

School Facilities Board

A.R.S. § 15-2001

Executive Director: John Arnold

JLBC Analyst: Leatta McLaughlin

	FY 2008 ACTUAL	FY 2009 ESTIMATE	FY 2010 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	20.0	20.0	18.0
Personal Services	1,031,300	1,140,600	1,140,600
Employee Related Expenditures	327,400	333,600	365,000
Professional and Outside Services	227,300	220,100	220,100
Travel - In State	23,300	39,300	39,300
Other Operating Expenditures	195,400	211,400	211,400
Equipment	17,600	3,800	3,800
OPERATING SUBTOTAL	1,822,300	1,948,800	1,980,200
SPECIAL LINE ITEMS			
Building Renewal	43,141,800	0	0
Building Renewal Grants	0	7,000,000	3,000,000
Energy and Water Savings Grants	2,500,000	0	0
New School Facilities	362,000,000	0	0
New School Facilities Debt Service	71,832,600	79,268,400	108,683,300
Lump Sum Reduction	0	(451,700)	(551,700)
AGENCY TOTAL	481,296,700	87,765,500	113,111,800^{1/}
FUND SOURCES			
General Fund	481,296,700	87,765,500	113,111,800
SUBTOTAL - Appropriated Funds	481,296,700	87,765,500	113,111,800
Other Non-Appropriated Funds	91,940,200	335,996,600	90,855,800
TOTAL - ALL SOURCES	573,236,900	423,762,100	203,967,600

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, the Building Renewal Grants Fund, and the Emergency Deficiencies Correction Fund to provide capital funding for K-12 school districts.

PERFORMANCE MEASURES	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2010 Approved
• % of school districts inspected meeting minimum adequacy standards	100	NA	9	22
• % of school districts rating the board’s services as “good” or “excellent” in an annual survey	93	98	98	95

Comments: The agency did not submit information for any measure labeled as “NA” as required by the General Appropriation Act.

^{1/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency. As appropriated by Laws 2009, 1st Regular Session, Chapter 12.

Operating Budget

The budget includes \$1,980,200 and 20 FTE Positions from the General Fund for the operating budget in FY 2010. These amounts fund the following adjustments:

Statewide Health Insurance Adjustments

The budget includes an increase of \$31,400 from the General Fund in FY 2010 for state employee health insurance statewide adjustments. *(Please see the General Provisions section.)*

Building Renewal Fund

The budget includes no funding from the General Fund for the Building Renewal Fund in FY 2010. This amount is unchanged from FY 2009.

The FY 2010 Education Budget Reconciliation Bill (BRB) (Laws 2009, 3rd Special Session, Chapter 12) suspends the Building Renewal Fund in FY 2010. The FY 2010 Building Renewal Fund amount, under the current statutory formula, would have been \$227,913,500.

The Building Renewal Fund Special Line Item (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 includes \$3,000,000 from the General Fund for Building Renewal Grants in FY 2010. This amount funds the following adjustments:

Building Renewal Grants Decrease

The budget includes a decrease of \$(4,000,000) from the General Fund in FY 2010 for reduced Building Renewal Grants funding. Of the original \$20,000,000 appropriation for Building Renewal Grants in FY 2009, \$(13,000,000) of that amount was reduced in a midyear FY 2009 revision.

The Building Renewal Grants Fund was created in FY 2009 to provide grant-based funding for building renewal projects. The fund consists of legislative appropriations and is administered by the School Facilities Board (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.

Energy and Water Savings Grants

The budget includes no funding from the General Fund for Energy and Water Savings Grants in FY 2010. This amount is unchanged from FY 2009.

Laws 2007, Chapter 266 appropriated one-time funding of \$2,500,000 from the General Fund for the new Energy and Water Savings Grants SLI in FY 2008. The program funding was used to provide grants to school districts for energy and water savings audits and for the implementation of energy and water savings programs. SFB administered the program, with technical assistance from the Department of Commerce's Energy Division.

SFB submitted a report on October 1, 2008 and is to submit another report by October 1, 2009, which shows 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 budget includes no cash funding from the General Fund for New School Facilities in FY 2010. This amount is unchanged from FY 2009.

The FY 2009 Education BRB authorized a moratorium on FY 2009 new school construction projects. The bill prohibited SFB from authorizing or awarding funding for the design or construction of any new school facility, except for Full-Day Kindergarten (FDK) space, 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. The FY 2010 Education BRB continues the FY 2009 new construction moratorium into FY 2010, including FDK space.

The FY 2010 Education BRB requires SFB to issue up to \$100,000,000 of Qualified School Construction Bonds (QSCBs) in FY 2010 as authorized by the American Reinvestment and Recovery Act (ARRA) of 2009 to be spent on new construction projects only. The proceeds will first be given to school districts whose projected

FY 2010 Average Daily Membership (ADM) exceeds the district-wide space capacity. ARRA allows the state to issue up to \$186,300,000 of QSCBs in CY 2009, and the proceeds from these bonds can be used for the construction, rehabilitation, or repair of a public school facility or for the acquisition of land. The proceeds have to be spent within 3 years after issuance. Bondholders receive federal tax credits in lieu of interest for these bonds. The tax credit amount is set with the intention of providing 100% of the required interest.

In January, SFB projected new construction to cost \$265,700,000 in FY 2010. Of this amount, SFB projected \$52,000,000 for land acquisitions, \$42,000,000 for the second year of implementing FDK capital costs, \$12,000,000 to finish FY 2008 projects that started construction before the moratorium, \$91,100,000 to begin board approved projects that did not begin construction before the moratorium, and \$68,600,000 to begin new construction projects that have not yet been board-approved.

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 – FY 2010.) 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. For FY 2009, the Committee approved a 1.98% adjustment to the funding cost per square foot, which excluded the implementation costs for FDK. This increase represented an adjustment based on the Gross Domestic Product implicit price deflator. (See Table 1 for statutory funding guidelines.)

Type of School	Square Feet Per Student	Funding Per Square Foot ^{1/2/}
K-6	90	\$136.66
7-8	100	\$144.27
9-12 (<1,800 pupils)	134	\$167.05
9-12 (≥1,800 pupils)	125	\$167.05

^{1/} Increased by 5% for rural school districts.
^{2/} FY 2009 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 2008, school districts issued approximately \$801,000,000 in new Class B bonds.

New School Facilities Debt Service

The budget includes \$108,683,300 from the General Fund for New School Facilities Debt Service in FY 2010. This amount funds the following adjustments:

Debt Service Payment Decrease

The budget includes a decrease of \$(943,200) from the General Fund in FY 2010 for a decreased debt service payment. The overall debt service payment on the FY 2003 - FY 2005 outstanding lease-purchase agreements decreases by \$(943,200) in FY 2010 to reflect the current payment schedule on these 15-year lease-purchase agreements. Currently, the outstanding principal from these agreements is \$711,330,000.

New Debt Service Payment

The budget includes an increase of \$30,358,100 from the General Fund in FY 2010 for a new debt service payment due to the FY 2009 debt authority. The board was authorized to enter into 15-year lease-to-own transactions of up to \$593,000,000 in FY 2009. However, SFB only issued \$580,035,000 in November 2009. They did not issue \$12,000,000 authorized for Tempe Union High School District to replace the air handler units at their Corona del Sol High School. The district is to repay SFB the \$12,000,000 with a Class B bond issuance. Instead of issuing the \$12,000,000 of debt, SFB plans on using their available cash for the loan since the school district will repay SFB in the same year the money is borrowed.

At an average interest rate of 5.05%, SFB will have a FY 2010 interest only payment of \$30,358,100, while the remaining average annual debt service payments will be about \$58,646,900. SFB structured its initial debt service payments to only cover the interest cost of the issuance. Total debt service is \$859,510,000, which includes \$580,035,000 in principal and \$279,475,000 in interest.

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 original FY 2009 Education BRB notwithstanding this statute.

Lump Sum Reduction

The budget includes an agencywide lump sum reduction of \$(451,700) for the midyear FY 2009 revisions and \$(551,700) for FY 2010. The latter reduction reflects the adjustment to the originally enacted FY 2009 appropriation.

	<u>FY 2009</u>	<u>FY 2010</u>
Lump Sum Reduction		
General Fund	\$(394,900)	\$(494,900)
Personnel Expense Reduction		
General Fund	(56,800)	(56,800)

FTE Position Reduction

The budget includes a decrease of (2) FTE Positions for a lump sum FTE Position reduction. *(Please see the General Provisions section.)*

Laws 2009, 3rd Special Session, Chapter 11, Section 17 requires every General Fund supported agency, board, commission, or other state entity to reduce its number of FTE Positions by 5% on or before February 1, 2010. This reduction has not been recorded in the summary table above. The actual impact of this provision is to be determined.

Fund Transfers

The budget includes the following midyear FY 2009 revisions and FY 2010 transfers to the General Fund from the funds listed below:

	<u>FY 2009</u>	<u>FY 2010</u>
School Facilities Revenue	\$(1,616,000)	\$(880,000)
Bond Debt Service - Transfer*		
State School Trust Revenue	(582,200)	(500,000)
Bond Debt Service - Transfer*		

*These transfers are from non-appropriated funds.

Additional Legislation

Education Omnibus Bill

School districts are able to lease state trust lands for a new school site. When this occurs, SFB pays for the state trust leases, and then the Land Department pays SFB back the same amount of money since SFB is considered to be a beneficiary of state school trust land proceeds. Laws 2009, Chapter 95 (the Education Omnibus Bill) allows districts to lease trust land. In that circumstance, SFB is required to reimburse districts using the Land Department "pay back."

Full-Day Kindergarten

The FY 2009 Education BRB required kindergarten students to be counted as a full-time ADM for purposes of determining minimum school facility adequacy guidelines; thereby, requiring SFB to fund construction costs for FDK. SFB had estimated the cost to fully implement FDK capital costs at \$153,000,000, which would have been spread over FY 2009 – FY 2014. However, the FY 2010 Education BRB requires kindergarten students to be counted as a half-time ADM beginning in FY 2010; thereby, repealing the requirement for SFB to fund FDK capital construction costs.

Inflationary Funding

SFB had the authority to provide additional funding above and beyond the statutory allocation amount to a district if it could not build a school within the formula amount. However, the FY 2010 Education BRB permanently restricts SFB from providing new construction projects inflationary funding above the formula funding beginning in FY 2010.