



NEW MEXICO
LEGISLATIVE
FINANCE
COMMITTEE

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2023 Legislative Staff Proposals

Presented to the
Public School Capital Outlay Oversight Task Force

September 20, 2022

Presentation Outline

1. Background

- i. Fund Balances and Awards
- ii. Waivers and Phase Two Formula Changes

2. Local-State Match Formula

- i. Problem Statement
- ii. Staff Scenarios

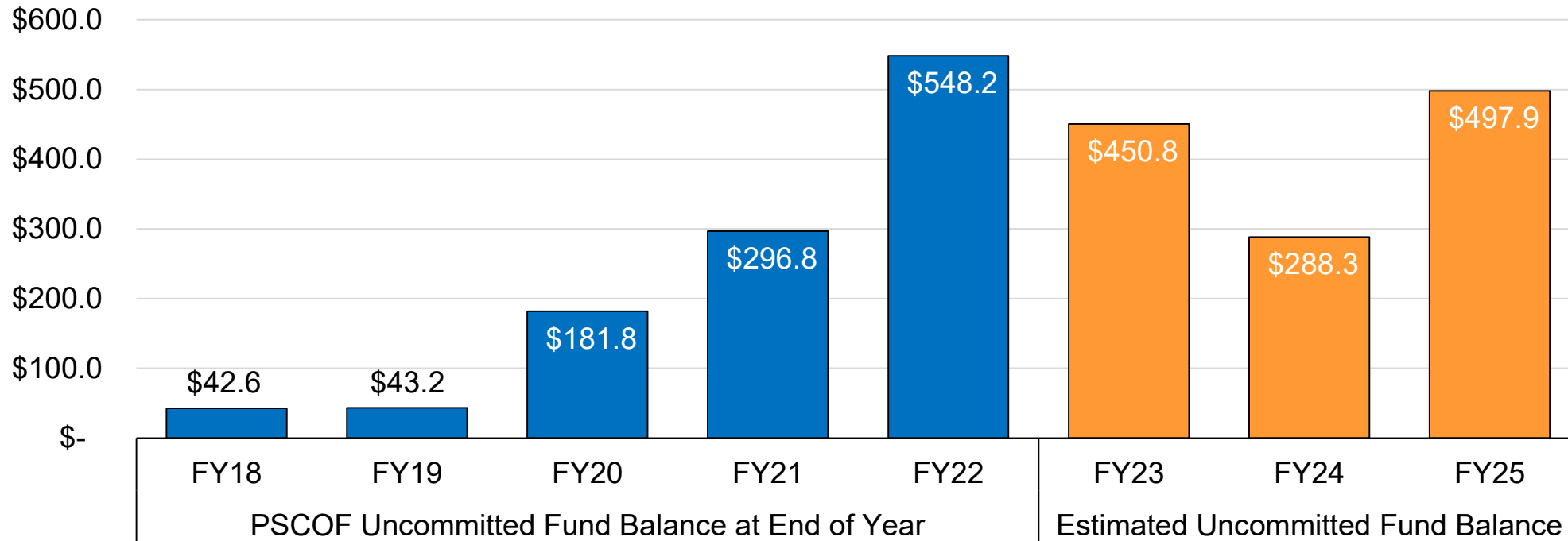
3. Legislative Offsets

- i. Problem Statement
- ii. Staff Scenarios

4. Other PSCOC Programs

Public School Capital Outlay Fund

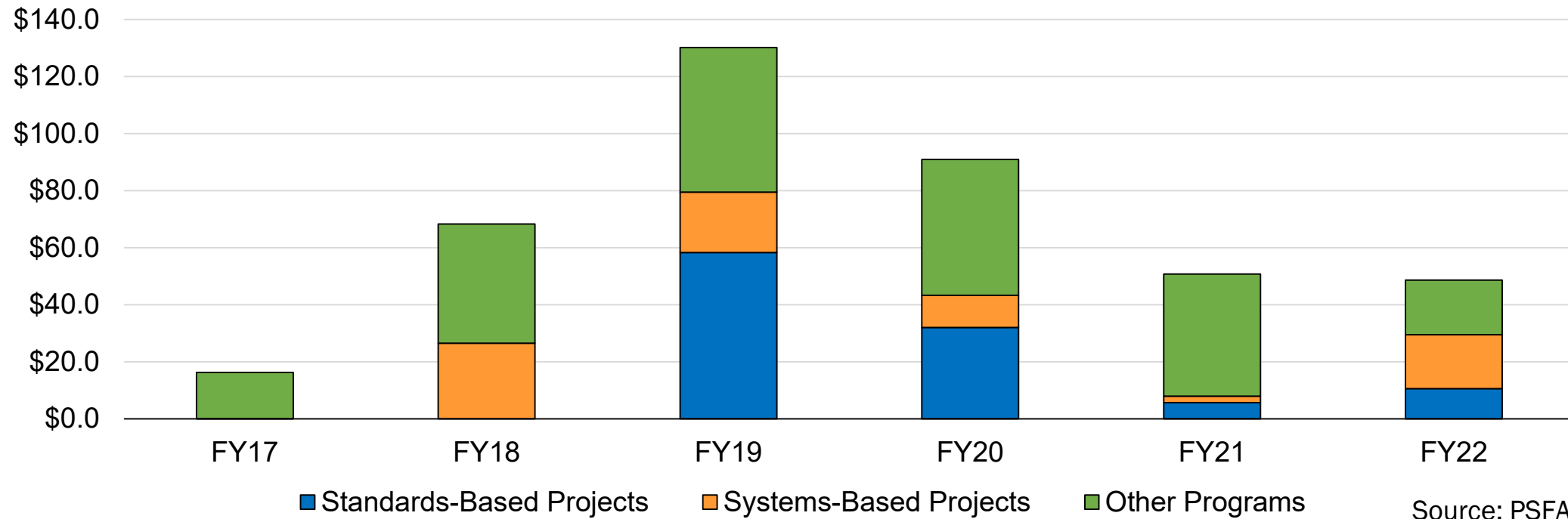
Public School Capital Outlay Fund (PSCOF) Balance
(in millions)



Source: PSFA

Applications for PSCOC Awards

Annual PSCOC Funding Awarded
(in millions)



Local Match Waivers

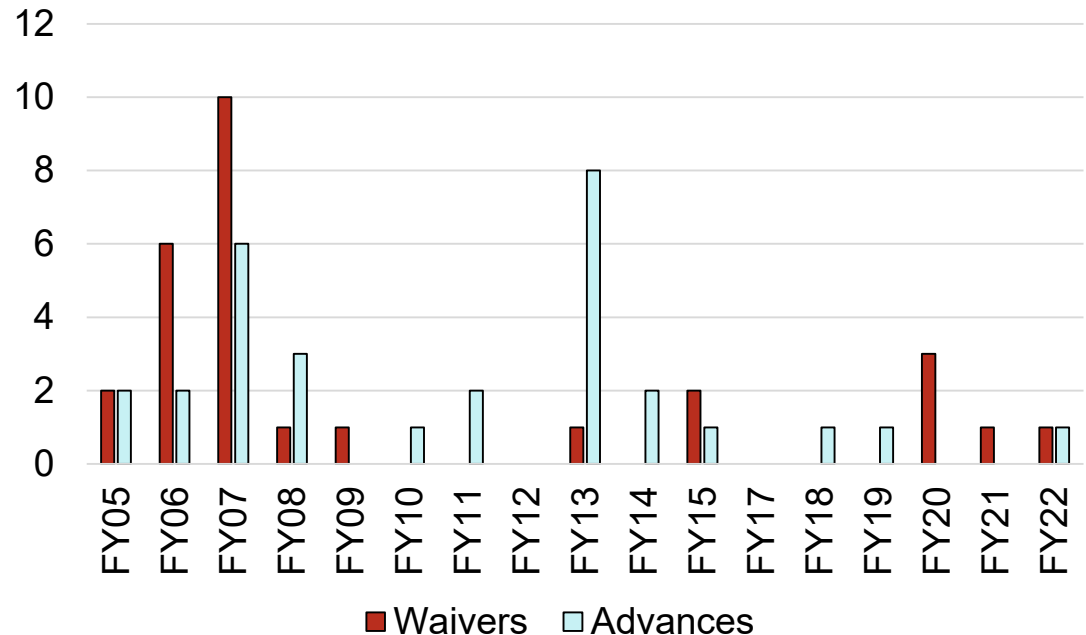
[Section 22-24-5 NMSA 1978](#) authorizes PSCOC to adjust the local share requirement if the district has made a good-faith effort to use all local resources and meets other waiver criteria (i.e. enrollment, poverty, millage, FMP priority).

PSCOC has recently received requests to waive local match requirements following the change in the local-state match formula in FY18.

More waiver requests are likely symptomatic of changes to the formula, which shifted more of the burden of capital costs from the state to local districts.

Addressing the local-match formula will be a more systematic and direct solution than creating waiver policies to address individual district needs.

Requests for Waivers or Advances



Source: PSFA

Phase Two State Match Formula

[Laws 2018, Chapter 66 \(Senate Bill 30\)](#) established a new formula (Phase Two) to adjust the local district share of costs for school capital projects.

The intent of the new formula was to establish greater equity among districts in response to the *Zuni* lawsuit.

The changes occurred at a time where PSCOF revenues were low and trending downward.

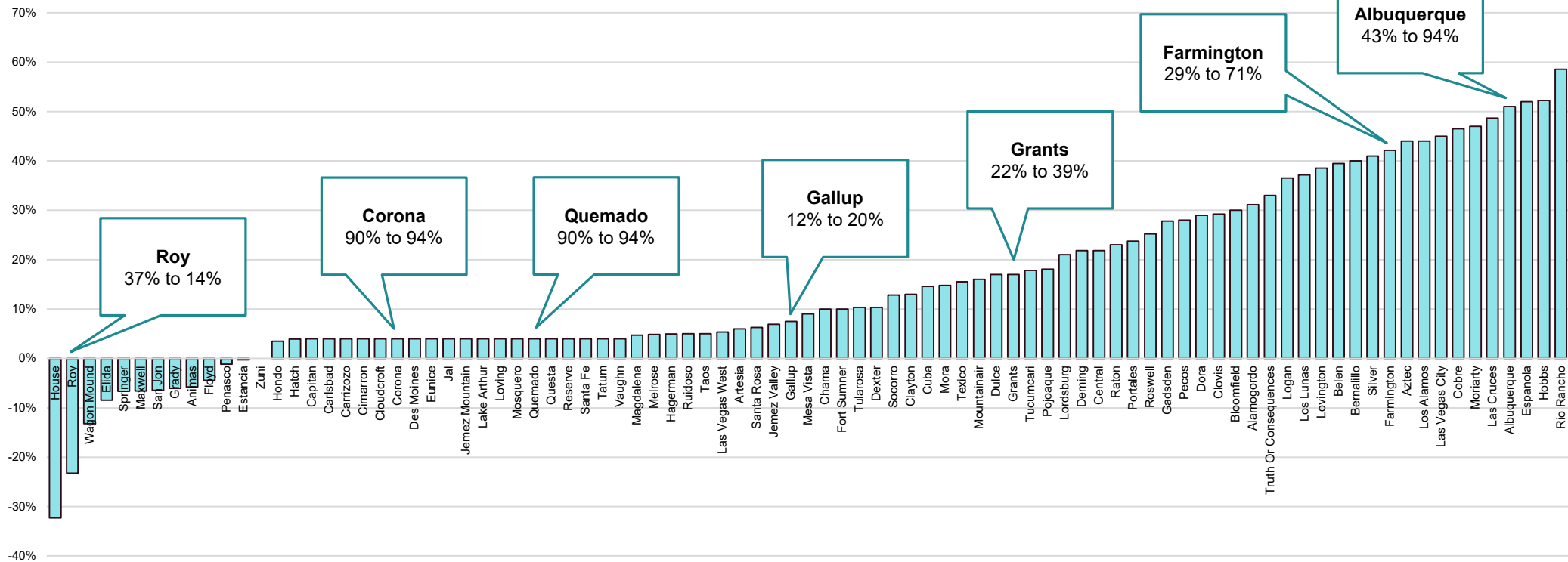
The new formula increased the local share for most districts and further increased the local match for many micro-districts already with a 90 percent match rate.

As an unintended consequence of this transition, more districts are now having trouble affording their local share of projects.

| | Avg. State Share | Avg. Local Share |
|--|------------------|------------------|
| FY18 (Phase 1) | 43% | 57% |
| <i>(five-year transition to Phase 2)</i> | | |
| FY23 (current) | 32% | 68% |
| FY24 (final after phase-in) | 30% | 70% |

Change in Local Match Rates

Change in Local Match Requirement (Phase 1 to Phase 2)



Phase Two Formula Assumptions

The Phase Two Formula makes several assumptions that may not reflect reality and may require further study:

Districts' "ability to pay for facilities" is assumed to be an average of 4.5 mills per year over 5 years.

But...

A 4.5 mill rate requires districts to take full advantage of SB9 (two-mill levy) and partial advantage of HB33 (up to 10 mills). Most districts only have a two-mill levy, some districts have *no* capital mill levies

The cost of replacing facilities is equal to the total allowable gross square footage in a district times \$307.47 per square foot.

But...

The average cost of construction is likely greater than \$307.47 per square foot, especially in the wake of the pandemic

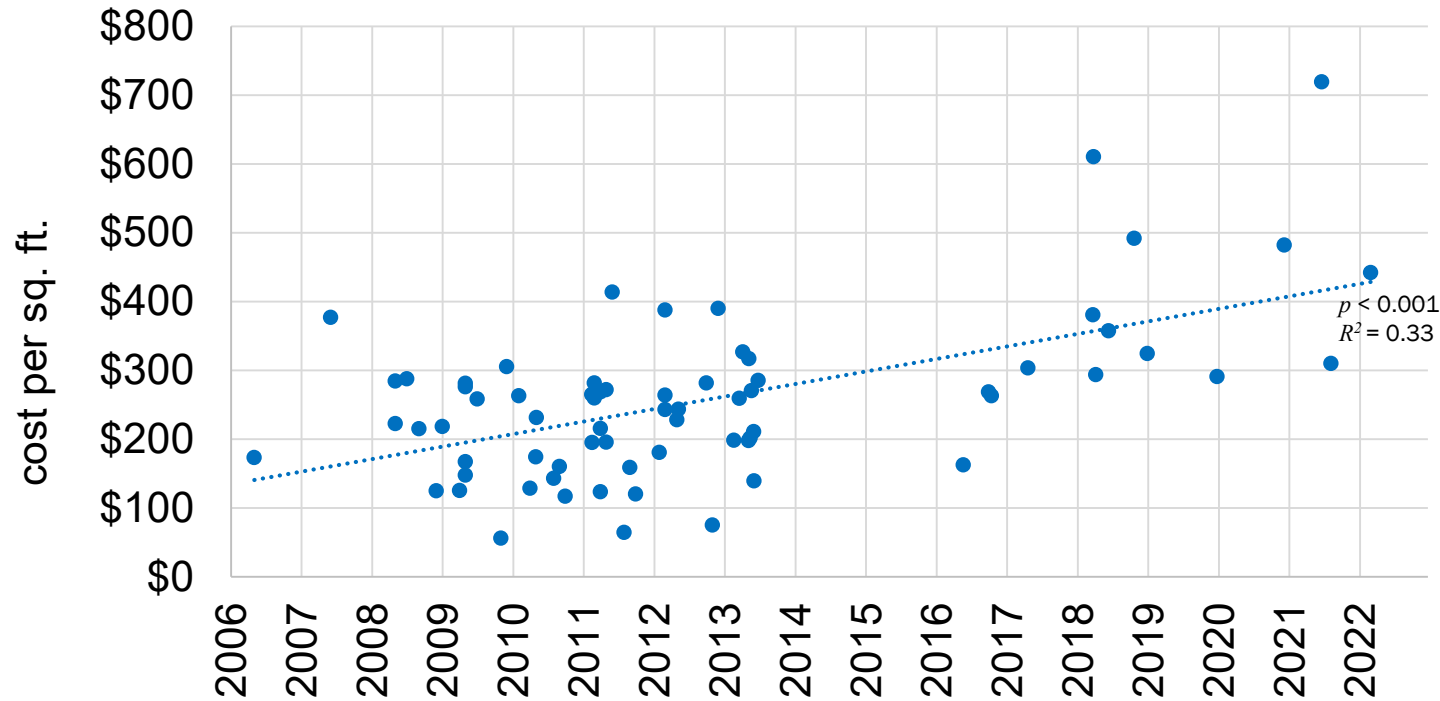
Districts will spread out the replacement of all of their facilities on a 45-year basis.

But...

Districts with long-standing deficiencies have a greater urgency for funds, requiring a larger investment immediately, not spread over 45 years

Construction Cost Increases

Public School Construction Project Cost per Sq. Ft.



Source: LESC Analysis of PSFA Data

The current formula assumes a cost of **\$307.47 per sq. ft.**

A regression analysis of actual construction costs per sq. ft. over time suggests the current average cost to construct a school is about **\$425 per sq. ft.**

This is subject to many conflating factors like rurality and soil type.

The regression suggests construction prices increase by about **\$18 per sq. ft. per year.**

This model is **statistically significant** at the $p < 0.001$ level.

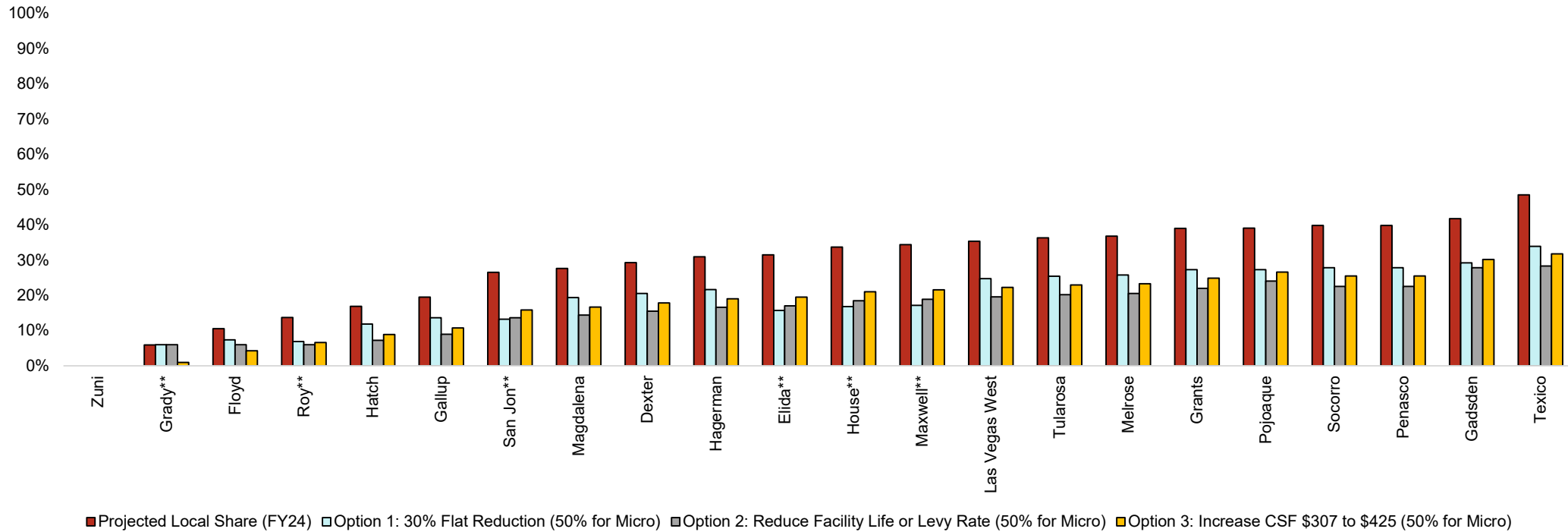
Local-State Match Formula Scenarios

Problem statement: The transition to the Phase Two formula increased the local share for PSCOC project funding significantly. Many school districts can no longer afford their local share of projects, reducing participation statewide.

| Short-term Legislative Options (2-3 year sunset) | Est. Change in Average Local Match | Rationale |
|---|--|--|
| Option 1: Reduce the local match by a flat 30 percent (50 percent for micro-districts) | 70% → 46% | Districts need a simple fix that immediately decreases their local match |
| Option 2: Decrease facility life from 45 years to 30 years or reduce mill levy rates from 4.5 mills to 3 mills (or 50 percent local match for micro-districts) | 70% → 50% | Facilities are often replaced before 45 years and few districts levy 4.5 mills |
| Option 3: Increase cost per sq. ft. assumption from \$307 to \$425 (or 50 percent local match for micro-districts) | 70% → 53% | The cost of construction has increased in recent years |

Formula Options

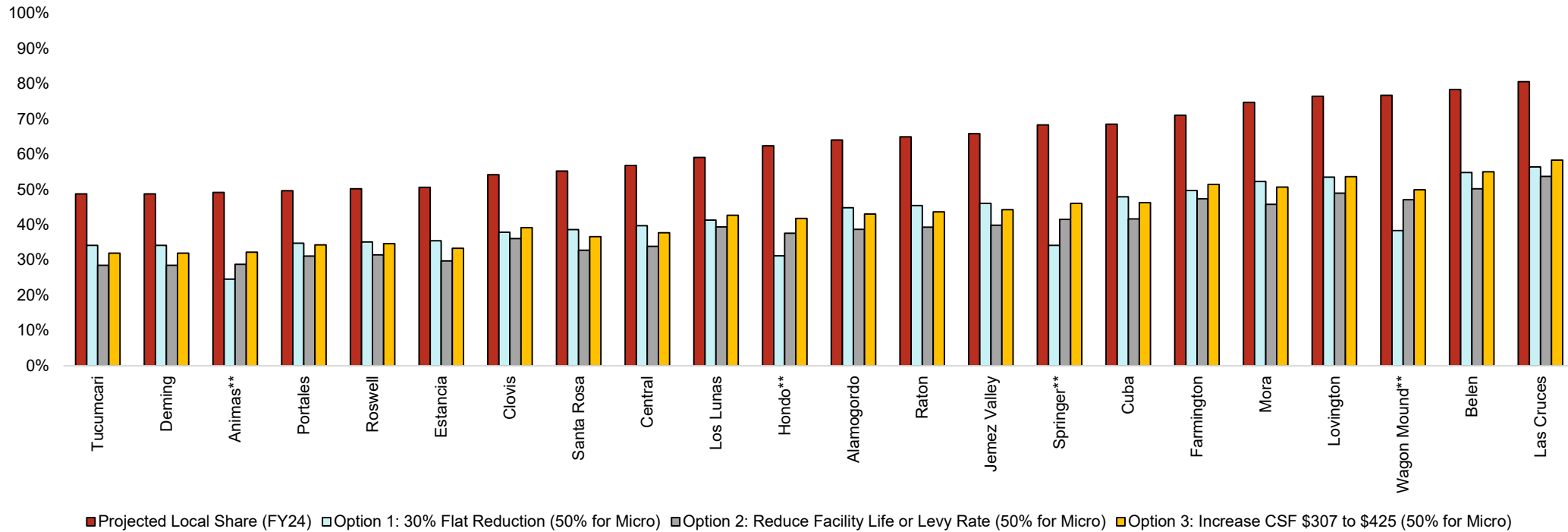
District Local Match Scenarios
(sorted by local match rate)



**Denotes micro-district, or district with less than 200 students
Source: PSFA, LFC, LESC

Formula Options

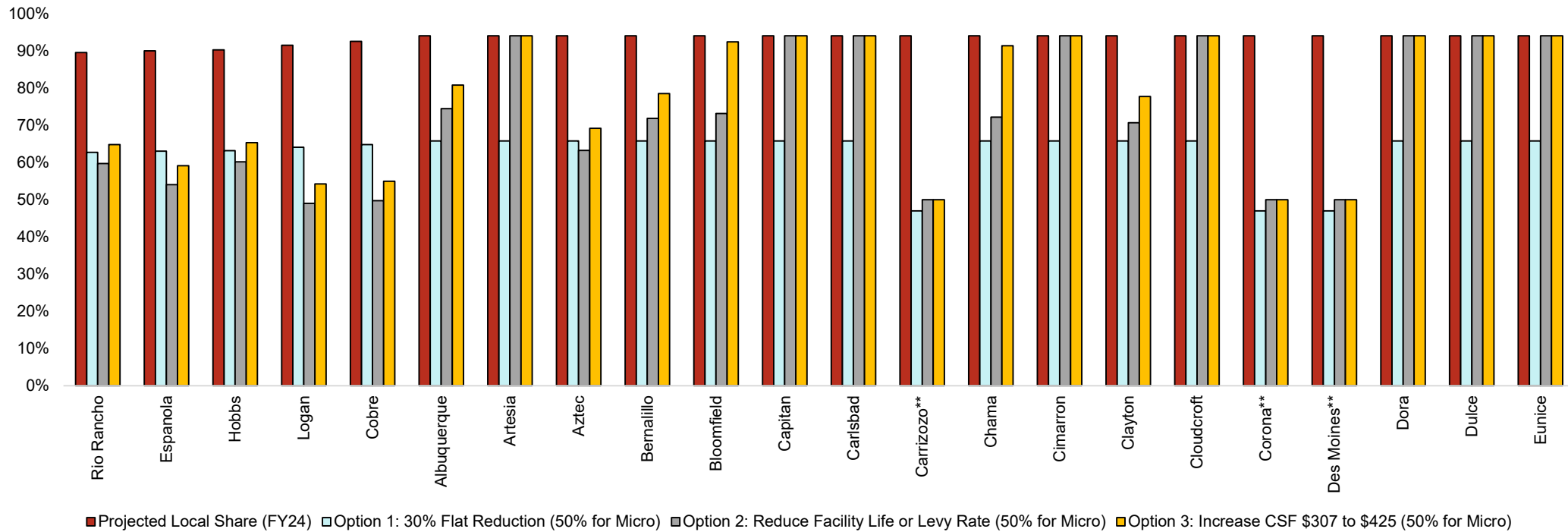
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Formula Options

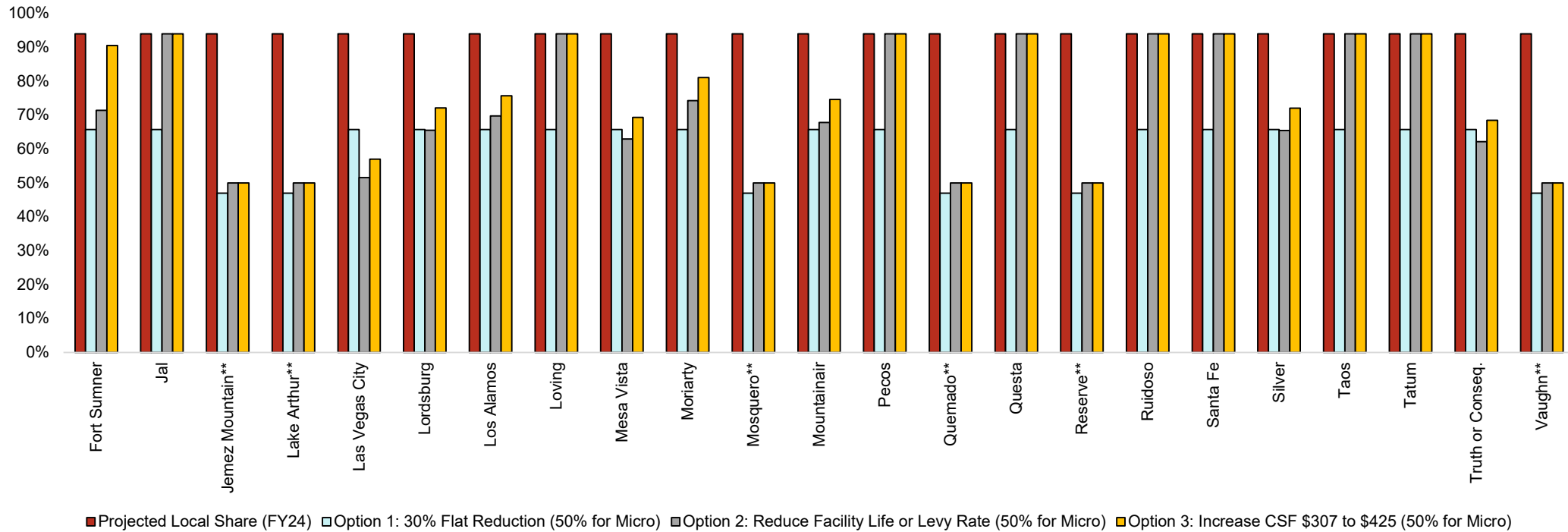
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Formula Scenarios

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Formula Scenarios Discussion

Problem statement: The transition to the Phase Two formula increased the local share of PSCOC projects significantly. Many school districts can no longer afford their local share of projects, reducing participation statewide.

| Short-term Legislative Options | Policy Issues |
|--|---|
| <p>Option 1: Reduce the local match by a flat 30 percent (50 percent for micro-districts)</p> | <p>The across-the-board reduction will provide an equal benefit to all districts but could reduce local matches for districts with relatively higher property valuations and local capacity (e.g. Santa Fe, Jal, etc.).</p> |
| <p>Option 2: Decrease facility life from 45 years to 30 years or reduce mill levy rates from 4.5 mills to 3 mills (or 50 percent local match for micro-districts)</p> | <p>Adjusting formula components to closer reflect actual mill levy rates or facility lifespans decreases the local match rate for many districts but has a lower effect on districts with higher property valuations per pupil (e.g. Eunice, Vaughn, Cimarron, etc.).</p> |
| <p>Option 3: Increase cost per sq. ft. assumption from \$307 to \$425 (or 50 percent local match for micro-districts)</p> | <p>Adjusting formula components to closer reflect actual construction costs decreases the local match rate for many districts but has a lower effect on districts with higher property valuations per facility square foot (e.g. Bloomfield, Chama, Capitan, etc.)</p> |

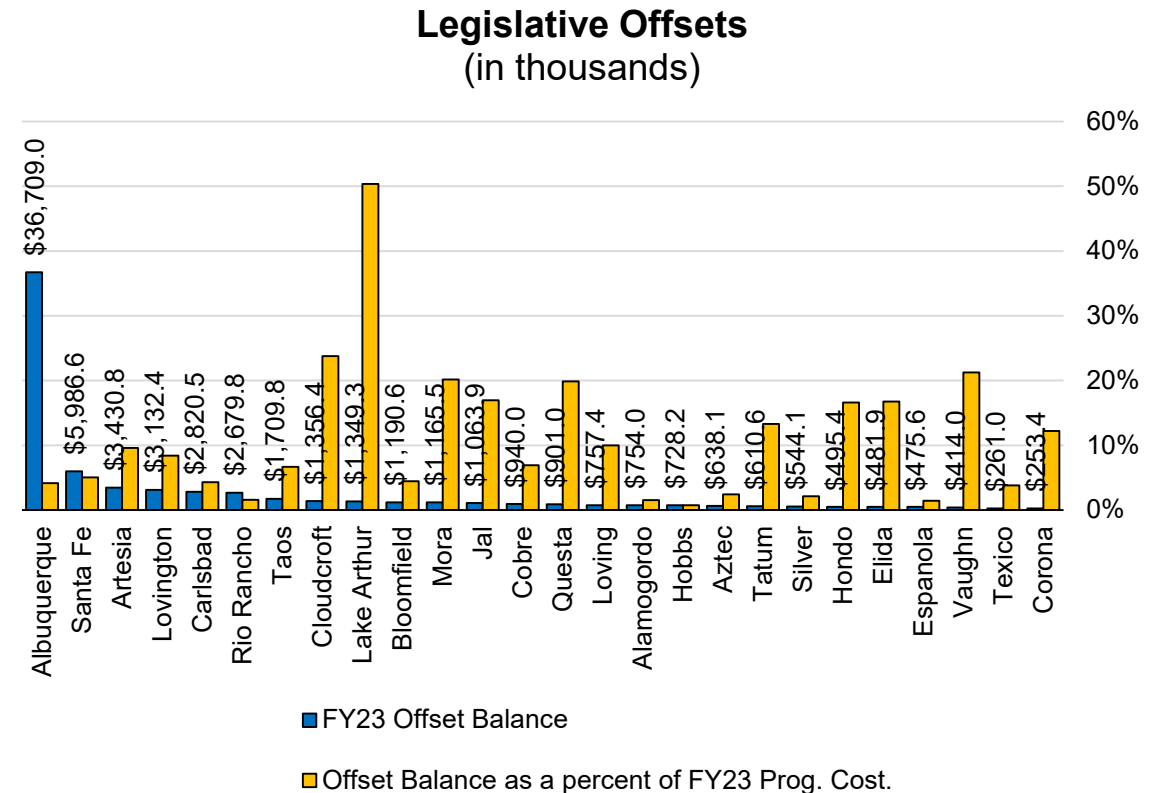
Offsets for Direct Appropriations

[Section 22-24-5 B. \(9\) NMSA 1978](#) requires PSCOC to reduce award amounts by the amount of direct capital funding districts receive.

Legislators often give school districts direct appropriations in annual capital outlay bills, sometimes unintentionally creating an offset.

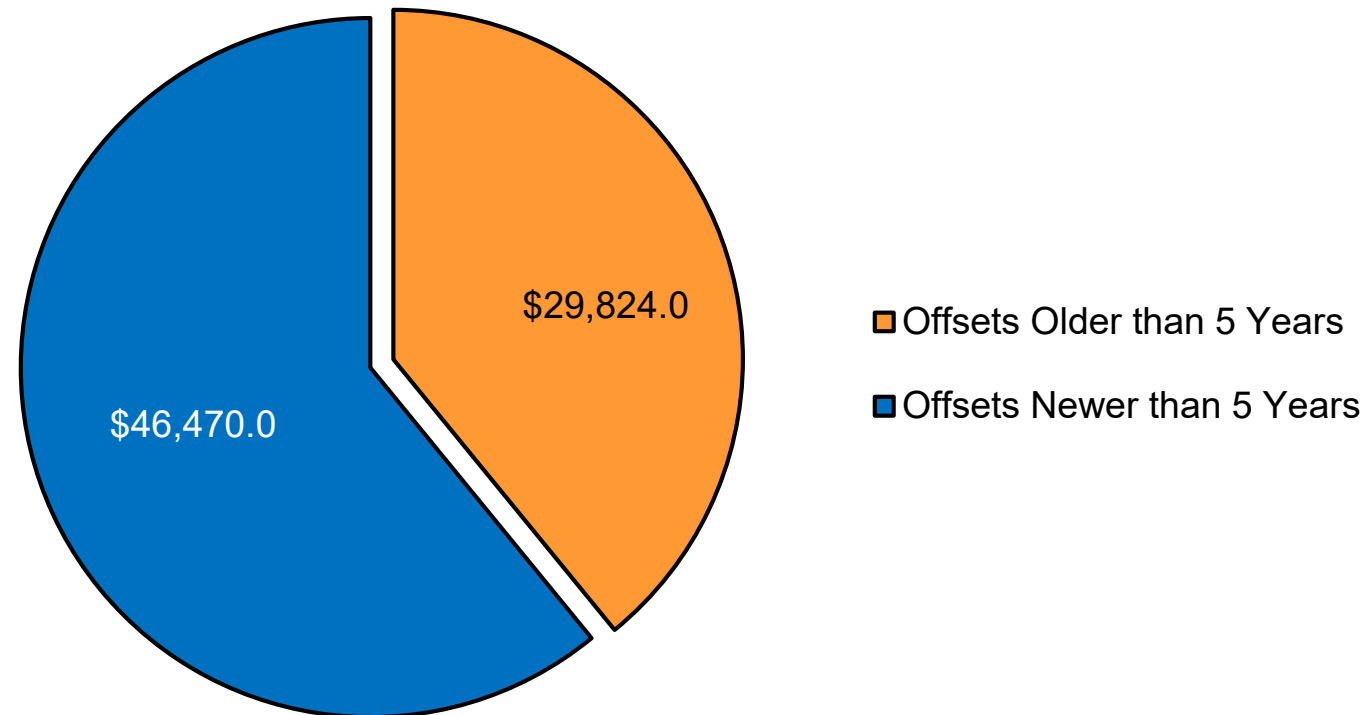
Districts have the option to refuse these appropriations, but few do so.

Offsets are cumulative and have become cost-prohibitive for some districts.



Legislative Offsets Over Time

Total Outstanding Offsets by Age



Source: Public Education Department (PED)

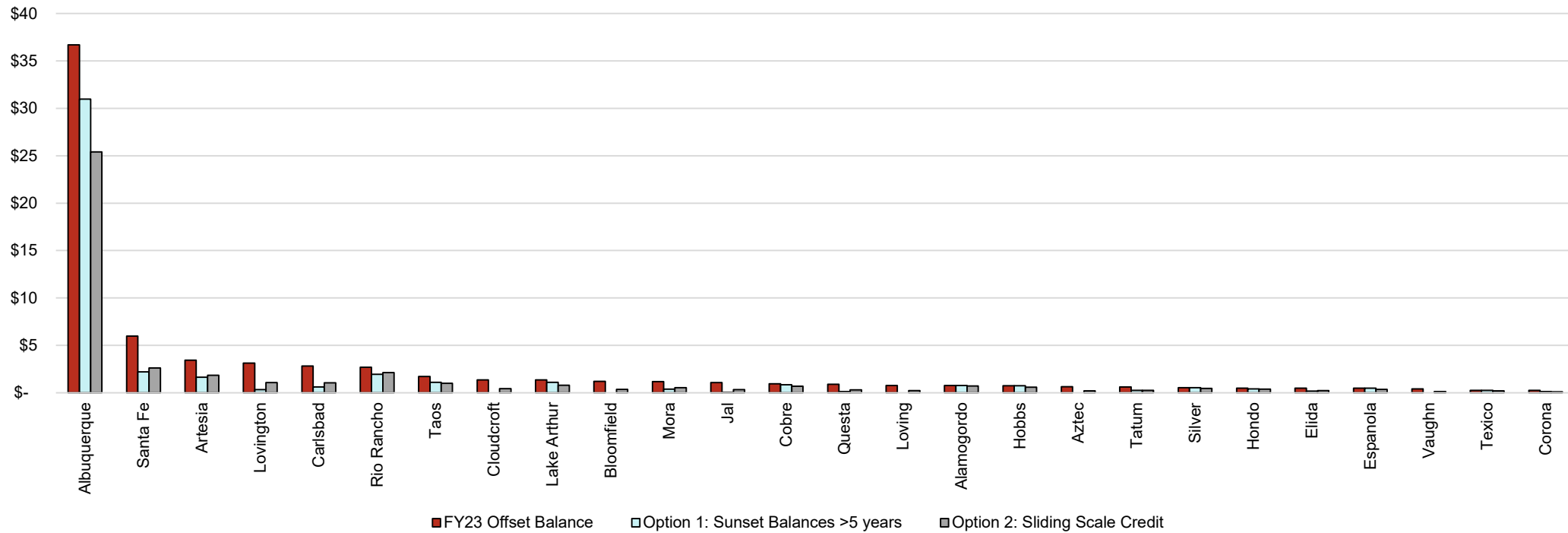
Legislative Offset Scenarios

Problem statement: School districts decide not to participate in PSCOC programs after discovering legislative offsets will reduce their state award. Offsets are permanent but intended to equalize access to capital resources, given disparities in legislative support for individual districts.

| Legislative Options | Reduction in Outstanding Offsets (Est. Cost) | Rationale |
|--|--|--|
| Option 1: Sunset offsets to forgive outstanding offsets older than 5 years | \$74.2M → \$46.5M (\$27.7M) | Encourages participation for districts with older offsets |
| Option 2: Credit offsets on a sliding scale with older offsets being forgiven to a larger degree | \$74.2M → \$45.7M (\$28.5M) | Maintains a portion of all offsets, while “aging out” the oldest offsets |
| Option 3: Establish criteria to allow PSCOC to make “offset forgiveness” awards on a case-by-case basis | Indeterminate (based on PSCOC Action) | Districts could argue for the forgiveness of particular offsets |

Offset Scenarios

Legislative Offset Scenarios
(in millions)



Other PSCOC Programs

Prekindergarten Program

- **Option 1:** Reduce local match required for prekindergarten awards by 50 percent
- **Option 2:** Exempt all prekindergarten awards from local match requirements
- **Option 3:** Exempt direct legislative appropriations for prekindergarten facilities from offsets

School Security Program

- **Recommendation:** Sunset existing PSCOC school security program and appropriate \$10 million for school security infrastructure to be distributed proportional to districts' SB9 state match, similar to methodology in [Laws 2022, Chapter 53 \(Senate Bill 212\)](#)

Career Technical Education (CTE) Facilities

- **Recommendation:** Allow PSCOC awards process and revised adequacy standards to govern CTE facility needs
- **Recommendation:** Appropriate funding (PERF or PSCOF) to PED for CTE start-up costs and specialized equipment

Q & A

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