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FISCAL IMPACT REPORT

SPONSOR <u>Soules</u>	LAST UPDATED _____
	ORIGINAL DATE <u>1/29/2025</u>
	BILL
SHORT TITLE <u>Public School Capital Outlay Changes</u>	NUMBER <u>Senate Bill 82</u>
	ANALYST <u>Carswell</u>

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*

(dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
PSCOC	No fiscal impact	Up to \$44,800	No fiscal impact	Up to \$44,800	Nonrecurring	Other state funds

Parentheses () indicate expenditure decreases.

*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files

Agency Analysis Received From

Public School Facilities Authority (PSFA)

SUMMARY

Synopsis of Senate Bill 82

Senate Bill 82 (SB82) amends the Public School Capital Outlay Act to extend through fiscal year 2027 a one-third to one-half reduction in the local match school districts must provide for capital projects funded by the Public School Capital Outlay Council (PSCOC). SB82 also eliminates some statutory criteria for eligibility for a waiver of the local match.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns if enacted, or June 20, 2025.

FISCAL IMPLICATIONS

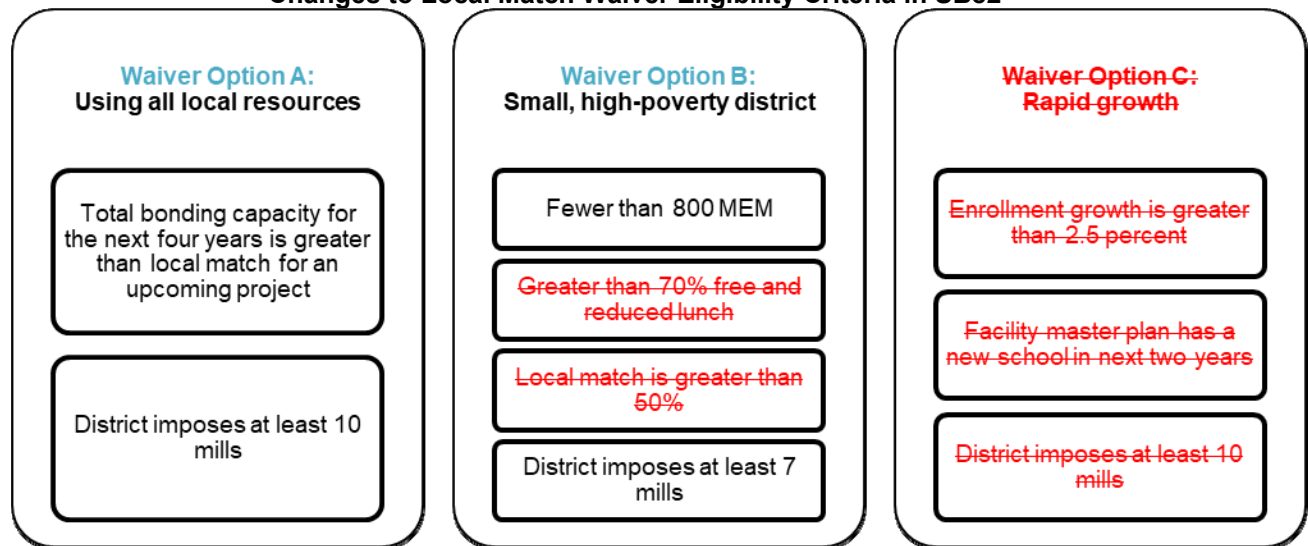
In 2023, the Legislature passed and the governor signed Senate Bill 131 (SB131), which provided across-the-board, temporary reductions to the local match school districts must provide for capital projects funded through PSCOC. SB131 provided a one-third match reduction for all districts except those with fewer than 200 students, which got a one-half reduction. The temporary reductions currently run through FY26.

The cost to the state of the local match reductions has so far totaled an estimated \$227.3 million, according to data provided by PSFA. In other words, that is the amount the state's share in PSCOC-awarded projects has increased since the passage of SB131. SB82 would extend the local match reductions already in place for an additional year, so it would not have a fiscal

impact beyond the current status quo. At the end of the first quarter of FY25, the public school capital outlay fund had a balance of \$1.6 billion, and severance tax revenues—which determine the fund’s annual bonding capacity—remain high. The fund appears able to continue to bear the higher state share of school projects SB82 would keep in place.

Criteria in statute determine whether a school district may ask PSCOC for a partial waiver of the local match. SB82 makes changes to those criteria illustrated in the figure below. According to PSFA, the changes would make 18 small districts eligible to request waivers under criteria B. Several districts have already received design phase funding for school replacement projects from PSCOC, with construction requests expected to reach the council in FY26. A fiscal impact of up to \$44.8 million that year from the waiver changes in SB82 assumes each of these districts would request a full waiver of the local match for the construction phase. Two more districts that would become eligible for waivers have schools that are highly ranked for replacement. If those districts pursued projects soon, there could be an additional fiscal impact. However, the timing and cost of those projects is unknown.

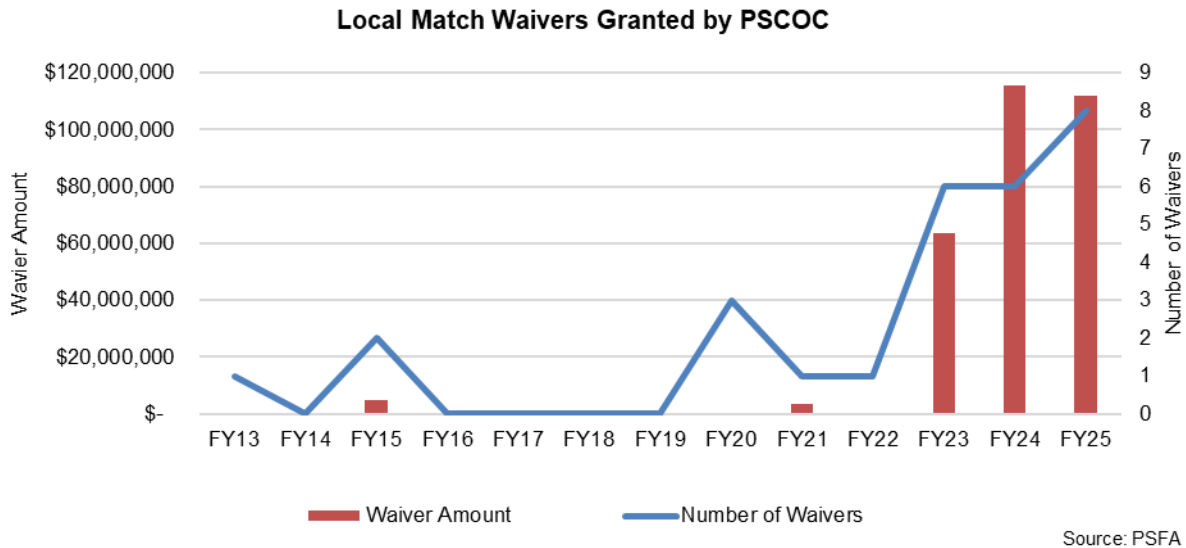
Changes to Local Match Waiver Eligibility Criteria in SB82



SIGNIFICANT ISSUES

Both the Public School Capital Outlay Oversight Task Force and the Legislative Education Study Committee endorse SB82.

Despite the local match reduction enacted in 2023, many school districts have requested PSCOC grant partial waivers of their required match. Such requests increased in number and amount starting in FY23 due to dramatic increases in construction costs, which rendered projects unaffordable for many districts even with the lower local match. According to PSFA, in FY22 PSCOC granted only one waiver totaling about \$370 thousand. In FY23, it granted 6 totaling \$63.6 million. That amount nearly doubled in FY24.



According to PSFA, many small districts with fewer than 800 students have difficulty meeting the free and reduced lunch and local match criteria in waiver option B. The agency states that these school districts are unable to control either of these criteria and reaching the higher mill levy threshold of 10 to qualify for option A is challenging for small districts. Additionally, the agency reports waiver option C is in practice duplicative of option A and is not used.

The increased need for waivers is an indication the state and local match formula that provides the foundation for New Mexico’s approach to financing public school construction is not working as intended. In 2024, the Public School Capital Outlay Oversight Task Force directed staff from the Legislative Finance Committee, Legislative Education Study Committee and PSFA to study the formula and propose changes. Staff identified several formula factors that do not reflect current realities, such as assumptions about the cost per square foot of new school construction. However, the across-the-board local match reductions enacted by SB131 have a similar effect on the amount districts are responsible for paying as adjusting these factors in the formula.

Staff also found that adjusting these factors did not, in all cases, help the formula more accurately reflect a district’s ability to pay; the reason for the outliers was not readily apparent. The task force determined adjusting any factors would be premature and might represent an overcorrection. The task force directed staff to continue to study the formula so that larger changes could be pursued in the 2027 legislative session, if warranted. SB82 provides a stopgap solution to barriers to school replacement and continued financial relief to school districts in the meantime.

The local match reductions were first pursued in 2023 to incentivize school districts to seek funding from PSCOC. Applications had dropped off due to changes to the state-local match formula that shifted the cost burden of projects more to districts.