

Legislative Education Study Committee

August 22, 2019 – Dulce, NM

Capital Funding Problems Impact Aid Districts – Property Poor

Zuni Public School District – Daniel Benavidez
Gallup-McKinley County Schools – Mike Hyatt

ADEQUACY DOES NOT EQUAL EQUITY

1974 Goal was to equalize operational funding to create equity

After the initial Zuni Lawsuit, NM tried to satisfy the court ruling with adequacy rather than follow the courts ruling to develop uniformity and sufficiency in the capital outlay funding process. The Zuni lawsuit was reopened because NM has not followed the court's ruling nor met the state constitution.

FUNDING SOURCES for CAPITAL OUTLAY

- General Obligation Bonds (GO Bonds)
- *Industrial Revenue Bonds
- *HB33 (up to 10 Mills)
- *SB9 State Match/2 Mill Local Levy
- *Educational Technology Bonds
- Revenue Bonds
- *Appropriations
- *Mill Levy Interest
- *Solar, Wind-Farm, Spaceport, other PILT-like Dollars
- PSCOC
- *Private Donations
- Operational

SOME COMMON SYMPTOMS OF DISTRICTS WHO ARE STRUGGLING WITH CAPITAL NEEDS

Struggling school districts will have multiple symptoms

- GO Bonds are maxed out – high property taxes
- Low revenue from mill levies due to low valuation (low taxable land)
- No/Negligible capacity for HB33, Ed. Tech. Bonds, etc...
- Requesting waivers from PSCOC
- Reliance on Revenue Bonds
- Utilizing Operational dollars for Capital needs
- Higher maintenance needs due to lack of funding (low SB9/2mill \$'s)
- New School Buildings built below educational specifications
- High Facility Master Plan (FMP) deficits

SOME ADVANTAGES OF PROPERTY WEALTHY DISTRICTS

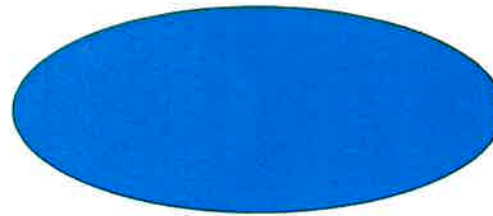
- Lower property taxes
- Building above adequacy after receiving PSCOC match
- Generate significant revenue from mill levies
- Build schools with no PSCOC match even if available
- Excess capital dollars are collecting interest
- Using significant capital dollars to pay for operational expenses

HOW LOCAL REVENUE SOURCES CAN GIVE PROPERTY WEALTHY DISTRICTS AN ADVANTAGE IN OPERATIONAL FUNDING

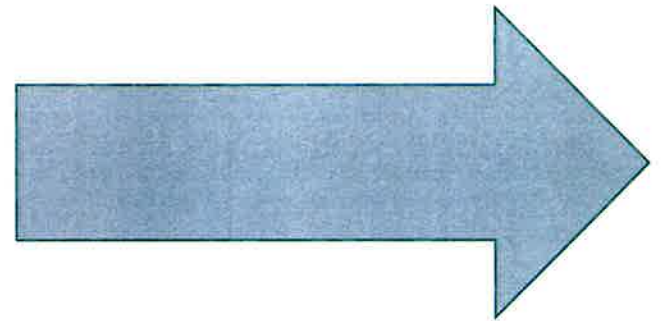
EQUALIZED



Funding Source Input



Operational Funding Formula

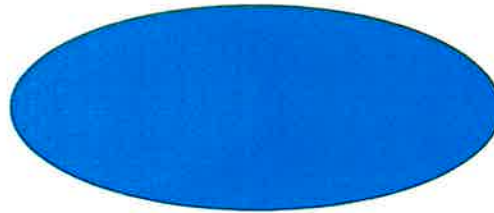


Funding Output Based on Need

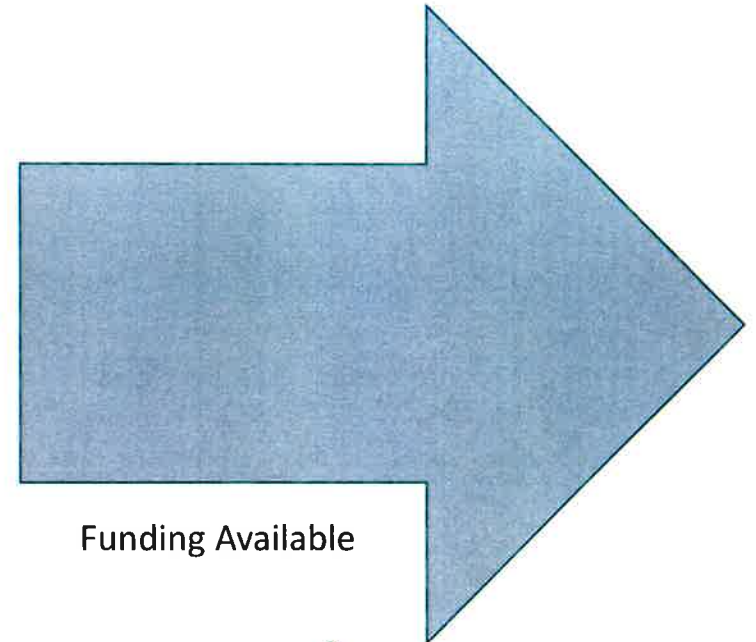
DIS-EQUALIZED



Funding Source Input



Operational Funding Formula



Funding Available



Capital \$'s - SLIDE #3 *



Fund Operational Expenses



Increases Operational Capacity

PSFA FACILITY PROBLEMS

- Lack of common sense construction – Example: No air conditioning in classrooms
- Adequacy Standards do not equal educational specifications. For example, Adequacy Standards do not include such things as language teaching space, special education space, therapy/special need space, or sufficient extracurricular activity spaces.
- Sub par construction oversight by PSFA – failing systems become money pits
- You cannot open a school under Adequacy Standards
- High levels of bureaucracy in the PSFA process does not allow for immediate facility needs to be taken care of
- Hundreds of millions of dollars have been awarded to school districts who don't need the funding while they build far above adequacy
- Modifying the match to make more funds available does not change adequacy standards or help struggling districts make their match.

ADDITIONAL PROBLEMS FOR OUR DISTRICTS

- Teacherages are a necessity to open schools but they have not been funded with a match to date, even though they are state buildings included in the adequacy standards
- High costs for maintaining and operating rural schools
- Tribal taxes and higher costs for rural construction not covered under Adequacy Standards
- All waivers have been denied for GMCS
- Remodels were incomplete or dysfunctional
- No taxable land
- Impact Aid, meant to replace lost property tax revenue, has been taken to fund the operational funding formula. We have lost a significant amount of local control.

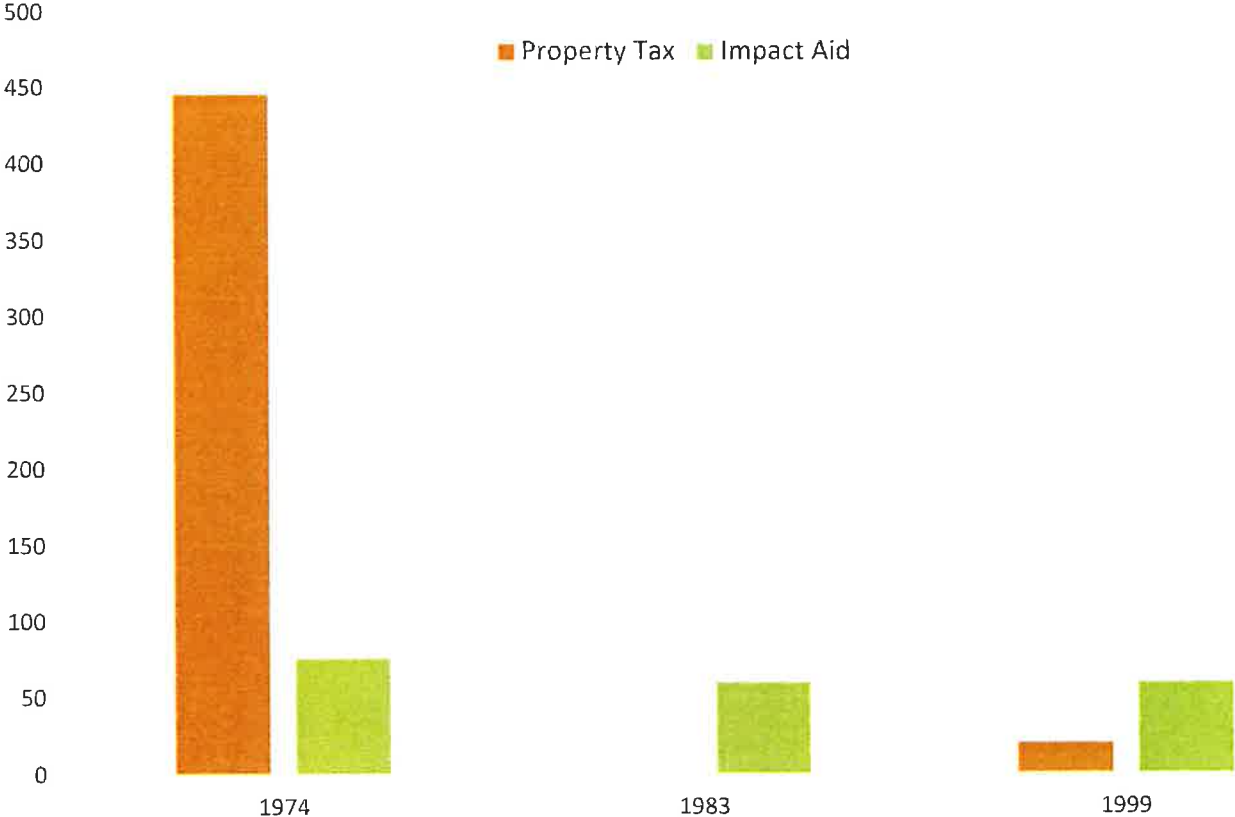
SOME COMMON INNACURATE STATEMENTS

False: “If you remove Impact Aid credits from the formula it will be dis-equalized”

Truth: Where the money comes from to fund the funding formula makes no difference. Equalization is determined based on the outputs of the formula and if it targets the needs of students equally. Hundreds of millions of dollars have been replaced in the funding formula over time and there was no dis-equalization.

District Contribution to Operational Funding

In current approximate dollars in \$millions (based on 1 mill = \$50 Million)



False: “Oil rich districts will take their money back if Impact Aid credits are returned”

Truth:

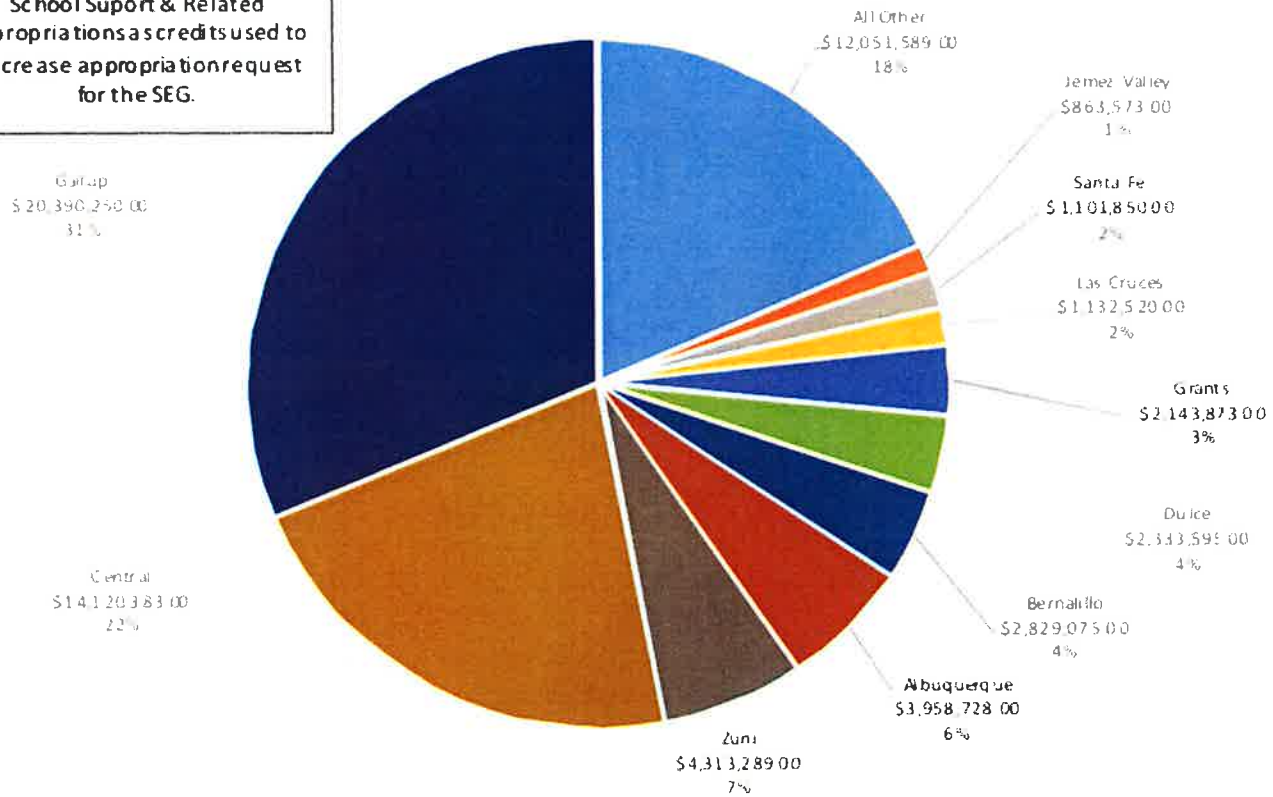
- Oil and gas are state resources of all New Mexicans
- Already have a significant advantage with current mill levies and bonding capacity
- Currently paying very little in operational funding credits

LESS THAN 5% of NM STUDENTS GENERATE MORE THAN 70% OF THE CREDITS IN THE SEG

NM PED 2018-2019 Disparity Analysis 75% Credit Impact Aid & Property Tax
 Total \$65,238,725

Source NM PED 2018-2019 Disparity Analysis <https://webnew.ped.state.nm.us/bureaus/school-budget-finance-analysis/2017-2018-disparity-analysis/>

These credits appear on the Public School Support & Related Appropriations a credits used to decrease appropriation request for the SEG.



False: “Adequacy standards solved the capital outlay problem”

Truth: PSFA process helps and it is an improvement, but students facilities are not the same based off of need. Simply travel around the state and look at school facility discrepancies or look the amount of funding spent on individual schools who built far above adequacy to an educational specification and beyond to see the inequity.

False: “Impact Aid is not a replacement of lost property tax”

Truth: from the Federal Impact Aid website-

Impact Aid was designed to assist local school districts that have lost property tax revenue due to the presence of tax-exempt Federal property <https://www2.ed.gov/about/offices/list/oese/impactaid/whatisia.html>

New Mexico takes credit for one federal grant that’s applied for and its purpose is to replace lost tax revenue to sustain it’s non-capital operational funding formula

SOLUTIONS

- Move back towards property taxes funding the operational funding formula and to supply funding for capital outlay needs
- Combine or credit the property wealth of the state and redistribute based off of capital outlay need
- Eliminate credits completely from the funding formula. This would eliminate the institutional bias of currently taking a disproportionate share of Impact Aid credits and return those funds to the district so they can recover from their maintenance and facility deficits. Then right-size PSCOC process.

SOURCES OF REVENUE TO REPLACE SEG DOLLARS

- ~\$20 million is replaced in district budget if ½ mill credits are returned
- ~\$20 million of educational operational dollars are reverted every year to the general fund and is not spent on education
- 1 Mill Levy statewide generates ~\$50 Million
- Eliminate yield control and require a full ½ mill would generate ~\$15 million
- LFC Director said there is \$50 million available to increase the at-risk index. These dollars could be used for backfill.

TOTAL = ~ \$150 million