

# Impact and Implementation of HB6 on the Capital Funding Formula

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

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*Presenter:*

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**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
- House Bill 6 Changes to Phase 2 Capital Funding Formula
- Defining Unrestricted Revenue Used for Capital Expenditures
- Implementation of URR in the 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

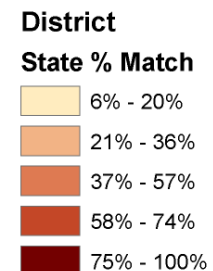
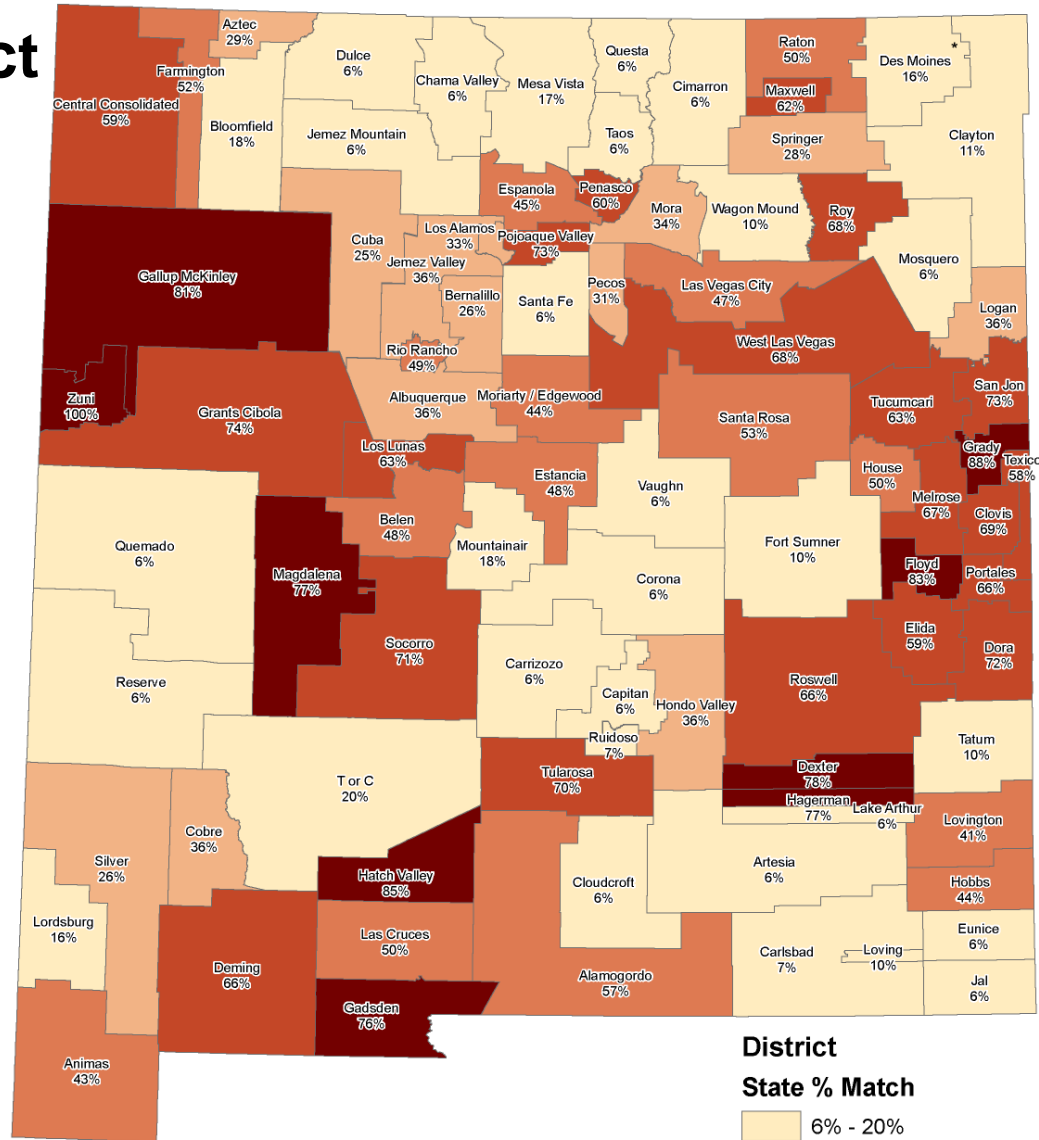


## State Funding

## 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



# House Bill 6 Changes to Capital Funding 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, to be integrated into the capital funding formula as a local source of capital funding 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.

# Unrestricted Revenue (URR)

HB 6 modifies the procedure for calculating the state/local match percentages for capital funding through PSCOC funding programs beginning in FY25:

- *“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,” PED, PSCOOTF, LESC and LFC.”*
- Unrestricted revenue (URR) used for capital expenditures will be considered part of a district’s local funding capacity for capital projects.
- URR will be added to the local funding capacity based on taxation of assessed land valuation.

# 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:

*Larger numerator = higher local funding capacity = lower state match %*

Local funding capacity  
based on taxation of  
assessed land  
valuations  
(sum of prior 5 years)



Amount of unrestricted  
revenue used for  
capital expenditures  
(average of prior 5  
years)



Total Local  
Funding  
Capacity



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



# District Use of URR: Capital vs Operational

- Districts that use unrestricted revenues for capital expenditures may be viewed as having a larger local funding capacity for capital projects.
  - Change in the state/local match calculation as required by HB6 may reduce the state match percentage for districts that use URR for capital expenditures.
  - Districts that regularly use URR over a 5 year period will experience a larger reduction in their state match percentage.
  - URR values will be phased in gradually through FY29, with the average of the previous 5 years' URR as the final value.
- Encourages districts to use unrestricted revenues for non-capital expenditures, such as operational expenditures to improve or expand educational program offerings.
- Districts may use URR for capital expenditures in FY22 and FY23, assuming that these years may not be included in state/local match calculation in the future.

# District Use of URR: Other Issues

- Districts that do not need PSCOC funding to complete major capital projects, may use URR for capital expenditures, without regard to the reduction in their state match percentage.
- Districts that receive the minimum state match (6%) may choose to use URR, with less concern about the impact on their state match percentage.
- Districts with larger state match percentages may be more inclined to limit the use of URR for capital expenditures, especially if they intend to initiate a large capital project and apply for funding through PSCOC funding programs.
- Districts that do not have large capital projects planned within the next 10 years may use URR for capital expenditures, without regard to the impact of a reduced state funding match.
- Districts that receive large amounts of URR may be able to use the URR for large capital expenditures and simultaneously participate with a larger local match (reduced state funding percentage) on PSCOC funded projects with excess URR supplementing local funds.

# District Use of URR: Teacher Housing

- PSCOC rules to identify the procedure for calculating unrestricted revenues “shall provide for the exclusion of revenue raised pursuant to SB-9 and HB-33 and expenditures related to teacher housing.”
- SB-9 and HB-33 revenues are excluded from URR.
- Encourages districts to use URR for teacher housing projects, without impact on the state funding percentage.
- Beginning in 2020, PSCOC began funding teacher housing projects through standards-based awards for large capital projects.
- PSCOC is also formulating a funding program to make awards for teacher housing projects, outside of the standards-based program.
- Districts that use URR to fund teacher housing projects will be able to apply for PSCOC funding for teacher housing as well.

# Exclusions from URR

- Revenues excluded from being part of the calculation of unrestricted revenue used for capital expenditures, regardless of whether the revenue is used for operational or capital expenditures:
  - SB-9 (Public School Capital Improvements Act) revenue.
  - HB-33 (Public School Buildings Act) revenue.
- Unrestricted revenues used for operational expenditures (non-capital expenditures).
- Any revenue that is used for teacher housing capital expenditures.

# Certification of URR Amounts by PED

In order for PSCOC to develop the procedure for PED to calculate and certify 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/used by any district for capital expenditures.
- Distinguish capital expenditures vs any non-capital expenditures as reported by each district.
  - Items with purchase price greater than \$5,000 = capital expenditure (fixed, depreciating assets).
- Define the process that PED will use to calculate and certify the amount per district.
- PED may need to establish a new fund within OBMS, with a new code for districts to enter URR amounts and track expenditures, separate from existing operational revenue and expenditure reporting.

# Next Steps

- PSCOC/PSCOOTF will begin consultation with selected school districts, PED, LESC, and LFC.
- By June 30, 2022, PSCOC may develop the rules that PED will use to distinguish URR used for capital expenditures, as reported by each district within PED's Operating Budget Management System (OBMS).
- Beginning in FY23, PED may begin to collect data through OBMS and calculate the amount of URR that is used for capital expenditures for each district.
- Prior to July 1, 2024, PSCOC implements the change to add certified URR values to the capital funding formula, using the most recent prior fiscal year data.

# Questions

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