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## FISCAL IMPACT REPORT

**SPONSOR** Smith **ORIGINAL DATE** 02/04/14  
**LAST UPDATED** 02/18/14 **HB** 149

**SHORT TITLE** School Capital Outlay for Building Systems **SB** \_\_\_\_\_

**ANALYST** Gudgel

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY15	FY16	FY17		
\$15,000.0	\$15,000.0	\$15,000.0	Recurring	Public School Capital Outlay Fund – Building Systems Renewal
(\$15,000.0)	(\$15,000.0)	(\$15,000.0)	Recurring	Public School Capital Outlay Fund – Existing Programs

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Regulation and Licensing Department (RLD)

Public School Facilities Authority (PSFA)

### SUMMARY

#### Synopsis of Bill

House Bill 149, endorsed by the Public School Capital Outlay Oversight Task Force and the Legislative Education Study Committee, amends the Public School Capital Outlay Act to allow the Public School Capital Outlay Council to make awards in amounts up to \$15 million dollars from the Public School Capital Outlay Fund in FY14 through FY19 for building system repair, renovation, and replacement initiatives at public schools.

The bill also repeals Section 22-24-4.1 NMSA 1978 (the deficiency correction program) and eliminates language in Section 22-24-9 NMSA 1978 related to the deficiency correction program that was implemented prior to the establishment of adequacy standards.

### FISCAL IMPLICATIONS

The bill does not make an appropriation; however it allows the Public School Capital Outlay Council (PSCOC) to expend up to \$15 million of the Public School Capital Outlay Fund to make

award to schools for building system repair, renovation, and replacement initiatives in fiscal years 2014 through fiscal year 2018. Allowing the use of funds for building systems will decrease the amount of funds available annually for standards-based projects.

The Legislature is also considering using the Public School Capital Outlay Fund for the purchase of school buses and education technology, security systems, building prekindergarten classrooms, and funding an education technology deficiency correction initiative. **The Legislature should consider these issues simultaneously and analyze the merits of each use to ensure the state will continue to meet its constitutional obligations under the Zuni court decree.**

The Public School Capital Outlay Fund (PSCOF) is the source of funding for the standards-based capital outlay program for public schools statewide, as well as the state match for the Public School Capital Improvements Act (SB9), Lease Assistance Program, Master Plan Assistance, and other programs under the Public School Capital Outlay Act (Chapter 22, Article 24 NMSA 1978). Revenues to the fund are principally from supplemental severance tax bonds and allocations from the fund are authorized by the Public School Capital Outlay Council (PSCOC).

### **SIGNIFICANT ISSUES**

The amount of state funds needed annually to support this initiative is unknown at this time as it would depend on the number of applications received and the state/local match of the applicant districts.

The PSCOC currently provides standards-based roofing awards based on applicant's roofing condition index in order to avoid the consequential costs of failed roofs. It replaces a certain facility system to extend the life of the whole facility. The current standards based roofing awards will continue through FY15.

Similarly, this scenario introduces an expanded "systems renewal" program that would supplement the current standards based program. This systems renewal program will allow the PSCOC and districts more flexibility in project scoping and funding.

The Public School Capital Outlay Council (PSCOC) would be allowed to make awards to public schools for building systems. The bill defines building systems as "a set of interacting parts that make up a single, non-portable or fixed component of a facility and that, together with other building systems, make up an entire integrated facility or property, including roofing, electrical distribution, electronic communication, plumbing, lighting, mechanical, fire prevention, facility shell, interior finishes and heating, ventilation and air conditioning systems, as defined by the council."

Based on language in the bill, applications for building systems will be processed much like applications for standards-based awards. Districts will be required to submit an application that includes an assessment of the building system the district is seeking funding for. Applications will be ranked pursuant to a methodology adopted by the PSCOC. The PSCOC will hold public hearings and approve those building systems projects on the established priority basis. In order to be eligible for a buildings system award, a school district will be required to pay a matching portion of the project – this is the same local match requirement a district is responsible for with a standards-based project. Any funds awarded must be spent within three years of the allocation. Over the past several years, the PSCOC has received fewer applications through the standards-based, in part because school districts do not have sufficient funds to make their local match for a

PSCOC project. Individual districts have experienced difficulty passing new bonds and other property tax initiatives which are needed by districts to raise revenues for local matches required for PSCOC awards. In some cases, the bonding capacity of a school district is insufficient to produce the revenue a district needs for the local matching requirement. Additionally, the condition of schools statewide has increased substantially since the inception of standards-based awards. In many cases, the school district needs do not require the construction of a new building or a major renovation, but rather, smaller projects including electrical, plumbing, lighting, HVAC, etc.

The added flexibility of providing funding specifically for “building systems” would allow for districts to “fit” a project to their financial resources and address deficiencies that are greatly impacting their schools. Currently, there are a large number of school buildings which have “high value systems” and if they are not renewed, may degrade to the point where the result is a full facility renewal or replacement. Targeting funding for “building systems” will result in an efficient and use of available funding, improving the condition of New Mexico’s public school buildings. Renewal can add 10-15 years to a school facility’s useful life, having a positive impact on deferred maintenance backlog. An adequately funded systems renewal program, supplementing whole campus renewals, will increase the effectiveness of the standards-based program by incrementally improving certain schools and thereby moving those schools need of whole campus replacement back many years.

Since the inception of the standards based school program, the composition of New Mexico’s school facilities inventory has changed and a systems renewal program could maintain the effectiveness of capital spending. There are currently a large number of schools, that if certain high value systems are not renewed, they will soon worsen to a point of requiring whole campus renewal or replacement. By correcting facility systems in a school that are “beyond expected life”, its progression to renewal or replacement can be slowed.

### **ADMINISTRATIVE IMPLICATIONS**

The PSCOC will be required to adopt guidelines for administering the new building systems program and the PSFA will be required to verify building system assessments submitted by school districts and rank each application pursuant to the methodology adopted by the PSCOC.

### **DUPLICATION, RELATIONSHIP**

House Bill 68 is a duplicate.

House Bill 260 and Senate Bill 159 (duplicates) allow the PSCOC to allocate up to \$10 million a year from the fund for education technology from FY14 through FY19.

HB 325 allows the PSCOC to allocate up to \$3 million total from the fund for security systems from FY15 to FY17.

As mentioned in Fiscal Implications, the Legislature should consider all initiatives that use Public School Capital Outlay Fund revenue simultaneously and analyze the merits of each use to ensure the state will continue to meet its constitutional obligations under the Zuni court decree.

