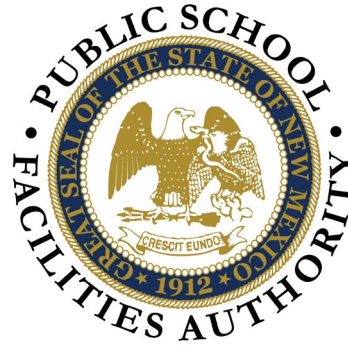




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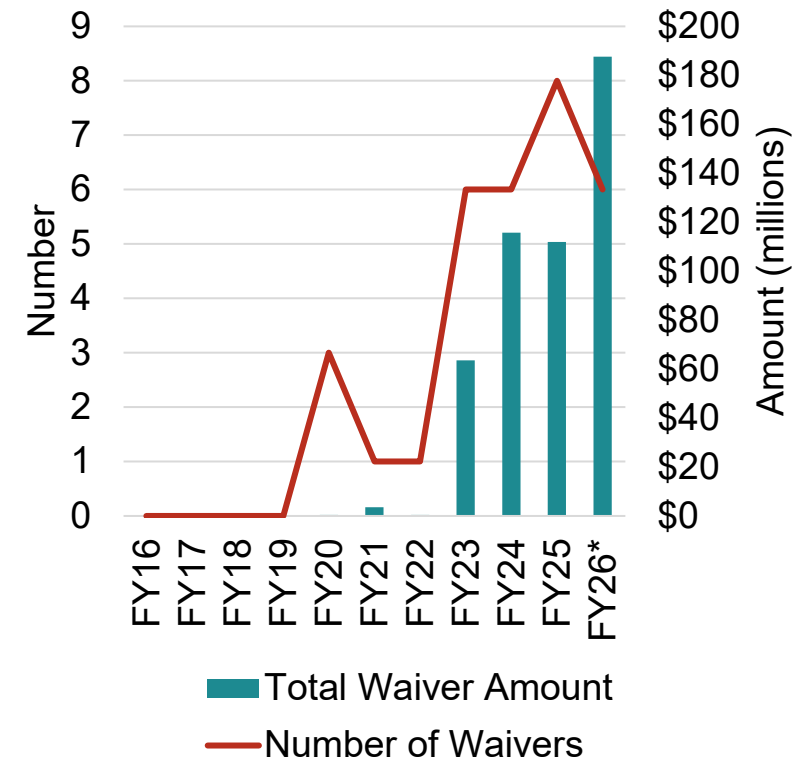
October 9, 2026

Update on Potential State-Local Match Revisions

Why are we here?

- The “Phase 2” formula shifted costs from the state to districts – and was implemented just as construction costs exploded during the pandemic
- As a result, districts are requesting and receiving more waivers, or local match reductions
- The trend indicates the formula is not working as intended – failing to accurately capture a district’s ability to pay or reflect current market conditions

PSCOC Granted Waivers and Amounts



Why are we here?

- The Public School Capital Outlay Oversight Task Force (PSCOOTF) directed LFC, LESC and PSFA to study the formula and propose revisions for the 2027 legislative session that would minimize the need for waivers
- The Public School Capital Outlay Council (PSCOC) needs a more responsive policy framework through which to consider waivers to ensure consistency and fairness

Guiding principles for revising the formula

- Meet constitutional obligations
- Ensure equity, fairness, and accuracy
- Ensure accountability for performance
- Expect local participation and coordination
- Promote long-term planning and sustainability
- Encourage efficient design and utilization of space
- Collaborate with and engage stakeholders

Background on current formula

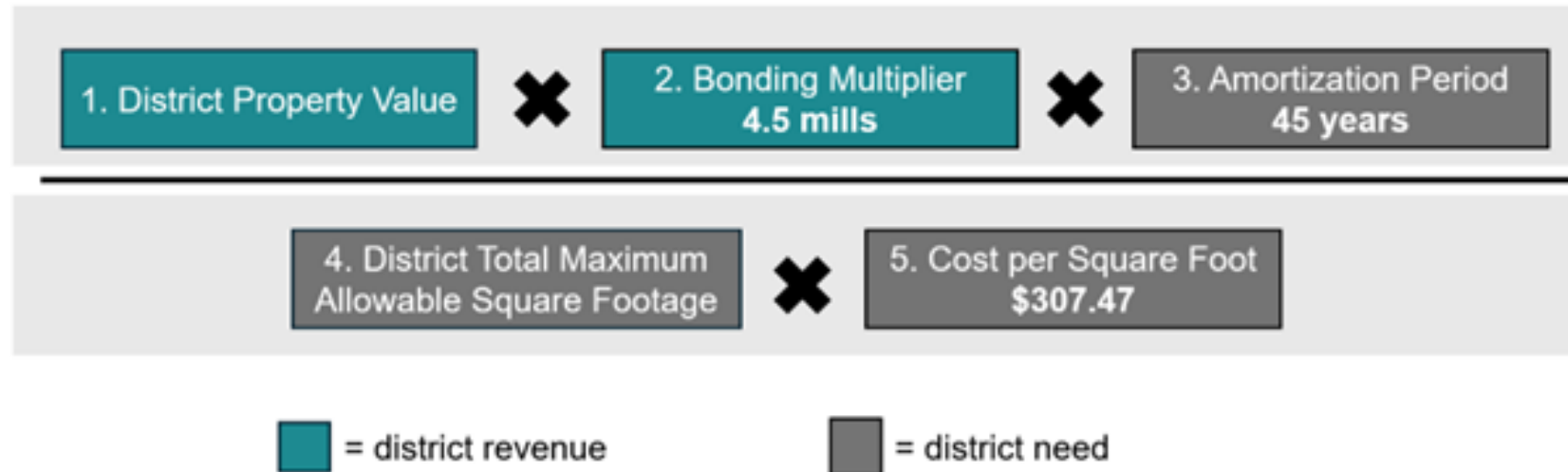
- The current formula, also known as the “phase two” formula, was implemented starting in FY19, with several goals:
 1. Better reflect a school district's ability to pay.
 2. Utilize statewide adequacy standards to determine district facility needs.
 3. Consider differences in per-student facility construction and maintenance costs.
- The formula makes several assumptions to achieve these goals.

Issues with the current formula

Assumption:	But...
School districts will implement certain local revenue generation mechanisms available.	School districts may not utilize tax levies to the level the formula expects.
The statewide adequacy standards accurately reflect how much square footage a student needs.	The adequacy standards may not cover district priorities and have not been studied by any agency besides PSFA.
It costs \$307.47 per square foot to replace a school.	Recent construction costs have been 2-3 times the assumed cost per square foot.
Schools will be replaced evenly over a 45-year period.	Many districts built their schools all at once, meaning many require replacement at the same time, and few use revenues in a predictable, long-term pattern.
It costs more to build schools in rural areas of New Mexico.	Construction costs are high throughout the state.

Calculating the local match

1. Unweighted Local Match



2. Post- Calculation Adjustment

Maximum Local Match:

The maximum match is 94 percent

Population Density Factor:

For rural districts: 12 percentage points

For semi-rural districts: 6 percentage points

For urban districts: No local match reduction

Assumption: Rural districts need more support

Expiration of SB131

- SB131 established temporary, across-the-board reductions to the local match to address affordability concerns.
- The temporary reductions equated to half for districts with fewer than 200 students and one-third for everyone else.
- The reductions are scheduled to expire in FY27.
- Absent further legislation, the phase 2 formula will be fully implemented, leading to across-the-board increases in state-local matches.

Potential options for formula revision

- **Option 1 — Do Nothing:** Temporary SB131 match reductions expire in 2027 with no other legislative action. Phase 2 formula is implemented without across-the-board match reductions.
- **Option 2 — Shorten Amortization Period and Increase CSF Factors:** Shorten the amortization period to 40 years and raise the cost-per-square-foot factor based on the producer price index.
- **Option 3 — Replace the Formula with a Project-Based Match Calculation**

*Option 2 represents tweaks to the existing formula while **Option 3** would replace the formula. Either approach could be implemented in tandem with a new framework for match reductions.*

Option 1 Impact Summary – All 89 Districts

Option 1: Do nothing

0 pts

Smallest change
Zuni & Grady — unaffected, already at 0%

+47 pts

Largest change
Vaughn — rises from 47% to 94% match

+22.4 pts

Average change
across all 89 districts

Takeaway: Absent legislative action to extend temporary reductions or revise the formula, the average district's local match will rise by more than 22 percentage points.

Option 1 Impact Summary – Examples

How would Option 1 would impact three example districts with a hypothetical \$50 million project?

\$20.5 million



\$31 million

Estancia +21%

\$2 million



\$3.5 million

San Jon +3%

\$31.5 million



\$47 million

Carlsbad +31%

Stakeholder Feedback



Option 2 Impact Summary – All 89 Districts

Option 2: Shorten Amortization to 40 yrs + Increase CSF by PPI — vs. Current Status Quo

26

Districts increase
avg +20.2 pts

61

Districts decrease
avg -7.1 pts

2

Districts unchanged
Zuni & Grady

+1.0 pt

Average change
all 89 districts

Takeaway: Shortening the amortization period and increasing the cost per square foot factor brings the statewide average close to net-neutral. **Most districts — 69% — benefit relative to the status quo, with an average decrease of 7 percentage points.**

Option 2 Impact Summary – Examples

How would Option 2 would impact three example districts with a hypothetical \$50 million project?

\$20.5 million



\$15.5 million

Estancia -5%

\$2 million



\$0

San Jon -4%

\$31.5 million



\$47 million

Carlsbad +31%

Stakeholder Feedback



Option 3 – Project-Specific Match Calculation

Rather than one district-wide rate set in advance, cost sharing would be set project by project — as Ohio does — using the factors New Mexico already values: square footage need, construction cost, and ability to pay.

1. Readiness Checklist

- Current five-year facilities master plan
- FMAR maintenance score of at least 70% (new)
- School ranks in the top XX on the wNMCI list
- Timeline guardrails for larger districts with multiple projects (new)

2. Project Cost Estimation

- Maximum allowable square footage per adequacy standards; space above is district-funded
- Base construction cost per square foot
- Multiplier for size and geography (1.00 to 1.40)

3. Financial Diagnostic

- Five-year property valuation and bonding capacity
- Current bonding indebtedness
- Ability to pay: sustainable debt level, or XX mills over XX years
- Credit for SB9 / HB33 revenue; bond debt closes the gap

Stakeholder Feedback



Incentive-Based Waivers

- A new approach to waivers could be paired with formula adjustments or a project-specific match.
 - Provides continued flexibility to address affordability in a dynamic construction environment while also making progress toward statewide policy goals.
 - The incentives would be stackable, providing districts the opportunity to secure larger, performance-based local match reductions.
- ✓ Prototype designs
 - ✓ Consolidation of schools, campuses, or districts
 - ✓ Other right-sizing
 - ✓ Local mills
 - ✓ Stellar maintenance record
 - ✓ Adequate maintenance budgets
 - ✓ Charter school facility partnerships
 - ✓ Increased enrollment

Stakeholder Feedback



District and charter leader advisory group

- LESC, LFC, and PSFA staff held a superintendent and charter school leader advisory group to gather preliminary feedback on the preliminary policy considerations in this presentation.
- The advisory group was generally favorable to adjusting the existing formula, with caveats.
 1. Adjusting the current cost per square-foot factor only by inflation was generally seen as insufficient and unresponsive to recent cost trends.
- Superintendents demonstrated interest in a project-specific match but the group was reluctant, largely because of a lack of details and implementation considerations.
- There was a broad interest in stackable, incentive-based waivers that align with statewide policy goals.

Potential revisions to policy considerations

- Based on the feedback received from the superintendent and charter school leader advisory group, LESC, LFC, and PSFA staff may revise the preliminary policy considerations included in this presentation.
- The potential revisions may include further adjustments to the existing formula's cost per square-foot and amortization adjustments, based on ongoing internal work to determine a responsive cost assumption, as well as future, annual inflation adjustments through PSCOC.
- Another potential revision may include the introduction of a pilot project-based match that is available to school districts at the max local match, and districts with absolute bonding capacity below a certain threshold.
- Staff is continuing to collaborate on the stackable incentive-based waiver framework.
- Potential revisions may also include a reduction in the maximum local match.

Next steps

- LESC, LFC, and PSFA staff will draw on feedback from the task force and other stakeholders in the continued inter-agency collaboration around a potential policy framework that would revise the state-local match formula, accompanied by a framework of incentive-based waivers.
- The resulting proposal will be presented to LESC and LFC during each committee's interim meeting in November.

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