

School Facilities Board

	FY 2010 ACTUAL	FY 2011 ESTIMATE	FY 2012 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	18.0	17.0	17.0
Personal Services	775,500	760,400	760,400
Employee Related Expenditures	299,900	259,000	259,000
Professional and Outside Services	134,900	144,000	144,000
Travel - In State	18,500	30,000	30,000
Other Operating Expenditures	184,900	193,400	193,400
Equipment	8,700	5,700	5,700
OPERATING SUBTOTAL	1,422,400	1,392,500	1,392,500
SPECIAL LINE ITEMS			
Building Renewal Grants	2,667,900	2,667,900	2,667,900
New School Facilities	0	0	0
New School Facilities Debt Service	100,604,700	63,520,100	160,105,700
AGENCY TOTAL	104,695,000	67,580,500	164,166,100
FUND SOURCES			
General Fund	104,695,000	67,580,500	164,166,100
SUBTOTAL - Appropriated Funds	104,695,000	67,580,500	164,166,100
Other Non-Appropriated Funds	100,462,900	140,820,400	123,445,300
Federal Funds	59,600	13,428,000	5,780,400
TOTAL - ALL SOURCES	205,217,500	221,828,900	293,391,800

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 \$1,392,500 and 17 FTE Positions from the General Fund for the operating budget in FY 2012. These amounts are unchanged from FY 2011.

Building Renewal Grants

The Baseline includes \$2,667,900 from the General Fund for Building Renewal Grants in FY 2012. This amount is unchanged from FY 2011.

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.

Since FY 2009, the Building Renewal formula has been wholly suspended, having been replaced with the Building Renewal Grants program. The FY 2012 Building Renewal Fund amount, under the suspended statutory formula, would have been \$241,593,600.

New School Facilities

The Baseline includes no funding from the General Fund for New School Facilities in FY 2012. This amount is unchanged from FY 2011.

The FY 2011 Education Budget Reconciliation Bill (BRB) (Laws 2010, 7th Special Session, Chapter 8) continued the FY 2009 - FY 2010 limitation on new school construction projects into FY 2011. While FY 2009 – FY 2011 budget legislation generally 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, Laws 2009, 3rd Special Session, Chapter 12 authorized \$100,000,000 in lease-purchase capacity primarily supported by Federal Funds. The limitation was enacted due to declines in the state's housing market and the state's population growth rate.

In FY 2011, SFB entered into \$91,325,000 worth of lease-purchase transactions to be financed through a federal program known as Qualified School Construction Bonds (QSCBs). QSCBs are taxable instruments which allow the state to receive a direct interest subsidy from the federal government. This subsidy essentially leaves the state to pay approximately 20% of the traditional taxable interest rate upon each lease-purchase payment.

SFB projects new construction to cost \$51,573,200 in FY 2011. This amount is associated with the 8 projects being financed from the federally subsidized QSCB program. SFB estimates that it will spend \$34,870,700 in FY 2012 to complete these 8 projects. In total, these projects will cost \$86,443,900 to build, including land and other site conditions.

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 limitation 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 Joint Legislative Budget Committee (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.

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 2010 and FY 2011 Education BRBs notwithstanding this statute for the \$100,000,000 authorization.

New School Facilities Debt Service

The Baseline includes \$160,105,700 from the General Fund for New School Facilities Debt Service in FY 2012. FY 2012 adjustments would be as follows:

FY 2012
Prior Lease-Purchase Payment Increase **GF** **\$26,464,500**

The Baseline includes an increase of \$26,464,500 from the General Fund for an increased lease-purchase payment in FY 2012. This change is the result of 2 factors: 1) The lease-purchase payment on the FY 2003 - FY 2005 outstanding lease-purchase agreements increases by \$26,464,500 in FY 2012 to reflect the current payment schedule on these 15-year agreements; 2) The lease-purchase payment on the FY 2009 outstanding issuance decreases by \$(1,000) to reflect the current payment schedule. Currently, the outstanding principal from these agreements will be \$1,184,945,000 at the end of FY 2011.

QSCB Lease-Purchase Payment **GF** **7,671,300**

The Baseline includes an increase of \$7,671,300 from the General Fund in FY 2012 for a new lease-purchase payment related to the FY 2011 QSCB issuance.

This increase reflects the entire debt service requirement for the QSCB issuance in FY 2012. The lease-purchase agreement associated with the QSCBs requires the state to appropriate the entire debt service amount for the payment, as opposed to deducting the expected federal subsidy from the payment. The state is expected to receive a federal subsidy of \$6,213,800 in FY 2012 related to the lease-purchase payment. These funds will be deposited as revenue into the state General Fund, thereby leaving a net debt service obligation of \$1,457,500.

Backfill Lease-Purchase Refinance **GF** **60,000,000**

The Baseline includes an increase of \$60,000,000 from the General Fund to backfill one-time savings related to the FY 2011 refinancing of SFB's outstanding new

construction lease-purchase payments in FY 2012. The FY 2011 Education BRB required SFB to enter into a refinancing or refunding agreement that reduced the board's FY 2011 lease-purchase obligations by up to \$60,000,000. The legislation prohibited this agreement from reducing lease-purchase payments in other years in order to prevent multi-year savings from the refinancing agreement. The refinancing was executed in early FY 2011.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

New Footnotes

Pursuant to A.R.S. § 35-142.01, any reimbursement received by or allocated to the School Facilities Board under the federal Qualified School Construction Bond program in FY 2012 shall be deposited into or revert to the state General Fund. *This footnote would ensure the state receives the assumed General Fund savings due to the federal subsidy from the Qualified School Construction Bond program.*

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 2012 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.

SUMMARY OF FUNDS

	FY 2010 Actual	FY 2011 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.		
Funds Expended	0	0
Year-End Fund Balance	5,000	5,000
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 2010 and FY 2011 expenditures exclude \$2,667,900 in each year from the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	2,909,100	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

SUMMARY OF FUNDS	FY 2010 Actual	FY 2011 Estimate
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 2010 and FY 2011 to make outstanding district payments.		
Funds Expended	334,100	350,000
Year-End Fund Balance	468,900	0
Emergency Deficiencies Correction Fund (SFA2484/A.R.S. § 15-2022)		Non-Appropriated
Source of Revenue: Monies transferred from the New School Facilities Fund.		
Purpose of Fund: To provide school districts monies for facility emergencies.		
Funds Expended	1,596,800	345,100
Year-End Fund Balance	345,100	118,900
Federal Grants - American Recovery and Reinvestment Act (ARRA) (SFA2999/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: One-time Federal Funds allocated by the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).		
Purpose of Fund: To make energy efficiency upgrades in existing academic space. Funds are leveraged by requiring local school districts to provide 70% of every project dollar.		
Funds Expended	59,600	13,428,000
Year-End Fund Balance	78,400	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	24,249,000	24,249,300
Year-End Fund Balance	11,500	11,200
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 the School Facilities Board (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
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 2010 and FY 2011 expenditures exclude \$100,604,700 and \$63,520,100, respectively, from the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	279,600	254,300
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, and to pay for the following: construction project management services, school building structural assessments, and land acquisition services.		
Funds Expended	9,978,700	51,573,200
Year-End Fund Balance	2,087,600	46,846,300

SUMMARY OF FUNDS	FY 2010 Actual	FY 2011 Estimate
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
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	64,304,300	64,302,800
Year-End Fund Balance	19,723,400	22,121,800
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 the 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