

## School Facilities Board

	FY 2012 ACTUAL	FY 2013 ESTIMATE	FY 2014 APPROVED
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	17.0	17.0	17.0
Personal Services	716,100	1,014,200	1,026,700
Employee Related Expenditures	262,500	293,800	294,200
Professional and Outside Services	142,300	153,700	153,700
Travel - In State	17,100	30,000	30,000
Travel - Out of State	100	0	0
Other Operating Expenditures	122,200	160,400	171,900
Equipment	23,200	0	0
<b>OPERATING SUBTOTAL</b>	<b>1,283,500</b>	<b>1,652,100</b>	<b>1,676,500</b>
<b>SPECIAL LINE ITEMS</b>			
Building Renewal Grants	14,167,900	2,667,900	16,667,900
New School Facilities	0	0	672,000 <sup>1/</sup>
New School Facilities Debt Service	160,105,700	169,429,700	174,165,000
<b>AGENCY TOTAL</b>	<b>175,557,100</b>	<b>173,749,700<sup>2/</sup></b>	<b>193,181,400<sup>3/4/</sup></b>
<b>FUND SOURCES</b>			
General Fund	175,557,100	173,749,700	193,181,400
<b>SUBTOTAL - Appropriated Funds</b>	<b>175,557,100</b>	<b>173,749,700</b>	<b>193,181,400</b>
Other Non-Appropriated Funds	132,662,900	121,437,400	116,606,900
Federal Funds	16,540,500	101,300	0
<b>TOTAL - ALL SOURCES</b>	<b>324,760,500</b>	<b>295,288,400</b>	<b>309,788,300</b>

**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 Grants Fund, and the Emergency Deficiencies Correction Fund to provide capital funding for K-12 school districts.

### Operating Budget

The budget includes \$1,676,500 and 17 FTE Positions from the General Fund in FY 2014 for the operating budget. These amounts fund the following adjustments:

#### Statewide Adjustments

The budget includes an increase of \$24,400 from the General Fund in FY 2014 for statewide adjustments. (Please see the Agency Detail and Allocations Section.)

### Building Renewal Grants

The budget includes \$16,667,900 from the General Fund in FY 2014 for Building Renewal Grants. This amount funds the following adjustments:

### Building Renewal Grant Increase

The budget includes an increase of \$14,000,000 from the General Fund in FY 2014 to allow SFB to address emergency school facilities repairs.

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 distributes monies to school districts to fund “primary” building renewal projects. SFB prioritizes the projects with emphasis given to school districts that have provided routine preventative maintenance on their facility and can provide a match of monies provided by the fund. “Primary” building renewal funding is for projects

<sup>1/</sup> The amount appropriated for new school construction shall be used only for a facility that is to be constructed for a school district that received final approval from the School Facilities Board before January 1, 2013. (General Appropriation Act footnote)

<sup>2/</sup> In addition to these amounts, the FY 2013 General Appropriation Act included a one-time FY 2013 adjustment of \$(11,100) GF for a state employee health insurance premium holiday. (Please see the FY 2013 General Fund Adjustments section.)

<sup>3/</sup> General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

<sup>4/</sup> 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 2014 shall be deposited in or revert to the state General Fund. (General Appropriation Act footnote)

required to meet the minimum school facility adequacy guidelines.

The FY 2014 K-12 Education Budget Reconciliation Bill (BRB) (Laws 2013, 1<sup>st</sup> Special Session, Chapter 3) permanently repealed the Building Renewal formula, which has been suspended since FY 2009, having been replaced with the Building Renewal Grants program. The FY 2014 Building Renewal Fund amount, under the now repealed statutory formula, would have been \$260,009,700.

The FY 2014 K-12 Education BRB also enacted a provision prohibiting accommodation schools from receiving Building Renewal grant funding. An accommodation school is a school operated by the county board of supervisors or county school superintendent that serves students who do not live within the boundaries of a school district or who attend alternative education programs authorized by A.R.S. § 15-308B.

In addition to the Building Renewal Grants funding, pursuant to A.R.S. § 15-2022, SFB expects to transfer \$474,200 from the New School Facilities (NSF) Fund to the Emergency Deficiencies Correction (EDC) Fund in FY 2014. 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 manner as the Building Renewal Grants program, where districts apply to SFB for funding to correct facilities emergencies that 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 the approval of the respective County Board of Supervisors.

### ***New School Facilities***

The budget includes \$672,000 from the General Fund in FY 2014 for New School Facilities. This amount funds the following adjustments:

#### **New School Construction Increase**

The budget includes an increase of \$672,000 from the General Fund in FY 2014 for funding associated with New School Construction. This appropriation of \$672,000 is intended to allow SFB to begin construction on facilities in the Thatcher Unified School District (USD) and the Benson USD.

The FY 2014 K-12 Education BRB makes 4 changes to New School Facilities funding and eligibility: 1) eliminates the moratorium on new school construction projects which had been in effect from FY 2009 – FY 2013; 2) prohibits the use of new school construction funding for accommodation schools; 3) requires a school district to be currently over capacity in order to qualify for a new construction award (as opposed to qualifying based

on future projected enrollment); and 4) requires projects to receive SFB approval on or before March 1 of a given year in order to qualify for new construction funding.

Based on the updated guidelines for the New School Facilities program, the only currently eligible projects are for the Thatcher USD and the Benson USD. The funding for Thatcher USD will be used for additional K-6 space and the funding for Benson USD will be used for a new K-4 school facility.

While FY 2009 - FY 2013 budget legislation generally limited SFB new construction projects, the FY 2010 budget authorized \$100,000,000 in lease-purchase capacity primarily supported by Federal Funds.

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 that 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. In total, the 8 projects cost \$80,279,800 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.

*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 current district-wide square feet per student falls below the statutory minimum. (As noted above, however, a limitation on new construction projects was authorized for FY 2009 - FY 2013.) 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). At its December 2012 meeting, the JLBC voted to maintain the FY 2013 rates. (*See Table 1 for FY 2014 statutory funding guidelines.*)

**Table 1****New School Facilities  
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 2014 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, 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. As of the end of FY 2012, there are \$3.9 billion Class B Bonds outstanding. (See *Additional Legislation for more information.*)

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 K-12 Education BRBs notwithstanding this statute for the \$100,000,000 authorization.

***New School Facilities Debt Service***

The budget includes \$174,165,000 from the General Fund in FY 2014 for New School Facilities Debt Service. This amount funds the following adjustments:

**Prior Lease-Purchase Payment Increase**

The budget includes an increase of \$4,735,300 from the General Fund in FY 2014 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 \$4,733,600 in FY 2014 to reflect the current payment schedule on these 15-year agreements; and 2) the lease-purchase payment on the FY 2009 outstanding issuance increases by \$1,700 to reflect the current payment schedule. Currently, the outstanding principal from these agreements will be \$990,495,000 at the end of FY 2014. The total non-QSCB lease-purchase payment will be \$162,977,700.

The budget includes an amount of \$11,187,300 for the entire debt service requirement for the QSCB issuance in FY 2014. 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 2014 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.

The FY 2014 K-12 Education BRB authorizes (but does not require) SFB to enter into a refinancing agreement, provided that the agreement must: 1) reduce SFB lease-purchase payments by a combined total of at least \$4,000,000 in FY 2014 and FY 2015; and 2) not increase or decrease SFB lease-purchase payments in any other fiscal year by more than \$100,000. Any refinancing agreement would be subject to JCCR review.

A preliminary proposal would achieve savings of \$(900,000) in FY 2014 and \$(3,100,000) in FY 2015. Any refinance savings are subject to change given future market conditions, and as such, the appropriation for SFB New School Facilities debt service was not adjusted in the FY 2014 budget. Any savings would be reverted to the state General Fund at the end of the fiscal year.

***Additional Legislation******Reporting Deadline***

The FY 2014 K-12 Education BRB changes the reporting deadline from October 15 to September 1 for the existing database used for the New School Facilities and Building Renewal Grants programs.

***K-12 Capital Bonding***

As permanent law, the FY 2014 K-12 Education BRB increases the limit on school district Class B bonding to 10% and 20% of property values for non-unified and unified districts, respectively. The limits were previously 5% and 10%.

A.R.S. § 15-1021 authorizes school districts to issue voter-approved bonds for long-term capital needs, such as school construction and renovation to be paid for with local property tax revenues. Article IX, Sections 8 and 8.1 of the Arizona Constitution limit non-unified and unified school district bonded indebtedness to no more than 15% or 30% of the district’s assessed valuation, respectively.

However, A.R.S. § 15-1021D sets statutory limits below the constitutional limits for “Class B” bonds (bonds issued after December 31, 1999).

The proceeds from K-12 bonds may only be used for expenditures listed in A.R.S. § 15-491A3&4, which include new construction, building renovations, furniture, equipment, technology and pupil transportation vehicles. In addition, bonds issued for furniture, equipment and technology have a maximum maturity of 5 years.

As of the end of FY 2012, 125 school districts have outstanding voter approved bonds. The total amount of voter-approved Class B bonds outstanding at the end of FY 2012 was approximately \$3.9 billion.