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July 20, 2020

Faatimah Muhammad, Director
Impact Aid Program
Office of Elementary and Secondary Education
U.S. Department of Education
400 Maryland Ave., SW
Washington, DC 20202-6244
Via email to Faatimah.Muhammad@ed.gov; Amanda.Ognibene@ed.gov; Impact.Aid@ed.gov

RE: Revised New Mexico Impact Aid Certification Submission

Dear Ms. Muhammad,

Please accept the included documents as the State of New Mexico's ("the State") revised submission to the Impact Aid Program ("IAP") of the United States Department of Education ("ED") for certification to take into account Impact Aid payments in making State aid payments to school districts for the 2020-2021 school year.

As you know, the IAP issued a letter on June 29, 2020 ("the Letter") granting the State's request for provisional certification. The Letter requested that the State make several changes to its disparity test submission and submit a revised disparity test calculation by July 20, 2020. In particular, the IAP requested that the State resubmit a disparity test that included five primary categories of change: modeled changes to the State Equalization Guarantee ("SEG"); the inclusion of additional State funding in the disparity calculation; the inclusion of the entirety of the Transportation Fund; the inclusion of SB-9 funds in the disparity test; and the inclusion of SB-9 tax revenues in the computation of proportion. Please note that while this revised submission addresses all the concerns raised in the Letter, it does not necessarily reflect the endorsement of this method of calculating disparity by the State. Each of the categories of change required by the Letter are addressed in turn.

In its Letter, the IAP required the State to model two changes to the distribution of funds through the SEG, the phase out of the Size Adjustment Factor and the phase in of the Rural Adjustment Factor; and the transition from the Teaching and Experience Index to the Staffing Cost Multiplier (Teacher Cost Index). The State has modeled the effect of these two changes on calculating weights (“unit values” in the State) in the SEG using the FY21 preliminary unit values.¹ In addition to the two changes required by the Letter, the State also modeled the effect of changes to the Extended Learning Time Program on the calculation of SEG. Finally, the State has updated the At-Risk Index from its initial submission to reflect the FY21 preliminary unit values, which were not available at the time of the initial submission.

The Letter required the State to include other programs that provide State funding to school districts for specific purposes outside of the SEG. The Letter specifically noted the following funds: the Early Literacy and Reading Support Funds; Career Technical Education Funds; Teachers’ Professional Development Funds; Science, Technology, Engineering, Arts and Math Initiatives; Computer Science Professional Development Funds; Feminine Hygiene Products Fund; Career and Technical Education Programs Fund; Early Literacy Summer Professional Development Program Funds; National Board Certification Grants; School Improvement Grants; Grow Your Own Teachers Funds; Funds for Hard-To-Staff Teachers; Teacher Residency Funds; Early Literacy Funds; Elementary Physical Education Funds; Mentorship and Professional Development Funds, and the new and expanded bilingual programs.

First, some of these funds represent additional appropriations that the legislature made to the SEG and are distributed through the SEG. These funds include:

- Early Literacy Funds;
- Elementary Physical Education Funds;
- Mentorship and Professional Development Funds; and
- New and Expanded Bilingual Program Funds

Because these funds are distributed through the SEG, the inclusion of the total SEG amount in the disparity calculation accounts for these funds. As such, these funds were included in the original submission and continue to be included in this revised submission.

The remaining funds listed in the Letter are indeed “programs that provide State funding to school districts for specific purposes outside of the SEG” and are known as “27XXX” funds. This series of funds, in the aggregate, typically accounts for about 2% of the revenues for current expenditure, but the specific funds vary greatly from year to year. For example, the below chart illustrates the 27XXX funds from FY19 and FY21:

¹ These preliminary unit values were generated on July 10, 2020 after the State Legislature had finalized SEG appropriations for FY21.

FY19 27XXX Funds	FY21 27XXX Funds
Dual Credit Instructional Materials	Dual Credit Instructional Materials
Gob Library	Early Literacy and Reading Support Funds
Adoption IM Math and Arts	Career Technical Education Funds
New Mexico Reads to Lead K-3	Teachers' Professional Development Funds (TPE)
Excellence in Teaching Awards	STEAM Initiatives
Recruitment Support Fund	Computer Science Professional Development Funds
Truancy Initiative Ped	Feminine Hygiene Products Fund
PreK Initiative	Career Technical Education Program Funds
Indian Education Act	Early Literacy Summer Professional Development Program Funds
Grads	National Board Certification Grants
Breakfast for Elementary Students	School Improvement Grants
Kindergarten-Three Plus	Grow Your Own Teacher Funds
After School Enrichment Program	Funds for Hard-to-Staff Teachers*
2013 Pre-K Classrooms	Teacher Residency Funds
Early College High School Start-Up	
Stem Teacher Initiative	
Nm Grown FVV	
College Counselor Initiative	
Teachers Hard to Staff Stipend*	
K3 Plus 4&5 Pilot	
Indicates 27XXX funds distributed in FY19 that were not distributed in FY21	Indicates new 27XXX funds for FY21

*The Teachers Hard to Staff Stipend was renamed to Funds for Hard-to-Staff Teachers.

As you can see most of the 27XXX funds listed in the Letter are funds that have been newly appropriated in 2020 by House Bill 2, and information about how those funds will be distributed and what amounts of these specific programs will flow to each LEA is not yet available. As such, the State does not have data to make accurate projections to model these newly appropriated programs. Since the State is not able to model the impact of the newly appropriated 27XXX funds on the disparity test, the State instead used the final data from all 27XXX funds distributed in FY19 in the calculation of disparity.

Next, the Letter required the State to include the entirety of the Transportation Fund in its revised disparity test and instructed the State to apply any transportation special cost differentials to the weighted pupil count. The State removed the reductions to the Transportation Fund revenues related to special cost differentials and used the entire amount of Transportation Fund revenues in this revised submission.

With regard to SB-9 funds, the Letter indicated that the State cannot exclude SB-9 funds used for capital expenditures from the revenues available for current expenditures in the disparity test. The State's original submission included a sheet that separated the current expenditures from capital expenditures in the SB-9 Fund. That sheet has been removed from this submission and impacted calculations have been updated using all SB-9 revenues.

Finally, the IAP reviewed whether it was appropriate to include the SB-9 local tax revenues covered by the SB-9 Program Guarantee. As a result of its review, the IAP included instructions in the Letter for the State to recalculate the proportion of Impact Aid considered local resources using the following method:

1. Calculating local tax revenues covered under the equalization program by adding:
 - 75 percent of local tax revenues, the amount considered as local effort in the SEG, and
 - All local tax revenues for SB-9, or the school district's SB-9 Guarantee, whichever is lower; and
2. Dividing the result by all local tax revenues, consisting of the sum of:
 - All local tax revenues for the SEG, and
 - All local tax revenues for SB-9.

The State recalculated the proportion for each district using this methodology but made three changes to the formula used by the IAP in its preliminary recalculation, which the IAP provided to the State in an Excel document via email on July 1, 2020.

The first change regards the calculation of local tax revenues under the SB-9 equalization program. The IAP's preliminary recalculation compared the Ad Valorem Taxes (object code 41110) from the 'Revised FY19 Rev for T4' sheet with the SB-9 Program Guarantee to calculate the SB-9 local tax revenues considered in the State equalization program. The Ad Valorem taxes, however, do not capture the total local taxes levied for SB-9. In addition to the Ad Valorem Taxes, the SB-9 local tax has two other components: Oil and Gas Taxes (41113), and Copper Production Taxes (41114). In its revised disparity submission, the State compared the sum of the Ad Valorem, Oil and Gas, and Copper Production taxes to the SB-9 program guarantee and updated the calculation of SB-9 local tax revenues covered under the equalization program accordingly.

The second change relates to the calculation of total local tax revenues included in the denominator of the proportion computation. In its preliminary recalculation, the IAP used the SB-9 local revenues subtotal from Fund 31701 in its revised computation of proportion. Fund 31701 captures both the SB-9 local tax revenues² and other revenue sources, such as investment income and refunds of prior year expenditures. Because these other revenue sources are not local tax revenues, the State has only included the three sources of local tax revenues in calculating the total local tax revenues included in the denominator of the proportion computation.

² Ad Valorem, Oil and Gas, and Copper Production.

The third change regards the calculation of the program guarantee for each LEA in the State. State law apportions a proportionate share of SB-9 State funds to each State charter school³ in the geographical boundaries of an LEA that makes an SB-9 election. To account for this proportionate share, the state calculated the share of each LEA's program guarantee that can be attributed to a State Charter school. These revised program guarantee calculations were then applied to the computation of proportion.

We appreciate the IAP's consideration of this revised submission. Please let me know if you require additional information to facilitate your review of this submission.

Sincerely,

David Craig
Director, School Budget and Finance Analysis
New Mexico Public Education Department

cc: Ryan Stewart, Ed.L.D., Secretary of Education
Adan Delgado, Deputy Secretary
Lisa Chai, General Counsel

³ State charter schools serve as independent LEAs in the State of New Mexico.