

Evaluation of the First Year Implementation of the Phase 2 Funding Formula

Public School Capital Outlay Oversight Task Force

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Agenda

- Capital Funding for Schools in New Mexico
- History of the Funding Formula
- Phase 1 State/Local Match Funding Formula
- Phase 2 State/Local Match Funding Formula
- Direct Appropriations and Offsets
- Local Match Reductions
- Summary
- Questions

Sources of Public School Capital Funding in New Mexico

State Sources *

Direct Legislative Appropriation

Public School Capital Outlay Act

Local Sources *

SB-9 (2 mill levy)

HB-33 (up to 10 mill levy)

Local General Obligation Bonds

Lease Purchase Act

Educational Technology Equipment Act

Public Building Energy Efficiency and Water Conservation Act

* Federal sources supplement state and local funding in some districts:

- Impact aid
- Forest reserve funds
- Department of Energy
- Department of Defense

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 Phase 1 State/Local match calculation**
3. Designating the administrative and oversight bodies
4. Creating the Statewide Adequacy Standards

Funding Formula Goals

Concept of the funding formula and the resultant state/local match intends to:

- Accurately reflect each district's ability to pay for capital improvements for their facilities
- Reduce the state match percentage for districts that are able to build above adequacy
- Increase the state match percentage for districts that have less capacity to raise funds locally
- Take into account the availability of district revenues from bond levies and direct mill levies
- Fund more projects with the limited state funding by shifting more of the project cost to districts that can afford it

History of the Phase 1 Funding Formula

2001 Legislature

- Responding to the court order from the Zuni Lawsuit, to “establish and implement a uniform funding system for capital improvements... and for correcting past inequities”
- Created the Deficiencies Correction Program (DCP) to identify and correct serious life, health, safety deficiencies in schools statewide, these projects were 100% state funded

2003 Legislature

- Concern that additional state funding through DCP would not change less wealthy districts’ bonding capacity, while allowing wealthy districts to build superior facilities
- Enacted state / local share funding formula
 - Availability of school district revenues from both bond levies and direct mill levies
 - Relative property tax wealth, measured by assessed property tax valuation per student
 - Total mill levy applicable to residential property of the district

Phase 1 Funding Formula FY 2005 – FY 2023

- The phase 1 formula, used since the inception of the standards-based program, is determined by three main components:
 - land valuations
 - membership
 - amount of residential mills a school district has imposed

- The chart below reflects how the state share percentage may change if one of the components within the formula changes. The chart only reflects the results if only one of the components changes. The results may differ if changes occur to more than one of the factors.

	LAND VALUATIONS		MEMBERSHIP		RESIDENTIAL TAX MILL LEVIES	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
DISTRICT SHARE	↑	↓	↓	↑	↓	↑
STATE SHARE	↓	↑	↑	↓	↑	↓

Transition from Phase 1 to Phase 2 Formula

2015 Bureau of Business and Economic Research (BBER) at UNM

- Contracted by the Public School Capital Outlay Oversight Task Force (PSCOOTF)
- Conducted a detailed assessment of the funding formula
- “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.”
- BBER study identified 2 problematic factors in the Phase 1 funding formula:
 1. Property tax valuation may not be the best measure of a district’s ability to pay and property tax valuations are subject to significant fluctuations
 2. Does not account for differences in the per student facility construction and maintenance costs

Phase 2 Funding Formula History

2018 Legislature: Senate Bill 30 (SB 30 / aSFI#1 / aHEC)

- Changes the proportion of state and local funding to potentially allow the state to fund more projects each year
- New formula adjusts the state and local match to more accurately reflect each school district's ability to pay for public school capital outlay projects
- Gradual Phase-in from existing formula (Phase 1) to new formula (Phase 2)

FY19	100% of phase one formula
FY20	80% of phase one formula and 20% of phase two formula
FY21	60% of phase one formula and 40% of phase two formula
FY22	40% of phase one formula and 60% of phase two formula
FY23	20% of phase one formula and 80% of phase two formula
FY24	100% of phase two formula
- Current (FY20): average state share is 40%, average local share is 60%
- FY24 and thereafter: average state share 35%, average local share 65% (estimated)

Phase 2 Formula Calculation

Based on 3 calculations:

1. Sum of the final prior 5 years net taxable value for a school district multiplied by 0.0009
2. 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**

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
 - 16-50 people per square mile = additional 6% state
 - More than 50 people per square = 0% additional state

Phase 2 Formula Definitions and Sources

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

- **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
- **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 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 fully indebted themselves. This figure is used to determine the financial capacity of the district.

District capital facility need:

- This capacity 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 Variable Factors

Several variables are subject to periodic change, with resultant impact on the state/local match percentages for districts

- PSCOC validated the cost per square foot, based on weighted average of recently completed projects
- PSCOC approved corrections to the GSF calculator
- Assessed valuation and MEM rates will fluctuate annually
- Population density will fluctuate less frequently

	Assessed Valuation		MEM		Gross Square Footage		Cost per Square Foot		Population Density	
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease
District Share	↑	↓	↓	↑	↓	↑	↓	↑	↑	↓
State Share	↓	↑	↑	↓	↑	↓	↑	↓	↓	↑

Phase 2 Formula Variable Factors

Gross Square Feet Calculator

- PSCOC approved a correction to the gross square feet calculator
- Would have reduced the state match for some very small districts
- PSFA will continue to analyze the gross square feet calculator
- Increases in the gross square feet per student assigned by the calculator will increase the state share for all districts

Cost per Square Foot

- PSCOC reviewed and validated the cost per square foot value ahead of the first year of the implementation
- This value will be revalidated periodically
- Increases in cost per square foot value will increase the state share for all districts

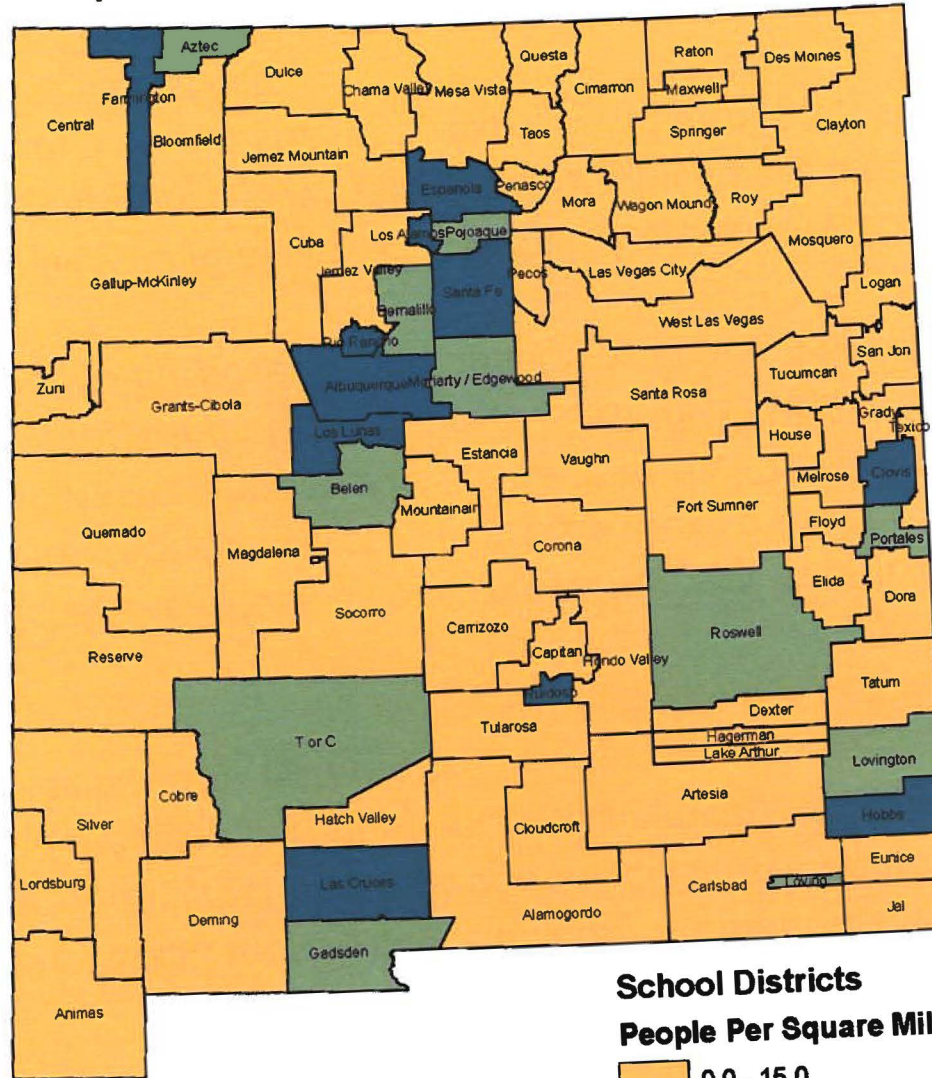
Population Density

- District population density is not likely to change enough to move districts out of the assigned thresholds year-to-year

Net Taxable Value

- Decreases in net taxable value of districts will increase the state share
- Closure of the coal plants may increase the state share by 10-12% for Central Consolidated

Statewide Population Density Thresholds



Created 5/13/2019
 By AM PSFA
 Sources: PSFA & US Census

Direct Appropriations and Offsets

What is an offset?

- The law says that the 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.”*

Why An Offset?

- The Legislature enacted the offset, as one of a number of initiatives, to better equalize state funding of capital requests across all of New Mexico’s school districts. 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.
- The offset applies to all PSCOC award allocations after January 2003, including funds appropriated through another government entity which pass directly to the school district and the amounts do not sunset or expire. The Public Education Department (PED) tracks offsets for all districts.

See Handouts:

- How Direct Legislative Appropriations Offset a School District’s PSCOC Award Funding – A Simple Overview
 - Total Offsets for 2018-2019 Award Cycle

Direct Appropriation and Offset Example

Example: During the legislative session, school district “A” receives a direct legislative appropriation to fund construction of a new fieldhouse next to their football field. The legislative appropriation directs \$1,000,000 toward the project. Two years later, in 2021, school district “A” applies for and receives a PSCOC Pre K award for a project at their elementary school in the amount of \$500,000. This school district has a state/local match of 60/40. How will the direct appropriation impact their PSCOC award?

School District “A” Appropriation and Offset Example	
Direct legislative appropriation	\$1,000,000
PSCOC award to the district	\$500,000
District “A” local match percentage	40%
Offset reduction in district’s PSCOC award allocation ($\$1\text{ M} \times 40\%$)	\$400,000
School district’s net PSCOC award amount ($\$500,000 - \$400,000$)	\$100,000
Total State funds received by the district (Direct appropriation + PSCOC award)	\$1,100,000

Notes:

- 1) Public Education Department tracks offsets for all districts.
- 2) Any capital funding allocated to a specific school district(s) by the legislature is counted for offsets.
- 3) Direct appropriations allocated since 2004 are tracked by PED and the amounts do not sunset or expire.

Local Match Reductions (Waivers)

- The PSCOC council *may* adjust the amount of local share otherwise required if it determines that a school district has made a good-faith effort to use all of its local capital funding resources.

Capital Funding Waiver Criteria - 22-24-5 (B)(11)

Option 1: All Districts If the school district has insufficient bonding capacity over the next 4 years and the mill levy is equal to or greater than **10.0** the district is eligible, **OR**

Option 2: Small Districts

if the MEM count is equal to or less than **800** and
 the percent of free or reduced fee lunch is equal to or greater than **70%** and
 the state share is less than **50%** and
 the mill levy is equal to or greater than **7.00** the district is eligible, **OR**

Option 3: Growth Districts

If the school district has an enrollment growth rate over the previous school year of at least **2.5%** and
 pursuant to its 5-year FMP, will be building a new school within the next **2 years** and
 the mill levy is equal to or greater than **10.0** the district is eligible

Phase 2 Implementation Summary

Districts transitioning to the 6% minimum state match

- 20 districts have state match less than 10% in FY20 (minimum state funding for any district in FY20 is 8%)
- 30 districts estimated to be assigned 6% state funding in FY24 and thereafter

Districts receiving the population density factor (rural increase)

- 42 districts get 12% increase
- 5 districts get 6% increase

Districts with increasing vs decreasing state match in FY20

- 62 districts decrease in state match, 24 districts increase in state match, 3 districts have no change

Timing and logistics

- During the transition period, FY20 – FY23, the Phase 1 formula is part of the calculation. Historically, the Phase 1 formula has not been available prior to May 1 due to the timing of the 80/120 reporting. Phase 1/Phase 2 transition formula will be available in June.

Questions

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Thank You!