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BONDING CAPACITY FISCAL IMPACT REPORT

SPONSOR: Altamirano DATE TYPED: 02/24/01 HB _____
 SHORT TITLE: Public School Capital Outlay SB 167/aSEC
 ANALYST: Kehoe

CAPACITY *

Capacity		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY01	FY02	FY03	Total		
			See Text	Recurring	Statewide Public School General Obligation Bonds

(Parenthesis () Indicate Capacity Decreases)

*Increase in general obligation bond authority by up to 2 percent of assessed value with general obligation bonds to be paid with no more than 3 mills to meet \$100 million funding goal, after taking into account other available resources.

APPROPRIATION

Appropriation Contained		Estimated Additional Impact	Recurring or Non-Rec	Fund Affected
FY01	FY02			
\$ 202,300.0	\$ 14,000.0		Non-Recurring	General Fund
\$ 20.0	\$ 400.0		Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

**While current law directs the bulk of capacity from the supplemental severance tax bond program allocated to projects by the Public School Capital Outlay Council, this bill would change the focus of use of these proceeds. The bill would also earmark senior severance tax sponge bond capacity of up to \$100 million in FY02 and FY03 which is currently used for the legislature's annual bill to address infrastructure projects.

Duplicates/Conflicts with/Companion to/Relates to SJR 5, HB 134, HJR 3

SOURCES OF INFORMATION

LFC Files
 State Department of Education (SDE)

No Response

Department of Finance and Administration

SUMMARY

Synopsis of SEC Amendment

The Senate Education Committee Amendment includes charter schools as eligible applicants to the Public School Critical Capital Outlay Council (PSCOC) for funding capital needs. If charter schools are not included in a school district's application for capital funding, the PSCOC is required to determine the district has shown the capital needs of the charter schools in the district are not as great as the needs requested in the district's application. The amendments require that statewide adequacy standards developed by the PSCOC for school districts also be developed for charter schools.

Synopsis of Original Bill

Pursuant to Senate Joint Memorial 21 passed during the 2000 Legislature, the Public School Capital Outlay Task Force was created to analyze options for providing an ongoing mechanism for funding capital outlay projects for New Mexico public school districts. The task force was also asked to consider the use of "impact aid" and other revenue sources to find a more appropriate way to ensure equity in both capital and operational funding.

This bill repeals most of the school finance package adopted in regular and special sessions of the 2000 Legislature. The sliding scale formula enacted in 2000 is also repealed. The bill provides statutory changes, where needed, for most of the recommendations of the Public School Capital Outlay Task Force. SJR 5 proposes the constitutional amendment. The bill eliminates use of the Supplemental Severance Tax Bonds program for funding higher education infrastructure projects, but grandfathers the 1999 authorization of \$25 million. The bill extends the dedication of \$20 million per year in Supplemental Severance Tax Bonds capacity for impact aid school districts by one year to 2004. Finally, the bill sets out the goal of "statewide adequacy standards" for the new program, which will be developed by the Public School Capital Outlay Council (PSCOC) by July 1, 2004. Beginning in FY05, all districts become eligible for the new program if they meet certain standards. Local school districts may use local funds to exceed the statewide adequacy standards.

The bill provides criteria and procedures for funding public school capital outlay projects, authorizes issuance of supplemental severance tax bonds and initiates the process for a new statewide public school general obligation bond, supported by property taxes. Procedures for issuing, selling and paying for these new bonds are included in this bill. The task force itself is reauthorized.

The recommendations to the Legislature provide for both short-term and long-term funding options to address capital outlay needs at all schools in New Mexico. The proposal is based on the Arizona model. The three-pronged approach addresses:

I. Correction of deficiencies

1. Addresses health & safety issues.
2. Sole responsibility of the state.
3. Program would operate for three years.
4. Proposed funding: \$300 million (\$200 million in FY01 general fund surplus is appropriated in the bill for expenditure from FY01 through FY04. These funds do not revert to the general

fund. An additional \$100 million from senior severance tax “sponge” bond capacity is appropriated for FY 02 and FY03.

II. Building new schools (critical capital outlay)

1. Continue existing critical capital outlay program for three more years (continued funding with supplemental STBs, at least \$70 million each year, not needed for SB 9 match).
2. Continue \$20 million earmarked for impact aid districts through FY04.
3. Eligibility for this component is those school districts indebted at not less than 50% of total debt authorized by law, rather than the current 75%.
4. After meeting the obligation of \$25 million from supplemental severance tax bonds to higher education infrastructure, funding should be dedicated to public schools.

III. On-going maintenance

1. Increase funding of SB 9 from \$35 to \$50 per program unit in FY02 through FY04; from \$50 to \$70 in FY05; from \$70 to \$90 in FY06 (the bill appropriates \$14 million from the general fund to the new public school capital improvement fund in FY02. However, future years are envisioned to utilize supplemental severance tax sponge bonds). In FY07 and thereafter, the multiplier is to be adjusted as required to maintain an overall statewide 50/50 ratio between local school districts and the state.
2. Estimated total cost to state: FY02 \$14 million, FY03 \$13 million, FY04 \$12 million, FY05 \$34 million, FY06 \$55 million.

The Public School Capital Outlay Task Force is authorized to continue its work and is directed to develop a sliding scale formula by January 15, 2002. The task force must annually report on its analyses, findings and recommendations.

Other Task Force Recommendations/Findings

- Local school districts are required to provide local funds for projects based on a sliding scale taking into account the relative tax base and the relative local funding effort of the school district. The Task Force proposed formula should result in an aggregate 50 percent average participation rate by local school districts statewide.
- Propose constitutional amendment in 2002 to authorize increase in general obligation bonding authority of the state by up to 2 percent of the assessed valuation of all property subject to taxation, and authorize annual issuance of bonds. The proposed amendment to Article 9, Section 8 of the New Mexico Constitution is contained in SJR 5 and HJR 3.

Other Task Force Specific Recommendations/Findings

- The Task Force indicated recommended sources of funding for the long-term program are supplemental severance tax bond proceeds not needed to support the maintenance and repair program, Indian gaming revenue-sharing receipts and newly authorized public school general obligation bonds.
- The Task Force supports a mechanism to guarantee school district bonds to reduce costs, such as the New Mexico Finance Authority or the permanent funds.

- The Task Force recommendations assume the elimination of the Lottery distribution to public school capital outlay. Does the Legislature agree with this philosophy?

Significant Issues

- 1) The order entered by the District Court in The Zuni Public School District, et al. v. The State of New Mexico, et al. on October 14, 1999 provides that “[t]he Defendants shall have until July 28, 2000, in which to establish and implement a uniform funding system for capital improvements for New Mexico school districts and for correcting existing past inequities, all to be within the mandates of Article XII, Section 1 of the New Mexico Constitution.” The order provides for status conferences, and contains a provision that “[t]he court shall review the plan developed by the Defendants and may later impose further appropriate sanctions or conditions for failure to establish and implement an adequate and constitutional funding system.”
- 2) MGT of America conduct a study regarding school facility needs in the State of New Mexico and analyze capital outlay equity issues. The total statewide needs (identified by MDT of American for school facility improvements and classroom additions) was \$1.486 billion based on a sampling methodology. The actual amount of need remains unknown, but may be well above the \$1.486 billion. This amount does not reflect sharing of the responsibility between the state and local school districts.
- 3) SDE provides useful history of the process and the sliding scale formula. The state currently assists school districts in meeting critical capital outlay needs which cannot be met with local resources. Funds are allocated by the Public School Capital Outlay Council. Currently, a school district must have a critical need and be indebted at not less than seventy-five percent of its bonding capacity. Approximately thirty-five school districts qualify every year under the current program.
- 4) If state reliance on the property tax is increased, there are concerns about equity in the property tax system which would have to be addressed. For example, counties such as Colfax, Rio Arriba, San Juan, Sierra, Socorro, Taos, and Union had a median ratio of assessed value to sales price below 80 for residential properties in property tax year 1999. If state reliance on the property tax is increased, there may be inequities by property class. For example, counties which are particularly aggressive with industrial revenue bonds, such as Bernalillo and Sandoval, avoid tax burden.

In school year 1977-78, the state match constituted 60% of the total program funding. While assessed valuations and student membership have increased significantly, the current “state match” has declined to approximately 9% of the program. Local property taxes are the largest revenue source contributing to this program. However, local property wealth varies widely among school districts.

This bill will increase the state’s percentage of the total program funding from approximately 9% to 50% by fiscal year 2006, when the dollar multiplier will change to \$90.00. The program guarantee multiplier has not been adjusted since the program’s inception in 1975. Inflation and aging buildings have created a need for more financial resources.

FISCAL IMPLICATIONS

Bonding Implications

The bill initiates the process for a new statewide public school general obligation bond supported by property taxes. Capacity is projected at \$61 million in FY05 and \$88 million in FY06 for the Statewide Public School General Obligation Bonds.

While current law directs the bulk of capacity from the supplemental severance tax bond program as allocated to projects by the Public School Capital Outlay Council, this bill would change the focus of use of these proceeds. The bill would earmark senior severance tax sponge bond capacity of up to \$100 million in FY02 and FY03, which is currently used for the legislature's annual bill to address infrastructure projects.

General Fund Appropriations

- \$200,000.0 in FY01 general fund surplus is appropriated in the bill for expenditure from FY01 through FY04. These funds do not revert to the general fund. (Non-recurring)
- \$2,300.0 in FY01 is appropriated in FY01 to complete the statewide of need for all schools. (Non-recurring)
- \$20.0 to Legislative Council Service in FY01 for the costs of per diem and mileage is included in the bill. (Recurring)
- c \$14,000.0 from the general fund to the new public school capital improvements fund in FY02. (Non-recurring)
- \$400.0 from the general fund to State Department of Education in FY02 to assist the Public School Capital Outlay Council with employees and contractual services. (Recurring)

ADMINISTRATIVE IMPLICATIONS

According to SDE, this bill provides funding for additional FTE's at SDE as well as funding for contractual services in order to implement this expanded state public school capital outlay system. The SDE will continue to provide administrative support to the PSCOC and the PSCOTF. SDE will provide maintenance and oversight of a statewide public school facility database. Under the provisions of this bill, the state will have a much greater role in funding and overseeing public school capital outlay projects.

Section 7 of the bill provides that the PSCOC must take action as necessary to assist school districts in implementing projects funded by the state to include assisting with the preparation of requests for bids or proposals, contract negotiations and contract implementation. Depending on the amount of projects in progress, the amount of time required to provide this type of assistance/oversight could be significant.

POSSIBLE QUESTIONS

1. Does the Legislature agree with the policy position that correcting health and safety deficiencies is solely the responsibility of the state? In Arizona, the deficiency cost ballooned from \$200 million to \$1,200 million.

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2. Does the proposal have strong incentives for local funding of public school capital outlay? How can they be strengthened?
3. The Arizona model has consistently experienced costs greater than projected. How has the task force accounted for this issue in its recommendation?
4. Is the Legislature willing to give up some senior severance tax bond sponge capacity to this effort? In a declining revenue environment, sponge capacity would become less certain. How would the difference be made up?
5. The task force recommendations assume the elimination of the Lottery distribution to public school capital outlay. Does the Legislature agree with this philosophy?
6. Does the Legislature agree with the intent that the supplemental severance tax program not be dedicated to health and safety deficiencies?
7. What will be the criteria for allocating the deficiency funding? Who will make the decisions?
8. If the standards for the new public school capital outlay program are developed and implemented by the Public School Capital Outlay Task Force, is the Legislature willing to provide this degree of public policy making authority to that body?
9. Is the Legislature willing to take on additional state debt to fund public school capital outlay with this new general obligation bond proposal? If adopted, is the Legislature willing for this new bond program to be a residual, after all other funding sources are calculated?
10. Has the Task Force presented its recommendations to Judge Rich? What was his response?

AW/ar /njw