

Public School Capital Outlay A Look at Strategic Issues

For the Public School Capital Outlay Oversight Task
Force

August 1, 2012

David Abbey, Chairman, PSCOC

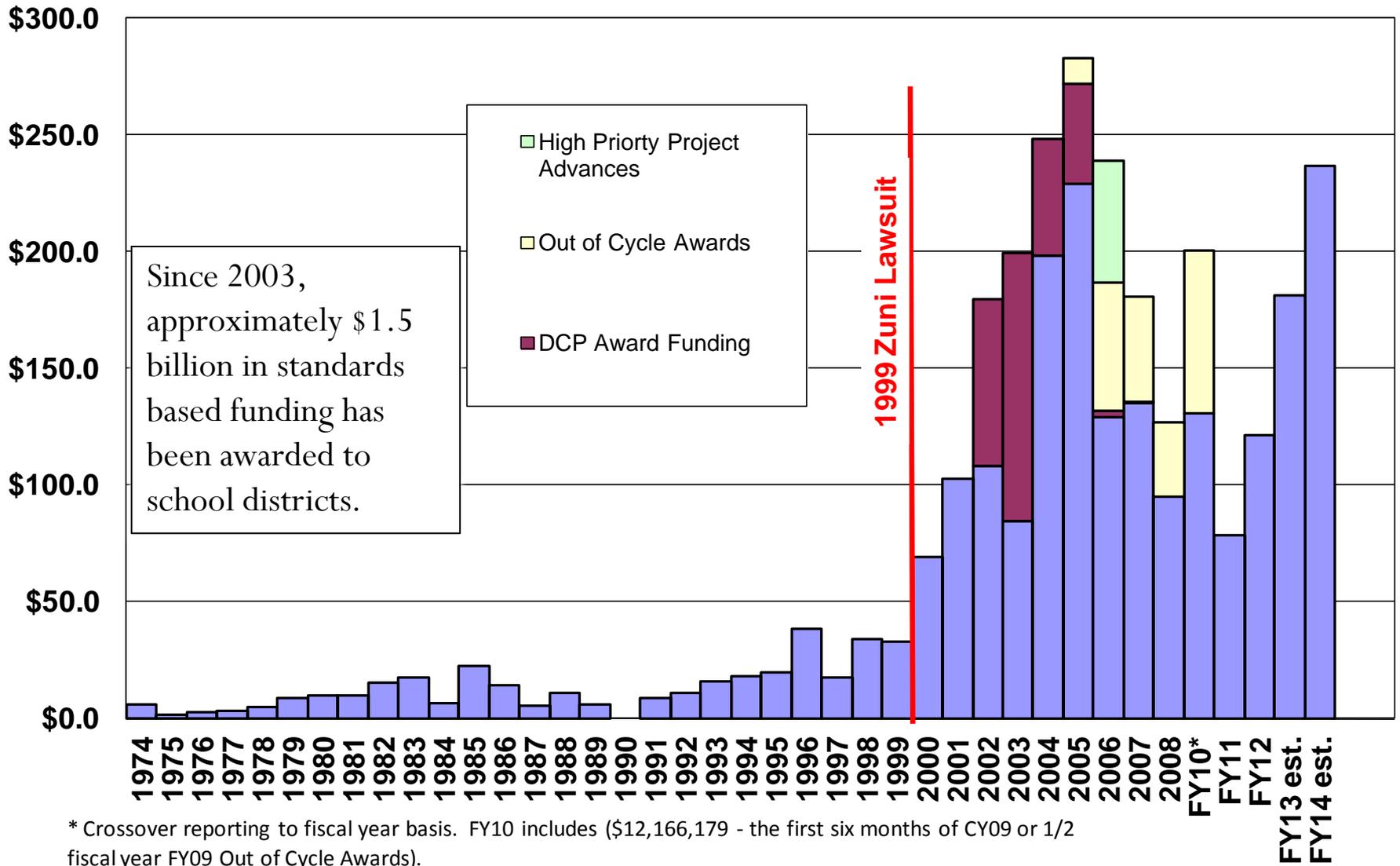
Supplemental Severance Tax Bonds

- Section 7-27-14 - Except as otherwise specifically provided by law, the state board of finance may issue supplemental severance tax bonds with a term that does not extend beyond the fiscal year in which they are issued if the debt service on such supplemental severance tax bonds when added to the debt service previously paid or scheduled to be paid during that fiscal year on severance tax bonds and supplemental severance tax bonds does not exceed ninety-five percent of the deposits into the severance tax bonding fund during the preceding fiscal year.

PSCOC Authorization of SSTB

- Section 7-27-12.2 - A. The public school capital outlay council is authorized to certify by resolution that proceeds of supplemental severance tax bonds are needed for expenditures relating to public school capital outlay projects pursuant to the Public School Capital Outlay Act [22-24-1 NMSA 1978] or for the state distribution for public school capital improvements pursuant to the Public School Capital Improvements Act [22-25-1 NMSA 1978].
- D. The proceeds from the sale of the bonds are appropriated as follows:
 - (1) the amount certified by the secretary of public education as necessary to make the distribution pursuant to Section 22-25-9 NMSA 1978 is appropriated to the public school capital improvements fund for the purpose of carrying out the provisions of the Public School Capital Improvements Act; and
 - (2) the remainder of the proceeds is appropriated to the public school capital outlay fund for the purpose of carrying out the provisions of the Public School Capital Outlay Act.

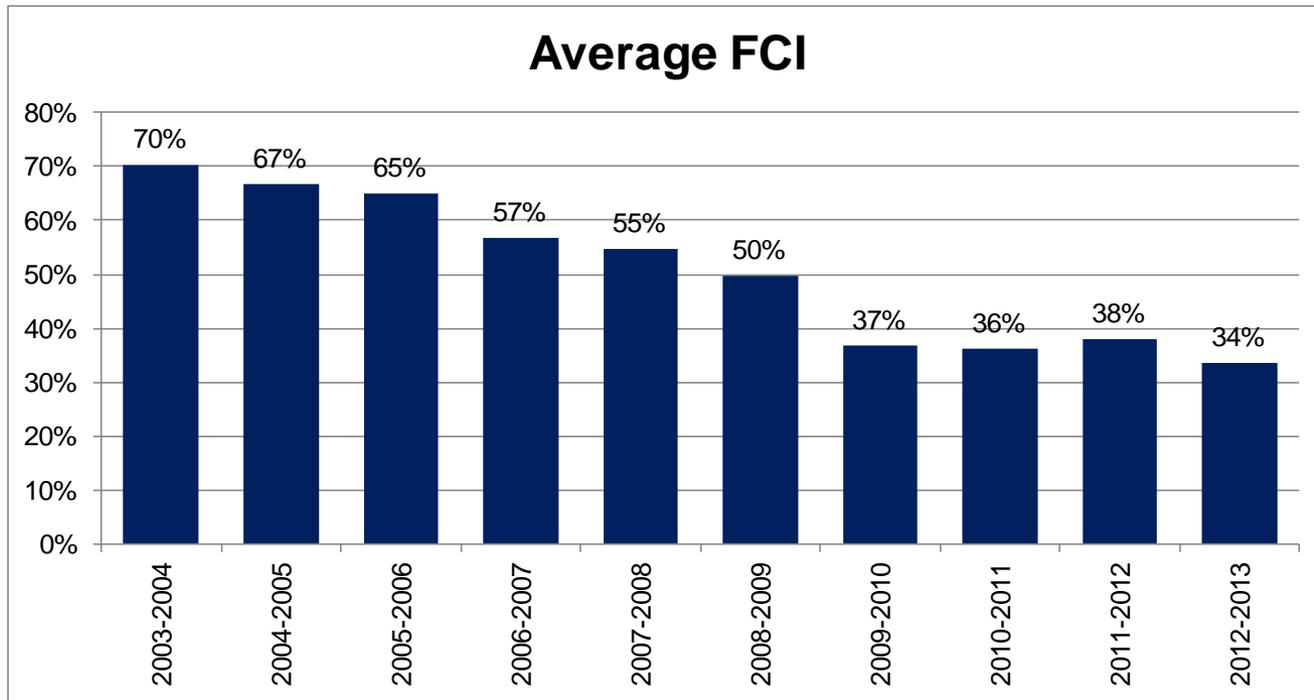
PSCOC Funding History



History: SSTB Capacity for Public School Capital Outlay

- Laws 2004, Chapter 125 Section 2 – 95% effective July 1, 2004
- Laws 2000 (2nd S.S.), Chapter 11, Section 2 - 87.5% effective April 12, 2000
- Laws 2000, Chapter 95, Section 1 – 75% effective May 17, 2000
- Laws 1999 (1st S.S.) Chapter 6, Section 7 - 62.5% effective July 1, 1999

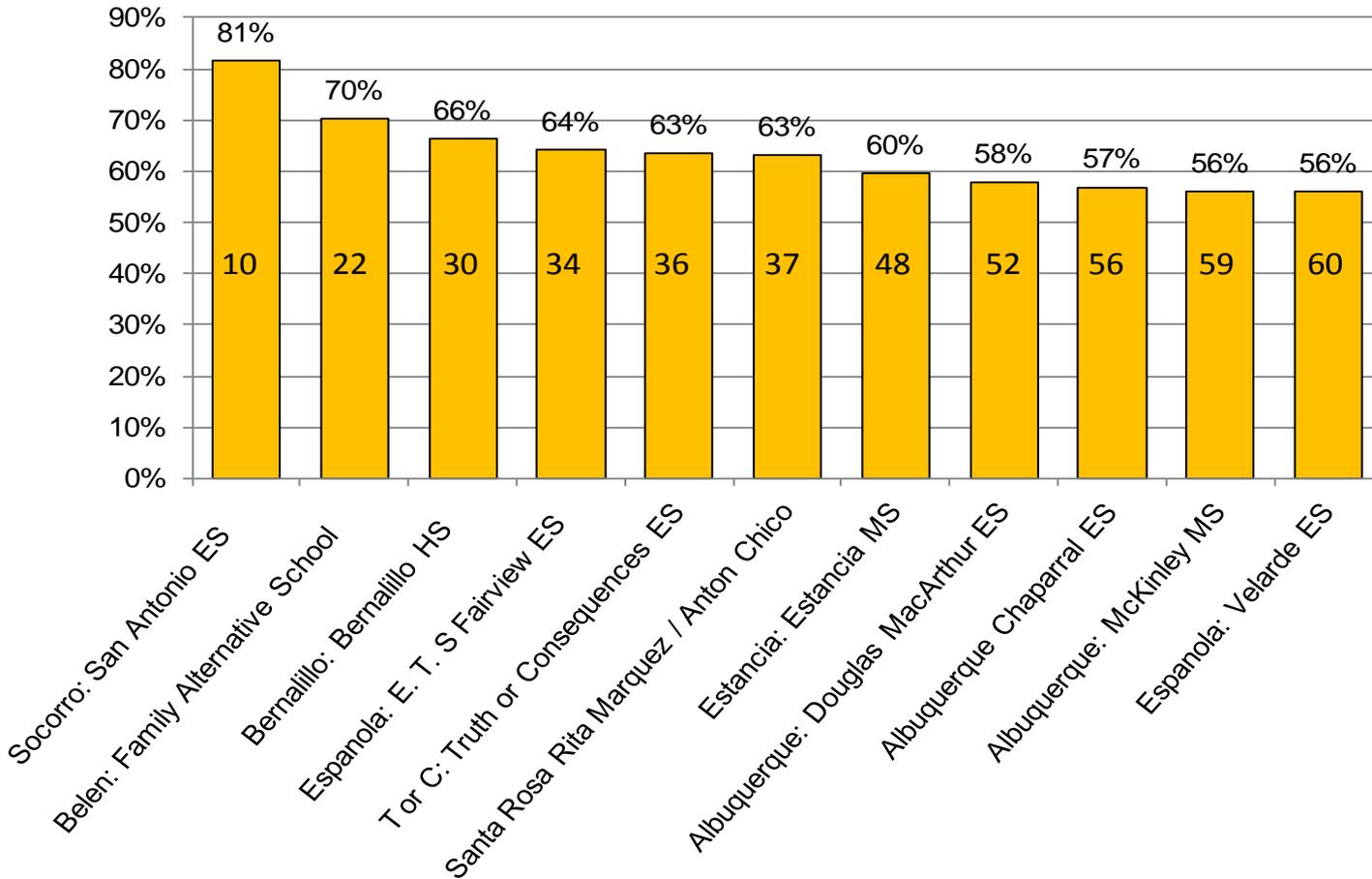
Facility Condition History



FCI is the cost of repair divided by the cost of replacement, and is a key performance measure for public school building condition. FCI has improved 36.8% since 2003.

2011 Standards Based Awards

2011 Awards - wNMCI & Rank



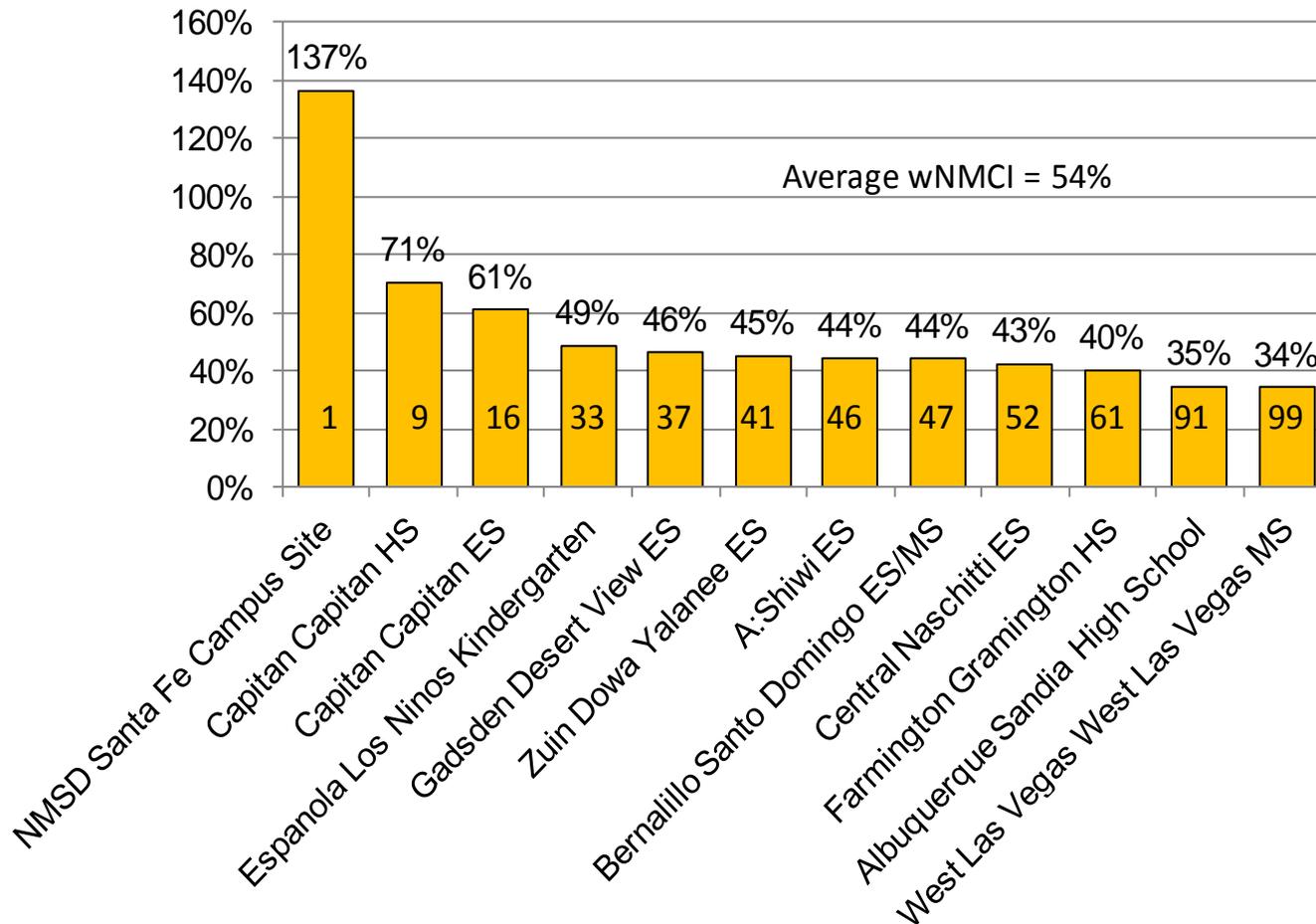
- Average wNMCI = 63.17%

- 11 Projects Awarded

- Total Standards Based Awards = \$78.7 million

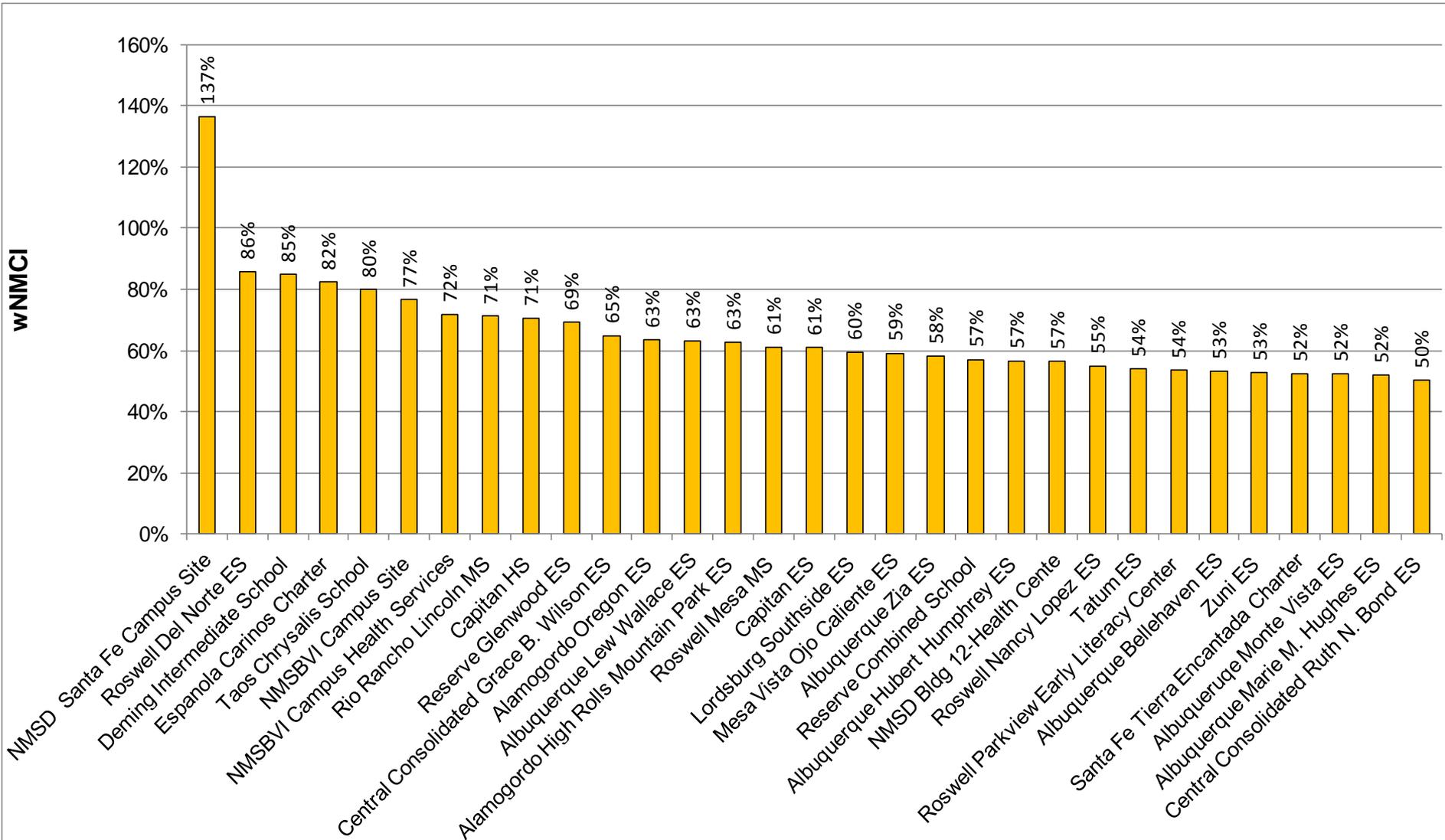
2012 Standards Based Awards

2012 Awards - wNMCI & Rank



- PSCOC solicited applications for schools in the top 100.
- The top 100 ranked schools have an average wNMCI of 47.71%
- The 100th ranked school has an wNMCI of 33.75%

Schools Greater than 50% wNMCI in 2012 in Ranked Order



Building Condition in Select Districts

| | # of Schools in Top 100 | Total Schools | Average wNMCI (non-Award Schools) |
|------------|-------------------------|---------------|-----------------------------------|
| Gallup | 3 | 35 | 15.07% |
| Gadsden | 1 | 21 | 16.26% |
| Zuni | 2 | 5 | 23.22% |
| Grants | 0 | 10 | 13.40% |
| Rio Rancho | 1 | 17 | 16.21% |

Gallup McKinley County Schools

- Seven schools were awarded funding in 2010.
 - Juan de Onate ES (3, 88.20%), Washington ES (7, 74.84%), Church Rock Academy ES (16, 63.49%), Thoreau ES (17, 62.93%), Jefferson ES (23, 58.10%), Lincoln ES (36, 54.17%), and Roosevelt ES (57, 45.22%) . These schools have an average FCI of 63.85%.
- The remaining 28 schools in Gallup have an average wNMCI of 15.07% and rank between 107 and 726.
- Only 3 schools remain in the top 100 – Crownpoint HS (54, 42.18%), Ramah ES (57, 41.61%), and Red Rocks ES (94, 34.57%).

Gadsden Independent School District

- Only one standards based project currently funded – Gadsden HS.
- One remaining school in the top 100 – Desert View ES (37, 46.42%).
- Remaining 19 schools have an average wNMCI of 14.67% and rank between 124 and 735.

Observations

- Funding needed for replacement and repair is greatly diminished with the substantial lowering of the FCI.
- School districts and charter schools continue to experience persistent maintenance problems according to PSFA staff.
- The Public School Capital Outlay Act does not require districts to prioritize locally generated funding to bring facilities up to adequacy or maintain facilities before spending revenues on projects above adequacy, nor does the PSCOA encourage districts to prioritize the worst ranked facilities.

Observations, Cont.

- A small number of schools remain in poor condition and aren't participating in the standards based program
 - Capitan: Capitan HS (9, 70.52%); Capitan ES (16, 61.03%)
 - Clayton: Clayton HS (34, 47.84%)
 - Floyd: Floyd Combines School (70, 38.13%)
 - Lovington: Yarbrow ES (58, 41.08%)
 - Reserve: Glenwood ES (10, 69.26%); Reserve Combined (20, 57.11%)
 - Tatum: Tatum ES (24, 54.04%); Tatum Jr./Sr. HS (77, 36.48%)
- Reasons include low bonding capacity, high local match requirement, and voter resistance.

Policy Options

- Shift funding from whole schools to either discrete buildings or systems (roofs, HVAC, electrical, etc.).
- Allocate SSTBs for other critical public school capital outlay needs depending on standards based needs.
 - School buses – allows catch up 3 years of incomplete funding.
 - Increased maintenance funding/SB9 match – relieves pressure on operating budgets and addresses funding formula property tax equity issues.
- Allow more funding to flow to the Severance Tax Permanent Fund.
- Reallocate funding to other critical state needs, e.g. state roads.

Charter School Issues

- Facility capital needs are growing rapidly with continued growth in the number of charter schools authorized annually.
 - 14 new applications for FY14.
 - Lease assistance increased approximately 25 percent from FY12 to FY13.
- Some charters appear to be paying excessive lease costs and are supplementing lease expenses with operational dollars.
- Lease transactions are not always arms-length.
- Charter schools are not always taking advantage of excess district owned space.
- Lease assistance funding discourages schools and property owners from negotiating lease terms. Additionally, lease assistance funding is adjusted automatically annually for change in CPI., despite the market.
- State is paying lease assistance to some charter schools to lease district owned facilities, e.g. Turquoise Trail paid \$334,251 during 2011-2012 to Santa Fe School District for a district owned building.

Other Funding & Management Issues

- Review funding formula to ensure equitable distribution of capital funding statewide.
 - Reset state/local match to shift more fiscal responsibility to districts that can afford it and consider districts to be bonded to a certain percentage prior to applying for PSCOC funds.
 - Include waiver provisions for those districts with low overall bonding capacity and high local match requirements.
- Consider decreasing allowable gross square footage to address pressure on operating budgets and general lack of adequate maintenance.
- Increase flexibility of Public School Capital Outlay Act to address 21st Century learning needs.
- Address abundance of arbitrarily small schools that increase gross square footage across a district (i.e. each school needs a gym, library, cafeteria, etc.) that are planned because of small school size funding received through the funding formula.