



NEW MEXICO
LEGISLATIVE
FINANCE
COMMITTEE



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The State and Local Match Calculation and Waivers

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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. Foundations of the Formula: The *Zuni* Lawsuit

2. Trends Since *Zuni*

3. The “State and Local Match” Calculation

4. Waiver Criteria

5. Policy Considerations and Research Questions

The *Zuni* Lawsuit

The New Mexico constitution requires that...

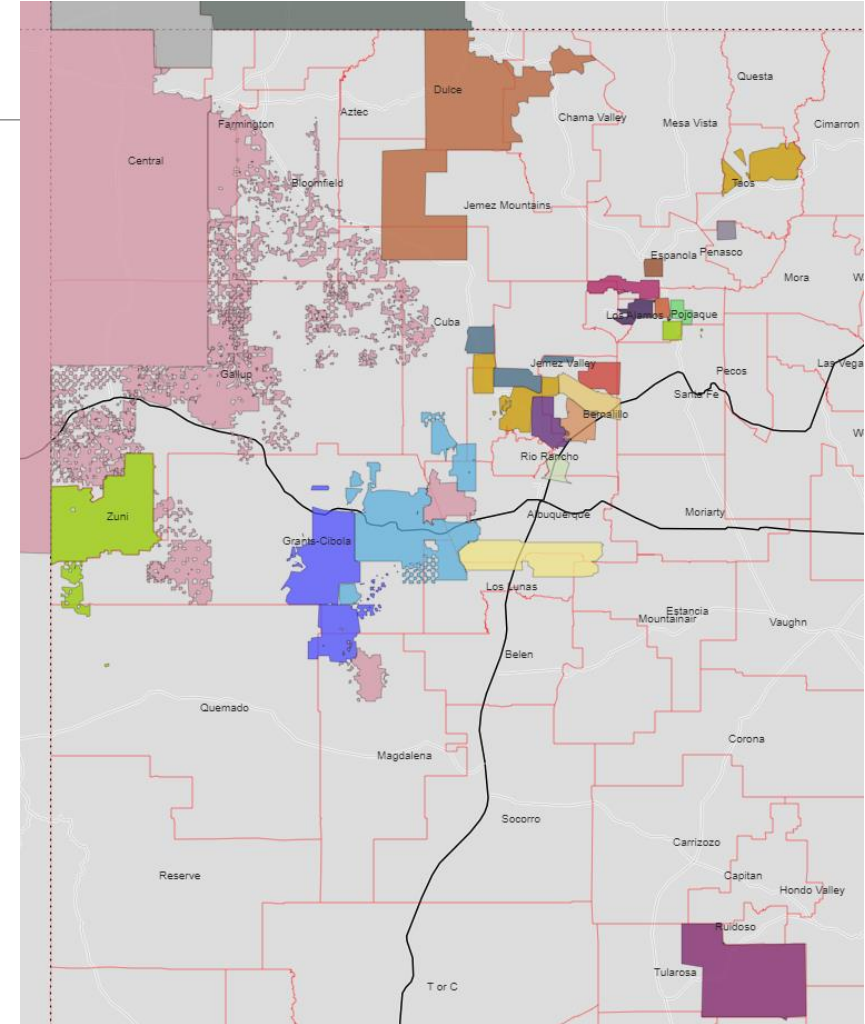
“A uniform system of free public schools sufficient for the education of, and open to, all the children of school age in the state shall be established and maintained.”

- Constitution of the State of New Mexico, Article XII, Section 1

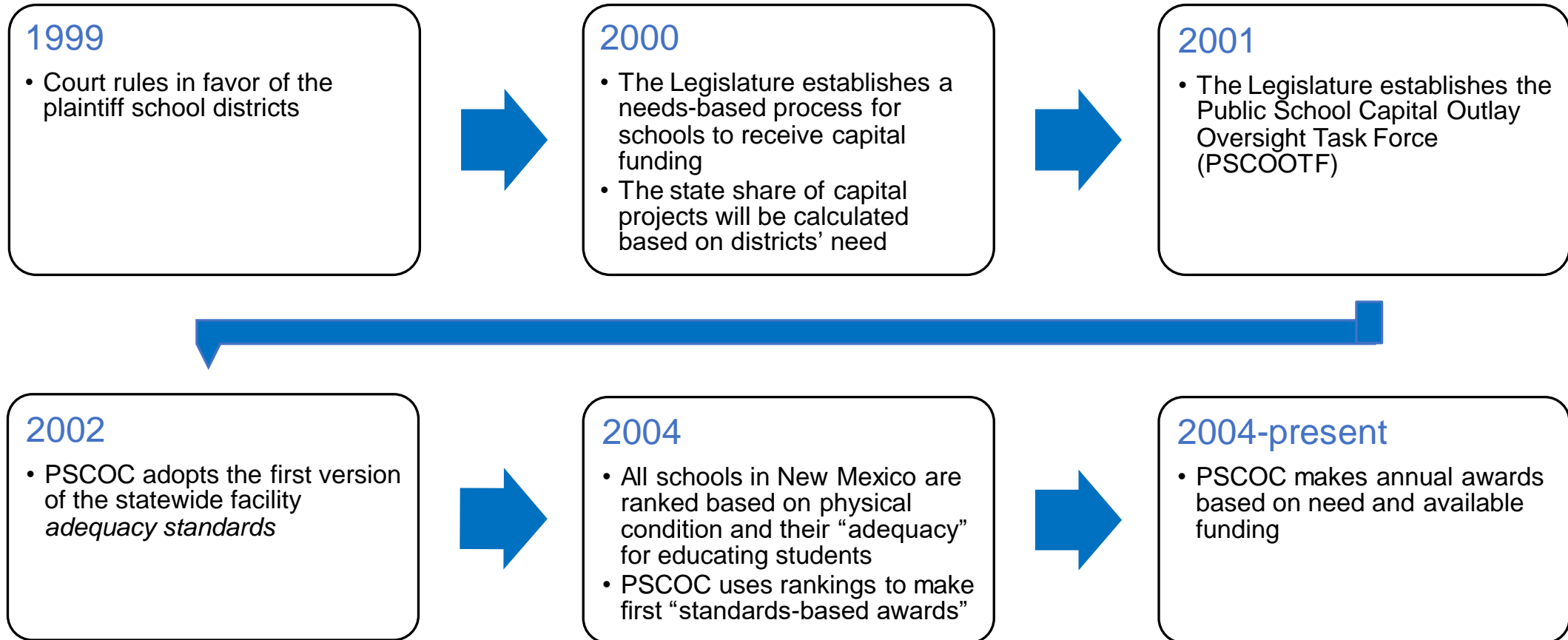
- In 1998, the Zuni Public School district sued the State of New Mexico
- The districts argued the state’s system of funding for public school facilities did not provide a uniform and sufficient education for all students
- Later, Gallup McKinley County Schools and Grants-Cibola County Schools joined the lawsuit as plaintiffs
- In 1999, the court found in favor of the plaintiffs and ordered the state to “establish and implement a uniform funding system for capital improvements and for correcting past inequities”

The *Zuni* Lawsuit

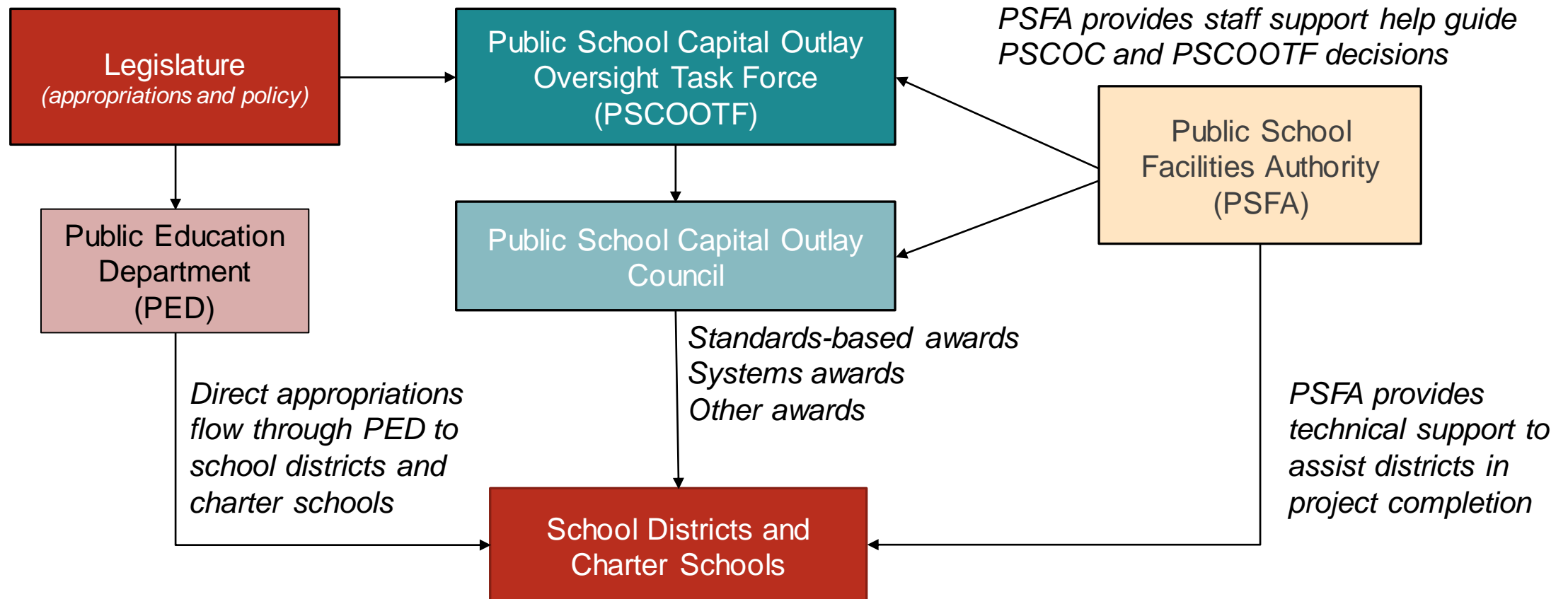
- The court found that, prior to its 1999 ruling, state's funding system for schools was based almost entirely on local property taxes, and
- School districts like Zuni, Gallup, and Grants, with significant amounts of federal Indian reservation land cannot levy taxes on those lands
- These school districts receive "impact aid payments" from the federal government, but until recently, the state was reducing their funding by 75 percent of the amount of impact aid they received.



The *Zuni* Lawsuit: State Response



Administrative Structure



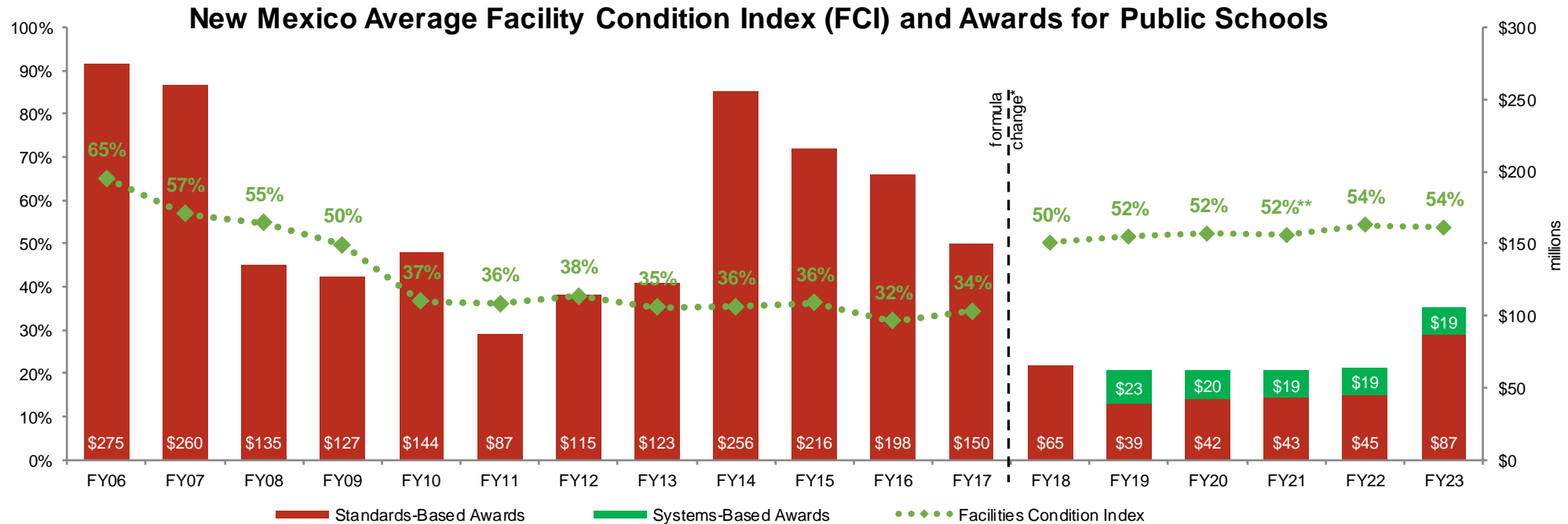
Ideals

Ideally, New Mexico's school building replacement process should:

1. Address educational programming needs (meet adequacy standards)
2. Equitably and sufficiently fund replacements (shared local and state responsibility)
3. Prioritize replacements by highest need (or worst conditions)
4. Improve and maintain facility conditions
5. Encourage efficient design (maximize space utilization and cost savings)
6. Sustainably make replacements over time

Trends Since *Zuni*: Awards

Since 2006, average facility conditions have improved dramatically, following large PSCOC investments during the early years of PSFA operations.



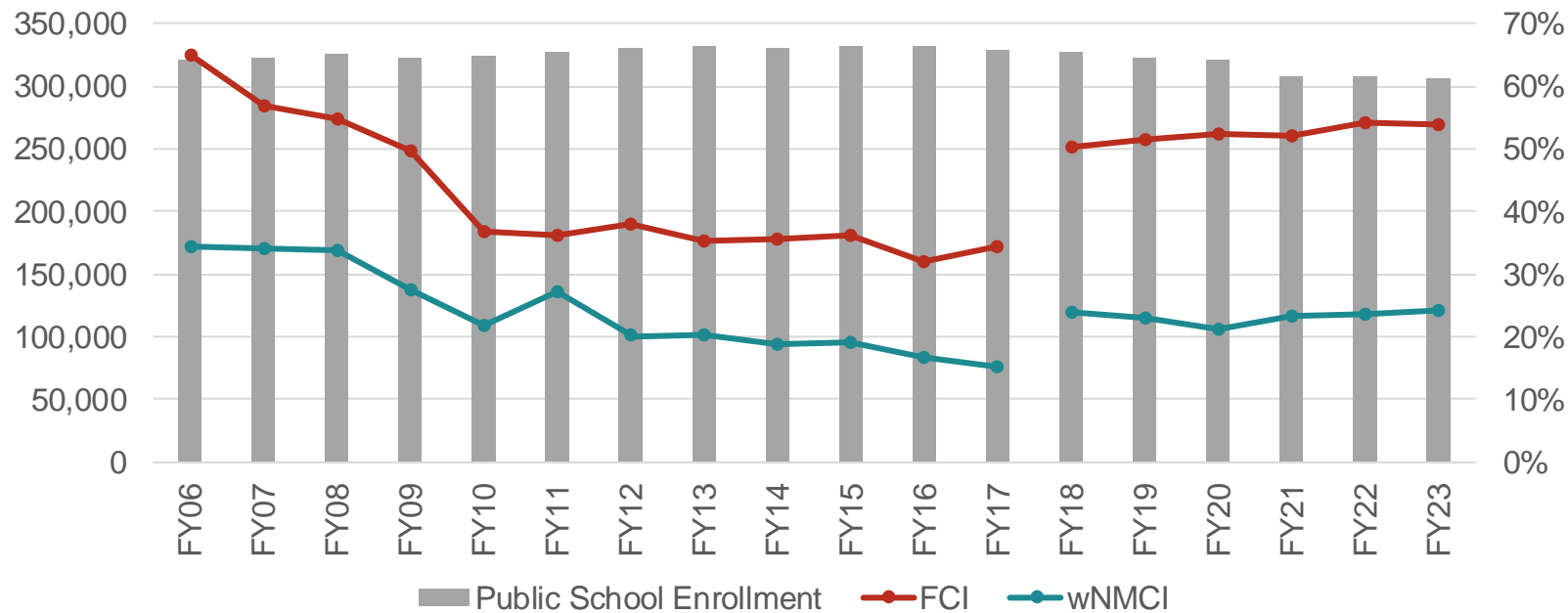
*In January 2018, PSCOC altered the methodology for calculating FCI, so FY18 scores are not directly comparable to prior year scores. The statewide average FCI of 50.3 percent for FY18 is equal to approximately 32.6 percent using the previous methodology.

Source: PSFA

Trends Since *Zuni*: Facility Conditions

Beginning in FY17, average FCI and weighted New Mexico condition index (wNMCI) scores began to deviate, during a period of lower state funding and declining student enrollment.

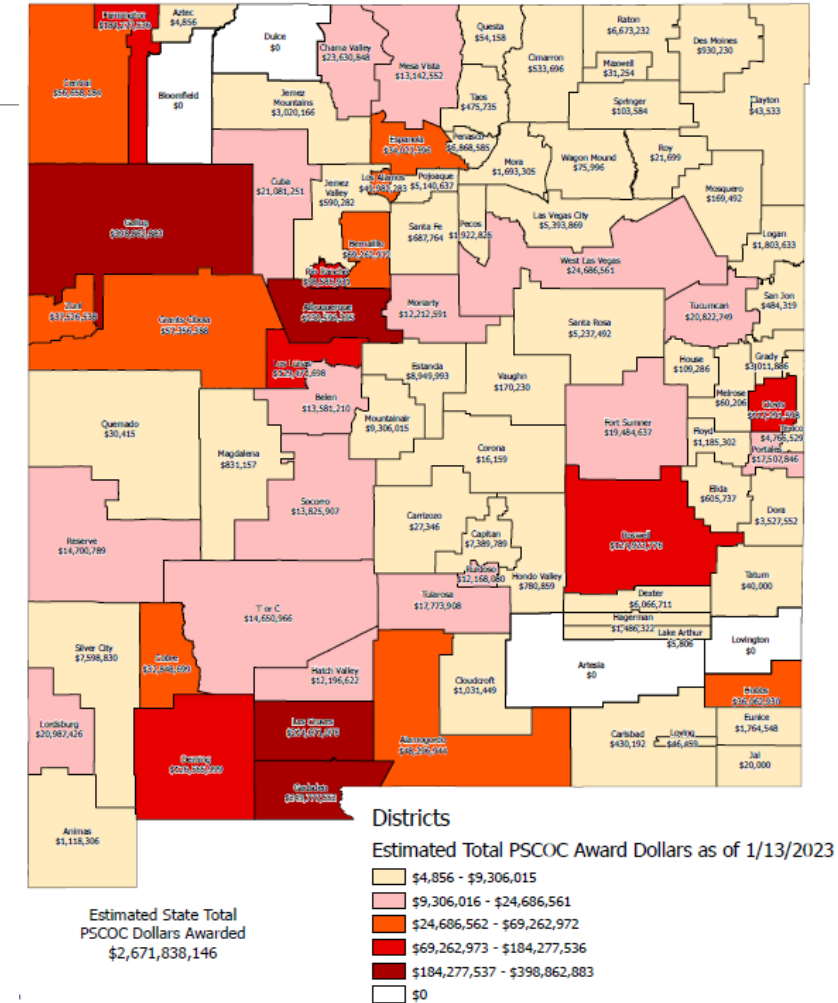
Facility Conditions and Student Enrollment



Trends Since *Zuni*: Geography

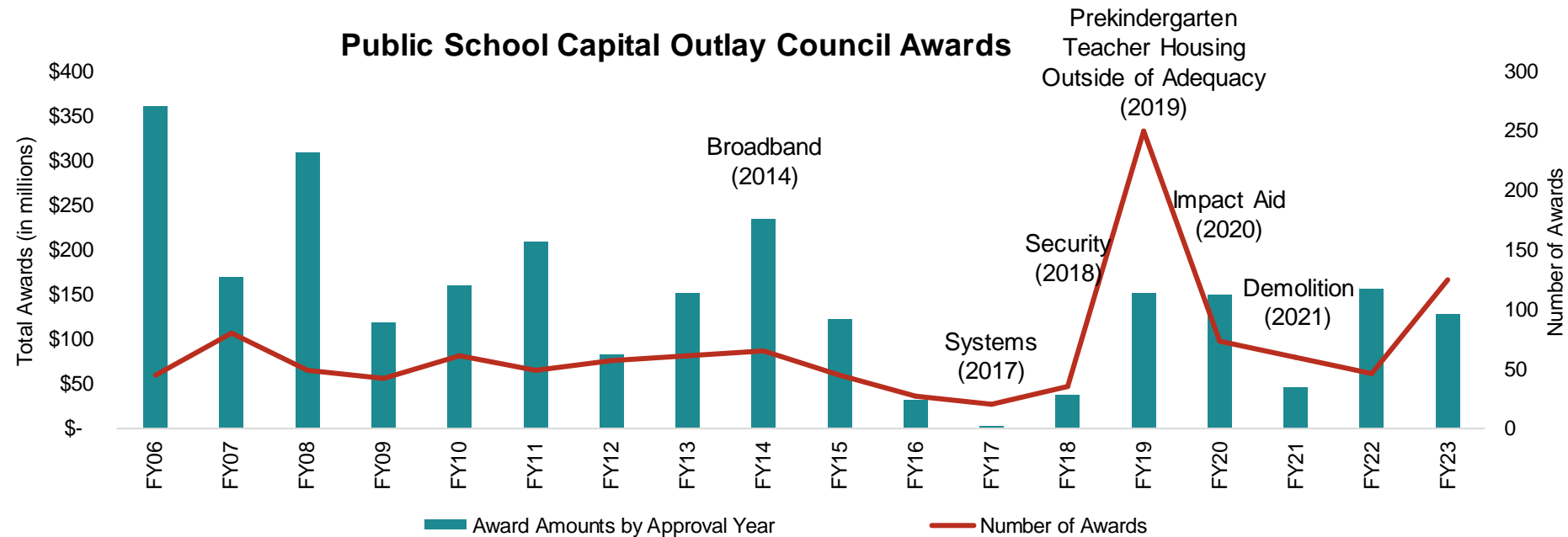
The vast majority of PSCOC awards since 2001 have been concentrated in select districts:

1. Gallup \$398.9 million
2. Gadsden \$249.8 million
3. Albuquerque \$230.6 million
4. Las Cruces \$214.7 million
5. Farmington \$184.3 million
6. Los Lunas \$129.5 million
7. Deming \$126.6 million
8. Roswell \$124.9 million
9. Clovis \$117.3 million
10. Rio Rancho \$ 98.6 million



Trends Since *Zuni*: Scope Expansion

Although awards initially focused on facilities master plans (2003), standards-based projects (2004), and lease assistance (2005), the legislated scope of awards has expanded in recent years.



Source: PSFA

Award amounts by approval year do not necessarily align with the awards in the prior chart, which shows the year when awards were allocated. For example, Los Alamos received funding for projects in 2023 but the final award amounts in this chart are reflected in FY22, the year the award was originally approved.

Trends Since *Zuni*: Scope Expansion

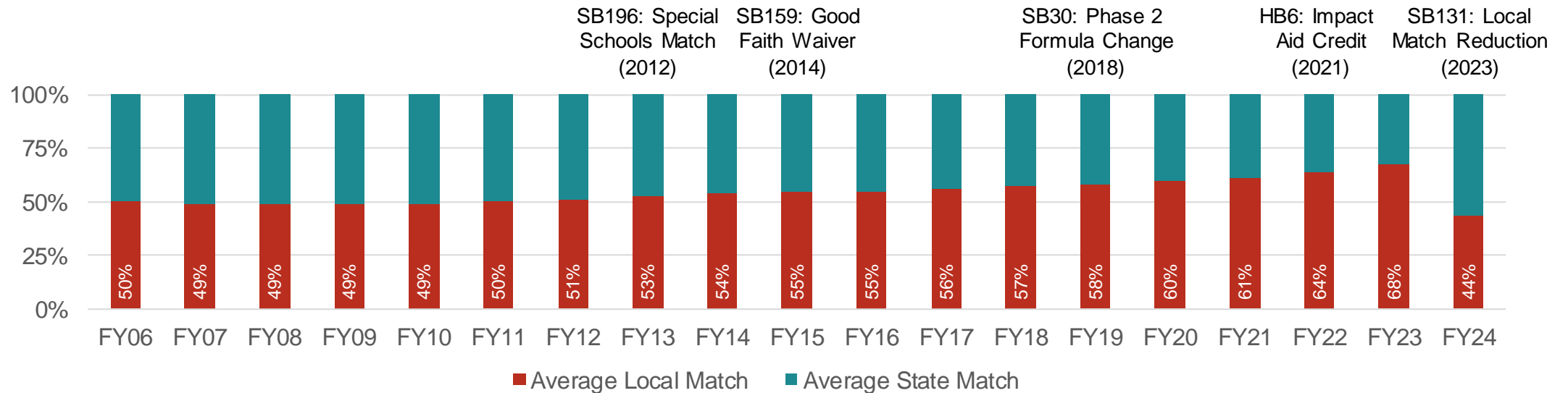
The Legislature has also made appropriations out of the public school capital outlay fund in recent years for other purposes, including:

1. Instructional materials
2. School transportation distribution
3. School bus replacement (including cameras and alternative fuel buses)
4. Panic buttons
5. Charter school revolving fund
6. Career technical education
7. Supplemental distributions (SB212, HB505)

Trends Since *Zuni*: Local-State Match

Initially, the local-state match formula was intended to create a 50-50 split funding responsibility between local districts and the state, but the burden of financing schools has shifted over time, particularly due to legislated changes.

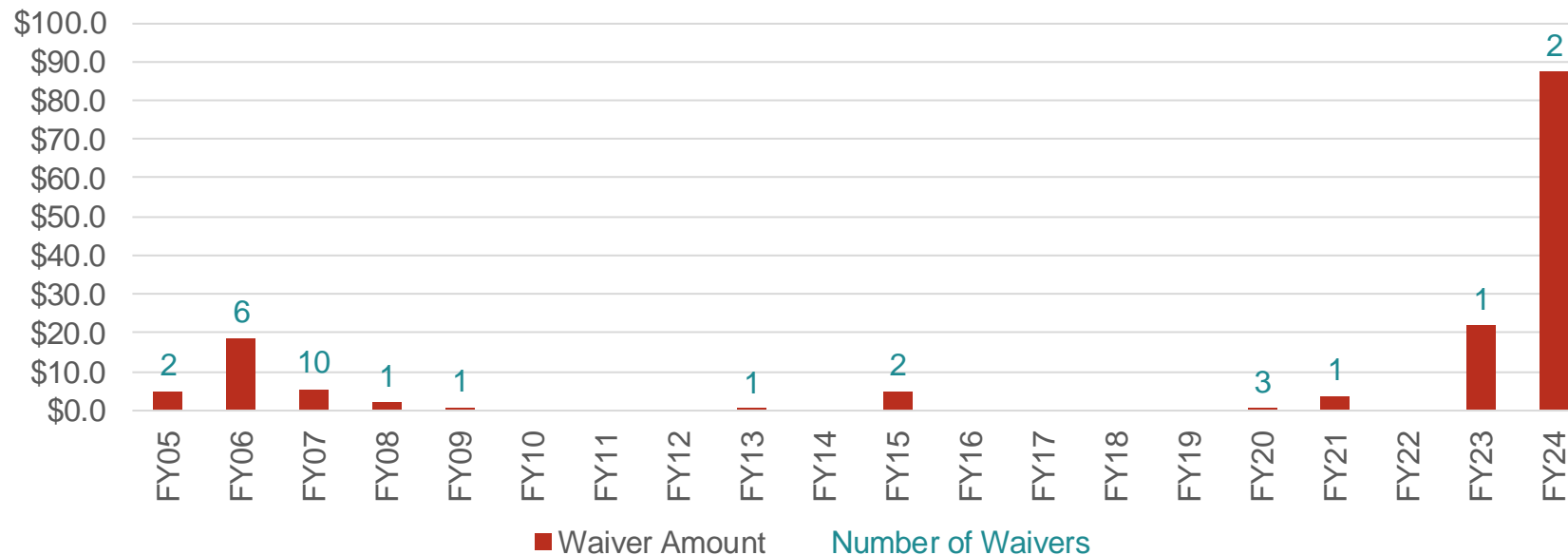
Average Local-State Match and Related Statutory Changes



Trends Since *Zuni*: Waivers

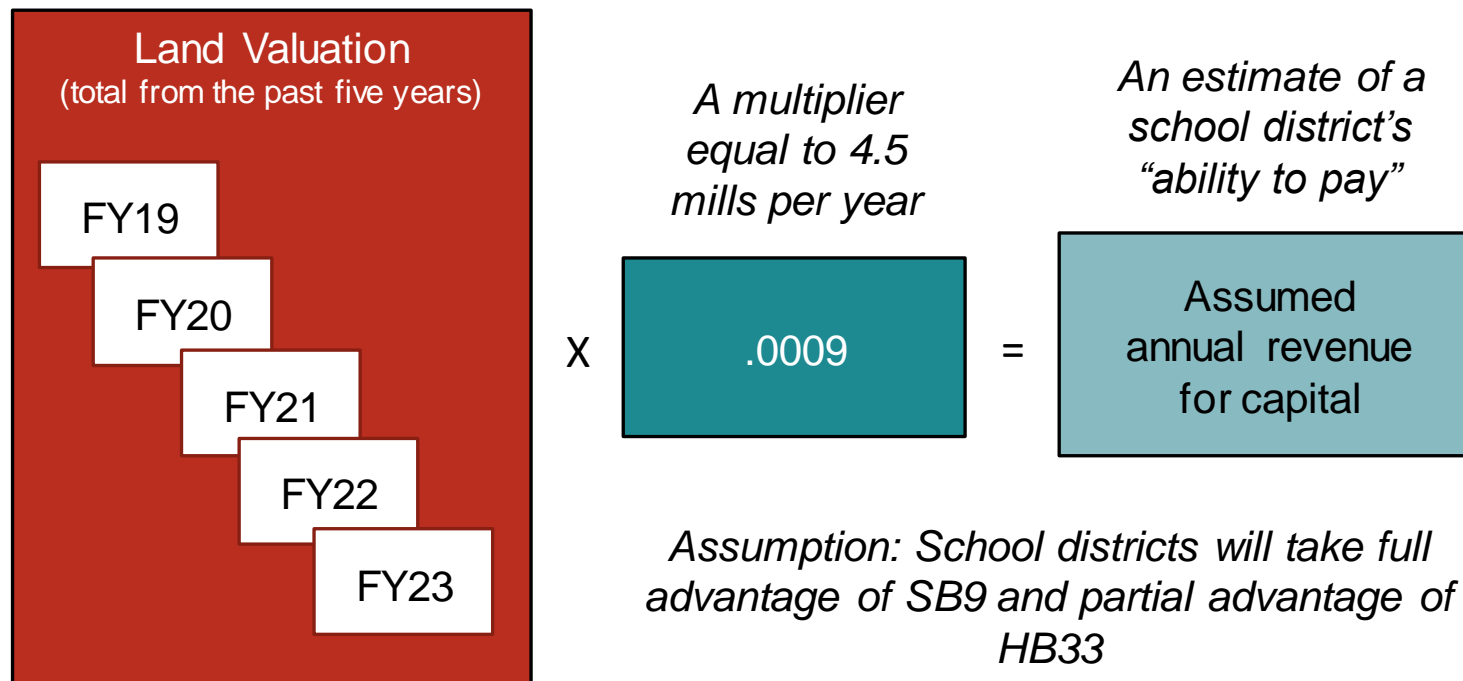
Recent waivers are substantially larger in amounts and many districts are requesting waivers of local match requirements in line with recent construction price increases.

History of PSCOC Approved Waivers and Waiver Amounts
(in millions)



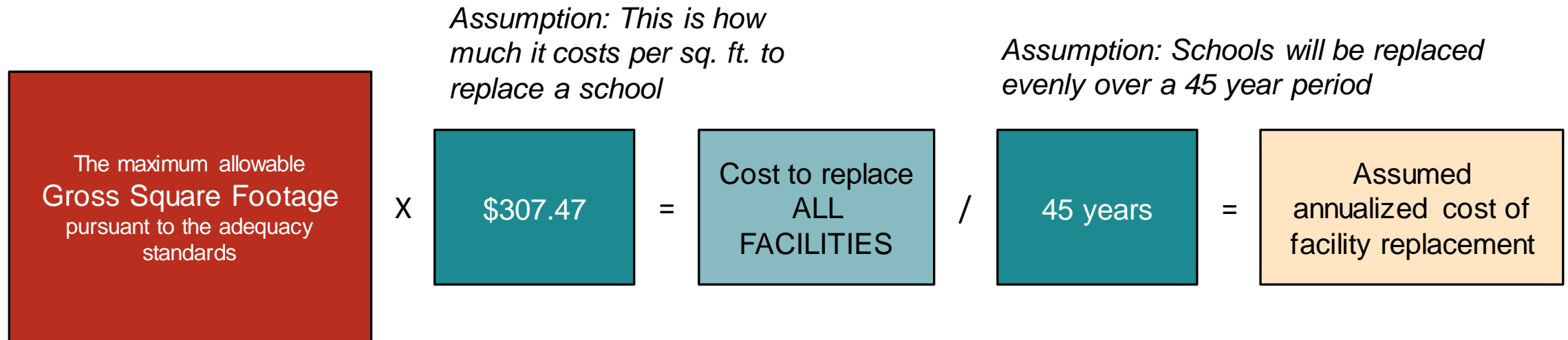
The State and Local Match Calculation

In 2018, the Legislature established a new calculation used to determine how much of an upcoming project should be paid by the state, and how much should be paid by the district.



The State and Local Match Calculation

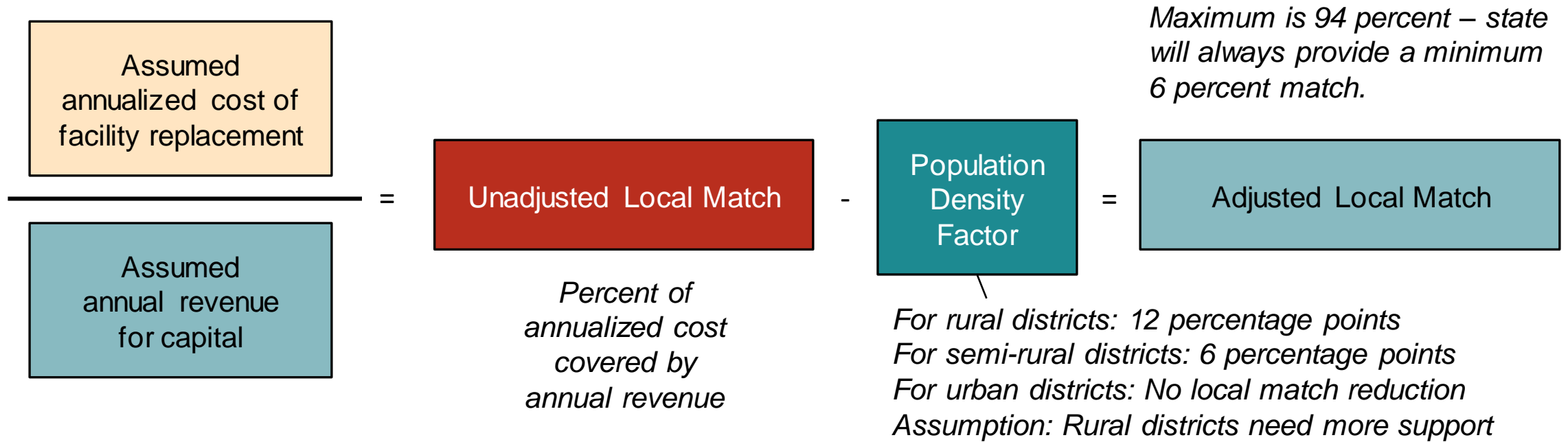
The state and local match calculation is used to determine how much of an upcoming project should be paid by the state, and how much should be paid by the district.



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

The State and Local Match Calculation

The state and local match calculation is used to determine how much of an upcoming project should be paid by the state, and how much should be paid by the district.



The State and Local Match Calculation

Let's walk through it with actual numbers.

Sample district: Des Moines, 113 students

	.0009		\$307.47	45 years	
Average Land Valuation FY17-FY21	Assumed Annual Revenue	Maximum Sq. Ft. Allowed in Adequacy Standards	Total cost to replace all Sq. Ft.	Annual Cost to replace Sq. Ft.	Local Match
\$190.8 M	\$171.7 K	26,723	\$8.2 M	\$182.6 K	94% (Max)

PSCOC just approved a construction project in Des Moines:
45,161 Sq. Ft., **\$51.1 Million** total cost

The Calculation vs. Reality

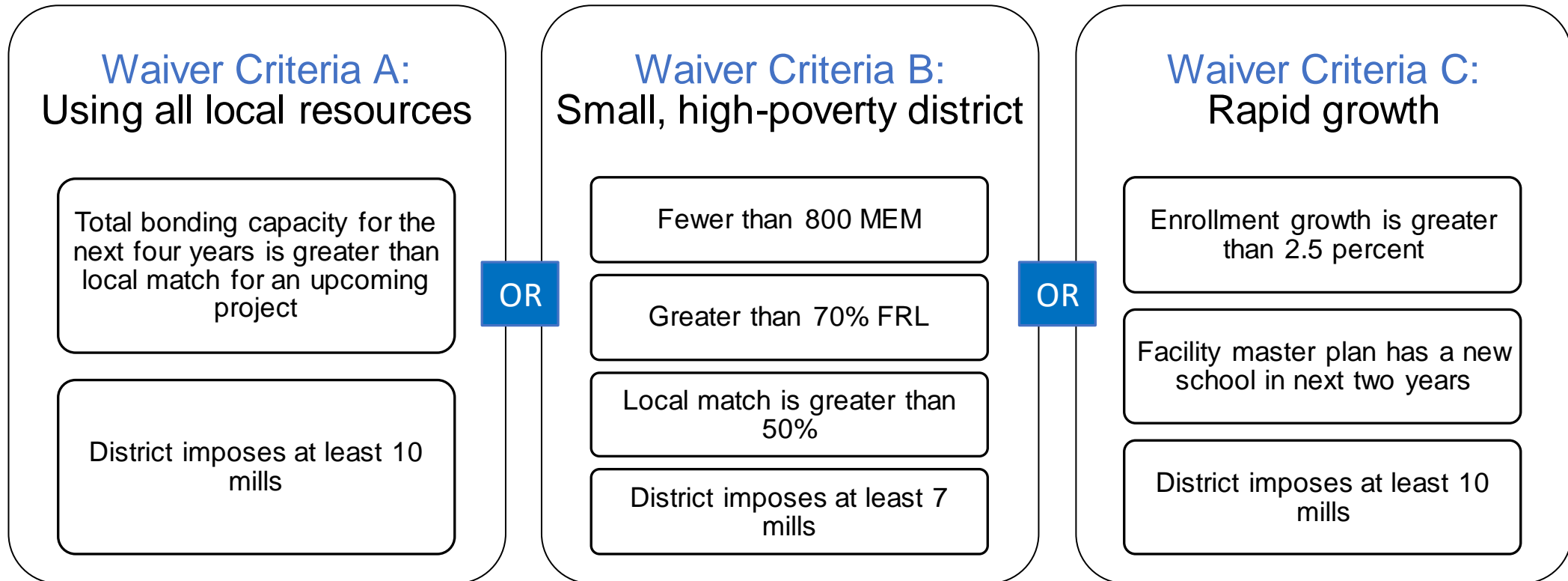
The reality of how school districts pay for construction projects is complicated

PSCOC evaluates school districts' "ability to pay" for projects by examining...

- G.O. Bond Revenues
- Unused bonding capacity
- Other local and federal revenue sources
- Operational spending
- Cash balances

Waiver Criteria

Districts that are unable to pay for their local share may be able to waive their local match.



Testing the Formula's 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	The adequacy standards may not reflect educational needs of all students, and have not been studied by any agency besides PSFA
It costs \$307.47 per square foot to replace a school	Recent construction costs are far above \$307.47 per sq. ft.
Schools will be replaced evenly over a 45 year period	Many school districts originally built all of their schools at once, meaning schools need to be replaced all at once
It costs more to build schools in rural areas of New Mexico	Recent construction cost estimates in Los Alamos and have been among the highest cost in PSCOC's history

Policy Considerations

- The state and local match formula and the waiver criteria are inextricably linked
- An increase in waivers indicates that the formula may not be working as intended
- SB131 acts as a temporary stop-gap to offer some relief while the state studies the formula

Questions for Future Research

1. How can state and local match formula more accurately reflect school districts' ability to pay for projects?
2. What is educational adequacy? Do the adequacy standards reflect actual educational adequacy?
3. How can the state and local match formula help the state meet its goals for school facilities?
4. When is it appropriate to waive districts' local share of projects?
5. Is it appropriate to deny or delay a project? (e.g. cost inefficiencies vs. insufficient revenues)

Q & A

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