



## FISCAL IMPLICATIONS

SB125 appropriates \$10M from the general fund to the PSCOF, in FY26 and subsequent years.

All PSCOC funding programs are funded through the PSCOF. None of the existing PSCOC funding programs or allocations are funded by the general fund. The PSCOF funding capacity is dependent on the issuance of Supplemental Severance Tax Bonding (SSTBs), which are issued by New Mexico Board of Finance (BOF), and paid for by revenue derived from taxes levied on natural resource products severed and saved from the soil. The BOF allows two issuances per fiscal year, occurring every June and December via bond sale. Currently, as of December 2024, BOF estimates that revenues will increase on average at 5% each year over the next 5 years. This number is only an estimate.

The existing PSCOC systems-based funding program currently funds awards to school districts seeking funding for heating, ventilation and air conditioning (HVAC) replacement and upgrade projects (detailed in significant issues). Therefore, the funding need for school HVAC projects is already taken into account in the PSCOC financial plan. Additional funding, as part of a new funding program, is therefore unnecessary.

A typical HVAC replacement project can cost between \$20 and \$60 per square foot, depending on the type of HVAC system being installed and complexity of the project.

In FY24, the PSCOC awarded 25 systems-based awards with a total state share of \$27 M, which includes all requests for building system upgrades (HVAC, roof, fire alarm, etc.), including demolition projects (funded at 100% state match). Of the 25 awards, 10 included requests for HVAC projects.

FY24 Systems-based Awards that Included HVAC					
School District	School	Systems Included	State Share of Total Project Cost	HVAC Estimated Cost (MACC)*	State Share of HVAC portion (MACC)*
Deming	Columbus ES	HVAC	\$2.5 M	\$35.83 / SF \$ 2.5M	\$2.5 M
Deming	Memorial ES	HVAC Roof	\$1.6M	\$20 / SF \$ 932,000	\$652,400
Albuquerque	Longfellow ES	HVAC Roof	\$1.8 M	\$25.65 / SF \$1.1 M	\$420,875
Albuquerque	Monte Vista ES	HVAC	\$479,150	\$41.87 / SF \$0.9 M	\$479,150
Albuquerque	Eisenhower MS	HVAC Roof	\$714,822	\$15.69 / SF \$0.3 M	\$113,313
Albuquerque	Taft MS	HVAC Roof	\$1.4 M	\$6.43 / SF \$0.3 M	\$113,313
Albuquerque	Highland HS	HVAC Roof	\$878,596	\$4.93 / SF \$0.8 M	\$291,375
Albuquerque	Sandia HS	HVAC Roof	\$403,393	\$50.11 / SF \$0.7 M	\$242,813
Albuquerque	Valley HS	HVAC Roof	\$546,803	\$7.25 / SF \$0.7 M	\$275,188
Los Alamos	Los Alamos HS	HVAC	\$219,705	\$23.53 / SF \$ 415,658M	\$219,705
<b>Total</b>					<b>\$5.4 M</b>

\*Maximum Allowable Construction Cost (MACC) – does not include soft costs (30% added to project to cover

design, fees, gross receipts tax, contingency, etc.)

In FY25, the PSCOC awarded 14 systems-based awards with a total state share of \$30.4M, which includes all requests for building system upgrades (HVAC, roof, fire alarm, etc.), including demolition projects (funded at 100% state match). Of the 14 awards, only 3 included requests for HVAC projects.

FY25 Systems-based Awards that Included HVAC					
School District	School	Systems Included	State Share of Total Project Cost	HVAC Estimated Cost (MACC)*	State Share of HVAC portion (MACC)*
Grants	Grants HS	HVAC Exterior Walls Lighting	\$11.5 M	\$62.47 / SF \$10.4 M	\$7.9 M
Silver	Harrison Schmitt ES	HVAC Roof Fire Alarm	\$1.1 M	\$60 / SF \$1 M	\$371,443
Ruidoso	Ruidoso HS	HVAC Exterior Walls	\$6.1 M	\$59.50 / SF \$5.8 M	\$2.1 M
Total					\$10.4M

\*Maximum Allowable Construction Cost (MACC) – does not include soft costs (30% added to project to cover design, fees, gross receipts tax, contingency, etc.)

In FY24, FY25 and in all previous years, the PSCOF has had sufficient capacity to fund the systems-based awards, including HVAC replacements and upgrades.

## SIGNIFICANT ISSUES

### History of the PSCOC Systems-based Funding Program

The 2014 Legislature passed the Systems Initiative, which led to the PSCOC developing the Systems-based funding program in 2016. This funding program was intended to help school districts invest in existing school facilities by targeting capital investment to repair, renovate or replace existing building systems, to extend the functional life span of the overall school buildings. The funding program allowed for the upgrade and replacement of individual building systems that may be inadequate, failing, broken or having a negative impact on other building systems. This allowed for the correction of facility system deficiencies to prevent further damage or degradation for a facility, and reduce the weighted New Mexico Condition Index (wNMCI) and Facility Condition Index (FCI) scores for the school facility.

The first awards for this funding program were made in 2017. Over the course of this funding program, the eligibility for application has been set at the top 300 of the wNMCI ranking for that year, with the exception of 2023, which extended the eligibility threshold to the top 350. The building systems which were included as fundable under this program has evolved over time to include more systems and include funding for the full scope of a project to ensure the project could be completed and functional.

In total, the PSCOC has awarded 309 systems projects, which includes the precursors to the current funding program, roofing and demolition. This includes 54 projects that included HVAC replacement or upgrade. The projects have helped school districts invest in the upgrade and replacement of individual building systems, to mitigate deterioration and degradation, increase efficiency, and improve facility condition, which all extend the overall lifespan of school facilities.

### Existing PSCOC Systems-based Funding Program

Section 2 of SB125 makes technical corrections to 22-24-4.6, which details the existing PSCOC systems-based funding program. Amendments to Section 1 of SB125 do not alter the funding mechanism or process for this program.

Currently, the PSCOC systems-based funding program funds the replacement of select building systems. Building systems eligible for replacement include: mechanical (HVAC), exterior envelope (roof, exterior walls, windows, doors), electrical, plumbing, special systems (fire detection, fire suppression, communications), site drainage, and utilities. A school district may apply for multiple systems at one school. The eligibility for the systems-based funding program is dependent on financial availability in the Public School Capital Outlay Fund (PSCOF), but is typically set at the top 300 in the annual wNMCI ranking. This eligibility threshold prioritizes schools that have typically reached 30 to 40 years, with building systems that have reached end of life cycle, and/or have condition based issues (HVAC not operating properly, leaking roofs, fire alarm not working properly, etc.). Replacement of building systems extends the overall lifespan and condition of the overall building and school facility.

The current process for systems-based funding applications is outlined in Section 1 of SB125 (Section 22-24-4.6). Annually, the PSCOC determines guidelines for the program, including eligibility thresholds (top 300 of the wNMCI ranking in FY25), the number and type of systems to be included as fundable, timeframe, budget, etc. School districts are notified once applications are opened and may apply if a school is eligible. The pre-application consists of a letter of intent submitted to the Public School Facilities Authority (PSFA), which details the request, specifies the systems to be replaced, explains the need for the project, provides an estimated cost, and confirms if the district has available funding to contribute to the local match. The PSFA accepts the pre-applications, verifies the eligibility and need, and finalizes project scope and estimated costs. PSFA presents recommendations to the PSCOC for potential systems-based award. Once a project is awarded, PSFA staff works with the school district to co-manage the project.

### Existing PSFA HVAC Data:

The PSFA conducts assessments of all school facilities in the state, which is on a current cycle of approximately 5 years. These assessments collect data on schools' building systems, limited to overall age and condition, as visually observed by PSFA assessors or reported by the school or district. The data identifies a multitude of problems with schools' overall HVAC systems, which can be used to prioritize capital funding for HVAC upgrades and replacements.

The Public School Facilities Authority develops the annual statewide ranking of all NM school facilities, based on the results of PSFA assessments that document the facility condition and adequacy of all school buildings statewide. Through these facility assessments, PSFA gathers and manages facility information for every school in the state and uses the information to generate the numerical score for each school that is the basis of the statewide ranking. The weighted New Mexico Condition Index (wNMCI) score calculates the ratio of potential costs to correct facility condition deficiencies and educational adequacy deficiencies at a school, to the potential cost to replace the school. If a school is determined to have an age or condition based deficiency of a particular system, the wNMCI score reflects the costs to correct the issue using assigned unit costs for each building system. The statewide ranking lists schools in order of the wNMCI scores, to prioritize schools with the most needs for potential state funding through PSCOC funding programs.

New Mexico school districts obtain Facility Master Plans (FMP) on a five year cycle, which are

used as a planning document to prioritize facility needs and capital improvements. This document includes assessments (conducted by FMP vendors) of the facilities and building systems, and identifies needs for HVAC repairs, upgrades and replacements. However, much like the PSFA assessment of facilities, the assessments are typically based on a visual inspection, considering life cycle and physical condition of each system, including HVAC. Some school districts may fund more robust studies of the HVAC systems to be included within the FMP, or as a separate planning document.

### Potential Creation of the Building System Innovation Project

Section 2 of SB125 implements the creation of the “building system innovation project,” which would become a new PSCOC funding program. This program would involve the “concerted replacement of heating, ventilation and air conditioning system and electrical distribution system,” and would commence in FY26. HVAC is already a fundable building system, as part of the systems-based funding program.

The application and award process for the building system innovation project are similar to that of the systems-based funding program, with a few exceptions. The bill does not indicate that the wNMCI ranking should be used to prioritize schools and applications, which is inconsistent with the existing standards and systems-based funding programs. Instead, the bill states that the council shall prioritize the applications that:

1. Are eligible to receive federal funding.
  - Many school districts utilized the federal funding provided by the Elementary and Secondary School Emergency Relief Fund (ESSER) to fund HVAC projects. Many districts utilized this funding as part of their local match in funding PSCOC systems-based projects for HVAC replacement. This federal funding program has since sunset.
  - The US Department of Energy has a Renew America’s Schools Program to fund clean energy improvements in public schools. PSFA has not had any school districts indicate they will use this federal funding to support HVAC upgrades.
2. Include replacement of an evaporative cooling system.
  - This does not indicate if the evaporative cooling system must be upgraded to a different type of cooling system, such as refrigerated air, or be replaced by newer evaporative cooling units.
3. Utilize photovoltaic technology in the electrical distribution system.
  - PSCOC funding does not participate in photovoltaic systems currently. Therefore, the photovoltaic portion of an HVAC and electric distribution project would be the district’s responsibility to fund, in addition to the local match.

### Potential Complications

Under existing PSCOC funding rules, a school can only have one current project at a time (i.e. a school cannot have a standards and systems-based project simultaneously). The school is then removed from the ranking and placed in the “previously funded” section of the ranking, until the project is completed. At which time, the project’s upgrades to the school facility are accounted for in the updated calculated wNMCI score, and the school is added back into the ranking. The improvements to the facility, either individual building systems or wholesale replacement of buildings, will lower the wNMCI for the school.

The existing systems-based funding program allows for a school district to apply for multiple building systems for a school at one time, under one project. This allows schools to get multiple

upgrades at once to improve the facility in one project, for efficiency and maximum impact. For instance, many schools apply for HVAC and roofing replacement together, since the construction often takes place simultaneously (rooftop HVAC units must be removed to replace the roof). This also allows for efficiency in funding, design and construction.

Separating HVAC into a separate funding program, negates the ability for schools to apply for multiple building systems within one application and project.

By eliminating the wNMCI ranking as the prioritization method, schools not within the top 300 may be eligible for funding for HVAC projects. This circumvents the systems-based funding program.

#### **PERFORMANCE IMPLICATIONS**

The building system innovation project is duplicative of the existing PSCOC systems-based funding program.

#### **ADMINISTRATIVE IMPLICATIONS**

N/A

#### **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

N/A

#### **TECHNICAL ISSUES**

N/A

#### **OTHER SUBSTANTIVE ISSUES**

N/A

#### **ALTERNATIVES**

N/A

#### **WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

Schools will still have the ability to apply for PSCOC funding to fund HVAC replacement projects, if eligible, through the existing systems-based funding program.

#### **AMENDMENTS**

N/A