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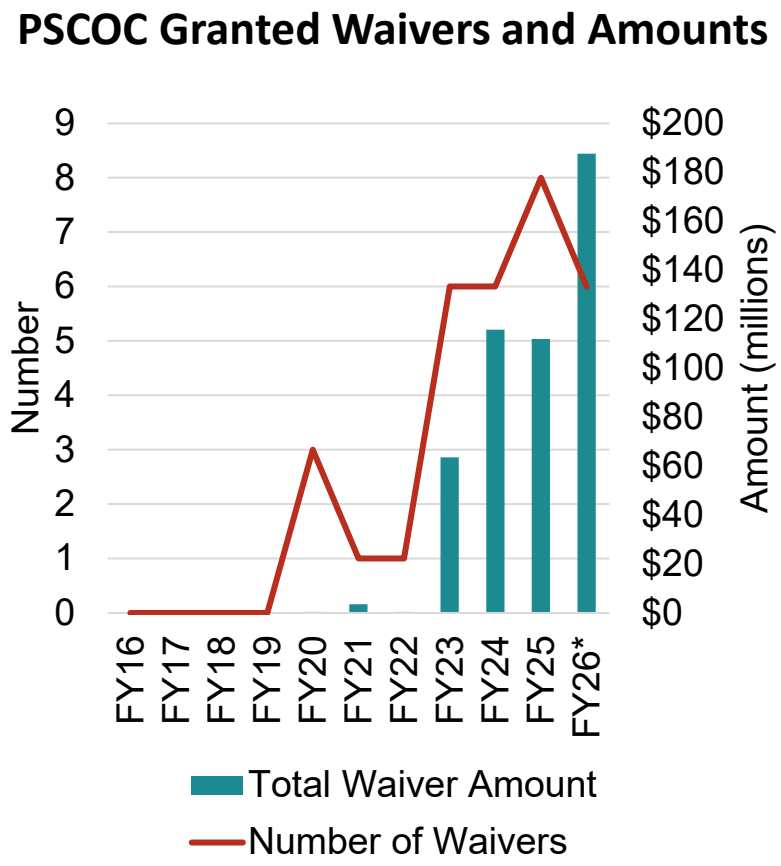
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State-Local Match Rate Proposals

Why are we here?

- The “Phase 2” formula shifted costs from the state to districts – and was implemented just as construction costs exploded during the pandemic
- As a result, districts are requesting and receiving more waivers, or local match reductions
- The trend indicates the formula is not working as intended – failing to accurately capture a district’s ability to pay or reflect current market conditions



Why are we here?

- The Public School Capital Outlay Oversight Task Force (PSCOOTF) directed LFC, LESC and PSFA to study the formula and propose revisions for the 2027 legislative session that would minimize the need for waivers
- The Public School Capital Outlay Council (PSCOC) needs a more responsive policy framework through which to consider waivers to ensure consistency and fairness

Guiding principles for revising the formula

- Meet constitutional obligations
- Ensure equity, fairness, and accuracy
- Ensure accountability for performance
- Expect local participation and coordination
- Promote long-term planning and sustainability
- Encourage efficient design and utilization of space
- Collaborate with and engage stakeholders

Background on current formula

- The current formula, also known as the “phase two” formula, was implemented starting in FY19, with several goals:

    1. Better reflect a school district's ability to pay.
    2. Utilize statewide adequacy standards to determine district facility needs.
    3. Consider differences in per-student facility construction and maintenance costs.

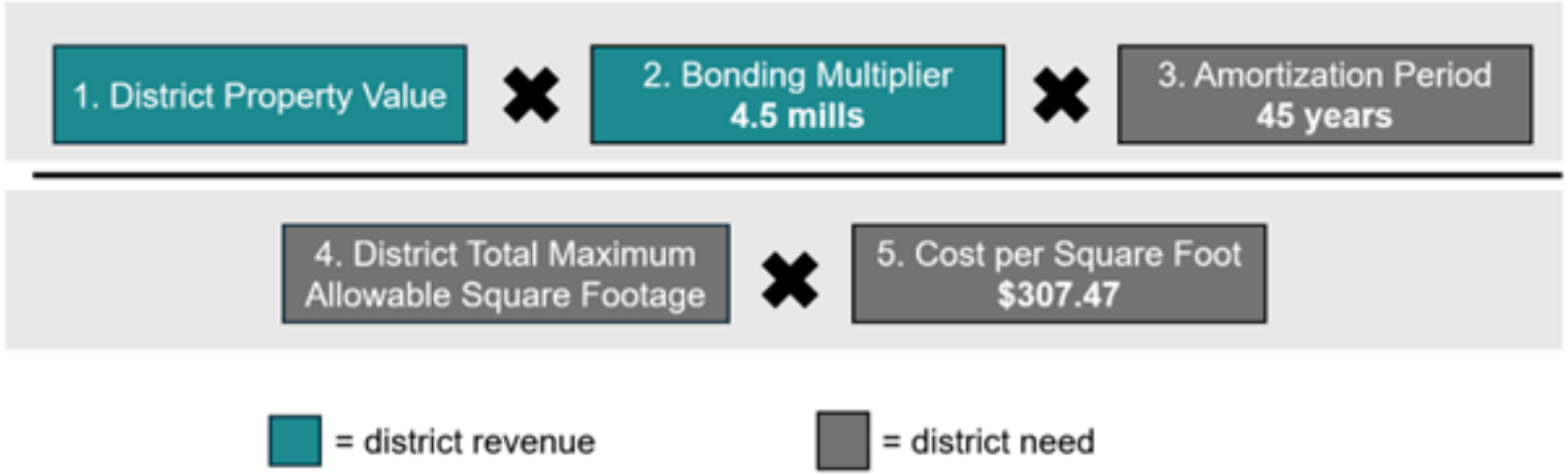
- The formula makes several assumptions to achieve these goals.

Issues with the current formula

Assumption:	But…
School districts will implement certain local revenue generation mechanisms available.	School districts may not utilize tax levies to the level the formula expects.
The statewide adequacy standards accurately reflect how much square footage a student needs.	The adequacy standards may not cover district priorities and have not been studied by any agency besides PSFA.
It costs $307.47 per square foot to replace a school.	Recent construction costs have been 2-3 times the assumed cost per square foot.
Schools will be replaced evenly over a 45-year period.	Many districts built their schools all at once, meaning many require replacement at the same time, and few use revenues in a predictable, long-term pattern.
It costs more to build schools in rural areas of New Mexico.	Construction costs are high throughout the state.

Calculating the local match

1. Unweighted Local Match



2. Post-Calculation Adjustment

Maximum Local Match:
The maximum match is 94 percent

Population Density Factor:
For rural districts: 12 percentage points
For semi-rural districts: 6 percentage points
For urban districts: No local match reduction
Assumption: Rural districts need more support

Expiration of SB131

- SB131 established temporary, across-the-board reductions to the local match to address affordability concerns.
- The temporary reductions equated to half for districts with fewer than 200 students and one-third for everyone else.
- The reductions are scheduled to expire in FY27.
- Absent further legislation, the phase 2 formula will be fully implemented, leading to across-the-board increases in state-local matches.

Potential options for formula revision

- **Option 1 — Do Nothing:** Temporary SB131 match reductions expire in 2027 with no other legislative action. Phase 2 formula is implemented without across-the-board match reductions.
- **Option 2 — Shorten Amortization Period and Increase CSF Factors:** Shorten the amortization period to 40 years and raise the cost-per-square-foot factor based on the producer price index.
- **Option 3 — Replace the Formula with a Project-Based Match Calculation**

__Option 2__ represents tweaks to the existing formula while __Option 3__ would replace the formula. Either approach could be implemented in tandem with a new framework for match reductions.

Option 1 Impact Summary – All 89 Districts

Option 1: Do nothing

0 pts

Smallest change
Zuni & Grady — unaffected, already at 0%

+47 pts

Largest change
Vaughn — rises from 47% to 94% match

+22.4 pts

Average change
across all 89 districts

Takeaway: Absent legislative action to extend temporary reductions or revise the formula, the average district's local match will rise by more than 22 percentage points.

Option 1 Impact Summary – Examples

How would Option 1 would impact three example districts with a hypothetical $50 million project?

$20.5 million

↓

$31 million

Estancia +21%

$2 million

↓

$3.5 million

San Jon +3%

$31.5 million

↓

$47 million

Carlsbad +31%

Stakeholder Feedback →



Option 2 Impact Summary – All 89 Districts

Option 2: Shorten Amortization to 40 yrs + Increase CSF by PPI — vs. Current Status Quo

26	61	2	+1.0 pt
Districts increase avg +20.2 pts	Districts decrease avg −7.1 pts	Districts unchanged Zuni & Grady	Average change all 89 districts

Takeaway: *Shortening the amortization period and increasing the cost per square foot factor brings the statewide average close to net-neutral.* ***Most districts — 69% — benefit relative to the status quo, with an average decrease of 7 percentage points.***

Cost Factor Impact Summary

Part 1: Amortization shortened to 40 years in every scenario below

Scenario	Median local match	Mean local match	Districts at 94% maximum	Average change vs. today
Today — SB131 in place ($307)	45%	41%	0	—
Option 1 — do nothing ($307), SB131 expires	68%	64%	36	+23.2 pts
Option 2 — inflation only ($470)	40%	42%	14	+1.0 pt
Cost per square foot — $600	29%	34%	10	−7.1 pts
Cost per square foot — $700	23%	30%	9	−11.7 pts
Cost per square foot — $800	19%	25%	6	−15.8 pts

Source: LFC and LESC analysis of PSFA data assisted with a large language model

$470 is the current cost adjusted for inflation

Indexing $307 to the producer price index is below the $625 average for the next 28 projected PSFA projects but within the range of costs, which were between $300 to $900

Fewer districts have a 94% match

36 districts reach the 94% maximum when SB131 expires. At $470, 14 still do; four districts never leave 94%

Shortening to 40 years is worth about $59

of cost per square foot on its own, so most of the work is done by the cost factor itself.

Cost Factor Impact – Examples

How would each option affect example districts with a hypothetical $50 million project?

District	MEM	Today (SB131)	Option 1 do nothing	Option 2 $470	Option 2+ $600	Option 2++ $700
Estancia	531	$22.3m 45%	$33.5m 67%	$17.0m 34%	$12.0m 24%	$9.4m 19%
San Jon	116	$2.2m 4%	$4.5m 9%	$0.1m 0%	$0.0m 0%	$0.0m 0%
Carlsbad	7,520	$31.3m 63%	$47.0m 94%	$47.0m 94%	$47.0m 94%	$47.0m 94%
Raton	799	$17.7m 35%	$26.5m 53%	$12.9m 26%	$8.8m 18%	$6.7m 13%
Gallup-McKinley	9,240	$5.0m 10%	$7.5m 15%	$1.9m 4%	$0.1m 0%	$0.0m 0%

Stakeholder Feedback 

Option 3 – Project-Specific Match Calculation

Rather than one district-wide rate set in advance, cost sharing would be set project by project, as Ohio does. Legislation would authorize PSCOC to develop a pilot project-specific match with a sunset date. The pilot would provide a more structured and predictable approach to the current waiver process.

1. Readiness Checklist

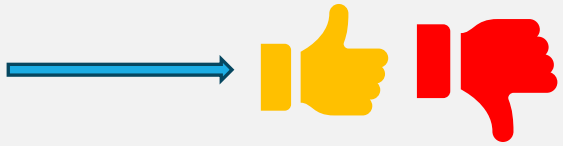
- Current five-year facilities master plan
- FMAR maintenance score of at least 70% (new)
- School ranks in the top XX on the wNMCI list
- Timeline guardrails for larger districts with multiple projects (new)

2. Project Cost Estimation

- Maximum allowable square footage per adequacy standards; space above is district-funded
- Base construction cost per square foot
- Multiplier for size and geography (1.00 to 1.40)

3. Financial Diagnostic

- Five-year property valuation and bonding capacity
- Current bonding indebtedness
- Ability to pay: sustainable debt level, or XX mills over XX years
- Credit for SB9 / HB33 revenue; bond debt closes the gap

Stakeholder Feedback 

Piloting a Project-Specific Match

- Through legislation, authorize PSCOC to implement a three-year pilot for certain projects
- Legislation could provide broad direction while leaving granular policy development to PSCOC
- Staff suggest eligibility be constrained to districts with a legal bonding capacity below a certain amount and a MEM count below a certain level
- Eligible districts could opt in to the project-specific match as an alternative to the formula at the inception of the project

Incentive-Based Waivers

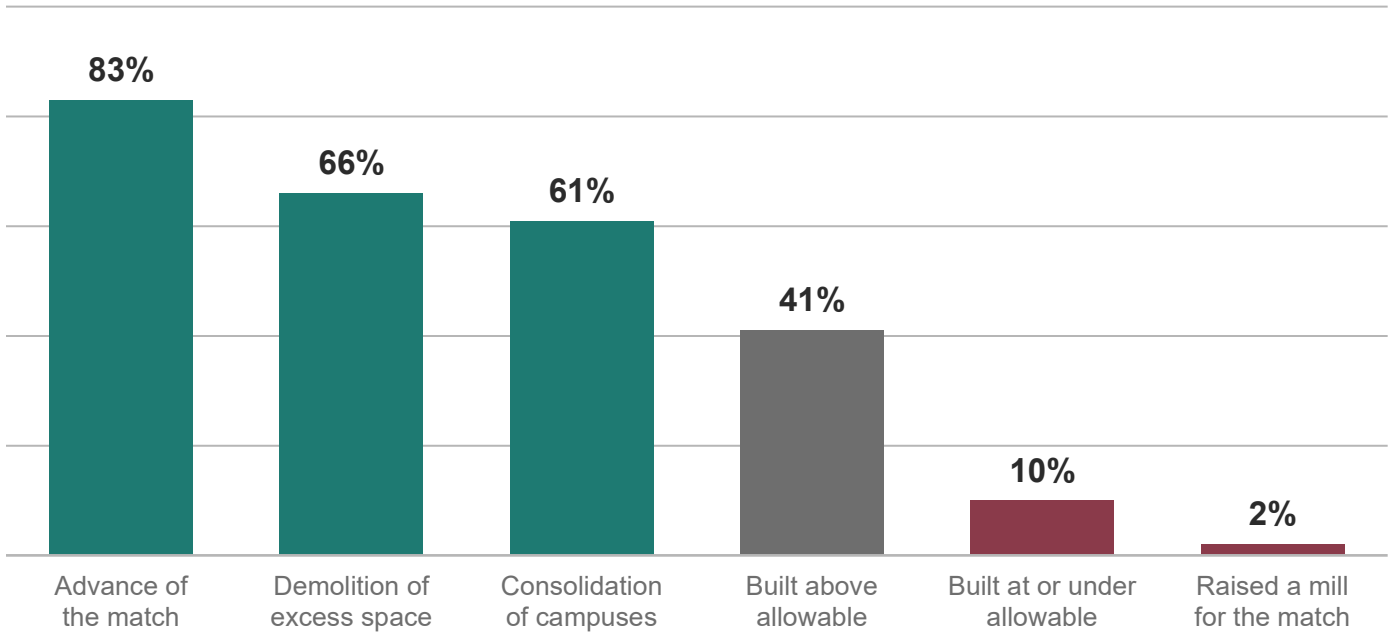
- A new approach to waivers could be paired with formula adjustments or a project-specific match.
- Provides continued flexibility to address affordability in a dynamic construction environment while also making progress toward statewide policy goals.
- The incentives would be stackable, providing districts the opportunity to secure larger, performance-based local match reductions.

- ✓ Prototype designs
- ✓ Consolidation of schools, campuses, or districts
- ✓ Other right-sizing
- ✓ Local mills
- ✓ Stellar maintenance record
- ✓ Adequate maintenance budgets
- ✓ Charter school facility partnerships
- ✓ Increased enrollment

Stakeholder Feedback 

History of Waivers

Part 2: Every local-match waiver with a stated amount, March 2012 to October 2026



Right-sizing is the rarest behavior

Only 4 of 41 projects built at or under the allowable standard; 17 built above it.

Consolidation is one of the most common

25 districts consolidated their campuses and 27 removed square footage; the most common action was an advance of the match to be paid back to the state over time

Nobody raises a mill for this

One project in 41. The waiver cohort already runs 10.1 median residential mills against 8.2 elsewhere.

Source: 110 PSCOC eBooks

District and charter leader advisory group

- LESC, LFC, and PSFA staff held a superintendent and charter school leader advisory group to gather preliminary feedback on the preliminary policy considerations in this presentation.
- The advisory group was generally favorable to adjusting the existing formula, with caveats.
    1. Adjusting the current cost per square-foot factor only by inflation was generally seen as insufficient and unresponsive to recent cost trends.
- Superintendents demonstrated interest in a project-specific match but the group was reluctant, largely because of a lack of details and implementation considerations.
- There was a broad interest in stackable, incentive-based waivers that align with statewide policy goals.

Public school capital outlay oversight task force

- LESC, LFC, and PSFA staff presented the preliminary recommendations in this presentation to the task force at its October interim meeting.
- The task force was generally favorable to adjusting the existing formula and shared the same general concerns as the district and charter leader advisory group around the cost-per-square foot calculation.
- The task force demonstrated interest in a pilot approach to a project-specific match but requested more details and modeling of how the pilot would be operationalized.

What has been modified since October

LFC and LESC staff are assessing the potential impacts of further adjustments to the preliminary policy considerations, including:

- Increasing the cost-per-square foot assumption above inflation and indexing the factor annually thereafter.
- Creating stackable incentive waivers that are capped at 50 percent of the local match, with right-sizing and consolidation exempt from the 50 percent cap.
- Piloting the project-based match for some school districts based on narrow criteria.
- Reducing the maximum local match in statute.

Outstanding Issues

Formula impacts in other areas

- A state charter has no rate of its own: Section 22-24-5(B)(7)(b) assigns it the local match rate of the district it physically sits in
- The local match rate affects other PSCOC programs, like systems-based awards
- PSFA's update to the adequacy standards will also affect the local match rate

Direct appropriations as local match

- Districts increasingly offer direct legislative appropriations as their local match
- PSFA has advised the task force that, philosophical objections aside, it cannot legally preclude this
- Any new framework should state whether an appropriation counts

Open structural questions

- The Zuni case was reinstated on September 28, 2026; changes to offsets or to the maximum match should be reviewed against constitutional exposure
- Four districts (Carlsbad, Eunice, Jal, and Loving) never leave the 94% maximum at any cost factor shown here — only a change to the maximum reaches them
- Should an advance of the local match rate be part of the menu for incentive waivers?

Next steps

- LESC, LFC, and PSFA staff will draw on feedback from both interim committees in drafting a policy framework that would revise the state and local match formula, create a framework of incentive-based waivers, and establish a process for piloting a project-specific approach.

- The resulting proposal will be presented to the Public School Capital Outlay Oversight Task Force at its December hearing.

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