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**A REPORT TO THE NEW MEXICO PUBLIC SCHOOL CAPITAL OUTLAY OVERSIGHT TASK FORCE**

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**Background**

In 2001 and 2003, in response to the *Zuni* lawsuit, the 1975 Public School Capital Outlay Act was amended. In 2004, the state-local share funding formula was implemented to allocate costs of approved capital projects to local school districts and the state. The intent of the program is that the state will contribute funds to the level of facility 'adequacy' and that the state's share will average 50% of all capital projects, but generally range between 10% and 90% for individual districts. The formula to determine the contribution of local school districts is a function of school district enrollments, taxable property values, and property mill levies.

**Work Performed and Findings**

- Based on careful review, BBER determined that the public school capital funding formula has performed as expected and has been correctly calculated by PED. BBER's review was based on an analysis of data gathered from source agencies, including state and local taxing authorities.
- BBER gathered, formatted and consolidated the net taxable value, school enrollment, and mill levy data into a single database and created an Excel workbook to calculate share and local district funding shares, as determined by the formula. The data and workbook was provided to the staff of Legislative Council Service.
- While the formula is being correctly applied, there are reasonable concerns that the formula does not make the most effective use of state resources and does not provide predictability necessary for long-term planning. Specifically, the concerns are that:
  - State funding has enabled some districts with above-average per-student property tax valuation (commonly in urban areas) to use local funding to build facilities that exceed adequacy standards. By contrast, districts with below-average per-student property tax valuation and/or a lack of liquidity in its property base (commonly in rural areas) may have insufficient local bonding or mill levy capacity to provide the required local share.
  - The perception that facility standards vary across districts – even if it is the result of supplementary funding provided by districts – draws into question the definition of 'adequacy', giving grounds for appeal and resulting in an unsustainable ratcheting of facility construction and maintenance costs.

- The existing funding formula gives inadequate consideration to the long term maintenance costs, resulting in an unsustainable cost structure for PSFA.
- District funding shares are subject to sudden and sharp changes as school enrollment, mill levies and taxable property valuations fluctuate. Further, changes in taxable property values, particularly as a result of changes in commodity values, can make it difficult to anticipate revenue streams.

BBER's preliminary review identifies two factors in the existing public school capital outlay formula that may be the source of these problems.

- First, per-student property tax valuation is perhaps not the best measure of a district's 'ability-to-pay' in New Mexico as in many cases real property (including land) does not generate a consistent flow of income. Further, property valuations are subject to significant variability in districts where commodities such as oil & gas extraction comprise a significant share of property valuation.
- Second, the formula does not account for differences in the per-student facility construction and maintenance costs, for two reasons.
  - Scale factors: lower enrollment schools (typically in rural areas) have higher average per-student space needs because common areas (e.g. hallways, cafeterias, libraries, multipurpose rooms) have minimum size requirements.
  - Locational factors: construction and maintenance costs vary by region, with costs typically higher in rural areas than urban areas. Thus, not only do rural schools typically require more square footage per student, but the cost-per-square foot for both construction and maintenance is higher in these rural districts.

### **Proposed Scope of Future Work**

BBER proposes to provide the Public School Capital Outlay Oversight Task Force the technical support necessary to review and, if deemed appropriate, modify the public school capital funding formula. Specifically:

- BBER will provide the PSCOOTF Computation spreadsheets with five alternative public school capital funding formulas and scenarios. Spreadsheets will include underlying historical data and documentation.
- BBER will provide data analysis and visualization tools to allow Task Force members, Legislators and the public to examine formula shares under alternative economic and demographic scenarios (e.g. rising or falling student populations, changes in commodity prices).
- BBER will provide PSCOOTF with additional consulting support and make staff available to present the material.

Alternative formulas will address issues raised above, including alternative measures of 'ability-to-pay' and an assessment of the impact of land and commodity price volatility on the 'ability-to-pay'; and an accounting of differences in per-student facility construction and maintenance costs between urban and rural districts.

BBER would complete the project in no more than 9 months from the time of authorization.

The estimated cost of the work is \$80,000 plus UNM F&A.