

Executive Director: Dean Gray

JLBC Analyst: Jack Brown

	FY 2009 ACTUAL	FY 2010 ESTIMATE	FY 2011 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	20.0	18.0	17.0
Personal Services	954,000	793,800	765,000
Employee Related Expenditures	289,700	262,200	256,400
Professional and Outside Services	141,900	142,000	142,000
Travel - In State	26,100	30,000	30,000
Other Operating Expenditures	193,400	193,400	193,400
Equipment	5,700	5,700	5,700
OPERATING SUBTOTAL	1,610,800	1,427,100	1,392,500
SPECIAL LINE ITEMS			
Building Renewal Grants	7,000,000	3,000,000	3,000,000
New School Facilities Debt Service	79,103,000	100,683,300	63,520,100
5th Special Session Reduction	0	(332,100)	(332,100)
AGENCY TOTAL	87,713,800	104,778,300	67,580,500^{1/}
FUND SOURCES			
General Fund	87,713,800	104,778,300	67,580,500
SUBTOTAL - Appropriated Funds	87,713,800	104,778,300	67,580,500
Other Non-Appropriated Funds	308,287,900	121,434,000	169,688,900
TOTAL - ALL SOURCES	396,001,700	226,212,300	237,269,400

AGENCY DESCRIPTION — The School Facilities Board (SFB) 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.

Operating Budget

The budget includes \$1,392,500 and 17 FTE Positions from the General Fund for the operating budget in FY 2011. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(34,600) from the General Fund in FY 2011 for statewide adjustments. (Please see the General Provisions section.)

Building Renewal Grants

The budget includes \$3,000,000 from the General Fund for Building Renewal Grants in FY 2011. This amount is unchanged from FY 2010. Even though SFB chose to allocate its 5th Special Session lump sum reduction to the Building Renewal Grants Special Line Item (SLI) in

FY 2010, this reduction is reflected in the 5th Special Session Reduction SLI in the summary table above.

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 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.

^{1/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Prior to FY 2009, the Building Renewal Fund SLI provided formula-based funding, while the Building Renewal Grants SLI provides grant-based funding. Since FY 2009, the Building Renewal formula has been wholly suspended, having been replaced with the Building Renewal Grants program. The FY 2011 Building Renewal Fund amount under the suspended statutory formula would have been \$231,715,400.

New School Facilities

The budget includes no funding from the General Fund for New School Facilities in FY 2011. This amount is unchanged from FY 2010.

The FY 2011 Education Budget Reconciliation Bill (BRB) (Laws 2010, 7th Special Session, Chapter 8) continues the FY 2009 - FY 2010 moratorium on new school construction projects. The bill prohibits SFB from authorizing or awarding funding for the design or construction of any new school facility, or from distributing funds for school site acquisition, excluding the \$100,000,000 in federal bonding capacity authorized by Section 6 of the legislation. 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 authorized SFB to enter into a maximum of \$100,000,000 worth of lease-purchase transactions through the middle of FY 2011, to be financed through a federal bonding program known as Qualified School Construction Bonds (QSCBs). The FY 2011 Education BRB retained the \$100,000,000 cap, but expanded this authority to include another federal bonding program, Build America Bonds (BABs), and allowed SFB to issue the bonds through the end of FY 2011. These proceeds are required to be spent on new construction projects only, and priority will first be given to school districts whose projected FY 2010 Average Daily Membership (ADM) exceeds the district-wide space capacity.

The 2 federal bonding programs authorized by the Education BRB are as follows:

- Build America Bonds – Taxable bonds where the state receives a 35% interest rate subsidy from the federal government upon each lease-purchase payment.
- Qualified School Construction Bonds – Taxable bonds with 1 of 2 different types of interest subsidy: 1) Bondholders receive federal tax credits in lieu of interest for these bonds; 2) Bond issuers receive a direct payment from the federal government in the amount of the tax credit. In either case, the tax credit amount is set with the intention of providing 100% of the required interest. However, given current market conditions, SFB estimates that the tax credit would only provide an interest rate subsidy of 70-90%. This

would essentially leave the state to pay 10-30% of the traditional taxable bond interest rate upon each lease-purchase payment, depending on market conditions.

Federal law allows the proceeds from these bonds to be used for the construction, rehabilitation, or repair of a public school facility or for the acquisition of land.

SFB currently estimates new construction to cost \$22,131,400 in FY 2010. These funds will be spent finishing projects already under construction that started prior to the FY 2009 moratorium. These costs will be funded with prior year lease-purchase proceeds.

In addition, SFB projects new construction to cost \$81,130,800 in FY 2011. This amount is associated with the 9 projects to be financed with federally subsidized bonds that SFB estimates will begin construction in FY 2011. SFB estimates that it will spend \$19,932,800 in FY 2012 to complete these 9 projects. In total, these projects will cost \$101,063,600 to build, including land and other site conditions, and will be financed using the \$100,000,000 of bonding authority and Land Department trust revenues.

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 2011.) 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 2011, JLBC approved a 0% adjustment. (See Table 1 for FY 2011 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 2011 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.

New School Facilities Debt Service

The budget includes \$63,520,100 from the General Fund for New School Facilities Debt Service in FY 2011. This amount funds the following adjustments:

Lease-Purchase Payment Increase

The budget includes an increase of \$14,836,800 from the General Fund in FY 2011 for an increased lease-purchase payment. This change is the result of 2 factors: 1) The lease-purchase payment on the FY 2003 - FY 2005 outstanding lease-purchase agreements decreases by \$(13,452,700) in FY 2011 to reflect the current payment schedule on these 15-year agreements; 2) The lease-purchase payment on the FY 2009 outstanding issuance increases by \$28,289,500 to reflect the fact that the FY 2010 lease-purchase payment was interest only. Currently, the outstanding principal from these agreements is \$1,246,790,000.

New Lease-Purchase Payment

The budget includes no funding from the General Fund in FY 2011 for a new lease-purchase payment due to the FY 2010/FY 2011 QSCB/BAB authorization. The board was authorized to issue up to \$100,000,000 of QSCBs or BABs by the end of FY 2011, which are expected to be issued in the second half of CY 2010. At this time, the board has indicated that it plans to structure the QSCB/BAB lease-purchase payments so as to avoid any costs in FY 2011.

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 payments on any lease-purchase transactions entered into by the board from and after May 15, 2006. The FY 2011 Education BRB notwithstanding this statute for the \$100,000,000 QSCB/BAB issuance.

Backfill Full-Day Kindergarten Lease-Purchase Savings

The budget includes an increase of \$8,000,000 from the General Fund in FY 2011 to offset one-time savings in FY 2010 associated with using prior year lease-purchase proceeds for SFB lease-purchase obligations. Laws 2009, 5th Special Session, Chapter 1 directed SFB to use \$8,000,000 of unused Full-Day Kindergarten capital lease-purchase proceeds authorized by the FY 2009 Education

BRB (Laws 2008, Chapter 287) to pay a portion of a lease-purchase payment in FY 2010.

Lease-Purchase Refinance

The budget includes a decrease of \$(60,000,000) from the General Fund in FY 2011 for savings related to the refinancing of SFB's outstanding new construction lease-purchase payments. The FY 2011 Education BRB requires SFB to enter into a refinancing or refunding agreement that reduces the board's FY 2011 lease-purchase obligations by up to \$60,000,000. The legislation prohibits this agreement from reducing lease-purchase payments in other years in order to prevent multi-year savings from the refinancing agreement. A tentative lease-purchase schedule shows that this refinance would increase SFB's lease-purchase payments by \$2,827,600 in each of FY 2012 - 2018, \$22,419,500 in FY 2019, and \$43,165,600 in FY 2020.

5th Special Session Reduction

The budget includes \$(332,100) from the General Fund in FY 2011 to continue the 5th Special Session FY 2010 Lump Sum Reduction. This amount was allocated to the Building Renewal Grant SLI in the General Appropriation Act as specified by the agency.

Fund Transfers

The budget includes transfers from this agency's funds to the General Fund. (*Please see the Fund Transfers section at the back of this report for more details.*)

Additional Legislation

Education Omnibus Bill

Laws 2010, Chapter 332 requires SFB to update the new construction formula amount for projects which were awarded between January 1, 2005 and November 4, 2009, but were delayed due to the new construction moratorium. These projects will now receive the current cost per square foot. Prior to this legislation, statute would have required these projects to be funded using the new construction formula amount that was in effect at the time the project was awarded, with limited exceptions.

SFB estimates that Chapter 332 will increase the new construction formula statutory awards for the 9 projects discussed previously by \$8,022,300. This increase will be paid using the lease-purchase proceeds that were authorized by the FY 2010 and FY 2011 Education BRBs and Land Department trust revenue. The above narrative and figures incorporate the impact of Chapter 332.

School Facilities Land

Laws 2010, Chapter 301 authorizes SFB to require a school district to sell land that was purchased entirely with SFB funds if SFB determines that the property is no longer

needed for a school site in the next 10 years. The funds from the sale of the land would be deposited into the New School Facilities Fund.

The legislation also mandates that a school district may not do any of the following with land purchased or partially purchased with SFB funds, without obtaining approval from the SFB: 1) Lease, sell, or take any action which would diminish the value of the land; 2) Use the land for any purpose besides a school facilities site.

Other Issues

5% FTE Position Reduction

Laws 2009, 3rd Special Session, Chapter 11, Section 17 mandated a 5% General Fund FTE Position reduction by February 1, 2010. This provision required SFB to reduce no General Fund FTE Positions in FY 2010 and 1 General Fund FTE Position in FY 2011. These changes have been incorporated in the agency's budget.