



NEW MEXICO  
LEGISLATIVE  
FINANCE  
COMMITTEE



Presented to the Public School Capital Outlay Oversight Task Force

July 1, 2024

# State/Local Match Formula

---

**Cally Carswell**  
Principal Analyst  
Legislative Finance Committee

**Mark A. Montoya**  
Senior Policy Analyst II  
Legislative Education Study Committee

*The views expressed in this presentation are the opinions of the presenters and do not reflect the opinions of the New Mexico Legislative Council or any other member of its staff.*

# Overview

---

1. Traditional School Facility Funding

---

2. The *Zuni* Lawsuit

---

3. Phase One Formula

---

4. Phase Two Formula

---

5. Temporary Match Reduction

---

6. Current and Future Challenges

---

7. Goals of the Formula

---

8. Policy Considerations and Future Research

---

# Traditional School Facility Funding

---

Prior to the Zuni lawsuit and the creation of the PSCOC, financing for school facilities came from issuing general obligation bonds and direct appropriations from legislators.

- Capital funding for schools was constrained by districts' taxable land value and bonding capacity, providing a significant advantage to property-rich districts.
- Districts unable to raise sufficient property taxes or secure direct appropriations were unable to fund necessary repairs or replacements.

# The *Zuni* Lawsuit

---

*“A uniform system of free public schools sufficient for the education of, and open to, all the children of school age in the state shall be established and maintained.”*

*- Constitution of the State of New Mexico, Article XII, Section 1*

- In 1998, the Zuni Public School district sued the State of New Mexico.
- The lawsuit claimed districts with extensive public lands or a small tax base couldn't raise enough funds for basic school facilities while other districts could build extravagant amenities.
- The districts argued the state's system for funding school facilities did not provide a uniform and sufficient education for all students.
- Later, Gallup-McKinley County Schools and Grants-Cibola County Schools joined the lawsuit as plaintiffs.
- In 1999, the court ruled in favor of the plaintiff and ordered the state to “establish and implement a uniform funding system for capital improvements and for correcting past inequities”

# Phase One Formula

---

- 2003: the Legislature enacted a state-local funding formula that considers school district revenues, primarily based on the relative property tax wealth per student.
- 2015: the Public School Capital Outlay Oversight Task Force (PSCOOTF) convened a subcommittee to study the funding formula and hired the Bureau of Business & Economic Research (BBER) to do an assessment.
- BBER concluded that the formula did not make the most effective use of state resources and lacked the predictability necessary for long-term planning.

BBER identified two potential issues with the formula:

1. Property tax valuation may not accurately reflect a school district's "ability to pay" and property valuations are subject to significant fluctuations, especially when commodities like oil and gas extraction make up a large portion of the valuation.
2. The formula does not consider differences in per-student facility construction and maintenance costs.

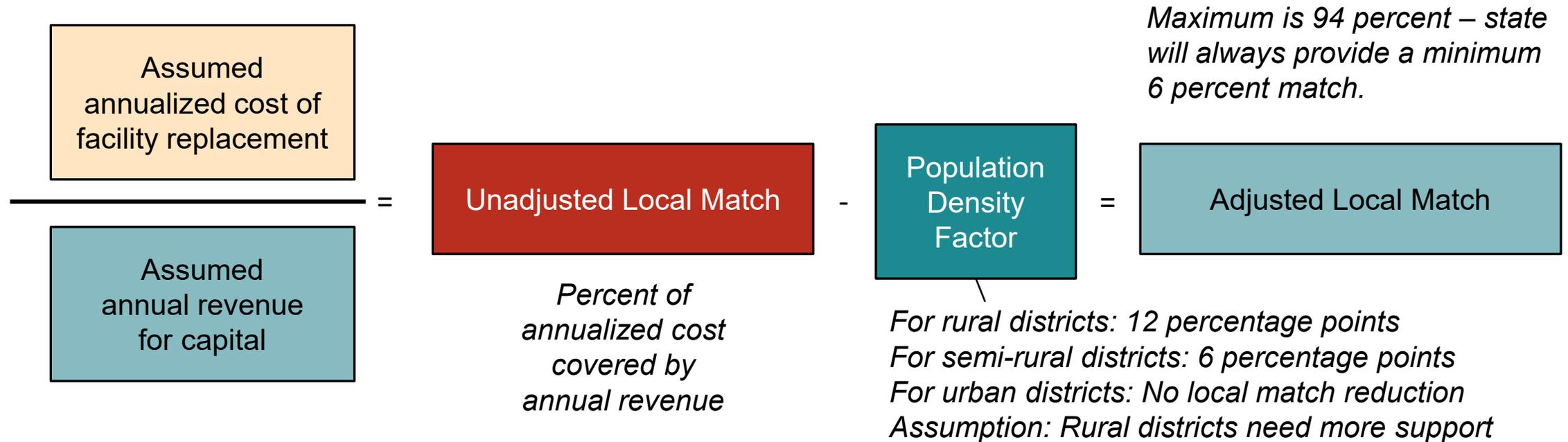
# Phase Two Formula

---

[SB30](#) (2018), based on the BBER assessment, introduced the "phase two formula" for calculating the state-local match.

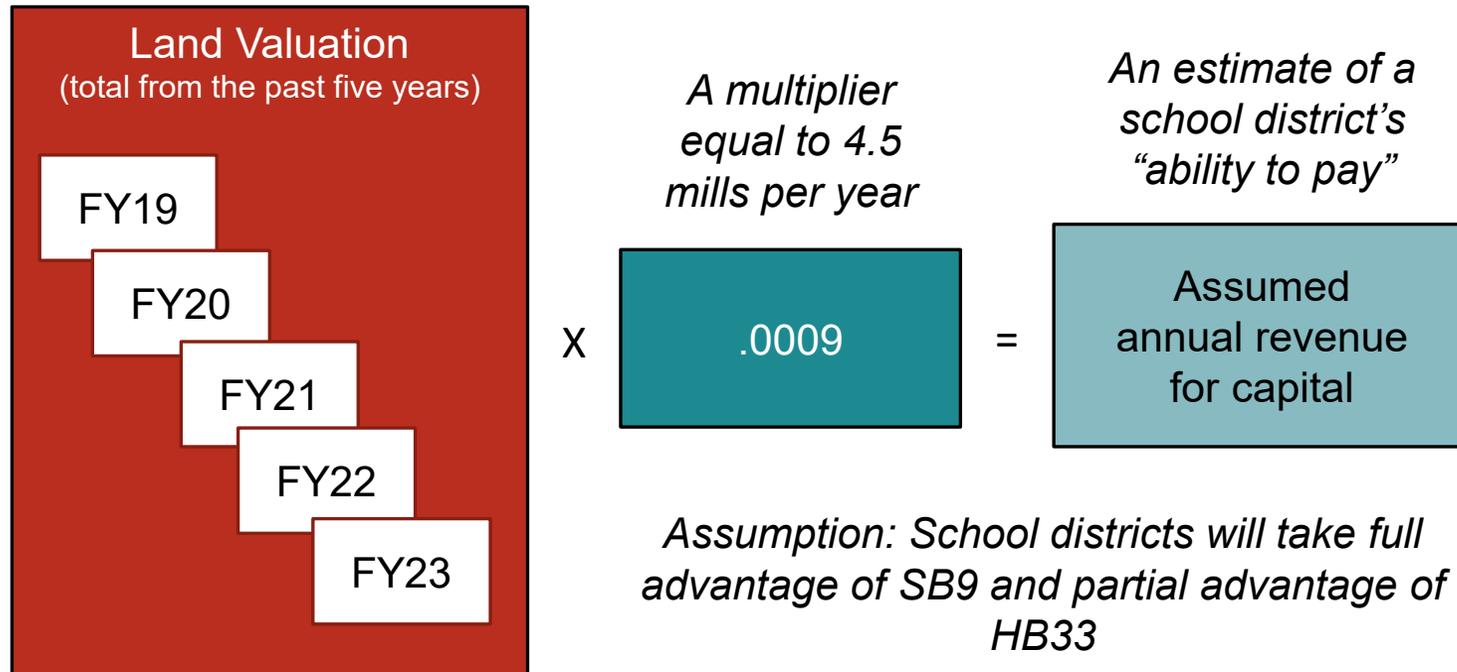
- As of FY23, school district local match would be determined by the "phase two formula," with a five-year transition from the "phase one formula" starting in FY19, allowing districts and charter schools time to adjust.
- The goal of "phase two" was to better reflect a school district's ability to pay and to consider differences in per-student facility construction and maintenance costs.

# State and Local Match: Current Calculation



# Current Formula - "Phase Two"

## Assumed District Revenue Calculation

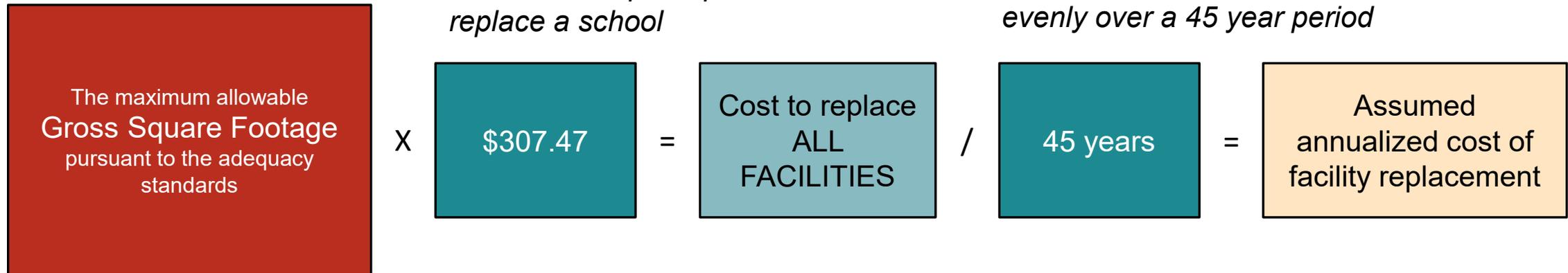


# Current Formula "Phase Two"

## Facility Replacement Cost Calculation

*Assumption: This is how much it costs per sq. ft. to replace a school*

*Assumption: Schools will be replaced evenly over a 45 year period*



*Assumption: The statewide adequacy standards accurately reflect how much square footage students need*

# State and Local Match: Current Calculation

Let's walk through it with actual numbers.

Sample district: Des Moines, 113 students

	.0009		\$307.47	45 years	
Average Land Valuation FY17-FY21	Assumed Annual Revenue	Maximum Sq. Ft. Allowed in Adequacy Standards	Total cost to replace all Sq. Ft.	Annual Cost to replace Sq. Ft.	Local Match
\$190.8 M	\$171.7 K	26,723	\$8.2 M	\$182.6 K	94% (Max)

*In the fall of 2023, PSCOC approved a construction project in Des Moines:  
**45,161** Sq. Ft., **\$51.1 Million** total cost*

# Temporary Match Reduction

---

SB131 (2023) took steps to address the inability of school districts to meet local match requirements.

- It reduced the local match required for PSCOC projects for three years.
- Districts' local match was reduced by 33 percent to 50 percent.
- The reduced local matches will sunset in FY26, at which point the calculation will revert to the base “phase two” formula.

The local match reduction is **temporary**. Without additional action by the Legislature, local match will increase again in FY26 (?). Affordability challenges will likely remain and worsen.

The temporary match reduction does not solve for the inherent issues of the formula.

# Testing the Formula's Assumptions

Assumption:	But...
School districts will take full advantage of SB9 and partial advantage of HB33	Many school districts don't take advantage of HB33, and sometimes not even SB9
The statewide adequacy standards accurately reflect how much square footage a student needs	The adequacy standards may not reflect educational needs of all students, and have not been studied by any agency besides PSFA
It costs \$307.47 per square foot to replace a school	Recent construction costs are far above \$307.47 per sq. ft.
Schools will be replaced evenly over a 45-year period	Many school districts built their schools all at once, meaning many require replacement at the same time
It costs more to build schools in rural areas of New Mexico	Construction costs are high throughout the state

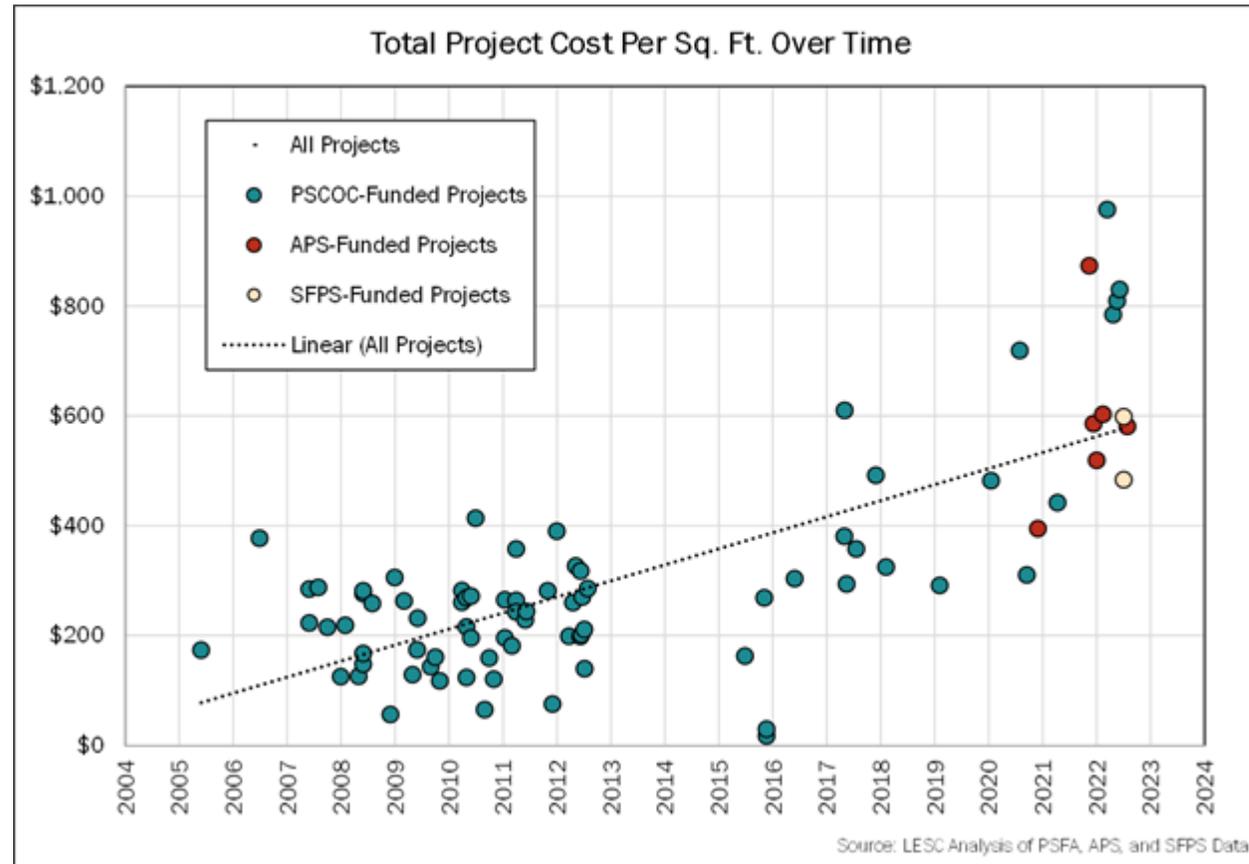
# Current and Future Challenges

---

School districts are increasingly unable to afford their local match as calculated by the current match formula

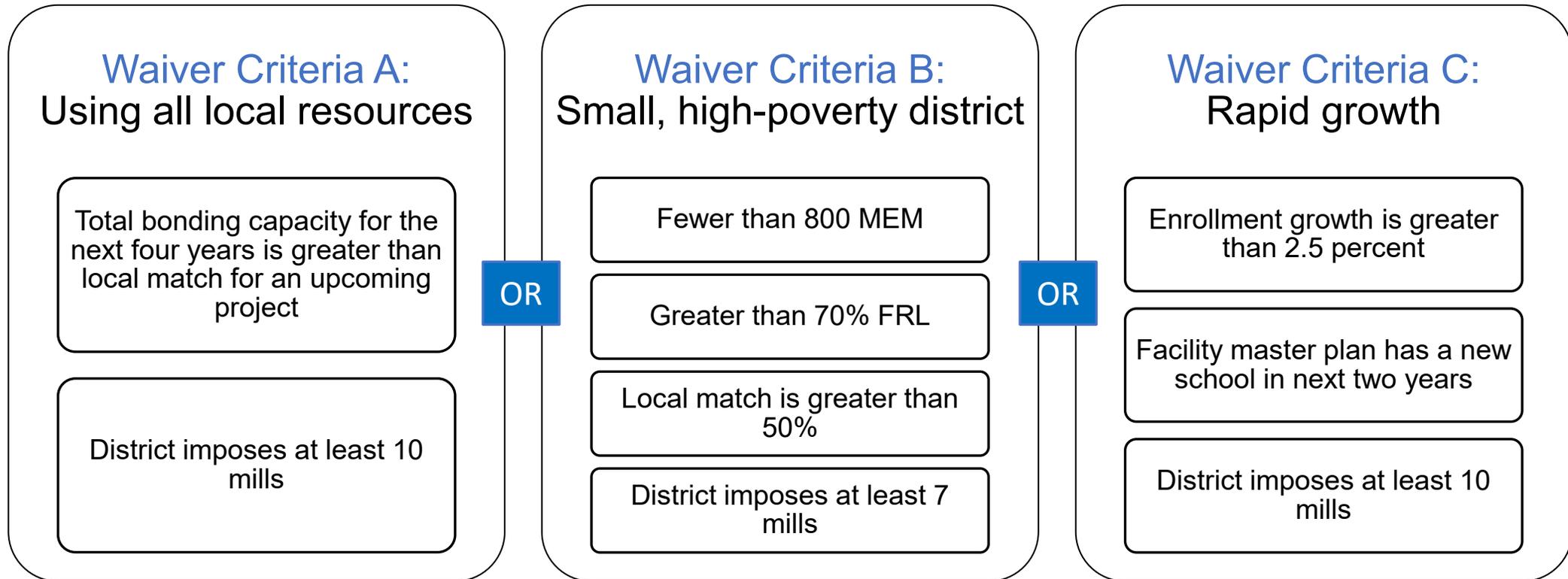
- The "phase two" formula – intended to address equity issues related to the *Zuni* lawsuit – had the unintended consequence of increasing the local match.
- The formula was created when the PSCOF had lower revenues and it placed more of the load on districts.
- The formula was created when construction costs were much more affordable.
- Some districts have trouble affording their share due to lack of support for mill levies.
- Some districts are unable to afford their share even with support for local revenue.

# Construction Costs Have Increased Dramatically



# Waiver Criteria

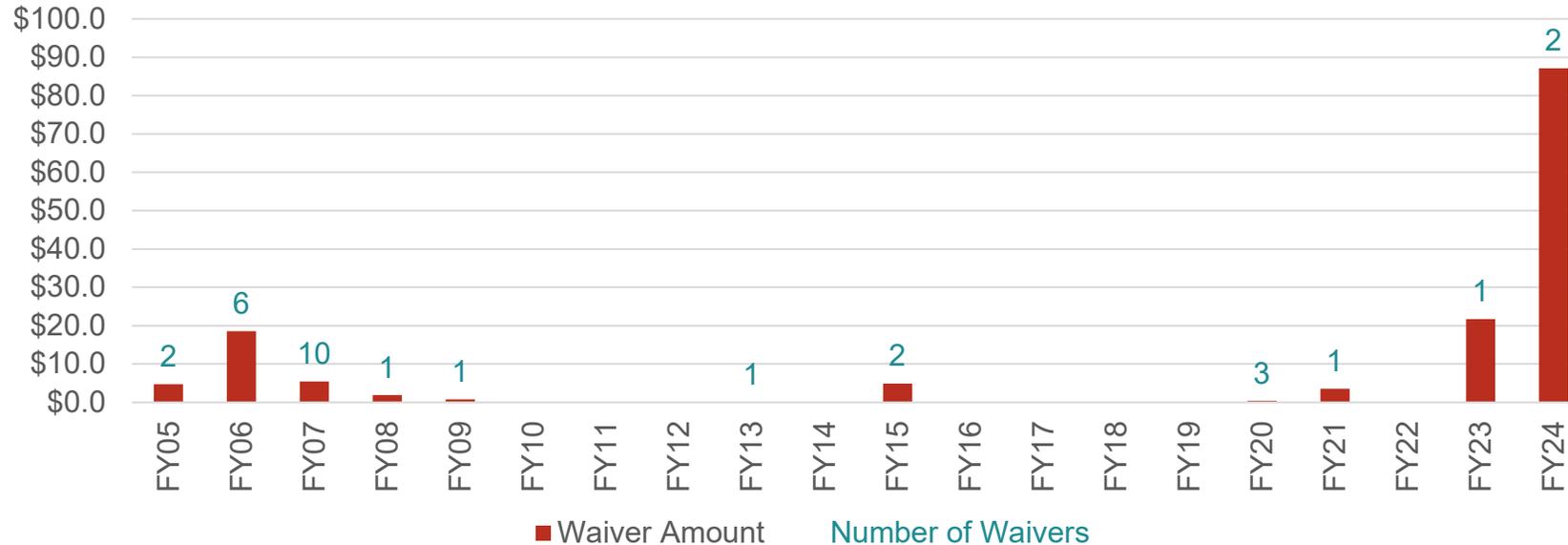
PSCOC does have tools to address affordability challenges on a case-by-case basis.



# Waiver Trends

Recent waivers are substantially larger in amounts. Many districts are requesting waivers of local match requirements in line with recent construction price increases.

History of PSCOC Approved Waivers and Waiver Amounts  
(in millions)



# State / Local Match Formula Goals

---

A well-functioning match formula should:

1. Equitably and objectively determine shared local and state responsibility
2. Accurately reflect districts' ability to pay
3. Accurately reflect educational programming needs
4. Accurately reflect the cost of construction
5. Minimize the need for waivers

# Policy Considerations

---

- The **state and local match formula** and the **waiver criteria** are inextricably linked
- An increase in waivers indicates that the formula may not be working as intended
- SB131 acts as a temporary stop-gap to offer some relief while the state studies the formula

## **Questions for Future Research**

1. How can the state and local match formula more accurately reflect school districts' ability to pay for projects?
2. Do the adequacy standards reflect actual today's educational needs?
3. When is it appropriate to waive districts' local share of projects?

# Q & A

## Legislative Finance Committee

**Cally Carswell**

Principal Analyst

Legislative Finance Committee

[Cally.Carswell@nmlegis.gov](mailto:Cally.Carswell@nmlegis.gov)



## Legislative Education Study Committee

**Mark A. Montoya**

Senior Policy Analyst II

Legislative Education Study Committee

[Mark.Montoya@nmlegis.gov](mailto:Mark.Montoya@nmlegis.gov)

