

# 2021 House Bill 6, Capital Funding Formula Changes

## Public School Capital Outlay Oversight Task Force (PSCOOTF)

July 9, 2021

*Presenter:*

**Jonathan Chamblin, Executive Director**



**New Mexico Public School Facilities Authority**

Partnering with New Mexico's communities to provide quality, sustainable school facilities for our students and educators.

# Agenda

- Capital Funding for Schools in NM
- Offsets and Capital Funding
- Phase 2 Capital Funding Formula Explanation
- House Bill 6 Changes to Phase 2 Capital Funding Formula
- Next Steps

# Capital Funding Formula for Schools in NM

**Public school capital outlay funding is both a local and state responsibility in NM.**

- Protects local autonomy and authority of school districts.
- State funds supplement local funding to ensure uniformity.

Between 1999-2004, in response to the Zuni lawsuit and the need to create a uniform system for capital improvements, the State formulated a new “Standards-Based” capital funding program by:

1. Assigning the source for the Public School Capital Outlay Fund, supplemental severance tax bond proceeds.
2. **Formulating the State/Local match calculation.**
3. Designating the administrative and oversight bodies.
4. Creating the Statewide Adequacy Standards.

# State % Match 2020-2021

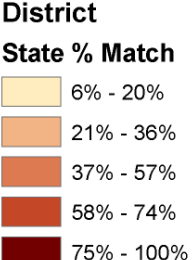
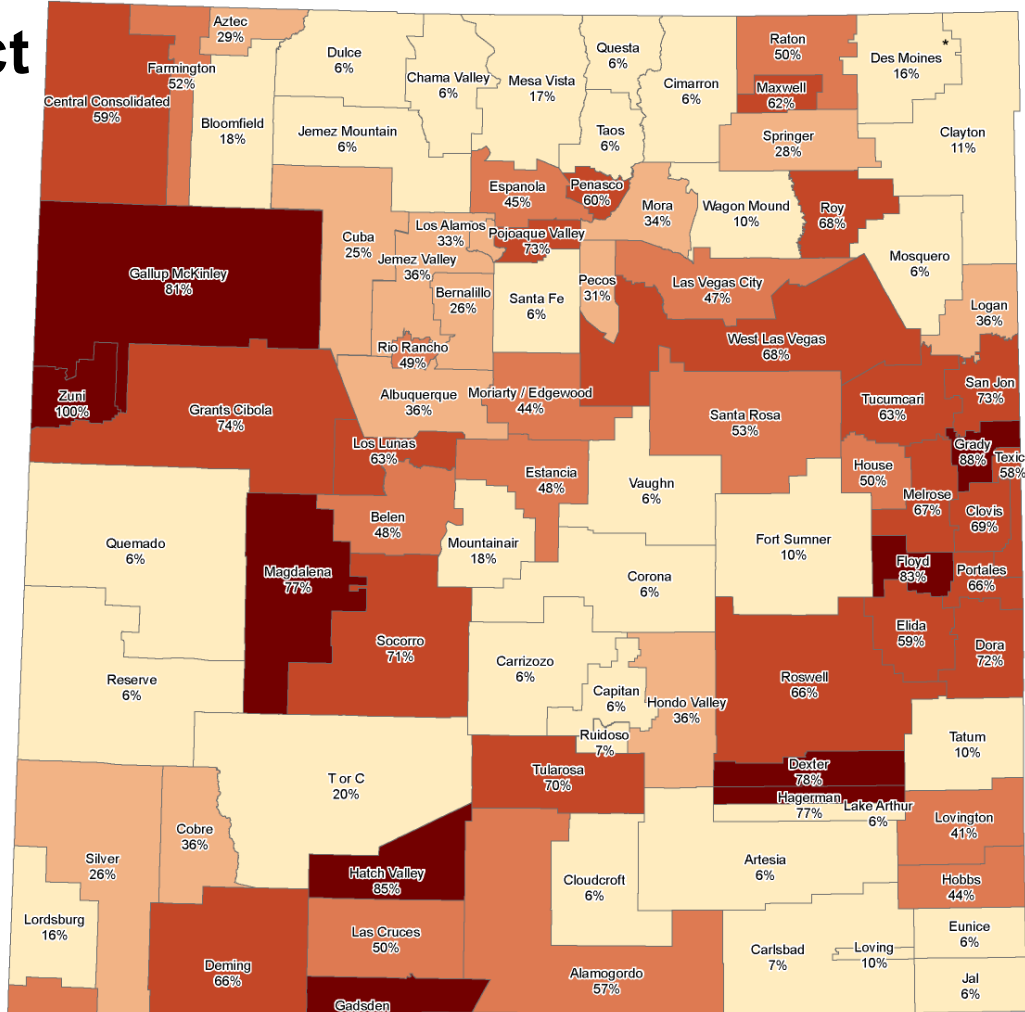


## State Funding

## Percentage per District

Darker red districts =  
higher state match %

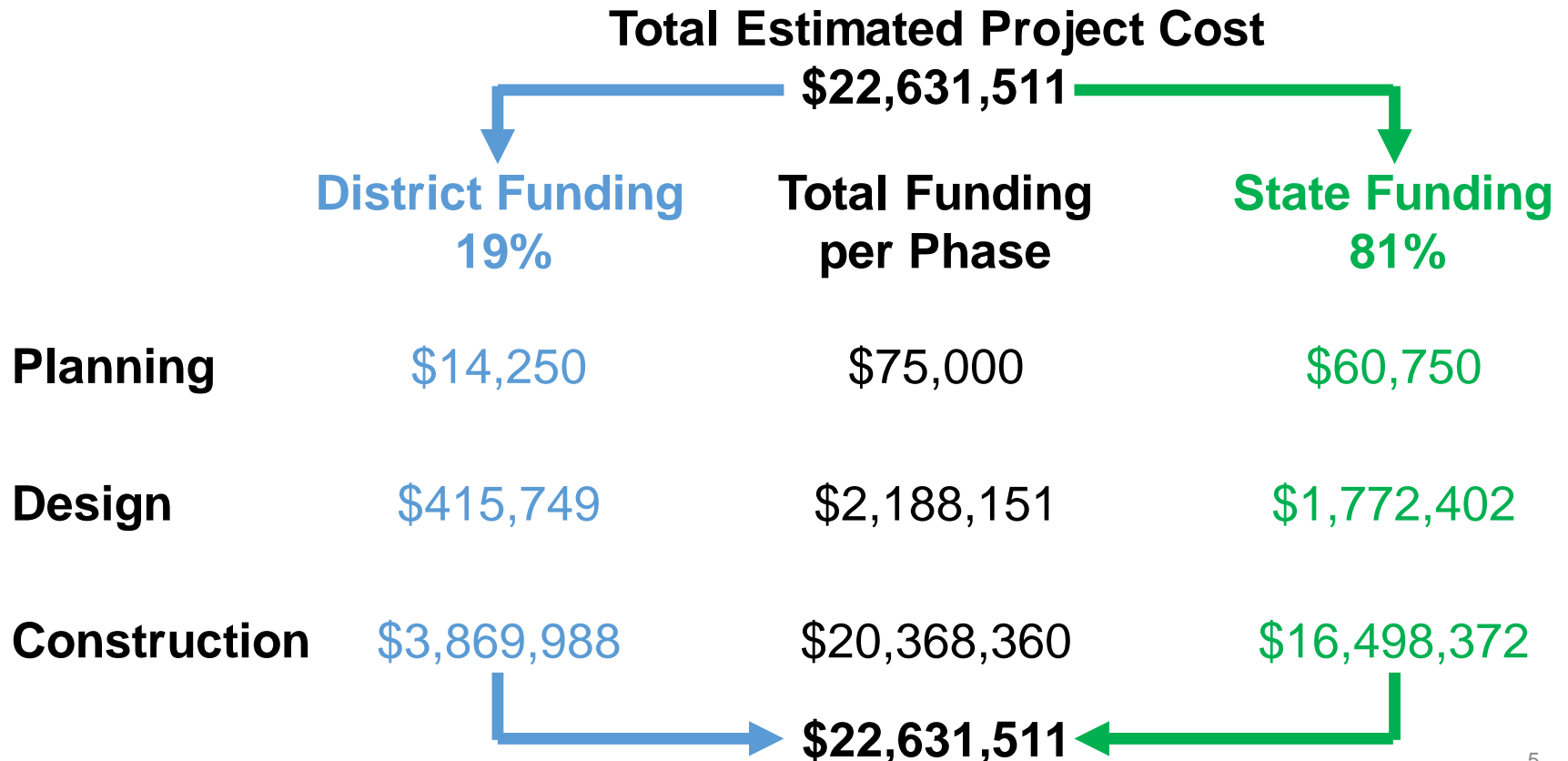
- 100% – Zuni
- 88% – Grady
- 85% – Hatch Valley
- 83% – Floyd
- 81% – Gallup
- 78% – Dexter
- 77% – Magdalena
- 76% – Gadsden
- 6% – 18 Districts
  - Artesia
  - Mosquero
  - Reserve
  - Dulce



# Funding Formula Project Example - Gallup

In August 2020, Gallup's Navajo Pine High School was awarded state funding for a full replacement project.

- Gallup is an 19/81 district: 19% local funding, 81% state funding.



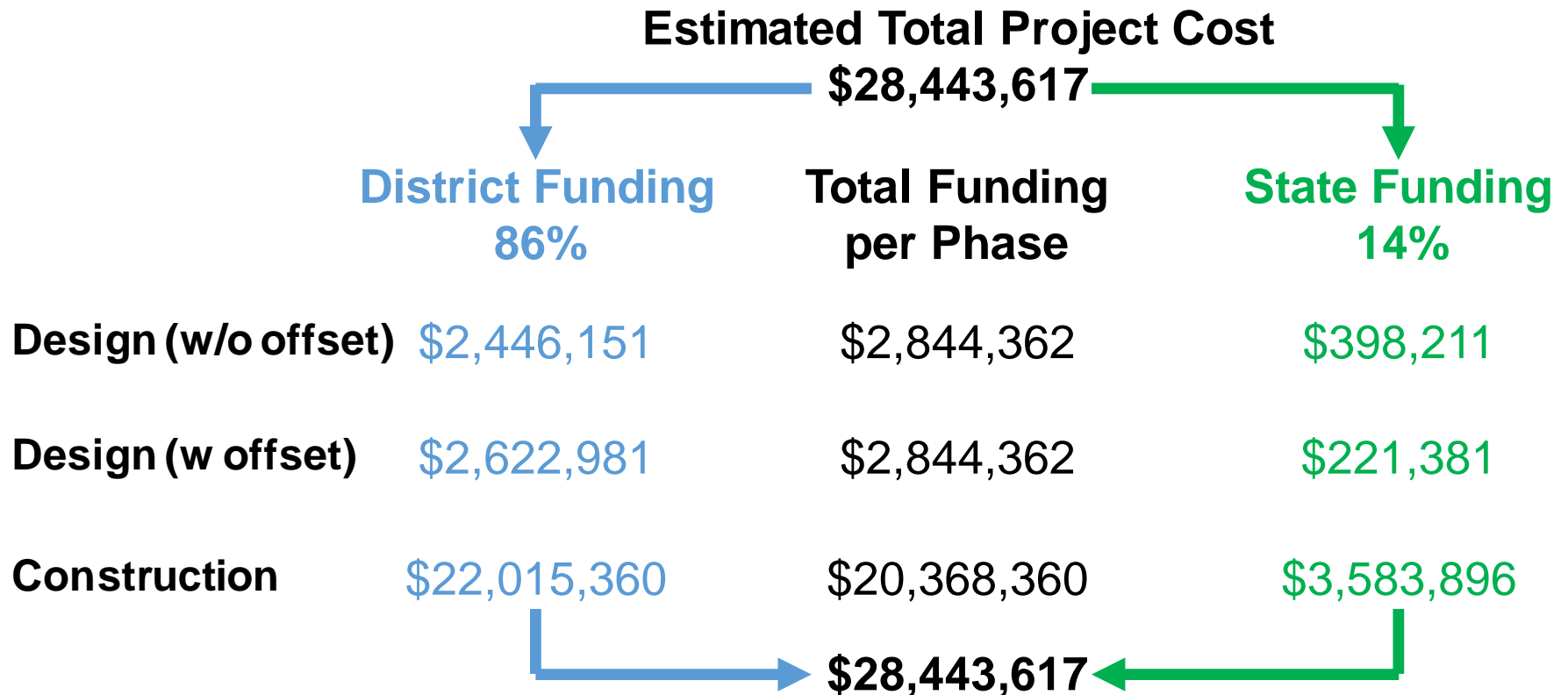
# Offsets and Capital Funding

- If a district has an offset balance when they receive PSCOC funding for a capital project, the offset amount is added to the local share of the project cost and subtracted from the state share.
- Example District A (14% state match, 86% district match):
  - District receives a total of \$411,233 in direct legislative appropriations for various capital expenditures prior to applying for a PSCOC award for a major capital project, resulting in an offset balance, calculated as follows:
    - $\$411,233 \times 50\% \text{ (Top 50 rank)} \times 86\% \text{ (District \%)} = \$176,830.$
    - Total estimated project cost of major capital project: \$28,443,617.

# District A Example: Offset Applied to a Project

In July 2021, District A is awarded state funding for a major capital project to replace its existing school facilities, \$28,443,617 TPC.

- District A Offset Balance in July 2021 = \$176,830.
- District A is an 86/14 district: 86% local funding, 14% state funding.



# Direct Appropriations and Offsets History

- Added to the Public School Capital Outlay Act (PSCOA) in 2002. The 2002 report of the Special Master appointed as a result of the Zuni lawsuit specifically highlighted *“the dis-equalizing effect of direct legislative appropriations to individual schools for capital outlay purposes.”* The offset was enacted to mitigate this concern.
- PSCOC must *“reduce any grant amounts awarded to a school district by a **percent** of all direct non-operational legislative appropriations for schools in that district that have been accepted, including educational technology and re-authorizations of previous appropriations.”*
- A change in 2007 allows a 50% reduction in the offset amount if the legislative appropriations are for a project for schools in the current or previous year’s top 150 NMCI ranking.
- The percent reduction is the calculated local match percentage rate, per the state/local share funding formula.
- Offsets are applied to a district, even though appropriations are often directed to a specific school or locally chartered charter school.
- District offsets are calculated each year by the Capital Outlay Bureau of PED, offset balance carries-forward year-to-year, until the balance is paid off by a project.



# Importance of the Offset Mechanism

- Legislature enacted the offset, as one of a number of initiatives, to better equalize state funding of capital requests across all of NM's school districts, ensuring state funding is distributed equitably and uniformly to all.
- Without offsets, large districts would gather more funding through direct appropriations while also being eligible to receive state funding through the PSCOF programs, cumulatively accessing more of the finite state funding than smaller districts that receive fewer direct appropriations. More populous districts would be able to gather more of the finite state funding than less populous districts.
- Discourages districts from accepting appropriations for projects types that are not aligned with the district's priorities or critical capital needs. The "future debt obligation" resulting from offsets encourages school districts to carefully consider the benefits and downsides of accepting direct appropriations for projects that might be lower on their list of prioritized capital needs.

# Funding Formula Goals

**Concept of the funding formula and the resultant state/local match percentage that is assigned to each district intends to:**

- Accurately reflect each district's ability to pay for capital improvements for their facilities with local funds.
- Reduce the state match percentage for districts that are able to raise local funding to pay for capital their replacement cycle.
- Increase the state match percentage for districts that have less capacity to raise local funds to pay for major capital projects.
- Equitably distribute the limited state funding by shifting more of the project cost to districts that can afford it, with state funds directed to the districts that need it most.
- Ensure broad geographic distribution of state funding.

# Phase 2 Funding Formula History

## 2018 Legislature, Senate Bill 30 defines the math of the Phase 2 formula.

- Changes the proportion of state and local funding to potentially allow the state to fund more projects each year.
- Compares a district's local funding capacity (revenue) to the district's cost of facility renewal and replacement.
- Adjusts the state and local match to more accurately reflect each school district's ability to pay for public school capital outlay projects with local funding.
- Gradual mixing of PED formula (Phase 1) with new PSCOA formula (Phase 2).

<b>FY19</b>	100% of phase 1 formula
<b>FY20</b>	80% of phase 1 formula and 20% of phase 2 formula
<b>FY21</b>	60% of phase 1 formula and 40% of phase 2 formula
<b>FY22</b>	40% of phase 1 formula and 60% of phase 2 formula
<b>FY23</b>	20% of phase 1 formula and 80% of phase 2 formula
<b>FY24</b>	100% of phase 2 formula

# Phase 2 Formula Basic Assumptions

## **District financial capacity:**

- Calculates a district's ability to locally fund renewal of their facilities, using a 4.5 mill rate to calculate the district's financial capacity (sources or revenues).
- The sum of a district's prior 5 years of assessed valuation and bonding capacity is used to determine available year-to-year debt service revenue, if the district is functionally indebted. This figure is used to determine the financial capacity of the district.

\_\_\_\_\_ *VS.* \_\_\_\_\_

## **District capital facility cost:**

- The capacity defined above is divided by an annualized amortization of the cost to replace all district educational facilities, based on the district's MEM, estimated total gross square feet (GSF), and the cost to replace that total GSF, over a 45 year renewal period.

# Phase 2 Formula Calculation

## Based on 3 calculations:

1. **Revenue:** Sum of the final prior 5 years net taxable value for a school district multiplied by 0.0009.
2. **Cost:** Maximum allowable gross square foot per student multiplied by the replacement cost per square foot (\$/SF), divided by 45.
3. Result of calculation 1 divided by the result of calculation 2 (**Revenue/Cost**).

## If / then statements based on the final value of calculation 3:

- If the result is a value equal to or greater than one, the phase two formula value (state match) is 0%, rounded up to a 6% minimum.
- If the final result is greater than 0.90 but less than 1, the phase two formula value (state match) is 1 minus the unweighted local match.
- If the result is less than 0.90, the phase two formula value (state match) is weighted to account for population density, using the most current tract level population estimates published by the US Census Bureau, increasing the state match for rural districts.
  - 0-15 people per square mile = additional 12% state match percentage.
  - 16-50 people per square mile = additional 6% state match percentage.
  - More than 50 people per square = 0% additional state match percentage.

# Phase 2 Formula Definitions and Sources

The values in the phase 2 formula are derived from the following:

**Revenue**  
(District Funding  
Capacity)

- **Net Taxable Value:** sum of the prior 5 years residential, non-residential, and oil, gas, copper assessed valuations as reported by PED.
- **0.0009:** available year-to-year debt service revenue, if a district is fully indebted, resulting from 4.5 mills (0.0045) divided by 5.

**vs.**

**Cost**  
(Estimated Facility  
Renewal/Replacement)

- **Maximum Allowable Gross Square Feet per Student:** value calculated by PSFA, based on the minimum required spaces described by the Adequacy Standards and the best practices in the Adequacy Planning Guide.
- **Replacement Cost per Square Foot:** average dollar value per square foot to replace a school, based on actual project costs.
- **45:** annualized amortization of a facility (number of years of expected life span).
- **Density Factor:** number of people per square mile, from US Census data.

# Funding Formula Example - Artesia

## Artesia's state match percentage is 6%, why?

- \$8.9 B five-year valuation of land in the district.
- Annual local revenue raised if district taxpayers approve taxes on the \$8.9 B valuation = \$8 M (local funding capacity).
- Annual capital investment needed for the 544,318 GSF of district facilities = \$3.7 M (45 year capital investment/replacement cycle).
- $\$8 \text{ M} / \$3.7 \text{ M} = 216\%$
- Conclusion: Artesia has 216% local funding capacity to pay for its capital projects.
  - As calculated, Artesia should get 0% state funding, statutory rule rounds all districts up to at least 6% state funding.

# Funding Formula Example - Zuni

## Zuni's state match percentage is 100%, why?

- \$11.5 M five-year valuation of land in the district.
- Annual local revenue raised if district taxpayers approve taxes on the \$11.5 M valuation = \$10,370 (local funding capacity).
- Annual capital investment needed for the 196,641 GSF of district facilities = \$1.3 M (45 year capital investment/replacement cycle).
- $\$10,370 / \$1.3 \text{ M} = 0.8\%$
- Conclusion: Zuni has 0.8% local funding capacity to pay for its capital projects.
- Zuni needs 100% state funding to complete any major capital project.



# Funding Formula Example - Albuquerque

## **Albuquerque's state match percentage will be 6% by FY24, why?**

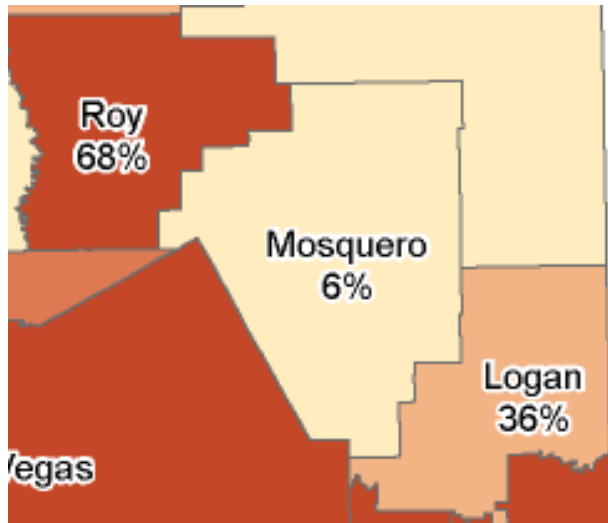
- \$81.98 B five-year valuation of land in the district.
- Annual local revenue raised if district taxpayers approve taxes on the \$81.98 B valuation = \$73.8 M (local funding capacity).
- Annual capital investment needed for the 11,378,870 GSF of district facilities = \$77.7 M (45 year capital investment/replacement cycle).
- $\$73.8 \text{ M} / \$77.7 \text{ M} = 95\%$
- Conclusion: ABQ has 95% local funding capacity to pay for its capital projects.
- ABQ is almost self-sustaining, able to pay for its capital needs with local funds.

# Funding Formula Example - Mosquero

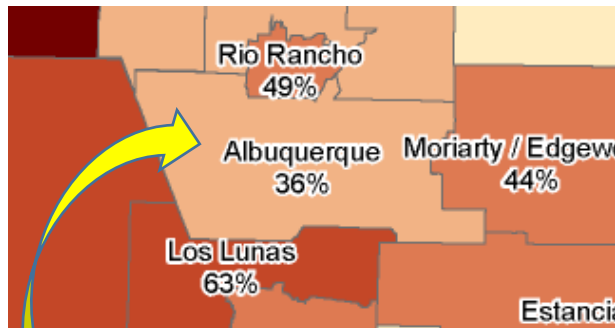
## Mosquero's state match percentage is 6%, why?

- \$458.5 M five-year valuation of land in the district.
- Annual local revenue raised if district taxpayers approve taxes on the \$458.5 M valuation = \$412,614 (local funding capacity).
- Annual capital investment needed for the 24,665 GSF of district facilities = \$168,528 (45 year capital investment/replacement cycle).
- $\$412,614 / \$168,528 = 245\%$
- Conclusion: Mosquero has 245% local funding capacity to pay for its capital projects.
- Large district with 801,920 acres of low value ranch land, only 1 small combined campus of school facilities for the district for 53 students.

# District Acreage vs District Facility Size



- Mosquero Public Schools
- 24,665 GSF of district facilities.
- Large district with 801,920 acres of low value ranch land, only 1 small combined campus of school facilities for the district.
- Large acreage vs small facility = low state match.



- Albuquerque Public Schools
- 11,378,870 GSF of district facilities.
- Large district with 782,720 acres of high value commercial and industrial properties.
- High value land (commercial or oil/gas) = low state match.

*Will be 6% by FY24*

# House Bill 6 Changes to Phase 2 Formula

- Requires PSCOC to develop rules that will change the capital funding formula (Phase 2 formula), to include a new local revenue source.
- Excerpt from House Bill 6, Section K:

*“As used in this section, “unrestricted revenue used for capital expenditures” means the amount of revenue certified by the department that was not restricted for a particular purpose and used by a school district to make capital outlay expenditures, as defined by the council’s rules. No later than July 1, 2024, the council shall adopt rules identifying the procedure for calculating unrestricted revenue used for capital expenditures after consulting with school districts, including school districts with limited bonding capacity for capital projects, the department, the public school capital outlay oversight taskforce, the legislative education study committee and the legislative finance committee; provided that the rules shall provide for the exclusion of revenue raised pursuant to the Public School Capital Improvements Act and the Public School Buildings Act and expenditures related to teacher housing.”*

# Rule Making to Change the Phase 2 Capital Funding Formula

- PSCOC will develop rules that will determine how PED annually gathers revenue and expenditure data, calculates and certifies a defined revenue amount for each district, delivers the revenue amounts to PSFA, and how this revenue amount will be integrated into the Phase 2 formula beginning in FY25.
  
- PSCOC Rule Making Process:
  1. Select a group of school districts that will be consulted.
  2. Consult with districts, PED, PSCOOTF, LESC and LFC.
  3. Adopt the rules no later than July 1, 2024.

# Definition of Revenues and Expenditures

In order for PSCOC to develop the procedure for PED to calculate the amount of unrestricted revenues used for capital expenditures, the new rules will need to:

- Distinguish unrestricted revenues vs restricted revenues that may be received by any district.
- Distinguish capital expenditures vs any non-capital expenditures as reported by each district.
- Define the process that PED will use to calculate and certify the amount per district.
- Define how the new unrestricted revenue value will be added to the existing Phase 2 formula spreadsheet.

# Illustration of New Revenue Value

Capital funding formula that defines state and local share percentages will still be based on the basic comparison of local funding capacity vs local facility cost:

$$\begin{array}{l} \text{Local funding capacity} \\ \text{based on taxation of} \\ \text{assessed land} \\ \text{valuations} \\ \text{(sum of prior 5 years)} \end{array} + \begin{array}{l} \text{Amount of unrestricted} \\ \text{revenue used for} \\ \text{capital expenditures} \\ \text{(average of prior 5} \\ \text{years)} \end{array} = \begin{array}{l} \text{Total Local} \\ \text{Funding} \\ \text{Capacity} \end{array}$$

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Annual estimated district cost of facility renewal and replacement over a 45 year period  
(needed annual capital investment)

# Next Steps

- PSCOC will begin consultation with selected school districts, PED, PSCOOTF, LESC, and LFC.
- By June 30, 2022, PSCOC develops the rules that PED will use to distinguish capital expenditures vs any non-capital expenditures, as reported by each district within PED's Operating Budget Management System (OBMS).
- Beginning in FY23, PED collects data through OBMS and calculates the amount of unrestricted revenue that is used for capital expenditures for each district.
- Prior to July 1, 2024, PSCOC develops the rules to define how the "unrestricted revenue" amount will be added to the capital funding formula.



# Questions

*Contacts:*

**Jonathan Chamblin**

Executive Director, PSFA

505-469-0968

[jchamblin@nmppsfa.org](mailto:jchamblin@nmppsfa.org)