

School Facilities Board

JLBC: Leatta McLaughlin
 OSPB:

| DESCRIPTION | FY 2008 ACTUAL | FY 2009 ESTIMATE | FY 2010 JLBC |
|---------------------------------------|--------------------|---------------------|--------------------|
| OPERATING BUDGET | | | |
| <i>Full Time Equivalent Positions</i> | 20.0 | 20.0 | 20.0 |
| Personal Services | 1,031,300 | 1,140,600 | 1,140,600 |
| Employee Related Expenditures | 327,400 | 333,600 | 333,600 |
| 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 | 1,948,800 |
| SPECIAL LINE ITEMS | | | |
| Building Renewal Fund | 43,141,800 | 0 | 0 |
| Building Renewal Grants | 0 | 20,000,000 | 20,000,000 |
| 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 |
| AGENCY TOTAL | 481,296,700 | 101,217,200 | 130,632,100 |

FUND SOURCES

| | | | |
|--------------------------------------|--------------------|--------------------|--------------------|
| General Fund | 481,296,700 | 101,217,200 | 130,632,100 |
| SUBTOTAL - Appropriated Funds | 481,296,700 | 101,217,200 | 130,632,100 |
| Other Non-Appropriated Funds | 91,940,200 | 335,996,600 | 90,855,800 |
| TOTAL - ALL SOURCES | 573,236,900 | 437,213,800 | 221,487,900 |

CHANGE IN FUNDING SUMMARY

| | FY 2009 to FY 2010 JLBC | |
|--------------------------|-------------------------|----------|
| | \$ Change | % Change |
| General Fund | 29,414,900 | 29.1% |
| Total Appropriated Funds | 29,414,900 | 29.1% |
| Non-Appropriated Funds | (245,140,800) | (73.0%) |
| Total - All Sources | (215,725,900) | (49.3%) |

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 JLBC |
|--|-------------------|-------------------|-------------------|-----------------|
| • % 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.

Operating Budget

The JLBC includes \$1,948,800 and 20 FTE Positions from the General Fund for the operating budget in FY 2010. This amount is unchanged from FY 2009.

Building Renewal Fund

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

The FY 2009 Education Budget Reconciliation Bill (BRB) (Laws 2008, Chapter 287) suspended the Building Renewal Fund in FY 2009. This suspension would be continued into 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 JLBC includes \$20,000,000 from the General Fund for Building Renewal Grants in FY 2010. This amount is unchanged from FY 2009.

The FY 2009 Education BRB established 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 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 JLBC 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 JLBC 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 prohibits 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 bill also authorized SFB to enter into a maximum of \$593,000,000 worth of 15-year lease-purchase agreements in FY 2009 to pay for new construction costs. The proceeds will be used to 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 FDK.
- \$12,000,000 for a loan to a union high school district that meets certain criteria. (However, SFB did not issue this debt because they will use their available cash for the loan since the school district will repay SFB in the same year the money is borrowed.)

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.

SFB projects new construction to cost \$265,700,000 in FY 2010. Of this amount, SFB projects \$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.

There are 25 projects that have already been approved by the board but did not begin construction prior to the moratorium. SFB projects to spend \$91,100,000 on these projects in FY 2010. Of these 25 projects, only 6 are currently above their district's student capacity. The \$68,600,000 that SFB projects to spend on beginning new construction projects in FY 2010 is not tied to specific projects.

The JLBC includes no funding for FY 2010 new construction costs under the assumption that the FY 2009 moratorium is continued in FY 2010, including FDK capital costs. Under this assumption, the status of the projected payout of \$12,000,000 in pre-FY 2009 construction costs would need to be reconsidered once actual construction costs are available.

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. 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 JLBC includes \$108,683,300 from the General Fund for New School Facilities Debt Service in FY 2010. The FY 2010 adjustments would be as follows:

Debt Service Payment Decrease GF \$(943,200)

This adjustment would decrease the debt service payment for the FY 2003 - FY 2005 lease-purchase issuances. The overall debt service payment on these outstanding lease-purchase agreements will decrease 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 GF 30,358,100

This adjustment would increase the debt service payment amount because of the new FY 2009 debt authority. As discussed in the New School Facilities SLI section above, the board has been 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 since they did not issue the \$12,000,000 for the union high school district. This is because 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. 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 FY 2009 Education BRB notwithstanding this statute.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

STATUTORY CHANGES

The JLBC would:

- As session law, continue the new construction moratorium that was authorized for FY 2009 by the FY 2009 Education BRB, except the FY 2010 moratorium would also apply to Full-Day Kindergarten (FDK).

- As permanent law, repeal the requirement to fund FDK capital costs.
- As permanent law, once the moratorium is lifted, permit new construction only when the district-wide square footage exceeds statutory minimums. Under current law, the board provides funding if additional space will be needed within the next 2 years for an elementary school, or the next 3 years for a middle or high school.
- As permanent law, restrict SFB from providing districts additional inflationary funding above the formula amount. Currently, SFB has the authority to provide additional funding above and beyond the statutory allocation amount to a district if it cannot build a school within the formula amount.

| SUMMARY OF FUNDS | FY 2008 Actual | FY 2009 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. To prevent double counting, FY 2008 expenditures exclude \$43.1 million from the General Fund. | | |
| Funds Expended | 0 | 0 |
| Year-End Fund Balance | 5,600 | 5,600 |
| Building Renewal Grant Fund (SFA7777/A.R.S. § 15-2032) | | Non-Appropriated |
| Source of Revenue: Legislative appropriations. | | |
| Purpose of Fund: To provide grants to school districts for maintaining the adequacy of existing school facilities. To prevent double counting, FY 2009 expenditures exclude \$20.0 million from the General Fund. | | |
| Funds Expended | 0 | 0 |
| Year-End Fund Balance | 0 | 0 |
| 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 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 [repealed]) | | 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. (<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>) | | |
| Purpose of Fund: To provide school districts with monies for correcting existing deficiencies. The fund expired at the end of FY 2006, but there are expenditures in FY 2008 and FY 2009 as the result of outstanding district payments. | | |
| Funds Expended | 223,200 | 200,500 |
| Year-End Fund Balance | 860,700 | 797,500 |

| SUMMARY OF FUNDS | FY 2008 Actual | FY 2009 Estimate |
|---|-------------------|-------------------------|
| 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 | 554,800 | 1,900,000 |
| Year-End Fund Balance | 3,427,200 | 1,527,200 |
| Energy and Water Savings Grant Fund (SFA2351/Laws 2007, Chapter 266) | | Non-Appropriated |
| Source of Revenue: Appropriated monies, grants, gifts, and donations. Includes one-time funding of \$2.5 million in FY 2008. | | |
| Purpose of Fund: 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. | | |
| Funds Expended | 0 | 0 |
| Year-End Fund Balance | 0 | 0 |
| 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. | | |
| Funds Expended | 19,935,400 | 24,248,200 |
| Year-End Fund Balance | 498,400 | 998,400 |
| 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 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. These funds have been entirely expended. | | |
| Funds Expended | 300 | 0 |
| Year-End Fund Balance | 0 | 0 |
| 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 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. To prevent double counting, FY 2008 and FY 2009 expenditures exclude \$71.8 million and \$79.3 million, respectively, from the General Fund. | | |
| Funds Expended | 0 | 0 |
| Year-End Fund Balance | 198,700 | 168,300 |
| New School Facilities Fund (SFA2460/A.R.S. § 15-2041) | | Non-Appropriated |
| Source of Revenue: Appropriated monies, 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 2008 expenditures exclude \$362.0 million from the General Fund. | | |
| Funds Expended | 6,918,300 | 245,343,200 |
| Year-End Fund Balance | 1,492,900 | 149,700 |
| 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 Transaction Privilege Tax (TPT) revenues. | | |
| Purpose of Fund: To pay the debt service on State School Facilities Revenue Bonds issued for new construction. There is no activity in this fund since State School Facilities Revenue Bonds have never been issued. | | |
| Funds Expended | 0 | 0 |
| Year-End Fund Balance | 0 | 0 |

| SUMMARY OF FUNDS | FY 2008 Actual | FY 2009 Estimate |
|---|-------------------|-------------------------|
| 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. There is no activity in this fund since State School Facilities Revenue Bonds have never been issued. | | |
| 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 | 64,308,200 | 64,304,700 |
| Year-End Fund Balance | 14,936,800 | 14,793,700 |
| 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 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. These funds have been entirely expended. | | |
| Funds Expended | 0 | 0 |
| Year-End Fund Balance | 0 | 0 |