

# Impact of Declining Property Valuations on School Districts

Public School Capital Outlay Oversight Task Force  
(PSCOOTF)

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*PSFA Presenters:*

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

# Agenda

- Capital Funding Formula Overview
- Impact of Reduced Valuations on District Match Percentage
- Example Scenarios with Reduced Valuations
- Questions

# Capital Funding Formula Overview

**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, raised by taxing local property valuations.
  - Reduce the state match percentage for districts that are able to raise local funding to pay for their capital replacement cycle.
  - Increase the state match percentage for districts that have less capacity to raise local funds to pay for major capital projects.
- Districts with larger assessed valuations compared to their student enrollment will have a lower state match.
- Districts with smaller assessed valuations compared to their student enrollment will have a higher state match.

# Statewide Enrollment SY 20-21

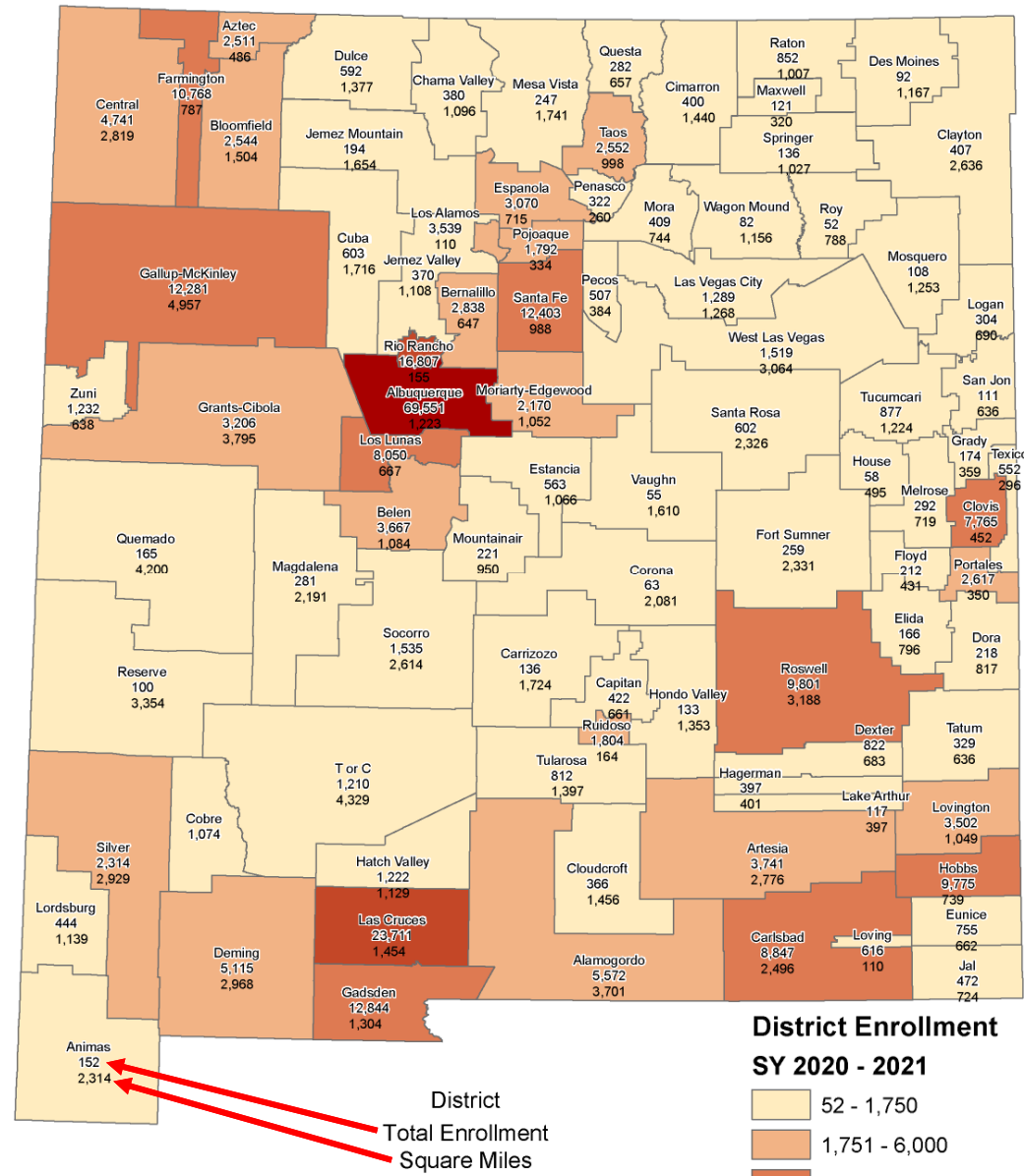


## PSFA Services to School Districts

1. Funding Administration
  2. Project Management
  3. Facility Management
- 89 school districts
    - 2 Special Schools
  - 307,234 students in NM
  - 65,000,000 square feet of existing buildings in NM

## District Enrollments

- 69,551 – Albuquerque
- 23,711 – Las Cruces
- 16,807 – Rio Rancho
- 12,844 – Gadsden
- 12,403 – Santa Fe
- 12,281 – Gallup
- 10,768 – Farmington



# Capital Funding Formula Assumptions

- To keep up with capital replacement and building system renewal costs, every district should maintain an average annual mill rate of 4.5 mills for the expected life of their facilities (45 years).
- Districts should raise local funding annually, through taxation of assessed property valuations, to reduce deferred maintenance and keep up with capital project renewal cycles.
- All districts will be assigned no less than a 6% state percentage match.
- Remote, rural districts get an increase in their state funding percentage to account for the higher expected costs to maintain buildings in remote locations as well as the higher expected cost of construction in rural areas.
  - 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 Basic Comparison

## **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 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.

# 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:

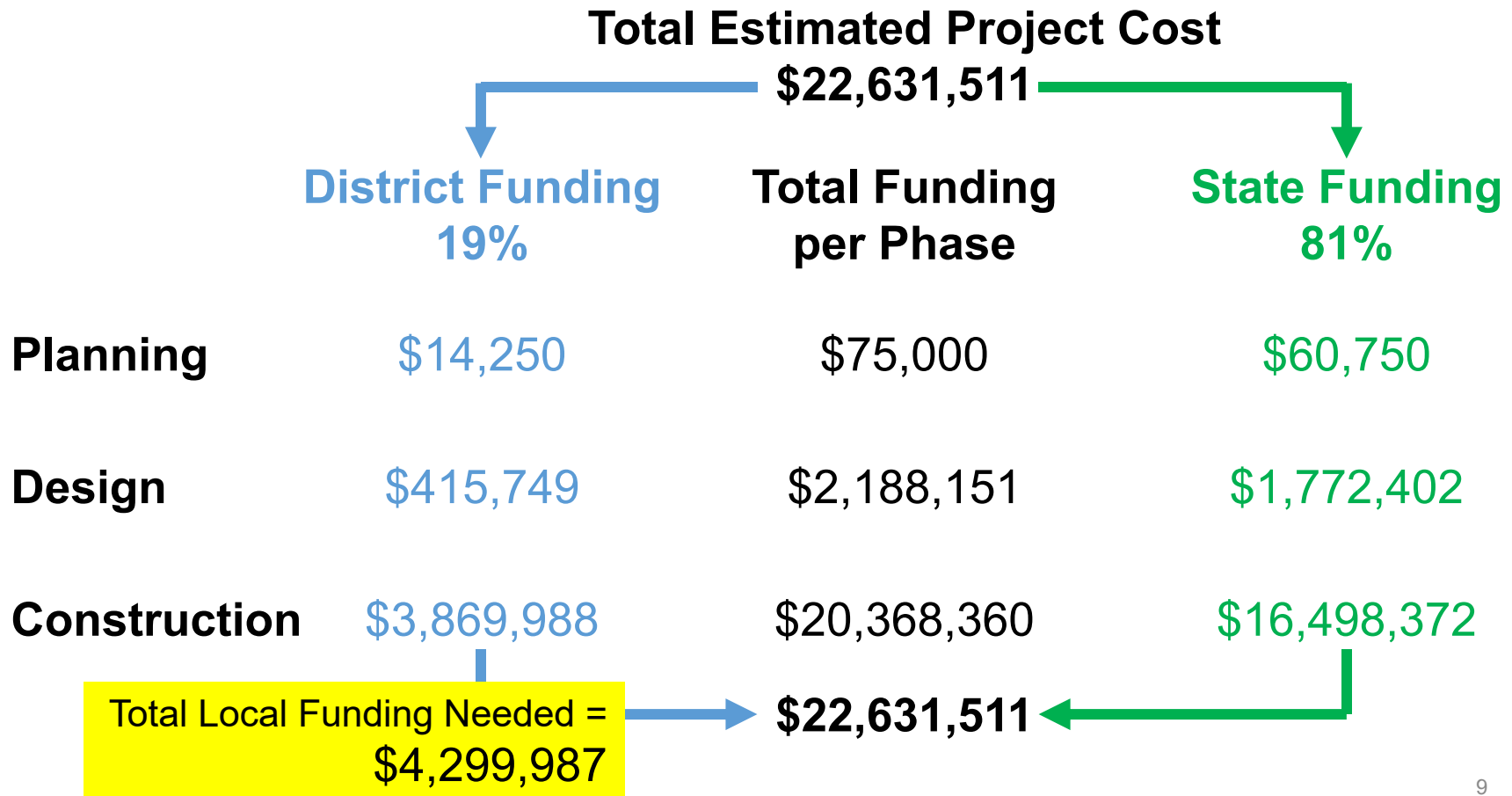
- If the result is a value equal to or greater than one, the phase two formula value (state match) is 0%, rounded up to a 6% minimum.
- If the final result is greater than 0.90 but less than 1, the phase two formula value (state match) is 1 minus the unweighted local match.
- If the result is less than 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.



# Funding Formula Project Example - Gallup

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

- Gallup was a 19/81 district: 19% local funding, 81% state funding.



# Impact of Reduced Valuation - Central

Using the prior 5 years' assessed valuations, the following scenarios illustrate the impact of a single year reduction, as well as sustained reductions in assessed valuations for 5 years:

- \$3.990 B five-year sum of land valuations in the district.
- \$3.7 M annual local revenue capacity, based on taxing the assessed valuation at 4.5 mills.
- \$5.3 M estimated annual cost to maintain the facilities for 4,741 students.

Scenarios	District Match %	State Match %
Current (2021/2022)	56%	44%
Assuming a 1-year (blip) 50% reduction in assessed valuation	49%	51%
Assuming a sustained, permanent 25% reduction in assessed valuation	39%	61%
Assuming a sustained, permanent 50% reduction in assessed valuation	22%	78%

# Impact of Reduced Valuation - Bloomfield

Using the prior 5 years' assessed valuations, the following scenarios illustrate the impact of a single year reduction, as well as sustained reductions in assessed valuations for 5 years:

- \$3.724 B five-year sum of land valuations in the district.
- \$3.3 M annual local revenue capacity, based on taxing the assessed valuation at 4.5 mills.
- \$2.6 M estimated annual cost to maintain the facilities for 2,544 students.

Scenarios	District Match %	State Match %
Current (2021/2022)	94%	6%
Assuming a 1-year (blip) 50% reduction in assessed valuation	94%	6%
Assuming a sustained, permanent 25% reduction in assessed valuation	94%	6%
Assuming a sustained, permanent 50% reduction in assessed valuation	53%	47%

# Impact of Reduced Valuation – Las Cruces

Using the prior 5 years’ assessed valuations, the following scenarios illustrate the impact of a single year reduction, as well as sustained reductions in assessed valuations for 5 years:

- \$17.267 B five-year sum of land valuations in the district.
- \$15.5 M annual local revenue capacity, based on taxing the assessed valuation at 4.5 mills.
- \$19.7 M estimated annual cost to maintain the facilities for 23,711 students.

Scenarios	District Match %	State Match %
Current (2021/2022)	79%	21%
Assuming a 1-year (blip) 50% reduction in assessed valuation	70%	30%
Assuming a sustained, permanent 25% reduction in assessed valuation	59%	41%
Assuming a sustained, permanent 50% reduction in assessed valuation	39%	61%
Assuming a sustained, permanent 25% <i>increase</i> in assessed valuation *	94%	6%

# Impact of Reduced Valuation – Gallup

Using the prior 5 years' assessed valuations, the following scenarios illustrate the impact of a single year reduction, as well as sustained reductions in assessed valuations for 5 years:

- \$4.189 B five-year sum of land valuations in the district.
- \$3.7 M annual local revenue capacity, based on taxing the assessed valuation at 4.5 mills.
- \$11.9 M estimated annual cost to maintain the facilities for 12,281 students.

Scenarios	District Match %	State Match %
Current (2021/2022)	20%	80%
Assuming a 1-year (blip) 50% reduction in assessed valuation	16%	84%
Assuming a sustained, permanent 25% reduction in assessed valuation	12%	88%
Assuming a sustained, permanent 50% reduction in assessed valuation	4%	96%

# Summary

- Annual mill rates for most districts fluctuate between 2 mills to more than 10 mills, based on typical 4-6 year cycles of GO bond and mill levy elections.
- Districts must look-ahead 10 years and plan for major capital replacement costs as facilities approach the end of the 45 year life cycle.
- Large, whole-facility replacement projects can require multiple construction phases or additional state funding (local match reduction or waiver), based on the practical total local funding capacity at the beginning of the project.
- Districts that do not maintain steady, feasible taxation to raise local funds for capital projects throughout the facility ownership period will accumulate a backlog of deferred maintenance and deferred capital project costs.

# Questions

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