

# School Facilities Board

JLBC: Leatta McLaughlin  
 OSPB: Patrick Makin

DESCRIPTION	FY 2007 ACTUAL	FY 2008 ESTIMATE	FY 2009 JLBC
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	18.0	20.0	20.0
Personal Services	1,048,000	1,140,600	1,140,600
Employee Related Expenditures	289,000	333,200	333,200
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	207,400	207,400
Equipment	14,000	3,800	3,800
<b>OPERATING SUBTOTAL</b>	<b>1,744,600</b>	<b>1,944,400</b>	<b>1,944,400</b>
<b>SPECIAL LINE ITEMS</b>			
Arizona Energy and Water Savings Grants	0	2,500,000	0
New School Facilities	250,000,000	370,000,000	370,000,000
New School Facilities Debt Service	75,648,200	71,967,200	79,268,400
Building Renewal	86,283,500	86,283,500	86,283,500
<b>AGENCY TOTAL</b>	<b>413,676,300</b>	<b>532,695,100</b>	<b>537,496,300</b>

## FUND SOURCES

General Fund	413,676,300	532,695,100	537,496,300
<b>SUBTOTAL - Appropriated Funds</b>	<b>413,676,300</b>	<b>532,695,100</b>	<b>537,496,300</b>
Other Non-Appropriated Funds	173,923,100	164,400,900	183,343,000
<b>TOTAL - ALL SOURCES</b>	<b>587,599,400</b>	<b>697,096,000</b>	<b>720,839,300</b>

## CHANGE IN FUNDING SUMMARY

	FY 2008 to FY 2009 JLBC	
	\$ Change	% Change
General Fund	4,801,200	0.9%
Total Appropriated Funds	4,801,200	0.9%
Non Appropriated Funds	18,942,100	11.5%
Total - All Sources	23,743,300	3.4%

**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 2005	FY 2006	FY 2007	FY 2009
	Actual	Actual	Actual	JLBC
<ul style="list-style-type: none"> <li>% of school districts inspected meeting minimum adequacy standards</li> </ul> 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.	100	100	NA	100
<ul style="list-style-type: none"> <li>% of school districts rating the board’s services as “good” or “excellent” in an annual survey</li> </ul>	80	93	98	95

## Operating Budget

The JLBC includes \$1,944,400 and 20 FTE Positions from the General Fund for the operating budget in FY 2009. These amounts are unchanged from FY 2008.

## Arizona Energy and Water Savings Grants

The JLBC includes no funding for Arizona Energy and Water Savings Grants in FY 2009. FY 2009 adjustments would be as follows:

### One-Time Funding                      GF    \$(2,500,000)

This adjustment would be 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 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. The School Facilities Board (SFB) will administer the program, with technical assistance from the Department of Commerce's Energy Division.

Grant applications were made available to districts on October 4, 2007, which will be due by January 21, 2008. SFB will begin awarding the grants on March 6, 2008.

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.

## New School Facilities

The JLBC includes \$370,000,000 from the General Fund for New School Facilities in FY 2009. This amount is unchanged from FY 2008.

FY 2009 new school construction would 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.

When SFB submitted their FY 2009 budget submittal in September 2007, they requested \$460,000,000 from the General Fund for new construction projects in FY 2009. SFB expects to have revenues of \$5,000,000 in lease revenues from the Land Department and expenditures of \$462,751,600 in that year.

SFB based its FY 2009 project expenditures on historical spending patterns, so this amount is not directly tied to actual new construction projects. SFB expects project expenditures to increase by 14% from FY 2008 to

FY 2009, which might be overstated in the midst of the slowdown in the state's housing market. JLBC has not been able to validate these expenditure estimates.

*FY 2008 Funding Issues* - In FY 2007, SFB had a balance of \$700,500 in the New School Facilities Fund. To ensure a positive cash balance at the end of FY 2007, SFB shifted \$38,032,800 worth of FY 2007 expenditures into FY 2008.

SFB expects a funding shortfall in FY 2008. According to SFB at their December 2007 board meeting, they expect to start incurring a \$(66,700,700) FY 2008 shortfall at the end of the fiscal year in May 2008. As with the FY 2009 projections, these FY 2008 estimates should be re-evaluated in light of the state's housing market slowdown.

There are several reasons SFB is expecting a fund shortfall:

1. SFB is facing declining revenue sources because of a decreasing cash balance and the end of re-payment transfers from the Deficiencies Correction Fund.
2. Substantially more new school projects have been approved in the previous 2 fiscal years than before (*see Table 1*).
3. SFB funds projects above the formula funding amount if a district proves that it cannot build a minimum adequacy guidelines school with the formula allocated amount. (*See the discussion on the next page about the new construction formula.*)

In FY 2007, SFB funded 86% of projects over the formula. This added a total of \$33,400,000, or \$1,400,000 in additional funding per project. As part of a recent performance audit, the Auditor General has recommended that SFB seek a formal opinion from the Attorney General to determine if they have the statutory authority to award projects additional money above the formula.

**Table 1**  
**New School Construction Approvals**

<u>Fiscal Year</u>	<u>New School Approvals</u>
FY 2002	\$215,310,672
FY 2003	\$220,399,967
FY 2004	\$272,578,172
FY 2005	\$243,713,838
FY 2006	\$447,978,656
FY 2007	\$410,186,003

*Background* - The New School Facilities 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 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.)

<b>Type of School</b>	<b>Square Feet Per Student</b>	<b>Funding Per Square Foot <sup>1/2/</sup></b>
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

<sup>1/</sup> Increased by 5% for rural school districts.  
<sup>2/</sup> 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 JLBC includes \$79,268,400 from the General Fund for New School Facilities Debt Service in FY 2009. FY 2009 adjustments would be as follows:

**Debt Service Payment Increase GF 7,301,200**

This adjustment would be 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 would increase in FY 2009 to reflect the current payment schedule on these 15-year lease-purchase agreements. Currently, the outstanding debt from these agreements is \$789,640,000.

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.

***Building Renewal***

The JLBC includes \$86,283,500 from the General Fund for Building Renewal in FY 2009. This amount is unchanged from FY 2008.

The FY 2009 Building Renewal funding amount under the current statutory formula would have been \$216,511,500.

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 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.

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**FORMAT** — Operating Lump Sum with Special Line Items by Agency

**OTHER ISSUES FOR LEGISLATIVE CONSIDERATION**

***Auditor General Recommendation  
Building Renewal Fund***

The amount of Building Renewal monies a district receives is determined by a statutory formula. The Auditor General recommends that the Legislature should consider modifying the formula. The Auditor General did not recommend how the formula should be modified, but instead stated that a revised formula could help districts better manage their monies by making future funding more predictable. In the past 5 legislative sessions, the Legislature has approved a revised Building Renewal formula, but the Governor has vetoed the formula changes each year. Laws 2007, Chapter 266 established a Task Force on K-12 School Facilities to review and make recommendations on SFB’s statutory funding formulas, among other tasks.

SUMMARY OF FUNDS	FY 2007 Actual	FY 2008 Estimate
<b>Building Renewal Fund (SFA2465/A.R.S. § 15-2031)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Legislative appropriations.		
<b>Purpose of Fund:</b> 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. To prevent double counting, FY 2007 and FY 2008 expenditures exclude \$86.3 million from the General Fund.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	3,956,800	0
<b>Capital Reserve Fund (SFA2450/A.R.S. § 15-2003)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> 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.		
<b>Purpose of Fund:</b> 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 back to the New School Facilities Fund.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	0	0
<b>Deficiencies Correction Fund (SFA2455/A.R.S. § 15-2021 [repealed])</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> 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. <i>(See the School Improvement Revenue Bond Proceeds Fund.)</i> Does not include \$246,600,000 in Permanent State School Fund revenue bond proceeds. <i>(See the State Land Trust Bond Proceeds Fund.)</i>		
<b>Purpose of Fund:</b> To provide school districts with monies for correcting existing deficiencies. In FY 2007, \$25.9 million was returned to the New School Facilities Fund. The fund was repealed at the end of FY 2006, but there are expenditures in FY 2007 and FY 2008 as the result of outstanding district payments. In FY 2008, approximately \$1.0 million will be transferred to the Emergency Deficiencies Correction Fund to close out the fund.		
<b>Funds Expended</b>	3,260,800	68,500
<b>Year-End Fund Balance</b>	1,083,400	0
<b>Emergency Deficiencies Correction Fund (SFA2484/A.R.S. § 15-2022)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Monies transferred from the Deficiencies Correction Fund or the New School Facilities Fund.		
<b>Purpose of Fund:</b> To provide school districts monies for facility emergencies.		
<b>Funds Expended</b>	89,500	500,000
<b>Year-End Fund Balance</b>	3,981,900	4,496,800
<b>Arizona Energy and Water Savings Grants Fund (SFA7777/Laws 2007, Chapter 266)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Appropriated monies, grants, gifts, and donations.		
<b>Purpose of Fund:</b> To provide grants to school districts for energy and water savings audits and for the implementation of energy and water savings programs. SFB may also contract with the Department of Commerce's Energy Office to provide technical assistance. To prevent double counting, FY 2008 expenditures exclude \$2.5 million from the General Fund.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	0	0
<b>Lease to Own Debt Service Fund (SFA2373/A.R.S. § 15-2004)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Appropriated monies and interest earnings from the investment of lease-to-own Certificates of Participation proceeds.		
<b>Purpose of Fund:</b> To pay the debt service on any lease-to-own agreements entered into by SFB to finance the costs of new school construction. To prevent double counting, FY 2007 and FY 2008 expenditures exclude \$75.7 million and \$72.0 million, respectively, from the General Fund.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	85,300	85,300

SUMMARY OF FUNDS	FY 2007 Actual	FY 2008 Estimate
<b>New School Facilities Fund (SFA2460/A.R.S. § 15-2041)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Appropriated monies, monies received by the State Land Department from the lease of state public school land, and proceeds from lease-to-own agreements.		
<b>Purpose of Fund:</b> To provide school districts with monies for constructing new school facilities. To prevent double counting, FY 2007 and FY 2008 expenditures exclude \$250 million and \$370 million, respectively, from the General Fund.		
<b>Funds Expended*</b>	82,120,600	78,684,100
<b>Year-End Fund Balance*</b>	700,500	(66,700,700)
<b>School Capital Equity Fund (SFA2273/A.R.S. § 15-1051 [repealed])</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> 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.		
<b>Purpose of Fund:</b> 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.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	0	0
<b>School Facilities Revenue Bond Debt Service Fund (SFA5010/A.R.S. § 15-2054)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Monies credited to the fund, if necessary, from the Permanent State School Fund (A.R.S. § 37-521.B1) or state Transaction Privilege Tax (TPT) revenues.		
<b>Purpose of Fund:</b> To pay the debt service on State School Facilities Revenue Bonds issued for new construction.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	0	0
<b>School Facilities Revenue Bond Proceeds Fund (SFA3325/A.R.S. § 15-2053)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Proceeds from the sale of up to \$200,000,000 in revenue bonds that may be issued by SFB if authorized by the Legislature.		
<b>Purpose of Fund:</b> To provide monies for constructing new school facilities.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	0	0
<b>School Improvement Revenue Bond Debt Service Fund (SFA5020/A.R.S. § 15-2084)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> 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.		
<b>Purpose of Fund:</b> To pay the debt service on \$832,865,000 in Proposition 301 revenue bonds and \$20,000,000 in QZAB revenue bonds.		
<b>Funds Expended</b>	63,018,500	65,846,700
<b>Year-End Fund Balance</b>	11,940,400	11,940,400
<b>School Improvement Revenue Bond Proceeds Fund (SFA3335/A.R.S. § 15-2083)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> 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>		
<b>Purpose of Fund:</b> To provide monies for correcting existing deficiencies and for bond related expenses.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	0	0

SUMMARY OF FUNDS	FY 2007 Actual	FY 2008 Estimate
<b>State Land Trust Bond Debt Service Fund</b> (SFA5030/Laws 2003, Chapter 264)		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Monies credited to the fund from the Permanent State School Fund (A.R.S. § 37-521.B1).		
<b>Purpose of Fund:</b> To pay the debt service on \$246,600,000 in State Land Trust Revenue bonds.		
<b>Funds Expended</b>	25,433,700	19,301,300
<b>Year-End Fund Balance</b>	0	0
 <b>State Land Trust Bond Proceeds Fund</b> (SFA3339/Laws 2003, Chapter 264)		 <b>Non-Appropriated</b>
<b>Source of Revenue:</b> Proceeds from the sale of \$246,600,000 in Permanent State School Fund revenue bonds that were issued by SFB. <i>(See the Deficiencies Correction Fund for more information on Deficiencies Correction Program funding.)</i>		
<b>Purpose of Fund:</b> To provide monies for correcting existing deficiencies and for bond related expenses.		
<b>Funds Expended</b>	0	300
<b>Year-End Fund Balance</b>	300	0

\* As reported by the agency. Actual ending balance will not be negative.