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LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS
57th Legislature, 1st Session, 2025

Bill Number	<u>SB125</u>	Sponsor	<u>Padilla</u>
Tracking Number	<u>.228899.1</u>	Committee Referrals	<u>SEC/SFC</u>
Short Title	<u>School Building System Innovation Project</u>		
Analyst	<u>Montoya</u>	Original Date	<u>2/4/2025</u>
		Last Updated	<u></u>

BILL SUMMARY

Synopsis of Bill

Senate Bill (SB125) would amend the Public School Capital Outlay Act (Section 22-24-4.6 NMSA 1978) to create the building system innovation project program to replace heating, ventilation, and air conditioning (HVAC) systems and electrical distribution infrastructure in public schools. The program would establish additional criteria for school districts seeking system-based funding grants administered by the Public School Capital Outlay Council (PSCOC). SB125 would create an application process in which school districts must submit an evaluation of their current HVAC systems, provide evidence that proposed upgrades will improve environmental efficiency, and outline strategies to lower energy consumption. Additionally, SB125 would direct the PSCOC to give priority to projects that qualify for federal funding, including those replacing evaporative cooling systems and integrating photovoltaic (solar) technology. The building system innovation project program would begin on July 1, 2025.

FISCAL IMPACT

SB125 appropriates \$10 million from the general fund to public school capital outlay fund (PSCOF) for expenditure in FY26 and subsequent years. Any unexpended or unencumbered balance remaining at the end of a fiscal year shall not revert to the general fund.

SUBSTANTIVE ISSUES

Source of Program Funding. All current PSCOC funding programs are financed through the PSCOF. The PSCOF's funding capacity relies on supplemental severance tax bonds (SSTBs) issued twice per fiscal year (June and December) by the Department of Finance's Board of Finance (BOF). These bonds are repaid with revenue generated from severance taxes on natural resources extracted in New Mexico. As of December 2024, the BOF projects an average annual revenue growth of 5 percent over the next five years, though this remains an estimate.

Systems-Based Funding. The existing PSCOC systems-based funding program supports school districts with heating, ventilation, and air conditioning (HVAC) replacement and upgrade projects.

The proposed program would include a state and local match methodology which may be duplicative of current PSCOC efforts.

HVAC System Costs. According to Public School Facilities Authority (PSFA) staff, which supports the PSCOC, HVAC replacement costs vary between \$20 and \$60 per square foot, depending on system type and project complexity. In FY24, PSCOC awarded 25 systems-based grants totaling \$27 million and covering various building system upgrades, including HVAC, roofing, fire alarms, and demolition projects. 10 of these awards included HVAC projects.

ADMINISTRATIVE IMPLICATIONS

PSFA staff may need to create policies and procedures to implement the parameters proposed by SB125.

OTHER SIGNIFICANT ISSUES

Current PSCOC Programs. Current PSCOC funding guidelines allow schools to have only one ongoing project at a time, which prevents simultaneous standards- and systems-based projects. Upon completion of a project, the school's weighted New Mexico condition index (wNMCI) score is updated to reflect the facility improvements, reducing its priority for future funding. The wNMCI is a tool that assesses the condition of public school facilities in New Mexico, helping identify schools in greatest need of funding for repairs and upgrades. The systems-based program allows districts to address multiple facility upgrades within a single project for greater efficiency. Schools often combine projects like HVAC and roofing replacements, which optimizes funding, design, and construction processes. Creating an independent HVAC funding program may prevent schools from combining multiple building system upgrades into a single project. Additionally, removing wNMCI ranking as a priority measure may allow schools outside the [top 300](#) to receive HVAC funding, bypassing the systems-based program.

The *Zuni* Lawsuit. The *Zuni* lawsuit was filed in 1998. The plaintiffs of the lawsuit included Zuni Public Schools, Gallup-McKinley County Schools, and Grants-Cibola County Schools. The plaintiffs argued the state's school funding system was inequitable, particularly for districts with federal Indian reservation lands that lack taxable revenue for construction projects. The court case focused on the state's methodology for providing capital outlay funding for school facilities, highlighting how rural and low-income districts were disproportionately burdened due to limited local tax bases.

The case led to a court ruling declaring the funding system unconstitutional, prompting reforms under the Public School Capital Outlay Act to equalize funding for school construction and repair. The 11th Judicial District Court agreed in 1999, ruling that New Mexico's funding system violated constitutional requirements. This led to the creation of the PSCOC and a standards-based funding system emphasizing equity and adequacy. Despite legislative reforms, including eliminating the Impact Aid credit and directing more funding to affected districts, the *Zuni* lawsuit persisted.

Since 1999 the state of New Mexico has implemented a public school capital outlay system that has focused on providing equitable and uniform access to state funding for the construction and maintenance of school facilities. A court ruling in 2020 dismissed state efforts to address funding inequities, prompting an appeal to the New Mexico Supreme Court in 2021. On December 2, 2024, the New Mexico Supreme Court remanded the *Zuni* lawsuit to the Sixth Judicial District Court for further review. This action was based on the opinion of New Mexico Supreme Court justices, in

which they found the lawsuit to be “moot” since the “statutory scheme declared to be unconstitutional no longer exists.” The ramifications of this most recent ruling remain unclear, but with the lawsuit still open in the Sixth Judicial District Court, policymakers should continue to study the equity implications of any proposed changes to the Public School Capital Outlay Act.

SOURCES OF INFORMATION

- LESC Files
- Public School Facilities Authority (PSFA)

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