

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current and previously issued FIRs are available on the NM Legislative Website ([www.nmlegis.gov](http://www.nmlegis.gov)) and may also be obtained from the LFC in Suite 101 of the State Capitol Building North.

## FISCAL IMPACT REPORT

ORIGINAL DATE 1/19/15

SPONSOR Stewart LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Public School Capital Outlay Building Needs SB 128

ANALYST Chavez

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY15	FY16		
	\$15,000.0	Recurring through FY20	Public School Capital Outlay Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY15	FY16	FY17		
	\$15,000.0	\$15,000.0	Recurring through FY20	Public School Capital Outlay Fund for Systems Initiative
	(\$15,000.0)	(\$15,000.0)	Recurring through FY20	Public School Capital Outlay Fund for Current Programs

(Parenthesis ( ) Indicate Revenue Decreases)

For the Public School Capital Outlay Oversight Task Force  
 For the Legislative Education Study Committee  
 Relates to Senate Bill 150

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Regulation and Licensing Department (RLD)  
 New Mexico Public School Insurance Authority (NMPSIA)  
 Public Education Department (PED)  
 Public School Facilities Authority (PSFA)

## SUMMARY

### Synopsis of Bill

Senate Bill 128 amends the Public School Capital Outlay Act (PSCOA) to allow the Public School Capital Outlay Council (PSCOC) to provide for annual allocations up to \$15 million from the Public School Capital Outlay Fund to address building systems needs in existing public school facilities. The bill eliminates language related to the current roofing program that sunsets in FY15 and creates an initiative for building system repair, renovation or replacement for fiscal years 2016 through 2020. The new building system would allow the council to make awards for systems that include, but are not limited to, roofing, electrical distribution, electronic communication, plumbing, lighting, mechanical, fire prevention, facility shell, interior finishes and heating, ventilation and air conditioning systems. Projects are to be identified and ranked through a priority methodology based on guidelines to be developed by PSCOC.

## FISCAL IMPLICATIONS

This bill does not appropriate additional funds; rather, it allows the Council to re-allocate money currently available to current programs funded by the PSCOA. Consequently, available funds for current programs under the PSCOA would be decreased by \$15 million between fiscal years 2016 and 2020.

The PSCOA currently includes an initiative that allows the council to allocate up to \$10 million annually for roof repair (Section 22-24-4H NMSA 1978); this standards-based roofing program will sunset in FY15. It is possible likely would be a system under will be eligible under the new the roof repair initiative with an initiative for building systems repair, and increases annual allocations available for the program up to \$15 million, provided that the money allocated for projects be expended within three years of the allocation.

For FY16, PSFA estimates the following awards for programs out of the Public School Capital Outlay Fund:

- Capital Improvements Act (SB-9): \$20.2 million
- Lease Payment Assistance Awards: \$15.3 million
- Master Plan Assistance Awards: \$400 thousand
- Broadband Deficiency Correction Program: up to \$10 million
- Construction Industries Division OSFM inspections: \$300 thousand
- PSCOC standards-based projects: \$120.5 million
- Building Systems-based projects: up to \$15 million.

Recent estimates provided by PSFA indicate awards for all programs including standards-based projects exceed projected revenues for FY16. While the bill allows \$15 million to be allocated to building systems, it will be up to the PSCOC to determine whether to allocate the full maximum amount or a lesser amount to ensure standards-based obligations are met. However, PSFA notes funding building system improvement as defined in the bill could provide a stronger return on the state's investment for already installed facilities. (See attachment for an example of possible building system renewal standards provided by PSFA.)

## SIGNIFICANT ISSUES

The Public School Capital Outlay Fund (PSCOF) is the source of funding for the standards-based capital outlay program for public schools statewide, as well as the state match for the Public School Capital Improvements Act (SB9), lease assistance program, master plan assistance, and other programs under the Public School Capital Outlay Act (Chapter 22, Article 24 NMSA 1978). Revenues to the fund are from supplemental severance tax bonds (SSTBs) and allocations from the fund are authorized by the Public School Capital Outlay Council (PSCOC).

The bill defines a building system as “a set of interacting parts that make up a single, non-portable or fixed component of a facility and that, together with other building systems, make up an entire integrated facility or property, including, but not limited to, roofing, electrical distribution, electronic communication, plumbing, lighting, mechanical, fire prevention, facility shell, interior finishes and heating, ventilation and air conditioning systems, as defined by the council.”

Traditionally, while the state contributes to the cost of building and renovating public school facility systems, once construction is complete, school districts are responsible for maintenance. The Public School Buildings Act and the Capital School Improvement Act (HB33 and SB9, respectively) provide resources for school districts to impose taxes to pay for maintenance and construction costs. However, PED notes PSCOC has received fewer applications through the standards-based process over the past several years. One of the reasons is that school districts do not have access to their local match for a full PSCOC construction project and, in many cases, the school districts’ needs do not require the construction of a new building or a major renovation, but rather, smaller projects including electrical, plumbing, lighting, and HVAC systems.

However, PSFA does work with school districts in an effort to increase the quality of school facility maintenance in order to maximize the life cycle of building systems. The quality of public school facilities has improved significantly since the inception of standards-based awards, and the statewide average facility condition index (FCI) has significantly improved, from 70 percent to around 35 percent. The quality of maintenance at public school facilities is not as high; as a result, building systems often need replacement before the lifespan of those systems has expired. PSFA provides facility maintenance assessment report (FMAR) scores to indicate the quality of maintenance in school districts – currently 78 percent of school districts have poor or marginal FMAR scores. PSFA notes that a systems-based program would provide an opportunity for districts to “right size” a school to fit their educational needs and fiscal resources and correct deficiencies that significantly impact the learning environment, adding that by correcting facility systems in a school that are “beyond expected life”, the building’s progression to renewal or replacement can be slowed and operating costs, including maintenance, can be reduced.

RLD adds that the approach of building system repair as outlined in the bill allows schools, especially the smaller, more rural districts, the ability to address immediate needs pertaining to specific “building systems” without having to pass a large capital improvement bond election that would be required to fix all needed improvements.

The indirect fiscal implications for the New Mexico Public School Insurance Authority (NMPSIA), a purchasing agency for public school districts, post-secondary educational entities

and charter schools to offer employee benefit and risk coverages, will be positive, as any increase in school funding for building improvements will result in lower property claims.

### **PERFORMANCE IMPLICATIONS**

PSFA notes that if the highest needs (greatest wNMCI ranked) schools do not apply for regular standards-based grants, targeting funding to systems renewal of lesser ranked schools could be an effective and efficient use of available funds and will sustain the average statewide condition of K-12 schools.

### **ADMINISTRATIVE IMPLICATIONS**

PSCOC and PSFA will have to incorporate the systems-based initiative into the Public School Capital Outlay annual application process.

RLD notes that as PSFA already performs the actions required for capital outlay projects/improvements, although this program may create more projects to oversee, the projects will be smaller in scope, with a much quicker turnaround. It would not create a negative impact on the Construction Industries Division (CID) of RLD, as the required plan review, permitting, and inspections fall within their anticipated and budgeted workload.

PSFA may have an additional administrative burden to oversee the program; however, as it is replacing the current roof-repair program, costs should be minimal.

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

SB 150 increases distributions to the severance tax permanent fund by phasing in reductions to severance tax bonding capacity and supplemental severance tax bonding capacity. Passage of this bill would lead to reduced funds being allocated the Public School Capital Outlay Fund for projects.

HB 92 appropriates proceeds from severance tax bonds to the Economic Growth And Energy Development Transportation Fund for use for transportation costs; if passed and signed into law, this bill would also reduce funds available for the Public School Capital Outlay Fund.

### **ALTERNATIVES**

The Legislature may want to consider requiring good school district facility maintenance as a condition of eligibility for “building system” funding to ensure school districts do not abandon their responsibility to maintain facilities.

### **POSSIBLE QUESTIONS**

Will this create a situation where school districts continue to defer maintenance rely on the state for maintenance assistance?

KC/bb/je

# Systems Renewal Ranking Standards

Primary eligibility requirements must first be met, and then ranked for eligibility for grant from highest to lowest total score.

- The project will reduce the campus Gross Square Footage by 50% or more, or
- #1 - Campus (school) condition must be worse than statewide average, and
- #2 - Applicant must be able to demonstrate that the post-project wNMCI will be 33% or more lower than the pre-project wNMCI

Available points 50. Projects will be awarded to highest points first and will be limited to funding availability.

SCORE	CRITERIA	ALLOCATION OF POINTS (X points)
	Reduction of Operating Costs	36% or greater (5); 21-35% (4); 11-20%(3); 6-10%(2); 1-5% (1)
	Percent of FCI (not wNMCI) Reduction	36% or greater (5); 21-35% (4); 11-20%(3); 6-10%(2); 1-5% (1)
	Reduction of Campus Gross Square Feet	36% or greater (5); 21-35% (4); 11-20%(3); 6-10%(2); 1-5% (1)
	Feasibility/Utilization/Engineering Evaluation Report(s)	Yes complete (5)
	District has their funding match	Yes available (5)
	Campus has Facility Maintenance Assessment Report (FMAR) score of satisfactory (70.1% or better).	90.1 or better (5) ; 80.1 or better (3); 70.1 or better(1)
	This application is for a school with a wNMCI score within the top 100 of the state, ranked in the District's top three of their FMP, and a Standards Based grant was not awarded.	Highest ranked (5); 2nd Highest (3); 3rd Highest (1)
	Project contains one to three high risk system(s) [roof, HVAC, or drainage]	3ea (5); 2ea (4); 1ea (3)
	Project contains one or more systems that are listed in the PSFA FAD as Category 1,2,3 or 4 [ use highest ]	Category 1 (5); Category 2 (4); Category 3 (3); Category 4 (2)
	Worst systems in the application to be renewed have been included in the District's FMP for 2+ years	Yes (5)
	TOTAL POINTS SCORED (maximum - 50 points)	