



REVIEW OF PUBLIC SCHOOL CAPITAL OUTLAY ACT POLICY AND FUNDING FORMULA ISSUES

2015 INTERIM UPDATE

The original version of this brief was prepared by the Public School Facilities Authority staff for the task force's consideration in the 2012 legislative interim. Portions of it have been updated by Legislative Council Service staff members for consideration during the 2015 interim.

By 2022, implementation of HB 236 (2015 legislature) will result in a phased-in split of bond payments from the STPF and deposits to the STPF from 95% and 5% to 86% and 14%.

Most stakeholders agree that the state share funding formula, as formulated in the Public School Capital Outlay Act (Section 22-24-5 NMSA 1978), together with the possibility of a partial or total waiver of a school district's local share, has generally performed very well as an "equalizing" mechanism since its implementation during the 2004 funding cycle. The Public School Capital Outlay Council (PSCOC), however, has heard from some districts that the state-local share division of funding at times appears to be confusing, sometimes seeming

to be insufficient or other times too generous. With PSCOC program revenues flat and projected to decrease over time, the task force has included in its 2015 work plan an examination of the formula computation and a discussion of possible modifications.

THE FORMULA AS AN EQUALIZING AGENT

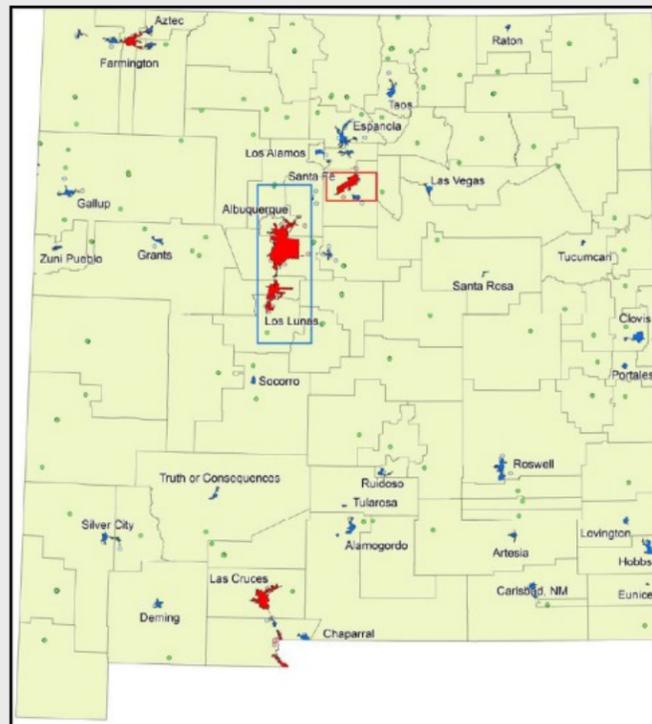
One of the chief complaints of the funding formula from some school districts concerns its effectiveness as an equalizing agent. In practice, the impact of state- and local-share program

The state-local match formula is designed to provide a statewide average of state and district participation at approximately an average ratio of 50% - 50%.

Historically, the participation in the past 10 years has been closer to 65% state, 35% district.

funding has been to allow some districts to build projects beyond established adequacy standards while other districts are not allowed to do so. For example, school districts with considerable property tax wealth have a scale-to-size advantage over districts with less property tax wealth. While implementation of the funding formula was designed to correct inadequacies faced by property-tax-poor districts, participation in the state-local share match appears to have freed up local funding to be used to build larger facilities that are above established adequacy standards in those districts with average and above average per student property tax valuation. On the other hand, small districts, especially those with relatively low

property tax valuation, sometimes do not have sufficient local bonding or mill levy capacity even to provide the required match for them to participate in the Public School Capital Outlay Act funding. When certain criteria are met, the PSCOC may allow a school district to waive part or all of its local



2010 U.S. Census

- UA
- UA-5
- UC
- UC-5
- R

Urbanized Area (UA) – Area that consists of a population of greater than 50,000.

Based on the 2000 U.S. Census, the Census Bureau identified five urbanized areas in New Mexico, including Albuquerque, Las Cruces, Farmington, Santa Fe and the New Mexico portion of the El Paso metropolitan area (Sunland Park and Anthony).

Urban Clusters (UC) – Area that consists of population greater than 2,500 and less than 50,000.

foot (GSF) needs on a per student basis are greater for schools in small, rural school districts.

More densely populated urban school districts typically have an advantage in building school facilities because of their larger tax base since more densely populated areas generally have higher property valuations per MEM.

CAPITAL OUTLAY FUNDING FORMULA POLICY ISSUES

Following is a listing of a few policy issues related to the current Public School Capital Outlay Act that have been brought before the PSCOOTF and documented in the past five years:

- reduce the state share for school districts with high density populations;
- reduce restrictions on eligibility for a local match waiver (see **APPENDIX D** for current waiver requirements);
- strengthen "recalcitrant district" language in the Public School Capital Outlay Act; and
- reduce square footage allowances in the Adequacy Planning Guide.

share. However, if a school district with sufficient per student property tax valuation chooses not to ask voters to impose an adequate property tax rate, granting a waiver becomes a more difficult option to consider.

In the past, the PSCOC has awarded advances that have served as an incentive to school districts to pass a bond or mill levy. But as revenues decrease as a result of passage of legislation during the 2015 session, the awarding of advances may have a negative effect on other current and future public school capital needs.

PUBLIC SCHOOL CAPITAL OUTLAY ACT STATE-LOCAL MATCH FORMULA

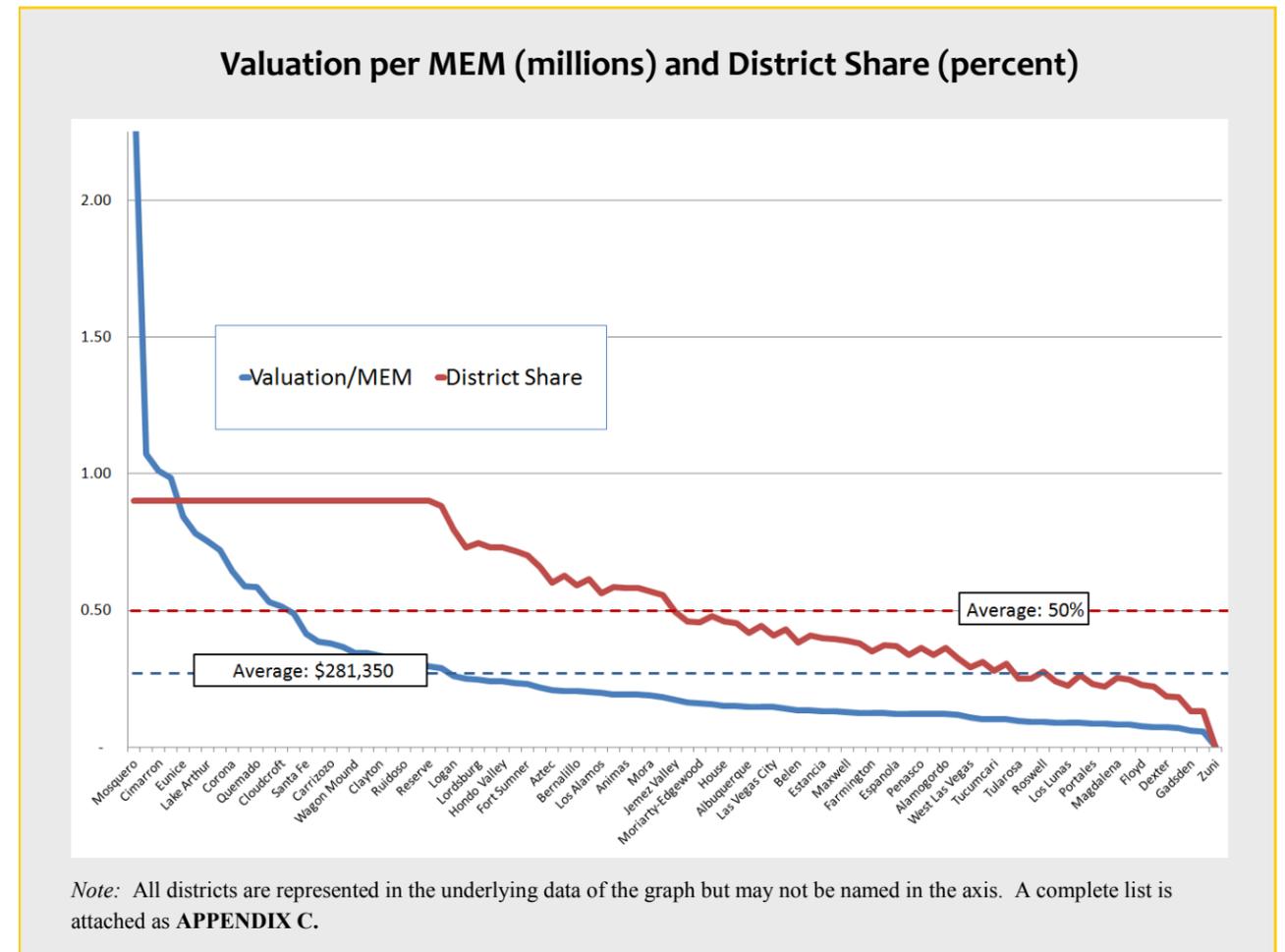
Developed in response to the judge's order in the *Zuni* lawsuit, the state-local match formula is the basis of the current standards-based process in the Public School Capital Outlay Act. Legislation passed during the 2003 legislative session and endorsed by the Public School Capital Outlay Task Force (precursor to the current Public School Capital Outlay Oversight Task Force (PSCOOTF)) established the state-local match and related offset provisions. Aside from establishing a dedicated funding source, it is one of the most significant responses to implementing the judge's order in the *Zuni* lawsuit.

The intent of the state-local match formula is to equalize funding of public schools through the PSCOC award process by having an effect on two disequalizing realities:

1. because direct legislative appropriations for public school capital outlay purposes are the result of a political process, they cannot be allocated in an equalized manner for school district facilities in various school districts; and
2. because the ability of a school district to raise sufficient funding for school capital outlay needs is primarily based on assessed property valuations per student, school districts with more property tax wealth per student have an advantage over other districts with less property tax wealth per student.

The state-local match formula in the Public School Capital Outlay Act addresses these two issues by adjusting the size of the state grant award made through the standards-based process; however, the equalizing effect of current law governs only those situations in which a district actually applies for Public School Capital Outlay Act funding. School districts that choose not to participate in the Public School Capital Outlay Act standards-based funding process may receive state funding only through voter approval of a mill levy according to provisions of the Public School Capital Improvements Act (also called "SB 9" and the "two-mill levy").

The Public School Capital Outlay Act is attached as **APPENDIX A**. The graph on the following page shows the district share calculation with the assessed property valuation per student member (MEM).



APPENDIX B provides a description of the formula calculation based upon statutory language.

EFFECT OF SIZE OF SCHOOL DISTRICT'S PER STUDENT PROPERTY TAX BASE

Over the past 10 years or so, state share participation funding of the standards-based program freed up local funding to build "above adequacy" in larger school districts with a substantial property tax base. To the extent this effect is neither a desirable nor intended effect, could the current state-local share formula include population density as a factor in calculating the state-local match? Should population density or some other variable be added to adjust the state match?

Rural districts with small student populations tend to be at a disadvantage because they simply cannot use facility space as efficiently as districts that are densely populated. They are necessarily less space efficient because, even with a small student population, required core classroom spaces, such as food service, administration, libraries and multipurpose rooms, can be the same or similar in size as school districts with larger student populations. Gross square