

School Facilities Board

	FY 2013 ACTUAL	FY 2014 ESTIMATE	FY 2015 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	17.0	17.0	17.0
Personal Services	953,600	999,100	999,100
Employee Related Expenditures	319,100	344,900	345,500
Professional and Outside Services	136,800	140,000	140,000
Travel - In State	25,500	36,000	36,000
Travel - Out of State	52,000	0	0
Other Operating Expenditures	147,300	156,500	156,500
Equipment	17,800	0	0
OPERATING SUBTOTAL	1,652,100	1,676,500	1,677,100
SPECIAL LINE ITEMS			
Building Renewal Grants	2,667,900	16,667,900	16,667,900
New School Facilities	0	672,000	858,200
New School Facilities Debt Service	169,429,700	172,719,800	170,155,200
AGENCY TOTAL	173,749,700	191,736,200	189,358,400^{1/2/}
FUND SOURCES			
General Fund	173,749,700	191,736,200	189,358,400
SUBTOTAL - Appropriated Funds	173,749,700	191,736,200	189,358,400
Other Non-Appropriated Funds	102,904,100	87,461,900	88,206,000
TOTAL - ALL SOURCES	276,653,800	279,198,100	277,564,400

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

Operating Budget

The budget includes \$1,677,100 and 17 FTE Positions from the General Fund in FY 2015 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$600 from the General Fund in FY 2015 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 2015 for Building Renewal Grants. This amount is unchanged from FY 2014.

The Building Renewal Grant 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.

Pursuant to A.R.S. § 15-2022, SFB is required to transfer excess funds in the New School Facilities (NSF) Fund to the Emergency Deficiencies Correction (EDC) Fund to the extent that the transfer does not affect or disrupt any approved new construction projects. SFB estimates the EDC Fund to have a \$554,100 balance at the end of FY 2015. 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

^{1/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

^{2/} 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 2015 must be deposited in or revert to the state General Fund. (General Appropriation Act footnote)

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 \$858,200 from the General Fund in FY 2015 for New School Facilities. This amount funds the following adjustments:

New School Construction

The budget includes an increase of \$186,200 from the General Fund in FY 2015 for funding associated with New School Construction. This amount is intended to allow SFB to complete construction in the Thatcher Unified School District (USD). The project will have a total cost of \$1,530,200.

Based on updated guidelines for the New School Facilities program, the only eligible project for FY 2014 was Thatcher USD. The funding for Thatcher USD was approved by SFB in April 2011, and will construct 9,720 square feet of additional space, with a capacity of 116 K-6 students. The project is estimated to cost a total of \$1,330,200 along with additional costs of \$200,000 related to site conditions.

The FY 2014 budget also included funding for a Benson USD K-4 facility. The district, however, did not have sufficient enrollment to qualify for a new school. Benson’s share of the FY 2014 funding is now being used for costs related to the Thatcher facility.

The FY 2015 budget included no funding beyond that for Thatcher USD, as no additional school districts qualified for new construction funding.

The FY 2015 Baseline assumed that one additional elementary school district may qualify for new construction funding by FY 2017, splitting the \$14,000,000 projected cost between FY 2017 and FY 2018. The enacted budget’s long-term estimates removed this funding.

To improve the methodology of projecting the cost of new school construction in the future, the FY 2015 K-12 Education Budget Reconciliation Bill (BRB) (Laws 2014, Chapter 17) requires the Department of Education (ADE) to provide SFB with the most recent enrollment data, and requires SFB to use that data when determining eligibility under the new school construction formula. (See *Additional Legislation for more information.*)

Background – The New School Facilities Special Line Item 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. 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 2013 meeting, JLBC approved a 0% adjustment in the cost per square foot amounts, given negative construction inflation since FY 2008. (See *Table 1 for FY 2015 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 2015 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 2013, there are \$3.9 billion Class B bonds outstanding.

New School Facilities Debt Service

The budget includes \$170,155,200 from the General Fund in FY 2015 for New School Facilities Debt Service. This amount funds the following adjustments:

Existing Lease-Purchase Payment

The budget includes a decrease of \$(209,000) from the General Fund in FY 2015 for a decreased lease-purchase payment. This is a technical adjustment made annually to reflect slight variations in year to year payments for existing lease-purchase agreements.

Refinancing Agreement

The budget includes a decrease of \$(2,355,600) as part of a refinancing agreement approved by the Joint Committee on Capital Review (JCCR). The FY 2014 K-12 Education BRB (Laws 2013, 1st Special Session, Chapter 3)

authorized SFB to enter into a refinancing agreement, provided that the agreement does the following:

- Reduce SFB lease-purchase payments by a combined total of at least \$4,000,000 in FY 2014 and FY 2015.
- Not increase or decrease SFB lease-purchase payments in any other fiscal year by more than \$100,000.

At its October 2013 meeting, the JCCR favorably reviewed a refinancing agreement that would achieve an estimated \$5,246,000 of non-recurring savings: \$1,445,200 in FY 2014 and \$3,800,800 in FY 2015. As a result, the FY 2015 budget includes a one-time ex-appropriation of \$(1,445,200) from the General Fund in FY 2014 as part of this refinancing agreement. The resulting marginal change for lease-purchase payments in FY 2015 due to the refinancing is \$(2,355,600).

The FY 2015 budget was transmitted to the Governor on April 8, 2014. At its April 10, 2014 meeting, the JCCR favorably reviewed a second refinancing agreement under the same statutory authority provided in the FY 2014 K-12 Education BRB. This second refinancing agreement is expected to achieve an estimated \$8,417,800 of non-recurring savings: \$7,922,700 in FY 2015 along with approximately \$100,000 annually between FY 2016 and FY 2020. Since the budget was transmitted before the JCCR meeting, this second refinancing agreement was not included in the FY 2015 budget. (*See Other Issues for additional information.*)

Background – In FY 2003 - FY 2005, FY 2008, FY 2009, and FY 2011, SFB entered into lease-purchase agreements to finance the costs of new school construction. For each agreement, SFB issued Certificates of Participation (COPs) that are typically repaid over a period of 15 years. At the end of FY 2015, the outstanding amount of General Fund lease-purchase principal to be paid will be \$893,316,600.

The FY 2015 budget includes \$11,187,300 for the entire debt service requirement for the Qualified School Construction Bonds (QSCB) issuance in FY 2015. 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 \$4,052,300 in FY 2015 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 \$7,135,000.

Additional Legislation

Projection of New School Construction Costs

To improve the methodology of projecting the costs of new school construction, the FY 2015 K-12 Education BRB requires ADE to provide SFB with the most recent

enrollment data, and requires SFB to use that data when determining eligibility under the new school construction formula. Chapter 17 additionally requires ADE to provide SFB with the most recent enrollment data for use when submitting their December 1 Status of Funds report, pursuant to A.R.S. § 15-2002, and expands the report to include 3 years of data, whereas the report previously included 2 years of data.

Building Renewal Grant Reimbursements

The FY 2015 K-12 Education BRB requires school districts to reimburse the School Facilities Board due to legal action associated with improper construction by a hired contractor, for deposit into the Building Renewal Grant Fund. This provision specifically addresses ongoing litigation involving Casa Grande Elementary District, and would allow the district to reimburse SFB any funds received as part of a settlement resulting from the failure of a prior state-funded contractor to repair a roof for Desert Willow Elementary School.

School Facilities Board Revisions

The FY 2014 K-12 Education BRB permanently repealed the Building Renewal formula, which had been suspended since FY 2009, having been replaced with the Building Renewal Grant program. As part of this repeal, the bill removed certain provisions relating to maintenance of a database to administer the Building Renewal formula. Laws 2014, Chapter 105 includes further clarification on the types of information SFB is to collect.

In addition, Chapter 105:

1. Authorizes SFB to update the database based on district reporting, while retaining existing school inspections that occur every 5 years;
2. Requires districts to report when square footage is converted to administrative space, or leased to another entity (such as a charter school);
3. Requires SFB to update the age of a building in the database if significant upgrades or remodeling occur.

Other Issues

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

However, A.R.S. § 15-1021 sets statutory limits below the constitutional limits for "Class B" bonds (for those issued after December 31, 1999). As permanent law, the FY 2014 K-12 Education BRB increased 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%.

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 2013, 102 school districts have outstanding voter approved Class B bonds. The total amount of voter-approved Class B bonds outstanding at the end of FY 2013 was approximately \$3.9 billion.

FY 2014 Ex-Appropriation

The FY 2015 budget includes a one-time ex-appropriation of \$(1,445,200) from the General Fund in FY 2014 as part of the refinancing agreement reviewed by JCCR in October 2013. *(See the New School Facilities Debt Service section above for additional information.)*

As mentioned previously, JCCR favorably reviewed a refinancing agreement that would achieve an estimated \$5,246,000 of non-recurring savings: \$1,445,200 in FY 2014 and \$3,800,800 in FY 2015.

FY 2015 Ex-Appropriation

Due to the timing of the JCCR review, the savings from the second refinancing agreement were not included in the FY 2015 enacted budget. The FY 2016 Baseline will include a proposed one-time ex-appropriation of \$(7,922,700) from the General Fund to reflect the additional FY 2015 savings from the second refinancing agreement, reviewed by JCCR on April 10, 2014. In addition, the FY 2016 through FY 2020 savings amounts will be included in the state's long-term estimates. *(See the New School Facilities Debt Service section above for additional information.)*