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New Mexico's school formula for financing public school operations is widely regarded as one of the nation's most equitable.

School Finance Formula in New Mexico

David Colton and John B. Mondragon

Formula: Origins—1994

New Mexico's formula for financing public school operations is widely regarded as one of the nation's most equitable. Although there are sizable variations among districts' spending per pupil, those variations arise from cost factors rather than from inter-district variations in local property value. Fiscal neutrality has been achieved. (However, as discussed below, funding for capital expenditures is a different story.)

The main features of the current funding formula were adopted in 1974. Previously, most state aid was distributed to districts on a flat-grant or weighted-pupil basis, without regard to local tax effort or capacity.¹ Districts supplemented the flat grants with local property tax revenues. These revenues varied widely, ranging in 1973 from less than \$50 per student in economically-depressed communities to more than \$700 per student in mineral-rich districts.²

Concern for wealth-based inequities in school spending officially was acknowledged in the late 1950s. Paul Mort was commissioned to study the situation. In 1961, he recommended a foundation-type program.³ Although the foundation concept was not compelling to New Mexico's school policymakers at the time, the legislature did institute a "minimum support" distribution to the poorest districts. The effort was small. By 1968 only 1% of state aid was going into the minimum support fund.⁴

In the early 1970s equity concerns became more compelling, nourished by nationwide attention to equal protection issues in many social arenas, by the *Serrano* and *Rodriguez* school finance cases, and by policy-oriented inquiries such as the National Education Finance Project (NEFP). A doctoral study found that New Mexico's patchwork school aid system was "disequalizing."⁵ Although the legislature subsequently increased its minimum support distribution, a law review article warned that New Mexico was unlikely to prevail in a *Serrano*-type case unless the state aid system was revamped.⁶ A *Serrano*-type suit was filed soon thereafter. Meanwhile, legislative reapportionment had led to the formation of a powerful new coalition of legislators representing Albuquerque and poor rural districts. Coalition members were receptive to ideas beneficial to these areas.⁷

In 1973 the governor appointed a committee to study the school funding situation and make recommendations. Applying concepts advocated by the NEFP, the committee proposed a

weighted-pupil formula for distributing state funds. The base funding unit, weighted at 1.0, was a student enrolled in grades 4–6. Different weights were attached to students at other grade levels and to students in special programs. Other cost-based formula factors included an index of teacher training and experience, and a small-school factor, each capable of generating additional funding units for a district. Using the formula, each district could tally its funding units and, ultimately, its share of statewide school operational funds. All state operational funding except for transportation and textbooks was to flow to districts through the formula, effectively ending categorical funding.

It would be up to the legislature to annually establish the "unit value" and, hence, the size of a district's budget (units x unit value). However, the committee did not propose that the legislature assume the full burden of funding the units. Local property levies would continue, albeit at a uniform mill rate. Ninety-five percent of the proceeds of each district's property levy (plus other local revenues, plus the proceeds from non-categorical federal aid), was to be deducted from each district's entitlement to state aid. The remainder of the entitlement would be supplied by the state. Thus, except for the five percent exempted from crediting against a district's state entitlement, total operational funding in each district was to be determined by the district's tally of funding units, rather than its wealth.

The proposed plan offered several attractions. It was appealing on equity grounds, and it eliminated the threat of judicial intervention. It replaced an increasingly complex set of categorical funds with a single block grant. It substituted ostensibly-objective cost calculations for partisan and localist considerations in distributing school operational funds. It retained local discretion inasmuch as it simply established the magnitude of local operational budgets, rather than defining how the funds should be utilized. It responded to the needs of the coalition newly empowered in the legislature. Adding only a "district sparsity" factor intended to offset potential opposition in several thinly populated districts, and a short-term save-harmless proviso, the proposed plan was enacted by the legislature early in 1974.⁸

In the ensuing years the formula underwent continuous scrutiny. By the time of its twentieth anniversary in 1994, some forty amendments had been adopted.⁹ Many of them were technical refinements which closed loopholes, adjusted weightings based on new cost studies, modified definitions and counting rules, and accommodated special circumstances such as unusual enrollment fluctuations, or the formation of new districts.

Other amendments affected the equity features of the formula. The most important of these occurred in 1981. In the midst of a nationwide property tax revolt signaled by California's Proposition 13, and bolstered by a state treasury overflowing with revenues from then-flourishing extractive industries, the New Mexico legislature slashed the required local school property tax levy from \$8.95 per \$1000 to \$0.50 per \$1000. There were three notable effects on school funding. Two of them served to enhance the fiscal neutrality of the New Mexico school funding plan. First, the reduction in local school tax revenues reduced the inter-district revenue disparities stemming from the 1974 statutory proviso which left five percent of local revenues free from crediting against a district's state funding entitlement. Second, the few extremely wealthy districts which had found it advantageous to forego participation in the 1974 funding program, could no longer afford to do so. Whereas a \$8.95/\$1000 levy produced higher operating budgets in these districts than did the state guarantee, a levy of \$0.50/\$1000 did not. Only one district, Los Alamos, remained "outside the formula." Created as a wartime science and engineering enclave subsidized by federal government,

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Los Alamos still is an anomaly in New Mexico's progress toward full equity in school funding.

The third effect of the 1981 reduction in school property taxes was to shift to the legislature virtually the entire burden of providing operational funds for schools. Under the original 1974 formula, only one-sixth of operating funds in New Mexico came from local taxes. This modest cushion against fluctuations in state revenues was lost with the 1981 cut in local school tax rates. In 1983 the state's economy, heavily dependent on oil and other extractive industries, suddenly entered a period of fiscal stress. With half of the state's annual budget already going to the public schools, and with the schools' near-total dependence on state appropriations, revenue problems at the level quickly were reflected in revenue problems at the district level. The situation was aggravated by a reversal in the previous years' pattern of enrollment decline, and by demands for expensive school reforms stimulated by publication of *A Nation at Risk* in 1983.

Calls for re-imposition of school property taxes soon materialized. In 1984 a Governor's Commission recommended repeal of the school property tax cut enacted two years earlier.¹⁰ However, neither the governor nor the recommendation were very popular, and the proposal went nowhere. A new governor elected in 1986 was generally opposed to tax increases, but he lent his support to discussions about instituting "local option" levies. Proponents of equity protested that such a strategy would compromise the state's previous accomplishments in providing equitable school funding. Efforts to forge an acceptable solution persisted through the rest of the decade, but none made it through the legislature. Instead, increases in income and gross receipts taxes were enacted. While they were sufficient to forestall reductions in force in the schools, they were not sufficient to prevent major declines in New Mexico's national rankings in teacher salaries and per pupil spending. By the early 1990s the state's economy had recovered somewhat, and talk of school property taxes subsided. However, competition from other sectors, e.g. corrections and health, resulted in gradual diminution of the public schools' share of total state appropriations. Thus, while the equity agenda remained intact, adequacy questions grew in importance.

Some post-1974 amendments stemmed from the nationwide school reform movement which began in the mid-1980s. As enacted in 1974, the New Mexico funding formula was deliberately designed to insulate school districts from the legislative interventions that might be expected with legislative assumption of full responsibility for school funding. Categorical funding was curtailed, statutory language expressly provided for local discretion, and misalignment between formula factors and local accounting categories was sustained—all in an effort to minimize legislative intervention in school decisions. The strategy meshed with New Mexicans' deeply-rooted suspicion of central authority, but it proved to be a problem when a reform-minded coalition gained control of the legislature in 1985 and then enacted a comprehensive school reform bill. Whereas formula weightings heretofore had been derived from studies of how school districts allocated their funds, i.e. from the bottom up, the 1986 reform legislation sought to alter school spending patterns (e.g. lowering primary grade class sizes) by making top-down changes in formula weightings, by demanding changes in State Department of Education regulations, and by introducing categorical funding which compromised the 1974 strategy of appropriating all education funds through the formula.

The reform coalition lost its grip on the legislature in 1987, and many of its initiatives subsequently were attenuated or deferred. However, a derivative discussion, focused on "at risk" students, became the pretext for a coalition of large districts to

win legislation adding an "urban density" factor to the formula, ostensibly balancing the long-established "sparsity" factor. The strategy backfired. Middle-sized district filed suit alleging that the factor was unreasonable one, inasmuch as -risk students were not unique to urban districts. Another legacy of the reform movement was growing dissatisfaction about the formula's exclusive attention to cost inputs, without regard to school outcomes.

By the mid 1990s then, the 1974 formula had accrued criticisms from many quarters. Adequacy issues which had come to the fore in the 1980s had not been resolved. State-initiated school reform efforts in the 1980s had been frustrated by the 1974 formula's barriers to state interference with local operations, but accountabilists still sought some connection between school funding and school performance. The Los Alamos exception, and the formula's inattention to long-standing inequities in the capital spending area, armed critics with arguments for revising the formula. Critics also emphasized per pupil spending differences among districts, neglecting to note that the 1974 formula was intended to eliminate wealth-based spending differences rather than cost-based spending differences. Adoption of the urban density factor, coupled with complaints about the Albuquerque district's use of waivers to obtain extra "training and experience" dollars, fractured the fragile consensus which had united school districts around the 1974 formula. Faced with these contending pressures and agendas, in 1995 the legislature and governor turned to a traditional solution—an outside study.

The Funding Formula Study—1995

The 1995 Legislature passed legislation that would fund a study of the funding formula. The study was to be based on the 1994–95 school year. However the legislation was vetoed by the governor, who claimed that the State Board of Education had the authority and the funds to do the study.

Subsequently the Governor's Office, the Legislative Council Service, and the State Board of Education, found enough funds to proceed with the study. These three units of state government then appointed a Funding Formula Task Force and a Request for Proposals was issued. The major purposes of the study were: 1) to analyze the equity of the New Mexico public schools funding formula, 2) to make recommendations for changes in the formula, 3) to review and analyze the capital outlay system for schools, and 4) to review and analyze current regulations and procedures for local district budgetary review, student and fiscal accounting, and accountability reporting.

The consultant, with assistance from Legislative Study Committee and State Board of Education staff members, conducted a series of meetings with the Funding Formula Task Force and conducted interviews with over 80 state officials, education leaders and local district personnel. A survey was sent to all 89 local school superintendents and other district administrators. In September 1996 the consultant presented its findings to the Funding Formula Task Force. The findings were:

- 1 The formula is highly equitable, and enjoys strong support throughout the state;
- 2 Weights for special education should be changed to reflect the current practice of inclusion;
- 3 Despite the acknowledged equity of the formula, there is strong perception of unfairness in the density factor which is applicable to larger school districts and in training and experience (T and E) waivers;
- 4 There is a compelling concern about the adequacy of funds appropriated to equalization guarantee;

- 5 There are insufficient resources in the State Department of Education to effectively monitor the desired level of accountability within the school districts; and
- 6 In contrast to the highly equitable distribution of operational funds through the formula, funding of capital outlay is highly inequitable.

After a series of forums, the Task Force accepted the findings through consensus. The findings were pretty much what had been expected. The chairwoman of the Task Force, a highly respected legislator, worked diligently in keeping the group focused on the purpose of the Task Force which was to come together on recommendations to the three entities that had given them the charge: the State Board, the Legislature and the Executive. This was a specially difficult task because of intense political division among the governor, legislative leaders and the state board. At the heart of the struggle were differing conceptions about the amount of money to be appropriated for schools at the 1997 legislative session, and the proportion to be used to "fix the formula."

After much debate and testimony, the Task Force made the following recommendations:

- 1) The special education students should be counted as regular student membership with added weights depending on the severity of the disability, and
- 2) The size adjustment relating to density be repealed and replaced with an at-risk factor that would be available to all school districts and would be determined for each district by a computation based on the number of Title I eligible students, limited-English-proficient (LEP) students, mobility of students, and drop out rates.

The task force made some other recommendations outside the funding formula. These were:

- 1 Terminate waivers to training and experience index calculations.
- 2 Appropriation of money to establish a state wide accountability data system; and
- 3 Appropriation of money to conduct a comprehensive inventory of public schools facilities and assessment of capital outlay needs.

The Task Force recommended an infusion of \$55 million in new money in order to make these changes. This amount would be above the money required for growth, inflation and salary adjustment. This would prevent those districts previously benefiting from waivers and density funds from losing money.

The recommendations listed above were presented to the Legislative Education Study Committee which is a permanent legislative committee of representatives and senators from both parties. The committee accepted the findings and recommendations. They knew that there would be heated debate in the legislature. The Legislative Finance Committee was adamant that the economic condition of the state and the needs in such areas as corrections and health and social services would not permit a \$55 million formula fix. The Legislative Finance Committee predicted that the most they could come up with for education was \$22 million. In order for the formula fix to be implemented \$55 million was needed. Commitment to this figure had been the key to attaining Task Force consensus. It was the minimum if no district was to get hurt.

The legislature vehemently debated the recommendation and specifically the additional funding needed. The governor's office proposed a constitutional amendment in which 50% of the state budget eventually would go for education. The amount for the previous year was 46.7% of the state budget for education. The legislation introduced on this subject got nowhere in the

legislature. However, it must be noted the governor in principle had committed to increased funding for education.

The heated discussion in the legislature was between the two houses. The House insisted they could not afford the \$55 million, the Senate, willing to call the governor's hand, proposed to go for the total amount of new money available which was approximately \$130 million, which would raise 1997-98 spending for education K-12 to 50% of the total state budget. After much debate and exploring all kinds of funding within the state budget the legislature agreed on funding the first two recommendations, thus providing for inclusion funding for special education students and establishing the at-risk factor in the funding formula. The amount for this was at the level that the Task Force had recommended, with some additional money for salary increases. Also included in the legislation was the request for the implementation of 1) an accountability system for use by the State Department of Education and 2) a capital outlay study.

The latter two recommendations were vetoed by the governor. However he did sign the legislation which provided \$62 million new dollars. This, the governor stated, was enough money for the implementation of the accountability system and for salary increases for public school employees.

The legislature and the governor finally supported and enacted this substantial funding increase because of a concerted and united effort of the major constituencies which included: school administrators specifically school superintendents, the School Boards Association, the two major teachers unions (NEA, AFT), state PTA, the League of Women Voters and other major constituencies. They had all been involved in the formula study in some way and thus they all had ownership and supported the recommendations of the Task Force.

Even though the recommendation for updating the accountability system and study of capital outlay needs did not make it, the legislative session was a success for K-12 education. The capital outlay issue is still being debated and it appears at this time that the state board will find some money to do something in each of these two critical areas of need.

The future

The future of educational funding and finance for K-12 education in New Mexico will continue to be one of the top issues for the state. The agenda items in educational finance for New Mexico continue to be the same as across the country. One of the major items that is being addressed is increasing funding with accountability for student achievement. The whole issue of vouchers, home schooling and charter schools are big discussion items which will impact the financing of schools. There is another hot item and this is standards and bench marks. The State Board of Education is in the process of developing standards in all the basic areas of the curriculum. At the same time the whole issue of student testing and accountability will fill the agenda in the area of financing schools. The legislators and state board are addressing issues in a more proactive manner since the governor attempted to do away with an elected state board. He proposed the education system be managed by his office through a secretary of education and a governor-appointed state school board. The whole issue of adequacy is one that will not go away. The state has handled the funding for public schools well and has in place one of the most equitable funding formula.

Another task that elected officials have to address is where to find enough resources to increase the dollars for K-12 education. It appears that along with this discussion will be an attempt to allow school districts to tax themselves to improve their programs. This of course is against all efforts made to equalize education across the state.

Endnotes

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