To: Public School Capital Outlay Oversight Task Force
Subject: Public School Capital Outlay Funding Formula
Date: December 4, 2015

History of Public School Capital Outlay Funding Formula

A 1998 lawsuit by Zuni alleged that the 1975 Public School Capital Outlay Act disadvantaged districts with a small tax base and were unfair and unconstitutional. In 1999 the court ruled in favor of the plaintiff and ordered the state to develop a more equitable system. In 2003, New Mexico amended the Act and implemented a standards-based process and established a funding formula by which state-local funding shares would be systematically determined. The funding formula takes into account school enrollments and revenue capacity (property valuations and utilized mill levy rates). By design, the state is to contribute funds only to the level of adequacy, and the state share will on average be 50%.

Computation of PSCO Funding Formula

During October and November 2015, BBER collected and analyzed data to benchmark the calculation of State-district funding shares. Although the formula is ostensibly simple, with only three variables (school enrollments, property valuation, tax mill levies), the data collection and standardization process is extremely complex. County Assessors are the source of property valuation data, which includes residential, nonresidential and mineral property; the Taxation and Revenue Department (TRD) is the custodian of these data statewide. The Public Education Department (PED) is the source of enrollment and tax mill levy data.

The complexity of data gathering and aggregation stems from two factors:

1. The initial sources of property valuation data are counties; the data is aggregated by TRD but in formats that are both irregular and not conducive to electronic analysis, for various reasons.

2. Geographical overlays are complex and variable; e.g. counties may include multiple districts, and data from each county must be assigned to the associated school district. The coding system linking county parcels to school districts is inconsistent.

The complexity of the current system of data collection and computation has two significant drawbacks – the complex routing of the data increases the possibility that errors will be

introduced; and it makes independent verification extremely difficult, impeding the public right-to-know.

In the practice of due diligence, BBER independently collected all necessary data, for all school districts for the period 2005-2014. BBER has verified the data for the three year period 2012-2014. (Verification of earlier data would require significantly more time given the irregularity of its formatting.)

Despite the complexity of the system, the data collected and aggregated by BBER matches that of PED with only minor differences. The differences are most prevalent in the case of mineral property values. Further, <u>the computation of State-district shares for the average of the period 2012-2014, matches that of PED, again with only minor differences</u>.

Analysis of PSCO Funding Formula

By many accounts the state-local share funding formula has performed well. However, concerns with the equity and efficacy of the formula remain. Specifically, some argue that districts with above-average per-student property tax valuation (typically located in more densely populated urban areas) are better able to afford high quality facilities than are districts with below-average per-student property tax valuation (commonly located in rural areas).

There are at least two areas in which the existing formula may fail to achieve its intended objective: to optimize the use of state funds to provide equal and adequate school facilities for all districts in the state.

1. Per-student property tax valuation is perhaps not the best measure of a district's 'ability-to-pay' in New Mexico, for two reasons. A) In rural areas, while private rangeland and cropland may have substantial taxable value, that value is not necessarily indicative of the capacity of rural landowners to pay. B) Property valuations are subject to significant variability in districts where commodities such as oil & gas extraction comprise a significant share of property valuation; thus a determination of funding shares at a time of high commodity prices would excessively burden these districts if and when prices drop (and vice versa).

   These issues may be addressed by incorporating in the formula alternative measures of ability-to-pay, such as household or per capita income, poverty or unemployment rates, students eligibility for free or reduced-cost lunch; and/or alternative measures to correct for commodity and/or agricultural land valuation.

2. The formula does not account for differences in the per-student facility construction and maintenance costs, again for two reasons. A) Scale factors: lower enrollment schools (typically in rural areas) have higher average per-student space needs because common areas (e.g. hallways, cafeterias, libraries, multipurpose rooms) have minimum size

requirements. Thus, all factors being equal (e.g. per-student property valuation), districts with lower-enrollment schools incur higher per-student facility costs. B) Locational factors: construction and maintenance costs vary by region, with costs typically higher in rural areas than urban areas. Thus, not only do rural schools typically require more square footage per student, but the cost-per-square-foot for both construction and maintenance is higher in these rural districts.

These issues may be addressed by incorporating in the formula measures of space utilization and direct costs of facility construction and maintenance.