



NEW MEXICO
LEGISLATIVE
FINANCE
COMMITTEE



Presented to the Public School Capital Outlay Oversight Task Force

September 25, 2024

Funding Formula Follow-up: Update on Research and Analyses

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The views expressed in this presentation are the opinions of the presenters and do not reflect the opinions of the New Mexico Legislative Council or any other member of its staff.

Overview

1. Review of Formula

2. Formula Assumptions

3. Options to Address Deficiencies

Option 1: Do nothing

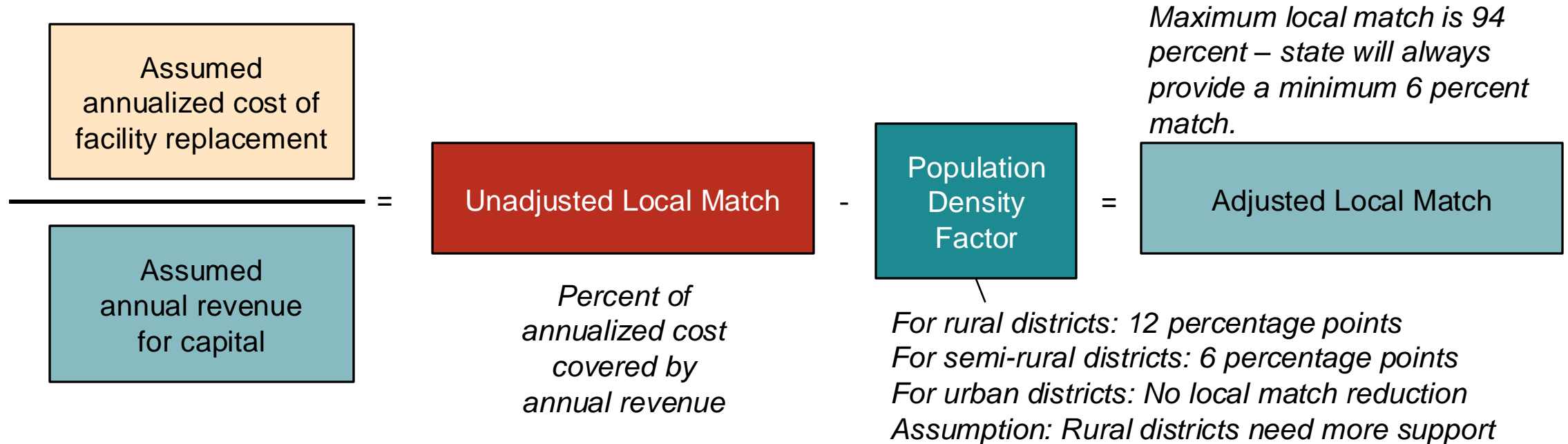
Option 2: Change select formula factors

Option 3: Clean up waiver criteria and extend SB 131

4. Staff Recommendation

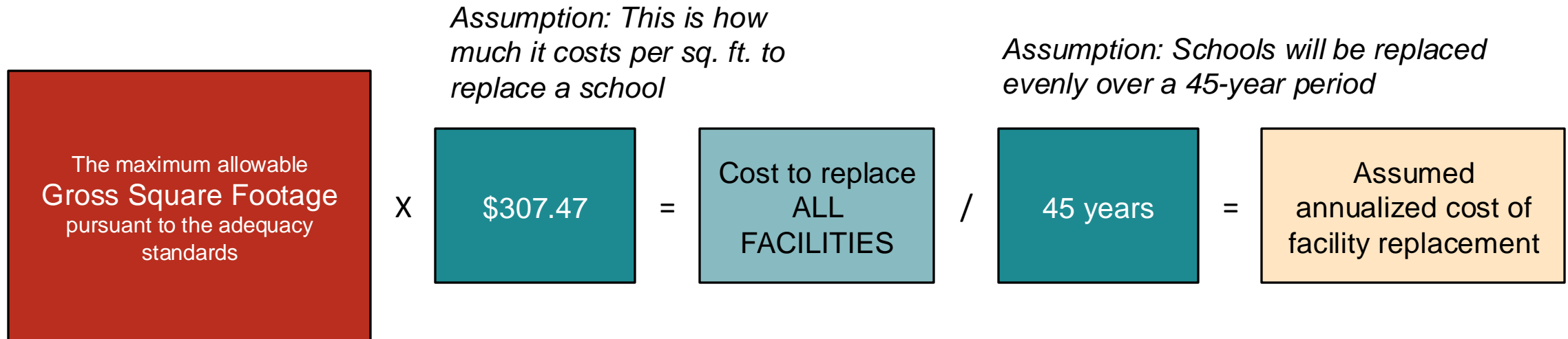
State and Local Match: Current “Phase 2” Calculation

SB131 provides a temporary local match reduction that ranges from 33 to 50 percent for some districts.



Current Formula "Phase 2"

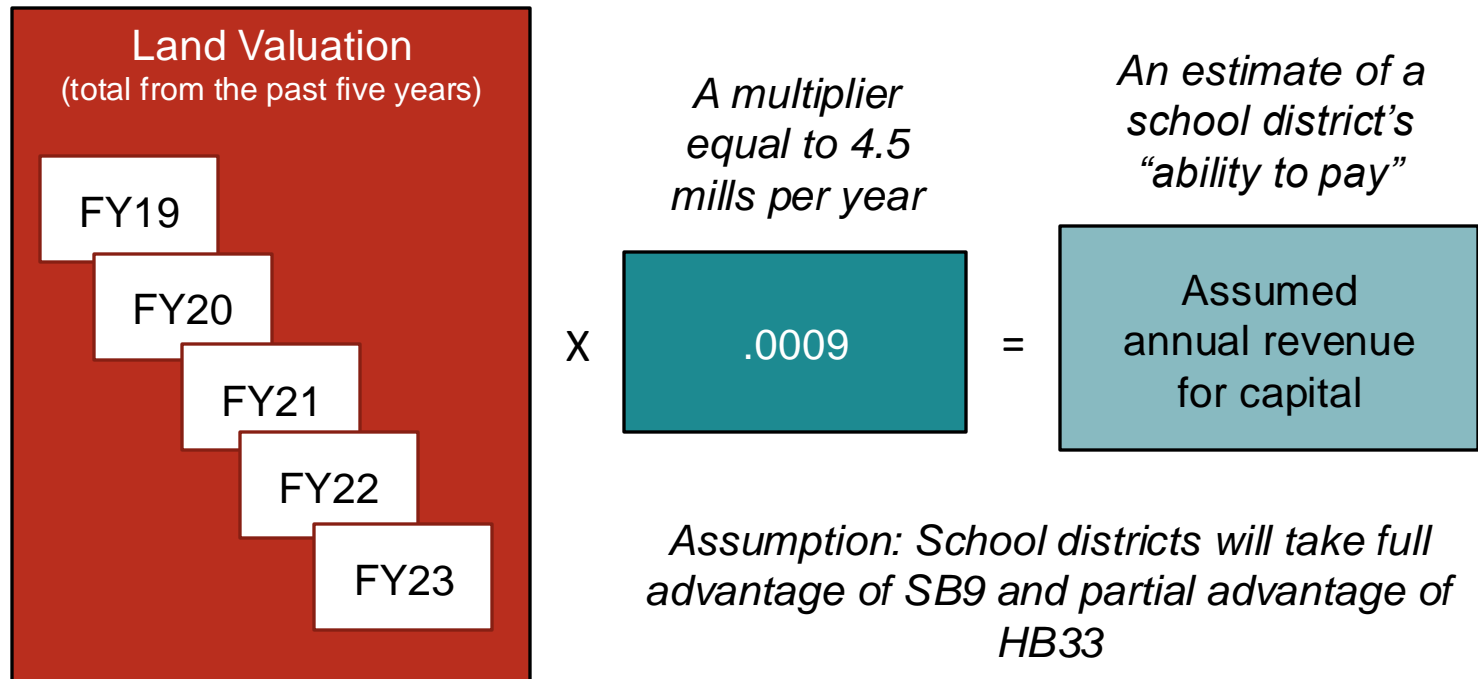
Facility Replacement Cost Calculation



Assumption: The statewide adequacy standards accurately reflect how much square footage students need

Current Formula - "Phase 2"

Assumed District Revenue Calculation



Formula Assumptions

Assumption:	But...
School districts will take full advantage of SB9 and partial advantage of HB33	Many school districts don't take advantage of HB33, and sometimes not even SB9
The statewide adequacy standards accurately reflect how much square footage a student needs	Minimum adequacy standards cannot be used to construct a functional facility but are still used in calculating a district's ability to pay for a project.
It costs \$307.47 per square foot to replace a school	Recent construction costs are far above \$307.47 per square foot
Schools will be replaced evenly over a 45-year period	Many school districts built their schools all at once, meaning many require replacement at the same time

Need for Affordability Study

Affordability Study: Staff has identified the need for a dedicated study to evaluate how much revenue school districts can generate for capital outlay and how to incorporate this data into the funding formula. Since key formula components rely on revenue assumptions, further analysis is needed to determine what districts can realistically afford and to determine the appropriate portion of the project costs that the state should cover.

Key Research Areas:

Accuracy of the 4.5 Mill Assumption: The current assumption of 4.5 mills needs verification.

Bonding Capacity: The methodology and interpretation of a district's bonding capacity vary across agencies, and there is no system in place to access real-time data.

Revenue Calculation: The process of determining a district's revenue is complex and involves coordination among multiple state agencies.

Summary: Understanding if a school district can afford a project requires coordination across different levels of government. A comprehensive, unified, and universally understood approach is essential to develop an accurate solution to address current issues within the formula.

Options to Address Deficiencies

- **Option 1:** Do nothing
- **Option 2:** Adjust select formula factors and continue to study others
- **Option 3:** Adjust waiver eligibility criteria, extend SB131, and direct LFC, LESC and PSFA staff to continue evaluation of potential formula changes

Option 1: Do Nothing

Rationale:

- Needed school replacement projects will continue to move forward despite an imperfect formula.
- PSCOC already exercises its discretion to reduce the required local match on a case-by-case basis.
- SB131's across-the-board reductions to the local match provide districts relief and are in effect through FY26.

Downsides:

- Some districts may have difficulty meeting waiver eligibility criteria, despite good faith efforts to raise local funds.
- The across-the-board reductions will expire before the next 60-day session in 2027, leaving less time to study alternatives to the current formula and likely requiring fixes to be acted on in a 30-day session.
- Shortcomings of existing formula factors are known, and some are relatively well understood

Option 2: Adjust select formula factors

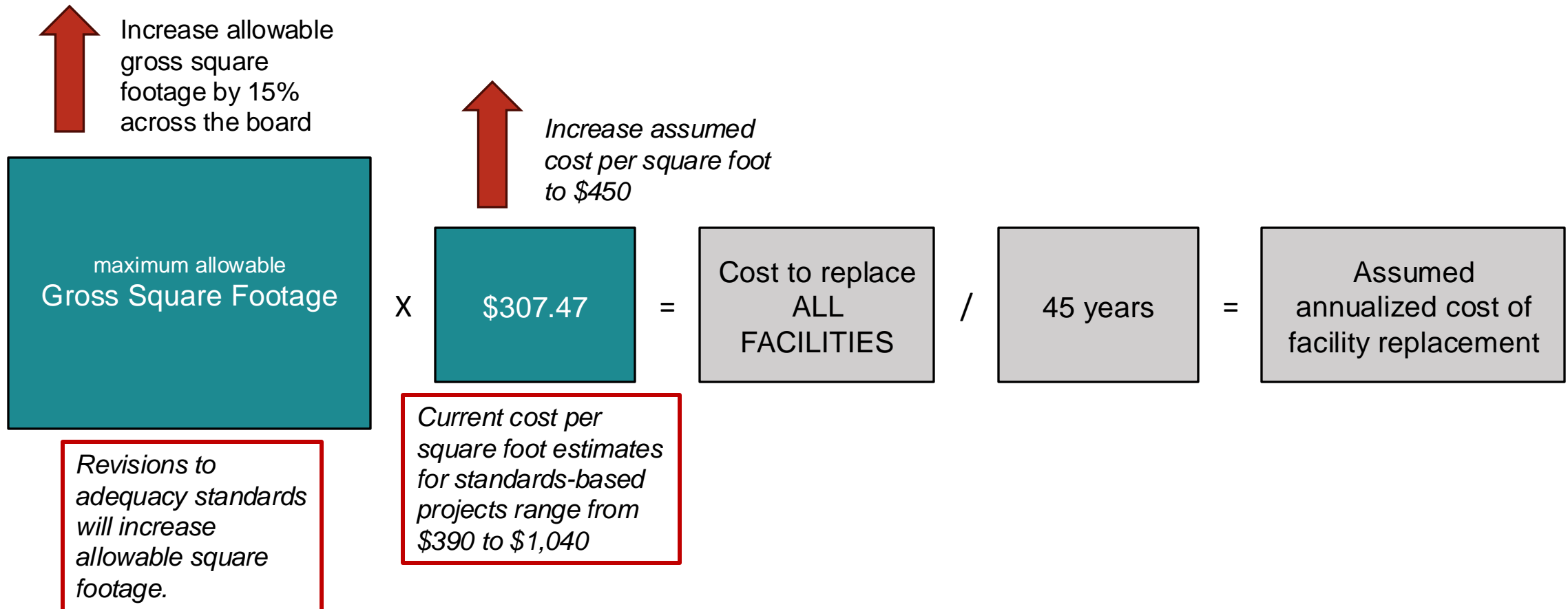
Rationale:

- The cost per square foot and allowable square footage factors could be updated to better reflect current costs and updates to adequacy standards.

Downsides:

- SB131's across-the-board reductions to the local match have a similar effect
- Adjusting these factors while SB131 is still in place could represent an overcorrection, shifting the cost burden of school replacement projects too much to the state
- Adjusting these factors does not, in all cases, help the formula more accurately reflect districts' ability to pay
- Adjusting any factors may be premature before improving our understanding of these outliers

Formula Factor Adjustment Scenario



What's the effect of adjusting these factors?

- **The average local match statewide would be 53%**
- **43 districts would see a decrease** in their local match relative to the status quo
- **45 districts would see an increase** in their local match of between 1% and 47%
- **22 districts with a maximum 94% local match under the Phase 2 formula would still have a 94% local match**



19% relative to
Phase 2



8% relative to
Phase 2+
SB131

EX: increased local matches, \$450 psf and +15% GSF

District	Adjusted Local Match	% Increase
Reserve	66%	+19%
Questa	94%	+31%
Bernalillo	80%	+17%
Bloomfield	92%	+29%
Albuquerque	79%	+16%
Capitan	94%	+31%
Carrizozo	76%	+29%
Truth or Consequences	64%	+2%
Los Alamos	70%	+7%

EX: decreased local matches, \$450 psf and +15% GSF

District	Adjusted Local Match	% Increase
Mesa Vista	50%	-13%
Floyd	8%	-5%
Clayton	51%	-11%
Jemez Valley	53%	-10%
Tucumcari	28%	-6%
Las Cruces	55%	-3%
Gallup	6%	-5%
Gadsden	30%	-2%

Square footage assumptions require additional study

- For recent school replacement awards to micro-districts, the formula's assumptions about gross square footage are so far off that the 15% adjustment to this factor does little to make the formula more accurate.
- Examples:

District	MEM	GSF in Formula	Actual GSF	Departure from Formula
Carrizozo	175	37,689	55,381	+32%
Mosquero	97	27,465	50,537	+46%
Des Moines	136	32,965	45,161	+27%

Option 3: Clean up Waiver Criteria and Extend SB 131

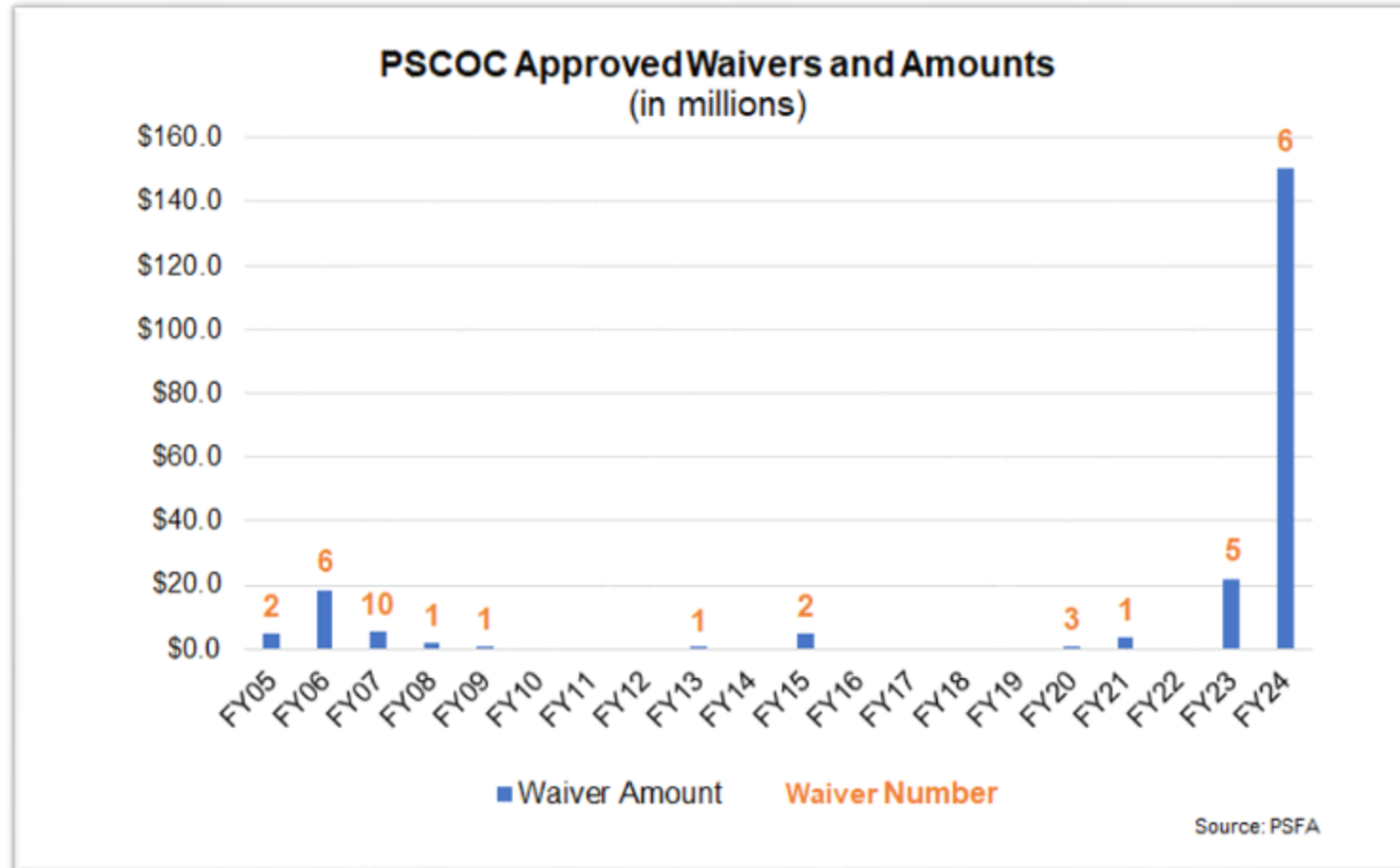
Rationale:

- The status-quo-but-better option.
- PSCOC has shown willingness to grant waivers after careful and thorough consideration of the district's finances and the cost and specifications of projects.
- Cleaning up waiver criteria allows districts that put in a good-faith effort to raise local funds for projects and have a demonstrable need for school improvements to move forward with projects on a case-by-case basis.
- Extending SB131 would provide continued relief for all districts while providing staff with additional time to develop solutions to the formula's deficiencies – including a potential overhaul of the state-local match formula.

Downsides:

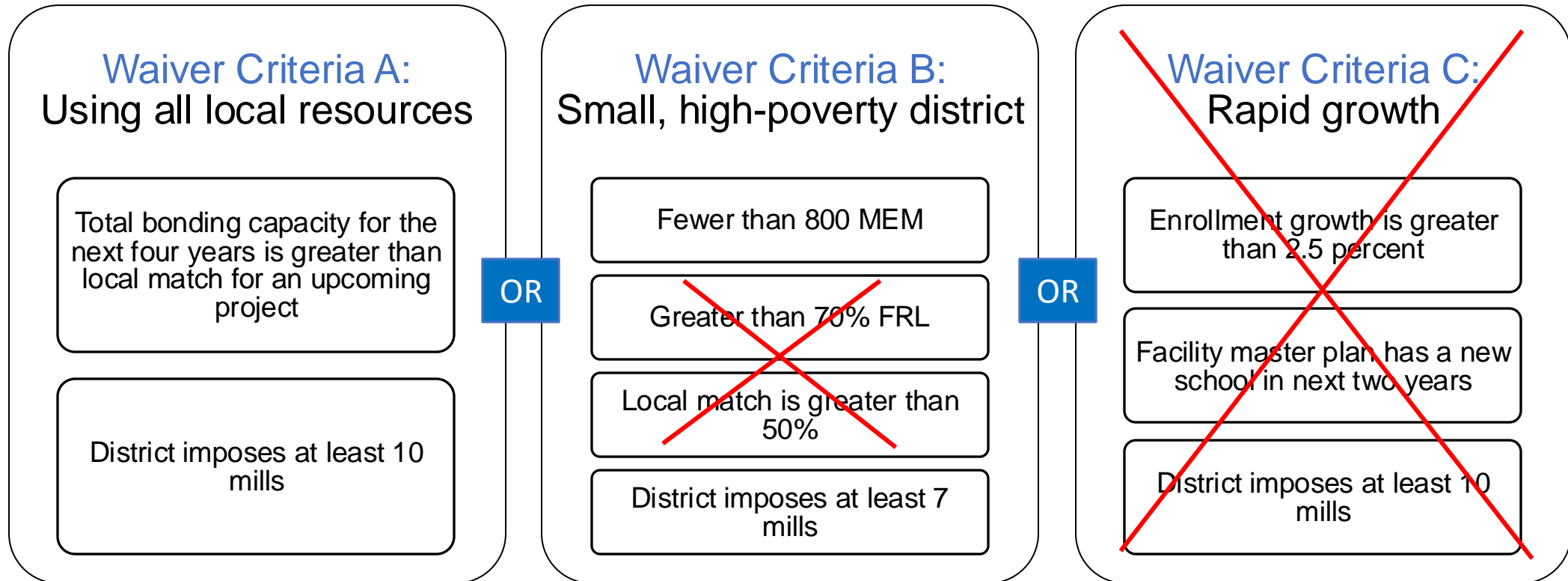
- Delays implementation of a real solution to the 2027 60-day session.

Waiver Trends



Waiver Criteria

The changes below would improve the tools PSCOC already has to address affordability challenges.



Option 3A: Direct Staff to Complete Additional Formula Study and Propose Solutions

Rationale:

- The formula is complicated and imperfect on multiple fronts. Solutions that seem straightforward are often not and may have unintended consequences.
- Because the formula is the foundation of the state's public school capital outlay formula – and an attempt to remedy a constitutional claim against the state – it is important to get it right.
- Initial work on potential solutions to known deficiencies by LFC, LESC and PSFA has raised as many questions as it's answered.
- SB 131 + adjustments to waiver criteria maintain an adequate status quo to complete needed projects and address affordability concerns.

Downsides:

- Delays implementation of a real solution to the 2027 60-day session.

Staff Recommendation

Staff recommends pursuing option 3/3A

- PSCOOTF can direct LFC, LESC, and PSFA to develop a timeline with deadlines for additional analysis and proposed solutions
- Staff welcomes early guidance on PSCOOTF's preference for tweaking the existing formula versus exploring entirely new approaches to calculating the state and local match

Q & A

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