

Public School Capital Outlay Council Finances,
Funding Allocations and Facilities Condition Index
Presented to:

Public School Capital Outlay Oversight Task Force
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By:

Jeff Eaton, Chief Financial Officer, Public School Facilities Authority (PSFA)
Pat McMurray, Senior Facilities Manager, PSFA
Chris Aguilar, Facilities Data Manager, PSFA

The Public School Capital Outlay Council and the legislature use supplemental severance tax bond proceeds budgeted in the Public School Capital Outlay Fund for several purposes pursuant to the Public School Capital Outlay Act¹. Generally, the uses are:

1. State match distributions for Capital Improvements Act (aka “SB-9”);
2. Lease assistance awards;
3. Master plan awards;
4. PSFA’s fiscal year operating budget; and
5. Standards-based project awards

Annually, approximately 25% of SSTB proceeds are for uses 1-4, with the remaining 75% for standards-based projects. The PSCO Act specifies these uses but may also use money in the fund generally for “capital expenditures deemed necessary by the council for an adequate educational program”.² Recently, the legislature has through the capital outlay bill for statewide projects, made appropriations from the public school capital outlay fund for various other purposes (See Table 1. “Detailed Use of Education Capital” on following page).

Prior to 1999, public school capital outlay funding received for school projects were made annually by the legislature, to the PSCOC program formerly known as “critical capital outlay”. The source of funds ranged from general fund and (statewide) general obligation bond proceeds, to senior severance tax bond proceeds. Annual appropriations were highly variable from year to year. In 1999-2000, the litigant districts in the Zuni lawsuit successfully challenged

¹ See PSCOC Financial Plan Summary, August 27, 2013 (Attachment A.)

² 22-24-4(B) NMSA 1978.

the constitutionality of New Mexico's school capital outlay financing practice and required the State to establish and implement a uniform system to fund future public school capital improvements. Supplemental severance tax bonds were created to provide a dedicated funding stream for public school capital improvements and the system referred to as "standards-based" was developed to prioritize greatest funding needs.

PSCOC Finances, SSTB's and the Severance Tax Permanent Fund

Between 1982 and 1999, the state bonding program operated so that 50% of the severance taxes were used for statewide capital projects and the other 50% deposited into the Severance Tax Permanent Fund. But as a result of the Zuni Lawsuit, the Legislature amended the law to allow (up to) 45% of the balance of the deposits in the Bonding Fund to be used instead for issuing supplemental severance tax bonds for public school capital outlay. The last 5% remains for transfer to the Permanent Fund.³ Since 2001, the Board of Finance has issued SSTBs for PSCOC programs totaling \$1,779,691,542.⁴ The Special Master assigned by the federal court to oversee the state's progress acknowledged the states' efforts in remedying the issues brought by the litigant districts yet the Zuni Lawsuit remains open.

Table 1. PSCOC ("Educational Capital") and Other Bonding Program Uses (millions)

Uses of Bond Funds	FY14	Pct(%)
GO Bonds (Statewide Capital Projects)	155.0	24%
Statewide Capital Projects	250.1	39%
Water Projects	31.3	5%
Colonias Projects	15.6	2%
Tribal Projects	15.6	2%
Education Capital	180.7	28%
Total	\$648.3	100%

Detailed Use of Education Capital:	FY14	Pct(%)
SB-9	19.8	11%
Lease Assistance	13.0	7%
PSFA Operating	5.6	3%
School Buses (SB60)	13.0	7%
Pre-kindergarten classrooms (SB60)	2.5	1%
NMSD Projects (district share) (SB60)	7.3	4%
NMSBVI Projects (district share) (SB60)	7.3	4%
PSCOC Standards Based Projects (state share)	112.2	62%
Total	\$180.7	100%

Source: December 2012 Consensus Revenue Estimate, PSFA files , SB60 (Laws 2013, ch. 226, §§ 52, 53, 54).

³ The legislature has increased the limit to issue supplemental sponge notes several times: capped at 75% of the deposits into the Bonding Fund during the preceding fiscal year (Laws 2000 (1st S.S.), ch. 6, § 7); then raised to 87.5% (Laws 2000 (2nd S.S.), ch. 11, § 2); and raised again to 95% (Laws 2004, ch. 125, § 2). Memo to State Board of Finance from Sutin, Thayer & Browne, August 16, 2011 (Attachment B.)

⁴ See Attachment C. "Department of Finance and Administration: Appropriations by Agency: Agency Code94000" Date: 09/04/2013. Note: does not include senior severance tax bonds totaling \$190,899,999.54. listed on report.

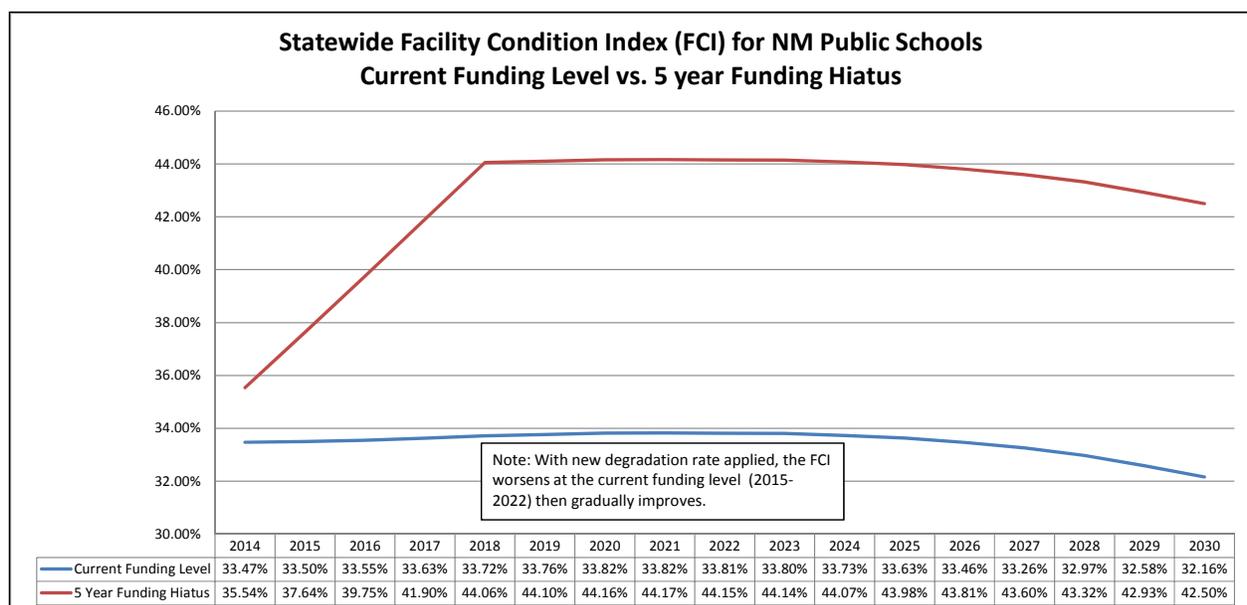
PSCOC Funding Outlook

The PSCOC Financial Plan utilizes the most recent bond forecast provided by the Consensus Revenue Estimators (Current: December 2012). On average, revenues available annually for “Education Capital” total \$193 million (FY14-FY17). Accounting for the other uses, the average available for use for PSCOC Standards-based Projects is \$153.1 million.

Sources	Avg.				
	FY14	FY15	FY16	FY17	FY14-17
Education Capital (SSTB's)	180.7	191.5	198.9	200.7	\$193.0

Uses	Avg.					Pct(%)
	FY14	FY15	FY16	FY17	FY14-17	
SB-9	19.8	20.0	20.2	20.4	\$20.1	10%
Lease Assistance	13.0	13.6	14.3	15.0	\$14.0	7%
PSFA Operating	5.6	5.9	5.9	5.9	\$5.8	3%
School Buses (SB60)	13.0	-	-	-	\$3.3	2%
Pre-kindergarten classrooms (SB60)	2.5	-	-	-	\$0.6	0%
NMSD Projects (district share) (SB60)	7.3	-	-	-	\$1.8	1%
NMSBVI Projects (district share) (SB60)	7.3	-	-	-	\$1.8	1%
PSCOC Standards Based Projects	112.2	152.0	158.5	159.4	\$145.5	75%
Total	180.7	191.5	198.9	200.7	193.0	100%

To maintain the overall statewide facility condition (FCI), the PSFA estimates that the state PSCOC Standards-based program should be at or about \$140.3 million.⁵ This is based on a total of \$359.8 million in capital renovation and repairs that is estimated must be made annually (from all sources, state and local) to maintain the current school Facility Condition Index of 34.62%. Funding at a lower level could place the state’s investment in school facilities at risk, as funding gaps may increase the rate of school facility degradation.

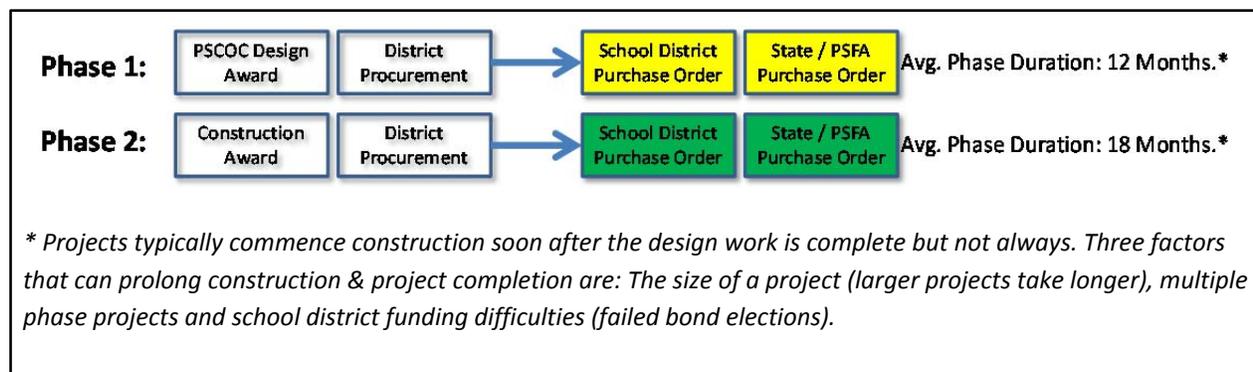


⁵ Last updated January 2013 for PSCOC Legislative Brochure.

The lower blue line indicates the statewide average school facilities condition utilizing the full \$367 million annually from all funding sources (local share 61.1%). The red line indicates removal of school construction funding (from all sources, state & district match) for five years. While this scenario is not likely, it is intended to demonstrate that reduced funding will result in a decline in the average statewide school facilities condition (higher FCI score) that will be difficult to recoup.

Funding Allocations

Annually, the PSCOC solicits applications from school districts with facilities in greatest need of repair and/or renovation – usually those in the top 60 or 100 on the Ranked List.⁶ Successful applicants receive state matching funds in two phases: Phase 1 – Planning & Design, Phase 2 - Construction.



Utilizing a two phase funding approach, the PSCOC achieves a more efficient flow of funds as well as more accurate projections of anticipated funding for both the planning and design phase and the construction phase (See Attachment E. “PSCOC Project Encumbrance Schedule Detail).

Phase 1 Funding – Planning & Design

Typically around 10% of anticipated Total Project Cost, Phase 1 funding includes cost for “Early Planning” Phase of the Project including:

1. Cost for Educational Specifications, hiring an Educational Planner, if needed.
2. Cost for a Feasibility Study if determining whether to renovate/remodel/replace.
3. Cost for pre-design services (site surveys, geo-tech & hazmat testing)
4. Cost to enter into an Owner/Architect Agreement; resulting in programming, schematics, Design Development, and Final Construction Documents.

⁶ See Attachment D. “2013-2014 wNMCI PRELIMINARY Ranking, Sorted by Rank”

The result and chief benefit of early planning, and phasing the funding, is a better defined scope of work. This method provides actual project cost details from the selected and approved general contractor(s) through various project delivery methods:

1. Low Bid
2. RFP – Qualifications Based Selection
3. Construction Manager At Risk (CMAR)

Due to the fact that the Phase 2 funding request is based on actual general contractor costs as described in the construction documents (either Low Bid, RFP or CMAR), we ensure that the requested funding is sufficient, but not excessive, for the project completion (barring any unknown conditions).

By this method, which we call “Just in Time Funding”, PSCOC funds begin flowing through the local economy within 3 to 4 weeks after the (Phase2) construction funding is awarded by the PSCOC.

PSCOC Fund Project Encumbrance Schedule Detail

		FY14 Phase 2 Awards Outlook								
		July 2013 - June 2014								
		(millions)								
		Phase 1 - Design Award		Phase 2 - Construction Award						
		FY09	FY10	FY11	FY12	FY13	FY14			
District	School Facility						Q1	Q2	Q3	Q4
Alamogordo	Yucca ES Renovation			\$0.3						\$3.7
Alamogordo	Yucca ES New School		\$0.7				\$6.5			
Albuquerque	Douglas MacArthur ES				\$0.0			\$1.8		
Albuquerque	McKinley MS				\$0.4			\$3.8		
Belen	Family School				\$0.0				\$1.6	
Bernalillo	Bernalillo HS				\$1.4			\$18.4		
Bernalillo	Santo Domingo ES/MS					\$0.7				\$6.0
Capitan	Capitan ES/HS					\$0.5				\$1.4
Central	Naschitti ES					\$0.5		\$4.3		
Clovis	James Bickley ES	\$0.6						\$9.8		
Espanola	Velarde ES				\$0.0					\$2.7
Espanola	E.T.S. Fairview ES				\$0.8			\$9.1		
Espanola	Los Ninos Kindergarten					\$0.1				\$1.5
Farmington	Farmington HS					\$3.2				\$28.5
Gadsden	Gadsden HS	\$0.0				\$11.3				\$14.9
Gallup	Church Rock Academy			\$0.9					\$8.0	
Los Alamos	Aspen ES			\$0.3				\$5.7		
Los Lunas	Los Lunas HS			\$2.4	\$23.5					\$24.6
NMSBVI	NMSBVI Site Improvements					\$0.3		\$1.5		
NMSD	Site (Santa Fe Campus)					\$0.3				\$6.3
West Las Vegas	West Las Vegas MS					\$0.1			\$4.5	
		\$6.5	\$54.3	\$14.1	\$89.6					

PSFA tracks specific project cash flow beginning with the Phase 1 – Planning & Design as well as Phase 2 – Construction by Fiscal Year and Calendar Year by Monthly Quarters. This documentation gives all involved a transparent view of each projects anticipated required funding needs and when and how much to certify to the Board of Finance based on specific project schedules (See Attachment E. “PSCOC Project Encumbrance Schedule Detail”).

Project Status Report - PSR

The PSR is a monthly report to the PSCOC that includes project progress, current status of funding committed and expended and includes specifics of each projects progress from the regional managers (See Attachment F. for complete “Project Status Report”).

PSCOC Project Status Report		Legend					Legend				Legend				
08/23/2013		Non Applicable	On Schedule	Behind Schedule	Behind Schedule, No Progress	PP	DD	C	FC	PC	PP = Project Planning - Developing RFP/Contracts for Est Spec Writer, Development and Approval of Est Spec.	TOTAL	COMMITTED	EXPENDED	BALANCE
Alamogordo Public Schools	K13-007	K13-007 Yucca Elementary Pre-Kindergarten Classroom	0%	100%	0%	0%	0%	0%	0%	This project schedule will adhere to that of P11-001 (APSD Yucca ES renovation), which is in RFP for construction selection. Construction will be delayed until near substantial completion of P11-002 (APSD new ES). Substantial completion of P11-002 is currently expected on 11-05-14.	\$0.00	\$0.00	\$0.00	\$0.00	
Alamogordo Public Schools	P11-001	P11-001 Yucca Elementary School Renovation	0%	87%	0%	0%	0%	0%	0%	95% CDs will be held until 11-2013 to allow for development of P11-002 (new ES). P11-002 has a 09-06-13 to 11-06-14 construction phase. This project has a 05-13-14 to 08-17-15 construction phase. First six months will be exterior renovation to be done while Yucca ES is occupied.	\$266,056.00	\$122,513.08	\$63,859.07	\$143,542.92	
Alamogordo Public Schools	P11-002	P11-002 Yucca Elementary (New School)	0%	100%	0%	0%	0%	0%	0%	The original site was abandoned due to excessive development costs. A new site has been established at the soccer complex just north of the existing Mountain View MS. RFP for GC are completed and recommend to school board is scheduled for 8/21/2013.	\$720,563.00	\$504,298.08	\$343,063.08	\$216,264.92	

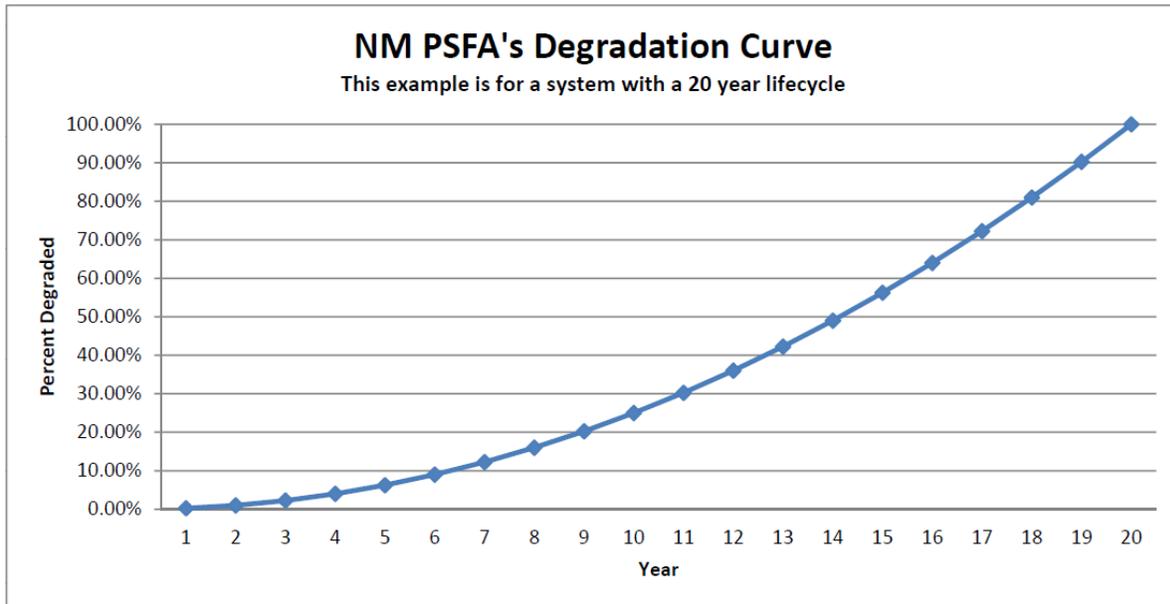
Facility Condition Index

Out-year projections on funds needed to maintain FCI and explanation of methodology used to calculate:

A life-cycle renewal requirement exists when a building system is in use beyond its expected life. Each building system is assessed against the original install or last renovation date to determine the percent-used based on BOMA system lifespan. For example, a roof that has a 20-year life expectancy, installed in 1984, would be considered 100% used in the year of 2005. It is important to note that an incremental life cycle renewal requirement is generated even though the system or equipment may still be functioning effectively and is within its lifecycle. In this regard, the FAD also captures degradation costs for building systems which are less than 100% used. The deterioration in quality, level, or standard of performance of a functional unit is taken into account through the equation:

$$Percent\ Degraded = \frac{(Current\ Age\ of\ System)^2}{(System\ Expected\ Life)^2}$$

The following graph illustrates this degradation (*this example is for a system with an expected life of 20 years.*)



The job of determining when building systems need to be renewed is done by performing a Facility Condition Assessment. This analysis can be done by walk-through inspection, mathematical modeling, or a combination of both. The most accurate way of determining the condition requires on-site examination. Once the examination data has been collected, appropriate estimates to correct the deficiencies are prepared and entered into FAD.

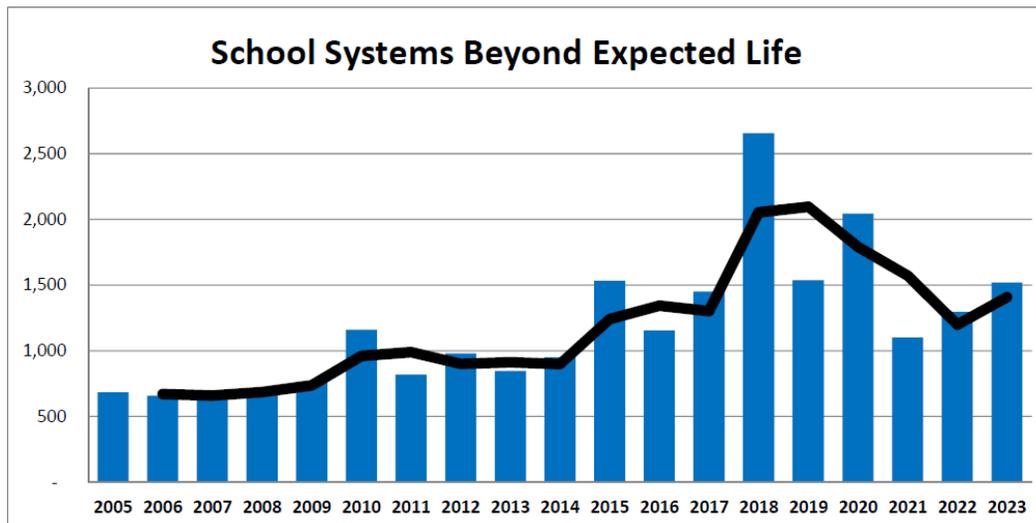
It is said that buildings don't wear out, systems and components do. Accordingly, the battle against dilapidation and obsolescence is usually joined on several fronts simultaneously—building envelope, configuration of interior spaces, interior finishes, building systems, code compliance and energy conservation. But whatever the focus of interest, two general strategies can be employed: preservation and renewal. Preservation includes a range of tactics, starting with preventive maintenance and an effective program of maintenance and repairs. These efforts are funded out of a school's annual operating budget. Still, well maintained building systems and components have finite life cycles, and capital renewal is necessary to replace building systems and components at the end of their useful life. Because of the size and infrequent nature of these expenditures, they are normally handled as capital expenses.

The following table (See Attachment G) is an example of the degradation on a typical school building:

District - District Name	School - School Name	School - Unassigned Repair Cost	School - Replacement Cost	Asset - Asset Name	System - Square Footage	System - System Name	System - Cost / SF	System - Year Installed	System - Lifetime	System - Renewal %	System - Replacement Cost	System - Calculated System Percent Used - 2013	System - Calculated Repair Cost 2013	System - Calculated System Percent Used - 2014	System - Calculated Repair Cost 2014	System - Calculated System Percent Used - 2015	System - Calculated Repair Cost 2015
Bernillo	Algodones ES	\$1,554,046	\$4,144,034	Classroom/Library/Admin (1990)	23,872	Air/Ventilation Equipment	\$2.96	1990	20	110	\$70,671.29	100.00%	\$77,727.23	100.00%	\$77,727.23	100.00%	\$77,727.23
Bernillo	Algodones ES	\$1,554,046	\$4,144,034	Classroom/Library/Admin (1990)	23,872	Ceiling Finishes	\$5.94	1990	90	110	\$541,870.10	58.78%	\$91,681.57	64.00%	\$99,826.97	69.44%	\$106,319.20
Bernillo	Algodones ES	\$1,554,046	\$4,144,034	Classroom/Library/Admin (1990)	23,872	Communications and Security	\$2.01	1990	15	90	\$40,947.55	100.00%	\$43,184.45	100.00%	\$43,184.45	100.00%	\$43,184.45
Bernillo	Algodones ES	\$1,554,046	\$4,144,034	Classroom/Library/Admin (1990)	23,872	Emergency Light and Power	\$0.43	1990	20	90	\$10,349.39	100.00%	\$9,238.46	100.00%	\$9,238.46	100.00%	\$9,238.46
Bernillo	Algodones ES	\$1,554,046	\$4,144,034	Classroom/Library/Admin (1990)	23,872	Exterior Doors and Windows	\$5.48	1990	30	110	\$130,856.69	58.78%	\$84,581.47	64.00%	\$92,096.27	69.44%	\$99,930.84
Bernillo	Algodones ES	\$1,554,046	\$4,144,034	Classroom/Library/Admin (1990)	23,872	Exterior Walls	\$10.44	1990	100	100	\$249,238.06	5.29%	\$13,183.93	5.76%	\$14,355.28	6.25%	\$15,576.48
Bernillo	Algodones ES	\$1,554,046	\$4,144,034	Classroom/Library/Admin (1990)	23,872	Fire Detector/Alarm	\$1.83	2003	15	90	\$43,802.43	44.44%	\$17,474.30	33.78%	\$11,143.91	64.00%	\$15,163.00
Bernillo	Algodones ES	\$1,554,046	\$4,144,034	Classroom/Library/Admin (1990)	23,872	Floor Finishes	\$5.51	1990	12	110	\$133,538.40	100.00%	\$144,688.19	100.00%	\$144,688.19	100.00%	\$144,688.19
Bernillo	Algodones ES	\$1,554,046	\$4,144,034	Classroom/Library/Admin (1990)	23,872	Foundation/Slab/Structure	\$15.68	1990	100	100	\$374,408.99	5.29%	\$19,801.16	5.76%	\$21,540.43	6.25%	\$23,394.58
Bernillo	Algodones ES	\$1,554,046	\$4,144,034	Classroom/Library/Admin (1990)	23,872	HVAC	\$24.38	1990	30	100	\$586,877.17	58.78%	\$344,892.58	64.00%	\$375,335.21	69.44%	\$407,481.78
Bernillo	Algodones ES	\$1,554,046	\$4,144,034	Classroom/Library/Admin (1990)	23,872	Interior Doors and Partitions	\$8.25	1990	50	90	\$197,030.69	21.16%	\$17,506.02	23.04%	\$40,838.31	25.00%	\$48,312.40
Bernillo	Algodones ES	\$1,554,046	\$4,144,034	Classroom/Library/Admin (1990)	23,872	Interior Walls	\$7.55	1990	60	90	\$180,912.76	14.69%	\$23,835.89	16.00%	\$25,953.64	17.36%	\$28,161.50
Bernillo	Algodones ES	\$1,554,046	\$4,144,034	Classroom/Library/Admin (1990)	23,872	Lighting/Branch Circuits	\$10.51	1990	80	90	\$250,881.05	58.78%	\$132,728.81	64.00%	\$144,515.36	69.44%	\$156,809.20
Bernillo	Algodones ES	\$1,554,046	\$4,144,034	Classroom/Library/Admin (1990)	23,872	Main Power/Emergency	\$1.61	1990	30	90	\$38,532.37	58.78%	\$20,351.54	64.00%	\$22,137.94	69.44%	\$24,021.20
Bernillo	Algodones ES	\$1,554,046	\$4,144,034	Classroom/Library/Admin (1990)	23,872	Other Equipment	\$6.62	1990	60	110	\$158,127.73	14.69%	\$15,544.22	16.00%	\$17,813.74	17.36%	\$19,179.84
Bernillo	Algodones ES	\$1,554,046	\$4,144,034	Classroom/Library/Admin (1990)	23,872	Plumbing	\$26.13	1990	30	100	\$984,989.94	58.78%	\$226,326.98	64.00%	\$246,435.43	69.44%	\$267,399.56
Bernillo	Algodones ES	\$1,554,046	\$4,144,034	Classroom/Library/Admin (1990)	23,872	Roof	\$14.48	2008	20	120	\$345,609.98	6.25%	\$22,924.99	9.00%	\$37,331.99	12.25%	\$50,812.98
Bernillo	Algodones ES	\$1,554,046	\$4,144,034	Classroom/Library/Admin (1990)	23,872	Sprinklers and Standpipes	\$3.61	1990	50	130	\$86,653.68	21.16%	\$23,837.16	23.04%	\$26,955.01	25.00%	\$29,162.99
Bernillo	Algodones ES	\$1,554,046	\$4,144,034	Classroom/Library/Admin (1990)	23,872	Wall Finishes	\$4.06	1990	12	100	\$96,859.74	100.00%	\$96,920.32	100.00%	\$96,920.32	100.00%	\$96,920.32
													\$1,459,403.57		\$1,567,258.14		\$1,681,484.19
													Delta:		\$107,854.57		\$114,226.05
BASED ON PSFA "Smart Model" to "Real World" total project cost (for 2013 it is \$289.68 / \$159.04 = 1.821428571)															1.821428571		1.821428571
Real Dollars Needed to Maintain for 2014:													\$196,448.39		\$208,054.59		\$228,660.79

The total dollar value of degradation accumulates over time and is added to the numerator of the FCI equation. Expired facility systems, such as roofs, heating, cooling, plumbing, lighting, doors, windows, etc. are all added over time. Once completely aged/used they contribute 100% of their value to the facility renewal cost. It is important to note that when an increasing number of building systems exceed their expected lives, systems failures increase significantly and can ultimately accelerate deterioration of other building systems. This becomes a strong leading indicator of overall campus renewal need.

The following graph forecasts the total number of building systems reaching their end of life in the year indicated:



In the time period we are currently in, systems beyond expected life are increasing with a forecasted peak in 2018. As you can see, even though there is a reduction in systems reaching end of life, every year moving forward in the subject window shows there are more systems reaching this important milestone than in the years past.

When these systems reach end of life, condition metrics, building system failures, and maintenance workloads will all increase. In the years immediately following the Deficiencies

Correction Program and the inception of the standards based process, many systems past their expected lives were renewed. Through the aging process, facilities have continued to degrade since. The expected new degradation that will hit the FCI equation in 2014 is calculated at \$359,843,283. Since the state share has historically been, 39% this comes to \$140,338,880 in FY14. The six year funding need is as follows:

