classified as a federal grant, but is unrestricted and paid into the school district’s operational fund.

Restricted federal and state grants, student fees, and private grants or donations are not accounted for in the funding formula. In recent years, some school districts have received additional revenue that is not considered by the funding formula but are often used for operational purposes. These include payments from industrial revenue bonds, wind farm projects, and a payment the company operating Los Alamos National Laboratory (LANL) is contractually required to make each year to Los Alamos Public Schools.

Equity Principles Reflected in the Funding Formula

The funding formula was designed to distribute funding in a way that equalizes educational opportunity for all students in New Mexico. The funding formula recognizes this using two principles:



“The Equal Treatment of Equals” – The funding formula allocates the same amount of funding for students in the same circumstances. For example, a first grade student is allocated the same amount of funding, regardless of the school district in which they live.

“The Unequal Treatment of Unequals” – The funding formula allocates additional funding for students that require extra resources. For example, a first grade student receiving special education services is allocated the same amount of funding as every other first grade student plus additional funding based on the level of special education service the student receives.

Funding is Distributed in a Non-Categorical Manner

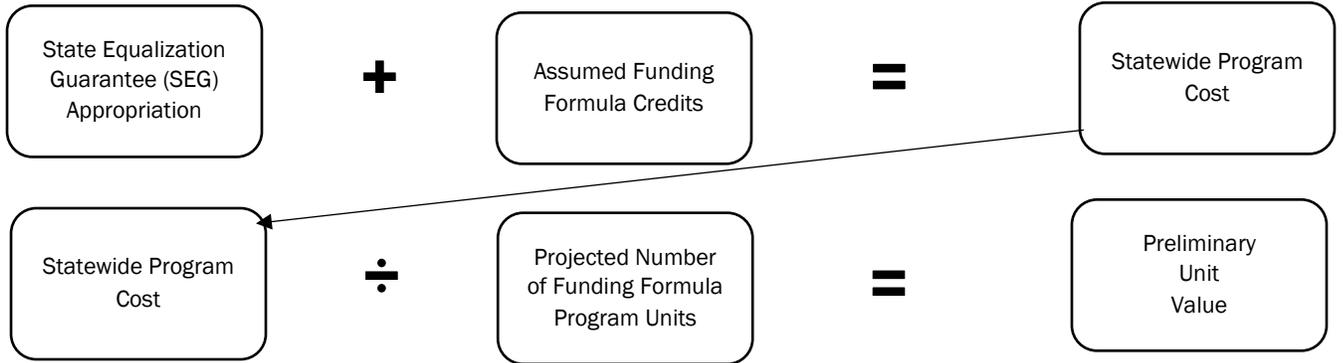
Generally, funding derived through the funding formula is discretionary to local school boards and governing bodies of charter schools, although the school districts or charter schools must meet program requirements to generate funding for certain programs and PED is required to ensure that school districts and charter schools are prioritizing resources to programs and methods linked to student achievement. This allows school districts and charter schools to spend funding formula dollars in a manner that best meets the specific needs of their community. Additionally, because funding is not restricted to particular programs, school districts and charter schools have an incentive to minimize costs and allow funding to be used for other priorities.

How Program Cost is Allocated to Each School District and Charter School

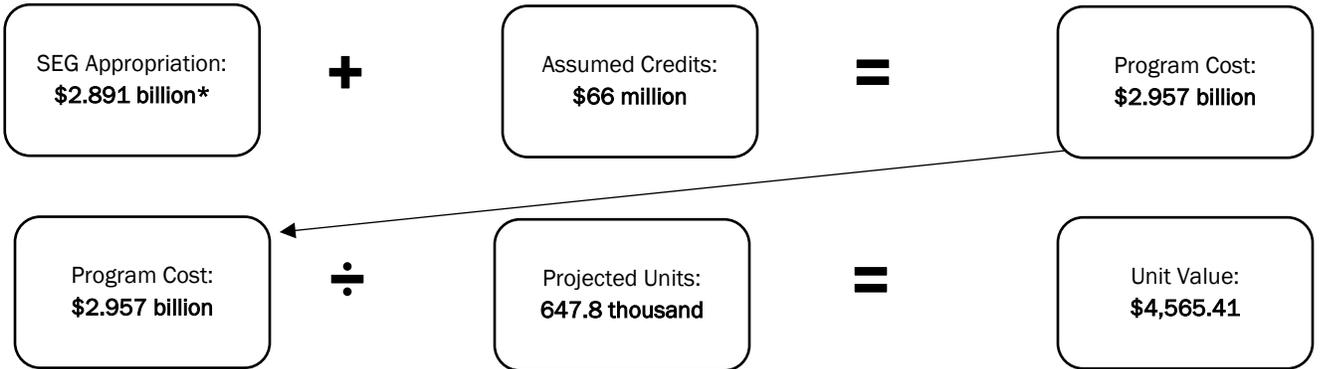
As stated above, the Public School Finance Act allows the Legislature to set a single, statewide amount for public school funding. The statutory funding formula then allocates that funding by assigning “program units” to each school district and charter school, based on the enrollment and characteristics of that school district. Although primarily based on student enrollment, these program units are weighted for school size, teacher qualifications, the special needs of students, and other factors. For FY19, there were 15 components that generated program units within the funding formula. Laws 2019, Chapters 206 and 207 (Senate Bill 1 and House Bill 5) created two new components for FY20 and future years. See **Attachment B: State Equalization Guarantee Computation**.

To determine the value of each program unit, the secretary of public education considers the appropriation to the SEG distribution and an estimate of the amount in funding formula credits for revenue school districts and charter schools will receive from Impact Aid, forest reserve payments, and the half mill levy. When added, this is the amount available for statewide program cost. The secretary then divides the statewide program cost by the number of program units the department anticipates the formula will generate for the fiscal year. The result is the unit value, which is the amount that a school district or charter school will receive for each program unit they generate through the funding formula.

Example of Unit Value Calculation



FY20 Unit Value Calculation



*For FY20, the appropriation to the SEG included funding restricted to K-5 Plus and extended learning time program units, which was not included in the calculation of the unit value. This money will fund the creation of new program units, which will be funded at the unit value set by the secretary of public education.

Public School Support Appropriation for FY20
(in thousands of dollars)

	School Year 2019-2020 Preliminary Unit Value = \$4,565.41 School Year 2018-2019 Final Unit Value = \$4,190.85	FY19 OpBud	Laws 2019, Chapter 271
PROGRAM COST		\$2,567,558.7	\$2,646,377.6
Base Adjustment/Reversion Credit		(\$2,318.3)	
UNIT CHANGES			
Increases At-Risk Index (Multiplier of 0.13 in FY19 and 0.25 in FY20)		\$22,541.4	\$113,177.9 ²
Increase Bilingual and Multicultural Education Program Units			\$6,954.5
Set School Age Limit at 22			(\$6,129.0)
Phase-Out School Size Adjustment for Schools within Large Districts			(\$9,041.6)
Phase-In Rural Population Units			\$5,204.5 ²
Extended Learning Time Program Units (190 Instructional Days, After School Programs, and 80 Hours of Professional Development)			\$62,497.4 ²
K-5 Plus Program Units			\$119,895.9 ²
Eliminate Size Adjustment for Special Separate Schools of Alternative Education		(\$6,162.8) ¹	
Other Projected Net Unit Changes		(\$1,066.6)	(\$11,173.3)
UNIT VALUE CHANGES			
Instructional Materials			\$30,000.0
Increase Employer Retirement Contributions 0.25 Percentage Points			\$4,250.0 ³
Insurance		\$2,794.3	\$9,014.0
Fixed Costs			\$4,000.0
\$10 Minimum Wage for Public School Employees			\$169.6
Raise Compensation for Teachers (FY19: 2.5%; FY20: 6%)		\$31,276.2	\$77,753.0
Raise Compensation for Principals (FY19: 2%; FY20: 6%)		\$1,937.2	\$6,225.4
Raise Compensation for other School Personnel (FY19: 2%; FY20: 6%)		\$12,206.0	\$37,694.4
Increase Teacher Minimum Salaries (FY19: \$36k, \$44k, \$54k; FY20: \$41k, \$50k, \$60k)		\$17,611.5	\$38,217.4 ²
Increase Principal and Assistant Principal Minimum Salary			\$2,215.6 ²
SUBTOTAL PROGRAM COST		\$2,646,377.6	\$3,137,303.4
Dollar Change Over Prior Year Appropriation		\$78,818.9	\$490,925.8
Percent Change		3.1%	18.6%
LESS PROJECTED CREDITS (FY18 Actual Credits of \$77,577.7)		(\$59,000.0)	(\$63,500.0)
LESS OTHER STATE FUNDS (From Driver's License Fees)		(\$5,000.0)	(\$5,000.0)
STATE EQUALIZATION GUARANTEE		\$2,582,377.6	\$3,068,803.4
Dollar Change Over Prior Year Appropriation		\$80,568.9	\$486,425.8
Percent Change		3.2%	18.8%

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
				SUM OF UNITS
Staffing Cost Multiplier	Staffing Cost Multiplier: 75 percent T&E Index (years of experience and academic degree) 25 percent TCI (years of experience and licensure level)	= TOTAL PROGRAM UNITS		
		→ Times Value from 1.000 to 1.500		
		= ADJUSTED PROGRAM UNITS		
	PLUS			
	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>	MEM	×	0.06
	<u>K-5 Plus Programs</u>	MEM	×	0.30
	<u>Extended Learning Time Programs</u>	MEM	×	0.11
Size Units	Elementary/Jr. High Size Units			
	Senior High Size Units			
	District Size Units			
	Micro District Size Units			
	Rural Population Units			
	((Title I + English Learners + Student Mobility) * .25) * Total MEM		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			
	= GRAND TOTAL PROGRAM UNITS			
	Grand Total × 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			

Source: LESC

Student Membership and Program Units: 10 Year History

School Year	Student Membership	Basic Program Units	Special Education Units	Special Program Units ¹	T & E Units	Size Units	At-Risk Units	Enrollment Growth Units	Add-On Units ²	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 ³	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 ^{4,5}	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	40,995	27,905	24,559	4,618	1,331	625,331
2018-2019 ⁵ (Budgeted)	326,958	392,999	111,852	20,658	42,399	27,681	29,528	2,947	1,068	629,133

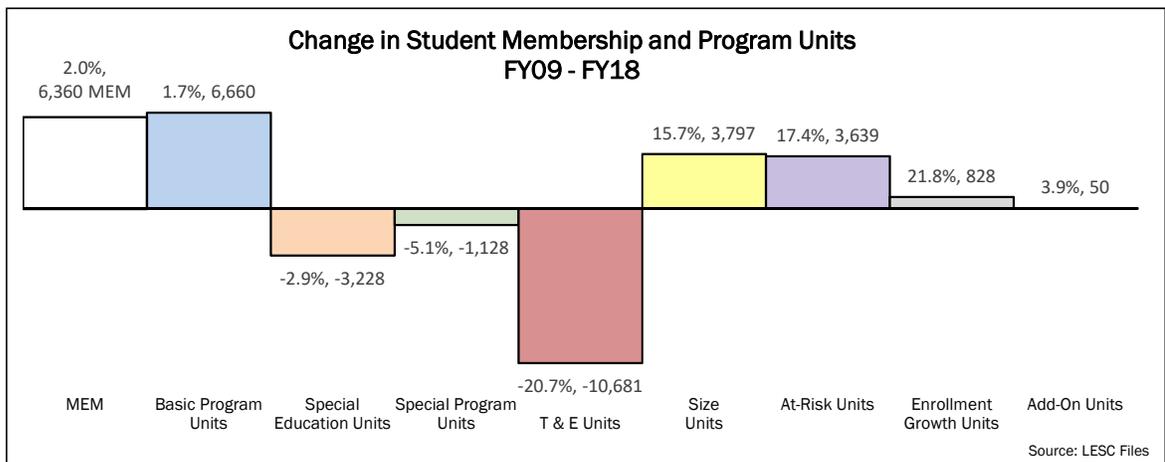
¹Special program units include program units for bilingual multicultural education programs, elementary fine arts programs, and elementary physical education programs. Source: LESC Files

²Add-on units include program units for national board certified teachers, charter school activities, home school students taking academic courses at a school district, home school students participating in school district sponsored activities, and save harmless program units.

³Beginning 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.

⁴Beginning with FY15, school districts with fewer than 200 MEM generate additional size adjustment program units, and school districts generate program units for home school students taking academic courses from a school district.

⁵Increases in at-risk program units in FY15 and FY19 are the result of legislative changes to the funding formula, which increased the number of at-risk program units to provide more money for services for at-risk students.



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	327.0	\$ 1,617,428	\$ 460,336	\$ 85,020	\$ 174,498	\$ 113,923	\$ 121,526	\$ 12,130	\$ 4,397	\$ 2,589,259

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

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