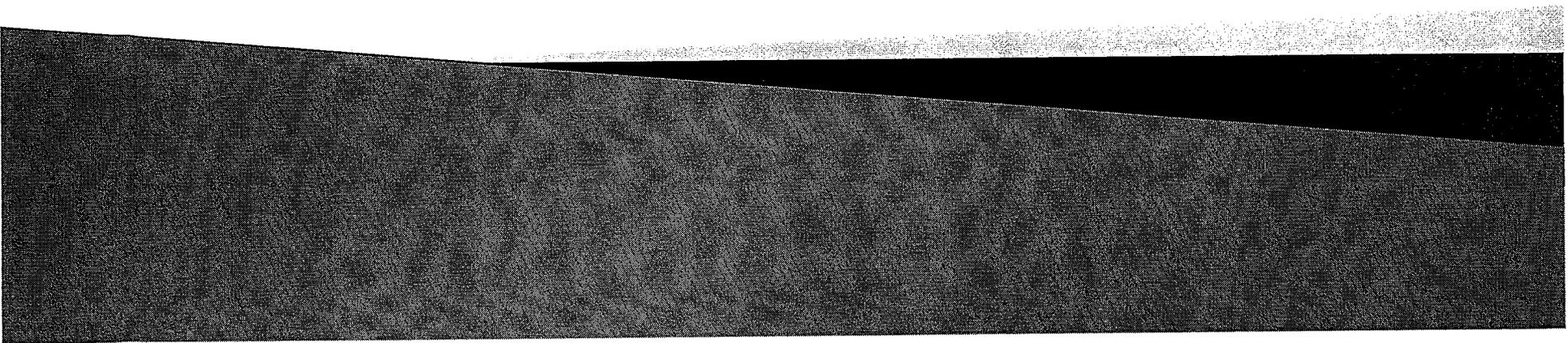


LFC Program Evaluation –
*Charter School Facilities Lease Assistance
and Capital Outlay Planning*

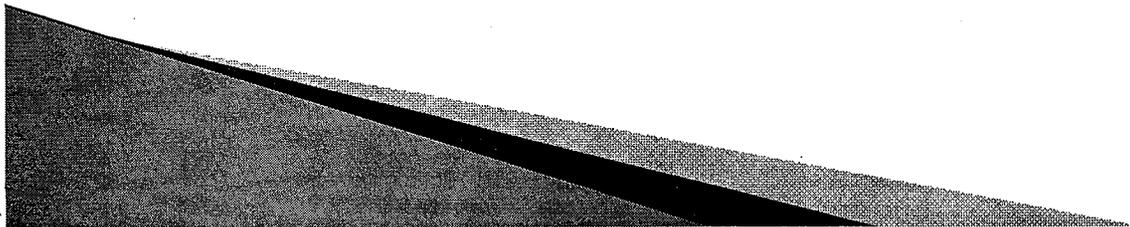
Charles Sallee, Deputy Director
Legislative Finance Committee

Presentation to NMFA Oversight Committee, Sept. 2013

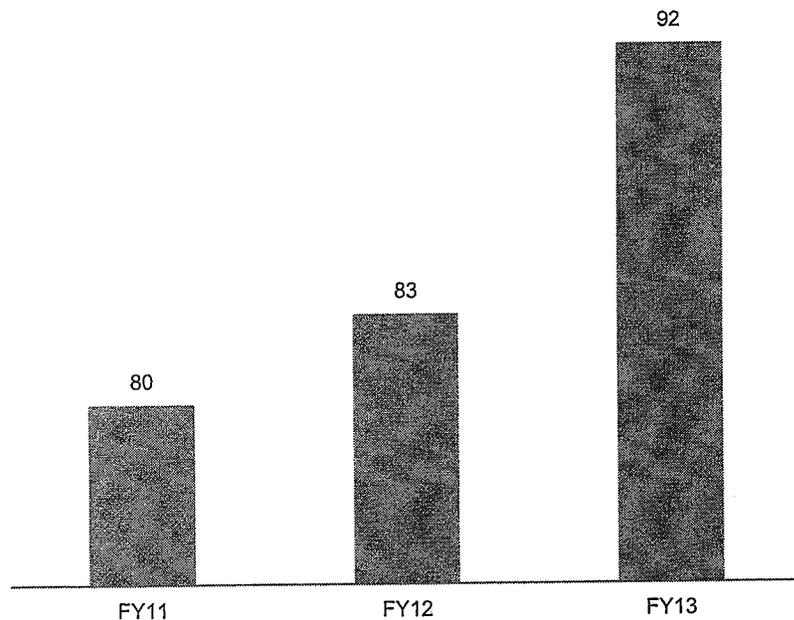


Overview

- ▶ January 2013 Report
- ▶ Background
- ▶ Objectives
 - *Review of charter school leases to determine if leases are providing the best value for the state.*
 - *Assess charter school facility budgeting and planning.*
- ▶ Key Findings
 - *Charter schools pay excessive lease costs at taxpayer expense.*
 - *Additional costs and questionable space utilization are major factors in the high cost of charter school leases.*
 - *Lack of oversight and planning cost the state millions of dollars.*



Background



Source: PSCOOTF

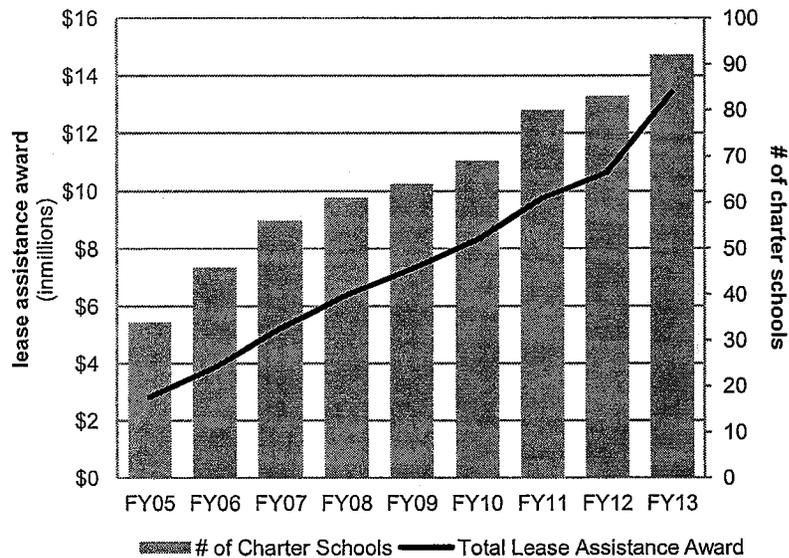
- ▶ Public Schools
- ▶ Multiple Funding Sources for Operations and Facilities
- ▶ Dedicated Lease Assistance funding.
- ▶ The facilities typically different from traditional schools – most do not have cafeterias, gymnasiums, and science labs.
- ▶ Charter schools face unique challenges that traditional schools do not, such as securing long-term facilities.
- ▶ Charter schools lease property in various locations such as office buildings, warehouses, churches, and portable buildings.

Number of Charter Schools

Overview

Lease Costs

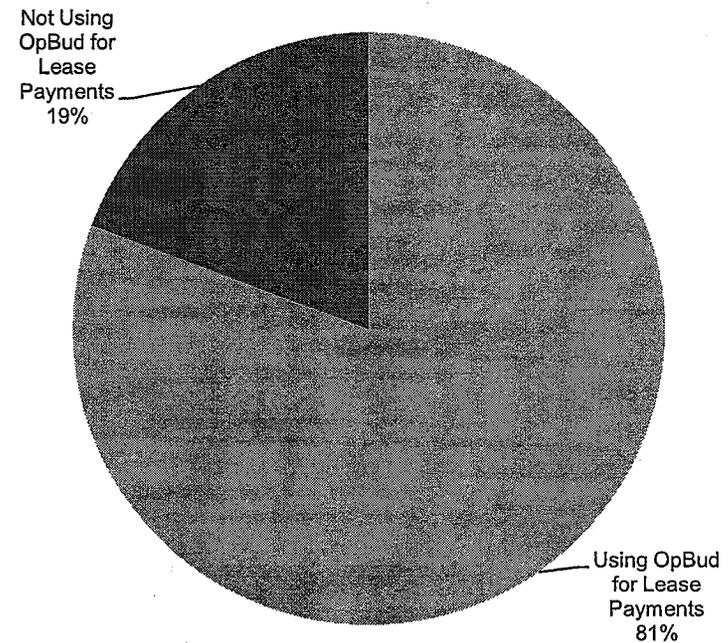
Chart 3. Total Lease Assistance Awards and Charter Schools, FY05-FY13*



Source: PSCOOTF

*FY12 numbers are preliminary and FY13 are an estimate

FY12 Proportion of Charters Using Operating Budgets (OpBud) for Lease Payments



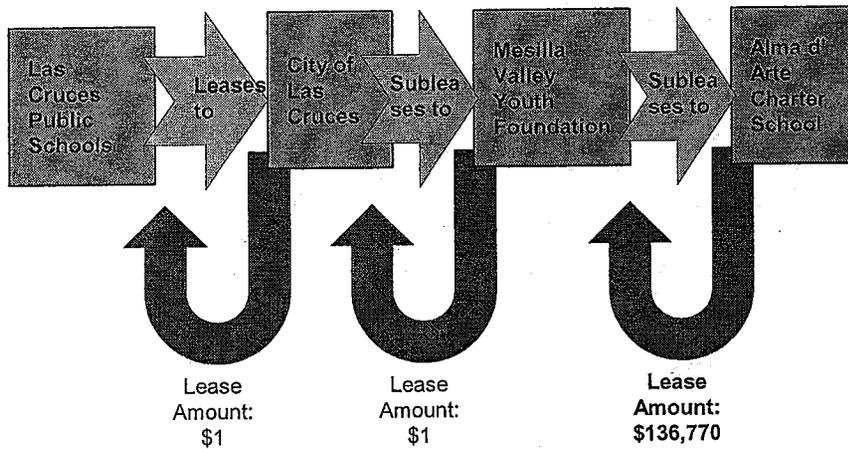
Source: PED

Lease Assistance Funding

Using Operating Funding for Capital

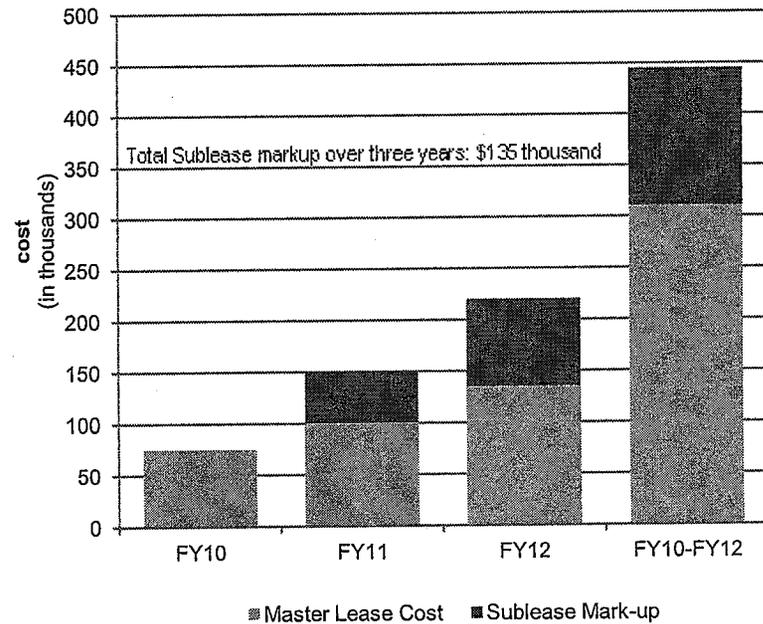
Lease Cost Drivers

Sublease Flow Chart and 2013 Lease Payments of Alma D' Arte Charter School



Source: Lease Agreements

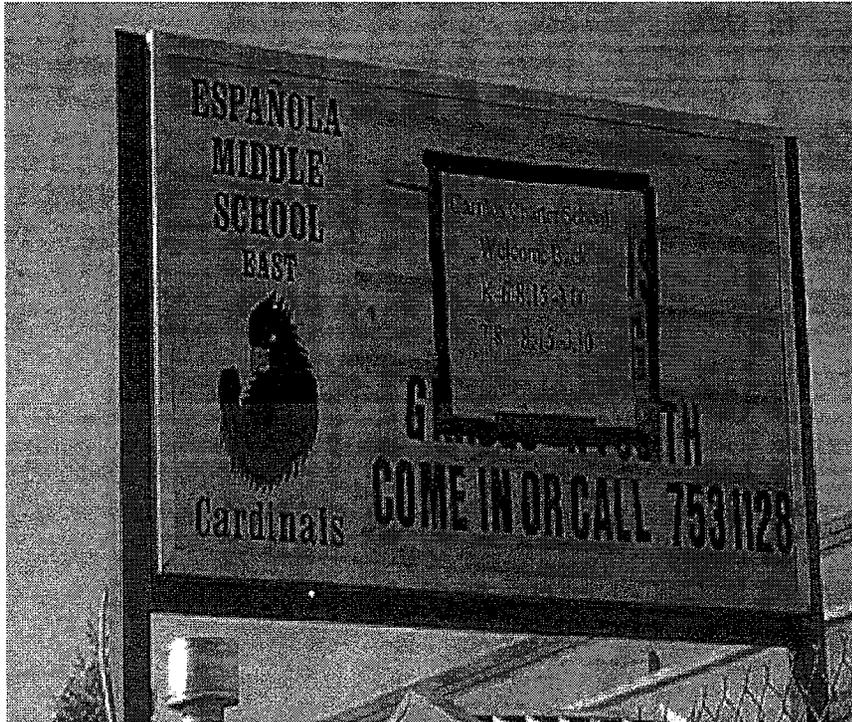
Construction Advancement Program's Markup on Sublease with ACE Charter School



Source: Lease Agreements

Charter school foundations and other third parties are driving the cost of charter leases higher than necessary, costing the state millions of dollars.

Lease Cost Drivers



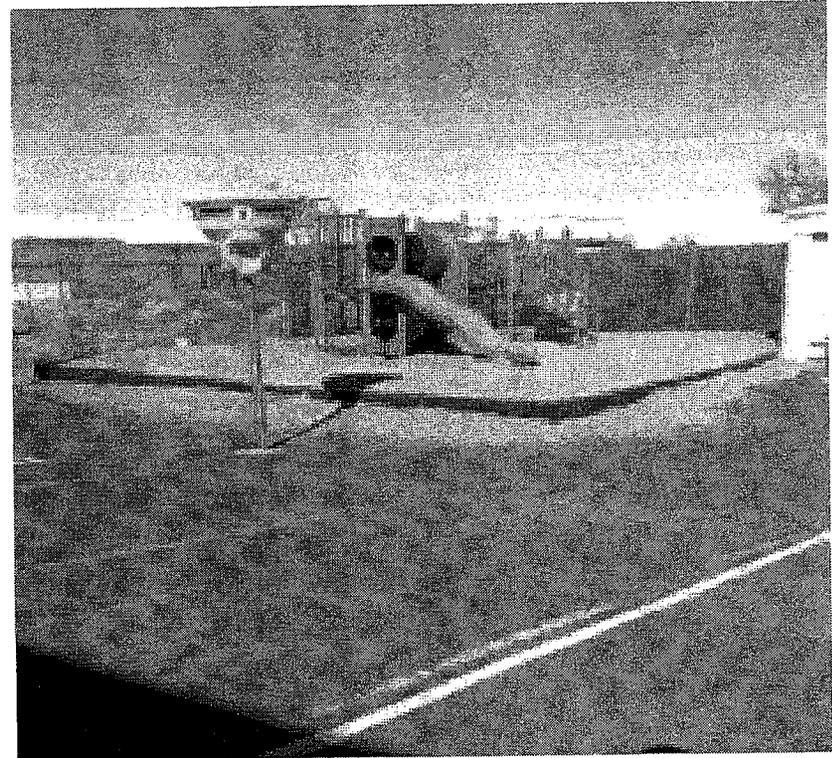
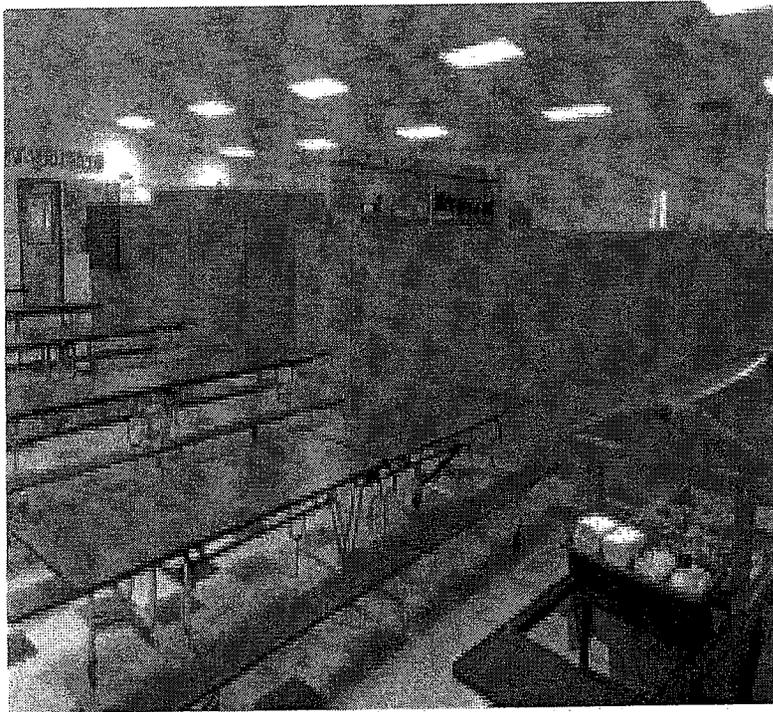
Albuquerque School of Excellence				
(in thousands)				
	Annual Rent	Increase \$	Increase %	Cumulative
Year 1	\$300			
Year 2	\$396	\$96	32%	32%
Year 3	\$468	\$72	18%	50%
Year 4	\$528	\$60	13%	63%
Year 5	\$588	\$60	11%	74%
Total		\$288		96%

Source: Lease Agreements

School districts are collecting the maximum allowable lease payments for portables and land that taxpayers have already paid for.

Expenses beyond base rent drive up lease payments for schools. Poor oversight and mismanagement of tenant improvements has been expensive for taxpayers.

OVERSIGHT AND PLANNING



Charter schools are being approved before they have facilities resulting in schools with temporary locations and unplanned leases. Need better attention to conflicts of interest.

Recommendations

- ▶ Statutory Changes:
 - amend statute to require new charters or charters relocating (after July 1, 2013) to meet public space and adequacy requirements before students may attend. Remove requirement to “have a plan.”
 - require lease amounts to be approved by PSCOC and eliminate the \$700 per MEM and replace with justified per-square-foot costs or square foot per MEM as determined by the Council.
- ▶ The PSCOC and PSFA should:
 - require review and provide possible renegotiation assistance for leases above market rates. PSCOC should continue the practice of deferring lease payments until high costs are justified.
 - classify as ineligible for lease assistance, a charter school not meeting statutory facility standards (see Appendix B)
 - develop and require the use of a standardized PSFA approved lease format.
 - require tenant improvements be funded by HB33 proceeds and require the use of local match, as provided for by Section 22-20-1 NMSA 1978. Tenant improvements should be approved in advance by PSFA.
 - use lease assistance only for base lease amounts, and prohibit the inclusion of any other costs.
 - require charter schools submit for approval all leases and amendments.
- ▶ SB333 (Pocket Veto) would have addressed some of recommendations, including conflict of interest issues identified in the report.