



AMERICAN INSTITUTES FOR RESEARCH®

An Independent Comprehensive Study of the New Mexico Public School Funding Formula

Executive Summary

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The AIR research team takes sole responsibility for the entire substance and content of this report and operated independently on arriving at any recommendations regarding the costs of sufficiency.

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Executive Summary

What is the cost of providing all New Mexico public school students with a sufficient education and how should the state equitably distribute these resources so that all students have the opportunity to meet the goals set forth by the public and the state?

This report presents the results of a 16-month effort by the American Institutes for Research (AIR) to determine the cost of a sufficient education for all public school students in New Mexico. While AIR provided the framework for the analysis, the results presented here very much represent a collaborative effort among a dedicated group of policymakers, educators, advocates, and citizens of New Mexico.

The project included three major components: (1) a public engagement process to clarify the goals of public education and define the concept of sufficiency; (2) a component to determine the cost of a sufficient education; and (3) the development of a new school funding formula.

The Bottom Line

The bottom line estimates derived from this study suggest that state support for public schools should increase by 14.5 percent (or \$334.7 million in 2007-08 dollars) to achieve sufficiency in New Mexico.¹ The methods used to arrive at these estimates and what they mean are described in this volume of the final report (Volume I). More details of the analysis are presented in a separate volume (Volume II – Technical Appendices).

The Funding Formula Study Task Force and the Project Advisory Panel

AIR was ultimately accountable to the Funding Formula Study Task Force (henceforth referred to as the task force), which was responsible for contracting out the project and establishing the parameters for this study. AIR requested that a working group be formed as a subset of the task force to help serve as a liaison between the AIR team and the larger task force. This working group became the Project Advisory Panel (PAP) and included legislators, superintendents and other individuals with expertise and/or an interest in the funding of public schools.² The PAP met on numerous occasions during the course of the study to support the work of the AIR team.

Public Engagement, Role of the Stakeholder Panel, and Defining Sufficiency

The initial phase of this project involved a public engagement process designed to define the concept of sufficiency. The definition of sufficiency then served as the foundation for the subsequent estimates of the cost to achieve sufficiency at the school, district, and state level. AIR organized a range of public engagement activities for the purpose of seeking public and policymaker input in defining the goals and objectives for New Mexico public schools. As part of this public engagement process, online and paper questionnaires were available to both the public and a targeted group of legislators and other key stakeholders. In addition, town hall meetings were held in a number of communities throughout the state.

¹ 2007-08 was chosen for the analysis due to the fact that this was the most recent year for which the necessary fiscal and demographics data was available.

² Please see Volume II, Section 1.1 – Project Advisory Panel Membership List for a complete list of the PAP and their titles.

With the help of the PAP and a wide variety of education, citizen and advocacy groups around the state, the Legislative Council Service (LCS) worked with AIR to establish a larger Stakeholder Panel. The Stakeholder Panel was comprised of PAP members, representatives from various education organizations, superintendents, members of the business community, parents, taxpayers and other interested individuals.³ The PAP members were a subset of the Stakeholder Panel and the task force. The Stakeholder Panel met on two occasions during the project and provided feedback to AIR and the PAP.

The Stakeholder Panel met in January of 2007 as part of a culminating activity of the public engagement process. This initial meeting synthesized the information emerging from the public engagement activities, and the Stakeholder Panel contributed to the development of the *Goals Statement* that was used as the basis for defining the concept of sufficiency (see exhibit I).

The Methodology: Costing-Out a Sufficient Education

AIR used the professional judgment approach as the methodological centerpiece for this study. With input from the Stakeholder Panel, the PAP, school principals, district superintendents, and a wide variety of professional educator associations around the state, AIR selected six independent professional judgment panels (PJPs) representing the diversity of urban, suburban-small town, and rural-remote school districts around the state. Each PJP consisted of a superintendent, three principals, a special education director, an English learner specialist, school business officer, and two teachers.

The PJPs attended a three-day meeting to design the instructional programs they felt were necessary to achieve sufficiency as described in the Goals Statement. The PJPs were then asked to specify the resources necessary to deliver those programs to schools of varying size and student demographics (including poverty, English learner status, mobility, and disability). In order to complete this task, the panels were provided with a set of background information: (1) a series of research briefs written by experts in the field about effective practices for English learners, at-risk students, students with disabilities, and students in rural areas, as well as an additional brief addressing research-to-practice issues, and (2) an analysis of staffing patterns found on average statewide and in the most highly-performing schools in the state (compared to demographically similar schools). The AIR team used the variations in resource specifications associated with school size and pupil needs to estimate the differential cost of achieving sufficiency.

As part of its professional judgment approach, AIR incorporates a formal external review of the PJP program designs and specifications (the professional judgment review process). The purpose of this review is to ensure that the final program designs are efficient and to arrive at a more realistic and grounded set of specifications and cost estimates. AIR elected to have the PAP serve in this review capacity. To this end, a further step in our model required the PAP to interact with selected representatives from the professional judgment process to explore, question and comment on the panel deliberations. PJP representatives were expected to respond to the PAP's questions and justify the work they completed in the professional judgment process.

³ A complete list of members of the Stakeholder Panel can be found in Volume II, Section 1.2 - Stakeholder Panel Membership List.

Exhibit I: Goals Statement

Background

It is the purpose of New Mexico schools, in partnership with families, to

- 1. prepare all students to be responsible citizens and family members,*
- 2. prepare all students for educational success, and*
- 3. prepare all students to obtain and maintain gainful employment.*

By “all” students, it is implied that each student will be provided the opportunity to meet these goals, regardless of classification (English language learner, poverty, special education or otherwise) or location. To accomplish these goals, public schools shall follow the Public Education Department (PED) Commitment to Excellence, which acknowledges that developing an educated citizenry requires all partners of the educational community to share and support a vision of excellence (NMAC, Title 6, Chapter 30, Part 2).

Four Critical Elements

This *Goals Statement* encompasses four indispensable and interrelated elements, each of which is described below. Details for each of these elements are provided in the Public Engagement Report found in Technical Volume, Section 2.1 - Public Engagement Report.

1. Underlying Philosophies

State-level goals of excellence should coexist and be balanced with appropriate individual and local goals. Students shall have access to a multicultural education, diverse and highly qualified teachers, necessary supports to achieve these goals, and a range of enhancement opportunities offered in local communities.

2. Content Standards

All public school students shall make positive and measurable gains through appropriate instructional programs aligned to state content standards and benchmarks. Children will be challenged to learn and succeed, drawing on their strengths through diverse and multiple learning styles.

3. Knowledge, Skills, and Personal Qualities

New Mexico high school graduates shall exhibit a range of knowledge, skills, and personal qualities that enable them to be successful, productive members of their communities, the nation, and the world. Schools, in partnership with families and communities, seek to promote personal qualities in ways that integrate with content curriculum and in conjunction with curricular and co-curricular activities.

4. Performance Goals

All students in New Mexico’s public education system should have the opportunity to make demonstrable, appropriate growth each year on a wide range of measures. Students should be provided the opportunity to demonstrate learning outcomes aligned with standardized measures reflective of state, national, and international standards *and* to demonstrate growth in areas not captured by standardized tests. In addition, students graduating from New Mexico high schools should have the requisite skills to enable entry into community college and/or entry into the work force without remedial needs.

This process involved a review of the PJP program designs, resource specifications, and corresponding preliminary cost estimates. The PAP invited representatives, including superintendents, from each of the six PJPs to a full-day meeting to gain a better understanding of the program inputs and resource specifications of each of the six panels. The PAP wanted to learn more about the perspectives of the PJPs and to obtain more information about the program designs and the resource specifications underlying the initial cost estimates. After these presentations and conversations with the representatives, there was agreement that some of the programs developed by the PJPs could be designed more efficiently.

As part of the review of the PJP program designs and resource specifications, the PAP was given the same materials that were provided to the PJPs prior to their deliberations, and was presented with the set of exercises that had been completed by the PJPs. An AIR research team member served as the facilitator for three two-day sessions of PAP deliberations. The majority of the PAP members who worked on revising the PJP designs and specifications were current or former educators including both superintendents and teachers. This type of review process has previously been used by AIR studies to synthesize information emerging from multiple panels.⁴

For these deliberations, the PAP started with the program design documents and cost model worksheets originally developed by the PJPs. The PAP made every effort to maintain the conceptual underpinnings of the deliberations and designs of the original PJPs in its decisions regarding final specifications.⁵ The cost estimates derived from these PAP deliberations were used as the basis to develop the final projected costs of achieving sufficiency in New Mexico school funding.

Both the cost analyses derived from the PJPs and the PAP specifications reveal similar patterns of variation in the cost of sufficiency associated with student poverty, English learner status, student disability, student mobility, and the scale of school and district operations. It is important to note that there were some differences among the panels in the program designs and resource specifications they felt were necessary for achieving sufficiency. To some degree, these differences resulted from a lack of universal agreement in the professional literature in education as to “what works.” This suggests that there is no uniform model of services from which an unambiguous, single estimate of the cost of achieving sufficiency can be derived. The educational goals by which sufficiency was defined are not precise *per se*, but provided a guiding vision for the PJPs and the PAP in the development of their program designs. Both the PJPs and the PAP made deliberate efforts to develop program designs based on best practices and indeed the work of the PAP drew heavily from the work of the original PJPs.

In addition, the PAP revisions attempted to follow the laws addressing the provision of public education in New Mexico in developing what it believed were efficient specifications to achieve the goals set out by the Stakeholder Panel. The PAP was also guided by statements in the original request for proposal for this project, which stated that the purpose of the study was to determine:

- what an appropriately sufficient basic K-12 educational program includes and how to fund that program given the realities of New Mexico's economy;
- how to ensure that the factors in the formula meet the needs of New Mexico's diverse school districts, schools and students and distribute sufficient resources to support student achievement; and

⁴ See, for example, the discussion about the school finance adequacy study carried out for New York State (Chambers et al., 2004).

⁵ The resulting program design documents and cost model worksheets used by the PAP are included in Volume II, Sections 3.11 - Program Design Documents from Project Advisory Panel (PAP) and 3.12 - Cost Model Worksheets for the Project Advisory Panel (PAP).

- how to provide effective and efficient incentives to enable low-performing schools to raise their performance to state and federal No Child Left Behind Act standards⁶.

Ultimately, this project and the proposed funding formula represents an amalgam of a process that identifies best educational practices, the judgments of professional educators and the careful assessment of policymakers regarding the political and economic realities of the state.

Overview of Instructional Program Designs

The instructional program designs developed by the panels (PJPs and PAP) added resources to reduce class sizes, allocated additional personnel to support language and cultural heritage programs, extended the instructional year for all students, and added specialists to work with small groups of students and foster professional development opportunities for teachers. The need for high-quality professional development was seen as integral to improving student achievement and retaining quality teachers. Panels emphasized that student achievement was not necessarily dependent on the number of personnel staffed at the school level, but how their roles and time were allocated.

Projecting the Costs of a Sufficient Education

As described above, the PJPs and the PAP deliberations resulted in a series of program designs and resource specifications for a series of school prototypes. School prototypes were developed for each schooling level (elementary, middle, and high schools) across the three categories of districts (urban, suburban-small town and rural-remote) represented. These prototypes were also designed for a series of schools to meet the varying pupil needs (e.g., varying percentages of students in poverty, English language learners, students receiving special education services, and mobile students) across schools of varying sizes.

The next step in the process involved costing out these school prototypes and then developing a procedure for projecting these costs across actual schools within the state. AIR used compensation rates for school personnel derived from extant PED data to cost out these prototypes. That is, these cost estimates reflected the per pupil dollar value of personnel and non-personnel resources deemed necessary for elementary, middle and high schools to achieve sufficiency. This analysis was used to generate several equations that estimated patterns of variation in elementary, middle and high school program specifications and subsequent necessary expenditure to reach sufficiency in a variety of educational settings defined by different levels of school enrollment and pupil needs.

To the school-level costs, AIR added three elements: (1) the estimated costs of ancillary or related services (e.g., speech therapy, and physical and occupational therapy) for students with disabilities; (2) the costs of instructional and related services for three- and four-year-old developmentally disabled (DD) students; and (3) the estimated costs of central school district administration along with the costs of maintenance and operations services.^{7,8} The subsequent

⁶ See pp. 6-7 of the Request for Proposal for “An Independent Comprehensive Study of the New Mexico Public School Funding Formula”.

⁷ The reader is further reminded that this project did not account for home-to-school transportation costs or any costs associated with major capital facilities, including debt service.

costs of non-charter schools were aggregated (summed) within district, while those for charter schools were kept disaggregated. Using these calculated projections, final district- and charter-school level regression analyses were performed, the results of which provided formulas used to derive per pupil and bottom-line total estimates of the cost of a sufficient education.

The Results

Calculation of Marginal Spending Necessary to Achieve Sufficiency

The main purpose of the professional judgment process was to generate a projected cost that would support the provision of a sufficient instructional program to all public school students, regardless of circumstance. To this end, the PJPs and PAP were instructed to design a comprehensive instructional program and specify the sets of resources necessary to provide this program in a variety of settings defined by levels of pupil needs and school size. In doing so, the panels were explicitly told to focus primarily on the comprehensive set of resources and services necessary to achieve the *desired goals*. They were told further not to think explicitly about specific revenue sources (e.g., Title I, IDEA, or other categorical funding programs) that might be used to support specific categories of classroom teachers, resource teachers, specialists, etc., necessary to implement their program designs.

Asking the panels to ignore specific revenue streams in this fashion was done for two reasons. First, it is undesirable to constrain the use of specific resources, as is regularly done with those supported by categorical funding streams. And second, doing so would inherently impose a budget constraint that undermines the primary intention of the process: that is, to identify how much funding is necessary to provide a sufficient education comprehensive enough to meet the needs of all students. Thus, the costing-out process yielded a formula to calculate the total projected cost to achieve sufficiency (see row A of table 5.1, below), irrespective of funding source. However, our goal is to use this information to develop a new public school funding formula that distributes sufficient resources.

Table I illustrates how we first estimated the overall marginal cost of achieving sufficiency and then uses this information to show how much program cost (i.e., the dollars that flow through the New Mexico public school funding) would need to be increased in order to achieve sufficiency. To calculate how much more had to be spent to achieve sufficiency (i.e., the marginal cost to achieve sufficiency), we had to first isolate the total current educational spending from the most recent (2005-06) expenditure file that was available from the PED (row B.1).⁹ This total current

⁸ AIR also conducted a study to develop a geographic cost of education index (GCEI) for New Mexico. The purpose of this analysis was to address the following question:

How much more or less does it cost in different local school districts to recruit and employ comparable teachers or other school personnel?

We used data from the PED to analyze the patterns of variation in teacher costs across the state and to isolate those factors outside local control to incorporate into the GCEI. While AIR initially recommended the application of the GCEI to the sufficiency cost estimates, there were serious reservations expressed by the PAP regarding the external validity of the geographic cost adjustments. Due to these concerns the GCEI was not included in the final cost projections.

⁹ Volume II, Section 5.3 - Expenditure Line Items Included in Total Current Spending Used to Compare Against Total Projected Sufficiency Costs provides a detailed listing of the line items from the expenditure file that were

educational spending figure was then adjusted to reflect 2006-07 dollars (row B.2), the most recent year for which we had demographics and enrollment data to project sufficiency.¹⁰ The adjusted total current educational spending figure was then subtracted from the statewide bottom-line projection of sufficiency (the total projected cost to achieve sufficiency in row A), which was calculated by plugging the PED data on demographics and enrollment for the 2006-07 school year through the developed formula. This result provided the marginal cost to achieve sufficiency for the same year (row C). Finally, the marginal cost was then added to the 2006-07 total actual program cost (the total amount of funding distributed through the existing public school funding formula) to determine the projected sufficient program cost for 2006-07 (row E).¹¹

Table I: Determination of marginal cost to achieve sufficiency	
A – Total Projected Cost to Achieve Sufficiency for 2006-07	\$ 2,836,755,450
B.1 – Total Current Educational Spending 2005-06	\$ 2,387,636,779
B.2 – Total Current Educational Spending 2005-06 Inflated to 2006-07 Dollars	\$ 2,500,928,765
C –Marginal Cost to Achieve Sufficiency (Incremental Cost Over Total Current Educational Spending Necessary to Achieve Sufficiency in 2006-07, Equal to A Minus B.2)	\$ 335,826,685
D – Total Actual Program Cost 2006-07	\$ 2,167,073,473
E – Projected Sufficient Program Cost 2006-07 (Equal to C Plus D)	\$ 2,502,900,158

Using the information in rows A and E of the table, we developed a scaling factor that allows the district- and charter-school funding formulas to project sufficient per pupil spending in terms of program cost (i.e., only the dollars that are to be distributed via the public school funding formula) rather than total educational spending.¹²

Sufficient Per Pupil Cost Estimates by District Type

Exhibit II compares the statewide average 2007-08 projected sufficient per pupil program cost generated by the final funding formulas to actual per pupil program cost and emergency supplemental funding as reported in PED fiscal data for the same year.¹³ Note that AIR

included as total current spending. Expenditure file taken from the 2005-06 StatBook, Section C, pages 175-516 (downloaded from <http://164.64.166.16/school.budget/nm.stat.06/indexnew.html>).

¹⁰ This was done by taking a weighted average of inflation associated with compensation (salary and benefit) and non-personnel spending (using the Consumer Price Index (CPI)), the weights being the respective shares of personnel and non-personnel operational expenditures with the shares calculated from the 2005-06 Expenditure File.

¹¹ The 2006-07 actual total program cost was derived from the PED 2006-07 Final Funded data file and equals the sum of the State Equalization Guarantee (SEG), the 75 percent credits for the 0.5 mill levy, forest reserve and impact aid, and the energy savings credit. Note that this figure differs very slightly from the reported program cost in that it excludes held over cash balances, which is included in the definition of total program cost in the current funding formula. This was done because AIR recommends that districts be able to retain any cash balances from year to year (see footnote, below).

¹² Specifically, the scaling factor to adjust total sufficiency to sufficient program cost (equal to 0.882) is defined as the ratio of the Projected Sufficient Program Cost 2006-07 to Total Projected Cost to Achieve Sufficiency for 2006-07 in table 5.1.

¹³ The 2007-08 emergency supplemental funding was calculated by adjusting the most recent data available (2006-07) by an appropriate inflation factor (1.047).

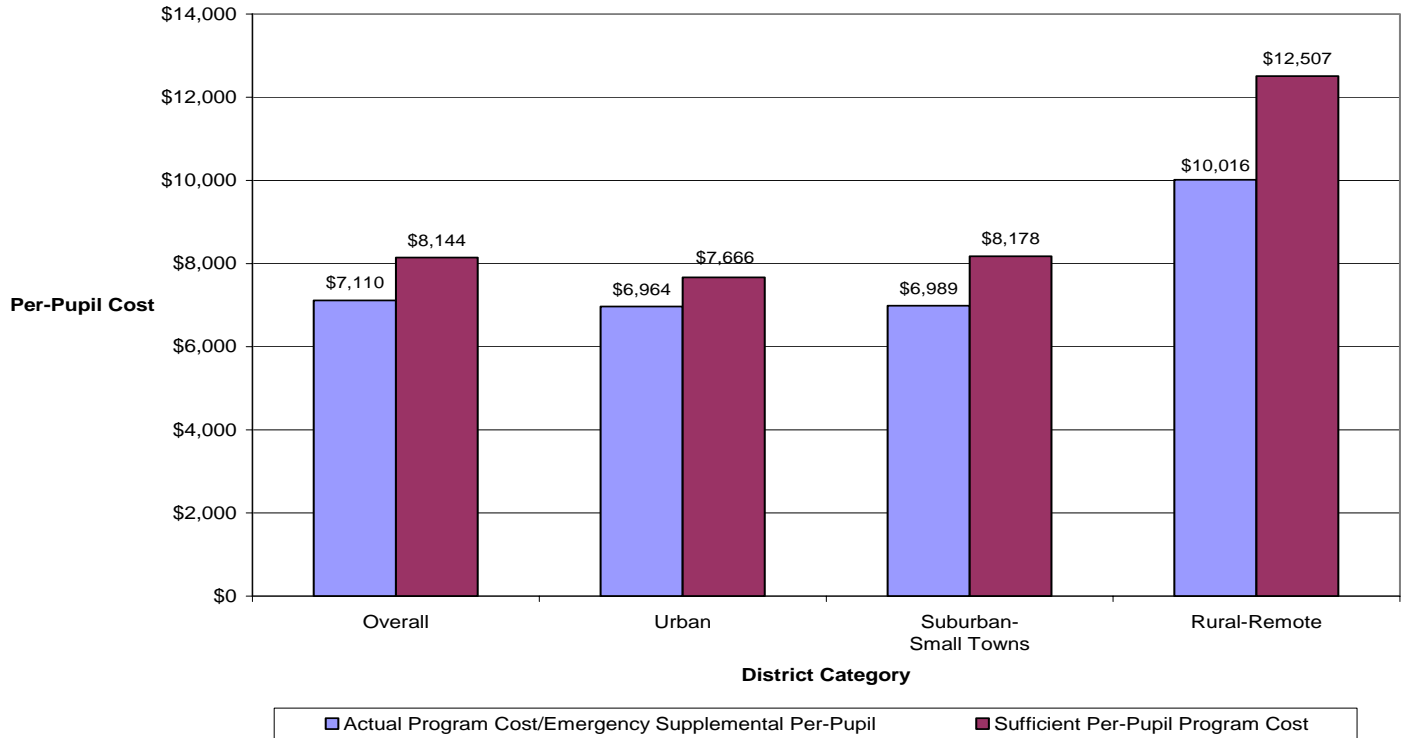
conducted the analysis for 2007-08 because this was the latest year for which we could obtain the necessary fiscal and demographic data.¹⁴ In addition to the overall statewide averages, the chart provides average per pupil program costs within different types of districts. The district categories include urban, suburban-small town, and rural-remote districts.¹⁵ It is important to note that these figures are pupil-weighted so that they represent actual and sufficient per pupil funding for the district attended by the average student statewide and within each of three district categories.

The exhibit shows that the statewide average sufficient per pupil program cost for the 2007-08 school year is \$8,144, which represents a 14.5 percent increase over what was actually budgeted that year (\$7,110). However, it is important to recognize that the figures show large variation across the three district categories. The results suggest that on average, students in rural-remote districts require the highest per pupil expenditure (\$12,507) to provide a sufficient education, while the average sufficient per pupil expenditures are lowest for districts that lie in urban areas (\$7,666). In part, this difference can be attributed to the economies of scale that urban and, to a lesser extent, suburban-small town districts enjoy. Nevertheless, it must be noted that the suggested ranges of sufficient per pupil expenditures for all district types are above what was actually budgeted.

¹⁴ The actual program cost data was derived from the PED 2007-08 Preliminary Final Funded data file, while the district demographics driving the sufficiency projections were derived from the PED 2006-07 STARS data files.

¹⁵ These classifications of districts into urban, suburban-small town, and rural-remote are based on the locale codes used by the National Center for Education Statistics (NCES) and published in its Common Core of Data (CCD).

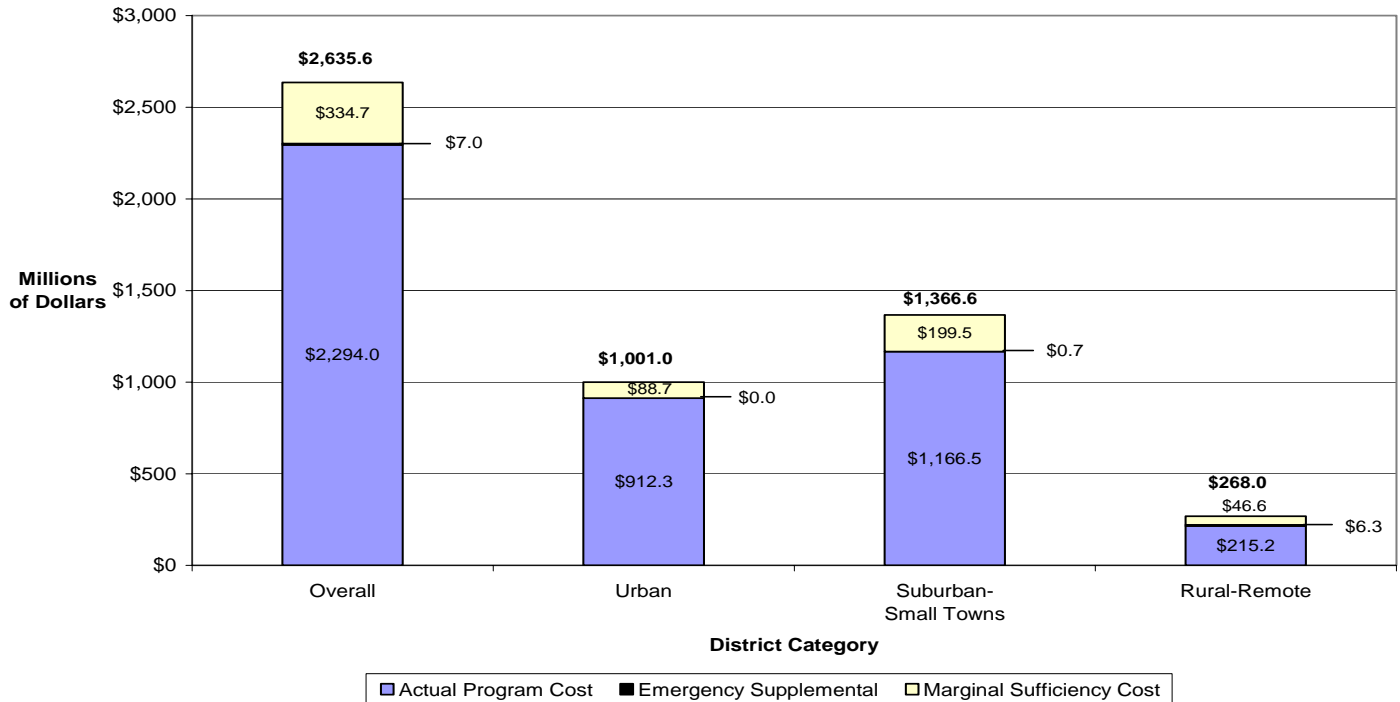
Exhibit II: Actual program cost plus emergency supplemental funding per pupil versus sufficient per pupil program cost for 2007-08



Total Costs Required to Bring Districts to Sufficient Spending Levels

Exhibit III presents a stacked bar chart that shows how the 2007-08 actual (budgeted) total program cost plus emergency supplemental funding in New Mexico compares to the projected total program cost necessary to provide all districts and charter schools with sufficient levels of spending (i.e., total sufficient program cost). Similar to the previous chart, this exhibit provides four bars corresponding to the state as a whole and broken out by district category. Each stacked bar describes the total 2007-08 actual budgeted program cost, the additional emergency supplemental funding, and the marginal increase in expenditure necessary to provide a sufficient education in all districts and charter schools.

Exhibit III: Total necessary dollars to cover sufficient program cost in all New Mexico districts and charter schools in 2007-08 (total sufficient program cost figures in bold)



From the PED data, AIR estimates that the actual budgeted program cost for FY 2007-08 was approximately \$2.294 billion, which includes the State Equalization Guarantee (SEG) in addition to the appropriate credits (i.e., the 75 percent credits for local property tax, forest reserve and impact aid, and the energy savings credit).¹⁶ In addition, a total of \$7 million was provided in emergency supplemental funding resulting in a total outlay of \$2.301 billion in budgeted expenditure for the 2007-08 school year. The total sufficient program cost figures presented above are based on adding the total additional (marginal) program cost of achieving sufficiency (\$334.7 million) to the current (2007-08) budgeted program cost and emergency supplemental funding for the state. This total additional cost represents a 14.5 percent increase in statewide funding. It is important to recognize that these figures represent the amount it would take for districts to provide a sufficient education as projected by the AIR model holding harmless those districts already spending above sufficient levels.¹⁷ That is, we provide an estimate of total expenditure necessary to bring all districts spending less than is deemed sufficient up to the projected sufficient levels of spending, with no change in current levels of spending for those

¹⁶ AIR excluded the cash balances from the funded program cost figure because it recommends that the districts carry these funds over from year to year. Allowing districts discretion over the carry-over of cash balances encourages better planning in the use of funds and eliminates the “use it or lose it” mentality, which may result in less than optimal use of funds.

¹⁷ The term “holding harmless” simply means not reducing funding for those districts that are spending at above-sufficient levels. The reason for doing this is to reduce the potential disruption in programs for these districts.

districts that are already at or above sufficiency. However, it turns out that almost all districts in the state are spending at levels below sufficiency. For 2007-08, our best estimates suggests there were only three districts whose actual budgeted program cost plus emergency supplemental funding measured above a level deemed sufficient given their size and the needs of the student population served.¹⁸ It is important to note here that the projected total sufficient program cost covers both the actual budgeted program cost as well as the additional emergency supplemental funding provided statewide (i.e., fully funding the projected sufficient program cost would alleviate district need for emergency supplemental funding).

Recommended Funding Formula

In addition to the questions surrounding the cost of providing a sufficient education, AIR was asked to evaluate the current funding formula as it relates to the equity with which funds are distributed across districts, schools, and students. Based on the analysis completed by AIR and reviewed by the PAP, AIR recommends that the state consider a revised, simplified funding formula that incorporates (1) a smaller and simplified set of pupil-needs weighting factors to achieve an equitable distribution of funds according to pupil need; (2) a simplified set of programmatic weights for student grade level composition for elementary, middle, and high school students; and (3) an enrollment size weighting schedule that accounts separately for the scale of district operations and charter school operations.

Using the district-level projections described above, multivariate regression analysis was used to derive a 2007-08 district-level formula comprised of a series of adjustments corresponding with each of the factors listed applied to a base per pupil cost. The base per pupil cost (\$5,106) denotes the sufficient per pupil cost for the average-sized district (3,532 students) with average shares of K-5, 6-8, and 9-12 enrollment (44.0 percent, 23.4 percent, and 32.5 percent, respectively) and no additional student needs (i.e., zero poverty, English learners, special education, or mobility).¹⁹ This recommended formula takes the following form:

$$\begin{aligned} \text{Sufficient Per Pupil Cost} = & \text{Base Per Pupil Cost} \times \\ & \text{Poverty Adj.} \times \text{English Learner Adj.} \times \\ & \text{Special Education Adj.} \times \text{Mobility Adj.} \times \\ & \text{Share 6-8 Adj.} \times \text{Share 9-12 Adj.} \times \text{Enrollment Adj.} \end{aligned}$$

In the simple formula, the base per pupil costs are multiplied by a series of formula adjustment factors that provide additional funding for various pupil needs and size. While the recommended formula looks very different when compared to the one currently used by the state, it nevertheless captures almost all of the components in the current formula and is more precise in measuring need and scale.²⁰

¹⁸ A precise estimate of the number of districts and charter schools that are above/below sufficiency will require data on the 2007-08 40-day enrollment, which would permit us to apply our Growth and Decline recommendation (see below).

¹⁹ The base per pupil cost for charter schools is \$6,907 and defined as the sufficient per pupil cost of the average-sized charter school (160 students) with the average grade composition (29.9% in K-5, 27.6% in 6-8, and 42.6% in 9-12).

²⁰ For a complete list of the adjustment factors in the current formula and how they are accounted for in the suggested funding mechanism, the reader is referred to Volume II, Section 5.1 - Explanations of How Factors in the Current Public School Funding Formula are Represented in the Recommended Formula.

There are several merits of the recommended formula AIR has developed. Most notably, the formula is:

- Simple – It avoids unnecessary complexity by focusing directly on the factors associated with pupil need and scale.
- Fair – It promotes and preserves strict (vertical) funding equity across districts.
- Minimizes Incentives – It makes use of adjustment factors that are largely beyond a district’s control, thus minimizing the incentive to pursue funding that is not directly linked to student needs.
- Comprehensive – It accounts for most of the adjustments in the current funding formula.

Other Recommendations

In addition to developing a revised school funding formula, AIR also provided a number of other recommendations for the consideration of state policymakers. These are briefly described below:

- **Fund Special Education Services with a Single Weight.** AIR recommends that the amount of funding associated with special education be determined by a single, overall weight (or cost adjustment factor) rather than three separate weights corresponding to the A/B, C, and D categories. Adopting a single weight to distribute funds for special education students will simplify the formula and eliminate the need to identify children in particular categories. In addition, a single weight will minimize the fiscal incentive to identify students with higher weights (i.e., categories C and D).
- **Adopt a Census-Based Funding System.** AIR also recommends that the state fund special education in school districts through a census-based system that determines the funding level by setting a fixed identification rate and applying the single, overall weight or cost adjustment factor as described above. This system would simply set a fixed identification rate of 16 percent to determine funding for each district rather than using the actual special education identification rate. Using a census-based system reduces the fiscal incentive to over-identify special education students and encourages districts to pursue early-intervention and pre-referral strategies.
- **Establish a Contingency Fund for High-Cost Special Education Students.** AIR recommends that the state establish a contingency fund to which districts can apply for funds to help pay the cost of educating high-cost special education students in their districts. This type of contingency fund serves as an insurance program to protect districts against extraordinarily high special education costs that may arise and that may be particularly difficult for small districts to meet. We present three alternative scenarios where the estimated cost for such a fund would amount to \$4.4, \$7.2 and \$24.2 million, respectively. Variations in the cost will occur with variations in the criteria for classifying students as high cost along with the percentage of costs the state will reimburse. As a starting point for the state, AIR recommends the most restrictive definition of high-cost special education students, which would require a contingency fund of about \$4.4 million.

- **Adoption of an Index of Staff Qualifications (ISQ).** AIR recommends that the state adopt an Index of Staff Qualifications (ISQ) to replace the T&E (Training and Experience) Index. The proposed ISQ is structured to reflect the three-tiered licensure system and calibrated to reflect the average values of experience and educational qualifications of the instructional staff employed in New Mexico. Calibration of the ISQ ensures that the cost estimates do not double count the costs already built into the basic sufficiency cost model. The ISQ is adjusted according to the percentage of the budget that districts actually spend on ISQ-applicable professional staff.
- **Compensation of National Board for Professional Teaching Standards.** AIR recommends that the state retain this program as a separate categorical program and continue to support the incentive for teachers to achieve National Board Certification.
- **Accounting for Growth and Decline.** AIR recommends that the state fund on the greater of the previous year average 80/120 day district enrollment or the 40-day pupil count from the current year. Also, AIR recommends that the state allocate additional money to the already-established New School Development Fund to provide support to districts for programmatic costs associated with the opening of new schools. The amount that should be set aside for this fund should be determined each year by the Legislature in consultation with the PED, with the appropriated amount of money to be used to offset some of the costs of schools during their inaugural year.
- **Implementation.** AIR recommends that the state consider at least a three-year phase-in period to implement the recommended level of sufficient funding and corresponding formula in order to allow districts and the state the opportunity to plan for the most cost-effective use of these new funds. To provide a picture of what this scenario might look like, AIR has developed an example of a three-year phase-in for the period 2009-10 through 2011-12 that appropriately accounts for inflation. Under this example, where demographics are assumed to be constant and all districts and charter schools are held harmless for the first two years of phase-in, we estimated the necessary increases over what was spent in the previous year to be \$208.7 million (2009-10), \$190.1 million (2010-11), and \$180.7 million (2011-12).²¹ As a point of comparison, if the state were to fully fund sufficiency in 2009-10, the increase above the previous year would be \$422.3 million.²²
- **Accountability.** AIR recommends that, as part of this reform of the school funding system, the state require districts to align their spending plans with the priorities laid out in their Educational Plan for Student Success (EPSS). The PED would need to establish clear guidelines and structures and work with the districts and charter schools to ensure that the increase in funds align with the EPSS. At the same time, as part of the accountability system, the state should develop a structure and information system that links student performance with school resources to help better target resources to areas of

²¹ These figures assume an inflation rate of approximately 2.9% and constant demographics across districts for the phase-in years.

²² Please note that the year-to-year change figure from 2008-09 to 2009-10 (\$422.3 million) accounts for both inflation (\$68.11 million) and the additional funding necessary to reach sufficiency in 2009-10 dollars (\$354.2 million). The fully funded 2009-10 marginal cost of \$354.2 million is greater than the 2007-08 figure of \$334.7 million presented in Exhibit III due to inflation.

student need and monitor the progress of schools. First, such a system allows the state to see how schools and districts in different communities are allocating resources. Second, the information system would track the extent to which types of resources make a difference in terms of student performance across various student subpopulations and communities. Third, it would help the state identify which schools appear to be using resources most effectively and thus shed light on how resources are used at successful schools. Such knowledge could be shared across the state.

- **Updating the Funding Formula.** AIR recommends that the state consider approximately an eight-to-ten-year cycle for reviewing and updating the parameters of the school funding formula. It is important to allow sufficient time for the new funding levels to have an impact.

A Cautionary Note

Although the PJPs and PAP developed instructional designs with which schools could construct a sufficient opportunity to meet the goals set forth by the state, AIR does not recommend that the theoretical designs become mandates for local practice. However insightful the instructional designs created by these panels or persuasive the case for their effectiveness, the intention of this exercise was *not* to create a “one size fits all” prescription for best educational practices. Rather, the model provides a systematic process with which to determine the level of expenditures needed to provide a sufficient education across a wide range of circumstances (i.e., needs and scale of operations). To take full advantage of the creativity, commitment, and experience of local educators, we recommend allowing them discretion to determine exactly how funds should be used. Of course, that discretion should be necessarily coupled with an effective accountability system and governance structure to ensure that districts are accountable to the Legislature and the taxpayers in their provision of a sufficient education.

Concluding Remarks

The Goals Statement put forth to the panels was based on standards and personal quality objectives contained in the New Mexico school regulations. These standards do not simply focus on proficiency rates but also give high importance to an education that includes a focus on personal qualities such as accepting responsibility, and respecting oneself.

Finally, it is important to recognize that an investment in education by itself will not guarantee the desired outcomes. The success of our children depends on multiple factors that affect their ability to learn and thrive in the complex world in which we live. It requires investments in mental and physical health, nutrition, and family stability, all of which contribute to the ability of children to succeed in school. In essence, the success of our children depends on a variety of social service institutions in addition to schools.