



Fiscal Policy Project

New Mexico Public School Funding through the Great Recession and Beyond

by Gerry Bradley, MA
August 2016

The constitution of New Mexico provides for a system of free public schools in Section 1 of Article 12 - Education:

Free Public Schools

A uniform system of free public schools sufficient for the education of, and open to, all the children of school age in the state shall be established and maintained.

The New Mexico Center on Law and Poverty, a nonprofit law firm, and the Rosebrough Law Firm, in Gallup, NM, are representing New Mexican parents and students in a legal challenge to the sufficiency and equity of the funding of the New Mexico public education system. The lawsuit asserts that state government has failed to provide a uniform system of school funding sufficient for the education of all the children of school age in the state, as required by the New Mexico constitution. This failure is evident, the suit shows, in the poor academic performance across racial, ethnic, and socio-economic classifications. This report supports the arguments made by the lawsuit.¹

The lawsuit demonstrates that the poor and disparate educational performance of New Mexico's children is connected to a lack of resources provided to schools. Schools are not given the resources that they need, as they are in states with better student outcomes, to help children succeed. Numerous educational experts and legislative task forces and committees, as well as studies, have drawn attention to the insufficiency of

funding for public education in New Mexico. A 2008 report by the American Institutes of Research (AIR)² found that operational expenditures were underfunded statewide by about \$350 million, or nearly 15 percent, at that time.

Since then, the budget for public education remained below the 2009 level for four years before recovering to the 2009 level in fiscal year 2015 (FY15). Despite this increase, funding still had not recovered to 2008 levels on a per-student, inflation-adjusted basis. Since the FY17 appropriation was \$2.648, the base budget would need to increase by \$400 million to reach the 15 percent increase recommended in the AIR report. Also, a recent report from the state Legislature found that New Mexico and Mississippi direct less funding to serving at-risk students than do all other states, despite the large numbers of at-risk students in these two states. Notably, both New Mexico and Mississippi consistently rank at the bottom in assessments of student outcomes.

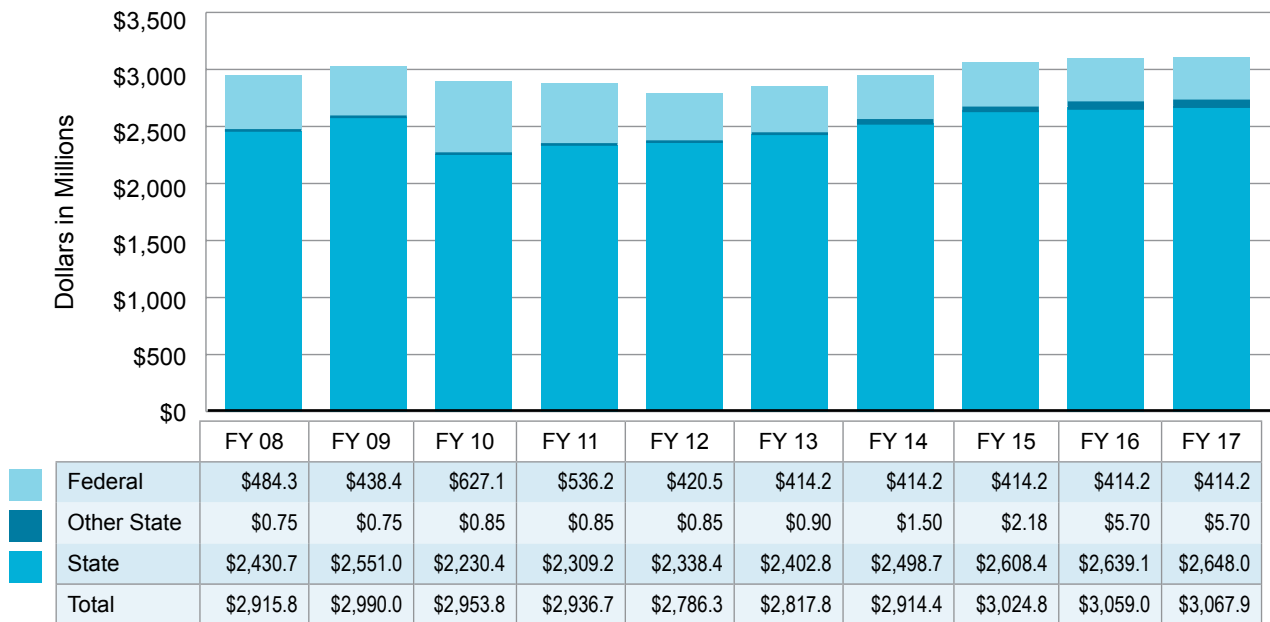
Public School Appropriations and the State Equalization Guarantee

Like school systems in almost all of the 50 states, New Mexico public school revenue fell sharply during the Great Recession that started in December 2007. New Mexico policy-makers addressed the revenue crisis by slashing state spending on public schools and temporarily plugging the gap with federal revenues from the 2009 American Recovery and Reinvestment Act (ARRA). The availability of federal ARRA funds in the 2010 and 2011 school years helped mitigate the state cuts to the school system. The purpose of this report is to fill in that broad brush story and bring the story up to date with a discussion of revenues from the 2007-08 school year (SY 07-08) up to budgeted appropriations for SY 16-17. Figure I (below) provides a history of the New Mexico Legislature’s appropriations for public school by fund source (state general fund, other state fund source, and federal) from FY08 forward.

Most years, the number of students enrolled in public education grows and inflation chips away at the value of educational expenditures. Given the past eight years of experience, the number of students can be expected to grow by about 0.34 percent per year. A forecast of the Consumer Price Index by the state of New Mexico’s Consensus Revenue Estimating Group shows an inflation increase of 2.9 percent in FY17, 2.5 percent in FY18, 2.3 percent in FY19, and 2.4 percent in FY20.

“A recent report from the state Legislature found that New Mexico and Mississippi direct less funding to serving at-risk students than do all other states, despite the large numbers of at-risk students in these two states.”

FIGURE I
Public Education Appropriations (FY08 to FY17; in millions)

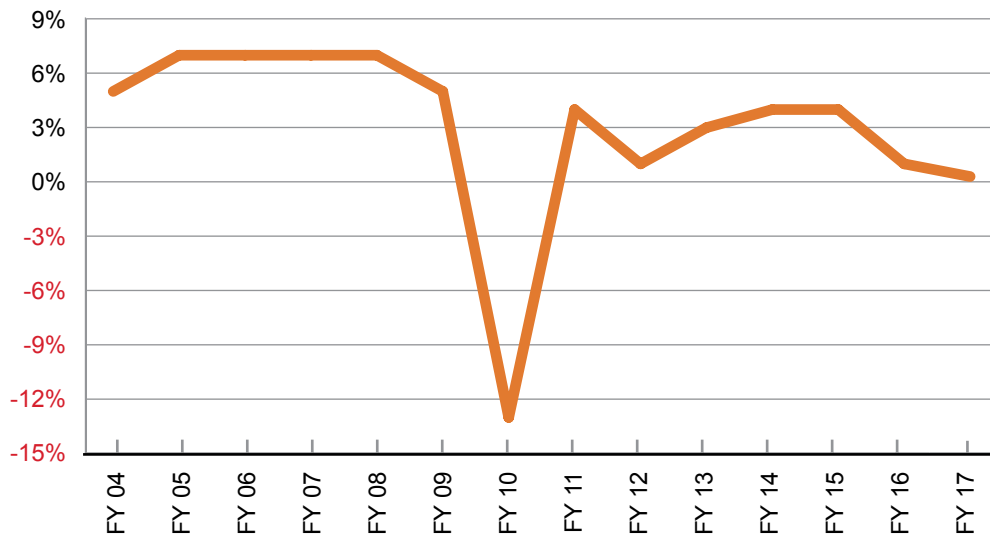


Source: Post Session Review, Legislative Finance Committee, various editions
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Figure II (below), shows the percent change in the general fund operating budget for public schools since FY04. Given that the public school appropriation from the state general fund was \$2.648 billion in FY17, general fund appropriations for the next three years would need to grow by \$74 million (2.84 percent) in FY18, \$72 million (2.64 percent) in FY19 and \$76 million (2.74 percent) in FY20 merely to keep pace with inflation and growth in the number of students, given expected increases in enrollment and prices.

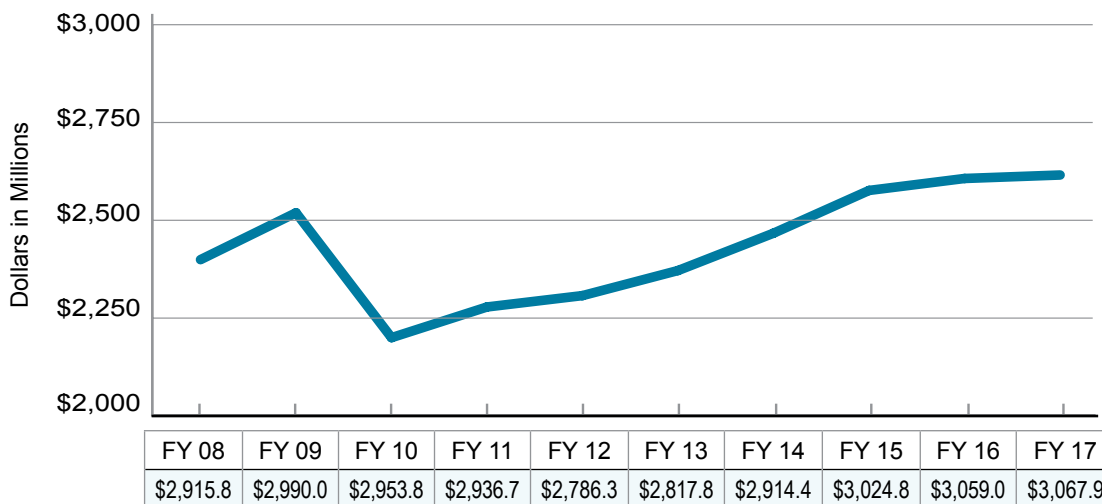
Public school finance in New Mexico is quite centralized: most funding comes from state-level sources rather than local sources, as would be the case in a state that relied heavily on the property tax. Figure III (below) shows that the operating budget for the state’s public school system dropped sharply during the recession and has gradually recovered since then.

FIGURE II
Year-to-Year Percent Change in Public Education Operating Budget (FY04 to FY17)



Source: Post Session Review, Legislative Finance Committee, various editions
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FIGURE III
Public Education Operating Budgets (FY08 to FY17; in millions)



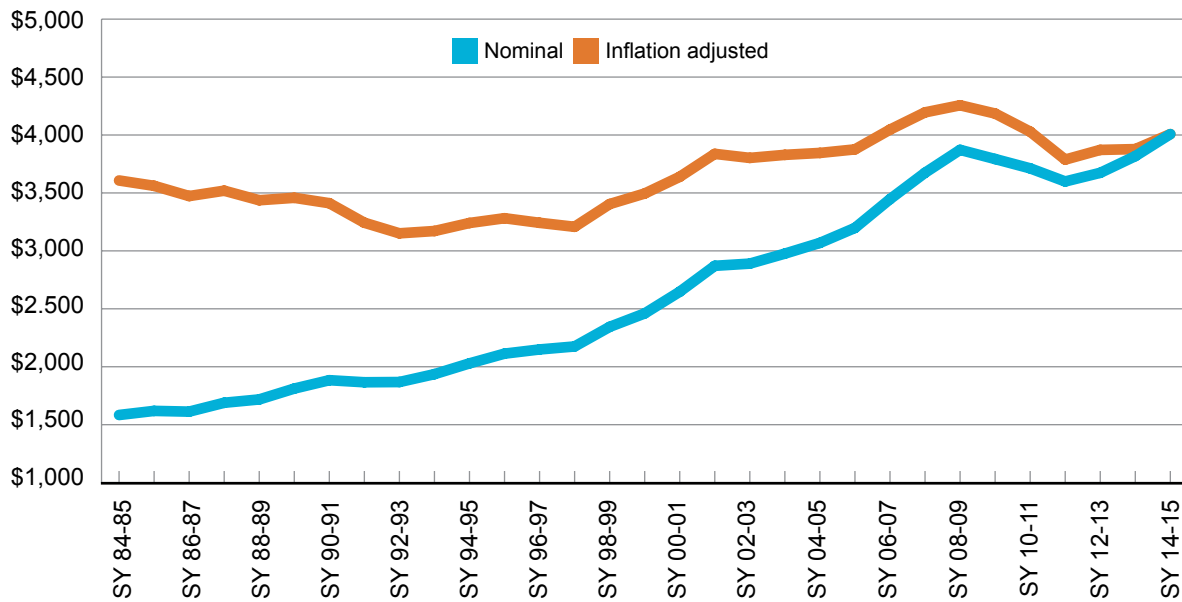
Source: Post Session Review, Legislative Finance Committee, various editions
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The State Equalization Guarantee (SEG) is the formula that New Mexico uses to distribute funds to the state's 88 school districts. The SEG is driven mainly by school 'average daily membership' or student counts. Total appropriations for the public schools are divided by the number of projected units to derive the SEG unit value. The SEG makes it possible for there to be some local control over how funds are spent even though the funding system is centralized. The blue line in Figure IV (below) shows that the SEG increased smoothly for almost three

decades—from 1983 to 2008—before dropping at the onset of the current recession, from which New Mexico is still struggling to recover. The last three fiscal years show a slight increase, but that is before adjusting for inflation.

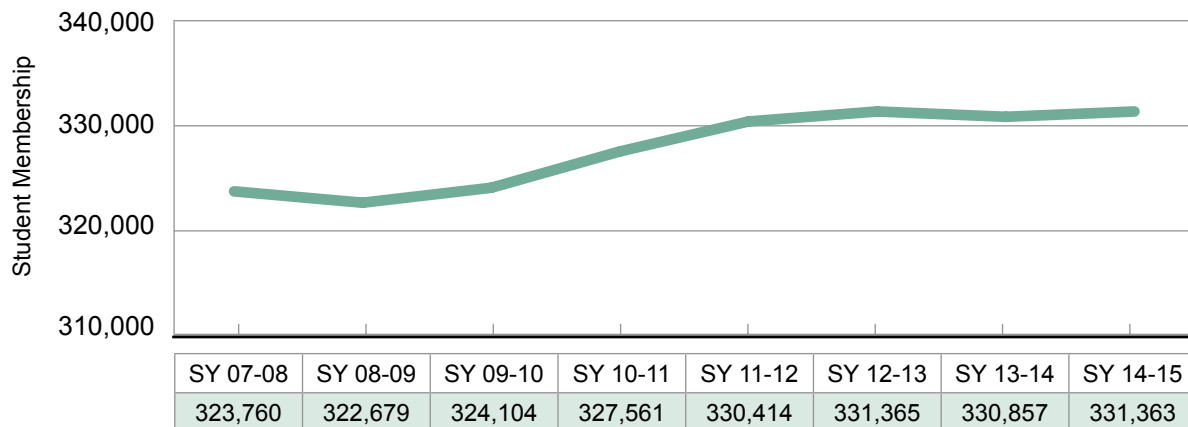
The orange line in Figure IV provides a picture of the value of the SEG adjusted for inflation. The SEG peaked at an inflation-adjusted \$4,256 (in 2014 dollars) per unit in SY 08-09 just as the current recession started to crush revenues.

FIGURE IV
Nominal and Inflation-Adjusted State Equalization Guarantee (SY 1984-85 to SY 2014-15)



Source: NM Public School Finance Statistics, NM Public Education Dept. (inflation calculations by NM Voices for Children based on the Consumer Price Index for Urban Consumers produced by the US Bureau of Labor Statistics)
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FIGURE V
Public School Student Population by School Year (SY 07-08 to SY 14-15)



Source: New Mexico Public Education Department
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Over the time that the real value of the SEG was falling and then flat lined, student enrollment in the state’s public schools was still trending slowly upward at an average rate of about 0.34 percent (see Figure V, page 4). The state’s public schools were expected to do more with less.

rose from \$2.56 billion in SY 07-08 to \$2.637 billion in SY 08-09 (see Figure VI, below). The recession then took its toll on New Mexico revenues in SY 09-10 and operational revenues dropped to \$2.376 billion in that year. Operational revenues began a slow recovery in SY 10-11 (\$2.445 billion) and SY 11-12 (\$2.475 billion), reaching \$2.752 billion in SY 14-15.

Revenues for Public Schools

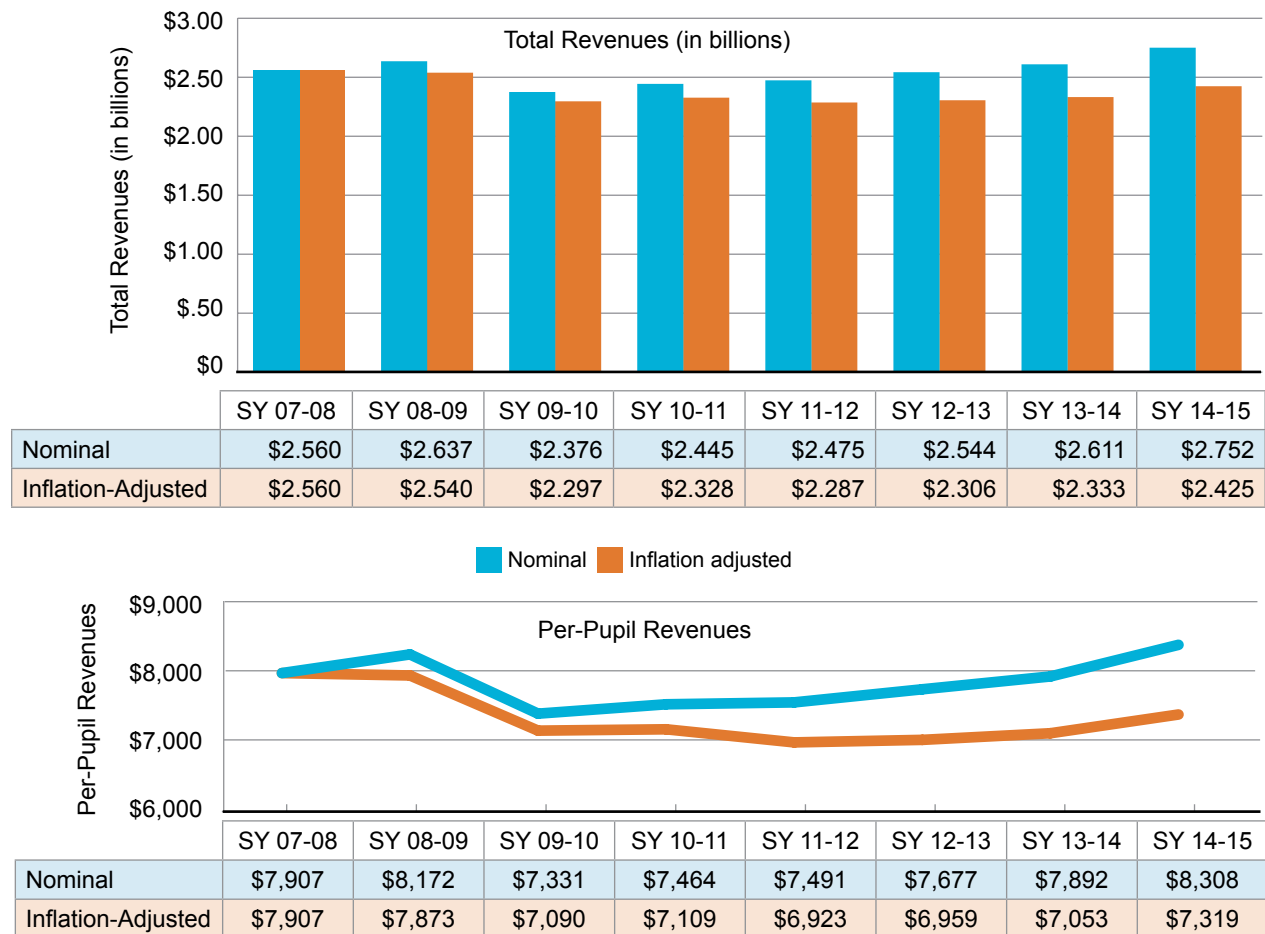
Operational Revenues

Broadly speaking, there are four uses of revenues in the Public Education Department accounting system: operational, special projects, capital outlay, and debt service. Each of the uses relies on revenues from different sources. Revenues going to each of the four classifications fluctuated in different ways during the past eight years. For the first and largest classification—revenues to pay for operational expenses—total revenues

Figure VI also pictures per-pupil (membership) operational revenues on both a nominal and inflation-adjusted basis. By this measure, per-pupil operational revenues fell from \$7,907 in SY 07-08 to a low point of \$6,923 in SY 11-12. The inflation-adjusted per-pupil revenue then began a slow climb back to \$7,319 in SY 14-15. Inflation-adjusted per-pupil estimate for SY 14-15 is still 7.4 percent lower than SY 07-08 level. Clearly, operational revenues have not been keeping up with inflation and student increases since the recession.

FIGURE VI

Operational Revenues, Nominal and Inflation-Adjusted (SY 07-08 to SY 14-15)



Source: NM Public School Finance Statistics, NM Public Education Dept. (inflation calculations by NM Voices for Children based on the Consumer Price Index for Urban Consumers produced by the US Bureau of Labor Statistics)
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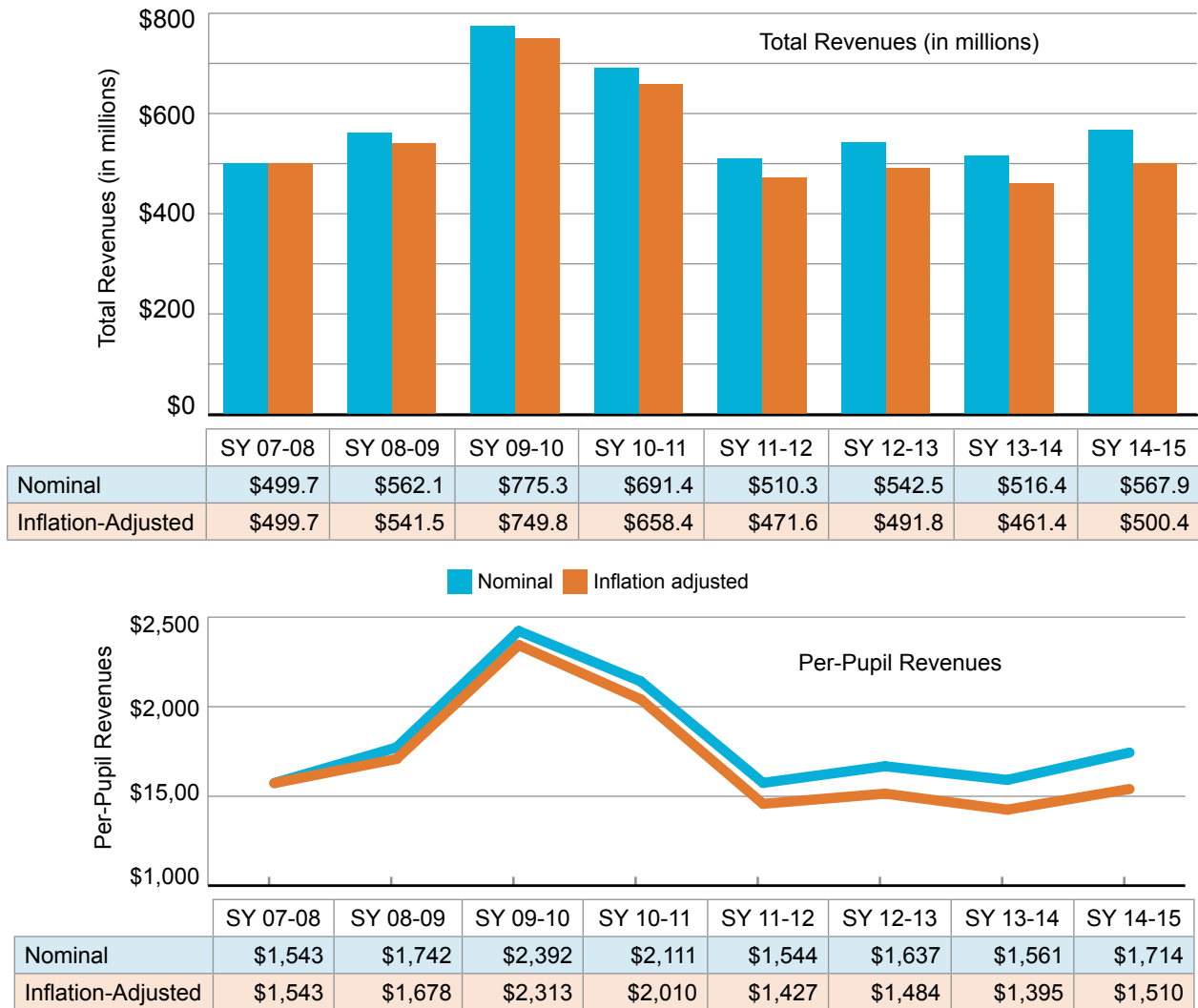
Special Projects – Title I and Other

The next category is revenues for ‘special projects,’ which includes a wide array of programs, from school lunches to Title I funds for schools in high-poverty neighborhoods. Federal funding accounts for a significant share of revenues for special projects. The impact of the federal stimulus is especially clear in this category. This is because much of the ARRA revenues arrived to shore up Title I spending, support for schools in high-poverty areas. Figure VII (below) shows that federal ARRA funding helped boost special projects revenues in SY 08-09 and SY 09-10. Funding for special projects had

fallen back to \$510 million in SY 11-12 after reaching \$775 million in SY 09-10 and \$691 million in SY 10-11.

The intent of the federal stimulus was to prevent school funding from dropping sharply due to the recession, especially for schools in high-poverty areas. In New Mexico, funding for special projects went up by \$275 million or almost 55 percent between SY 07-08 (\$499.7 million) and SY 09-10 (\$775.3 million). The increase in revenues for special projects helped to offset the drop in operational revenues. Figure VII also shows per-pupil special projects revenues on both a nominal and inflation-adjusted basis.

FIGURE VII
Special Projects Revenues, Nominal and Inflation-Adjusted (SY 07-08 to SY 14-15)



Source: NM Public School Finance Statistics, NM Public Education Dept. (inflation calculations by NM Voices for Children based on the Consumer Price Index for Urban Consumers produced by the US Bureau of Labor Statistics)
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Operational and Special Projects Combined

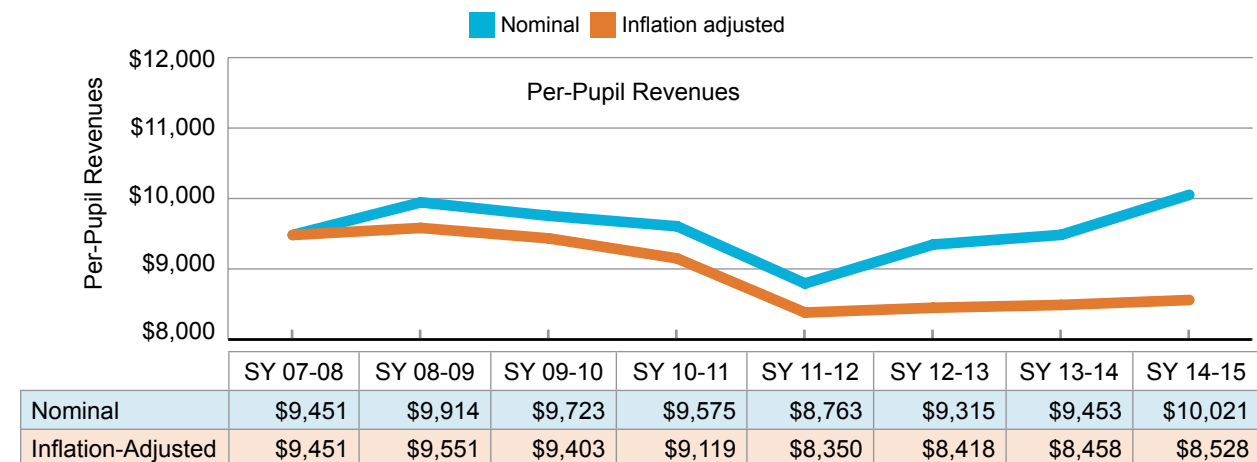
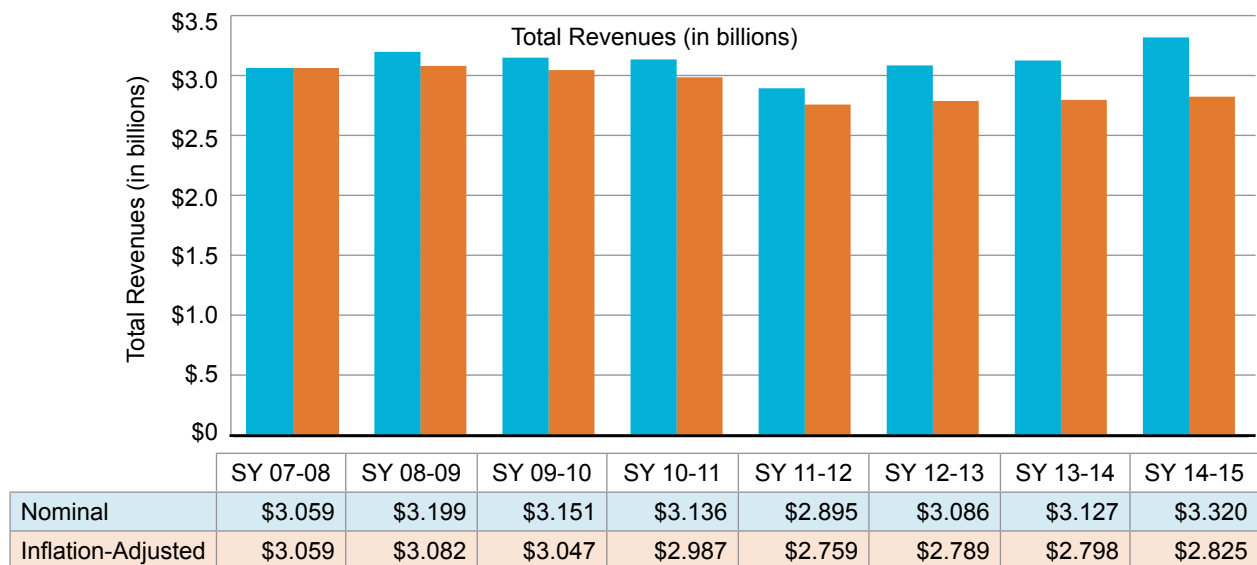
By combining operational and special projects revenues we get a more focused picture of the resources available to school districts. Taking operational and special projects funding together, combined revenues rose from \$3.059 billion in SY 07-08 to \$3.199 billion in SY 08-09 (see Figure VIII, below). Operational funding and special projects funding combined had fallen to pre-recession levels by SY 10-11 (\$3.136 billion) and fell further in SY 11-12 (\$2.895 billion). The figure was \$3.086 billion in SY 12-13. Combined revenues for operational and special projects purposes had finally recovered past the

SY 09-10 level in SY 13-14 (\$3.127 billion) and SY 14-15 (\$3.321 billion).

Figure VIII-B (below) shows per-pupil operational plus special projects revenues on both a nominal and inflation-adjusted basis. On an inflation-adjusted, per-pupil basis, combined operational and special projects revenues reached their peak of \$9,551 in SY 08-09, fell to their lowest point in SY 11-12 (\$8,350), and recovered to \$8,528 in SY 14-15. By SY 14-15, then, inflation-adjusted, per-pupil revenues for operational and special projects spending had fallen by nearly 10 percent from their peak of seven years earlier in SY 08-09.

FIGURE VIII

Operational and Special Projects Revenues Combined, Nominal and Inflation-Adjusted (SY 07-08 to SY 14-15)



Source: NM Public School Finance Statistics, NM Public Education Dept. (inflation calculations by NM Voices for Children based on the Consumer Price Index for Urban Consumers produced by the US Bureau of Labor Statistics)
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Capital Outlay

The remaining two revenue categories are related to capital outlay—the upkeep and construction of school buildings, which are crucial to the learning process. There was no apparent pattern to revenues for capital projects in the early years, as SY 08-09 and SY 10-11 both saw peaks. However, SY 14-15 saw a large decrease in revenues for capital outlay purposes—from \$628 million in SY 13-14 to \$583 million in SY 14-15 for a 7.2 percent decrease. Figure IX (below) shows that capital outlay on a per-pupil, inflation-adjusted basis in SY 14-15 (\$1,551) was below SY 08-09 (\$2,521).

FIGURE IX
Capital Projects Revenues, Nominal and Inflation-Adjusted (SY 07-08 to SY 14-15)

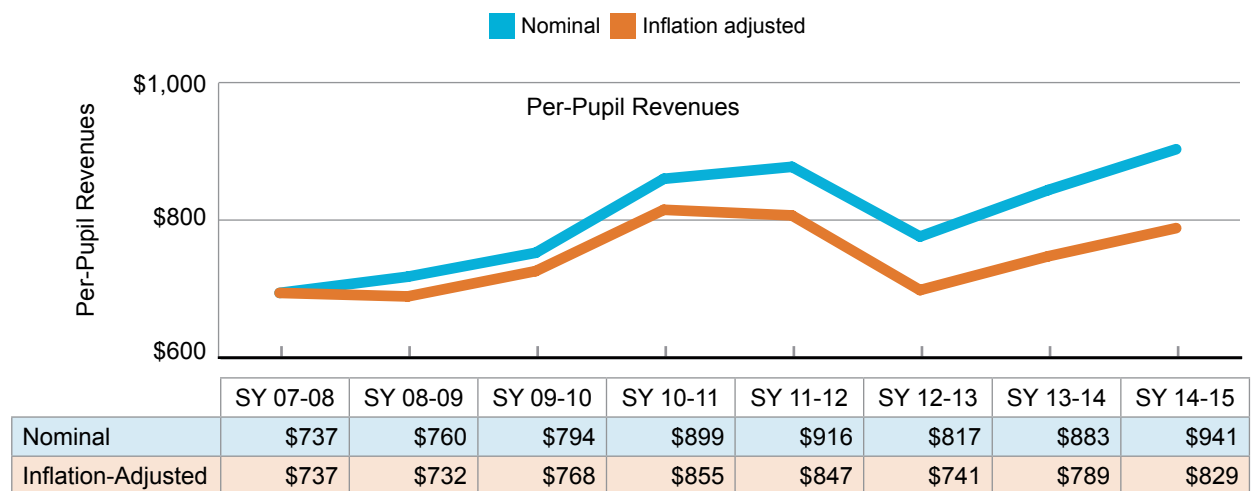
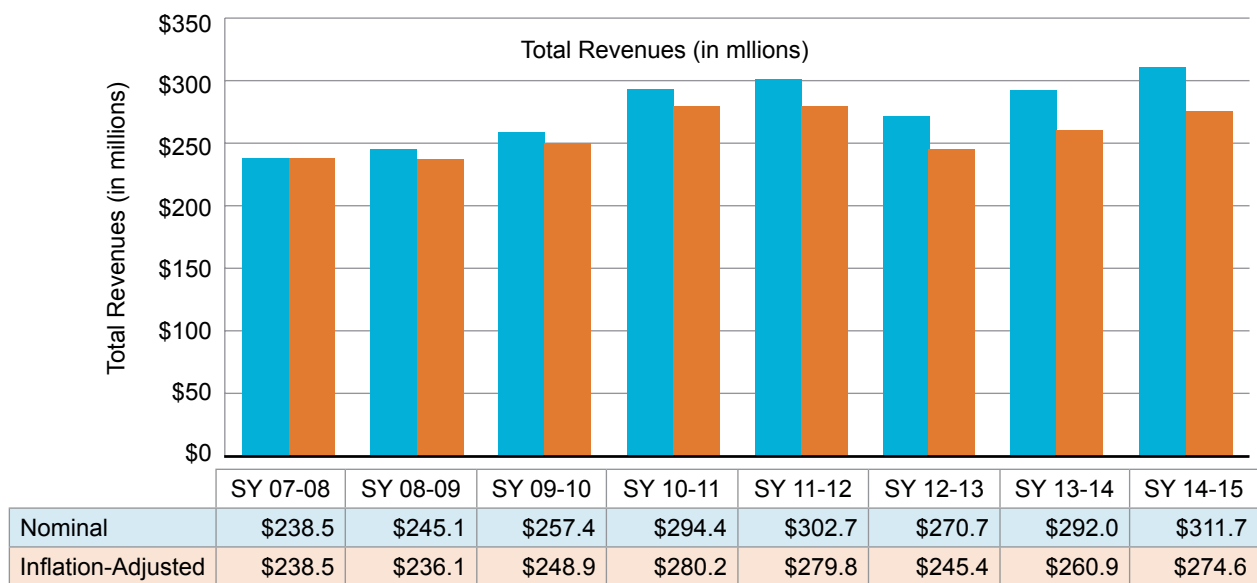


Source: NM Public School Finance Statistics, NM Public Education Dept. (inflation calculations by NM Voices for Children based on the Consumer Price Index for Urban Consumers produced by the US Bureau of Labor Statistics)
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Debt Service

Debt service, revenues for payments on borrowing for capital projects, rose gradually from \$238.5 million in SY 07-08 to \$302.7 million in SY 11-12. Figure X (below) shows that debt service revenues on a nominal basis rose to \$311.7 million in SY 14-15. Inflation-adjusted, per-pupil revenues available for debt service spending rose to \$829 in SY 14-15 from \$789 in SY 13-14.

FIGURE X
Debt Service Revenues, Nominal and Inflation-Adjusted (SY 07-08 to SY 14-15)



Source: NM Public School Finance Statistics, NM Public Education Dept. (inflation calculations by NM Voices for Children based on the Consumer Price Index for Urban Consumers produced by the US Bureau of Labor Statistics)
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Total Revenues

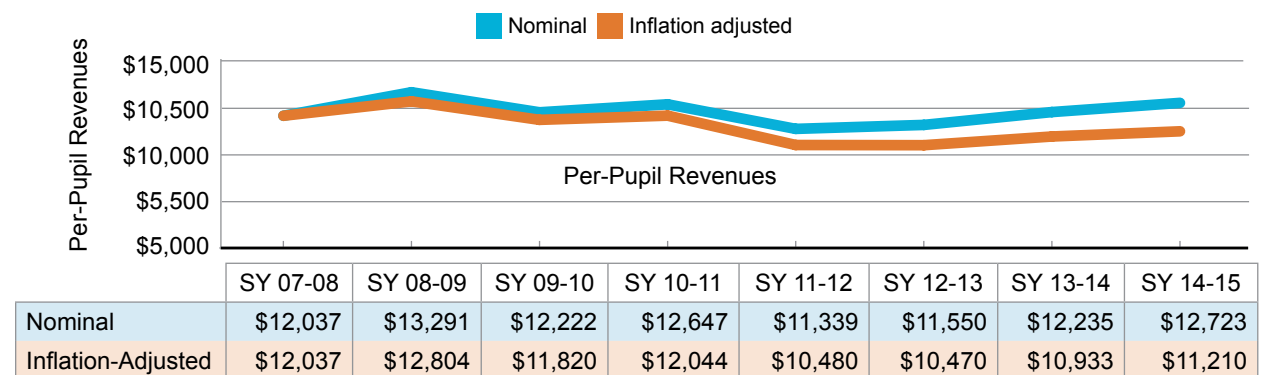
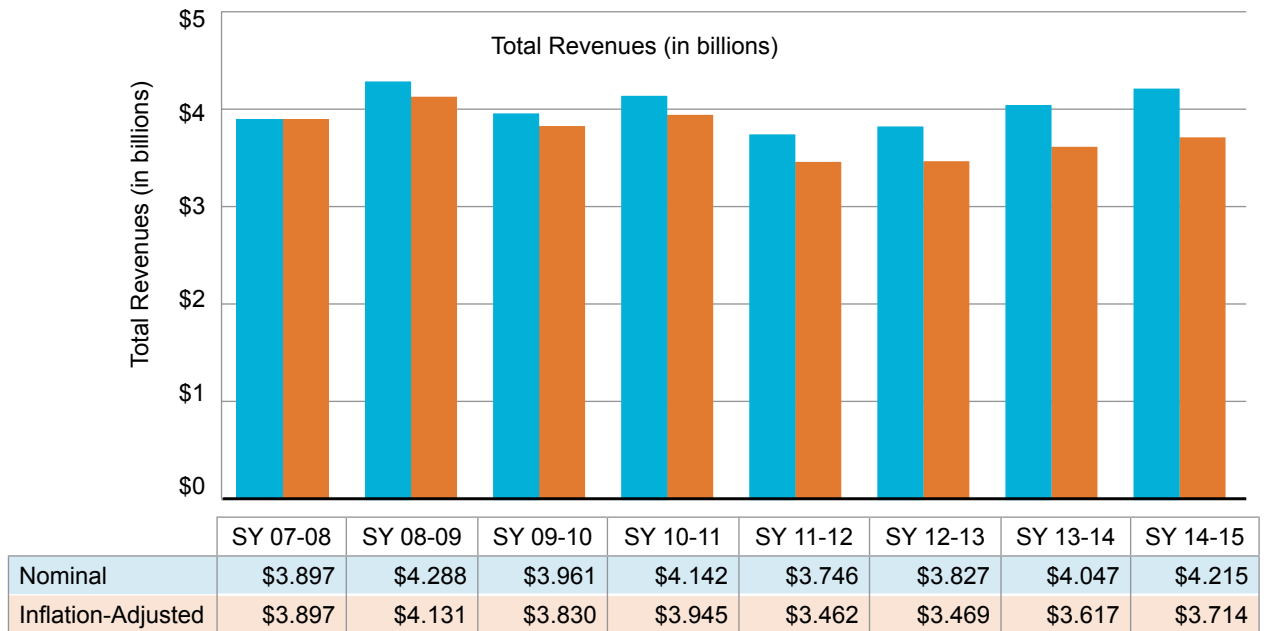
Figure XI (below) provides a picture of total revenues on both a nominal and inflation-adjusted basis. Total revenues experienced peaks in SY 08-09 (\$4.288 billion) and SY 10-11 (\$4.142 billion). Total revenues were \$4.047 billion in SY 13-14 before increasing 4.1 percent to \$4.215 billion in SY 14-15. The increase in SY 14-15 was from operational, special projects and debt service revenues. Capital outlay fell in SY 14-15.

The total revenue picture is more informative after looking at a recap of revenues by spending type: operational, special projects, capital outlay and debt service, as shown in Figure XII (page 11). Taken together, revenues peaked in SY 08-09, fell in SY 09-10, then rose

to \$4.142 billion in SY 10-11, and increased slowly to \$4.215 billion SY 14-15. Capital outlay and debt service revenues rose in a jagged pattern, while operational revenues collapsed in SY 09-10 and special projects revenues rose to compensate. Again, the increase in special projects revenues in the earlier years was largely due to the infusion of federal ARRA funds in the Title I program.

The final summary graph (Figure XIII, page 11) shows public school revenues from a different perspective: that of sources of total revenues by level of government. This perspective clarifies further the role of federal ARRA funds in stabilizing revenue for the New Mexico public school system. (The latest year available for revenues by level of government is SY 14-15.)

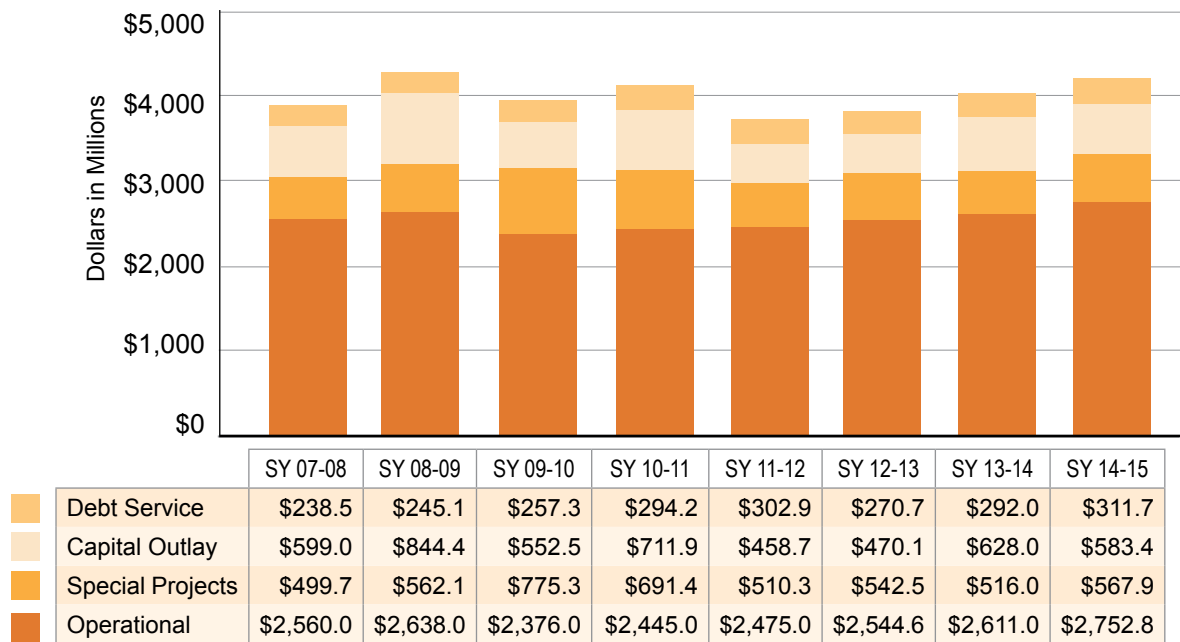
FIGURE XI
Total K-12 Revenues, Nominal and Inflation-Adjusted (SY 07-08 to SY 14-15)



Source: NM Public School Finance Statistics, NM Public Education Dept. (inflation calculations by NM Voices for Children based on the Consumer Price Index for Urban Consumers produced by the US Bureau of Labor Statistics)
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FIGURE XII

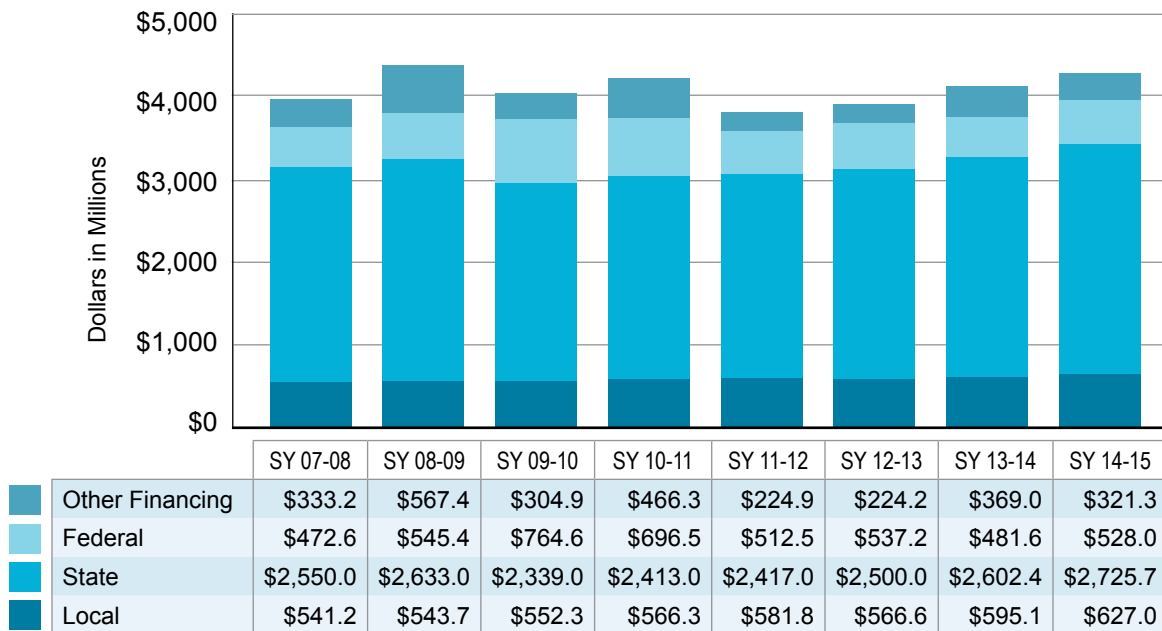
Public Education Revenue by Spending Category (SY 07-08 to SY 14-15; in millions)



Source: NM Public School Finance Statistics, NM Public Education Dept. (inflation calculations by NM Voices for Children based on the Consumer Price Index for Urban Consumers produced by the US Bureau of Labor Statistics)
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FIGURE XIII

Public Education Revenue by Fund Source (SY 07-08 to SY 14-15; in millions)



Source: Post Session Review, Legislative Finance Committee, various editions
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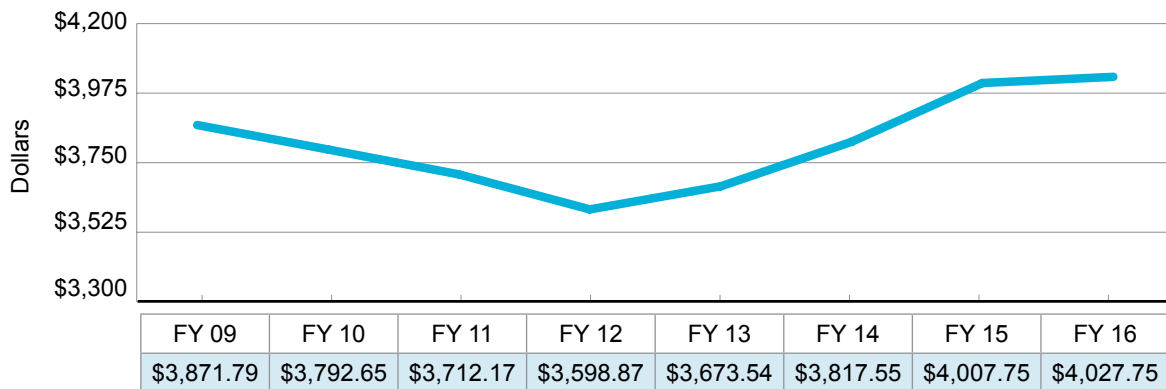
'Below-the-Line' Funding

An issue that has come to the fore in the school funding discussion in the past five years is that of the amount of school funding provided through the School Equalization Guarantee (SEG) and the amount appropriated apart from the SEG, which is referred to as below-the-line funding. The fact that an increasing amount of funding does not go through the SEG may be seen as a problem for local school districts, because non-SEG funding is earmarked for specific purposes and cannot be used for

the priorities of the local school districts. Arguably, local school districts are closest to their local problems and may be better able to respond to local issues. Figures XIV and XV (below) show the changes in SEG and below-the-line funding levels over recent years.

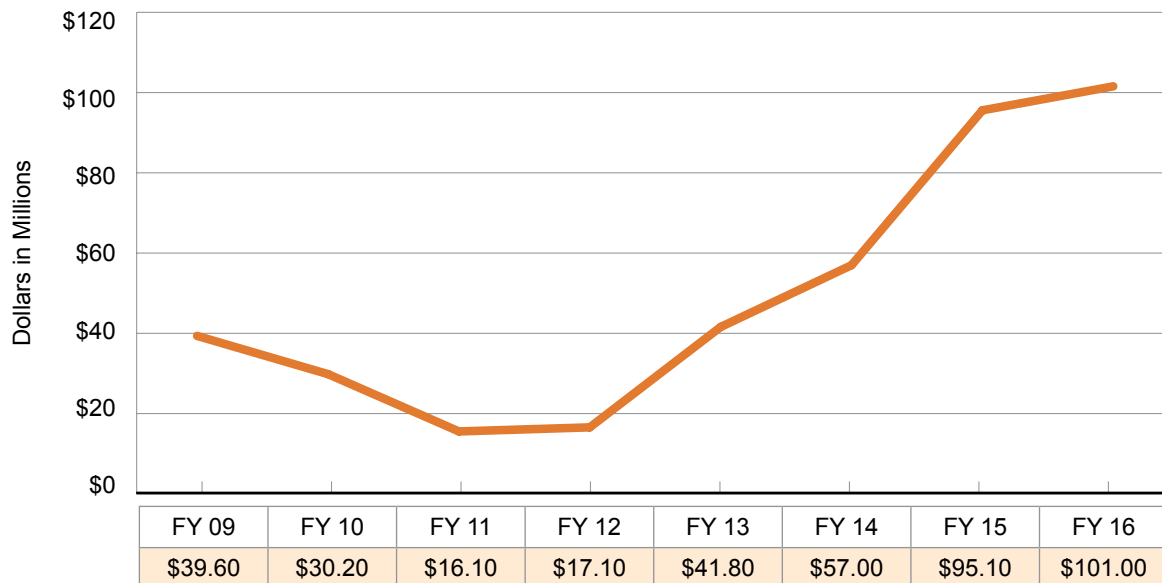
As shown in Figure XIV (below), the SEG unit value has risen from \$3,871.79 in FY 09 to \$4,027.75 in FY 16. This represents an increase of \$156 or 4.03 percent over that time period.

FIGURE XIV
State Equalization Guarantee (SEG) Unit Value (FY09 to FY16)



Source: *School Budget and Finance Analysis Bureau Stat Book—New Mexico Public School Finance Statistics*, NM Public School Finance Statistics, NM Public Education Dept.
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FIGURE XV
Below-the-Line (non-SEG) Appropriations (FY09 to FY16; in millions)



Sources: Post-Session Review, Legislative Finance Committee, various years; additional calculations by NM Voices for Children
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‘Below the line’ or non-SEG appropriations have increased from \$39.6 million in FY09 to \$101 million in FY16 (see Figure XV, page 12). The disproportionate increase in non-SEG funding poses challenges to local school districts. In addition, the increase in non-SEG funding represents movement away from the principles of state’s system for funding public schools, which is intended to provide equality of opportunity irrespective of the relative wealth of individual school districts, has been in place since the early 1970s, and has served the state well.

Conclusion

The Great Recession inflicted a serious blow to New Mexico funding for public education. It has taken eight years to emerge from the havoc created by that economic earthquake. Total revenues on a nominal basis have been rising since SY 11-12 (shown in Figure XI, page 10).

The best measure of classroom revenue is the combination of revenues for operations and special projects. Per-pupil inflation-adjusted revenues for operations and special projects reached \$8,528 in SY 14-15, still below the peak reached in SY 08-09 (\$9,551).

Each year, the number of students enrolled in public education grows and inflation chips away at the value of educational expenditures. As noted above, in order

to keep pace with student growth and inflation, general fund appropriations for the next three years would need to grow by \$56 million (3.28 percent) in SY 16-17, \$101 million (3.68 percent) in SY 17-18 and \$98 million (3.48 percent) in SY 18-19 to merely keep pace with inflation and growth in the number of students.

The lawsuit filed by the New Mexico Center on Law and Poverty has described the problems facing the state’s public education funding system in detail. This report maps out the recent history of public school funding and the continued erosion of the resources going to the school system. Following the recommendations of the 2008 American Institute for Research study to increase public school funding by at least 15 percent would be a way to begin solving the funding problem faced by the New Mexico public school system. This would add about \$400 million to the FY17 appropriation of \$2.648 billion. This increase would establish a new base of \$3.048 billion from which to build in future years.

Endnotes

1. Complaint: “Lawsuit Filed Challenging Sufficiency of State Education,” New Mexico Center on Law and Poverty, July 2015, <http://nmpovertylaw.org/wp-content/uploads/2015/08/Complaint-Yazzie-Second-Amended-Complaint-2015-07-14.pdf>
2. *An Independent Comprehensive Study of the New Mexico Public School Funding Formula—Final Report*, American Institutes for Research, January 2008

“ The disproportionate increase in non-SEG funding poses challenges to local school districts. ”

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