

Executive Director: John Arnold

JLBC Analyst: Leatta McLaughlin

	FY 2007 Actual	FY 2008 Estimate	FY 2009 Approved
OPERATING BUDGET			
Full Time Equivalent Positions	18.0	20.0	20.0
Personal Services	1,048,000	1,140,600	1,140,600
Employee Related Expenditures	289,000	333,200	333,600
Professional and Outside Services	212,500	220,100	220,100
Travel - In State	22,500	39,300	39,300
Travel - Out of State	500	0	0
Other Operating Expenditures	158,100	217,700	217,700
Equipment	14,000	3,800	3,800
OPERATING SUBTOTAL	1,744,600	1,954,700	1,955,100
SPECIAL LINE ITEMS			
Arizona Energy and Water Savings Grants	0	2,500,000 ^{1/}	0
Building Renewal Fund	86,283,500	40,685,800	0
Building Renewal Grants	0	0	20,000,000
New School Facilities	250,000,000	362,000,000	0
New School Facilities Debt Service	75,648,200	71,967,200	79,268,400
Lump Sum Reduction	0	(6,300)	(6,300)
AGENCY TOTAL	413,676,300	479,101,400	101,217,200^{2/}
FUND SOURCES			
General Fund	413,676,300	479,101,400	101,217,200
SUBTOTAL - Appropriated Funds	413,676,300	479,101,400	101,217,200
Other Non-Appropriated Funds	173,923,100	164,400,900	183,343,000
TOTAL - ALL SOURCES	587,599,400	643,502,300	284,560,200

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 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2009 Approved
PERFORMANCE MEASURES				
• % of school districts inspected meeting minimum adequacy standards	100	100	NA	100
Comments: The agency did not submit information for this measure for FY 2007 as required by the General Appropriation Act. The agency suggests the measure needs to be redefined as “average number of issues per school inspected that do not meet minimum adequacy standards.” All districts should have met minimum adequacy standards by the end of the Deficiencies Correction program, but things may fall out of compliance with the standards as time passes depending on how districts prioritize their resources.				
• % of school districts rating the board’s services as “good” or “excellent” in an annual survey	80	93	98	95

Operating Budget

The budget provides \$1,955,100 and 20 FTE Positions from the General Fund for the operating budget in FY 2009. These amounts fund the following adjustments:

Continue FY 2008 Statewide Adjustments

The budget continues an increase of \$10,300 from the General Fund in FY 2009 for FY 2008 statewide adjustments. (Please see the FY 2008 Statewide

^{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.

Adjustments narrative at the end of this Appropriations Report for details.)

New Statewide Adjustments

The budget provides an increase of \$400 from the General Fund in FY 2009 for new statewide adjustments. *(Please see the Statewide Adjustments section at the end of this Appropriations Report for details.)*

Arizona Energy and Water Savings Grants

The budget provides no funding for Arizona Energy and Water Savings Grants in FY 2009. This funds the following adjustment:

Eliminate One-Time Funding

The budget provides a decrease of \$(2,500,000) from the General Fund in FY 2009 for one-time funding. Laws 2007, Chapter 266 appropriated one-time funding of \$2,500,000 from the General Fund for the new Arizona Energy and Water Savings Grants Special Line Item (SLI) in FY 2008. The program funding is used to provide grants to school districts for energy and water savings audits and for the implementation of energy and water savings programs. The School Facilities Board (SFB) administers 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.

Building Renewal Fund

The budget provides no funding from the General Fund for the Building Renewal Fund in FY 2009. This funds the following adjustment:

Fund Suspension

The budget provides a decrease of \$(40,685,800) from the General Fund in FY 2009 for the Building Renewal Fund suspension.

Laws 2007, Chapter 255 originally appropriated \$86,283,500 for Building Renewal in FY 2008. However, Laws 2008, Chapter 53 reverted \$45,597,700 of that amount back to the General Fund in FY 2008. Of the reverted amount, \$43,141,700 is from the FY 2008 appropriation while the remaining \$2,456,000 is from prior year appropriations.

The Education Budget Reconciliation Bill (BRB) (Laws 2008, Chapter 287) suspends the Building Renewal Fund in FY 2009. The FY 2009 Building Renewal Fund amount

under the current statutory formula would have been \$216,511,500.

The Building Renewal Fund 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 main components of the formula are the school building's square footage, age, and prior renovations. The board distributes the monies to school districts in 2 equal installments, in November and May.

Building Renewal Grants

The budget provides \$20,000,000 from the General Fund for Building Renewal Grants in FY 2009. This amount funds the following adjustment:

New Funding

The budget provides new funding of \$20,000,000 from the General Fund in FY 2009. The Education BRB establishes the new Building Renewal Grants Fund to provide grant-based funding for building renewal projects. The fund consists of legislative appropriations and is administered by SFB.

SFB is to distribute monies to school districts to fund primary building renewal projects that are prioritized by SFB, with additional priority given to school districts that have provided routine preventative maintenance on their facility and that can provide a match of monies provided by the fund. Primary building renewal projects are defined to include necessary projects that are owned by the school district and are required to meet the minimum school facility adequacy guidelines. SFB is required to only approve projects that can be completed in 12 months unless similar projects on average take longer to complete.

The Building Renewal Fund SLI provides formula-based funding, while the Building Renewal Grants SLI provides grant-based funding.

New School Facilities

The budget provides no cash funding from the General Fund for New School Facilities in FY 2009. This funds the following adjustment:

Lease-to-Own Authority

The budget provides a decrease of \$(362,000,000) from the General Fund in FY 2009. Laws 2007, Chapter 255 originally appropriated \$370,000,000 for New School Facilities in FY 2008. However, Laws 2008, Chapter 53 reverted \$8,000,000 of that amount back to the General Fund in FY 2008.

The Education BRB authorizes SFB to enter into a maximum of \$593,000,000 worth of 15-year lease-to-own transactions in FY 2009. The average annual debt service payments from these agreements is expected to be about \$55,000,000, and the payments will begin in FY 2010. The lease-to-own proceeds will fund the following:

- \$26,000,000 worth of FY 2007 design fees that can be recouped.
- \$318,000,000 worth of FY 2008 expenditures that can be recouped from the \$362,000,000 FY 2008 appropriation.
- \$229,000,000 for FY 2009 new construction projects.
- \$8,000,000 for the first year capital costs of implementing full-day kindergarten (FDK). (*Please see the Additional Legislation section for details.*)
- \$12,000,000 for a loan to a union high school district that meets certain criteria. (*Please see the Additional Legislation section for details.*)

As a result, most of FY 2008 and all of FY 2009 new school construction will be financed using lease-purchase debt financing, which was also used in FY 2003 to FY 2005. FY 2006 and FY 2007 new construction costs were financed on a cash basis.

Bridge Loan – The Education BRB appropriates \$117,000,000 from the General Fund in FY 2009 for new construction costs until SFB receives their newly authorized lease proceeds later in the fiscal year. Since SFB will repay the entire loan with the lease proceeds by the end of FY 2009, the appropriation has not been recorded in the summary table above.

New Construction Moratorium – A moratorium on new construction projects is authorized by the Education BRB. The bill prohibits SFB from authorizing or awarding funding for the design or construction of any new school facility, except for FDK, or for school site acquisition. The moratorium was enacted due to declines in the state’s housing market and the state’s population growth rate.

Based on the FY 2009 JLBC Baseline assumption of funding new construction at \$370,000,000, the moratorium is estimated to result in savings of \$187,000,000. This would result in a FY 2009 cost of \$183,000,000. In the event that FY 2009 new construction costs are greater than this estimate, SFB was authorized to issue \$229,000,000 in lease-purchase proceeds for FY 2009 new construction (rather than \$183,000,000). In this circumstance, the moratorium savings would be \$141,000,000. (As displayed in *Table 1*, SFB currently estimates that they will use the entire \$229,000,000.)

The moratorium also requires SFB to provide monies for architectural and engineering fees, project management services, and preconstruction services if a school district qualifies for additional space in FY 2009 due to the

implementation of FDK. It also requires school districts to submit capital plans during FY 2009 and permits SFB to review and award new school projects subject to future appropriations.

Revenues and Expenditures – *Table 1* provides revenue and expenditure activity for the New School Facilities Fund from FY 2007 to FY 2009. FY 2009 spending will be financed with \$237,000,000 in lease-to-own proceeds (\$8,000,000 for FDK and \$229,000,000 for projects), \$7,000,000 in lease revenues from the Land Department, and \$1,343,200 from a cash balance. SFB estimates FY 2009 expenditures to include \$7,000,000 for land purchases, \$230,338,200 for new construction projects, \$8,000,000 for FDK capital costs, and \$5,000 for board expenses. SFB estimates a \$0 balance at the end of FY 2009.

	FY 2007 <u>Actual</u>	FY 2008 <u>Actual</u>	FY 2009 <u>Estimate</u>
Beginning Balance	\$44,032,300	\$700,500	\$1,343,200
Revenues			
General Fund Appropriation	250,000,000	362,000,000 ^{1/}	0
Transfer from the Deficiencies			
Correction Fund	25,893,200	0	0
Land Dept. Lease Revenue	3,094,100	7,710,700	7,000,000
Other Revenue	9,801,500		
Lease-to-Own Proceeds-FDK	0	0	8,000,000 ^{2/}
Lease-to-Own Proceeds-FY 2009 Projects	0	0	229,000,000 ^{2/}
Total Funds Available	\$332,821,100	\$370,411,200	\$245,343,200
Funds Expended			
Land	17,478,000	45,938,900	7,000,000
Projects	314,636,900	323,124,100	230,338,200
Full-Day Kindergarten	0	0	8,000,000
Board Expenditures/Other	5,700	5,000	5,000
Total Funds Expended	\$332,120,600	\$369,068,000	\$245,343,200
Fund Balance	\$ 700,500	\$ 1,343,200	\$ 0

^{1/} Laws 2007, Chapter 255 appropriated \$370,000,000, but Laws 2008, Chapter 53 reverted \$8,000,000 of that amount back to the General Fund.
^{2/} Laws 2008, Chapter 287 authorized SFB to enter into lease-to-own transactions up to \$593,000,000.

Background – The New School Facilities SLI provides 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. (As noted above, however, a moratorium on new construction projects is authorized for FY 2009.) 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 2008, the Committee approved a 2.2% adjustment to the funding cost per square foot. This increase represented an adjustment based on a local project management firm index for Phoenix elementary schools. (See Table 2 for statutory funding guidelines.)

Type of School	Square Feet Per Student	Funding Per Square Foot^{1/2/}
K-6	90	\$134.01
7-8	100	\$141.47
9-12 (<1,800 pupils)	134	\$163.81
9-12 (≥1,800 pupils)	125	\$163.81

^{1/} Increased by 5% for rural school districts.
^{2/} FY 2008 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 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 2007, school districts issued approximately \$896,700,000 in new Class B bonds.

New School Facilities Debt Service

The budget provides \$79,268,400 from the General Fund for New School Facilities Debt Service in FY 2009. This amount funds the following adjustment:

Debt Service Payment Increase

The budget provides an increase of \$7,301,200 from the General Fund in FY 2009 for the lease-purchase debt service payment for the FY 2003 - FY 2005 issuances. The overall debt service payment on all outstanding lease-purchase agreements is increased in FY 2009 to reflect the current payment schedule on these 15-year lease-purchase agreements. Currently, the outstanding principal from these agreements is \$754,920,000.

As discussed in the New Construction SLI section above, the board has been authorized to enter into lease-to-own transactions of up to \$593,000,000 in FY 2009. The average annual debt service payments for these agreements is expected to be about \$55,000,000 for a term of 15 years, and the payments will begin in FY 2010.

Although A.R.S. § 15-2004 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, the Education BRB notwithstanding this statute.

Lump Sum Reduction

The budget continues an additional decrease of \$(6,300) from the General Fund in FY 2009 from the agency’s budget for a lump sum reduction. This amount funds the following adjustment:

Continue Hiring Freeze Reduction

The budget continues a decrease of \$(6,300) from the General Fund in FY 2009 originally enacted as part of the FY 2008 budget revisions. This amount represents the agency’s share of a statewide hiring freeze reduction. (Please see the *Statewide Hiring Freeze Reduction* section at the end of this Appropriations Report for details.)

Fund Transfers

The budget provides a transfer of \$1,000,000 from the School Improvement Revenue Bond Debt Service Fund to the General Fund in FY 2008. This transfer is not part of the agency’s appropriation and is not reflected in the summary table above.

Additional Legislation

Sunset Date

The Education BRB repeals SFB’s current sunset date of July 1, 2008, and establishes a new date of July 1, 2018. It also includes references to lease-to-own funding concerning retirement of SFB debt.

Union High School District Loan

A loan of up to \$12,000,000 is authorized by the Education BRB to a union high school district that meets certain criteria established by the bill. Tempe Union High School District meets the criteria and will use the monies to replace the air handler units at their Corona del Sol High School. SFB will fund the loan with the newly authorized lease-to-own transactions. The district is to repay SFB with a Class B bond issuance. If voters do not approve the issuance of bonds, the district is to repay SFB with Building Renewal or unrestricted Capital Outlay monies.

Full-Day Kindergarten

The Education BRB requires kindergarten students to be counted as a full-time Average Daily Membership for purposes of determining minimum school facility adequacy guidelines, thereby requiring SFB to fund new construction costs for FDK. SFB has estimated the cost to fully implement FDK capital costs at \$153,000,000, which will be spread out over the next 6 years. Of that amount, the FY 2009 cost is expected to be \$8,000,000, which SFB will fund through their newly authorized lease-to-own transactions.