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December 16, 2015

MEMORANDUM

TO: Legislative Education Study Committee

FR: David T. Craig^{AC} and Robin Shaya^{RS}

RE: STAFF BRIEF: PUBLIC EDUCATION BUDGET REQUESTS

INTRODUCTION

To supplement the presentation by Public Education Department (PED) staff, the Legislative Education Study Committee (LESC) staff analyzed PED's FY 17 budget submissions. This staff brief contains information from the analysis on:

- the Public Education Department (PED) budget request;
- the Public School Support (PSS) request;
- the special and supplemental requests; and
- capital outlay requests (pre-kindergarten classrooms and school buses).

PUBLIC EDUCATION DEPARTMENT (PED) BUDGET REQUEST

Current law requires state agencies to complete and return budget forms for a tentative budget to the Department of Finance and Administration (DFA) State Budget Division no later than September 1 of each year. For FY 17, PED requested approximately \$44.5 million in revenue, a \$350,000 increase from its FY 16 operating budget, from the following sources:

- approximately \$12.6 million in general fund dollars (an increase of 4.8 percent from FY 16);
- \$36,000 in Medicaid funds transferred from the Human Services Department (HSD) for behavioral health services provided through PED;
- approximately \$28.0 million from federal revenue sources; and
- approximately \$3.8 million from other state funds including educator certification fees and the 2.0 percent administrative withholding from state-chartered charter schools.

Historically, PED underestimates the amount of the 2.0 percent administrative (\$1,540,000) withholding from state-chartered charter schools.

Overall expenditures in the PED FY 17 budget request are also flat from FY 16 budgeted levels of approximately \$43.8 million; however, the composition of those expenditures varies slightly from FY 16 budgeted amounts, including:

- approximately \$20.0 million requested for FY 17 personal services and employee benefits (an increase from \$19.5 million in FY 16);
- approximately \$20.3 million requested for FY 17 contractual services (a decrease from \$20.5 million in FY 16); and
- approximately \$4.1 million requested for other FY 17 expenditures (a decrease from about \$4.2 million in FY 16).

The FY 16 operating budget appropriated by the Legislature was based on 240.8 FTE, however, in FY 16, PED budgeted \$1.9 million appropriated to categorical public school support or initiatives to support PED staff. Generally PED only uses a portion of the Pre-Kindergarten Fund, K-3 Plus Fund, New Mexico Cyber Academy, and Indian Education appropriations to fund department staff. However, PED is also funding a number of positions not directly reflected in the agency budget request through below-the-line appropriations.

BELOW-THE-LINE FUNDING FOR PED FTE

PROGRAM	AMOUNT FROM PROGRAM USED TO FUND PED FTE'S
Teachers Pursuing Excellence	\$150,000
NMTEACH	\$95,000
Parent Portal	\$200,000
Indian Education	\$200,000
Interventions	\$500,000
IDEAL NM	\$300,000
K-3+	\$190,000
Pre-K	\$243,000
TOTAL	\$1,878,000

Source: PED

Based on PED's FY 17 appropriation request, PED is proposing to fund 19 FTE with revenue sources not in the departments FY 17 budget request.

PUBLIC SCHOOL SUPPORT (PSS) REQUEST

Statute requires PED to review the financial needs of each school district and state-chartered charter school for the succeeding fiscal year and submit to the Secretary of Finance and Administration annually, on or before November 30, its recommendations for amendments to the public school funding formula; appropriations for the succeeding fiscal year to the public school fund for inclusion in the executive budget document; and appropriations for the succeeding fiscal year for pupil transportation.¹ This section of the staff brief provides a summary of major elements of PED's public school support request for FY 17.

PED requested approximately \$2.8 billion in recurring funding for public school support, categorical, and related appropriations, an increase of \$132.5 million (line 77), or 4.8 percent (line 78) over FY 16 appropriations (**Attachment, Public School Support and Related Services for FY17**).

Recurring Appropriations

PED's FY17 PSS request for the State Equalization Guarantee (SEG) totaled \$2.5 billion (line 16), and includes requests for enrollment growth units and other units, insurance and other fixed costs, continued increases for level one teachers' minimum salaries, and projections for credits. PED's FY17 request for categorical appropriations totaled \$169.6 million (line 35) and included requests for transportation and emergency supplemental funding. PED's FY 17 PSS request for related recurring appropriations totaled approximately \$154.9 million (line 67), and includes expanded funding for existing programs, as well as funding for five new programs.

State Equalization Guarantee (SEG)

Enrollment Growth Units and Other Units (Line 2)

Current provisions in law allow enrollment growth units to be generated for school districts and charter schools with growth in membership equal to or greater than 1.0 percent over the previous year's enrollment. PED requested \$11.0 million for enrollment growth units based on units currently budgeted. Often these budgeted enrollment growth units do not represent the total enrollment growth units generated annually. PED discourages school districts and charter schools from budgeting enrollment growth units due to negative impacts to a school district's or charter schools budget if actual enrollment does not grow. Generally, enrollment growth is a projected amount based on the current year's enrollment growth units and unit value. PED's request does not include funding four new charter schools authorized to open in FY 17.

Insurance and Other Fixed Costs (Lines 5 and 6)

Each year, if funding is available, the Legislature appropriates funds to the SEG to provide for projected increases in the employer's share of health and risk insurance contributions for the

¹ 22-8-12.1 NMSA 1978.

state's public schools. At the LESC November 2015 interim meeting, members heard testimony from New Mexico Public Schools Insurance Authority (NMPSIA) staff requesting approximately \$17.8 million to support these increased insurance costs in FY 17. APS did not request funds for insurance costs. PED applied the 2016 consumer price index (CPI) for traditional and health and medical costs of 2.7 percent to school district and charter school FY15 insurance expenditures, resulting in a request of \$5.7 million to cover projected increases in FY 17. Similarly, PED used the 2016 CPI for traditional costs of 2.7 percent and fuel costs of 3.6 percent to calculate projected increases in fixed costs, including water and sewage, communications and electricity and heating costs. PED requested \$7.3 million to cover increased fixed costs in FY 17.

Level I Teachers' Minimum Salaries (Line 9)

Citing low starting salaries as one of the roadblocks to recruiting teaching candidates into schools of education, PED requested approximately \$14.1 million to increase the minimum salary for level one teachers from \$34,000 provided for in the *General Appropriation Act of 2015* to \$36,000. PED estimates this will impact about 3,692 teachers in FY 17. Recent increases to the minimum salary of level one teachers are only binding for one fiscal year as provisions of the *School Personnel Act* setting the beginning salary for a level one teacher at \$30,000 remain unchanged. Assuming all 3,692 teachers are currently being paid a minimum salary of \$34,000, and 25 percent for any additional salary and benefit costs, an appropriation of \$9.2 million would be necessary, it is unclear how PED arrives at a need of \$14.1 million.

Projected Credits (Lines 14 and 15)

Pursuant to the *Public School Finance Act*, the state takes credit for revenues from three non-state sources to determine a school district or state-chartered charter school's SEG including federal Impact Aid payments for federal property, federal Forest Reserve funds, and school district funds generated through the 0.5 mill levy. For FY 17, PED anticipates \$59.0 million in projected credits and notes that since FY 07 the federal Impact Aid office has sent prior year undistributed balances resulting in significant reversions of the SEG appropriations. As shown in the table below, the estimated projected credits amount for both FY 16 and FY 17 is lower than amounts budgeted in previous years and actual credits are generally higher than those budgeted.

Budget and Actual Credits, FY 12 - FY 17

Fiscal Year	FY 12	FY 13	FY 14	FY 15	FY 16*	FY 17*
Budgeted	\$68,436,000	\$69,000,000	\$63,000,000	\$62,000,000	\$56,000,000	\$59,000,000
Actual*	\$73,939,407	\$70,731,647	\$61,818,035	\$72,283,546	\$63,861,243	N/A

*Amounts for FY 16 and FY 17 reflect estimated amounts.

Source: LESC

Categorical Appropriations

Transportation (Line 25)

PED requested approximately \$103 million in transportation funding (line 25), an increase of approximately \$5.3 million from FY 16. A focus of the LESC-LFC Ad Hoc Work Group has been on how state-chartered charter schools impact funding. PED indicates that four new charter

schools have requested transportation funds in FY 17. LESC members heard testimony at the July meeting that eight new state-chartered charter schools are beginning operations in FY16 and are estimated to receive transportation funding of \$832,000. Increases to transportation funding in recent years have been modest and as more charter schools access funding, increases to existing transportation programs have been negligible. Previous LESC subcommittees and the LESC-LFC Ad Hoc Work Group have discussed budgeting for state-chartered charter schools separately, and proposed legislation informed by the work group proposes separating transportation formula funding for state-chartered charter schools.

Emergency Supplemental Funding (Lines 28 and 82)

Each year, PED requests supplemental distributions related to emergency funding for school districts and out-of-state tuition payments provided for in the *Public School Finance Act*. For FY 17, PED projects a need for \$6.0 million in emergency supplemental payments. PED requested \$2.0 million from recurring general fund revenues (line 28) and \$4.0 million from nonrecurring general fund revenues (line 82). The Legislature appropriated \$4.0 million in FY 16 to provide emergency funding. School districts have budgeted approximately \$2.8 million in emergency supplemental funding to date.

Instructional Materials Fund (Line 29)

PED requested \$35.0 million be appropriated to the Instructional Materials Fund for FY 17 (line 29), an increase of \$10.0 million from total FY16 appropriations. The adoption cycle for FY 17 is K-8 English language arts, core reading intervention, and modern, classical and native languages. A recent Supreme Court ruling found that that public money cannot be used to buy textbooks for private schools, and approximately \$1.3 million in *Federal Mineral Leasing Act* funds may be reallocated to school districts and charter schools.

Related Recurring Appropriations to PED

Of the approximately \$155 million in related recurring appropriations requested by PED, \$7.5 million is for five new programs, including:

- \$1.0 million to award up to 100 teachers with \$10,000 for attaining an exemplary evaluation rating (line 47);
- \$1.0 million to create a new, non-reverting fund designed to provide 66 high performing students with a \$15,000 scholarship to enroll in a teacher preparation program;
- \$1.0 million for the Secretary's teacher advisory council that will focus on effective support and outreach to their colleagues (line 49);
- \$2.5 million to sustain improvement at the 50 most improved schools by providing monetary rewards to schools that perform highly on the school grading measures of progress and growth (line 50); and
- \$2.0 million for competitive awards related to innovative approaches in education such as personalized, competency, student-owned, and anytime, anywhere learning models, and strategic staffing and other student-centric practices (line 64).

In addition, PED is requesting \$2.5 million to make recurring the teacher supply programs that received nonrecurring funding in FY 16 and in which PED provides a \$100 debit card to all teachers in the state to be used to offset classroom materials (line 65).

SPECIAL AND SUPPLEMENTAL REQUESTS

As mentioned above, PED requested a \$4.0 million nonrecurring appropriation for emergency support to school districts. In addition, PED requested \$2.0 million in nonrecurring revenue to offset costs associated with defending the state in lawsuits that challenge the adequacy of public education funding, the funding formula, Impact Aid and the state's teacher evaluation system. PED indicates that not funding this request leaves the state vulnerable to the courts dictating a level of education funding and making changes to the funding formula, potentially costing the state hundreds of millions of dollars annually.

CAPITAL OUTLAY REQUESTS (PRE-KINDERGARTEN CLASSROOMS AND SCHOOL BUSES)

For FY 17, PED has submitted requests for school district-owned school bus replacements and pre-kindergarten facilities in both the categorical appropriations section of the PSS request and through the capital outlay request process. PED's FY 17 budget request for school district-owned school buses totals \$14.5 million to replace 170 buses in 31 districts. This includes 24 school bus replacements that were unfunded in FY 16, and 24 school bus replacements for FY 16 that were unanticipated primarily due to school districts taking over routes of contractors who exited the business. When funds are unavailable for school bus replacements, school districts are required to receive a temporary waiver from PED to operate school buses for to-and-from transportation beyond the 12-year statutory limit for replacement.

PED's FY 17 request also includes a \$5.0 million appropriation to continue building pre-kindergarten facilities at school districts. Currently, the Public School Capital Outlay Council (PSCOC) is limited to funding school construction projects for kindergarten through twelfth grade schools. PED indicates this funding will allow for the construction of 12 new pre-kindergarten classrooms, allowing \$1.2 million of remaining funds to be used to renovate existing space. PED notes that a requirement for accessing the pre-kindergarten appropriation is demonstrating adequate pre-kindergarten classroom space exists.

PUBLIC SCHOOL SUPPORT AND RELATED SERVICES FOR FY17
(dollars in thousands)

ATTACHMENT

	<i>School Year 2015-2016 Initial Unit Value = \$4,027.75</i>	FY16 Appropriation	FY17 Appropriation Request
1			
2	Enrollment Growth Units and Other Units	6,671.7	11,011.0
3	Eliminate Enrollment Growth Units for New Programs	(2,924.2)	
4	At-Risk Unit Increase (Laws 2014, Chapter 55)	11,061.0	
5	Insurance	4,351.0	5,742.0
6	Fixed Costs	5,000.0	7,379.9
7	College and Career Readiness (ACT, SAT, PSAT, Explore, Plan)	(309.4)	-
8	Increase Level I Minimum Teacher Salaries - (\$34.0 - FY16)	6,670.0	-
9	Increase Level I Minimum Salaries \$36.0 w/benefits (Contingent on enactment of Legislation)	-	14,129.0
10	PARCC 2015-2016 School Year Assessments (To PED)	(6,000.0)	-
11	SUBTOTAL PROGRAM COST - SECTION 4	2,569,331.1	2,607,593.0
12	Dollar Difference over Previous Year's Appropriation	24,620.1	38,261.9
13	Percentage Change	1.0%	1.5%
14	LESS PROJECTED CREDITS	(56,000.0)	(59,000.0)
15	LESS OTHER STATE FUNDS (from driver's license fees)	(5,000.0)	(1,000.0)
16	STATE EQUALIZATION GUARANTEE	2,508,331.1	2,547,593.0
17	Dollar Difference over Previous Year's Appropriation	27,020.1	39,261.9
18	Percentage Increase	1.1%	1.6%
19			
20	TRANSPORTATION		
21	Operational		
22	Maintenance and Operations	77,113.5	81,195.6
23	Fuel	11,786.2	12,883.9
24	Rental Fees (Contractor-owned Buses)	8,865.8	9,001.4
25	SUBTOTAL TRANSPORTATION	97,765.5	103,080.9
26			
27	Out-of-state Tuition	300.0	300.0
28	Emergency Supplemental	2,000.0	2,000.0
29	INSTRUCTIONAL MATERIALS FUND (FY16 -includes \$3.1M from lockbox)	21,900.0	35,000.0
30	Dual Credit Instructional Materials	1,000.0	1,250.0
31	Standards Based Test Costs	6,000.0	6,000.0
32	INDIAN EDUCATION FUND	1,824.6	2,500.0
33	Pre-K Classrooms	-	5,000.0
34	School Bus Replacements	-	14,500.0
35	TOTAL CATEGORICAL	130,790.1	169,630.9
36	TOTAL PUBLIC SCHOOL SUPPORT	2,639,121.2	2,717,223.9
37	Dollar Difference over Previous Year's Appropriation	30,743.6	78,102.7
38	Percentage Increase	1.2%	3.0%

PUBLIC SCHOOL SUPPORT AND RELATED SERVICES FOR FY17
(dollars in thousands)

	<i>School Year 2015-2016 Initial Unit Value = \$4,027.75</i>	FY16 Appropriation	FY17 Appropriation Request
39			
40	Regional Education Cooperatives Operations	935.6	935.6
41	K-3 Plus Fund	23,700.0	29,200.0
42	Public Pre-kindergarten Fund	21,000.0	28,000.0
43	Early Reading Initiative (New Mexico Reads to Lead!) (Includes Reading Coaches, Dibels Next, Reading Interventions, Reading Instructional Materials)	15,000.0	25,000.0
44	Breakfast for Elementary Students (After the Bell)	1,924.6	2,900.0
45	Afterschool Enrichment and Summer Programs	350.0	2,250.0
46	<i>Teacher and School Leader Programs and Supports for Training, Preparation, Recruitment and Retention</i>	7,250.0	15,000.0
47	<i>Top 100 Teachers in New Mexico</i>	-	1,000.0
48	<i>Exemplary Teacher Residency</i>	-	1,000.0
49	Teacher Advisory Training and Support	-	1,000.0
50	Sustaining Improvement at Most Improved schools Top 50 Schools	-	2,500.0
51	Teaching Support in Schools with a High Proportion of Low-Income Students or in Hard to Staff Areas.	500.0	500.0
52	NMTEACH Evaluation System & Support & Intervention	5,000.0	5,500.0
53	STEM Initiative (Science, Technology, Engineering, and Math); in FY16 includes stipends for math and science teachers, professional development for STEM teachers K-12.	2,400.0	3,000.0
54	Next Generation School Leader and Teacher Preparation	4,145.5	6,000.0
55	New Mexico Cyber Academy (IDEAL-NM)	250.0	1,250.0
56	<i>New Mexico Graduates Now! College Preparation, Career Readiness, and Dropout Prevention (A.P., Workforce readiness, ECHS, Dropout Prevention, CCR and Counselor Scholarships)</i>	2,901.0	4,000.0
57	Advanced Placement (PSAT costs, AP Fee waiver)	875.0	2,000.0
58	<i>Interventions and Support for Students, Struggling Schools and Parents, Truancy and Dropout Prevention (Includes funding for Principals Pursuing Excellence PPE, UVA, Support for Middle and Secondary Struggling Students)</i>	10,500.0	13,500.0
59	Parent Portal	1,196.7	1,196.7
60	New Mexico Grown Fresh Fruits & Vegetables	364.3	-
61	GRADS – Teen Pregnancy Prevention	200.0	200.0
62	Teachers Pursuing Excellence modeled after Principals Pursuing Excellence	1,000.0	3,000.0
63	Hard To Staff Areas (includes funding to recruit and retain Special Ed and Bilingual teachers as well as recruit and retain teachers in hard to staff schools; in FY17 will include STEM Stipends)	1,500.0	1,500.0
64	Innovative approaches to education		2,000.0
65	Teacher Supplies	-	2,500.0
66	Black Student Unions	30.0	-
67	TOTAL RELATED REQUESTS APPROPRIATIONS: RECURRING	101,022.7	154,932.3
68	Dollar Difference over Previous Year's Appropriation	5,899.9	53,909.6
69	Percentage Increase	6.2%	53.4%
70	SUBTOTAL PUBLIC EDUCATION FUNDING	2,740,143.9	2,872,156.2
71	Dollar Difference over Previous Year's Appropriation	36,643.5	132,012.3
72	Percentage Increase	1.4%	4.8%
73	PUBLIC EDUCATION DEPARTMENT	11,969.2	12,551.3
74	Dollar Difference over Previous Year's Appropriation	-	582.1
75	Percentage Increase	0.0%	4.9%
76	GRAND TOTAL	2,752,113.1	2,884,707.5
77	Dollar Difference over Previous Year's Appropriation	36,643.5	132,594.4
78	Percentage Increase	1.3%	4.8%
79			
80	Legal Fees	1,200.0	2,000.0
81	Audit Costs	450.0	
82	Emergency Support to School Districts Experiencing Shortfalls	2,000.0	4,000.0
83	Teacher Supplies	2,000.0	
84	INSTRUCTIONAL MATERIAL FUND (Lock Box)	3,100.0	
85	TOTAL RELATED REQUESTS: NONRECURRING	8,750.0	6,000.0