



Hearing Brief

Prepared by LFC and LESC staff

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Public School Capital Outlay Local-State Match Funding Formula

New Mexico public school facilities are funded through a mix of local district revenue and state support. Since 2001, New Mexico has spent nearly \$3.3 billion to help school districts repair and build educational facilities. The Public School Capital Outlay Council awards funding for school replacements, remodels, systems upgrades, and similar projects. Award amounts vary by district, as determined by the local-state match funding formula. New Mexico's 89 school districts vary widely in available property tax revenue, and the formula attempts to equalize funding by calculating a ratio of district revenue to potential facility replacement costs. The formula is designed to encourage consistent local effort while accounting for each district's ability to contribute, with the state providing the remainder to ensure all students have access to adequate educational facilities.

In recent years, two key indicators suggest the formula is not accurately capturing district revenue. First, a growing number of districts have requested waivers, or local-match reductions, citing an inability to pay—an issue that pandemic-era inflation exacerbated. Second, several very small districts remain locked at the

maximum local match rate, raising concerns about equity. These pressures suggest the need to reevaluate the formula and related policies and practices that contribute to rising costs for the state and districts. The Legislature attempted to relieve the burden on districts through blanket reductions of their local match in 2023 and again in 2025. Despite this relief, districts continue to apply for waivers in record numbers.

In response to these trends, the Public School Capital Outlay Oversight Task Force directed Legislative Education Study Committee (LESC), Legislative Finance Committee (LFC), and the Public School Facilities Authority (PSFA) staff to study the formula and recommend potential remedies in advance of the 2027 legislative session. This report reaffirms the value of a shared-cost system that balances consistent local effort with equitable state support, recognizing both are essential to ensuring adequate facilities and maintaining the state's long-term fiscal outlook. In line with the task force's directive, the report focuses specifically on the local-state match formula—examining how district ability to pay is measured, how the cost-sharing aligns with the state's fiscal realities, and how existing guardrails and timelines influence overall cost. The report finds many of the variables included in the current formula fail to capture a full picture of districts' capacity to pay for their share of the match. In response, the report proposes refinements that preserve the formula's structure and intent—such as recalibrating key inputs, strengthening procedural guardrails, and piloting a district readiness rubric—to enhance transparency and ensure the system continues to allocate resources fairly and sustainably.

Key Points

- The underlying intent of the current formula is sound and less arbitrary than the formulas of other states, but formula accuracy should be improved.
- The current formula does not capture the full picture of a district's ability to pay nor does it account for escalating construction costs, leading to an increase of waiver requests.
- State support should rest on an expectation that districts utilize local resources while responding to inequities among districts.
- Improved guardrails and timelines will maximize the state's ability to fund projects now and in the long term.

Background

Educational Adequacy:

A constitutional commitment to uniformity and sufficiency plus the opportunity for every student to succeed

Adding Adequacy to the Formula

Phase One: Aimed for uniformity by correcting for property tax disparities.

Phase Two: To address phase one's concern with uniformity, phase two added a cost element that is meant to reflect how different districts reach adequacy by providing sufficient space for each student. The denominator in the phase two formula attempts to calculate a district's total replacement cost based on its total maximum allowable gross square footage, a number derived from statewide adequacy standards.

Phase Two further attempts to capture a rough snapshot of how much revenue a district generates divided by the cost to replace all its educational facilities, amortized over 45 years.

The question of what is "adequate" underpins many of the analyses in this brief. While beyond the scope of the brief, the definition and policy implications of adequacy are closely related to the local-state match formula.

New Mexico's is one of 45 states that provides some amount of financial assistance for public school facilities. According to the *U.S. Census of Governments Fiscal Survey*, in 2020, New Mexico provided the fourth highest school capital outlay from state funding sources per student in the nation (\$1,535), after Wyoming (\$2,586), New York (\$2,164), and Minnesota (\$1,554). Nationwide, most money for school construction and maintenance comes from local funds, primarily property taxes. In New Mexico, state support is primarily derived from supplemental severance tax bonds, which are backed by oil and gas revenues. Responding to concerns of the *Zuni* lawsuit, New Mexico's public school capital outlay formula is designed to equalize funding for capital improvements across school districts despite variations in property wealth.

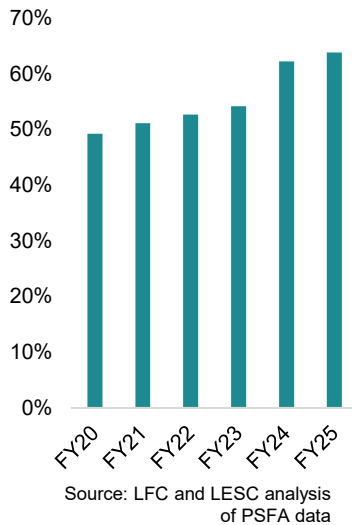
Why This Formula? History, Origins, and Intent

New Mexico's approach to funding public school facilities is rooted in the state's legal history and its constitutional guarantee of a uniform and sufficient education for all students.

The Zuni Lawsuit and Public School Capital Outlay Reform. New Mexico's modern local-state match formula strives to rectify the equity issues identified in the *Zuni* lawsuit. Filed in 1998 and decided in the school districts' favor in 1999, *Zuni Public School District v. State of New Mexico* challenged New Mexico's ad-hoc, bond-dependent system for paying to build and repair schools, arguing it left small, low property-wealth districts with unsafe, substandard facilities in violation of the state constitution's uniform education clause. The case drove a decade-long legislative overhaul: The 1999–2003 legislative sessions created the Public School Capital Outlay Council and PSFA, adopted statewide adequacy standards, and launched the "phase one" state-local match formula. The Public School Capital Outlay Act (2001) established a "standards-based process" to ensure "all public school facilities in New Mexico meet an adequate level of design, construction, and maintenance." Underlying the *Zuni* ruling and all subsequent legislation and policy has been the concept of adequacy. As articulated in the Public School Capital Outlay Act, adequacy combines New Mexico's constitutional promise of "a uniform system of free public schools sufficient for the education of ... all children" (Article XII, Section 1) with the idea that all students should "have the opportunity to achieve success" (Public School Capital Outlay Act, 2001).

Phase Two and Adequacy. The primary goal of the phase one formula was to correct for severe disparities in property tax wealth across the state of New Mexico. In 2015, a report from the University of New Mexico's Bureau of Business and Economic Research (BBER) found phase one did not address the disparate efforts required across districts to achieve adequate facilities, in part because the formula did not take statewide adequacy standards into consideration. These standards acknowledge that even students at the smallest, combined rural school will still need essential facilities such as a gym and a cafeteria. In practice, this means that the per student square footage needed to achieve adequacy will vary across districts based on student age, demographic, and programming needs. In 2018, with the *Zuni* docket still active, the Public School Capital Outlay Act was amended (Senate Bill 30) to establish the current "phase two" formula. Phase

Chart 1. Phase II Formula Average Local Match



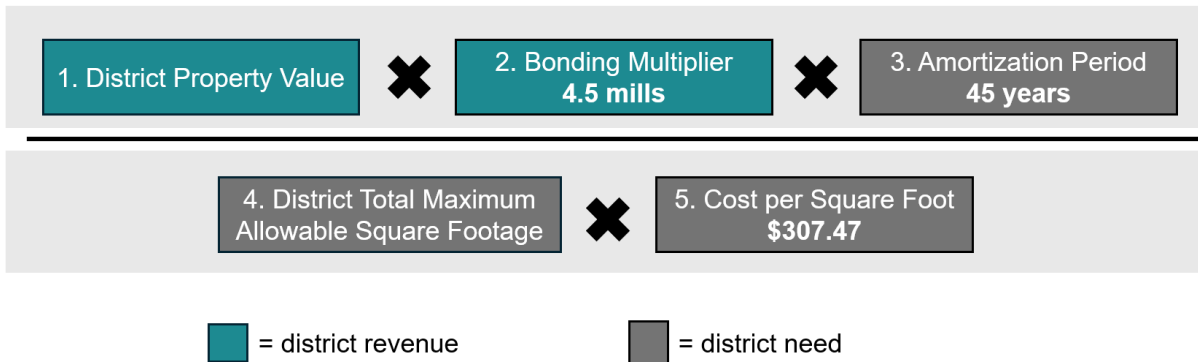
two attempts to address ongoing concerns around adequacy by tying the local match not only to property value but also adequacy-based square-footage needs and construction costs.

Phase Two in Context. Adopted in 2018 during a period of uneven state revenue, the phase two formula emerged as lawmakers faced the prospect of stagnating state revenues. The new formula, while recognizing the uneven burden of achieving adequacy, effectively shifted more costs back onto districts. To soften the immediate impacts of the transition from phase one to phase two, the state gradually transitioned to the new formula over four years. However, concerns about adequacy persisted. The *Zuni* plaintiffs returned to court and won a July 2020 ruling that the phase two scheme still failed to fund the “actual cost” of safe schools. The state appealed to the New Mexico Supreme Court. On December 2, 2024, the court found the case to be “moot”, due to the significant changes made to state statute since the litigation began. The case was remanded to the 6th Judicial District Court where it currently resides. However, the implications of the 2024 ruling remain uncertain.

Understanding the Current Formula

New Mexico’s phase one formula produced a state-share percentage for each district, updated annually and averaged over three years. It used only three ingredients: property wealth (net taxable value), enrollment (MEM), and the property tax rate as a reflection of residential tax effort. The phase two formula, established by the 2018 amendments, replaces a measure of actual tax effort with a static assumption (the bonding multiplier) that is held constant across all districts. Further, phase two calculates districts’ local share of public school capital outlay projects by dividing the district’s assumed revenue by the total estimated cost of replacing all its facilities (over a 45-year period). This raw ratio becomes the “unweighted local match.” To this raw number, the formula applies several post-calculation caps and adjustments, ensuring no district must cover more than 94 percent of project costs and awarding some additional relief for districts with low population density.

Figure 1. New Mexico Formula for Calculating the Unweighted Local Match

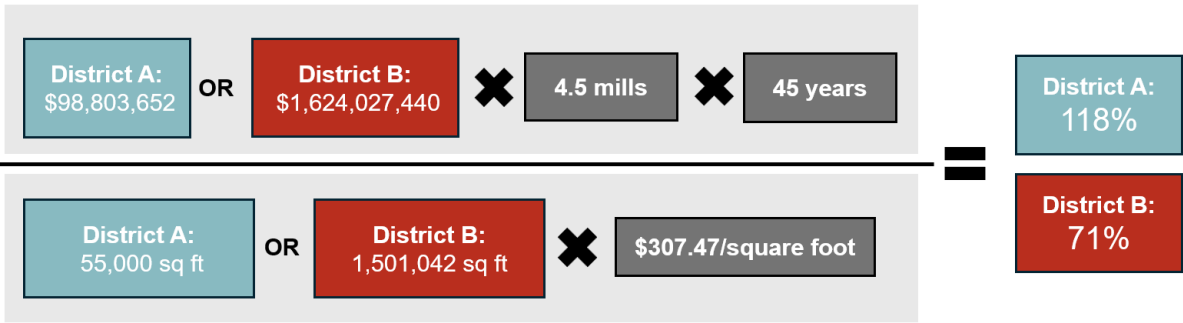


Source: LFC

- 1. District Property Value – Dynamic Variable:** The formula takes the sum of net property values for the district (residential, nonresidential, and oil and gas) over five years.

- 2. **Bonding Multiplier – Static Assumption:** The formula assumes each year, districts generate \$4.50 in taxes per every \$1,000 in property value—also known as a taxation rate of 4.5 mills (multiplier = 0.0009).
- 3. **Amortization Period – Static Assumption:** The formula assumes that on average, a district will need to replace its entire building stock every 45 years.
- 4. **Total Maximum Allowable Gross Square Footage – Dynamic Variable:** This number comes from PSFA’s gross square footage calculator, which is based on the statewide adequacy standards. Using information about the district’s student membership, the calculator gives a number that represents the maximum district square footage to which the state will contribute.
- 5. **Cost per Square Foot – Static Assumption:** Set in 2018, the formula assumes a \$307.47 per square foot cost to replace an existing building.

Figure 2. Illustration of New Mexico Formula for Calculating the Unweighted Local Match

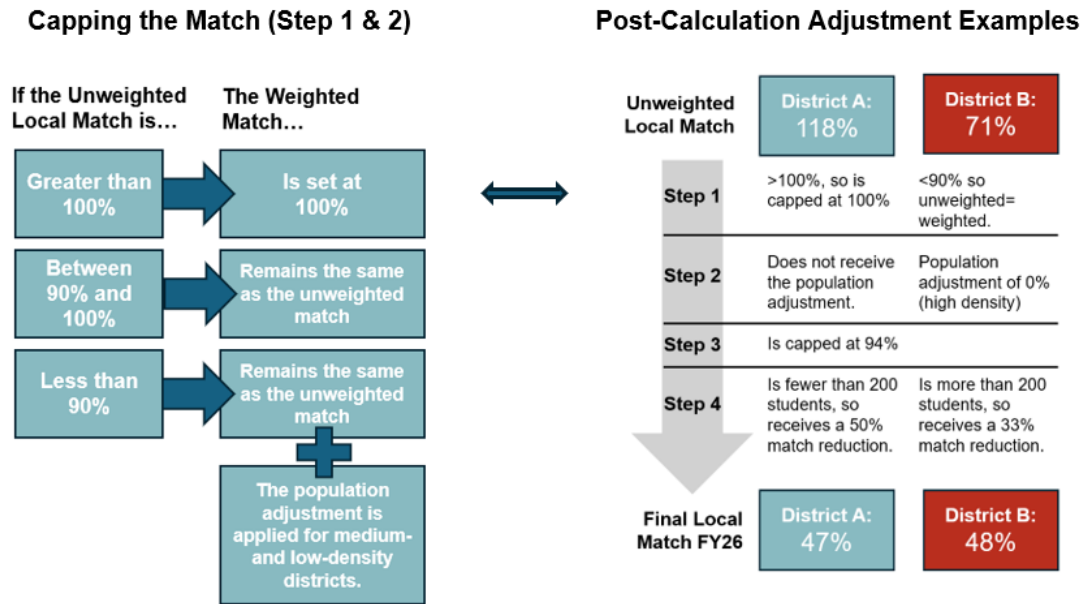


Note: District A (small, rural) and District B (larger, urban) use the actual numbers from two real districts to show how two very different districts end up with similar local matches once all the post-calculation rules are applied.

Source: LFC and LESC

Post-Calculation Adjustments. The phase two formula applies a series of steps to determine each district’s weighted local match rate. First, the unweighted local match is capped to ensure no district contributes more than 100 percent of project costs. If a district’s unweighted match exceeds 100 percent, it is reduced to that cap. Districts with unweighted matches between 90 and 100 percent retain their original rate, while those below 90 percent move to the next step, where a population-based adjustment may apply. Second, districts with unweighted matches below 90 percent receive reductions based on population density: 12 percent for low-density districts, 6 percent for medium-density, and no reduction for high-density districts. Third, the formula caps the final weighted local match at 94 percent, and Zuni Public School District remains set at 0 percent in recognition of the court settlement. Finally, temporary statewide adjustments to the local match enacted in 2023 (Senate Bill 131) and renewed in 2025 (Senate Bill 82) further reduce match requirements, granting a 33 percent reduction for districts with more than 200 students and a 50 percent reduction for those with fewer than 200. While these post-calculation adjustments can be a useful way to account for factors the formula does not capture directly, they may also indicate underlying weaknesses or inconsistencies in the formula itself—particularly when adjustments rely on proxies, such as rurality or population density, that may not accurately reflect districts’ true ability to pay. This report examines these adjustments and explores how post-calculation mechanisms could be refined to both improve accuracy and encourage best practices or broader policy goals.

Figure 3. Weighting the Match and Post-Calculation Adjustments

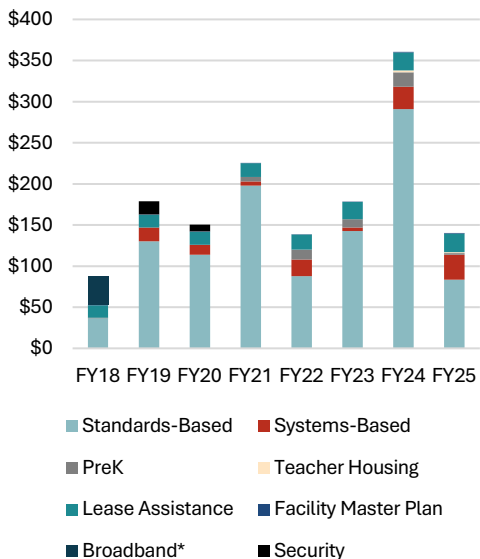


Source: LFC and LESC

The Rise of Waivers and Problems With the Phase Two Formula

Between FY20 and FY24, New Mexico gradually transitioned to the phase two formula. On paper, the net effect of the new formula was to shift costs to districts. However this shift coincided with unforeseen economic changes: escalating pandemic-era construction costs and unprecedented state revenues fueled by oil and gas severance taxes. Additionally, the phase two formula’s strategy for weighing estimated district revenues against replacement costs resulted in nearly

Chart 2. Type of Award Funding Per Year
in millions



Source: PSFA Annual Reports

a third of districts being assigned a 94 percent local match (the highest possible), driven in part by the formula’s reliance on long-term replacement cost assumptions that can overstate what small or low-wealth districts can realistically raise for a single project at one time. Against this shifting economic backdrop and the structural issues with the formula itself, increasing numbers of districts began requesting full or partial waivers of their local matches. Despite blanket statutory local match reductions in 2023 and 2025, waiver requests have continued to increase, with 13 districts indicating in their FY26 pre-application that they will or may apply for a reduction. While PSCOC is not required to grant a waiver, nine of these schools attempted to prove waiver eligibility in their pre-application materials—including their mill (property tax) rates, bonding capacity, project estimates, and other metrics.

Formula to Funding: PSCOC Awards in Practice

The Public School Capital Outlay Awards System. The Public School Capital Outlay Act established a “standards-based process” through which certain eligible districts and schools may apply to have the state cover a portion of the cost of a new school

Table 1. FY25 Local Match Amounts

Project Type	# of Awards	Total Estimated Project Cost	Local Match Amount	Local Match %
Standards	4	\$225,367,498	\$141,981,524	63%
Systems	14	\$56,086,700	\$25,658,239	46%
PreK Awards	1	\$3,909,000	\$1,837,230	47%
Teacher Housing	2	\$1,459,000	\$435,480	30%
Total	21	\$286,822,198	\$169,912,473	59%

Source: PSFA

Table 2. Projected Cost Per Square Foot for Select FY24 Projects

District	School	Sq. Ft.	Estimated Cost (millions)	\$/Sq. Ft.
Artesia	Roselawn ES	47,611	\$31.9	\$670
Hagerman	Hagerman Combined	69,732	\$49.9	\$716
Hondo	Hondo Combined	45,000	\$43.1	\$959
Albuquerque	Harrison MS	71,120	\$53.5	\$752
Albuquerque	Van Buren MS	86,304	\$64.7	\$749

Note: Costs are total project costs.

Source: Funding numbers from PSFA annual report, sq. footage from PSCOC meeting minutes

What is a Waiver?

Local match reductions, or waivers, are available for districts that demonstrate a good-faith effort to use all available local resources and meet specified eligibility requirements:

Option A: District has insufficient bonding capacity over the next four years, and the mill levy is equal to or greater than 10 or;

Option B: District’s member count is less than 1,500 and the mill levy is equal to or greater than 7.

The current version of the eligibility requirements reflects statutory efforts to streamline them (SB82, 2025) in line with LESC and LFC staff recommendations.

as defined in the local-state match formula. Created in 2004, PSCOC’s original “standards-based” awards were designed to prioritize schools in the worst physical condition and to support major renovations and full facility replacements. Since then, PSCOC has created several other new funding mechanisms, though standards-based awards remain the largest yearly expenditure. Currently, most of PSFA’s other awards—including prekindergarten, teacher housing, and systems-based (for larger repairs like HVAC and roofs)—also employ the local-state match formula to calculate district contributions. Since the inception of the awards program in 2004, PSCOC has invested nearly \$3.3 billion of state funds into public school facilities, benefiting every district in the state.

Escalating Construction Costs. The phase two formula attempts to estimate a district’s total cost to replace its facilities by multiplying maximum allowable square footage by the construction cost, which PSCOC set in 2018 at \$307.47 per square foot. Yet as the phase two formula was effectively shifting costs back onto districts, disruptions related to the Covid-19 pandemic drove up construction costs worldwide, including in New Mexico. By 2023, the average cost to construct school facilities was \$695 per square foot, with some projects nearer to \$1,000 per square foot. Schools selected for standards-based awards in FY24 are projected to cost nearly \$760 per square foot.

Small Districts With High Local Matches. Under the current phase two formula, about one-third of districts are required to contribute the maximum local match of 94 percent to projects. Among these are 15 primarily rural districts with fewer than 1,000 students and widely varying property taxes. And within those 15, five districts possess a total legal bonding capacity under \$10 million.

Table 3. Districts at a 94% Local Match with the Lowest Tax Revenue (Assuming Median Statewide Tax Rate)

District	Student Membership	Annual Property Tax Revenue (Assuming 8.8 Mills)
Vaughn	43	\$888,009.17
Quemado	169	\$1,047,449.19
Lake Arthur	133	\$1,135,575.51
Dora	201	\$1,976,740.49
Questa	318	\$2,092,782.44
Jemez Mountain	181	\$2,183,504.81

Note: This table looks at districts pinned at a 94% local match prior to SB131/SB82 adjustments and calculates their annual tax revenue, assuming that each district were at the statewide median mill rate for FY24 of 8.8 mills.

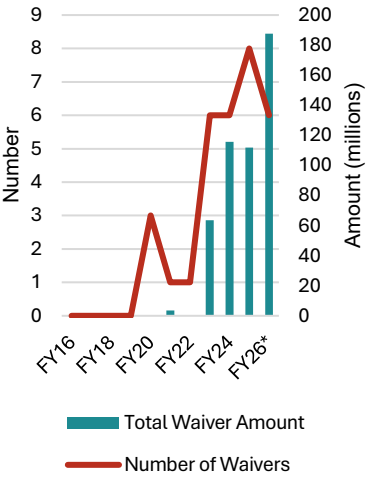
Source: LFC analysis of PSFA data

Increasing Waivers and Unpredictable State Liability. Statute (Section 22-24-5(9) NMSA 1978) establishes the waiver process through which districts may become eligible for and receive a local match reduction. If a district

demonstrates a good-faith effort to use all available local resources as determined by certain criteria, the Public School Capital Outlay Council (PSCOC) may consider an adjustment. Waivers can apply to any of the project types that use the local match formula and may be approved in multiple phases across a project’s timeline. While the process provides flexibility for districts with limited capacity, the growing volume of waivers (eight submitted in FY25) suggests the formula is not accurately capturing districts’ ability to pay and creates novel challenges for PSCOC.

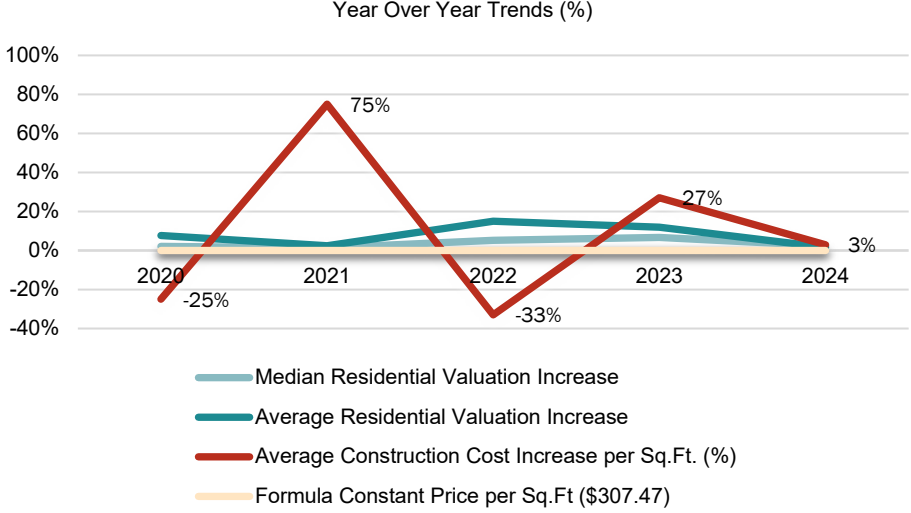
Several underlying factors suggest state costs through the awards programs may continue to grow in coming years. Because the local-match formula divides a district’s projected revenue (based on property valuation) by its estimated need (based on construction costs), shifts in either variable can substantially alter local shares. While statewide property valuations have grown, the property valuations of some individual districts have not kept pace with escalating construction costs. Between 2019 and 2024, the median district property valuation increased by 22 percent. An LFC spotlight reported that school construction costs in New Mexico rose 138 percent during this time. If the FY26 construction cost assumption within the formula were increased to \$407 per square foot, based on estimates from Federal Reserve Economic Data, a number still under real costs but closer to current conditions, the median local match would fall by roughly 12 percentage points, shifting about \$48 million of a \$400 million awards cycle to the state.

Chart 3. PSCOC Granted Waivers and Amounts



Note: FY26 is estimate
Source: LESC Analysis

Chart 4: Construction Cost vs Residential Land Valuation Trends



Additional upward pressures on state costs include the rising number of local match waivers, recent updates to the adequacy standards that increased average state match rates by about 10 percentage points, and the potential loss of federal funding streams that districts have used to supplement their local resources—plus the growing number of applications and the expansion of programs beyond standards-based awards. Together, these factors suggest, without additional guardrails, the rapid growth in state awards and local-match waivers seen since FY21 may not be a temporary spike but a structural shift toward higher state fiscal commitments in the long term. Since FY22, PSCOC has approved an increasing number of waivers. Prior to FY22, waivers were rare: Between FY08 and FY22, PSCOC approved 10 total waivers, with an average of \$1.2 million per project.

Beginning in FY23, however, PSCOC began approving at least six waivers per year, with total waiver amounts surpassing \$100 million annually since then.

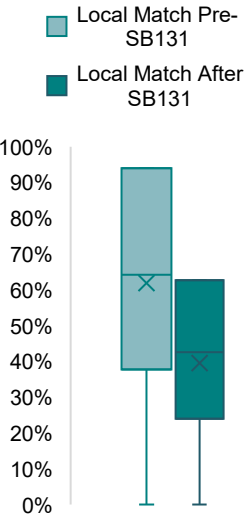
Over the past year, PSFA began tracking potential out-year waiver costs in its financial plan, with forecasts indicating increased waiver costs are likely to continue. The agency has preliminarily identified up to \$172 million in potential waiver costs for FY26, and \$87 million in potential waiver costs for FY27.

Table 4. Potential Cost Drivers to the State and Levers of Influence

Driver	How It Drives Cost	Locus of Control	State Influence	District Influence
Construction Costs	Raise projects costs and the “need” side of the formula	External	Low	Medium
District Readiness or Project Delays	Slows progress and accumulates additional costs	Districts	Medium	High
Property Valuation Growth	Increases or decreases district revenue and what the state accordingly contributes	External	Low	Low
Assessed Property Valuation Growth Controls	Assessment limits, yield limits, and other government caps depress assessed values, reducing the revenue districts can generate locally	State Policy	High	Low
Adequacy Standard Updates	Increased square footage raises state match by 10% on average	State Policy	High	Low
Waiver Allowance	Potential costs of \$171 million in FY26	State Policy/District	High	Medium
Federal Funding Changes	Changes in federal funding streams could shift cost responsibilities to the state; for example, the U.S. House did not reauthorize the Secure Rural Schools Act in 2024. Other funds may also be at risk.	External	Low	Low

Source: LFC and LESC files

Chart 5. FY26 District Matches Before and After SB131 Adjustments



Source: LESC and LFC Analysis of PSFA Data

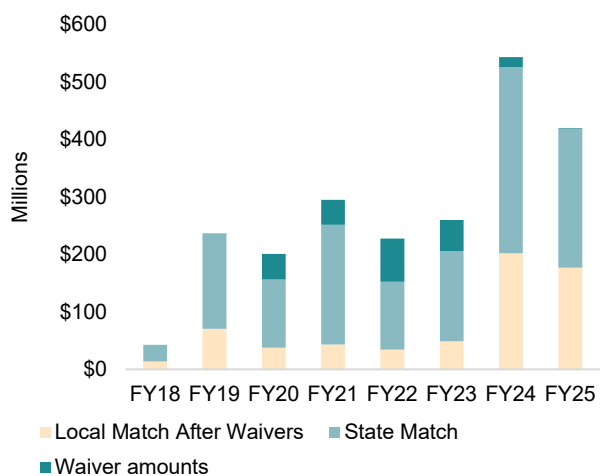
Blanket Match Reductions. Recognizing the apparent disconnect between the formula’s estimates of district ability to pay and actual ability to pay, the Legislature has already applied several statutory band-aids to the situation. In 2023, the state enacted (Senate Bill 131) temporary blanket reductions of all local matches (33 percent) with larger reductions for districts with fewer than 200 members (50 percent). In 2025, the reductions were extended through FY27 (Senate Bill 82). While these statutory adjustments offer some relief, the primary mechanism for addressing cases where a district still cannot reasonably afford its local share is the waiver process.

Increasing State Burdens Versus Uncertain Future State Revenues. In combination, waivers and the blanket reductions have placed the bulk of public school capital outlay costs on the state. The state’s increased role in funding these programs may become problematic in the future because of the volatility of the funds used to support the PSCOC awards program. The state’s contribution for projects is generated through the state’s severance tax bonding program, which leverages tax revenues from oil, gas, and other natural resources “severed” from the ground. PSCOC projects are funded through supplemental severance tax notes, a secondary type of bond issued twice a year and paid from severance tax revenue left after other state obligations. Severance tax collections are highly sensitive to fluctuations in global energy prices, production levels, and demand. As a result, actual revenues could diverge substantially from forecasts.

Moving Forward: A Matter of Choice

Previous LESC, LFC, and the University of New Mexico reports have suggested potential improvements to the local-state match formula, highlighting issues including ballooning construction costs, unrealistic amortization periods, and

Chart 6. Local Match, State Match, and Waiver Amounts



Note: This chart shows waivers as they correspond to their original award years, even if the waiver was approved several years later. Some districts with projects awarded in FY23, FY24, and FY25 still intend apply for waivers as they approach the construction stage. Because this chart captures only approved waivers and not likely future waiver liability, FY24 and FY25 appear to have lower waiver rates.

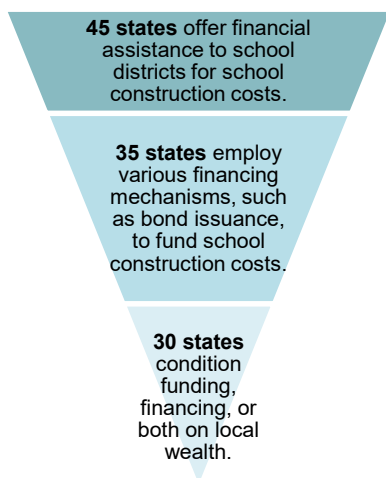
Source: LFC analysis of PSFA data

potential distortions from the population density multiplier. These reports have suggested tweaks to one or more variables in the existing formula, blanket match reductions, or a complete overhaul of the funding formula.

While 30 states condition local capital outlay funding on local wealth, they do not estimate district contributions in the same way. Many states have strategies for weighting, normalizing, and ranking districts, using their formulas to compare *relative* district need based on a variety of factors. For example, Colorado’s formula looks at district property value, median household income, percentage of students eligible for free and reduced lunch, and other variables and then ranks and normalizes districts on each criterion. Many other states include weighted and ranked factors similar to Colorado’s or set arbitrary floors and caps to state matches. Indeed, New Mexico is somewhat unique in that its formula attempts to arrive at an *accurate, objective* picture of how much of a district’s total building stock the district can afford to replace based on its property valuation. Deriving local match from a district’s ability to pay (however imperfect the estimate) provides a degree of transparency and logic lacking in many other states’ formulas.

Owing to the findings of the *Zuni* lawsuit, New Mexico’s formula must remain legally rooted in adequacy. Yet the current method of representing adequacy in the phase two formula is just one of many potential options that exist. Additionally, the formula is free to go beyond the concept of adequacy to strengthen other parts of the capital outlay process and to incentivize the use of best practices by both districts and the state. Lawmakers are additionally empowered to adjust the state’s share of project costs—either maintaining current spending levels or expanding the state’s contributions—which may have implications for the long-term sustainability of the public school capital outlay fund.

Figure 4. Other State Approaches to Public School Capital Outlay Funding



Source: Education Commission of the States

This report responds to the directive from the Public School Capital Outlay Oversight Task Force that LESC, LFC, and PSFA staff study the formula and suggest potential remedies in advance of the 2027 legislative session. It focuses on the key questions: What are school districts able to pay and what is the state able to pay? It expands on previous research by examining districts’ bonding capacity and revenue generation, the state’s long-term ability to finance public school capital outlay, and the role of guardrails and timelines in determining cost liabilities both for districts and the state. Additionally, it points to potential procedural improvements that can strengthen district accountability and ensure accurate cost estimation moving forward.

After examining the formulas and processes employed in other states and analyzing the current function of New Mexico’s formula, this report concludes the local-state match formula is fundamentally sound but can more accurately capture district ability to pay through the consideration of other factors beyond property valuation. Additionally, the formula could be more effectively leveraged as a policy tool to encourage the adoption

Rethinking the Formula

Look for text boxes like this one throughout the brief for practical approaches, analysis, and ideas for reimagining New Mexico's local-state match funding formula.

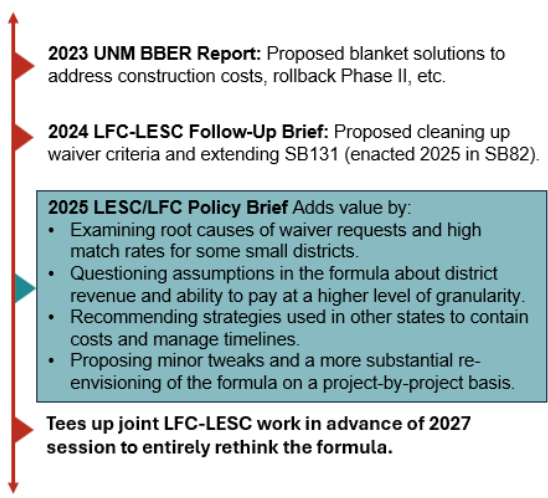
of best practices and to reflect the policy considerations and values outlined in Table 6. With the goal of ensuring that all districts are adequately supported regardless of size or local revenue and strengthening the long-term viability of the public school capital outlay fund, the recommendations included in this report explore two potential directions forward: 1) maintaining the essential structure and function of the current formula but improving accuracy and alignment with other policy considerations; and 2) transitioning to a rubric-based determination of district financial health that supplants the current formula's district replacement cost with a more rigorous project-specific cost estimate.

Table 5. Past Recommendations to Amend Local-State Match Formula

#	Potential fix (what would actually change)	Key lever in the formula / policy
1	Cut every district's local share 30 percent (50 percent for micro-districts) – an immediate, across-the-board reduction while longer-term work is done.	Post-calculation flat reduction, 2023 LFC/LESC staff proposals, "Option 1" slide. Adopted as SB131 in 2023 and extended 2025 in SB82.
2	Shorten assumed facility life from 45 yrs → 30 yrs or assume districts levy only 3 mills (vs 4.5). Both lower the revenue the formula thinks locals can raise, so the state share rises.	Amortization period or bonding-capacity mills inside the equation; 2023 LFC/LESC staff proposals, "Option 2" slide
3	Update the construction cost factor to ≈ \$425 / sq ft (current formula uses \$307.47). Reflects real-world prices post-pandemic.	Cost-per-square-foot parameter; 2023 LFC/LESC staff proposals, "Option 3" slide; UNM-BBER report §4(a)
4	Rollback match rates or apply a one-time, across-the-board % cut (e.g., -20 pp or -50 %). Simple "reset" to re-open program access.	Post-calculation adjustment; UNM-BBER report Table 8 & Appendix 2 "Across-the-Board Reductions"
5	Reduce amortization period from 45 → 40 yrs (or lower) to recognize faster obsolescence; drops local share ~3-5 pp statewide.	Amortization period parameter; UNM-BBER report Tables 13-14
6	Double the population-density weight (-12 pp for low-density, -6 pp for medium, still 0 for high); targets relief to rural districts.	Post-calculation population-density factor; UNM-BBER report Tables 15-16
7	Cap the maximum local share by density (e.g., 94 % high-density, 88 % medium, 82 % low) – keeps wealthier/rural districts from ever topping those levels.	UNM-BBER report Equations 13-15 & Table 17
8	Whole-formula rethink – options range from simplifying variables, adding need/wealth indicators (FCI, income, poverty) to a "wholesale change" mirroring other states.	Comprehensive model rebuild, UNM-BBER report §§2, 5 & Table 18 (state comparisons)

Source: UNM BBER, LESC, LFC

Figure 5. Work to Date and How this Brief Fits In



Background Summary: Key Points to Understand

1. New Mexico's approach to funding public school capital outlay is rooted in its unique constitutional and legal history and attempts to equalize for varying district property taxes.
2. The earlier version of the formula (phase one) only accounted for a district's ability to pay. The current version of the formula (phase two, introduced 2018) calculates district contribution by dividing district revenue by hypothetical costs.
3. On paper, phase two shifted more costs back to the districts. However, its implementation coincided with pandemic-driven price increases, which left some districts unable to pay their share of the match.
4. In response, districts began to apply for waivers of their local matches in increasing numbers. Now, nearly all districts coming forward to apply for larger awards are requesting either a partial or full waiver of their match.

Source: LFC and LESC files

5. Previous reports from UNM, LESC, and LFC have proposed potential improvements to the formula. This report builds on that work, laying the groundwork for a potential joint recommendation on the formula from LESC and LFC in advance of the 2027 legislative session.

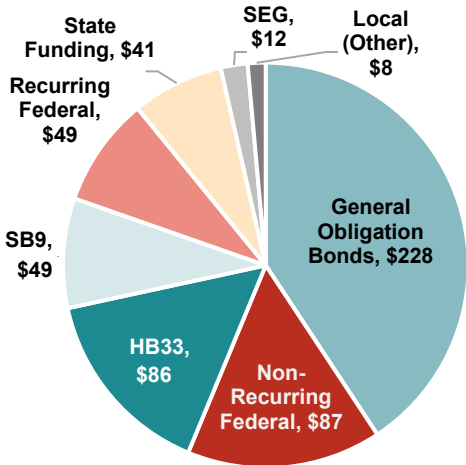
Table 6. Formula Policy Considerations, Other State Examples, and Related Solutions in this Report

Policy Consideration Goals	Other State Examples	This Report’s Potential Solutions
Encourage consistent and equitable utilization of local resources.	Colorado offers a local match reduction for each recent general obligation bond election.	Reward higher mill rates with a reduced local match. See page 14.
Better account for inequities between districts beyond ability to pay but that also affects school construction (rurality, other district resources, etc.).	Connecticut determines the funding a district may receive by ranking all of its 169 districts according to an adjusted equalized list of per capita and focuses funding on certain priority regions.	Smooth out the post-calculation population density adjustment to account for the full breadth of rurality in New Mexico or estimate costs project-by-project. See page 22.
Incentivize district best practices in terms of maintenance, financial planning, operational efficiency, and construction.	21 states provide a financial incentive to encourage district consolidation. Georgia provides a 2 percent match reduction if the district uses a prototype plan.	Offer a local match reduction for using a prototype plan. See pages 29-30. Require districts to hit a minimum maintenance score to be eligible for funding, reward those with outstanding maintenance. See page 28.
Ensure state support comes with guardrails and sufficient technical capacity to maximize impact and limit liabilities.	Oregon and Washington require long-term facility studies before approving funding. Ohio employs a district closeout agreement that articulates how money is reverted and redistributed.	Create a district readiness checklist and require funds to be expended or encumbered within a certain period to avoid additional liabilities. See page 32.

Source: Education Commission of the States

District Revenue

Chart 7. FY24 District Sources of Construction Funding
(in millions)
Total: \$536 million



Note: In FY24, 90 percent of federal nonrecurring is from the Elementary and Secondary School Emergency Relief fund and the American Rescue Plan Act.

Source: OBMS

New Mexico’s school capital outlay framework rests on a formula that assumes districts can reasonably contribute to facility replacement through a mix of property tax levies and bonded debt, with the state supplementing the rest. In practice, the system does not adequately capture the full, nuanced picture of district capacity. While multiple local revenue mechanisms exist—primarily the Public School Capital Improvements Act (often referred to as SB9), the Public School Buildings Act (often referred to as HB33), and general obligation bonds—they are used unevenly. SB9 is largely consumed by maintenance and equipment, HB33 is adopted inconsistently, and general obligation bonds depend on voter approval and are capped at 6 percent of a district’s assessed value. State statute also limits how much revenue school districts can generate locally. New Mexico’s low property tax rates and caps on assessment growth and millage compound these structural limits, effectively restricting districts’ ability to generate new revenue. Moreover, the formula assumes local funds are continuously available and accrue over time, without accounting for the timing of bond cycles or the uneven pace at which mill revenues accumulate. As a result, the formula creates expectations districts cannot realistically meet, particularly in small or rural communities with limited bonding capacity. Addressing this gap may require reconsidering how local effort is measured: This could include mechanisms such as incorporating measures of district indebtedness or other adjustments that more accurately align assumed

revenue capacity with what districts can raise.

Mill: a mill is \$1 in property tax for every \$1,000 of property value.

For example, a \$250 thousand property with a 5-mill rate would be paying \$1,250 annually.

In New Mexico, taxable value is one-third of the assessed value of the property.

Methods of District Revenue Generation

Districts rely on a mix of funding mechanisms—general obligation (GO) bonds, SB9, HB33, federal funds, and others—to support construction, maintenance, and equipment needs. Together, these local tax mechanisms authorize districts to levy up to 15 mills, or \$15 for every \$1,000 of taxable property value, for capital purposes. Although these mechanisms collectively give districts flexibility to raise capital, each function is different and supports distinct aspects of facility funding.

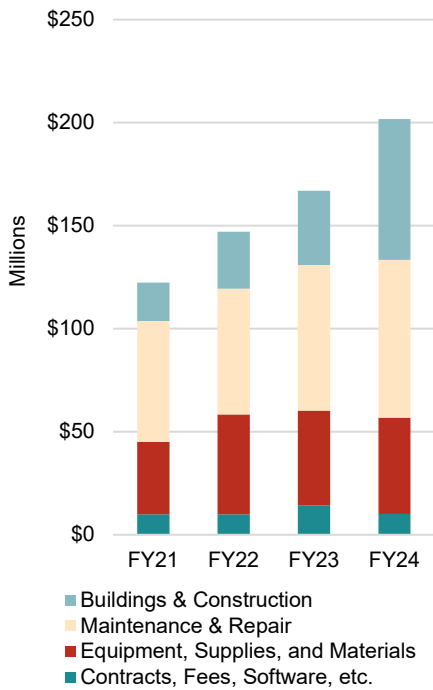
SB9 and HB33 function as recurring property tax levies, producing steady annual revenue. GO bonds, by contrast, allow districts to access large sums of capital upfront, which are then repaid over time. The repayment—GO bond debt service—is itself levied as a property tax and counts toward the overall mill rate, like SB9 or HB33, but it reflects obligations tied to past borrowing. State law caps total bonded indebtedness at 6 percent of a district’s assessed property value, establishing a ceiling on how much can be raised locally.

Table 7. What Difference Does One Mill Make?

District	FY25 Membership	Difference in Annual Revenue from 1 Mill Increase
Grady (Low)	175	\$9,730.13
Vaughn	70	\$98,803.65
Dora (Median)	220	\$204,025.00
Los Alamos	3667	\$938,975.82
Albuquerque (High)	74,008	\$19,791,775.17

Source: LFC and LESC Analysis of PSFA and PED Data

Chart 8. District Spending of SB9 Revenue



Source: LFC and LESC analysis of PED data

District Usage

Although these funding mechanisms are all available for capital outlay projects, in practice districts use them in distinct and predictable ways. SB9, levied by nearly every district, can technically be used for facility repair, remodeling, or new construction and is included in the mill requirement for waiver eligibility. However, districts rely on SB9 primarily for ongoing maintenance, supplies, service contracts, and equipment. Of the roughly \$50 million in SB9 dollars spent on construction of new facilities in FY24, just two districts—Jal and Carlsbad—accounted for half. This pattern suggests SB9 is not a consistent revenue source for major construction and should be treated cautiously when estimating overall district capacity for construction projects.

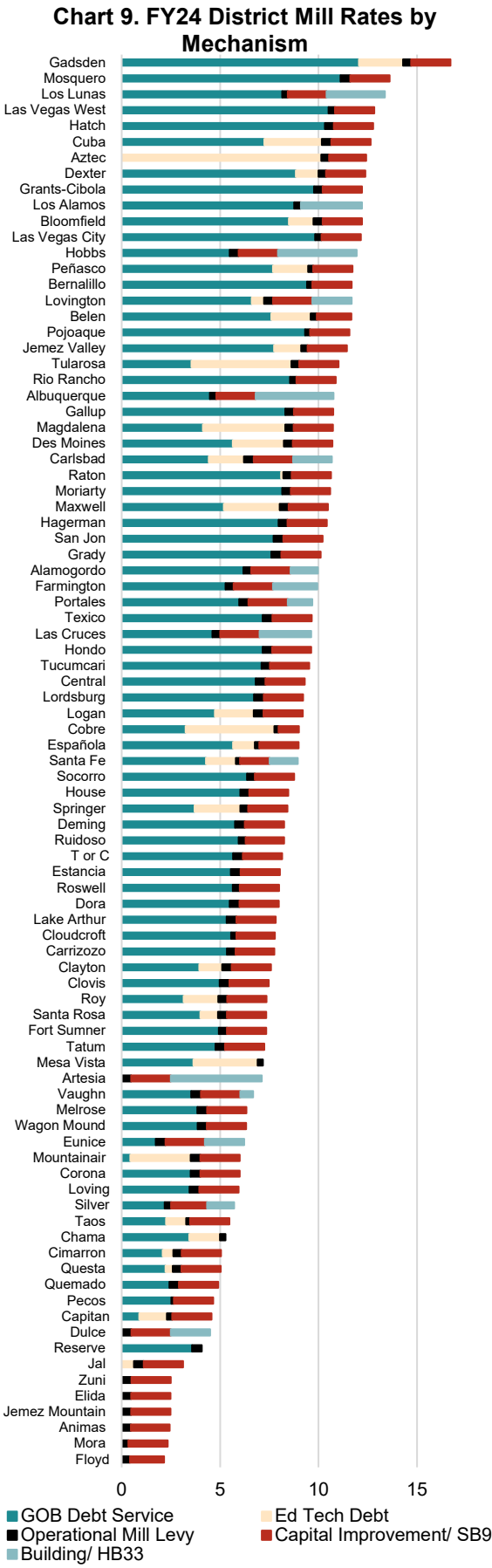
HB33, by contrast, is oriented more directly toward construction and equipment purchases but is adopted less frequently, with only 16 districts utilizing it in FY24, limiting its overall impact in the capital landscape. Still, its potential is notable: In FY24, six of the state’s 10 largest districts levied HB33, demonstrating its capacity to generate construction revenue without incurring interest, unlike GO bonds, which cost districts \$63 million in interest in FY24 alone.

GO bonds remain the predominant funding tool for new construction and large-scale facility improvements. Subject to voter approval every two years, these bonds allow districts to raise substantial upfront capital, restricted to purposes such as erecting or remodeling buildings, furnishing classrooms, or improving school grounds.

Table 8. Primary Local Revenue Generation Mechanisms for Districts, FY24

Mechanism	Description	Restrictions	FY24 Use
Public School Capital Improvement Act or “SB9”	Voters can approve a levy of up to 2 mills for a maximum of six years to build or improve schools, cover maintenance, purchase equipment, and more.	SB9, HB33, and GO Bond Debt Service (the amount being paid back each year) are capped at 15 mills.	85 / 89 districts 1.93 mill average \$438 thousand in average revenue
The Public School Buildings Act or “HB33”	Voters can approve a levy of up to 10 mills for a maximum of six years to build, remodel, or furnish schools, purchase/improve grounds; lease-purchase facilities, buy activity vehicles, and cover limited administrative costs for capital projects.	A district’s maximum GO bond capacity is 6% of their assessed property value	16 / 89 districts 2.3 mill average \$10.3 million average revenue
General Obligation Bonds	Voters can approve bond sales to raise revenues to erect, remodel, or furnish school buildings, purchase/improve school grounds, purchase computer hardware/software, and more.		79/89 districts currently with GO bond outstanding debt 5.14 mill average debt service

Note: Averages for GO Bonds and SB9 incorporate all districts, whereas averages for HB33 only include those 16 districts using it. HB33 districts include Alamogordo, Albuquerque, Artesia, Carlsbad, Dulce, Eunice, Farmington, Hobbs, Las Cruces, Los Alamos, Los Lunas, Lovington, Portales, Santa Fe Silver City, and Vaughn.



Rethinking the Formula: Incentivize Higher Mill Rates

Reward local effort with match reductions.

Rewarding districts that maintain higher mill rates could strengthen local participation in capital planning, promote regular maintenance, and reduce reliance on waivers. The current formula assumes all districts can raise 4.5 mills annually, yet the median district levied nearly 9 mills in 2024, and 80 of 89 districts exceeded the assumed rate. Because this parameter is fixed, however, actual increases in local tax effort are not recognized—and if the formula directly incorporated mill rates, districts that raised taxes would paradoxically appear “wealthier” and lose state aid. Any revision should, therefore, structure incentives carefully to avoid penalizing local effort, taking cues from the SB9 program’s success in promoting near-universal participation through predictable state matching.

At present, the formula measures effort only through waiver criteria requiring 7 or 10 mills at a single point in time, regardless of how sustained that effort is or whether the mills reflect debt service or new revenue. A reworked system could instead reward districts that demonstrate consistent effort over time. For example, a **post-calculation reduction** could be applied to the local share for districts maintaining qualifying mill rates for three, five, or seven consecutive years. Such a time-based incentive would better align with the state’s goals—encouraging steady local investment while ensuring that waivers remain the exception rather than the norm.

Table A. Local Effort Match Reduction Scenarios

Option 1: Straight per-mill credit	
Option 1a	0.75 percentage point (p.p.) credit for each mill above 4.5; cap 12 p.p.
Option 1b	0.50 p.p. credit per mill; cap 10 p.p.
Option 1c	1 p.p. per mill; cap 15 p.p.
Option 2: Tiered thresholds that align with waiver touchpoints	
Option 2a	7-10 mills = 3 p.p.; 10-13 mills = 7 p.p.; 13+ mills = 10 p.p.
Option 2b	7-10 mills = 2 p.p.; 10+ = 6 p.p.
Option 3: Effort ratio multiplier	
Option 3a	Percentage reduction scales from 0% at 4.5 mills to 15% at 10 mills and up
Option 3b	Percentage reduction scales from 0% at 4.5 mills to 20% at 10 mills and up

Table B. Sample Local Match Reduction Effects

District	Mills	Membership	Option 1a (percentage points)	Option 2a (percentage points)	Option 3a
Animas	2.4	153	-0	-0	0%
Carrizozo	7.5	170	-2.26	-3	8.2%
Dexter	12.2	787	-5.74	-7	15%
Gadsden	16.6	11,619	-9.05	-10	15%
Gallup	10.6	11,963	-4.58	-7	15%
Hobbs	11.6	9,880	-5.35	-7	15%
Quemado	4.9	169	-0.15	-0	1.4%
Statewide Avg.	8.5	3136	-3.11	-3.71	9.8%
Statewide Median.	8.8	569	-3.20	-3	11.6%

Note: Districts selected based on high/low mill rates and subjects of recent LFC site visits.

Source: LFC and LESC analysis of PSFA

Legal Capacity

Table 9. Constitutionally Allowed District Indebtedness

State	% of property value
Alabama	7%
Arizona	15%
California	2.5%
New Mexico	6%
North Dakota	10%
Oklahoma	10%
Washington	5%
Wyoming	10%

Note: Alabama, North Dakota, and Oklahoma have tiers of allowable indebtedness ranging from 5 percent to 10 percent)
 Source: State Constitutions

The way districts leverage various funding mechanisms is shaped by the broader framework of state tax policy, which places deliberate constraints on local revenue generation. New Mexico’s 6 percent constitutional debt cap for school districts is comparatively cautious. Among states with constitutional debt limits, others allow higher limits or more flexibility, higher limits for certain districts, differing caps for voter-approved versus board-issued bonds, or exceptions for specific projects. While New Mexico’s cap guards against unsustainable debt, it can also restrict local participation in capital projects, particularly in low-wealth districts. This is coupled with other controls; New Mexico is one of only nine states with all three major property tax constraints—assessment limits, mill limits, and yield control—which together artificially cap revenue generation.

This combination helps explain why property tax rates in New Mexico are comparatively low. The average effective rate on owner-occupied housing is about 0.67 percent, below the U.S. average of 0.90 percent, making the state less reliant on property taxes as a source of revenue for public services, including capital outlay. This relatively low burden coincides with underlying economic conditions—New Mexico ranks 47th in per-capita personal income (Federal Reserve economic data 2023)—and 47th in per capita property tax. Despite these constraints, local voters have consistently supported school funding, approving about 97 percent of bond and mill levy elections held in 2021 and 2023.

New Mexico is one of nine states to impose all three types of tax growth control:

- **Mill limit:** cap tax rate
- **Assessment limits:** reduce the taxable value of property
- **Yield control:** limits revenue the governments can collect

Such measures can both protect homeowners from runaway growth and inflation but also serve to limit what districts generate in revenue.

Practical Constraints

Additionally, the timing of these revenue mechanisms poses a practical challenge. The formula, by applying a bonding assumption and amortizing it across a 45-year replacement cycle, presumes districts can generate sufficient funds—whether by saving or by issuing debt—to rebuild their entire facility inventory within that timeframe. While coherent in theory, this assumption breaks down in practice. GO bonds must be issued and largely expended within about three years of voter approval, limiting districts’ ability to accumulate funds in advance. By contrast, HB33 and SB9 levies may extend for six-year periods and can, in principle, be used to build reserves. Yet many superintendents report difficulty in securing voter approval for a bond or levy without specific projects identified. The result is a structural mismatch between what the formula assumes districts can raise over time and what they can practically accumulate within each funding cycle—a gap illustrated by how long it would take districts to save their required local match.

Voter Support

New Mexico voters have overwhelmingly supported school funding efforts. For the 2021 and 2023 elections, voters passed:

- 57 out of 57 GO bonds
- 78 out of 82 SB9 measures
- 10 out of 11 HB33 measures

On average, funding measures pass with a 38 percent margin of victory.

Table 10. Years it Would Take for Districts to Save For or Pay Off a \$50 Million Building Using Only Property Taxes, at 2025 Local Match Percentages

District	Current Mill Rate	Years at Current Mill Rate	Years at State Median (8.8 Mills)	Years at High Mill Rate (12)
Vaughn	6.68	34.9	26.5	19.4
Quemado	4.92	40.1	22.4	16.5
Lake Arthur	7.60	24.0	20.7	15.2
Dora	7.93	17.6	15.9	11.6
Questa	5.00	26.4	15.0	11.0
Jemez Mountain	2.30	41.2	10.8	7.9

Source: LFC analysis of PSFA data

A New Combined School for Vaughn: Hypothetical Case Study

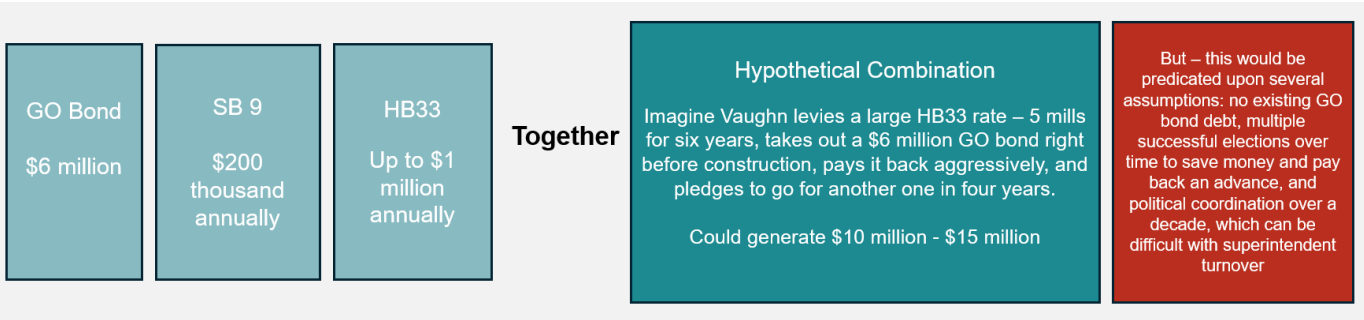
Formula Assumption: The formula assumes Vaughn will need roughly \$17 million over 45 years – the cost to replace one 55,000-square-foot facility at \$307 per square foot – or \$376 thousand annually. A moderate, 4.5 mill, tax rate could generate \$454 thousand a year, covering this amount; therefore, with more revenue than need, Vaughn’s unweighted match is over 100%, and their weighted match is 94%.



The Cost: With this match percentage, Vaughn would then owe the following amounts, based on construction cost.

Scenario	Vaughn’s Cost
If the combo school actually cost \$17 million	\$15.9 million
If the building cost \$38.5 million, closer to recent actual construction costs	\$36.1 million
If the formula was updated to \$407 per sq. ft., reducing their local match to 77 percent, on a \$38.5 million building	\$29.6 million
A 55,000 building costing \$38.5 million, with SB131 reductions for a 47% match rate	\$18 million

Revenue Generation: Vaughn now has several options to try to generate revenue.



Key Takeaway: Small districts may struggle to realistically plan across a 45-year replacement timeline. The state could create a more grounded benchmark based on a definition of fair level of effort—both in mill rate and duration—such as maintaining support over a set number of bonding cycles. Clarifying these expectations would create greater consistency in how local capacity and state participation are measured.

Note: Vaughn, as one of the smallest districts in the state, was selected as an example to illustrate what revenue generation and adequacy standards would look like for such a district. While an outlier in some ways, the revenue timelines may apply to other small districts.

In addition to timeline issues, districts often carry outstanding construction or debt service from recent projects, which can fully exhaust bonding capacity even when additional facility needs remain. In some cases, multiple major projects arise within the same period, compressing what the formula assumes to be a 45-year replacement cycle into just a few years and leaving little fiscal flexibility. The formula’s point-in-time measurement of mill activity—such as requiring districts to demonstrate 7 or 10 mills of local effort—offers only a snapshot, failing to capture consistent investment over time. Moreover, the formula does not distinguish between funding mechanisms that serve different purposes, such as mills dedicated to debt service on general obligation bonds versus annual levies under SB9 or HB33 used for maintenance and minor capital needs.

Potential policy responses could include incentives or procedures that encourage districts to plan and commit to multi-cycle capital accumulation. For example, the state could measure local effort over time, provide incentives for districts that save (such as partial matching for demonstrated effort), or create mechanisms that

allow the state to advance funds recoverable in a future bonding cycle. These options would require careful design but illustrate ways the system might better accommodate timing and cash-flow realities.



Rethinking the Formula: Measuring District Revenue

Incorporate additional metrics used by other states, including bonded indebtedness and annual debt service.

The current formula relies primarily on assessed valuation, which affects both bonding capacity and the amount of revenue generated from mill rates; however, this approach overlooks keys aspects of local fiscal reality. **Bonded indebtedness**, alternatively, shows how much of that capacity has already been used. By assuming all districts can raise the equivalent of 4.5 mills regardless of their existing debt loads, the formula can overstate the true ability of districts already operating near their limits.

Table C. Potential Issues Affecting Bonding Capacity

Current Issue	Example
Outstanding Construction or Bond Debt Service	In 2025, Dexter received a full waiver. Even before their 2023 GO bond, they have consistently been over 12 mills, including 8.8 mills for debt service, for the past five years. Of the 10 districts ranked highest on PSFA’s list of schools most out of alignment with adequacy standards and in poor condition, three already have less than 50 percent capacity due to previous debt (that predates the 2023 elections)
Multiple Construction Projects	Districts such as Hobbs, Farmington, and Gallup-McKinley have received waivers at points they had multiple construction projects in the pipeline. Eighteen districts have multiple schools in PSFA’s list of 100 schools most in need of replacement, with 9 districts having at least 3 schools, indicating this could become an issue. Appropriate guardrails should both recognize districts in greater need of funding, while also spreading resources equitably.
Point-in-Time Mill Measurements	In contrast to the examples above, some FY26 pre-applications came from districts now nearing their bonding limits of 7 and 10 mills, even though they were far below those thresholds prior to the last election. While the waiver guidelines do not require districts to be indebted for a certain length of time, it may indicate uneven historical effort or foregone opportunities to generate local revenue, suggesting that some districts have not consistently maximized capacity over time.

Other states use measures such as bonded indebtedness, annual debt service, or debt service as a share of assessed value or local revenues (to reflect the current burden on taxpayers), as well as indicators like mills levied or bond elections attempted (to reflect willingness and effort). For example, Colorado’s BEST program blends assessed valuation with local mill effort and revenue data to calculate match rates, while Texas and Maryland consider both bonding capacity and existing debt service when determining state support. Some states also include socioeconomic indicators—such as median household income or poverty rates—as equity modifiers rather than core capacity measures.

Table D. Potential Supplemental Metrics for Assessing Local Effort

Metric	What It Measures	Why It Matters	Possible Mechanism
Bonded Indebtedness	Total principal already issued	Captures how much capacity is already used	Adjust capacity by subtracting current debt (capacity remaining)
Annual Debt Service	Yearly principal + interest payments	Shows current fiscal burden on taxpayers.	Use as post-calculation factor to reduce expected local share if debt burden is high
Debt Service as % of Assessed Valuation	Effort relative to property wealth or operating funds	Normalizes burden for district size and wealth	Include as weighting factor to scale local share percentages
Mills Levied / Bond Elections Attempted	Tax effort or willingness	Recognizes demonstrated local effort	Use as a bonus factor (for example, 2% match reduction) for high-effort districts
Community Wealth Measures	Free and Reduced Lunch, Median Household Income, or others	Captures at-risk and overly burdened communities	Use as a bonus factor (for example, 2% match reduction) for impoverished communities

Source: LFC and LESC Analysis

Examples of Adequacy Standards

New Mexico's Adequacy Standards define both general conditions as well as space to be allotted for certain uses.

Building Condition:

Structurally sound, with no imminent danger or major visible signs of decay or distress. Walls, roof, doors, and windows are weather tight under normal conditions, and the interior is structurally sound and free of exposed lead paint and easily released asbestos.

Temperature:

Heating, ventilation, and air conditioning system capable of maintaining a temperature between 68 and 75 degrees Fahrenheit.

Plumbing Fixtures:

Sanitary facilities in accordance with the New Mexico building code. Restrooms shall be reasonably available so students will not have to exit the building.

General Classroom:

800 net square feet minimum, and at least 2 net square feet per student available for dedicated classroom storage.

Special Education:

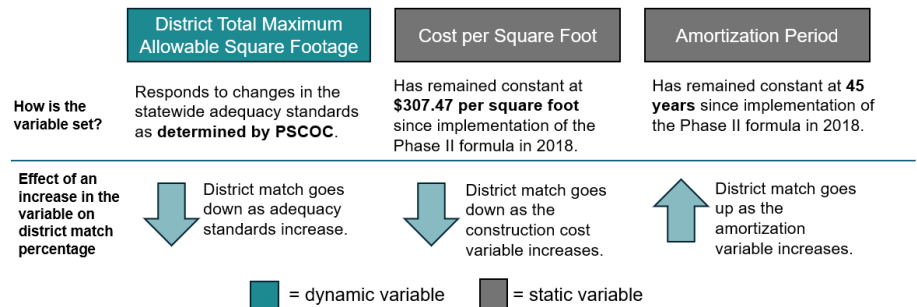
Special education classrooms no smaller than 800 net square feet. Special education classrooms serving students requiring a high degree of personal care with an accessible unisex bathroom, a kitchenette, and at least 15 net square feet of storage.

Source: PSFA

Estimated District Need and the Formula

Since the implementation of the phase two formula in 2018, changes to adequacy standards, rising construction costs, and construction management practices have collectively increased facilities costs statewide. This has important implications for the formula because in addition to estimating a district's potential revenue available to fund a project, the phase two formula also estimates a district's total school replacement cost. It does this by multiplying the total maximum allowable gross square footage by an assumed construction cost per square foot. This cost is then amortized over 45 years, based on the expected lifespan of the average school building. However, the formula responds unevenly in response to real-world changes. While total maximum allowable gross square footage dynamically responds to the New Mexico's changing statewide adequacy standards, construction cost pricing and amortization period are both static factors in the formula. Because New Mexico is unusual in including a cost factor in its formula, this section explores either improving it to become more responsive to current conditions or removing it from the formula altogether.

Figure 6. How Phase Two Estimates District Costs

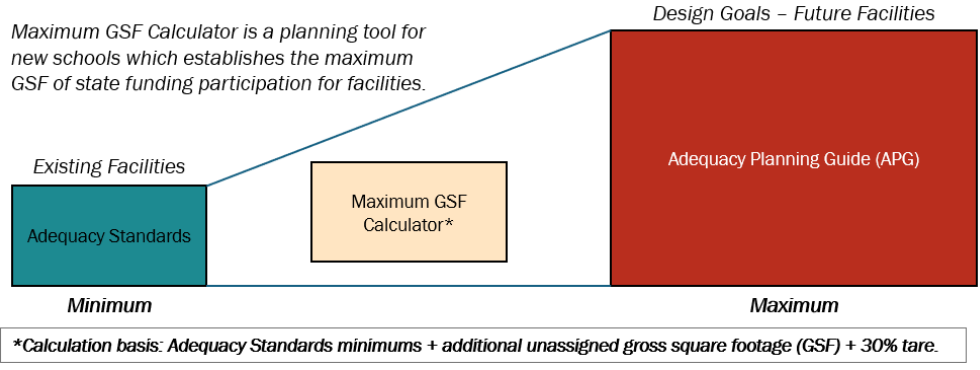


Source: LFC and LESC

Adequacy Standards. The first factor in the formula's calculation of public school facility replacement cost is the state's determination of how large public school facilities should be and what types of spaces are needed to provide an adequate education. This determination of the maximum allowable gross square footage in the facility cost calculation is based on the statewide adequacy standards, developed and maintained by PSCOC and PSFA staff. The adequacy standards establish minimum requirements for school buildings to provide sufficient space for educational curriculum, student and faculty safety, and administrative needs and are periodically reviewed and updated by PSCOC, with the *Adequacy Planning Guide* serving as a companion tool for facility design and renovation. The guide serves as a maximum set of standards, a goal for future school facility design. The maximum gross square footage (GSF) calculator is used in conjunction with the statewide adequacy standards and the guide to calculate how much square footage is required for each public school facility in a school district.

In January 2025, PSCOC adopted new adequacy standards that increased allowable gross square footage by an average of 10 percent in elementary schools, 7 percent at middle schools, and 5 percent in high schools. These increases had an outsized effect on the square footage allocated for smaller schools, in particular

Figure 7. Adequacy Standards



Source: LESC

History and Basis of Statewide Adequacy Standards

The New Mexico Constitution mandates a uniform and sufficient system of public schools. Following the 1998 *Zuni* lawsuit, which found the state’s capital outlay system inequitable, New Mexico created a standards-based funding system built on statewide adequacy standards to ensure all schools meet minimum facility requirements.

PSCOC developed the adequacy standards with input from educators, administrators, support staff, and construction experts, who identified essential spaces and features needed to meet the state’s educational standards, distinguishing needs from wants. The standards, adopted in 2002 and codified in the New Mexico Administrative Code, cover classrooms, specialty spaces, libraries, physical education areas, food services, maintenance, storage, and school site requirements.

The standards guide New Mexico’s capital outlay system. Schools receive a weighted New Mexico Condition Index (wNMCI) score to measure adequacy and prioritize state funding. Schools with the greatest deviations from standards are funded first, with districts lacking local bonding capacity receiving more assistance. The *Adequacy Planning Guide* complements the standards by setting maximum facility sizes, minimum requirements, and design guidance. “Above adequacy spaces” beyond what is required are funded by districts.

for schools with fewer than 20 students in prekindergarten or kindergarten or fewer than 25 students in first to fifth grades. These changes had major implications for the local-state match formula, reducing the local match by 10 percent on average across all districts as higher square footage requirements raised overall project costs.

Table 11. Recent Adequacy Standard Changes

Classroom type	Previous Standards	New Standards
Pre-K to Kindergarten	50 net sf/student	1,000 net sf minimum
Grades 6-8	28 net sf/student	800 net sf minimum
Grades 9-12	25 net sf/student	800 net sf minimum

Source: PSFA

Any expansion or reduction of these standards, and the associated maximum square footage, directly affects the estimated cost to replace a public school facility. The maximum square footage is not merely a formula component; it also defines the maximum facility size that school districts may design to and the project scope eligible for state funding participation. Consequently, even minor adjustments to the adequacy standards can substantially influence total replacement costs—and the potential cost to both districts and the state.

Construction Costs. The phase two formula assumes a fixed construction cost of \$307.47 per square foot, which has not been updated since the formula’s initial implementation in 2018. New Mexico is not alone in using a per square foot construction cost estimate in its formula to calculate the district’s share of costs. However, other states routinely reset it to reflect rising costs and inflation. For example, Washington’s construction cost allocation was set at \$375 per square foot at the start of FY25 but will rise to \$399.38 per square foot in FY27.

Additionally, other states have other ways of building construction costs into their public school outlay processes. These methods can be used in tandem but, in general, provide a stable basis for estimating costs, setting district matches, and limiting state liability.

Table 12. Other State Alternatives to Estimating Construction Costs

Strategy	What New Mexico Does	Other State Examples
Formula includes a cost per square foot that goes into determining the district match.	Construction cost estimate was set at \$307.47 per square foot in 2018.	Washington: \$375/SF in current budget documents, annually adjusted; School Construction Assistance Program materials describe a “stable approach” linking to construction cost trends. Arizona: K-6: \$270.24/SF; 7-8: \$285.30/SF; 9-12: \$330.30/SF (rural +5%). Adjusted annually by an index identified by Joint Legislative Budget Committee.
State has a cost per square foot cap. Anything over this cap is not recognized in the formula and is the responsibility of the district.	New Mexico does not have a cap on actual construction costs. This means that the state is responsible for its share of the original match even if costs significantly overrun initial estimates.	Massachusetts: \$645/SF reimbursable building cap effective Jan 1, 2025 (sitework, fees, etc. have separate limits). Massachusetts School Building Authority Board updates caps periodically based on program finances/cost trends. Washington: \$375/square foot is the maximum that the state will recognize and fund.
State employs cost per square foot benchmark (frequently determined by city, county, or region) to ensure that costs are fairly estimated	PSFA staff help districts estimate each individual project costs based on previous projects in the same region, meaning that each cost estimation is a one-off tailored to a specific project.	Alaska: The Department of Education and Early Development’s Cost Model sets unit costs + regional modifiers, not a single statewide \$/SF cap. DEED sets its baseline construction costs in Anchorage and then other regional modifiers are calculated relative to that base. Ohio: Costs are budgeted on a per-SF basis; statewide guidance shows ~\$380–\$443/SF ranges used for estimating. The “Opinion of Probable Costs” sheet breaks down likely per square foot costs by district region and school size – more urban districts building larger schools tend to see lower square footage costs (consistent with New Mexico’s data).

Source: LFC and LESC



Rethinking the Formula: Annually Adjust Construction Costs

Tack construction costs to an objective measure such as the producer price index.

One simple option for routinely resetting New Mexico’s construction cost estimate would be to use the Federal Reserve Bank of St. Louis’s new school building producer price index. Using FY20 as the baseline (the year the \$307.47 figure was first implemented), Table E shows how annual construction cost estimates would increase were this number tacked to this producer price index.

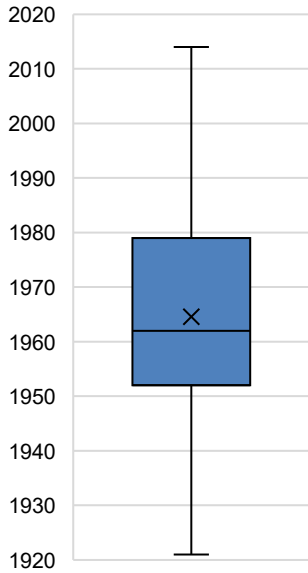
However, simply increasing the parameter would produce varying cost effects across districts. A 2023 report by the University of New Mexico’s Bureau of Business and Economic Research found, while a blanket increase in the cost per square foot assumption would reduce the local match for 76 percent of districts, many would not see a lower match, including 10 percent of schools whose facilities most need repair based on adequacy and conditions standards. Instead, large districts with greater square footage (and already a higher bonding capacity) would see a greater match reduction.

Table E. Updated Construction Costs Based on FRED New School Building Producer Price Index

Fiscal Year	Adjusted Construction Costs/SF	Unweighted District Local Match			
		Gallup	Mosquero	Española	Albuquerque
FY20	\$307.47	23%	76%	83%	112%
FY21	\$311.68	23%	75%	82%	110%
FY22	\$342.60	21%	68%	75%	100%
FY24	\$397.78	18%	59%	64%	86%
FY25	\$399.33	18%	59%	64%	86%
FY26	\$407.50	17%	57%	63%	84%
Difference between FY20 and FY26		6 percentage points	19 percentage points	20 percentage points	28 percentage points

Source: LFC analysis of Federal Reserve economic data

Chart 10. Build Date of Oldest Building on School Campus at Time of PSFA Replacement, FY16-FY25



Source: LFC and LESC analysis of PSFA data

Amortization Factor. The final factor in the formula affecting calculated facility cost is the amortization of project expenses over a 45-year period. This assumption does not reflect the financial practices typically used by school districts. According to PSFA data, for schools receiving full replacement awards between FY16 and FY25, the median age of the oldest portion of the buildings replaced was 63 years, significantly longer than the 45-year amortization period used in the formula. For most of the campuses that received standards-based awards between FY16 and FY25, their oldest buildings were constructed between 1950 and 1980. The median build date of the oldest buildings, represented by the X in the chart at right, was 1962. In practice, school facilities are often expanded in phases, and PSFA’s facility condition index evaluates buildings as collections of systems rather than as discrete structures with fixed ages.

In its 2023 report, the BBER modeled reducing the amortization period to 40 years, which would lower local match rates overall. As shown in the construction cost model above, districts with higher initial match rates would see proportionally larger reductions than those with lower rates. Increasing the construction cost, as illustrated in the “Rethinking the Formula” box on the previous page, combined with a shorter amortization period, would amplify these reductions for higher-match districts. While this adjustment could help smaller, rural districts currently facing high match rates, it would also lower the match for larger, property-wealthier districts with greater capacity to pay.

 **Rethinking the Formula: Clarify District Differences**

Remove total maximum allowable gross square footage from the formula and improve the function of the population density modifier.

The population density modifier and the inclusion of total maximum allowable gross square footage both attempt to capture the variable standards and challenges across rural and urban districts. Currently, the interaction between these two variables is opaque and difficult to quantify. Removing the cost calculation from the formula could simplify this calculation. Under this new schema, a population density modifier should no longer be necessary. However, if the Legislature elects to retain and lightly modify the current formula, the below adaptation of the population density modifier could improve its fairness and functionality.

A sliding scale in the post-calculation population density modifier could provide more even relief to rural districts, avoiding the current sharp cut-off of the current modifier. New Mexico’s current capital outlay local-state match funding formula applies a post-calculation adjustment based on district population density. Low density districts receive a 12 percent reduction in local match, while medium density districts receive a 6 percent reduction. However, compared to the urban outliers of Albuquerque and Rio Rancho, most districts in New Mexico have significantly lower population densities. Under the current formula, Gadsden, which is 10 times less dense than Albuquerque, receives no adjustment. Creating a sliding scale for the post-calculation modifier could remove sharp cliffs that currently exist in the tiered system between Gallup and Lovington (12.5 and 15 people per square mile, respectively). Staff modeled a system in which rurality rates would be calculated as a proportion of Albuquerque’s population density (554 people per square mile), and the local match reduction would start at 15 percent for Mosquero (less than 1 percent the density of Albuquerque), the most rural district in the state, and then scale to 10 percent for Los Alamos (30 percent the density of Albuquerque). New local match reductions are represented in the table below.

Chart A. Total Population per Square Mile, Ranked, in New Mexico School Districts

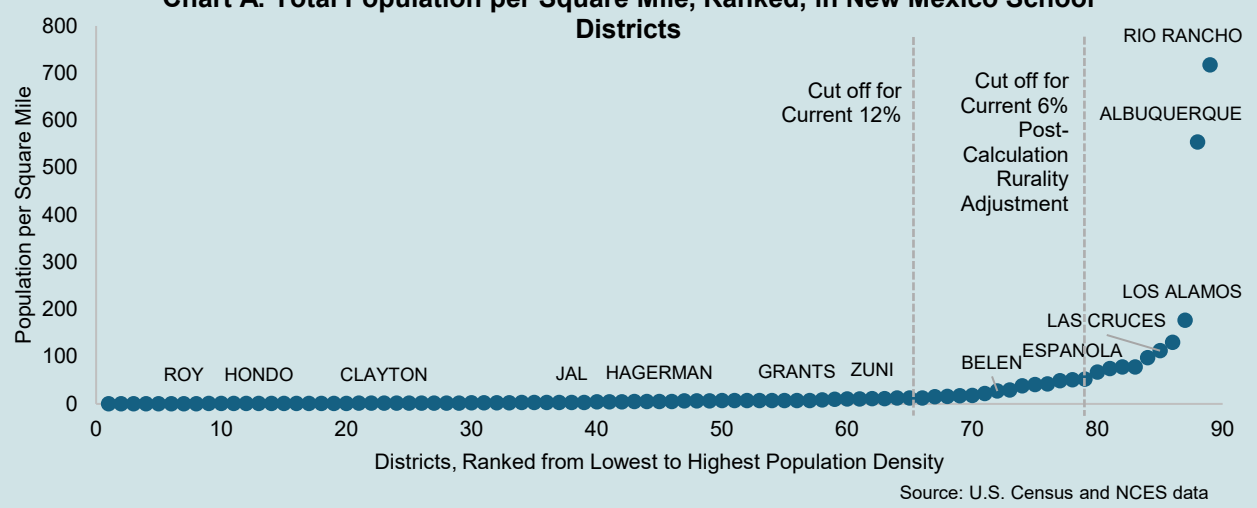


Table F. Local Match Calculations Using Current Versus Modeled Post-Calculation Density Adjustment

District	Population Density (People per Square Mile)	Current Tiered Population Adjustment	Modeled Gradual Population Adjustment	Current Weighted Local Match	Modeled Local Match	Difference between Current and Modeled Local Match
Mosquero	0.2	12%	15%	61%	64%	3%
Quemado	0.5	12%	15%	88%	85%	3%
Gallup	12.5	12%	15%	11%	8%	3%
Roswell	17.7	6%	15%	48%	40%	8%
Gadsden	52.2	0%	14%	31%	45%	14%
Hobbs	67.2	0%	13%	87%	100%	13%
Santa Fe	130.4	0%	11%	100%	89%	11%

*Note: Current and Modeled Local Match numbers do not account for the adjustments afforded under Senate Bill 131, which further reduces local match based on student membership and uses a similar tiered structure to the post-calculation density adjustment.

Maximizing Impact and Limiting State Liability

Current state spending on public school capital outlay is below yearly capacity but has increased in recent years. The state should consider planning for the future in any changes to the formula. Supplemental severance tax revenue, currently the only revenue source for the state's share of capital projects, is connected to the oil and gas industry. As supplemental severance tax bond revenues plateau, the state will need to shift its focus to limiting liability where possible to extend the life of the public school capital outlay fund. For these reasons, it is important to maintain a clear understanding of PSFA's committed and uncommitted bond balances alongside consistent and accurate district financial data. Additionally, rigorous vetting of project readiness, improved construction cost management, and guardrails to prevent cost overruns will maximize the state's ability to fulfill its statutory obligations to educational adequacy in the coming years and decades.

Understanding State Revenue: Financial Plan and Master Bond Reconciliation

Accurate tracking of bond and cash balances is essential for understanding the state's overall financial capacity for future school construction.

State Financial Plan: The PSCOC financial plan, a regular agenda item at each monthly council meeting, outlines the sources and uses of funding for capital outlay projects, including future liabilities, such as potential waivers and the status of committed and uncommitted balances.

Master Bond Reconciliation: PSFA, with assistance from a third-party firm, initiated a master bond reconciliation to verify project revenues and expenditures in the state's SHARE accounting system, confirm balances with the Board of Finance, close or reallocate unused bond funds, and streamline the tracking, certification, and recertification of all outstanding bond balances using a master reconciliation worksheet.

However, PSCOC financial plan and master bond reconciliation worksheet are not yet fully aligned, leading to inconsistencies in reported committed and uncommitted balances.

Understanding and Tracking State Revenue

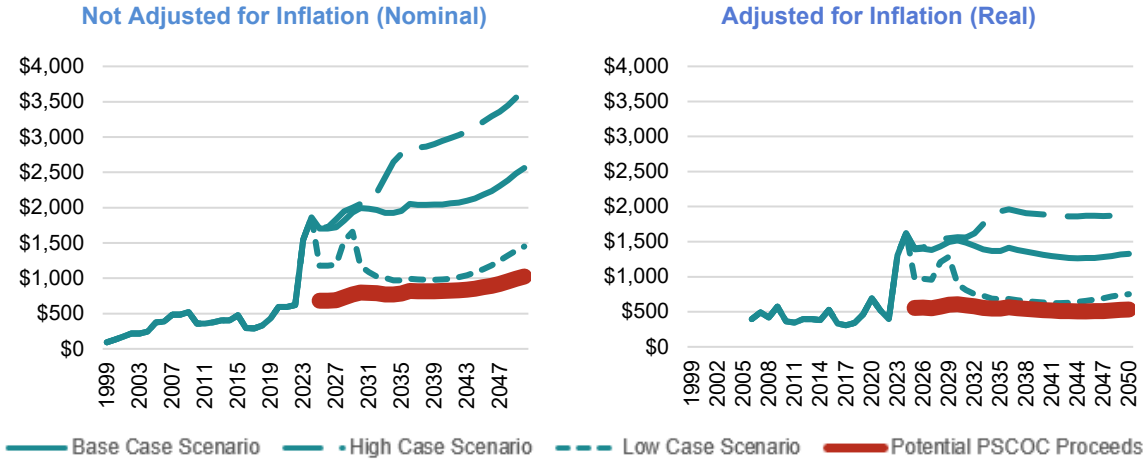
In FY25, PSCOC spent about \$606 million in funding for all programs, including \$455 million (with waivers) made through standards-based, systems-based, and other award programs based on the formula. Each year, roughly 60 percent to 70 percent of expenditures from the fund are devoted to these types of projects. Before the pandemic, annual total expenditures were typically in the low hundreds of millions, compared to the \$600 million range in FY24 and FY25. While this growth signals expanded investment in public school facilities, it also underscores the importance of closely monitoring long-term obligations as spending levels rise.

Public School Capital Outlay Revenue Projections. The main source of revenue for the public school capital outlay fund comes from severance taxes on oil and gas production. According to the state's Consensus Revenue Estimating Group, this funding could remain relatively stable over the next two decades, though it fluctuates with changes in energy prices and production levels. High- and low-case scenarios can differ by more than \$1 billion in either direction from the base-case—projected to remain between \$2 billion and \$2.5 billion, with slow growth—showing how volatile this revenue source can be. In FY25, about 40 percent of total severance tax revenues are expected to be available for supplemental severance tax bonds, the portion of overall oil and gas revenues that supports public school capital outlay. This share varies year by year depending on total revenues and state debt levels.

When adjusted for construction inflation, projected severance tax revenues—and, therefore, public school capital outlay funding available to PSCOC, remain fairly flat in real terms for several decades. The base-case scenario holds steady between \$1.3 billion and \$1.4 billion in constant dollars, reflecting the purchasing power of today's construction market. Under these conditions, PSCOC's share would translate to roughly \$500 million to \$600 million in current dollars, about equal to the real value of projects being funded today. If this trend continues, the state would be able to maintain roughly the same pace and scale of school construction projects it supports today, without a major expansion or contraction in capacity or change in the match formula. However, maintaining an adequate, sustainable pace of school construction will depend on aligning these fiscal projections with future

student enrollment, facility replacement needs, and continued efforts to promote efficiency and local participation.

Chart 11. Maximum Severance Tax Bonding Capacity
(in millions)



Note: Potential PSCOC proceeds is presented as a hypothetical estimate based on the base case scenario, if PSCOC received between 35 percent and 45 percent of severance tax bonding and debt capacity, as this fluctuates based on overall revenue.
Source: Consensus Revenue Estimating Group Projections

As of August 2025, PSCOC identified potential costs of up to **\$1.2 billion** in FY26.

Actual costs will presumably be a fraction of this number, as PSCOC financial plans front-load the upcoming year with the bulk of outstanding projects, creating an inflated figure that assumes many previously awarded projects will advance and fully claim their allocations.

PSFA Recordkeeping. The public school capital outlay fund increased from \$785 million in FY22 to \$1.9 billion at the end of FY25. Accurately tracking how much funding has been committed versus what remains uncommitted is essential to understanding PSCOC’s true financial capacity. While PSFA’s financial plan reports both types of balances, questions remain about reliability. The uncommitted balance reflects the portion of previously sold supplemental severance tax bonds (SSTBs) not yet certified for a specific use, while the committed balance represents obligations to active and pending projects. Because the financial plan is updated manually and operates separately from the master bond reconciliation worksheet, a separate tracking system that records bond-level certifications, recertifications, reversions, and closeouts, the reported uncommitted balances in each system can differ, making it difficult for PSCOC to assess how much funding can be sustainably awarded each year.

Table 13. PSCOF Fund
(in millions)

Use Category	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26 Est.	FY27 Est.
Awards Total	\$61.9	\$62.1	\$61.5	\$6.2	\$123.9	\$232.3	\$456.8	\$455.2	\$993.6	\$369.6
Other	\$73.7	\$98.2	\$118	\$60.2	\$60.3	\$197.9	\$225.6	\$150.3	\$244.81	\$102.2
Total	\$135.6	\$160.3	\$179.5	\$66.4	\$184.2	\$430.2	\$682.4	\$605.5	\$1,238.4	\$471.8

Note: Awards total includes money allocated through standards-based awards, systems-based awards, and other mechanisms reliant upon the formula, as well as potential waivers. Other includes lease payment assistance, PSFA operating budget and many smaller categories, including legislative awards allocated through PSFA, IT department requirements, and more.

Source: PSFA eBooks

PSFA has taken steps to improve the accuracy of its records, including a comprehensive reconciliation effort to verify balances against the state’s SHARE accounting system and the Board of Finance’s bond records, close out inactive projects, and streamline its recertification process. These steps respond in part to past PSFA audit findings, which identified deficiencies in internal controls, delays

Bond Recordkeeping Best Practices

The Government Financial Official Association (GFOA) recommends governmental issuers of bonds or other debt obligations develop and adopt formal, written post-issuance compliance policies to assist in meeting compliance requirements. States should maintain the following to track bonds post-issuance:

- Bond transcript for each bond issue with proof of filing
- Debt service schedule for each bond issue
- Documentation evidencing the expenditure of bond proceeds, such as construction invoices
- Documentation pertaining to remedial action and other change-of-use records

Agencies should identify staff responsible for compliance, require training for responsible officers in post-issuance compliance, and establish regular deadlines and reminders.

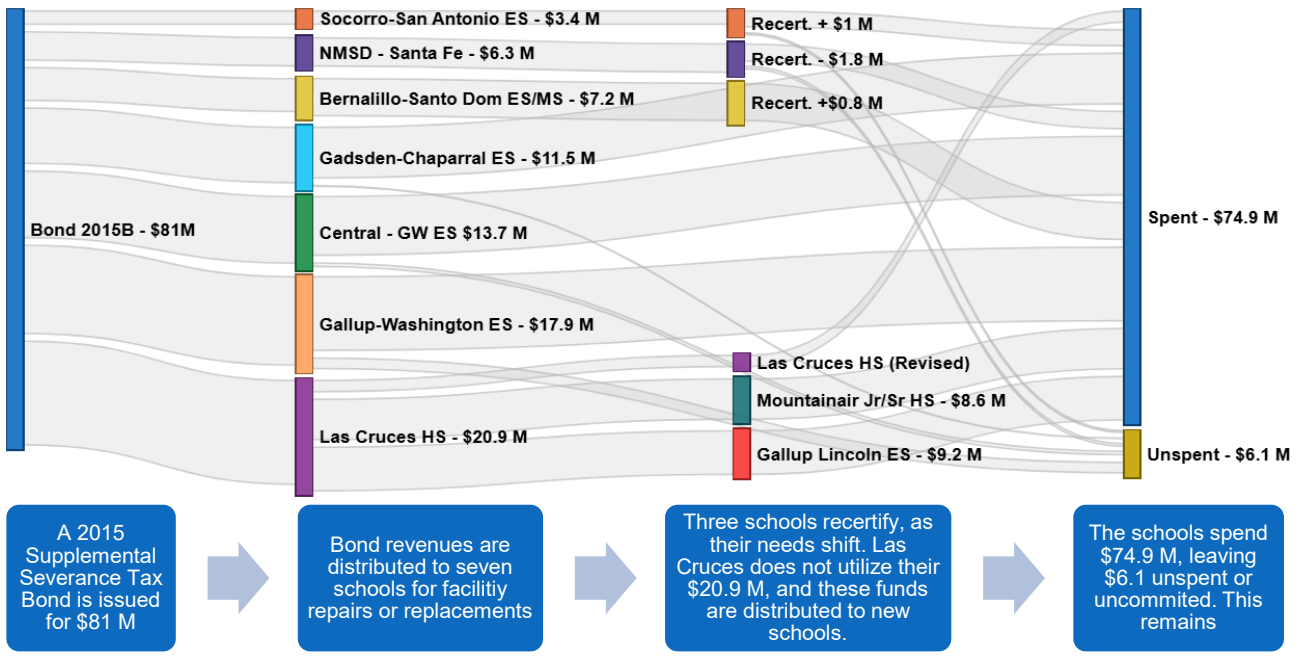
Additionally, while New Mexico is relatively unique in using supplemental severance tax bonds as its capital outlay funding source, other states have developed procedures to reduce arbitrage and prevent stranded fund balances. For instance, Maryland, California, and Ohio all have procedures to guide how unspent project funds are reverted, reallocated, or reprogramed. New Mexico could mirror these procedures by adopting a regular bond decertification cadence.

Source: GFOA and state websites

in closing out 157 projects, and lags in drawing down and requesting reimbursements. Still, the continued presence of unspent balances from awards dating back more than a decade and uncommitted funds across 23 open bond issuances underscore the need for ongoing oversight from PSFA to ensure reconciliations translate into timely closeouts and that financial plan balances reflect actual available resources. Strengthening recordkeeping systems will be critical as PSCOC manages growing costs and future funding liabilities.

Declining Quality in District Finance Validation. PSFA staff use financial data reported by districts alongside data from the Public Education Department (PED) to assess school districts’ fiscal positions when reviewing PSCOC award applications and determining eligibility for local match waivers. Districts typically work with municipal (bond) advisors to prepare the information required for the *Statement of Financial Position* submitted to PSFA with a funding application. PED data was previously used to validate and add nuance to what districts submitted. However, the quality and detail of PED district financial reporting have declined over time. Reports previously produced by PED, such as the *Capital Outlay Report* and the *Waiver Eligibility Report*, provided valuable, district-specific financial information to PSFA, LESC, and LFC staff, but have not been maintained or distributed since before 2019. Correspondingly, PSFA’s *Statement of Financial*

Figure 8. Illustration of How Uncommitted Funds Build Up



Source: LFC Analysis of PSFA data

School District Financial Position Currently Used by PSCOC

District Financial Information	
State / Local Match	
<ul style="list-style-type: none"> Local match: 19% State match: 81% The district <u>does</u> have adequate funds to accommodate the local share of this project. 	
Bond Information	
<ul style="list-style-type: none"> GO Bond: November 2021 for \$6 million Bonding Capacity: \$45,020,648 Available Capacity: \$20,130,648 Bond Sale: September 2024 for \$2 million Mill Levy: 10.649 <ul style="list-style-type: none"> Source: RBC Capital Markets 	<ul style="list-style-type: none"> SB-9: \$7,570,245 HB-33: N/A Cash Balance: \$27,800,459 Operational: \$29,800,580
Project Funding	
<ul style="list-style-type: none"> Sources: Impact Aid (Source 15100) 	

Source: PSFA

Data included in PED’s Previous Waiver Eligibility Report

Most recent total land valuation	Average membership
Value per member	Mill Levy rates
% of students qualifying for free or reduced lunch	Whether district is eligible for a waiver
Percent of bonded capacity	If ineligible, reason for ineligibility

Source: PSFA, PED 2008-2009 Criteria for Reduction/Waiver of Local Share

Data included in PED’s Previous Capital Outlay Report

Sources of New Mexico Public School Capital Outlay Funding	Mill levy rates, debt service rates, and land valuation data
District bonding indebtedness	Election status report of SB9 and HB33
Capital Improvements Act	Pre-Kindergarten Awards
Summar of direct legislative appropriations	Offset information and district match percentages for PSCOC projects
Lease payment assistance program	Enrollment data and charter school information

Source: PED Capital Outlay Bureau 2019 Reference Data Report

Position has become longer and more complex since 2019. PSFA and PED should consider collaborating to reestablish these previously available reports. Moving forward, PED could produce these reports (as was the case historically) or PED could provide technical assistance so PSFA staff can produce the necessary data internally.

PED still calculates bonding capacity and maintains the official record of tax rates and mill levy utilization. However, PED data is not available in real time. Bonding capacity figures are published only once per year, typically in September, even though PSFA receives applications year-round. For FY23 and FY24, PSFA staff identified 10 instances where PED and municipal advisor mill rate projections were more than 0.05 mills different from each other, including two cases where projections differed by more than 1 mill. These larger discrepancies led to district revenue calculations that varied by over \$100 thousand.

Ensuring District Readiness

Ensuring district readiness is critical to the effective use of state funding and the successful completion of projects. Projects that have completed design, site control, permitting, environmental clearances and other preliminary requirements, along with a clear financing framework and construction management capacity, are less likely to experience costly delays or scope changes once construction begins. Several states incorporate formal readiness criteria into their funding processes to prioritize projects that can proceed

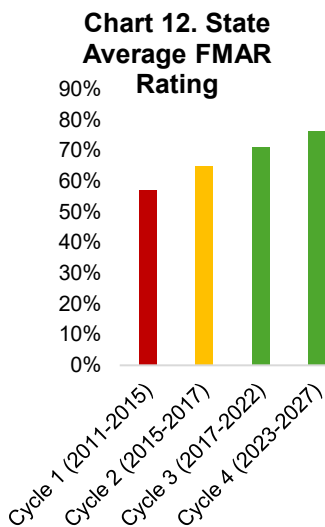
immediately. A standardized project readiness assessment should be considered for adoption as part of PSCOC funding applications, requiring districts to document permitting status, finalized design, a secured local match, and other milestones. This would create a consistent benchmark for evaluating proposals and help ensure state funds are directed at projects positioned for timely and efficient delivery.

Table 14. Other State Requirements for Vetting District Readiness

Requirement	Example States
Feasibility Study	Maryland: Must include planning goals, program description, proposed budget, project schedule, condition assessment of existing buildings, existing site and floor plan, proposed site plan diagrams, etc.
Voter Approval Acquired within 32 Months of “Intent to Fund Letter”	New Hampshire: Voters must approve the local share of the project within 32 months of “Intent to Fund” announcement. After voter approval, schools have 12 months to submit proof of funding sources and updated project budget, updated construction plans and specs, signed contract for construction, and any permits necessary to start construction.
Long-Term Facility Plan	Oregon: Includes population projections by school age group for the next 10 years; collaboration with local government planning agencies (city and/or county) that results in identification of suitable school sites if needed; evidence of community involvement; review of how the current facilities align with adequacy standards. Washington: Inventory and area analysis, demographic data, financial assessment, racial balance, cost/benefit analysis, deferred maintenance, timeline for project completion, neighboring districts’ facility space inventory, potential need for district boundary changes.
State Education Agency Performs a “Fiscal Health” Check of District	Pennsylvania: Facility study of district and educational specifications/preliminary design drawings also required.
Local General Obligation Bond Passes	Texas: Before applying to the Instructional Facilities Allotment program, districts must get voter approval for a GOB. If no new money is appropriated before the annual June 15 deadline, the application is considered for the subsequent round of funding as long as the district issues the debt and receives attorney general approval within 180 days of the deadline. Ohio: Electors must approve local bond/tax levies within 16 months of conditional approval (recently extended from 13 months).
District Meets Project Pipeline Requirements and/or is Under Funding Cap	Massachusetts: Districts can only have one prioritized core statement of interest on file at any time, and additional projects must wait until the prioritized project advances to the next phase or is removed from the queue. Maryland: The Healthy School Facility Fund places a \$15 million annual cap on how much any one district can receive. Ohio: Requires that district master plans be segmented and phased; districts can only apply for the next scheduled “segment” according to the approved plan, preventing multiple large simultaneous builds.

Source: State capital outlay websites (via Education Commission of the States)

Requiring and Rewarding Preventive Maintenance. PSFA estimated in 2024 that a 10 percent improvement in maintenance across the state equates to \$23.3 million in cost avoidance each year. In 2011, PSFA introduced the *Facility Maintenance Assessment Report* (FMAR) tool to measure maintenance effectiveness and facility conditions of school properties in New Mexico. PSFA uses FMAR, a percentage-based system where higher scores correlate with better performance, to evaluate New Mexico school facility conditions and determine how the school’s maintenance management program is being implemented. FMAR is conducted in three- to five-year cycles because most schools are typically assessed about every four years. When PSFA launched FMAR in 2011, only 22 percent of New Mexico schools were expected to achieve their system life cycles, which the current funding formula estimates at 45 years. Ten years later, 35 percent were expected to achieve their system life cycles, and 29 percent were projected to outlive their system life by at least 10 percent. Overall improvement has continued in cycle four, with an average performance rating of 76 percent statewide. PSFA is currently working to achieve an 80 percent statewide performance rating.



Source: PSFA

PSFA currently recommends districts applying for standards-based awards have at least a “satisfactory” FMAR score, defined as a minimum of 70 percent. FMAR both captures how well districts are maintaining their buildings and documents that maintenance in PSFA’s online system. Accordingly, FMAR can be understood as a metric of district readiness and capacity: A district with a low score may not be ready to take on a new school construction project nor maintain that building after closeout. Administrative code (NMAC 6.27.3.11) allows PSCOC the option to offer a match reduction to districts based on exemplary

maintenance. Currently, exemplary maintenance is defined as exceeding a 90 percent FMAR score and meeting additional maintenance criteria. So far only Hobbs has taken advantage of this policy—saving the district \$3.3 million on its new middle school. Maryland has a similar mechanism, awarding a 5 percent local match reduction to districts that have achieved certain maintenance ratings or are applying for an adequately maintained building that is at or over 120 percent of its expected useful lifespan.



Rethinking the Formula: Reward Preventative Maintenance

Ensuring Districts Can Maintain a New Building: Facilities Maintenance Assessment Report Cutoff and Match Reduction Model

The model below, based on FY24 data, explores instituting a hard cutoff line at 70 percent for standards-based projects and providing tiered match reductions for districts with higher FMAR scores. PSFA might consider providing additional technical assistance, capacity building, and maintenance training for districts that fall below 70 percent.

Table G. Effects of an FMAR Cutoff and Local Match Reduction Policy

FMAR Score	Effect	Result
<70%	Districts do not qualify for standards-based awards but may apply for additional maintenance	35 districts would not qualify for a new standards-based award.
≥70%, <75%	Districts qualify but receive no bonus.	17 districts are in this category.
≥75%, <80%	Districts qualify and receive a 2.5% local match reduction.	18 districts are in this category.
≥80%, <85%	Districts qualify and receive a 5% local match reduction.	10 districts are in this category.
≥85%, <90%	Districts qualify and receive a 7.5% local match reduction.	5 districts are in this category.
>90%	Districts qualify and receive a 10% local match reduction.	4 districts are in this category.

Source: LFC analysis of PSFA data

Managing Construction Costs

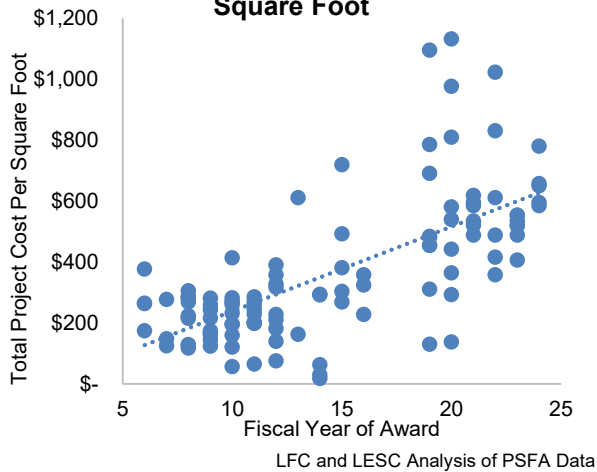
Across all currently active standards-based capital outlay awards for public schools, updated total project costs exceeded original estimates by \$308 per square foot, coming in on average 80 percent over original price estimates. While inflation has stabilized since the height of the pandemic, the average updated total project cost per square foot in FY24 was still \$832, or nearly three times the rate set for in the local-state match funding formula. A 2024 LFC policy spotlight identified both external pressures (e.g., inflation, supply chain disruptions, and

Table 15. Average Maximum Allowable Construction Costs and Total Project Costs Per Square Foot for Current Standards-Based Awards, Original and Updated Costs, FY21-FY24

Fiscal Year of Standards-Based Award	Average of Original Estimated Cost per sq ft (MACC)	Average of Original Estimated Total Project Cost per sq ft (TPC)	Average of Updated Estimated Cost per sq ft (MACC)	Average of Updated Total Project Cost per sq ft (TPC)	Average of Cost per sq ft Percentage Increase	Average of Difference of Original and Final Total Project Cost per Square Foot (TPC)
FY20	\$294.40	\$372.00	\$540.00	\$572.00	92%	\$306.80
FY21	\$422.40	\$549.20	\$770.00	\$1,001.00	82%	\$452.20
FY22	\$323.33	\$420.67	\$516.67	\$671.67	64%	\$251.67
FY23	\$406.00	\$524.67	\$658.33	\$855.83	62%	\$328.33
FY24	\$502.60	\$653.40	\$640.00	\$832.00	27%	\$178.80
Average over all years (including still active projects from before FY20)	\$368.10	\$476.14	\$606.90	\$766.55	80%	\$308.48

Source: LFC analysis of PSFA data

Chart 13. Total Project Cost (Bid) Per Square Foot



labor shortages) and internal challenges (construction oversight and procurement practices) as key drivers for rising school construction costs.

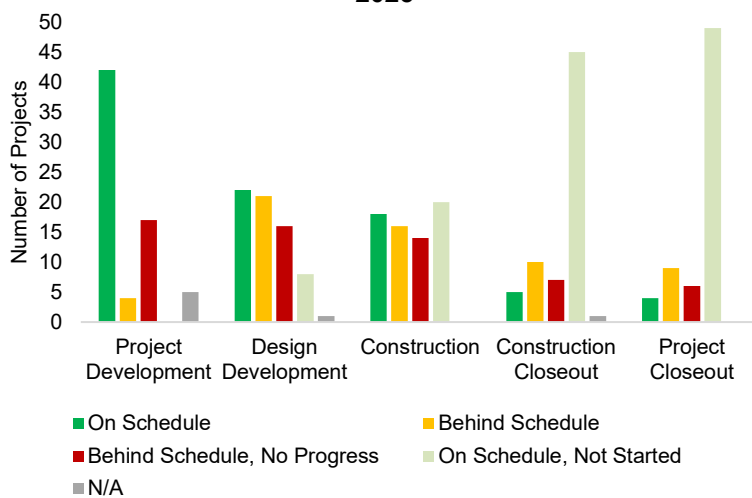
New Mexico could strengthen efforts to contain public school construction costs. Other states provide districts with enhanced technical assistance to help manage construction costs. Also, as discussed in the previous section, some states require feasibility studies and initial specifications to be completed before a district can apply for funding. Finally, some states incentivize the use of prototype plans or reuse of existing plans.

Technical assistance earlier in the process. Many states provide technical assistance to school districts to support public school capital outlay, construction, renovation, and long-range facilities planning. The scope of this assistance varies from state to state, from helping districts assess facility conditions and plan projects, to guiding them through funding

applications, design standards, construction oversight, geographic-specific assessment support, and planning grants. PSFA staff already provide technical assistance, but front-loading this support could help manage costs before construction begins.

Improve specifications before starting design. According to PSFA’s most recent project status report, many projects start out on schedule but then fall behind in the design or construction phases. Some states require the specifications phase (or ed specs) to be completed before the district applies for state funding as part of a feasibility study.

Chart 14. PSCOC Project Status by Phase, June 2025



Source: LFC analysis of PSFA data

Prototyping. Prototyping typically saves money on design and engineering fees, while potential effects on construction costs, schedules, energy performance, and state-level cost effectiveness are harder to quantify. Using Washington state’s benchmark that a prototype or reused designs should cost 40 percent of what a new design for a similar project should cost, staff compiled the data in Table 16, showing how much projects of varying sizes could expect to save using a prototype. LFC models for New Mexico align with reports from Houston Independent School District, which frequently uses prototype designs and saves on average \$300 thousand per project with savings running upwards of \$1 million on larger facilities. Cost savings are more

difficult to determine in other aspects of building construction and long-term performance because these metrics are not systematically tracked in other states.

Table 16. Potential Cost Savings from Reusing Plans Based on New Mexico’s Current Design Professional Fee Schedule

Total Project Cost	DP Fee (New Design)	DP Fee (Reused plan; 40% of new design)
\$1,000,000	\$80,000	\$32,000
\$5,000,000	\$377,778	\$151,111
\$10,000,000	\$700,000	\$280,000
\$25,000,000	\$1,708,333	\$683,333
\$50,000,000	\$3,277,778	\$1,311,111

Source: LFC analysis of PSFA data

Table 17. Cost Management Strategies in Other States

Strategy	State	Additional Detail
Ensure project specification phase is sufficiently detailed and complete.	New Mexico	During the Educational Specifications (Ed Specs) phase, when districts design to their specific curriculum needs, districts should engage in thorough planning to ensure that facilities are right-sized and aligned with their instructional programs, enrollment trends, and community needs. New Mexico formerly tracked each of its early specification phases in the project status report but no longer does so.
Allow districts to use funds towards value engineering, constructability review, and project management.	Washington	Awards for a value engineering study/constructability review are available for any state-funded project over 15,000 SF; optional for projects 15,000- 49,999 SF; required over 50,000 SF. Award is greater of: (a) 2/5 of 1% (0.0040) of construction cost allocation X approved area, or (b) \$20,000.
Encourage prototype planning or plan reuse.	Florida	In Florida, statutory permission to prototype, a robust culture of design reuse connected to rapid population growth in the late 1990s and early 2000s, and easier procurement processes mean that today, districts still choose to prototype even without strong incentives from the Florida Department of Education.
	Georgia	Georgia provides a stronger financial impetus in the form of a reduced local match (2 percent reduction) for districts that elect to use a prototype.
	North Carolina	North Carolina has the most robust statewide prototype program, maintaining a state clearinghouse with over a hundred designs and an expedited design selection and permitting process for districts that select a clearinghouse design.
Report annually yearly school construction costs.	Virginia	National benchmarking of construction costs varies significantly and is most frequently based on proprietary analysis from averages of major cities within a region rather than a holistic average that incorporates rural rates. Some states, including Virginia, report their school construction costs on a yearly basis, which allows for closer tracking of construction costs year over year. In FY25, Virginia’s cost averages (base/total project cost per square foot) were as follows: \$346/\$370 for elementary, \$375/\$448 for middle schools, \$436/\$511 for high schools.
Offer (and potentially require) technical assistance to ensure projects are set up for success.	Oregon	Facilities Condition Assessment, Long-Range Facility Planning, Seismic Assessments Environmental Hazard Assessment, Required for State Capital Improvement Matching Program
	New Jersey	In-House School Facility Design (SDA Design Studio): Program Concept Design, Schematic Design, and Design document Assistance; Early Site Preparation: Design-Build Project Delivery: and Construction ability Review. In collaboration with NJ Department of Education
	Vermont	Construction Planning Technical Assistance; Water and Sewage Systems Assistance. Provided to any state-funded Project
Claw back funds or redistribute awards	Maryland	Unused funds can be reallocated to other district capital projects but revert to the state if not expended within two years.

Source: Other state websites

Time Delays Lead to Increased Project Costs. Project delays, regardless of their underlying causes, can significantly increase the overall cost of school construction projects.

Projects where money has been committed but not expended are at risk of increased labor and materials costs. While statute requires certain targeted programs, such as roof replacement, building systems, security systems, and

prekindergarten classrooms, to be spent within two to three years, most standards-based projects face no such deadlines or assessment of a district’s capacity to proceed. As a result, New Mexico continues to carry unspent balances dating back more than a decade; for example, Española’s Velarde Elementary (awarded in FY12) and Abiquiu Elementary (awarded in FY16) still have over \$10 million scheduled for drawdown in FY26, during which time their per-square-foot costs rose by 71 percent. To date, PSCOC has awarded the Española School District

Table 18. Effects of Project Time Delays on Project Costs

District	Project	Original Award Date	Original Total Project Cost Estimate per Square Foot	New Total Project Cost Estimate per Square Foot	Difference
Tularosa	Tularosa MS	FY19	\$484	\$910	\$426
Central	Newcomb	FY20	\$580	\$1,170	\$590
Gallup-McKinley	Gallup HS	FY21	\$521	\$975	\$454
Gadsden	Chaparral MS	FY22	\$358	\$780	\$422
Farmington	Heights MS	FY23	\$553	\$845	\$292

Source: PSFA; October 2025 Materials

\$379.5 thousand for Velarde Elementary School (phases one and two) and \$454 thousand for Abiquiu Elementary School (phase one). According to PSFA staff, between 2012 and 2019, \$224 thousand has been drawn down for the Abiquiu project. The planning and design

phase for both projects was completed prior to the construction phase. In November 2016, PSCOC rescinded the remaining balance for Velarde Elementary after the Española School Board voted in 2013 not to proceed with the project. The district also completed the planning and design phase for Abiquiu Elementary but requested the award be rescinded in May 2020 due to its inability to meet the local match requirement. These projects have seen no activity, and it is highly unlikely they would be able to progress without updated planning and design and significant amendments to the current award language. It is worth noting, despite the inactivity of these projects and indications from the school district not to move forward, they still remain on the PSFA financial plan and are reflected in the uncommitted balance. Other states have policies and statutes in place to ensure that unspent committed funds are rescinded or redistributed after a certain period. New Mexico has a statutory basis for adopting similar policies; state law already authorizes the PSCOC to impose reporting requirements, conditions, and other actions necessary to ensure grants are “expended in the most prudent manner possible” (Section 22-24-5.1 NMSA 1978).

Project Tracking. Up until April 2023, PSCOC used a high-level data-driven performance summary, known as the project status report, to monitor progress and to intervene when districts deviated from anticipated timelines. At the June 2025 PSCOC meeting, PSFA staff announced they would be restarting quarterly project status updates. However, the new version of the project status report lacks some of the fine-grained detail included in the equivalent report from more than a decade ago, including districts’ progress through the crucial early specifications phase of the project, and its accuracy is unknown. PSFA staff also used to keep track of when projects were heard by PSCOC along with any actions taken by council in a separate internal spreadsheet, providing a clear and unified administrative record actions taken by the council to address delayed and delinquent projects. During the years recorded on this document (2016 to 2023), PSCOC rescinded 14 awards. However, that spreadsheet has not been updated since July 2023.



Rethinking the Formula: A Project-Specific Match Calculation

Moving from a district to a project-specific match formula

Under New Mexico’s current system, district match rates are established in advance based on broad measures of revenue generation and facility need over time. This “one-number-fits-all projects” approach can obscure real variation in local fiscal capacity and increasingly results in requests for local-match waivers.

In contrast, states such as Ohio determine cost-sharing on a project-by-project basis, reviewing a district’s finances in conjunction with the scope, timing, and justification of a proposed project. This ensures that each project receives an equitable match from the outset, reducing reliance on waivers while promoting accountability and readiness, while incorporating many of the same formula assumptions New Mexico currently values: square footage needs and adequacy standards, construction costs, and district ability to pay.

District Readiness Checklist

Before a project is considered for funding, districts would complete a readiness review confirming that:

- ✓ Five-year facilities master plan is current (CURRENT)
- ✓ Facilities Maintenance Assessment Report (FMAR) score is at least 70 percent (NEW!)
- ✓ School ranks within the top XX on the wNMCI list (CURRENT)
- ✓ Procedures for medium and large districts that balance multiple, valid project timelines with guardrails to ensure equity among districts and that old projects are moving (NEW)

Project Cost Estimation

Each approved project’s cost would be modeled using standardized criteria:

Total maximum allowable gross square footage. Calculated using the state’s adequacy standards and the gross square footage calculator. Above allowable space is ineligible for state funding, but districts can choose to build above at their own cost.

1. **Construction cost baseline.** Base cost per square foot.
2. **Multiplier.** Multiply by a factor reflecting construction cost differentials by size and geography. Many states have such tables accounting for rurality, district, school type, square footage, attendance or other factors. An example would be:

	Urban	Suburban	Exurban	Semi-Rural	Rural
10,000 + MEM	1	1.05	1.10	1.15	1.20
2,000-10,000 MEM	1.05	1.10	1.15	1.20	1.25
500-2,000 MEM	1.10	1.15	1.20	1.25	1.30
200-500 MEM	1.15	1.20	1.25	1.30	1.35
1-200 MEM	1.20	1.25	1.30	1.35	1.4

District Financial Diagnostic

- ✓ Step 1: Assesses district property valuation (five-year average) and total bonding capacity: _____
- ✓ Step 2: Determine current bonding indebtedness: _____
- ✓ Step 3: Estimate district ability to pay using one or more of the following:
 - **Required level of indebtedness:** using an equalized model like Ohio’s, identify the level of debt the district could reasonably sustain based on valuation and bonding effort; or
 - **Mill-based contribution:** estimate district contribution assuming a consistent tax rate of XX mills over XX years, which would generate _____. Guidelines could be provided on timelines, for example, pledging future revenue via HB33 or a second bond cycle with a state advance.
- ✓ Step 4: Account for ongoing revenue streams (SB9, HB33) by either
 - Recognizing those revenues within the formula, or
 - Applying a local effort ratio that rewards districts exceeding a baseline mill rate
- ✓ Step 5: Identify any additional bond debt needed to reach the required effort level (within \$5,000):
Based on the above, the district can afford to pay: _____, and the state will provide the remaining _____.

Local Match Reduction Incentives

- ✓ Mill rates at XX amount yield XX% reduction
- ✓ Use of prototype or plan reuse yields a XX% reduction
- ✓ FMAR scores more than 75% yield progressively larger local match reductions
- ✓ Consolidation of schools, campuses, or districts yields increased square footage or a XX% reduction

Final Takeaways and Next Steps

The underlying rationale in New Mexico’s current local-state match formula is sound. Based on the idea that district ability to pay can be measured and calculated, New Mexico avoids some of the more arbitrary factors included in the formulas of other states. However, the current formula does not capture the full picture of districts’ ability to pay nor does it account for escalating construction costs. The gap between formula expectation and reality has led to a recent increase in waiver requests and the implementation of artificial post-calculation adjustments.

This brief argues that state support should rest on an expectation that districts utilize local resources while responding dynamically to economic and geographic inequities between districts. By introducing guardrails and better managing project timelines, stakeholders can maximize the state’s ability to fund projects now and in the long term.

Figure 9. Potential Next Steps and Strategies

