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FISCAL IMPACT REPORT

SPONSOR Morales/Roch **ORIGINAL DATE** 1/28/16
LAST UPDATED 2/3/16 **HB** _____
SHORT TITLE Public School Funding Formula Amendments **SB** 141/aSEC
ANALYST Elkins

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY16	FY17		
	NFI	Nonrecurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files
LESC Files

No Response Received From
Public Education Department (PED)

SUMMARY

Synopsis of SEC Amendment

The Senate Education Committee Amendment to Senate Bill 141 removes the \$1 million appropriation from the general fund to PED for the hold-harmless provision in section 7 of the bill.

Synopsis of Original Bill

Senate Bill 141 phases in changes to the public school funding formula over a five year period, including:

- Aligning the training and experience index (T&E) with the three-tiered licensure system by implementing a new matrix with cost differentials called the Teacher Cost Index (TCI). The new TCI has funding weights associated with licensure level and years of experience and functions similar to the T&E but better recognizes cost changes as a result of teachers moving up the state's career ladder.
- Decreasing the school size adjustment factor for charter schools to 50 percent of current subsidy levels. A new charter school would be eligible for full size adjustment units in its first year of operation to recognize start up costs, and then the subsidy is decreased to

50 percent after five years.

- Increasing the at-risk weight from .106 to .15.
- A hold-harmless provision of \$1 million.

This bill is endorsed by the Legislative Finance Committee and Legislative Education Study Committee.

FISCAL IMPLICATIONS

The bill contains a hold-harmless provision to protect school districts and charter schools that may lose funding due to the funding formula changes proposed in this bill. The bill appropriates \$1 million from the general fund to the Public Education Department (PED) to carry out the hold-harmless provisions in FY17.

Overall, the bill's formula provisions would not create new units and thus additional potential costs. As a result, the unit value would increase. The level of formula funding appropriated would impact the calculation of hold harmless and the amount of funding received by districts and charters. For example, LFC/LESC analysis based on FY15 final funded units and assuming appropriations to the SEG increase by \$38 million in FY17 and \$30 million each subsequent fiscal year, the hold harmless would cost \$1.1 million in FY17, \$1.4 million in FY18, and \$1 million in FY19. If the assumed increase to the SEG in FY17 of \$38 million is decreased, the cost of funding the hold harmless provision would increase. Also the analysis estimates that once the changes to the funding formula have been fully phased in, the bill would result in a reduction of 17.5 thousand units. The \$70.1 million attributed to the 17.5 thousand units would remain in the formula and could increase the unit value 2.8 percent based on FY15 program cost and units.

SIGNIFICANT ISSUES

The three-tiered system provides large salary changes not accounted for in the T&E index. For several years the LFC has noted, in its present form, the T&E index is not aligned to the three-tiered system. An evaluation of the public school funding formula conducted jointly by the LFC and the Legislative Education Study Committee (2011), the New Mexico Effective Teaching Task Force final report (2011), and the AIR funding formula study (2008) recommended better alignment of the T&E index with the three-tiered system. For more than a decade, T&E index issues have been identified, including its impact on hard-to-staff high-poverty districts, as a multiplier for ancillary services staff units, and lack of alignment with the three-tiered licensure and salary system. Previous LFC reports found the T&E index directs more funding to more affluent school districts and produces a questionable return on investment after factoring in poverty. More recently, LESE analysis has noted how volatility in the T&E index can significantly affect the budgets of small school districts year to year.

The small size adjustment factor in the public education funding formula was originally intended to steer resources to small, rural communities with small schools that do not benefit from economies of scale. However, statute specifically prohibits schools that offer special programs, typically in urban areas, from receiving size adjustment funding. The 2011 joint LFC/LESC funding formula evaluation suggested that charter schools are barred from receiving school size units by statute. However, PED allows charter schools to generate school size units. As a result many charters, even in urban areas like APS, receive size adjustment funding and dilute the unit

value. This creates potential equity issues with some charters receiving far greater funding per student than the school district it is located in. As a result, students with similar needs have access to very different funding within a single district.

Difference in Funding between District Students and Locally Chartered Charter School Students, FY15

District	District Funding per Student	Local Charter School Funding per Student	Percentage Difference
Gallup-McKinley County Schools	\$7,513	\$12,909	72%
Deming Public Schools	\$7,249	\$10,675	47%
Roswell Independent School District	\$7,122	\$9,940	40%
Taos Municipal Schools	\$7,883	\$10,001	27%
Albuquerque Public Schools	\$7,429	\$9,373	26%
Las Cruces Public Schools	\$7,408	\$9,093	23%
Carlsbad Municipal Schools	\$8,225	\$10,037	22%
Espanola Public Schools	\$8,055	\$9,502	18%
Aztec Municipal School District	\$6,866	\$7,606	11%
Santa Fe Public Schools	\$7,443	\$8,265	11%
Cimarron Municipal Schools	\$10,972	\$11,421	4%
West Las Vegas Public Schools	\$9,026	\$9,317	3%
Socorro Consolidated Schools	\$7,843	\$7,738	-1%
Jemez Valley Public Schools	\$9,917	\$9,415	-5%
Jemez Mountain Public Schools	\$11,939	\$10,966	-8%
Questa Independent School District	\$10,724	\$9,726	-9%
Farmington Municipal Schools	\$6,921	\$6,159	-11%

Source: LFC Files and Final Funded Membership Run

Three recent independent studies have made a series of recommendations to either implement a new formula or adjust the existing formula and all have recommended directing increased funding to serve the state’s most at-risk students. As part of the Funding Formula Study Task Force, the American Institutes for Research published “An Independent Comprehensive Study of the New Mexico Public School Funding Formula” (2008). The study recommended including higher factors for students in poverty or not fluent in English. In November, 2011, a joint study evaluating the public school funding formula by the LFC and Legislative Education Study Committee also recommended allocating higher funding for at-risk students. In 2012, the Maddox Foundation of Hobbs, New Mexico commissioned researchers from Syracuse University to conduct a funding formula review. This study also argued for higher funding for at-risk students.

The current formula places little weight, as compared with other components and other states’ formulas, on the additional costs associated with educating at-risk students. Currently, approximately 3 percent of total public education funding is directed to serve the state’s at risk students, identified based on English language status, Title I status, and mobility.

**Selected States' Incremental
Funding for At-Risk Students**

State	Additional Funding Provided per At- Risk Student
Minnesota	50%
Georgia	30%
Texas	25%
Vermont	25%
South Carolina	25%
Missouri	25%
Oregon	25%
Connecticut	25%
Maine	20%
Louisiana	19%
Michigan	12%
Hawaii	10%
New Mexico	10%
Mississippi	5%

Source: Verstegen and Jordan, 2009

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