

## School Facilities Board

	FY 2012 ACTUAL	FY 2013 ESTIMATE	FY 2014 BASELINE
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	17.0	17.0	17.0
Personal Services	716,100	980,300	980,300
Employee Related Expenditures	262,500	286,300	286,300
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	160,400
Equipment	23,200	0	0
<b>OPERATING SUBTOTAL</b>	<b>1,283,500</b>	<b>1,610,700</b>	<b>1,610,700</b>
<b>SPECIAL LINE ITEMS</b>			
Building Renewal Grants	14,167,900	2,667,900	2,667,900
New School Facilities	0	0	0
New School Facilities Debt Service	160,105,700	169,429,700	174,165,000
<b>AGENCY TOTAL</b>	<b>175,557,100<sup>1/</sup></b>	<b>173,708,300<sup>2/</sup></b>	<b>178,443,600</b>
<b>FUND SOURCES</b>			
General Fund	175,557,100	173,708,300	178,443,600
<b>SUBTOTAL - Appropriated Funds</b>	<b>175,557,100</b>	<b>173,708,300</b>	<b>178,443,600</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>295,247,000</b>	<b>295,050,500</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 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 \$1,610,700 and 17 FTE Positions from the General Fund in FY 2014 for the operating budget. These amounts are unchanged from FY 2013.

### Building Renewal Grants

The Baseline includes \$2,667,900 from the General Fund in FY 2014 for Building Renewal Grants. This amount is unchanged from FY 2013.

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 required to meet the minimum school facility adequacy guidelines.

Since FY 2009, the Building Renewal formula has been wholly suspended, having been replaced with the Building Renewal Grants program. The FY 2014 Building Renewal Fund amount, under the suspended statutory formula, would be \$260,009,700.

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

<sup>1/</sup> Includes a total of \$34,000 GF appropriated in FY 2012 for costs associated with an additional pay period. These expenditures were not reflected in the individual agency tables in the *FY 2012 Appropriations Report*.

<sup>2/</sup> In addition to these amounts, the FY 2013 General Appropriation Act included one-time FY 2013 adjustments for a state employee health insurance premium holiday and employee retention payments. The adjustments include a reduction of \$(11,100) GF for the premium holiday and an increase of \$41,400 GF for the employee retention payment.

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 Baseline includes no funding from the General Fund in FY 2014 for New School Facilities. This amount is unchanged from FY 2013.

The FY 2013 K-12 Education Budget Reconciliation Bill (BRB) (Laws 2012, Chapter 300) continued the FY 2009 - FY 2012 limitation on new school construction projects into FY 2013. In addition, it included legislative intent to evaluate long-term funding for the New School Facilities program on review of additional demographic data submitted by school districts in their FY 2013 capital plans. The Baseline would continue this limitation into FY 2014.

For FY 2014, SFB requested \$109,816,900 to finance 10 new school construction projects. Of these projects, 6 projects (totaling \$22,339,200) would be over capacity before or in FY 2014 and 4 projects (totaling \$87,477,700) would be over capacity in FY 2015 and FY 2016. (See *Other Issues for Legislative Consideration for more information.*)

While the 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. 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 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 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). As of this writing, JLBC has not adopted an adjustment for FY 2014. (See *Table 1 for FY 2013 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 2013 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.

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 Baseline includes \$174,165,000 from the General Fund in FY 2014 for New School Facilities Debt Service. FY 2014 adjustments would be as follows:

<b>Prior Lease-Purchase Payment Increase</b>	<b>GF</b>	<b>4,735,300</b>
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The Baseline 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 Baseline 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.

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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 2014 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 in FY 2014. Continue to require school districts to submit capital plans annually in FY 2014 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 for FY 2014.
- As permanent law, require SFB to report to the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting by December 1 of each year the following information for each school district for the current fiscal year: the amount of outstanding principal on school district capital bonds, statutory bonding capacity, annual bond debt service, and a summary of the projects which were funded with the listed bond proceeds. Would require school districts to provide associated reports to SFB by September 15 to assist the agency in compiling the report. (*See Other Issues for Legislative Consideration.*)

### **OTHER ISSUES FOR LEGISLATIVE CONSIDERATION**

#### ***New School Construction Funding***

For FY 2014, the School Facilities Board is requesting \$109,816,900 to finance 10 new school construction projects. The projects could be funded through either: 1) a lump sum up front cash appropriation or 2) lease-purchase financing. If the projects were to be funded with lease-purchase financing using a 4.0% interest rate over 20 years, the principal and interest payments would total \$8,080,500 per year. A third option would be for the state to pay for the 10 projects as construction proceeds, which would cost \$36,605,600 per year in FY 2014 – FY 2016.

Another issue to consider is the time horizon for awarding funding for projects. Pursuant to A.R.S. § 15-2041, SFB must use a 3-year enrollment forecast when awarding projects. Because of this, the amount requested is for districts currently or projected to be over capacity in FY 2014, as well as those projected to be over capacity in FY 2015 and FY 2016. If limited to a 1-year horizon for districts expected to be over capacity prior to or in FY 2014, the new construction cost is estimated to be \$18,339,200, along with \$4,000,000 for site conditions, for a total of \$22,339,200.

Of this request, \$5,571,500 would be used for the construction of accommodation schools. 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. (*See Table 2 for a detailed summary of requested new school construction projects.*)

The School Facilities Board's predictions for enrollment growth are based on new housing starts and birth rates of school districts. In addition, schools districts that lease space may be limited in the number of students they can serve. For example, the Santa Cruz County Accommodation District has been awarded a \$2,060,700 school with a capacity of 111 students; however, the district's recent enrollment was approximately 30 students. The award takes into account the students recently being

served, as well as those on the waiting list unable to be served in the leased space. Due to costs, the Santa Cruz County Accommodation District closed the rented facility. Students who were served at this location instead transferred to the charter school system. As a result, the Arizona Department of Education has classified the school as being open with no students. However, the project remains in the SFB request due to local enrollment projections.

In addition, the School Facilities Board is requesting \$3,510,800 for 2 new school buildings located in Gila County. Currently, buildings are being leased to serve students within the district. The buildings are being leased in Globe and Payson at a cost of \$48,000/year and \$60,000/year, respectively. The lease payments are in addition to utilities and a majority of needed maintenance and repair.

#### ***K-12 Capital Bonding***

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's bonded indebtedness to no more than 15% or 30% of the district's assessed valuation, respectively.

However, A.R.S. § 15-1021D sets lower statutory limits on "Class B" bonds (bonds issued after December 31, 1999) at 5% and 10% of property values for non-unified and unified districts, respectively.

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.

Currently, 125 school districts have outstanding voter approved bonds. Of those districts, 29 (23%) currently cannot issue additional "Class B" bonds because they have no unused bonding capacity under the statutory caps described above. Bonding capacities for school districts have decreased in recent years due to declining property values. The total amount of voter-approved K-12 bonds outstanding at the end of FY 2012 was approximately \$4.5 billion.

These local bonding efforts have a significant impact on the state's overall school construction program. There is, however, a lack of systematic reporting that would highlight the role of this local effort and the uses of these monies. As a result, JLBC Staff suggests that the Legislature consider adding a new School Facilities Board reporting requirement to compile this information, based upon input from school districts. (*See Statutory Changes.*)

Table 2

**New School Construction Projects**

District	Project Description	Grade	Project Capacity	Square Feet	Project Cost	Land Cost	Total Cost	Fiscal Year Awarded
<b>Projected Over Capacity FY 2012</b>								
Gila County Regional School District*	New School	7-12	90	10,000	\$1,594,600	\$300,000	\$1,894,600	FY 2008
Gila County Regional School District*	New School	7-12	63	7,000	1,116,220	400,000	1,516,220	FY 2009
Santa Cruz County Accommodation District*	New School	5-12	111	11,450	1,760,667	400,000	2,160,667	FY 2005
Thatcher Unified District*	Additional Space	K-6	116	9,270	1,330,152	-	1,330,152	FY 2011
<b>TOTAL - Awards for Projected Over Capacity FY 2012</b>								
					<b>\$5,801,639</b>	<b>\$1,100,000</b>	<b>\$6,901,639</b>	
<b>Projected Over Capacity FY 2013</b>								
Liberty Elementary District*	New School	K-8	924	73,920	\$9,847,179	\$1,000,000	\$10,847,179	FY 2013
<b>TOTAL - Awards for Projected Over Capacity FY 2013</b>								
					<b>\$9,847,179</b>	<b>\$1,000,000</b>	<b>\$10,847,179</b>	
<b>Projected Over Capacity FY 2014</b>								
Benson Unified District*	New School	K-4	54	4,320	\$590,371	-	\$590,371	FY 2012
<b>TOTAL - Awards for Projected Over Capacity FY 2014</b>								
					<b>\$590,371</b>	<b>-</b>	<b>\$590,371</b>	
<b>Total Estimated Site Conditions - All Projects</b>								
<b>TOTAL FY 2014 NEW CONSTRUCTION REQUEST 1-YR:*</b>								
							\$4,000,000	
							<b>\$22,339,188</b>	
<b>Projected Over Capacity After FY 2014</b>								
Laveen Elementary District (FY 2015)	New School	K-8	1,155	92,400	\$12,793,704	\$1,100,000	\$13,893,704	FY 2013
Litchfield Elementary District (FY 2015)	New School	K-5	900	72,000	9,367,452	600,000	9,967,452	FY 2014
Florence Unified District (FY 2016)	New School	9-12	2,387	224,375	41,762,500	2,250,000	44,012,500	FY 2014
Queen Creek Unified District (FY 2016)	New School	9-12	1,153	108,375	18,104,044	1,500,000	19,604,044	FY 2014
<b>TOTAL - Awards for Projected Over Capacity After FY 2014</b>								
					<b>\$82,027,700</b>	<b>\$5,450,000</b>	<b>\$87,477,700</b>	
<b>TOTAL FY 2014 NEW CONSTRUCTION REQUEST 3-YR:</b>								
							<b>\$109,816,888</b>	

\*Projects projected to exceed capacity between FY 2012-FY 2014, plus Site Conditions and land costs. Total cost of these projects is \$22.3 million.

SUMMARY OF FUNDS	FY 2012 Actual	FY 2013 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 2012 and FY 2013 expenditures exclude \$14,167,900 and \$2,667,900, respectively, from the General Fund.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	13,124,300	0
<b>Deficiencies Correction Fund (SFA2455/A.R.S. § 15-2021 [repealed])</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Legislative appropriations.		
<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 is a year end balance in FY 2012.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	80,000	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 Deficiencies Correction Fund or New School Facilities Fund.		
<b>Purpose of Fund:</b> To provide school districts monies for facility emergencies.		
<b>Funds Expended</b>	2,334,100	2,669,900
<b>Year-End Fund Balance</b>	2,195,700	0
<b>Federal Grants - American Recovery and Reinvestment Act (ARRA) (SFA2999/A.R.S. § 35-142)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> One-time Federal Funds allocated by the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).		
<b>Purpose of Fund:</b> To make energy efficiency upgrades in existing academic space. Funds are leveraged by requiring local school districts to provide 70% of every project dollar.		
<b>Funds Expended</b>	16,540,500	101,300
<b>Year-End Fund Balance*</b>	(8,900)	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>	24,248,700	24,250,200
<b>Year-End Fund Balance</b>	10,784,700	10,817,600
<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 2012 and FY 2013 expenditures exclude \$160,105,700 and \$169,429,700, respectively, from the General Fund.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	347,400	326,200

SUMMARY OF FUNDS	FY 2012 Actual	FY 2013 Estimate
<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>	41,855,300	30,371,400
<b>Year-End Fund Balance</b>	3,745,900	68,800
<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 Transaction Privilege Tax (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 \$793,650,000 in Proposition 301 revenue bonds and \$26,350,000 in QZAB revenue bonds.		
<b>Funds Expended</b>	64,224,900	64,145,900
<b>Year-End Fund Balance</b>	16,650,300	19,375,900

\*As reported by the agency. Actual ending balance will not be negative.