

# Basics of the Public School Funding Formula and School Spending

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# Summary

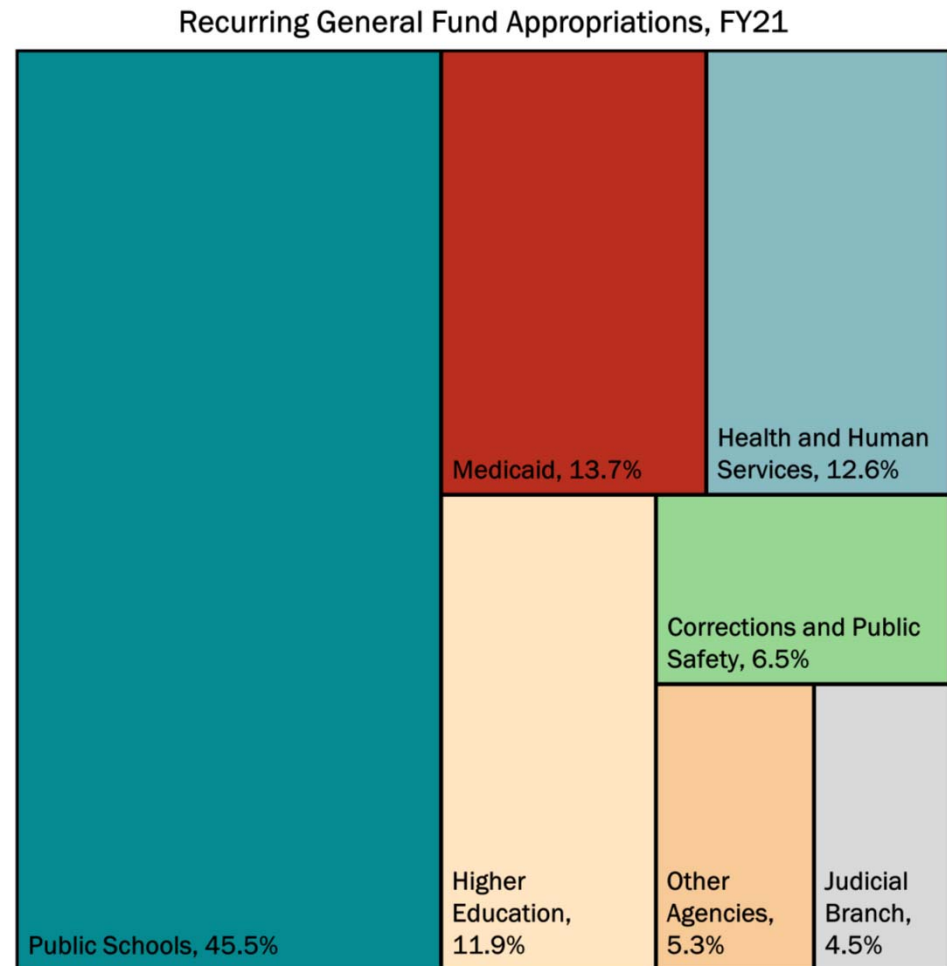
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1. The Public School Funding Formula
2. Impact Aid
3. PED Oversight and the *Martinez and Yazzie* Consolidated Lawsuit
4. Categorical vs. Noncategorical Funding

# State General Fund Appropriations



- Public schools account for the largest share of recurring general fund appropriations.
- Almost all state funding allocated through the public school funding formula.
  - \$3.046 billion of \$3.211 billion in FY21



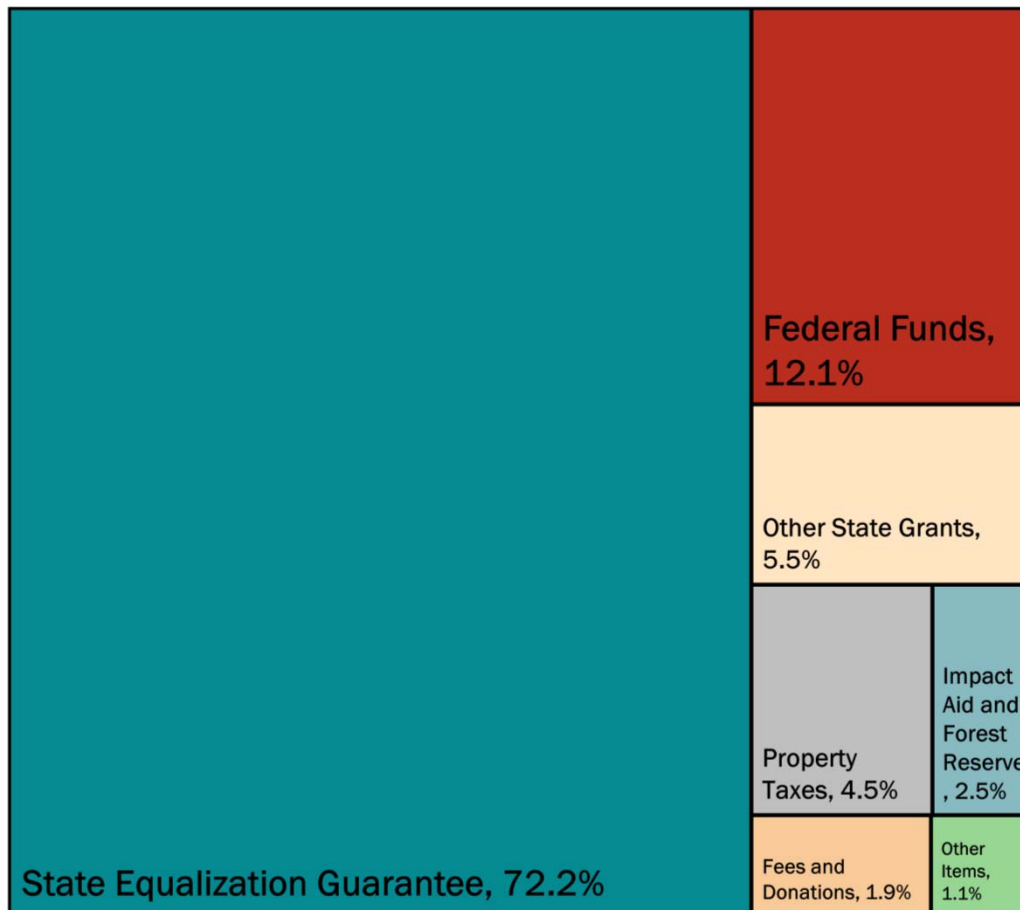
Source: LFC



# Overview of Public Education Funding

- Most public school funding allocated at the state level.
  - Over 75% from state general fund revenue
  - 15% from federal funds, including Title I, IDEA, Impact Aid, and other programs
  - Remainder from local sources

School District and Charter School Operational Income by Source, FY19



Note: Includes state and local revenue pursuant to the Public School Capital Improvements Act (SB9).

Source: OBMS



## The Public School Funding Formula

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- Governed by the Public School Finance Act (22-8-1 NMSA 1978 et. seq.).
- Designed to equalize financial opportunity to guarantee each student equal access to funding for programs and services appropriate to educational needs.
- Previous system based on local property wealth led to a high degree of disequalization among school districts.

# The Public School Funding Formula

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- Based on two concepts:
  - “Equal Treatment of Equals”
    - School districts and charter schools receive the same amount of funding for similar students, regardless of local wealth.
  - “Unequal Treatment of Unequals”
    - Students with greater needs, such as special education, students from low-income backgrounds, and English learners, are allocated additional funds.

# The Public School Funding Formula



- Funding formula assigns “program units” based on student enrollment and other factors.
- Factors in the funding formula are additive, for example a second grade student with a disability is allocated program units in both areas.
- Number of program units multiplied by a “unit value” set by PED based on appropriation.
- Since its inception in 1973, the funding formula has been amended more than 80 times.

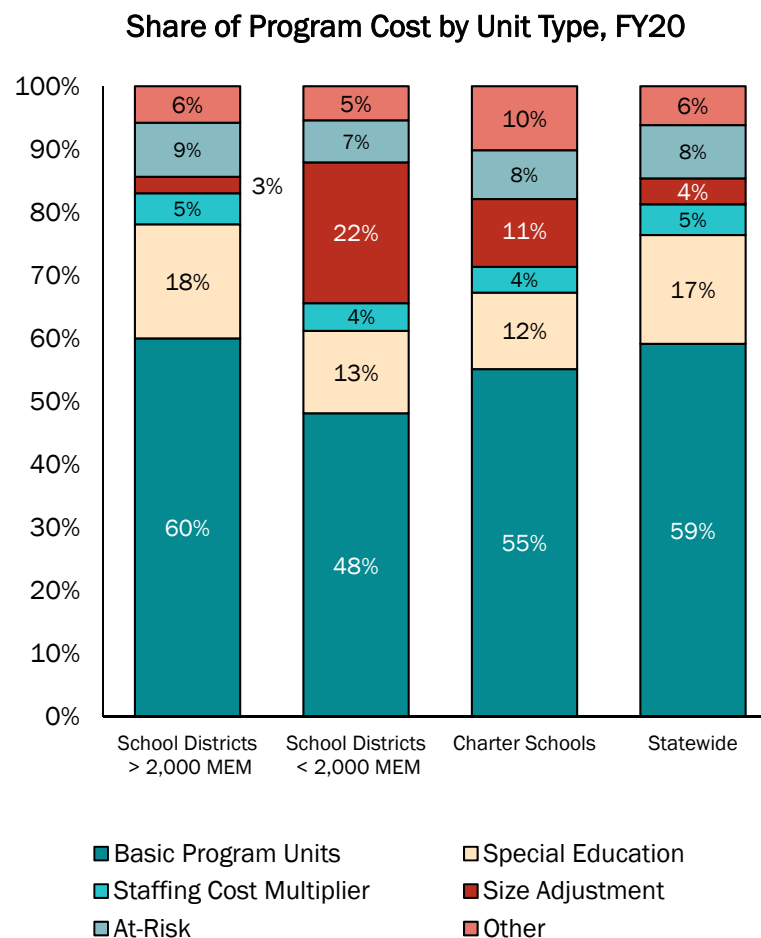
State Equalization Guarantee Computation, FY21				
	Grade Level/Program Membership		Times	Cost Differential = Units
Basic Program Units	Kindergarten & Three- and Four-Year-Old DD	FTE MEM	x	1.44
	Grade 1	MEM	x	1.20
	Grades 2-3	MEM	x	1.18
	Grades 4-6	MEM	x	1.045
	Grades 7-12	MEM	x	1.25
				<b>SUM OF UNITS</b>
Staffing Cost Multiplier	Staffing Cost Multiplier: 50 percent T&E Index (years of experience and academic degree) 50 percent TCI (years of experience and licensure level)			= TOTAL PROGRAM UNITS Times Value from 1.000 to 1.500 = ADJUSTED PROGRAM UNITS
	<b>PLUS</b>			
Special Education Units	<b>Special Education</b>			
	Related Services (Ancillary)	FTE STAFF	x	25.00
	A/B Level Service Add-on	MEM	x	0.70
	C Level Service Add-on	MEM	x	1.00
	D Level Service Add-on	MEM	x	2.00
	3- and 4-Year-Old DD Program Add-on	MEM	x	2.00
Special Program Units	<b>Special Program Units</b>			
	Bilingual Education	FTE MEM	x	0.50
	Fine Arts Education	FTE MEM	x	0.05
	Elementary Physical Education	MEM	x	0.06
	K-5 Plus Programs	MEM	x	0.30
	Extended Learning Time Programs	MEM	x	0.11
Size Units	<b>Size Units</b>			
		Elementary/Jr. High Size Units		
		Senior High Size Units		
		District Size Units		
		Micro District Size Units		
	Rural Population Units			
	Percentage of ((Title I + English Learners + Student Mobility) * .25) * Total MEM			At-Risk Units
	Enrollment Growth Units			
Add-on Units	<b>Add-on Units</b>			
	National Board for Professional Teaching Standards Units			
	Charter School Activities Units			
	Home School Activities and Program Units			
	= TOTAL UNITS + Save Harmless Units = GRAND TOTAL PROGRAM UNITS Grand Total x Unit Value = Program Cost - 75% Noncategorical Revenue Credits - Utility Conservation Program Contract Payments - 90% of the Certified Amount (Energy Efficiency and Renewable Energy Bonding Act) = STATE EQUALIZATION GUARANTEE			

Source: LESG



# Program Cost

- The result of the funding formula calculation is known as the “program cost”- essentially the amount of money the state assumes the school district or charter school needs to operate for the year.
- Program unit makeup is different for each school district and charter school.

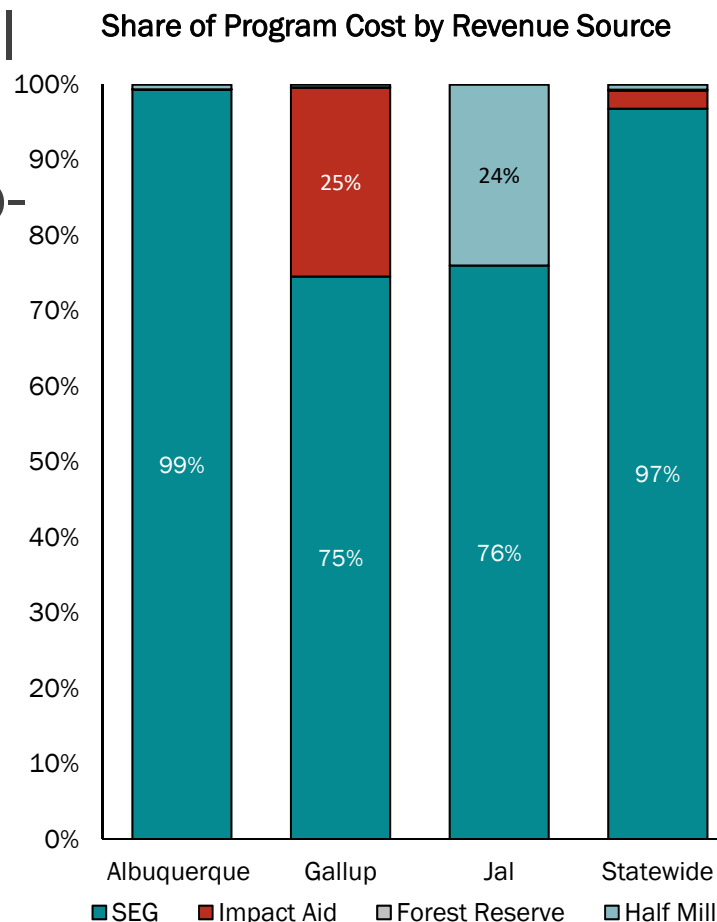






# Equalized Public Education Revenues

- Unlike many other states, school districts in New Mexico do not receive a large amount of day-to-day expenses from property tax.
- Each school district and charter school is guaranteed program cost from four revenue sources:
  - State Equalization Guarantee Distribution (general fund revenue)
  - Federal Impact Aid (75% of revenue)
  - Federal Forest Reserve (75% of revenue)
  - Local Half Mill Levy (75% of revenue)





# Equalized Public Education Revenues

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- The state takes credit for 75 percent of Impact Aid, forest reserve payments, and the half mill levy.
  - School districts and charter schools received more than \$112 million in these revenues in FY19; the state took credit for \$84.1 million.
  - Operational Impact Aid revenues constitute the largest of these three sources
    - In FY19, school districts and charter schools received \$84.7 million in operational Impact Aid.
  - Relatively low rate of property taxation for school operations has been an historic complaint of Impact Aid school districts.
    - In 1983, tax cuts were implemented that greatly reduced the amount of property taxes received directly by school districts.
    - In FY19, school districts received only \$22.9 million from the half mill levy.
  - High property value school districts correlate strongly with oil and gas production, which is responsible for a large share of general fund revenue.



# Equalized Public Education Revenues

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- In April, the U.S. Department of Education found New Mexico was not eligible to take credit for Impact Aid in FY20.
  - The statutory definition of “capital improvements” in the Public School Capital Improvements Act is broad enough it must be counted as an operating expense.
  - PED has appealed, but the PED secretary told LFC the department may withdraw that appeal.
  - \$60 million liability if the appeal is lost or withdrawn; \$43 million in reserves is already authorized to repay if the state receives an unfavorable ruling.



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# Equalized Public Education Revenues

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- PED has received preliminary permission from USDE to take credit for Impact Aid in FY21.
  - USDE still needs to make a determination for FY21
- Three school districts have filed a lawsuit in state court asking a judge to prevent PED from submitting information to USDE in support of its request to take credit in FY21.
  - At issue: What proportion of Impact Aid does the current law allow the state to take credit for? If federal rules limit the amount of the credit, is the entire credit invalidated?



# Categorical vs. Noncategorical Funding

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- Formula funding is for the most part “noncategorical”:
  - “It is the responsibility of the local school board or governing body of a charter school to determine its priorities in terms of the needs of the community served by that board. Except as otherwise provided in this section, funds generated under the Public School Finance Act are discretionary to local school boards and governing bodies of charter schools.” Section 22-8-18 NMSA 1978
  
- New Mexico provides some categorical funding outside of the funding formula:
  - Transportation
  - “Below-the-Line” Programs
  - Prekindergarten (through Early Childhood Education and Care Department)



## Categorical vs. Noncategorical Funding

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- Education finance scholars debate relative effectiveness of categorical vs. noncategorical funding.
  - Who decides priorities?
  - Will funding be directed as intended?
- Some states have traditionally funded a large number of categorical programs.
  - In some cases, those states are reevaluating the administrative complexity of these programs and choosing to simplify.
- Is flexibility with accountability possible?



## School District and Charter School Budget

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- SEG dollars go into the unrestricted operational fund. Because there is no requirement to spend SEG dollars in a particular way, this makes it more difficult to track how school districts and charter schools spend funding formula dollars.
- Significant local control over budgeting decisions.
- Local control over decisions to participate in optional programs offered through the public school funding formula.

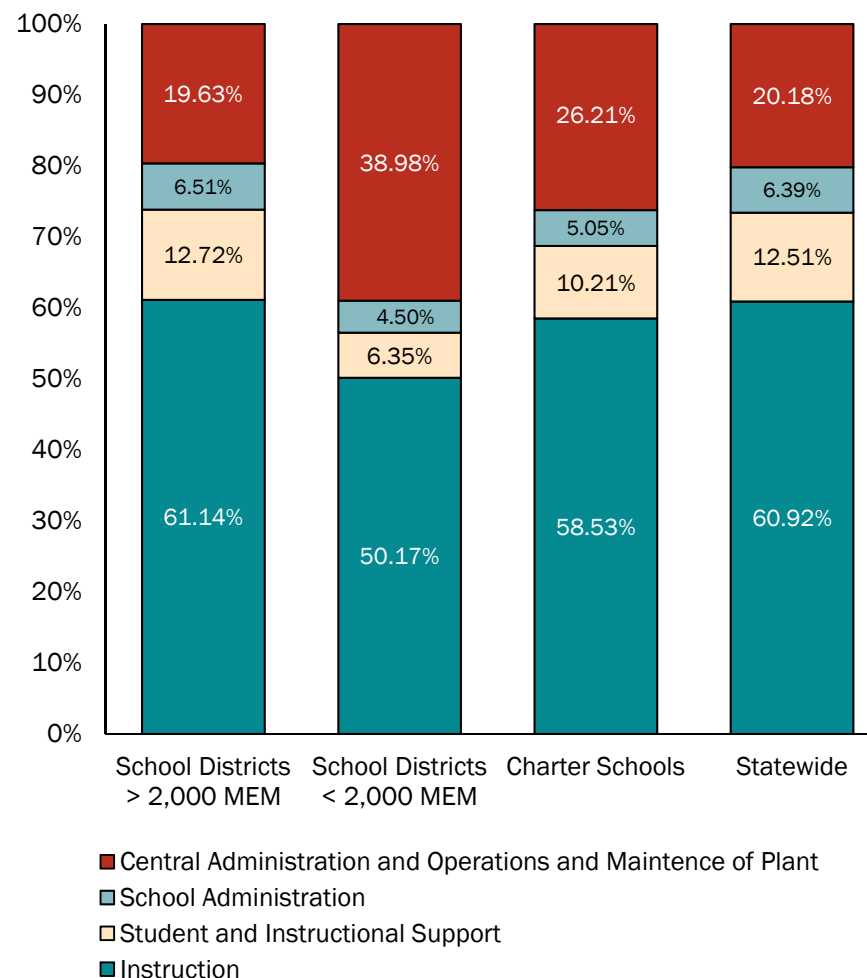




# School District and Charter School Budget

- School districts and charter schools budget by fund and function
  - Funds generally describe revenue source
    - Operational fund is unrestricted, other funds are restricted
  - Functions describe the general area of spending
    - Instruction is largest function, dealing with direct interaction between teachers and students

School District and Charter School Operational Fund Expenses, FY19





- In the consolidated lawsuit, the court rejected PED's argument that the department could not control school districts' spending, stating PED has read its statutory authority too narrowly.
- The court found PED must use its authority to review and assure that school districts are using money provided by the state to provide evidence-based programs to at-risk students.

## PED Oversight and *Martinez and Yazzie* Lawsuit

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- This finding presents a significant departure from the traditional manner of school district and charter school budgeting, which relies on local control of funds.
  - PED continues to struggle with how to implement this requirement.
  - Programs without buy-in at the local level may prove unsuccessful.

# PED Oversight and *Martinez and Yazzie* Lawsuit

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- New reporting requirements in HB5/SB1 to increase transparency around spending for bilingual multicultural education, special education, and at-risk funding generated through the funding formula.
- PED is increasing use of “program codes” to better track funding formula spending.
  - Elementary Fine Arts
  - Special Education
  - Vocational and Technical
  - Bilingual Multicultural Education
  - Alternative and At-Risk Programs
  - Special Education Services Using At-Risk Funds
  - K-5 Plus and Extended Learning Time
  - Co-Curricular and Extra-Curricular

# PED Oversight and *Martinez and Yazzie* Lawsuit

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- At-risk funding through the funding formula
  - Some restrictions placed on this funding.
  - Must be used for “research-based or evidence-based social, emotional or academic interventions.”
  - Statute provides a “menu” of options for school districts and charter schools (22-8-23.4 NMSA 1978).
  - Budget oversight and accountability is key.