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FISCAL IMPACT REPORT

ORIGINAL DATE 1/27/2021

SPONSOR Soules LAST UPDATED _____ HB _____

SHORT TITLE Funding of Demolition of Abandoned Schools SB 43

ANALYST Liu

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY21	FY22	FY23	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		\$11,300.0 - \$18,800.0		\$11,300.0 - \$18,800.0	Nonrecurring	Public School Capital Outlay Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Public School Facilities Authority (PSFA)

Public Education Department (PED)

SUMMARY

Synopsis of Bill

Senate Bill 43 allows the Public School Capital Outlay Council (PSCOC) to provide grant assistance from the public school capital outlay fund to fully fund the demolition of abandoned school district facilities. Previous language provided partial or full demolition cost reimbursements to districts based on an amount equal to the savings from lower insurance premiums.

There is no effective date of this bill. It is assumed the effective date is 90 days following adjournment of the Legislature.

FISCAL IMPLICATIONS

The bill does not make an appropriation. PSFA estimates approximately 750 thousand gross square feet of school district facilities statewide are abandoned or unused and ready for demolition. Assuming a range of demolition cost of \$15 to \$25 per square foot, the potential cost to demolish these abandoned and unused buildings statewide could be approximately \$11.3 million to \$18.8 million.

PED notes insurance premiums vary in every region of the state and depend on the actual value of the building. Demolition of unused vacant buildings could result in insurance premium savings for school districts annually.

SIGNIFICANT ISSUES

PSCOC’s systems-based funding program includes demolition as an eligible expenditure for system awards. In the first 4 years of the systems-based program since 2017, PSCOC has awarded 44 projects, including three demolition projects. To receive state funding through a systems-based award, school districts are required to contribute local matching funds to the total cost of the project, as defined by the state-local match formula for capital projects. PSFA notes districts have not requested funding for demolition through the systems-based program due to a perceived value of abandoned and unused facilities, as well as voters’ reluctance to approve general obligation bond funding if demolition is included in the bond language.

According to PSFA’s school district facility master plans (FMP), approximately one quarter of the 89 school districts in New Mexico have vacant, unnecessary, or underutilized school or district buildings, totaling approximately 750 thousand gross square feet statewide. FMPs indicate districts plan to eventually demolish these buildings in an effort to reduce gross square footage in the district inventory, and “right-size” schools for current enrollment trends. Demolishing these buildings could help districts save on insurance and maintenance costs that are continually expended on the abandoned and unused facilities. However, PSFA notes many districts do not usually budget funds to pay for demolition projects in addition to their other capital priorities. Demolition projects typically have a low priority on the list of a district’s capital improvement projects.

PERFORMANCE IMPLICATIONS

Demolishing abandoned buildings could help districts save on insurance and maintenance costs that are continually expended on unused facilities.

TECHNICAL ISSUES

PSFA recommends clarifying the definition of “abandoned” buildings. Abandoned buildings may only include unused and vacant facilities but could also include under-utilized buildings with uses that could be relocated to available spaces elsewhere in the district.

Paragraph 1 states “the costs of continuing to insure an abandoned facility outweigh any potential benefit when and if a new facility is needed by the school district,” which implies the demolition is part of a larger replacement project effort, rather than for the purpose of removing unnecessary and excess facilities from the school or district. PSFA recommends amending this provision to remove the mention of a new facility.

OTHER SUBSTANTIVE ISSUES

In 2000, the 11th Judicial District Court ruled in the *Zuni Public District v. State of New Mexico* lawsuit that New Mexico’s public school capital outlay system violated constitutional requirements, and ordered the state to establish and implement a uniform funding system for capital improvements and for correcting past inequities. Since the *Zuni* lawsuit, the state has spent \$2.7 billion to build school facilities up to the approved statewide adequacy standards. Despite

significant improvements in statewide facility conditions, the *Zuni* lawsuit was never closed and, in December 2020, the court ruled in favor of plaintiff school districts on new claims of inequity. Provisions of this bill may divert immediate capital resources away from facility needs directly relating to educational adequacy.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

PSFA notes districts may apply to PSCOC for the demolition of abandoned facilities under the systems-based program, with the required local funding match, and demolition will only be partially funded by the state.

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