NEW MEXICO LEGISLATIVE FINANCE COMMITTEE

A Review of Public School Capital Outlay and Impact Aid

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Presented to the
Public School Capital Outlay Oversight Taskforce
July 29, 2019

History of School Operational Funding Equalization

- New Mexico was an early adopter of school finance reform
  - 1969: Student-weighted public school formula created
  - 1974: State equalization guarantee (SEG) formula created
  - Goal: equalize financial opportunity for each student appropriate to educational need regardless of location or local economic condition
- New Mexico shifted school operational funding from a local wealth base to state support model
  - 1969: State provides first public school support appropriations
  - 1981: School mill levy changed from 8.925 to 0.500

History of School Operational Funding Equalization

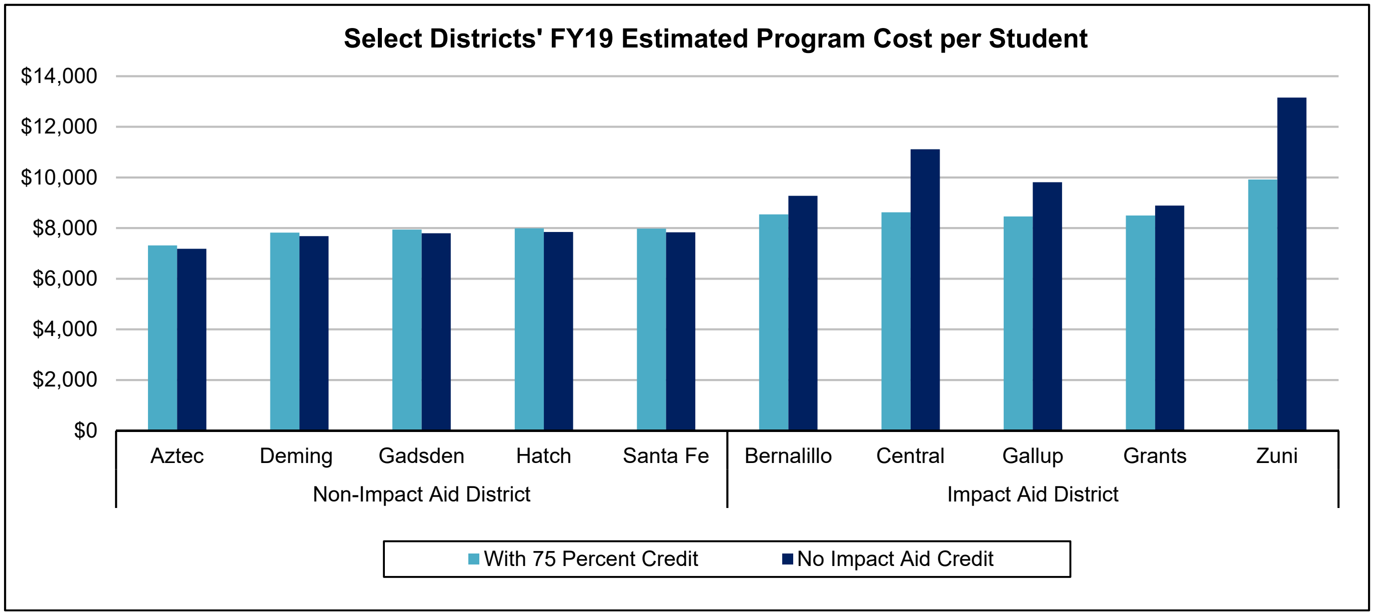
- With formula reform (1974), New Mexico began crediting 95% of certain local and federal revenues to equalize program costs
  - Credits include federal operational Impact Aid payments (formerly PL 874), 0.500 school mill levy, and forest reserve funds
    - Impact Aid payments were intended to assist school districts† impacted by lost tax revenue or impacted by increased expenditures due to the presence of tax-exempt, federal land (military, tribal, etc.) or enrollment of federally-connected children

      † Districts in other states typically rely on local property taxes for operational funding

- In 1999, New Mexico reduced the SEG credit down to 75%
  - Dis-equalized SEG but helped Impact Aid districts alleviate cash flow constraints from late federal Impact Aid payments
  - Represented a shift back to a local wealth base-approach

2019 Legislative Session

- 2019: Multiple bills were introduced to eliminate the 75% SEG credit for Impact Aid payments
  - This would effectively provide Impact Aid districts more operational funding per student than other districts



2019 Legislative Session

- Districts seeking elimination of the 75% Impact Aid credit
  - Expressed difficulties with raising **local capital outlay** revenue
  - Received the most federal Impact Aid payments
  - Operated schools with better than average facility conditions
  - Maintained larger than average cash reserves

FY18 Impact Aid School Districts

District[1]	Total Operational Impact Aid[2]	Facility Condition Index	Budgeted Cash Balance
Alamogordo	$845,721	43.1%	8.0%
Albuquerque	$121,817	35.5%	7.0%
Bernalillo	$4,317,509	19.3%	13.1%
Bloomfield	$681,917	39.2%	18.0%
Central Cons.	$22,844,050	29.6%	22.6%
Clovis	$226,515	41.9%	16.0%
Cuba	$1,090,719	15.5%	13.4%
Dulce	$3,444,487	16.6%	26.5%
Española	$101,269	33.1%	8.9%
Gallup	$29,269,348	26.0%	23.3%
Grants	$3,366,922	29.7%	21.6%
Jemez Mountain	$243,188	44.6%	25.8%
Jemez Valley	$1,060,985	36.2%	17.5%
Los Alamos	$397,160	37.7%	6.9%
Los Lunas	$223,224	33.1%	8.6%
Magdalena	$463,725	48.1%	16.1%
Maxwell	$520	47.7%	3.6%
Peñasco	$29,661	36.4%	6.4%
Pojoaque	$1,157,449	28.6%	0.0%
Portales	$6,638	35.9%	6.6%
Raton	$13,552	35.8%	7.9%
Ruidoso	$305,054	37.2%	28.5%
Taos	$42,373	25.2%	12.2%
Tularosa	$354,216	36.3%	12.5%
Zuni	$7,308,837	27.8%	10.4%
Statewide	**$77,916,856**	**32.1%**	**9.3%**

1. Includes locally-chartered charter schools.

2. Excludes Impact Aid for special education, Native American education, or construction.

Source: LFC Files

2019 Legislative Session

- Eliminating the 75% SEG credit would **<u>not</u>** directly address issues of raising local capital outlay revenue
  - Approach would dis-equalize operational revenue and disproportionately increase Impact Aid districts' cash flow
  - May result in the elimination of other credits (0.500 mill levy and federal forest reserve) and shift more emphasis to local wealth
- New Mexico should consider other ways to directly address capital outlay concerns of Impact Aid school districts rather than eliminating the 75% SEG credit

Considerations

- Allocate capital outlay directly to Impact Aid districts
  - 2019 Session: $24 million for "above adequacy" construction; $10 million for teacherages (teacher housing)
- Develop funding mechanisms for facility spaces eligible, but not previously defined, within the adequacy standards
  - Over time, PSCOC programs have expanded to include various capital outlay projects:
    - Facilities Master Plans (2003)
    - Standards-Based Projects (2004)
    - Lease Assistance (2005)
    - Broadband Deficiencies (2014)
    - Systems-Based Projects (2017)
    - Prekindergarten Classrooms (2018)
    - School Security (2018)
    - Teacherages and Outside-of-Adequacy (2019)
  - PSFA is currently defining new program funding rules for teacherages

Considerations

- Level the playing field between property-wealthy and property-poor districts
  - 2018 Session: Chapter 66 (SB30) will change the calculation of local and state funding matches for capital outlay projects by FY24
    - Albuquerque local match: 45% (FY18) → 91% (FY24)
    - Central local match: 38% (FY18) → 46% (FY24)
    - Gallup local match: 20% (FY18) → 20% (FY24)
    - Los Alamos local match: 53% (FY18) → 88% (FY24)
    - Rio Rancho local match: 33% (FY18) → 73% (FY24)
    - Zuni local match: 0% (FY18) → 0% (FY24)
  - Increase the state match guarantee for the SB-9 levy or create a foundation grant program to increase capacity for property-poor districts

Considerations

- Apply the 75% SEG credit to other uncredited local revenue sources to fully equalize operational funding
  - Los Alamos Department of Defense operational allocation ($8 million)
  - Other revenues from renewable energy sources (e.g. IRBs)
- Limit all school facility construction to a uniform “ceiling”
- Pool all local and state capital outlay revenue together and redistribute funding to all districts through a formula