DOCUMENT RESUME

ED 401 617 EA 028 049

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TITLE New Mexico School Finance: An Historical Perspective.
PUB DATE Mar 96
NOTE 29p.; Paper presented at the Annual Meeting of the American Educational Finance Association (Salt Lake City, UT, March 20-23, 1996).
PUB TYPE Speeches/Conference Papers (150) -- Reports - Descriptive (141)

EDRS PRICE MF01/PC02 Plus Postage.
DESCRIPTORS Educational Equity (Finance); *Educational Finance; Elementary Secondary Education; Equalization Aid; *Finance Reform; Financial Policy; Financial Support; Higher Education; Resource Allocation; *School Funds; *School Support; *State Aid; State Legislation
IDENTIFIERS *New Mexico

ABSTRACT

New Mexico has a long history of funding public education through state revenues distributed by formula funding. K-12 education in New Mexico relies on central state funds rather than on local property taxes. This paper presents a history and overview of the current funding formulas for K-12 and higher education, as well as other funding sources for public education in the state. The paper compares the realities of formula funding for K-12 education and higher education. New Mexico's experience with formula funding for public education in the K-12 and higher education sectors suggests that varied outcomes may result from a combination of specifics related to the formula methodology, the complexity of the educational finance environment in which the formula is applied, and legislative and political action and interaction with funding formulas. The historical perspective on the K-12 and higher education formulas suggests that formula funding can be used to foster decision making about educational adequacy, as well as to address concerns for equity in the provision of educational services. It is desirable to pursue mechanisms in the K-12 sector that may achieve similar benefits for elementary and secondary students. Appendices contain direct-instruction elements of the New Mexico state-funding formula, as well as size adjustments and training and experience actions. (Contains 14 references.) (LMI)

# New Mexico School Finance:
# An Historical Perspective

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A draft paper to be presented

at the American Education Finance Association Annual Meeting

Salt Lake City, Utah

March 20-23, 1996

Session 4.6 Concurrent Paper Session

8:00 am - 9:30 am March 23, 1996

## Introduction

New Mexico has a long history of funding public education through state revenues distributed by formula funding. In the K-12 public education sector, long term reliance on central state funds rather than relying on local property taxes is directly related to the State's history. In 1933, New Mexico property taxes were limited by Constitutional amendment and over 75% of public school support was from state sources by the mid-1930's (Gott, 1964). With the infusion of federal funds, the revenue distribution was altered. During 1993-94, total revenues in support of New Mexico public schools were 62% from state sources, 28% from local sources, and 10% from federal sources. This distribution is markedly different than national revenue patterns which are 46% from state sources, 47% from local sources, and 7% from federal sources (Jordan & Associates, 2/16/1996).

In New Mexico, higher education services are primarily provided by the public sector. Only 4.5% of all higher education expenditures in New Mexico are related to private higher education institutions (HEI's) (Chronicle of Higher Education, 1995), while nationally the private higher education sector constitutes about 35% (US Department of Education, 1994). New Mexico is one of only three states where enrollment in public HEI's exceeds 95% of total higher education enrollment (Chronicle of Higher Education, 1995). Forty-three percent of public higher education expenditures in New Mexico are supported through the provision of state funds (Chronicle of Higher Education, 1995) compared to 35% at the national level (US Department of Education, 1994).

Overall educational expenditures presently constitute the largest expenditure in the State's general appropriations budget. Given the magnitude of the State's interest in the provision of public education services, it is not surprising to discover that the State devotes considerable human and financial resources to the mechanisms used to examine and distribute resources in support of public education.

The weighted pupil funding formula used to distribute state appropriations to the K-12 sector was implemented in 1974 and has been revised since then to make adjustments to the original formula and to add new factors related to the

educational needs of school districts in the State. Concerns about the impact of adjustments and new factors in the formula, the distribution of legislative appropriations for public school capital outlays, and the desirability of including additional factors to address emerging educational needs are raised on a frequent basis. These issues are studied by the Legislative Education Study Committee (Prior to 1978, the LESC was known as the Legislative School Study Committee. LSSC or LESC, hereafter) and then considered by the New Mexico House and Senate. The LESC is one of three permanent committees that serve the legislature during the interim between sessions to provide professional staffing for research, bill drafting, fiscal and budgetary analysis, school research, and general administration of the Legislature's functions. The LESC is a twenty member group comprised of members from the House and Senate from both political parties(LESC, 1986). The LESC holds regional meetings to solicit input from educational professionals and citizens related to a variety of educational matters. Advisory committees, multiagency task forces, and independent/external consultants have all been used over time to expand and support the study efforts of the Legislative Education Study Committee. It is not uncommon for more extensive analysis to be recommended as an outcome of the study process rather than specific legislative action.

The higher education formula used to recommend an appropriate level of expenditure for higher education support from the State and to distribute funds to the four-year HEI's and the two-year HEI's in New Mexico was approved by the 1977 legislature and implemented during the 1977-78 fiscal year. Issues related to the provision of higher education, are examined by the New Mexico Commission on Higher Education (Prior to 1986, the CHE was named the Board of Educational Finance. CHE or BEF, hereafter), a fifteen member appointed board. CHE membership is comprised of one representative from each of the State's board of education districts, three members from the state at large, and two members from among the student body presidents of the HEI's, one voting and one nonvoting. No more than seven CHE members may be from a single political party. The CHE makes recommendations to the Legislature on appropriations to state-supported

universities and colleges and serves as the State's Commission on Postsecondary Education. It is also responsible for the quality control and licensing of private and proprietary trade, technical, and business schools and branch operations of out-of-state institutions of higher education.

There are two other permanent committees to the Legislature that are concerned with matters of educational finance; the Legislative Council Services (LCS, hereafter) and the Legislative Finance Committee (LFC, hereafter). The LCS drafts bills for the legislative sessions and serves general research and analysis needs of the Legislature. The LFC is involved on a regular basis in the review of educational funding and budgetary matters. Communication among the three permanent committees to the Legislature is routine and specific cooperative efforts among the three permanent committees related to educational finance are also initiated by legislative action.

In addition to these legislative committees, the State Board of Education (SBE, hereafter) also has an interest and involvement in educational finance in New Mexico. The SBE membership is comprised of ten elected members and five members appointed by the Governor. The SBE hires the State Superintendent of Public Instruction and directs the activities of the State Department of Education (SDE, hereafter). The SBE is also involved in the budgetary process for K-12 funding. Each year the SBE holds regional hearings to solicit input from local school districts and constituents regarding a variety of programmatic and financial K-12 concerns. Information from these hearings are combined with enrollment and other financial projections solicited from the states 89 school districts by the SDE to formulate an overall K-12 funding request. This budget request is forwarded to the LESC, the LFC, and the Executive.

This paper presents a history and overview of the current K-12 and higher education funding formulas and other funding sources[1] for public education in New Mexico. Comparisons between the K-12 and higher education formula funding realities are presented. Questions emerging from this historical perspective of formula funding in New Mexico that may be explored in further research are

also considered. New Mexico's experience with formula funding for public education in the K-12 and higher education sectors suggests that varied outcomes may result from a combination of specifics related to the formula methodology, the complexity of the educational finance environment in which the formula is applied, and legislative and political action and interaction with funding formulas. Traditional principles of educational finance and state politics both play roles in New Mexico educational funding. It is hoped that our experience can inform other states as greater reliance on state funding as one means to achieve of educational equity, adequacy, and excellence is pursued.

## History And Overview

### K-12 Formula Funding

"Two objectives were essential to the development of the K-12 formula 1) to equalize educational opportunity statewide (by crediting certain local and federal support and then distributing state support in an objective manner) and 2) to retain local autonomy in actual use of funds (by making the distribution noncategorical, the funds being available for use in each district's programs, at local discretion)"(LESC, 1995, p.1)

The New Mexico K-12 funding formula developed in 1974 to meet these objectives was considered the "most far-reaching equalization concept in current law in the United States" (Legislative School Study Committee [LSSC], 1975, p. 5). The New Mexico formula was featured prominently at a National Conference of State Legislatures (NCSL), New Mexico was heralded for its leadership in public school finance reform, and the Legislative School Study Committee Chairman was appointed as a member of the Education Task Force to the NCSL Conference (LSSC, 1976).

Even before the K-12 formula was actually implemented, many requests for assistance from states in the process of equalizing their school funding formulas were received by the LSSC staff and NCSL's Education Task Force. The National Institute of Education sponsored regional seminars on school finance with the LSSC(LSSC, 1976).

The K-12 formula distributed state funding based on costs incurred by

school districts on a "weighted pupil" or " program unit" concept. The calculation of program units considered the grade level of the students, the different educational programs offered and the number of students participating in the various offerings (LSSC, 1975). The K-12 formula also recognized the incremental costs of hiring educated and experienced teachers. Under the formula, each school district was able to recognize the composition of the district's staffing as it actually existed by calculating its own training and experience weighting factor according to a legislatively determined schedule.

In recognition of the unique aspects of the State's geography and demography, the K-12 formula also recognized the incremental costs of retaining some small schools and small school districts to alleviate as much as possible the negative effects of long distance travel on students. Formula elements that provided additional program units to districts with small schools and small district enrollments are called "sparsity factors" (LSSC, 1976).

The cost differential factors in the K-12 formula for different types of instructional programs were based on an objective analysis of educational cost information available at the time of implementation. The results of the National Educational Finance Project (NEFP) studies served as the foundation for the cost analysis. However, the school districts examined in the NEFP study did not face the inherent challenges of New Mexico's school districts located in a large sparsely populated state. To recognize these challenges, the NEFP study results were supplemented with what was known, and in some cases assumed, about the existing costs of New Mexico's educational programs. The New Mexico information incorporated into the analysis included consideration of the State's experience with previous funding formulas and with categorical funding strategies. Assumptions about desirable pupil-teacher ratios in varied educational programs and extrapolated information about small schools were also incorporated into the original analysis (LSSC,1976).

The state allocation determined under this program unit concept was initially offset by 95% of each district's anticipated revenues from federal sources resulting in the State Equalization Guarantee to each district. Later,

local funding sources became subject to the 95% offset.

Under the K-12 formula, the allocation of funds within each district under the formula was not specified. This maximized autonomy of the local educational administration and governance systems and was consistent with a strong tradition of localism in the State.

During 1975, the LSSC studied the actual costs incurred in New Mexico's 88 school districts. A detailed data collection strategy was utilized to gather supplemental financial information from the school districts and combined with other information from official financial reports to determine the direct and indirect costs of the various educational programs considered in the K-12 formula's factors.

## K-12 Formula Funding Revisions

The K-12 formula funding has been reviewed on a continuing basis by the LSSC. This results from periodic general study requests from the legislature or from legislative proposals for new or revised factors. In addition, the continuing scrutiny of the formula funding was considered necessary by the LSSC to avoid unintended consequences that may occur if formula funding factors do not reflect incurred costs with sufficient accuracy. Should school districts realize a profit or loss on a particular factor, unnecessary programs may be continued, needed programs may be discontinued or necessary new programs might not be pursued (LSSC, 1976).

Over time the strong role of state government in K-12 finance in New Mexico encouraged, perhaps necessitated, an increasingly political atmosphere surrounding public school funding. As changes to the formula have been made over time, it becomes increasingly difficult to clearly differentiate the various forces influencing the formula's provisions. The following descriptions of major changes to the formula suggest the level of complexity that surrounds K-12 formula funding in the State.

Changes over time in the sparsity factors increased the number of schools and districts eligible for added program units. One district in the State became the beneficiary of a unique sparsity factor (called the rural isolation factor)

that recognized the district's unusually large geographical area. Although the rural isolation factor was not supported by the LSSC (1976), it was incorporated in the formula by the Legislature in 1976 and the calculation was revised in 1979 to provide further additional program units to the district. In 1981, a revision to the calculation of additional program units for districts with small senior high schools also increased the number of schools eligible for incremental program units. Since the dollar amount allocated to each program unit is determined by dividing the total legislative appropriation by the total program units for the State, any formula revision that was not funded through an incremental appropriation in essence reallocated monies from larger to smaller school districts.

In 1987, the largest school district in the State suggested that a variety of costs associated with urban high-density environments were not supported by the existing formula. In 1989, without a positive recommendation for action from the LESC, the Legislature implemented two density factors to be effective in 1991. These density factors generated additional program units for the largest district as well as two other districts located in communities that were within the federal definition of urban areas. It appears that political interaction among legislators and educators were substantial influences in the inclusion of density funding in the formula. While the LESC recognized that additional funding related to large urban districts was needed, the Committee also suggested that it had not "received sufficient evidence to warrant the full implementation of this factor" (LESC, 1991, p. 6). An additional legislative revision created three levels of density funding which further increased the number of school districts eligible. Presently, five districts in the State are eligible for density funding and, with continued enrollment growth anticipated in the State, two more districts are approaching eligibility.

Additional program units generated by the various sparsity and density factors are not necessarily mutually exclusive. For example, one district that is one of the largest school districts geographically in the nation, has a number of very small remote schools, and a large overall enrollment, gains program units

from the rural isolation factor, the small schools factors, and the density factor.

In 1990, another new factor was added to fund districts experiencing increasing enrollments and, in 1994, a new factor to provide incremental funding for a "new district" was included in the formula.

The detailed formula funding elements as originally incorporated and later revised through legislative action are summarized in Appendices A & B. The detailed elements have been categorized into three types in the Appendices:

1. elements related to direct instruction;
2. elements related to district and school size and enrollment growth (Size Adjustments); and
3. the element related to the training and experience of instructional staff (T & E).

Elements related to direct instruction and T & E are multipliers in the program unit calculations while size adjustments are add-ons to the total program units of the district.

Other Funding Sources

In New Mexico, transportation and instructional materials (textbook) costs are funded through separate appropriations rather than through the formula funding. Transportation costs for school districts are funded fully by the State from a separate appropriation and distributed under the direction of a State Transportation Director within the State Department of Education. Allocations to districts are based on the number of routes and ridership reports submitted by the school districts.

Instructional materials have traditionally been provided to school districts by a state textbook depository. Through this centralized purchasing strategy the State obtains financial support from the publishers in the form of handling fees. Since 1993, regulations restricting direct shipments from publishers to school districts have been relaxed and school districts are presently allowed to submit requests for credit to the State Department of Education for up to 30% of expenditures for instructional materials shipped

directly to the district from any publisher. The remaining 70% of instruction material must be obtained from the centrally adopted state textbook list.

Capital Projects

Capital projects for school districts are also funded separately from the public school funding formula. The need for facilities and equipment additions, renovations, and replacements arise for a variety of reasons; population growth, program changes (e.g. expansion of programs such as special education and bilingual education), reduction of class size, general maintenance, etc. While the majority of capital outlay funding for school districts in New Mexico is provided through bond issues paid by local property taxes, property values vary widely across the State, property taxes are restricted, and the State has a large portion of its lands publicly held. These factors contribute to disparity in capital outlay dollars among the school districts. The State has attempted to equalize some of the disparity through the Public School Capital Improvements Act (Senate Bill 9 [SB-9], 1974) and the 1975 Public School Capital Outlay Act (LESC,1993). Both processes make additional financial resources available to local school districts that demonstrate a need for additional funds after local sources of revenue have been exhausted (LESC,1993).

The Public School Capital Improvement Act (SB-9, 1974) is an objective formula that allows local school districts to levy up to two mills on their assessed valuation in order to participate in distributions of the fund. It is an equalizing formula in that the State makes up the difference between what districts can raise and a dollar amount per mill per average daily membership (LESC, 1981).

The Public School Capital Outlay Act (1975), most commonly known as Critical Capital, is specifically directed at emergency funding conditions. An annual appropriation is made by the legislature and the fund is overseen by a Critical Capital Outlay Council (CCOC) and applications from school districts that meet particular criteria are accepted by the CCOC for funding consideration. Direct legislative appropriations from the general fund is another avenue that districts may pursue to fund capital outlay projects (LESC,1993).

School districts may also receive supplemental distributions above and beyond the allocation provided by the funding formula for financial emergencies, extraordinary fluctuations in enrollment, program enrichments that cannot otherwise be financed, special vocational education distributions, and special capital outlay emergencies.

## History and Overview

### Higher Education Formula

A major responsibility of the CHE is to develop recommendations for funding to the legislature. Recommendations are determined for six four-year institutions, 16 two-year institutions, three special schools, and other higher education activities that receive a line item appropriation from the legislature. The development of these recommendations occurs over a period of four months between August and November. The process includes CHE and HEI consultation followed by public hearings on each activity. It is fair to say that the CHE recommendations have, with minor exception, been funded by legislative sessions (BEF,1980).

In 1974, the BEF had recommended a limited formula approach to determine the overall higher education appropriation recommendations for Instruction and General [2] (I & G, hereafter) expenditures during 1975-76. This limited formula recognized different numbers of student credit hours at each four year institution and three levels of instruction; lower division, upper division, and graduate level. It also recognized different average salaries for the faculty teaching at each level (BEF, 1974).

However, with the implementation of the K-12 funding formula in 1974, interest in use of the formula funding approach to assure equity among higher education entities increased and the BEF limited funding proposal was not accepted. In 1975, the legislature required the BEF to develop a more inclusive higher education funding formula. The use of a higher education funding formula was seen as the best means to create the most rational and logical means possible of determining the equitable distribution of limited state funds to HEI's (BEF,1975).

The higher education funding formula that was developed by the BEF during 1975 and 1976 was a methodology that could be used to determine an adequate amount of overall state appropriation to support the State's six four-year HEI's as well as a mechanism to assure equity in the distribution of the appropriated funding.

The basic concept behind the differential higher education funding formula that was accepted by the 1977 legislative session and implemented for 1977-78 recognized that universities had varying needs for funds depending on the combination of disciplines, student levels, and student body size unique to each campus.

The methodology adopted involved a series of analytical steps that could then be applied in subsequent years:

1. Historical cost analyses - The BEF had engaged in historical cost analyses of the HEI's since its inception with more detailed analyses conducted during the period of 1972 - 1977. As a result, a great deal of historical cost data were available to the BEF in the initial development of the higher education funding formula and for its use in subsequent years.

2. Identification and examination of extreme underfunding or overfunding of certain disciplines at specific institutions - Rather than strictly relying on past history in the development of the higher education funding formula, the BEF implemented policies and procedures to adjust historical costs within discipline clusters for outliers. This methodology resulted in the determination of a measure of planned unit costs within discipline clusters.

3. Average unit costs (cost per student credit hour) were calculated among the various discipline clusters and instruction levels across institutions of various sizes. As a general principle, unit costs were averaged among two sets of institutions. The first set included all of the smaller institutions, while the second set included only the two larger universities (UNM and NMSU). This methodology recognized the significance of differences among the HEI's due to size variations.

4. Procedures were developed to incorporate the effects of inflation and

enrollment changes in future years. This insured that the buying power of the historical dollars used in the calculation of planned unit costs was maintained and provided a methodology to reflect the steady state of enrollment or some amount of growth or decline in enrollment for different institutions based on their actual enrollment experience.

5. The number of student credit hours that an institution was expected to generate was based on the most recent actual enrollments and the planned unit costs of those credit hours were multiplied to arrive at a calculation of the total planned instructional expenditures for each institution.

6. General support costs, including such things as library expenditures, physical plant maintenance and operation, administration, and student services were calculated as a percentage of the planned instructional expenditures in the initial formula implemented. Again, historical patterns and comparative data were used to determine the specific calculation mechanism for the general support expenditures.

7. Policies and procedures were developed to recognize and offset HEI revenues from other sources against the total planned expenditures. Such items as tuition revenue, interest on current funds investments, etc., were subtracted from the Instruction and General expenditure levels. Revenues deducted are based on a combination of HEI projections and an assumed level of tuition revenue based on levels set by the BEF and approved by the legislature recognizing that the institutional governing boards determine actual tuition rates (CHE,1994). This allowed the BEF to determine the amount of state appropriation necessary for each HEI in support of its planned expenditure level.

8. The results from the individual HEI calculations were consolidated to determine the overall higher education appropriation request made by the BEF.

During the initial higher education funding formula development, any institution was allowed to challenge the specifics of the formula funding proposals. The BEF was careful to incorporate input from the HEI's which facilitated compliance and support for the effort (BEF, 1976).

Following the detailed analysis of the initial higher education funding

formula application, the legislature indicated their approval of this method by accepting the overall appropriation recommendation of the BEF at 99.4% of that recommended. This represented an increase of 16.5% over prior years funding levels for Instruction and General (BEF, 1978). In essence, the legislature accepted the concept of the funding methodology and for all practical purposes funded it at the requested level.

The higher education funding formula had been developed over a three year period through close cooperation between the BEF staff and HEI personnel. Its adoption and funding by the legislature marked a milestone in university funding in New Mexico. Repeatedly throughout the 1978 legislative session, the BEF and institutions pointed out that acceptance of the funding formula and the appropriation of the dollars required for its implementation would allow maintenance budgeting during succeeding years. Thus, future legislative requests for university I & G funding were to be constructed from BEF analysis of enrollment changes and factors related to inflation, while the basic funding factors related to each discipline at each level for the various sizes of institutions were not anticipated to be major considerations for the legislature in the future (BEF, 1978).

During the 1978-79 fiscal year, the BEF engaged in a number of special studies prompted by legislative action that were related to the higher education funding formula.

House Memorial 37 (1979) required that the BEF reexamine its approach to calculating funding needs for the budget categories which support the instructional program, G expenditures. It also requested that the particular impact of inflation on the cost of library books and periodicals be examined. By the end of 1978-79, a new approach for G calculations was developed by the BEF staff with the participation of HEI representatives, LFC staff, and DFA staff. The underlying assumption of the refined G calculations was that while salary increases and to adjustments for inflation on nonsalary items affected G, enrollment changes influenced the G calculations by only a relatively small percentage. As a result, the original calculation of G as a percentage of I was

not appropriate since the I formula was workload driven (BEF, 1979).

In 1981, the BEF proposed and the legislature approved revisions to the G formula that with minor revision has remained to the present (LFC, 1985). It divided the support functions into four major activity areas: academic support - including both academic administration and libraries; student services - including admissions, financial aid and counseling and guidance offices; institutional support - including executive management, fiscal operations, personnel and community relations; and plant operation and maintenance - including utilities, janitorial and maintenance services, and campus security. Within each major activity area of the G formula, appropriate measures of workload were developed.

The BEF also devoted their efforts to the development of an instructional formula for two-year schools at the direction of the LFC and other legislative committees. The BEF staff worked with the LFC staff, DFA staff, Department of Vocational Education staff, and HEI representatives to develop the two-year HEI funding formula. This formula was patterned after the four-year institutions' formula and provided differential funding among nine discipline clusters for the two-year HEI's. Formula factors include a productivity ratio, an average faculty compensation factor, and a provision for other direct costs (BEF, 1979)

The two-year HEI funding formula for I was also a methodology that could be used to determine an adequate amount of overall state appropriation to support the State's two-year HEI's as well as a mechanism to assure equity in the distribution of the appropriated funding. It was enrollment driven and relied on three factors--faculty productivity ratios, average compensation, and an allowance for other direct instructional costs based on the volume of instructional activity. An historical cost study of instruction at two-year HEI's had been conducted for the prior three years and the BEF utilized these data in determining values for the formula factors.

Several challenges faced the BEF in the development of the two-year HEI funding formula. Enrollment by term was more difficult for the BEF to determine at the two-year institutions. Some classes, particularly vocational programs,

were not based on credit hours. A system was developed to uniformly convert noncredit courses to student credit hours based on the number of faculty-student contact hours in the class. Sometimes scheduling of courses at two-year HEI's were different from a regular semester, some courses were conducted continuously for as long as 12 months, some programs accepted students intermittently during the year, and other programs permitted students to enter at any time and finish when they had accomplished program objectives. Two-year HEI's also used more part-time faculty than the four-year HEI's that relied primarily on full-time faculty to provide instruction. To accommodate these differences between the four-year HEI's and the two-year HEI's and among the two-year HEI's, the BEF proposed in 1980 that the formula be driven by the latest known enrollment which would consist of a calendar year or the summer, fall, and spring terms (BEF, 1979).

After considering the greater diversity of funding needs in the two-year HEI's, the BEF also recommended that the two-year HEI's be brought onto sole reliance on the formula for calculating I over a period of three years and a save harmless amount of funding was recommended for the smallest of the two-year HEI's. For the first year, three institutions were funded above the formula calculations, three were placed on the formula, and funding for three institutions was at a level less than the formula calculations (BEF, 1979).

As initially proposed for 1980, the two-year HEI funding formula only applied to the instructional needs. Calculations to determine a funding level for G (Academic Support, Student Services, Institutional Support, and Plant Operation and Maintenance) were done independent of the formula on a line-item analysis basis, a continuation of past practices. Again, the BEF recognized in its proposals that the two-year HEI formula would be refined and adjusted over time (BEF, 1979). In later years, two-year HEI's did become subject to G formula funding, although the diversity among the two-year HEI's has resulted in less consistent application of formula funding mechanisms.

The implementation of the higher education funding formulas were not envisioned as a means to achieve line-item control over either the four-year or

two-year HEI's. Rather the formulas were intended to provide adequate state support of instructional programs that were determined independently by the individual HEI's a strategy consistent with the State's tradition of HEI autonomy.

Higher Education Formula Funding Revisions

The CHE conducts periodic in-depth and annual analyses of the funding formulas, revises the formulas as needed, and develops new formula components as needed to meet the emerging needs of the HEI's. In 1981, the BEF made adjustments to the I formula for four-year HEI's that were approved by the legislature. A productivity factor was included to recognize the unique costs associated with the use of graduate assistants for instruction at the two large HEI's and two discipline clusters were added to reflects costs associated with supplemental education. Both of these adjustments were later discontinued. An adjustment was also included for less-than-two-year vocational/technical programs offered by four-year HEI's although the application of this adjustment has been very limited (LFC, 1985).

In 1981, the enrollment base for calculating four-year I expenditures was revised from being based on the most recent actual enrollment to a rolling three-year average. This avoided the short-term effects of year-to-year enrollment fluctuations and provided greater stability in funding levels that facilitated the management and planning for programs and resource utilization by the HEI's.

In 1984-85, an adjustment to the policies and procedures for revenue offset was incorporated to recognize that portion of the four-year HEI's Land and Permanent Fund that would be sheltered to recognize funds needed for building replacement and renewal.

The two-year HEI's generally did not have Land and Permanent Funds and funds for building renewal and replacement were provided through the Two-Year Schools Maintenance Act. By 1985-86, the two-year HEI's became eligible for building renewal and replacement funds under the two-year G formula.

In 1985-86, another significant revision was made with the addition of a four-year I formula for summer session instruction. This addition allowed summer

school offerings to expand and contract with student demand for these instructional services. Only funds for faculty compensation were provided since instructional support was provided through the regular I formula for a full year (LFC, 1985).

Since 1990, some add-ons have occurred to the regular I four-year HEI funding formula. An adjustment was incorporated to maintain a minimum level of instruction for HEI's that experience a decline in their base funding. This factor has not been recently applied to any of the four-year HEI's and is under revision. A growth adjustment was added to provide additional support for those HEI's that experience steady growth in enrollments. Effective in 1992-93, an adjustment was incorporated for those HEI's that compare unfavorably with identified peer institutions providing add-on funds to the HEI. This factor also has been infrequently applied (LFC, 1985 and CHE, 1992). Another adjustment was made in 1993-1994 to the utility calculation to encourage energy efficiency among the HEI's (CHE, 1994).

When the I & G formula is calculated by the CHE in the fall of each year it answers the following question:

> If you wish to hold constant the current funding level for each university but also wish to respond (up or down) to changes which have occurred in workload, what new funding level is required? (LFC, 1985, p. 9)

However, the calculations alone do not determine the recommended appropriation level for the HEI's. The CHE, the executive and the legislature, all have an opportunity to take actions that influence the expenditure levels and other revenues that are credited against the I & G calculated expenditures. As a result, the final appropriation related to I & G, while formula funded, reflect routine calculations with adjustments to formula factors for inflation and enrollment/workload and decisions influencing the assumed tuition level and proportion of other revenues to be credited against I & G expenditures. The final appropriation is a composite number reflecting the formula funding parameters and the deliberate decisions of state policy makers.

## Other Funding Sources

In addition to the formula funding of HEI's, the CHE also recommends a variety of other appropriations to the legislature for special projects and programs under the coordination of the CHE, agreements unique to some of the two-year institutions, and some educational activities that have been historically excluded from the I & G formula funding such as the medical school and emerging funding needs of the special schools. These recommendations are submitted for line-item consideration by the legislature each session.

Concerns regarding the appropriation of additional funds for these purposes are periodically raised and considered and analyzed by the BEF, LFC, DFA, and legislature. However, alternative mechanisms for decision making regarding these matters have not presently been pursued.

## Capital Projects

The BEF also recommends expenditures for capital projects (21-1-21 NMSA 1978) for line-item consideration by the Legislature. Traditionally, institutional revenue bonds have been used to fund non-instructional or revenue-generating facilities such as stadiums and auxiliary service sites. However in 1991, several HEI's used revenue bond proceeds for technology improvements and other campus operating needs. The ability of HEI revenues to support these expenditures in the future has been one area of concern to the CHE (CHE, 1992).

## Comparisons of K-12 and Higher Education Formula Funding Realities

Considering the dominance of the K-12 funding formula in New Mexico educational finance when the higher education formula was being developed and the appropriate principles of educational finance incorporated into both formulas, it is not surprising that there are similarities in the K-12 and higher education formulas that have been implemented. Both formulas incorporate concepts related to size, enrollment changes, cost differentials related to different instructional programs, and critical concepts to achieve equalization in state resource allocation.

However, the realities that each formula funding strategy has encountered over the years are quite different and interesting questions emerge as this

historical perspective is considered. One of the differences between the two formulas is that the K-12 formula is specified in statute (22-8-1ff NMSA 1978) while the specifics of the higher education formula are not. While legislative approval of major changes to the higher education formula is obtained when higher education appropriations are recommended to the legislature each year, the higher education formula methodology "built in" legislative expectations that some annual revisions and adjustments to the higher education formula would be accomplished in a routine manner within the reporting relationships of the CHE. As a result, fine-tuning of the higher education formula is more readily accomplished than has been the case for the K-12 funding formula. It appears that specifics related to the formula methodology can influence the ease with which routine analysis and adjustment of funding formulas are implemented and maintained.

Any changes to the K-12 formula must be submitted to the legislature for its approval and incorporated into statute. This elevates discussion of K-12 formula specifics to all 112 legislators. In addition, the K-12 formula influences 89 entities, the State's school districts, all with considerable vested interest in the specifics of the K-12 formula. As working groups and study task forces are assembled to consider issues related to the K-12 formula, it is difficult to gather a group of reasonable size that is also representative of all 89 school districts and other K-12 constituencies.

In contrast, many revisions and adjustments to the higher education formula can be made at the level of the CHE, a group of 15 members. In addition, the higher education formulas are similar, but separate for four-year and two-year institutions. As a result, the CHE is able to establish moderately sized working groups and task forces to consider matters of higher education funding that are more inclusive of the total universe of HEI's in the State. This is a far more amenable organizational environment for achieving consensus than is encountered in the K-12 formula funding environment. It appears that the complexity of the educational finance environment in which the formula is applied and the legislative and political action and interaction with funding formulas are also

factors that influence decision making related to formula funding.

Another difference between the two formulas is that the higher education formulas serve as mechanisms to guide legislators and others in their deliberations about the desirable overall expenditure level for HEI's that will adequately provide educational services, as well as, providing a method for equitable distribution among New Mexico HEI's. In essence, the higher education funding formulas create common understandings about educational adequacy that limit the items requiring specific attention during the decisionmaking processes. This is not to suggest that items of concern about the overall appropriation for higher education or specifics of the formula do not arise because they do. However, because a tradition of agreement about many issues related to formula funding has developed, the number of items that are perceived to be open for discussion tend to be those CHE recommendations related to line-item consideration while issues related to the higher education funding formula are less numerous and not as hotly contested.

In contrast, the K-12 formula does not provide guidance to legislators about the level of funding that is necessary to provide an adequate education to New Mexico K-12 students. Instead, the level of K-12 appropriation is a negotiated process as a variety of competing proposals from the SBE, LESC, and LFC are received and educational policymakers and K-12 administrators must address concerns about adequacy in their proposals. In addition, K-12 interest groups provide input and reactions to the varied proposals that further bombard the legislative session. Again, this is not to suggest that the overall level of K-12 appropriation is controversial while the level of higher education appropriation is determined without contention. However, the number of issues and considerations that must be studied, discussed, and decided during the determination of the K-12 overall appropriation is not bounded or directed by the K-12 funding formula as the overall higher education appropriation is by the higher education funding formula. In essence, the ability of the higher education funding formula to address issues of adequacy and equity is a means to reduce complexity in decisionmaking.

There is evidence that the reduced complexity afforded by the application of the higher education funding formulas contributes positively to achieving consensus and decision making about higher education funding. The level of overall funding recommended by the CHE to the legislature each year is infrequently and only marginally revised by legislative action. It also appears that CHE recommendations about funding formula specifics are approved more often than not. This can be contrasted with a number of revisions to the K-12 formula that were not fully funded by an incremental appropriation from the legislature despite strong recommendations from the LESC to do so, or conversely by a number of K-12 formula revisions that have been implemented despite LESC recommendations to the contrary.

## Questions For Further Research

Interesting questions emerge form this historical perspective on the K-12 and higher education funding formulas that might be of interest for further research.

One area of inquiry might be to examine the experiences of other states to ascertain whether New Mexico's history is similar or different. Are there specifics of formula methodology that are consistently related to particular policy outcomes or decisionmaking processes? Are the differences in the implementation of formula funding for higher education and the K-12 sector that have occurred in New Mexico also observed in other settings?

There is a tension between ease of formula administration when specifics are delegated to a coordinating body like the CHE and the greater public scrutiny of the specifics of formula funding methodology when they are incorporated in state statute. Has delegation of formula funding specifics been successful in other states? Are there cases where such a strategy has led to unfavorable consequences? Is it possible to evaluate the pros and cons of the two funding formula management strategies across settings? Is it possible to construct more traditional cost/benefit analyses of the two management strategies?

## Conclusion

This historical perspective on the K-12 and higher education formulas

suggests that formula funding can be used to foster decision making about educational adequacy, as well as, addressing concerns for equity in the provision of educational services. It is desirable to pursue mechanisms in the K-12 sector that may achieve similar benefits for elementary and secondary students. It may well be that valuable lessons can be learned from the higher education funding formulas of other states and the roles and responsibilities assigned to higher education coordinating boards in other settings.

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Notes

(1) The methods employed in this paper included in person and phone interviews with school district financial officers and other State personnel, a review of BEF & CHE reports for the period 1973-1994, a review of LSSC and LESC reports for the period 1971 - 1994, a review of New Mexico legislation for the period 1973-1994, selected special study reports for the period 1951-1994, and a review of newspaper and other reports of Legislative Sessions. Portions of the description of the K-12 funding formula have been drawn from "Current School Funding Policy Issues in New Mexico", Derlin, R.L., Cooper, L., & Jenkins, J. (1995). School Finance Policy Issues in the States and Provinces, American Educational Research Association: Fiscal Issues, Policy, and Education Finance Special Interest Group. Columbus, OH: PROBE.

(2) In New Mexico, the term Instruction and General (I & G) is used for the term Education and General that is more commonly used in the Higher Education Finance literature.

Appendix A

New Mexico State Funding Formula Direct Instruction Elements

| | Year of Action & Cost Differentials | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| DIRECT INSTRUCTION ELEMENT; BASIS | 1974 | 1976 | 1980 | 1987 | 1990 | 1991 | 1992 | 1993 | 1994 |
| EARLY CHILDHOOD (FTE STUS) | 1.1 | 1.3 | | | 1.44 | | | | |
| BASIC PROGRAM UNITS | | | | | | | | | |
| GR1 | 1.1 | | 1.42 | | | 1.26 | | | |
| GR2-3 | 1.1 | | | | | | | | |
| GR4-6 | 1.0 | | | | | | | | |
| GR7-9 | 1.2 | 1.25 | | | | | | | |
| GR10-12 | 1.4 | 1.25 | | | | | | | |
| SPECIAL EDUCATION & GIFTED (STUS & SVC LEVEL) | | | | | | | | | |
| C - EXTENSIVE | 1.9 | | | | | | | | |
| D - MAXIMAL | 3.8 | 3.5 | | | | | | | |
| D-4YR (Category Added) | | | | 3.5 | | | | | |
| D-3YR (Category Added) | | | | 3.5 | | | | | |
| INCREMENTAL UNITS | | | | | | | | | |
| VOCATIONAL EDUCATION (FTE STUS) | 0.8 | Note 1 | | | | | | | |
| BILINGUAL ED UNITS (FTE STUS) | 0.5 | 0.3 | | | .35 | .40 | .425 | .45 | .5 |
| SPECIAL EDUCATION (PROGRAM & SVC LEVEL) | | | | | | | | | |
| A - MINIMAL (FTE TCHR) | 20 | | | | | | | | |
| B - MODERATE (# RES RMS) | 20 | | | | | | | | |
| ANCILLARY PROGRAM (PROFESSIONAL PROV.) | | | 20 | | | | | | |

Note 1 In 1978, the Vocational Education factor was combined with the factor for grades 7-12 and eliminated as a separate factor.

Note. Adapted from "Studies of New Mexico's Public School Funding Formula and Changes Made in the Formula, 1974-1994," by Legislative Education Study Committee, February 13, 1995.

Source: Current School Funding Policy Issues in New Mexico (Derlin, Cooper, & Jenkins, 1995)

Appendix B

New Mexico State Funding Formula Elements

Size Adjustments and Training and Experience Actions

| | Year of Action and Action | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| SIZE ADJUSTMENTS | 1974 | 1976 | 1979 | 1981 | 1990 | 1991 | 1992 | 1994 |
| SPARSITY FACTORS | | | | | | | | |
| ELEM-JR. HIGH SCHOOLS | IMPLMNT | | | | | | | |
| SR. HIGH SCHOOLS | IMPLMNT | | | REVISE | | | | |
| DISTRICT OVERALL | IMPLMNT | | | | | | | |
| DENSITY FACTOR | | | | | | IMPLMNT 2 FACTORS | ADD FACTOR 3 | |
| RURAL ISOLATION FACTOR | | IMPLMNT | REVISE | | | | | |
| NEW DISTRICT | | | | | | | | IMPLMNT |
| ENROLLMENT GROWTH FACTOR | | | | | IMPLMNT | REVISE | | |
| TRAINING & EXPERIENCE | IMPLMNT | | | | | | | NOTE 1 |

IMPLMNT = Implement

Note 1 In 1993, the waivers were implemented for some school districts in the State and further changes are under consideration.

Note. Adapted from "Studies of New Mexico's Public School Funding Formula and Changes Made in the Formula, 1974-1994," by Legislative Education Study Committee, February 13, 1995.

Source: Current School Funding Policy Issues in New Mexico (Derlin, Cooper, & Jenkins, 1995)

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