

School Facilities Board

	FY 2011 ACTUAL	FY 2012 ESTIMATE	FY 2013 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	17.0	17.0	17.0
Personal Services	607,000	772,000	772,000
Employee Related Expenditures	263,900	279,100	279,100
Professional and Outside Services	144,000	153,700	153,700
Travel - In State	24,000	11,200	11,200
Other Operating Expenditures	206,400	97,600	97,600
Equipment	64,600	0	0
OPERATING SUBTOTAL	1,309,900	1,313,600	1,313,600
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	63,459,100	160,105,700	169,429,700
AGENCY TOTAL	67,436,900	164,087,200^{1/}	173,411,200
FUND SOURCES			
General Fund	67,436,900	164,087,200	173,411,200
SUBTOTAL - Appropriated Funds	67,436,900	164,087,200	173,411,200
Other Non-Appropriated Funds	108,360,900	153,120,300	93,953,800
Federal Funds	8,356,800	16,778,000	0
TOTAL - ALL SOURCES	184,154,600	333,985,500	267,365,000

AGENCY DESCRIPTION — The School Facilities Board (SFB) is composed of 9 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 \$1,313,600 and 17 FTE Positions from the General Fund in FY 2013 for the operating budget. These amounts are unchanged from FY 2012.

Building Renewal Grants

The Baseline includes \$2,667,900 from the General Fund in FY 2013 for Building Renewal Grants. This amount is unchanged from FY 2012.

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 2013 Building Renewal Fund amount, under the suspended statutory formula, would be \$248,897,300.

Pursuant to A.R.S. § 15-2022, SFB expects to transfer \$4,038,400 from the New School Facilities (NSF) Fund to the Emergency Deficiencies Correction (EDC) Fund in FY 2012. Statute requires SFB to transfer excess funds in the NSF Fund to the EDC Fund to the extent that the transfer does not affect or disrupt any approved new construction projects. The EDC Fund is used in a similar

^{1/} In addition to these amounts, a total of \$34,000 GF is appropriated in FY 2012 for costs associated with an additional pay period.

manner as the Building Renewal Grants program, where districts apply to SFB for funding to correct facilities emergencies which pose health or safety concerns. If there are insufficient monies in the EDC Fund for district requests, A.R.S. § 15-907 allows a district to levy an additional primary property tax to fund the repairs with approval of the respective County Board of Supervisors.

The NSF Fund is projected to have excess funding available for transfer due to: 1) Several recent SFB projects had their design fees paid for with prior General Fund appropriations, and these design fees are now being reimbursed with lease-purchase proceeds; and 2) the receipt of additional State Land Trust revenues, because as SFB pays for state trust leases for new construction, the Land Department pays SFB back the same amount of funds since SFB is considered to be a beneficiary of state school trust land proceeds.

New School Facilities

The Baseline includes no funding from the General Fund in FY 2013 for New School Facilities. This amount is unchanged from FY 2012.

The FY 2012 Education Budget Reconciliation Bill (BRB) (Laws 2011, Chapter 29) continued the FY 2009 - FY 2011 limitation on new school construction projects into FY 2012. While the FY 2009 - FY 2012 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 bonding 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 expects to finish construction on all 8 projects financed with QSCB proceeds by the end of FY 2013. SFB projects new construction will cost \$5,505,200 in FY 2013 to complete these projects. In total, the 8 projects cost \$85,026,900 to build, including land and other site conditions. Pursuant to the lease-purchase agreements, any excess proceeds above and beyond projected new construction costs will be used to retire the outstanding principal on the agreements.

For FY 2013, SFB requested \$164,278,400 to finance 18 new school construction projects. Of these projects, 7

would be overcapacity in FY 2013 and 11 would be over capacity in later years (FY 2014 - FY 2016).

The Baseline would continue the limitation on new school construction projects enacted during FY 2009 - FY 2012 into FY 2013. If SFB were to fund district projects which were expected to be over capacity during FY 2013, it is estimated these projects would require \$20,000,000 in funding. This amount would fund 7 projects, most of which are either in the outlying sections of the Phoenix and Tucson Metropolitan areas or are accommodation schools which serve at risk students in smaller settings.

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 2012.) 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 2012, JLBC approved a 0% adjustment. (See Table 1 for FY 2012 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 2012 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 \$169,429,700 from the General Fund in FY 2013 for New School Facilities Debt Service. FY 2013 adjustments would be as follows:

	<u>FY 2013</u>
Prior Lease-Purchase	GF \$5,808,000
Payment Increase	

The Baseline includes an increase of \$5,808,000 from the General Fund in FY 2013 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' increases by \$5,807,100 in FY 2013 to reflect the current payment schedule on these 15-year agreements; 2) The lease-purchase payment on the FY 2009 outstanding issuance increases by \$900 to reflect the current payment schedule. Currently, the outstanding principal from these agreements will be \$990,495,000 at the end of FY 2013.

QSCB Lease-Purchase	GF 3,516,000
Payment Increase	

The Baseline includes an increase of \$3,516,000 from the General Fund in FY 2013 for an increased lease-purchase payment related to the QSCB issuance. This increase reflects the result of 2 factors: 1) The state will begin making principal payments on the QSCB issuance in FY 2013; 2) The interest due on the lease-purchase payment will decline from FY 2012, as last year's payment included interest which accrued from the issuance in early FY 2011.

The Baseline amount includes the entire debt service requirement for the QSCB issuance in FY 2013. 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 \$4,438,400 in FY 2013 related to the lease-purchase payment. Pursuant to A.R.S. § 35-142.01, these funds will be deposited as revenue into the state General Fund, thereby leaving a net debt service obligation of \$6,748,900.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard 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 2013 shall be deposited in or revert to the state General Fund.

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 2013 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 2011 Actual	FY 2012 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 2011 and FY 2012 expenditures exclude \$2,667,900 in each year from the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	2,564,600	0

SUMMARY OF FUNDS	FY 2011 Actual	FY 2012 Estimate
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 \$793,650,000 in Proposition 301 revenue bond proceeds or \$26,350,000 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 2011 to make outstanding district payments.		
Funds Expended	245,200	0
Year-End Fund Balance	23,900	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	110,600	4,496,800
Year-End Fund Balance	434,500	0
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	8,356,800	16,778,000
Year-End Fund Balance	477,200	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	24,249,300	24,246,200
Year-End Fund Balance	19,000	16,100
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 2011 and FY 2012 expenditures exclude \$63,459,100 and \$160,105,700, respectively, from the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	319,000	296,400

SUMMARY OF FUNDS	FY 2011 Actual	FY 2012 Estimate
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	19,453,000	60,167,900
Year-End Fund Balance	74,661,900	12,917,200
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 \$793,650,000 in Proposition 301 revenue bonds and \$26,350,000 in QZAB revenue bonds.		
Funds Expended	64,302,800	64,209,400
Year-End Fund Balance	23,410,200	26,945,000
School Improvement Revenue Bond Proceeds Fund (SFA3335/A.R.S. § 15-2083)		Non-Appropriated
Source of Revenue: Proceeds from the sale of up to \$793,650,000 in Proposition 301 revenue bonds and \$26,350,000 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