

School Facilities Board

JLBC: Leatta McLaughlin

OSPB: Stacey Morley

DESCRIPTION	FY 2006 ACTUAL	FY 2007 ESTIMATE	FY 2008 JLBC
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	18.0	18.0	18.0
Personal Services	981,800	1,023,900	1,023,900
Employee Related Expenditures	258,300	288,400	293,100
Professional and Outside Services	180,000	233,300	233,300
Travel - In State	19,300	22,000	22,000
Other Operating Expenditures	176,800	179,600	163,100
Equipment	27,500	0	0
OPERATING SUBTOTAL	1,643,700	1,747,200	1,735,400
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	105,576,500
Deficiencies Correction	20,000,000	0	0
AGENCY TOTAL	392,464,500	413,764,200	549,279,100
FUND SOURCES			
General Fund	392,464,500	413,764,200	549,279,100
SUBTOTAL - Appropriated Funds	392,464,500	413,764,200	549,279,100
Other Non-Appropriated Funds	185,523,100	182,333,100	104,237,400
TOTAL - ALL SOURCES	577,987,600	596,097,300	653,516,500

CHANGE IN FUNDING SUMMARY

	FY 2007 to FY 2008 JLBC	
	\$ Change	% Change
General Fund	135,514,900	32.8%
Other Appropriated Funds	0	0.0%
Total Appropriated Funds	135,514,900	32.8%
Non Appropriated Funds	78,095,700	(42.8%)
Total - All Sources	57,419,200	9.6%

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.

PERFORMANCE MEASURES	FY 2004	FY 2005	FY 2006	FY 2008
	Actual	Actual	Actual	JLBC
• % 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

CHANGES FROM FY 2007

Operating Budget

The JLBC includes \$1,735,400 and 18 FTE Positions from the General Fund for the operating budget in FY 2008. This amount would fund the following adjustment:

		<u>FY 2008</u>
Standard Changes	GF	\$(11,800)
The JLBC includes a decrease of \$(11,800) from the General Fund in FY 2008 for standard changes.		

Special Line Items

New School Facilities

The JLBC includes \$370,000,000 from the General Fund for New School Facilities in FY 2008. This amount would fund the following adjustment:

New Construction Increase	GF	120,000,000
The JLBC includes 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 JLBC meeting (discussed below); and 3) increased FY 2006 new school construction approvals.

The School Facilities Board (SFB) approved \$439 million in new school construction projects in FY 2006, which is approximately a \$200 million increase from the previous year's approvals. After a project is approved, though, it takes several years for the project to be completed.

While JLBC includes an increase of \$120,000,000 above the FY 2007 amount for new school construction, SFB requested an increase of \$149,000,000. SFB has based its spend-out of new construction approvals on historical patterns. For example, SFB has historically spent about 5% of a district's total project cost in the year it was approved. In the following year, SFB has spent about 25%, with the remainder expended over the next 4 years. SFB expects 15 projects to begin construction in FY 2008, along with 43 continuing new construction projects approved through FY 2006.

Due to the slowdown in the Arizona housing market, this historical expenditure pattern may be temporarily disrupted. Arizona housing permits declined by 13% in FY 2006. Projecting a further decline in FY 2007, SFB reduced their estimate of the level of new project approvals in FY 2007 by 25%, which in turn reduced their forecast for FY 2008 expenditures. The JLBC uses the same approach to estimate FY 2007 approvals, but also reduces the rate at which expenditures from FY 2006 approvals will be made in FY 2008. The JLBC reduced the spend-

out of FY 2006 approvals in FY 2008 by 13% to match the decline in housing permits.

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.

Total FY 2008 expenditures are expected 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.

NEW SCHOOL FACILITIES FUND			
Revenue and Expenditure Activity			
	FY 2006	FY 2007	FY 2008
	<u>Actual</u>	<u>Estimate</u>	<u>Estimate</u>
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	<u>108,800</u>	<u>9,801,500</u>	<u>0</u>
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	<u>9,809,200</u>	<u>8,000</u>	<u>8,000</u>
Total Funds Expended	338,737,600	335,664,900	382,456,200
Fund Balance	\$ 42,564,800	\$ 2,594,600	\$ 138,400

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 would leave the New School Facilities Fund with a FY 2008 ending balance of \$138,400.

The New School Facilities Special Line Item 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 Joint Legislative Budget Committee. 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.)

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 million in new Class B bonds.

New School Facilities Debt Service

The JLBC includes \$71,967,200 from the General Fund for New School Facilities Debt Service in FY 2008. This amount would fund the following adjustment:

Debt Service Payment Decrease GF (3,766,300)

The JLBC includes 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 Special Line Item 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 JLBC includes \$105,576,500 from the General Fund for Building Renewal in FY 2008. This amount would fund the following adjustment:

Revised Building Renewal

Formula GF 19,293,000

The JLBC includes an increase of \$19,293,000 from the General Fund in FY 2008 to fully fund a revised building renewal formula. Under the current statutory formula, the FY 2008 cost of building renewal would be \$190,220,000. The JLBC would instead fund a revised building renewal formula at \$105,576,500, which would require the following statutory changes to the current formula:

1. *The maximum age of a building in the formula shall be 30 years.* Building renewal monies are intended for use in maintaining and replacing building systems. The average life of a building system is less than 30 years. The current formula does not cap the age of the building.
2. *Portable buildings shall be subject to the same formula as permanent buildings.* Currently, the formula distinguishes between a portable building and a permanent building, generating about 6 times as much money for a portable building as for a permanent building. The life of a portable building system, however, is about the same as that of a permanent building system.
3. *The cost per square foot shall be the replacement cost.* Currently, the formula uses the new school construction cost per square foot. This amount, however, includes funding for equipment, furniture, and any contingencies. Funding for these items is not necessary to maintain and replace building systems.
4. *The square foot per student shall be according to the minimum adequacy guidelines.* The formula currently uses the new school construction square foot per student. The new school construction square foot per student, however, is designed to build facilities that allow for student growth.

(See Statutory Changes for more information.)

In the 2006 Legislative session, the School Facilities Budget Reconciliation Bill made the above statutory changes to the building renewal formula. Under the revised formula, the total cost of building renewal would have been \$86,283,500 in FY 2007. The Governor vetoed the bill, which contained the formula changes. The Governor, however, did not veto the appropriation of \$86,283,500.

Table 3 on the following page reflects the \$19,293,000 increase in FY 2008.

Table 3

FY 2008 Building Renewal Formula Increase

JLBC Adopted Inflation	12.20%	\$10,526,600
Age increase ^{1/}	8.50%	7,334,100
New space increase ^{1/}	1.66%	<u>1,432,300</u>
		\$19,293,000

^{1/} The percentages used for the age and new space increases are estimates based on the FY 2007 amounts.

The Building Renewal Special Line Item 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 JLBC includes no funding from the General Fund for Deficiencies Correction in FY 2008. The Deficiencies Correction Special Line Item 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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

STATUTORY CHANGES

The JLBC would amend A.R.S. § 15-2031 to make a number of changes to the building renewal formula to better reflect actual costs to maintain school facilities. (See *Building Renewal Special Line Item for more information.*)

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

Emergency Deficiencies Definition

The Emergency Deficiencies Correction program was established to correct capital related emergencies experienced by school districts. The New School Facilities Fund is the revenue source for this program.

Currently in statute, an emergency is defined as a “a serious need for materials, services or construction or expenses in excess of the district’s adopted budget for the current fiscal year and that seriously threatens the functioning of the school district, the preservation or protection of property or public health, welfare or safety.” Statute does not specify what expenditures qualify under the program.

Minimum Guidelines

A.R.S. § 15-2011 authorizes SFB to establish minimum school facility adequacy guidelines. Minimum guidelines for school facilities were developed by SFB, reviewed by JCCR, and became effective in 1999. No significant changes related to new school construction standards have been made to the guidelines since their adoption.

SFB recently reviewed the minimum guidelines, and their staff recommends clarification for 7 items: interior flooring, gym floors, millwork (classroom cabinets), exterior lighting, canopies, playground structures and canopies, and landscaping. This would not change existing statute so would, therefore, only apply to upcoming approvals. If these recommendations are adopted by the board, SFB staff estimates it would increase the cost/sq. ft. new school construction amounts by about \$5.30/sq. ft. This estimate does not include the playground structures item since staff does not currently have a cost estimate for this item.

SUMMARY OF FUNDS	FY 2006	FY 2007
	Actual	Estimate
Building Renewal Fund (SFA2465/A.R.S. § 15-2031)		Non-Appropriated
Source of Revenue: Legislative appropriations.		
Purpose of Fund: To provide school districts with monies for maintaining the adequacy of existing school facilities. School districts must submit their 3-year Building Renewal plans before they can be awarded any Building Renewal monies. The fund balance represents monies that have not yet been distributed to districts due to the timeliness of district submitted 3-year Building Renewal plans.		
Funds Expended	0	0
Year-End Fund Balance	11,634,900	11,634,900

SUMMARY OF FUNDS	FY 2006 Actual	FY 2007 Estimate
Capital Reserve Fund (SFA2450/A.R.S. § 15-2003)		Appropriated
Source of Revenue: Earnings on the investment of Capital Reserve Fund balances and unobligated monies from the New School Facilities Fund that are credited to the Capital Reserve Fund by the State Treasurer on June 30 of each year.		
Purpose of Fund: To serve as a clearing account for any New School Facilities Fund monies that are unobligated at the end of each fiscal year. This allows the monies to be invested by the State Treasurer until they are appropriated either to the Deficiencies Correction Fund or back to the New School Facilities Fund.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Deficiencies Correction Fund (SFA2455/A.R.S. § 15-2021)		Non-Appropriated
Source of Revenue: Legislative appropriations. Does not include \$832,865,000 in Proposition 301 revenue bond proceeds or \$20,000,000 in Qualified Zone Academy Bond (QZAB) revenue bond proceeds. (See the <i>School Improvement Revenue Bond Proceeds Fund</i> .) Does not include \$246,600,000 in Permanent State School Fund revenue bond proceeds. (See the <i>State Land Trust Bond Proceeds Fund</i> .)		
Purpose of Fund: To provide school districts with monies for correcting existing deficiencies. In FY 2006 \$15.0 million was returned to the New School Facilities Fund and \$25.9 million was returned in FY 2007. The fund expired at the end of FY 2006, but SFB will expend monies in FY 2007 to make outstanding district payments.		
Funds Expended	0	4,048,600
Year-End Fund Balance	30,200,900	0
Emergency Deficiencies Correction Fund (SFA2484/A.R.S. § 15-2022)		Non-Appropriated
Source of Revenue: Monies transferred from the Deficiencies Correction Fund or the New School Facilities Fund.		
Purpose of Fund: To provide school districts monies for facility emergencies.		
Funds Expended	6,593,300	1,359,000
Year-End Fund Balance	4,071,400	2,971,500
Lease to Own Debt Service Fund (SFA2373/A.R.S. § 15-2004)		Non-Appropriated
Source of Revenue: Appropriated monies and interest earnings from the investment of lease-to-own Certificates of Participation (COP) proceeds.		
Purpose of Fund: To pay the debt service on any lease-to-own agreements entered into by SFB to finance the costs of new school construction.		
Funds Expended	0	0
Year-End Fund Balance	0	0
New School Facilities Fund (SFA2460/A.R.S. § 15-2041)		Non-Appropriated
Source of Revenue: Legislative appropriations, monies received by the State Land Department from the lease of state public school land, and proceeds from lease-to-own agreements.		
Purpose of Fund: To provide school districts with monies for constructing new school facilities. To prevent double counting, FY 2006 and FY 2007 expenditures exclude \$250 million from the General Fund.		
Funds Expended	88,737,600	85,664,900
Year-End Fund Balance	42,564,800	2,594,600
School Capital Equity Fund (SFA2273/A.R.S. § 15-1051[repealed])		Non-Appropriated
Source of Revenue: Transfers from the General Fund and the Permanent State School Fund. In addition, SFB collects payment on outstanding loans to school districts. The loans were administered by the State Board for School Capital Facilities.		
Purpose of Fund: To complete school capital projects previously approved by the State Board for School Capital Facilities. Laws 1997, Chapter 9, 1st Special Session automatically repealed the board upon the Arizona Supreme Court's ruling that the state's system of school capital funding was unconstitutional.		
Funds Expended	0	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2006 Actual	FY 2007 Estimate
School Facilities Revenue Bond Debt Service Fund (SFA5010/A.R.S. § 15-2054)		Non-Appropriated
Source of Revenue: Monies credited to the fund, if necessary, from the Permanent State School Fund (A.R.S. § 37-521.B1) or state TPT revenues.		
Purpose of Fund: To pay the debt service on State School Facilities Revenue Bonds issued for new construction.		
Funds Expended	0	0
Year-End Fund Balance	0	0
School Facilities Revenue Bond Proceeds Fund (SFA3325/A.R.S. § 15-2053)		Non-Appropriated
Source of Revenue: Proceeds from the sale of up to \$200,000,000 in revenue bonds that may be issued by SFB if authorized by the Legislature.		
Purpose of Fund: To provide monies for constructing new school facilities.		
Funds Expended	0	0
Year-End Fund Balance	0	0
School Improvement Revenue Bond Debt Service Fund (SFA5020/A.R.S. § 15-2084)		Non-Appropriated
Source of Revenue: Revenues from a 0.6% increase in the state TPT (as approved under Proposition 301 in the 2000 General Election) and monies credited to the fund from the Permanent State School Fund.		
Purpose of Fund: To pay the debt service on \$832,865,000 in Proposition 301 revenue bonds and \$20,000,000 in QZAB revenue bonds.		
Funds Expended	64,602,500	65,826,500
Year-End Fund Balance	17,958,000	6,291,000
School Improvement Revenue Bond Proceeds Fund (SFA3335/A.R.S. § 15-2083)		Non-Appropriated
Source of Revenue: Proceeds from the sale of up to \$832,865,000 in Proposition 301 revenue bonds and \$20,000,000 in QZAB revenue bonds that were issued by the SFB. <i>(See the Deficiencies Correction Fund for more information on Deficiencies Correction Program funding.)</i>		
Purpose of Fund: To provide monies for correcting existing deficiencies and for bond related expenses.		
Funds Expended	0	0
Year-End Fund Balance	0	0
State Land Trust Bond Debt Service Fund (SFA5030/Laws 2003, Chapter 264)		Non-Appropriated
Source of Revenue: Monies credited to the fund from the Permanent State School Fund (A.R.S. § 37-521.B1).		
Purpose of Fund: To pay the debt service on \$246,600,000 in State Land Trust Revenue bonds. Of the total fund balance amounts, \$12,303,700 is set aside in reserve, and will be used for the final debt service payment.		
Funds Expended	25,431,400	25,433,800
Year-End Fund Balance	14,588,700	14,588,700
State Land Trust Bond Proceeds Fund (SFA3339/Laws 2003, Chapter 264)		Non-Appropriated
Source of Revenue: Proceeds from the sale of \$246,600,000 in Permanent State School Fund revenue bonds that were issued by the SFB. <i>(See the Deficiencies Correction Fund for more information on Deficiencies Correction Program funding.)</i>		
Purpose of Fund: To provide monies for correcting existing deficiencies and for bond related expenses.		
Funds Expended	158,300	300
Year-End Fund Balance	300	0