

# School Facilities Board

JLBC: Jack Brown  
 OSPB: Kevin Burke

	FY 2009 ACTUAL	FY 2010 ESTIMATE	FY 2011 BASELINE
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	20.0	18.0	17.0
Personal Services	954,000	795,000	795,000
Employee Related Expenditures	289,700	262,400	262,400
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
<b>OPERATING SUBTOTAL</b>	<b>1,610,800</b>	<b>1,428,500</b>	<b>1,428,500</b>
<b>SPECIAL LINE ITEMS</b>			
Building Renewal Grants	7,000,000	3,000,000	3,000,000
New School Facilities	0	0	0
New School Facilities Debt Service	79,103,000	100,683,300	123,520,100
5th Special Session Reduction	0	(332,100)	(332,100)
<b>AGENCY TOTAL</b>	<b>87,713,800</b>	<b>104,779,700</b>	<b>127,616,500</b>
<b>FUND SOURCES</b>			
General Fund	87,713,800	104,779,700	127,616,500
<b>SUBTOTAL - Appropriated Funds</b>	<b>87,713,800</b>	<b>104,779,700</b>	<b>127,616,500</b>
Other Non-Appropriated Funds	308,287,900	154,879,900	145,864,400
<b>TOTAL - ALL SOURCES</b>	<b>396,001,700</b>	<b>259,659,600</b>	<b>273,480,900</b>

## CHANGE IN FUNDING SUMMARY

	FY 2010 to FY 2011 Baseline	
	\$ Change	% Change
General Fund	22,836,800	21.8%
Total Appropriated Funds	22,836,800	21.8%
Non-Appropriated Funds	(9,015,500)	(5.8%)
Total - All Sources	13,821,300	5.3%

**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 Baseline includes \$1,428,500 and 17 FTE Positions from the General Fund for the operating budget in FY 2011. These amounts are unchanged from FY 2010.

### Building Renewal Grants

The Baseline includes \$3,000,000 from the General Fund for Building Renewal Grants in FY 2011. This amount is unchanged from FY 2010.

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.

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

The FY 2010 Education Budget Reconciliation Bill (BRB) (Laws 2009, 3<sup>rd</sup> Special Session, Chapter 12) continued the FY 2009 moratorium on new school construction projects. The bill prohibited 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 new federal bonding capacity. 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 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 \$186,292,000 of QSCBs in CY 2010, 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, however, given current market conditions, the state may need to pay additional interest above and beyond the bondholder tax credit.

As of December 2009, SFB projects new construction to cost \$63,577,300 in FY 2010. Of this amount, SFB estimates \$6,866,000 for land acquisition, \$34,579,900 to start construction on 10 QSCB projects and \$22,131,400 to finish projects already under construction that started prior to the FY 2009 moratorium. These FY 2010 costs will be funded with the \$100,000,000 QSCB issuance and \$32,215,100 of prior year lease-purchase proceeds.

In addition, SFB projects new construction to cost \$57,306,300 in FY 2011. This amount is the result of second year costs associated with the 10 QSCB projects scheduled to begin construction in FY 2010. This estimated cost will be funded with the remaining proceeds from the \$100,000,000 QSCB issuance.

*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. SFB has not yet requested an FY 2011 adjustment. (See Table 1 for FY 2010 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	\$136.66
7-8	100	\$144.27
9-12 (<1,800 pupils)	134	\$167.05
9-12 (≥1,800 pupils)	125	\$167.05

<sup>1/</sup> Increased by 5% for rural school districts.  
<sup>2/</sup> FY 2010 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 Baseline includes \$123,520,100 from the General Fund for New School Facilities Debt Service in FY 2011. FY 2011 adjustments would be as follows:

**Debt Service Payment Increase GF \$14,836,800**

The Baseline includes an increase of \$14,836,800 from the General Fund in FY 2011 for an increased debt service payment. This change is the result of 2 factors: 1) The debt service 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 lease-purchase agreements; 2) The debt service payment on the FY 2009 outstanding issuance increases by \$28,289,500 to reflect the fact that the FY 2010 debt service payment was interest only. Currently, the outstanding principal from these agreements is \$1,246,790,000.

**New Debt Service Payment      GF                      0**

The Baseline includes no funding from the General Fund in FY 2011 for a new debt service payment due to the FY 2010 QSCB authorization. The board was authorized to issue up to \$100,000,000 of QSCBs in FY 2010, which are expected to be issued in the first quarter of CY 2010. At this time, the board has indicated that it plans to structure the QSCB debt service 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 debt service payments on any lease-purchase transactions entered into by the board from and after May 15, 2006. The FY 2010 Education BRB notwithstanding this statute for the \$100,000,000 QSCB issuance.

**Backfill Full-Day Kindergarten    GF                      8,000,000**  
**Lease-Purchase Savings**

The Baseline 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 debt service obligations. Laws 2009, 5<sup>th</sup> 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 debt service payment in FY 2010.

**5<sup>th</sup> Special Session Reduction**

The Baseline includes \$(332,100) from the General Fund in FY 2011 to continue the 5<sup>th</sup> Special Session FY 2010 Lump Sum Reduction. This lump sum reduction would be allocated to specific line items in the FY 2011 General Appropriation Act.

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

**STATUTORY CHANGES**

The Baseline would:

- As session law, continue to prohibit SFB from authorizing or awarding funding for the design or construction of any new school facility or for school site acquisition. Continue to require school districts to submit capital plans during FY 2011 and permit SFB to review and award new school facilities, subject to future appropriations.
- As session law, continue to suspend the Building Renewal Fund formula.

**OTHER ISSUES FOR LEGISLATIVE CONSIDERATION**

**5% FTE Position Reduction**

SFB was originally budgeted 18 General Fund FTE Positions in FY 2010. Laws 2009, 3<sup>rd</sup> Special Session, Chapter 11, Section 17 mandates a 5% General Fund FTE Position reduction by February 1, 2010. Given the mid-year implementation, this provision requires SFB to reduce no additional FTE positions in FY 2010 and 1 General Fund FTE Position in FY 2011.

SUMMARY OF FUNDS	FY 2009 Actual	FY 2010 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.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	5,000	5,000
<b>Building Renewal Grant Fund (SFA7777/A.R.S. § 15-2032)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Legislative appropriations.		
<b>Purpose of Fund:</b> To provide grants to school districts for maintaining the adequacy of existing school facilities. To prevent double counting, FY 2009 and FY 2010 expenditures exclude \$7,000,000 and \$3,000,000, respectively, from the General Fund.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	4,994,800	494,800

SUMMARY OF FUNDS	FY 2009 Actual	FY 2010 Estimate
<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. The fund expired at the end of FY 2006, but there are expenditures in FY 2009 and FY 2010 to make outstanding district payments.		
<b>Funds Expended</b>	406,900	400,000
<b>Year-End Fund Balance</b>	801,300	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 New School Facilities Fund.		
<b>Purpose of Fund:</b> To provide school districts monies for facility emergencies.		
<b>Funds Expended</b>	2,173,200	2,343,300
<b>Year-End Fund Balance</b>	1,942,000	0
<b>Land Trust Bond Debt Service Fund (SFA5030/Laws 2003, Chapter 264)</b>		<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>	24,248,200	24,249,000
<b>Year-End Fund Balance</b>	4,500	200
<b>Land Trust Bond Proceeds Fund (SFA3339/Laws 2003, Chapter 264)</b>		<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 the School Facilities Board (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. These funds have been entirely expended.		
<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 2009 and FY 2010 expenditures exclude \$79,103,000 and \$108,683,300, respectively, from the General Fund.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	223,300	218,300
<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, and to pay for the following: construction project management services, school building structural assessments, and land acquisition services.		
<b>Funds Expended</b>	217,154,500	63,583,300
<b>Year-End Fund Balance</b>	32,215,100	68,631,800

SUMMARY OF FUNDS	FY 2009 Actual	FY 2010 Estimate
<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. There is no activity in this fund since State School Facilities Revenue Bonds have never been issued.		
<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. There is no activity in this fund since State School Facilities Revenue Bonds have never been issued.		
<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>	64,305,100	64,304,300
<b>Year-End Fund Balance</b>	18,327,400	14,721,600
<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. These funds have been entirely expended.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	0	0