

Executive Director: John Arnold

JLBC Analyst: Leatta McLaughlin

	FY 2006 Actual	FY 2007 Estimate	FY 2008 Approved
OPERATING BUDGET			
Full Time Equivalent Positions	18.0	18.0	20.0
Personal Services	981,800	1,023,900	1,138,400
Employee Related Expenditures	258,300	288,400	335,500
Professional and Outside Services	180,000	233,300	252,500
Travel - In State	19,300	22,000	22,000
Other Operating Expenditures	176,800	179,600	192,200
Equipment	27,500	0	3,800
OPERATING SUBTOTAL	1,643,700	1,747,200	1,944,400
SPECIAL LINE ITEMS			
New School Facilities	250,000,000	250,000,000	370,000,000
New School Facilities Debt Service	50,820,800	75,733,500	71,967,200
Building Renewal	70,000,000	86,283,500	86,283,500
Deficiencies Correction	20,000,000	0	0
Energy and Water Savings Pilot Program	0	0	2,500,000 ^{1/}
AGENCY TOTAL	392,464,500	413,764,200	532,695,100^{2/}
FUND SOURCES			
General Fund	392,464,500	413,764,200	532,695,100
SUBTOTAL - Appropriated Funds	392,464,500	413,764,200	532,695,100
Other Non-Appropriated Funds	185,523,100	182,333,100	104,237,400
TOTAL - ALL SOURCES	577,987,600	596,097,300	636,932,500

AGENCY DESCRIPTION — The School Facilities Board is composed of 8 gubernatorial appointments and the Superintendent of Education. The board administers the New School Facilities Fund, the Building Renewal Fund, and the Emergency Deficiencies Correction Fund to provide capital funding for K-12 school districts.

	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2008 Approved
PERFORMANCE MEASURES				
• % of school districts inspected meeting minimum adequacy standards	99	100	100	100
• % of school districts rating the board’s services as “good” or “excellent” in an annual survey	80	80	93	90

Operating Budget

The budget provides \$1,944,400 and 20 FTE Positions from the General Fund for the operating budget in FY 2008. This amount funds the following adjustments:

Statewide Adjustments

The budget provides an increase of \$75,700 from the General Fund in FY 2008 for statewide adjustments. (Please see the Statewide Adjustments section at the end of this Appropriations Report for details.)

School Facilities Liaisons

The budget provides an increase of \$121,500 and 2 FTE Positions from the General Fund in FY 2008 for additional School Facilities Liaisons. These positions will certify that plans for new school facilities meet the building adequacy standards, conduct building maintenance inspections on existing school facilities, provide technical support to school districts during the construction process of a new school, and review and audit school district expenditures from the Deficiencies Correction, Building Renewal, and New School Facilities Funds.

^{1/} Laws 2007, Chapter 266 appropriation of \$2,500,000.

^{2/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Special Line Items

New School Facilities

The budget provides \$370,000,000 from the General Fund for New School Facilities in FY 2008. This amount funds the following adjustment:

New Construction Increase

The budget provides an increase of \$120,000,000 from the General Fund in FY 2008 for new school construction.

The increased amount is due to the following: 1) declining revenue sources because of a decreasing cash balance and the end of re-payment transfers from the Deficiencies Correction Fund; 2) an inflation adjustment adopted at the October 2006 Joint Legislative Budget Committee (JLBC) meeting (discussed below); and 3) increased FY 2006 new school construction approvals.

The School Facilities Board (SFB) approved \$447,978,700 in new school construction projects in FY 2006, which is approximately a \$200,000,000 increase from the previous year's approvals. In FY 2007, SFB approved \$410,186,000 in new school construction projects. After a project is approved, though, it takes several years for the project to be completed.

FY 2008 new school construction will be financed on a cash basis, which continues the policy enacted in FY 2006 to provide cash instead of lease-purchase debt financing. From FY 2003 to FY 2005, new school construction was financed through lease-purchase agreements.

The January 2007 JLBC Staff forecast estimated total FY 2008 expenditures to be \$382,456,200. Of the total, \$35,000,000 will be allocated for land and \$347,448,200 for construction projects. *Table 1* provides revenue and expenditure activity for the New School Facilities Fund from FY 2006 to FY 2008.

The spending will be financed with \$370,000,000 of appropriated monies, \$10,000,000 in lease revenues from the Land Department, and \$2,594,600 from a cash balance. Based on expected expenditures and available revenues, this will leave the New School Facilities Fund with a FY 2008 ending balance of \$138,400.

The *Table 1* estimates were the basis of the FY 2008 budgeted amounts. Subsequent to passage of the budget, SFB released revised estimates of their FY 2007 (\$373,616,500) and FY 2008 (\$410,651,300) expenditures.

The New School Facilities Special Line Item (SLI) provides pay-as-you-go funding for school districts to build new K-12 school facilities. The board distributes the monies to school districts as work is completed on approved projects. The amounts allocated to each school district are determined by statute. A school district qualifies for new construction funding when the district-wide square feet per student falls below the statutory minimum. Funding is then provided to the district at a statutorily prescribed dollar amount per square foot. For individual projects, the board may modify the square footage per student or the cost per square foot under certain circumstances.

The dollar amount per square foot is adjusted annually based on a construction market index identified by the JLBC. In FY 2007 the Committee approved a 12.2% adjustment to the funding cost per square foot. This increase represented the average between an 11.3% adjustment based on an international construction consulting group index for all Phoenix construction, and a 13.1% adjustment based on a local project management firm index for Phoenix elementary schools. The Committee chose a 12.2% adjustment due to the high rate of growth in construction costs over the past year. (See *Table 2* for statutory funding guidelines.)

	FY 2006 Actual	FY 2007 Estimate	FY 2008 Estimate
Beginning Balance	\$107,247,500	\$42,564,800	\$2,594,600
Revenues			
General Fund Appropriation	250,000,000	250,000,000	370,000,000
Transfer from the Deficiencies Correction Fund	15,000,000	25,893,200	0
Lease Revenue	8,946,100	10,000,000	10,000,000
Other Revenue	108,800	9,801,500	0
Total Funds Available	\$381,302,400	\$338,259,500	\$382,594,600
Funds Expended			
Land	38,714,000	35,000,000	35,000,000
Projects	276,186,400	299,369,500	347,448,200
Transfer to the Emergency Deficiencies Correction Fund	10,000,000	0	0
Full-Day Kindergarten	4,028,000	1,287,400	0
Board Expenditures/Other	9,809,200	8,000	8,000
Total Funds Expended	338,737,600	335,664,900	382,456,200
Fund Balance	\$ 42,564,800	\$ 2,594,600	\$ 138,400

Type of School	Square Feet Per Student	Funding Per Square Foot ^{1/2/}
K-6	90	\$131.13
7-8	100	\$138.42
9-12 (<1,800 pupils)	134	\$160.26
9-12 (≥1,800 pupils)	125	\$160.26

^{1/} Increased by 5% for rural school districts.
^{2/} FY 2007 amounts. Adjusted annually for inflation.

In addition to state funding, districts can generate local funding for new school construction projects by holding a Class B bond election (A.R.S. § 15-1021). Class B bonds are designed to supplement, and not supplant, funding received from the SFB. Space funded with Class B bond proceeds, therefore, is generally not included in the calculation for determining if a school district qualifies for

funding from the board. In FY 2006, school districts issued approximately \$625,000,000 in new Class B bonds.

New School Facilities Debt Service

The budget provides \$71,967,200 from the General Fund for New School Facilities Debt Service in FY 2008. This amount funds the following adjustment:

Debt Service Payment Decrease

The budget provides a decrease of \$(3,766,300) from the General Fund in FY 2008 for the lease-purchase debt service payment. The overall debt service payment on all outstanding lease-purchase agreements will decrease in FY 2008 to reflect the current payment schedule on these 15-year lease-purchase agreements.

The New School Facilities Debt Service SLI provides funding to pay the debt service on lease-purchase agreements entered into from FY 2003 to FY 2005 to finance new school construction. Currently the outstanding debt from these agreements is \$826,810,000.

Laws 2006, Chapter 353 prohibits the board from entering into any new lease-purchase agreements to finance new school construction, and specifies the Legislature's intent not to appropriate funding in the future for debt service payments on any lease-purchase transactions entered into by the board from and after May 15, 2006.

Building Renewal

The budget provides \$86,283,500 from the General Fund for Building Renewal in FY 2008. This amount is unchanged from FY 2007.

The School Facilities Board Budget Reconciliation Bill (BRB) (Laws 2007, Chapter 266) notwithstanding the Building Renewal formula in FY 2008. The FY 2008 Building Renewal funding amount under the current statutory formula would have been \$190,220,000.

Laws 2007, Chapter 266 also requires school districts to use Building Renewal monies on primary projects, unless only secondary projects exist. Primary projects are defined to include projects associated with instructional space and that fall below the minimum school facility adequacy guidelines adopted by SFB, while secondary projects includes all other projects. The bill requires school districts to include information in their annual Building Renewal report to SFB on whether prior year Building Renewal project expenditures were on primary or secondary projects. Upon receipt on of this report, SFB shall forward this information to JLBC Staff and the Governor's Office of Strategic Planning and Budgeting (OSPB) Staff.

The Building Renewal SLI provides funding for school districts to maintain the adequacy of existing school facilities. Building Renewal monies are for major renovations and repairs, system upgrades to extend the life of a building, and infrastructure costs on academic

buildings owned by a district. The amount allocated to each school district is determined by a statutory formula. The board distributes the monies to school districts in 2 equal installments, in November and May.

Deficiencies Correction

The budget provides no funding from the General Fund for Deficiencies Correction in FY 2008.

The Deficiencies Correction SLI provided funding to correct space and quality deficiencies at school districts. The state provided the Deficiencies Correction Program with a total of \$1,314,000,000.

Adequacy requirements are defined in statute and related guidelines that were adopted by the board and reviewed by the Joint Committee on Capital Review (JCCR) in August 1999. All deficiencies were to be corrected by June 30, 2006.

Energy and Water Savings Pilot Program

The SFB BRB appropriates one-time funding of \$2,500,000 from the General Fund for the new Energy and Water Savings Pilot Program SLI in FY 2008. The program funding will be used to provide grants to school districts for energy and water savings audits and for the implementation of energy and water savings programs. SFB will administer the program, with technical assistance from the Department of Commerce's Energy Division.

SFB is to submit a report by October 1, 2008 and 2009, which will show active grants made from the fund, energy and water savings, costs savings, and other benefits resulting from eligible projects implemented by grant recipients. The program is repealed from and after December 31, 2009.

Additional Legislation

Annual New Construction Report

The SFB BRB requires SFB to incorporate into its annual New School Facilities report to the JCCR detailed demographic information for individual projects the board approved within the last year, and expects to approve within the upcoming year. The JLBC, OSPB, and SFB Staffs shall agree on the format of the reporting. The deadline of the report is changed from October 15 to June 15 since the board's approval cycle has not historically ended until May.

Task Force on K-12 School Facilities

The SFB BRB establishes a Task Force on K-12 School Facilities to review and make recommendations on potential funding sources for SFB, statutory funding formulas, minimum school facility adequacy guidelines, capital costs to reduce K-3 class sizes, the costs to count kindergarten students as a full student in the new school construction formula, energy efficiency standards, and SFB's governance structure. This Task Force is repealed from and after September 30, 2009.