

School Facilities Board

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	17.0	17.0	17.0
Personal Services	942,400	993,600	993,600
Employee Related Expenditures	312,700	342,600	336,400
Professional and Outside Services	140,000	140,000	140,000
Travel - In State	25,500	36,000	36,000
Travel - Out of State	200	0	0
Other Operating Expenditures	165,700	164,900	166,500
Equipment	600	0	0
OPERATING SUBTOTAL	1,587,100	1,677,100	1,672,500
SPECIAL LINE ITEMS			
Access Our Best Public Schools Fund Deposit	0	0	23,900,000 ^{1/}
Access Our Best Public Schools Funding	0	0	23,900,000 ^{1/2/}
Building Renewal Grants	16,667,900	16,667,900 ^{3/}	16,667,900
New School Facilities	672,000	858,200	2,249,600 ^{4/}
New School Facilities Debt Service	172,719,800	160,739,300	172,388,100
AGENCY TOTAL	191,646,800	179,942,500	240,778,100 ^{5/6/}
FUND SOURCES			
General Fund	191,646,800	179,942,500	216,878,100
<u>Other Appropriated Funds</u>			
Access Our Best Public Schools Fund	0	0	23,900,000
SUBTOTAL - Other Appropriated Funds	0	0	23,900,000
SUBTOTAL - Appropriated Funds	191,646,800	179,942,500	240,778,100
Other Non-Appropriated Funds	89,183,600	89,747,600	89,062,800
TOTAL - ALL SOURCES	280,830,400	269,690,100	329,840,900

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.

- ^{1/} The FY 2016 budget deposits \$23,900,000 from the General Fund into the Access Our Best Public Schools Fund (the AOBPSF Deposit line). That amount is then appropriated from the Access Our Best Public Schools Fund (the AOBPS Funding line).
- ^{2/} The monies appropriated in the Access Our Best Public Schools Funding line item shall be deposited in the Access Our Best Public Schools Fund, established by A.R.S. § 15-2042. Monies in the fund shall not be expended until the Executive Branch submits an expenditure plan to the Joint Legislative Budget Committee for review. Monies in the Access Our Best Public Schools Fund are appropriated for the purpose of developing mechanisms that an Arizona Public School Achievement District could use to assist in the expansion of member schools or the construction of new facilities for member schools, including mechanisms for the state to act as the guarantor for debt financing for member schools. The Executive Branch shall recommend proposed legislation to codify the mechanisms developed. (General Appropriation Act footnote)
- ^{3/} Of the amount appropriated in the Building Renewal Grants line item for FY 2015, \$1,000,000 shall be transferred to the Emergency Deficiencies Correction Fund established by A.R.S. § 15-2022. A school district receiving monies from the Emergency Deficiencies Correction Fund in FY 2015 shall submit to the School Facilities Board a plan to improve the school's preventative maintenance building systems. (General Appropriation Act footnote)
- ^{4/} Pursuant to A.R.S. § 15-2041, 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 on or before March 1, 2015. (General Appropriation Act footnote)
- ^{5/} 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 2016 must be deposited in or revert to the state General Fund. (General Appropriation Act footnote)
- ^{6/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Operating Budget

The budget includes \$1,672,500 and 17 FTE Positions from the General Fund in FY 2016 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(4,600) from the General Fund in FY 2016 for statewide adjustments. *(Please see the Agency Detail and Allocations Section.)*

Access Our Best Public Schools Fund Deposit

The budget includes \$23,900,000 from the General Fund in FY 2016 for the Access Our Best Public Schools Fund Deposit. This amount funds the following adjustments:

New Program

The budget includes an increase of \$23,900,000 from the General Fund in FY 2016 for deposit into the Access Our Best Public Schools Fund.

The FY 2016 K-12 Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 15) establishes the Access Our Best Public Schools (AOBPS) Fund, which consists of monies appropriated by the Legislature and grants, gifts, and donations. The fund is administered by SFB and subject to legislative appropriation, except for donations.

Monies in the fund are to be made available to public schools that are members of the Arizona Public School Achievement District.

This line item reflects the deposit of General Fund monies into the AOBPS Fund, while the next line item is the appropriation of AOBPS monies out of the AOBPS Fund.

Access Our Best Public Schools Funding

The budget includes \$23,900,000 from the Access Our Best Public Schools Fund in FY 2016. This amount funds the following adjustments:

New Program

The budget includes an increase of \$23,900,000 from the Access Our Best Public Schools Fund in FY 2016 for Access Our Best Public Schools Funding.

The General Appropriation Act footnote and FY 2016 K-12 BRB specify that monies in the Access Our Public Schools Fund are to be made available to public schools that are members of the Arizona Public School Achievement District for the following purposes: 1) The expansion of existing schools; 2) New school construction; or 3) Serve as the

guarantor for debt financing. The FY 2016 appropriation requires JLBC review prior to the expenditure of any monies, and the Executive Branch is required to recommend proposed legislation to codify the process for debt financing guarantees. Statutory language for the new fund (A.R.S. § 15-2042) requires at least 50% of the projects that receive monies from the fund be in low socioeconomic areas.

In addition, the K-12 BRB transfers from the Department of Education to SFB the requirement to publish an annual report listing vacant and unused buildings (or portions of buildings) that are owned by the state or school districts that may be suitable for the operation of a charter school. The list is made available to charter school applicants and to existing charter schools. The list includes the address of each building, a short description of the building, the name of the owner of the building, and any other pertinent information related to the vacancy of the building.

This line item is the appropriation of AOBPS monies out of the AOBPS Fund, while the previous line item reflects the deposit of General Fund monies into the AOBPS Fund.

Building Renewal Grants

The budget includes \$16,667,900 from the General Fund in FY 2016 for Building Renewal Grants. This amount is unchanged from FY 2015.

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. NSF Fund revenues are derived from legislative appropriations and lease-purchase proceeds. SFB estimates the EDC Fund to have a \$0 balance at the end of FY 2016, absent any other changes.

As a result, the budget includes a one-time FY 2015 appropriation transfer of \$1,000,000 from the Building Renewal Grants line item to the Emergency Deficiencies Correction Fund. A school district receiving monies from the Emergency Deficiencies Correction Fund shall submit to the School Facilities Board a plan to improve the school's preventative maintenance of building systems.

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 \$2,249,600 from the General Fund in FY 2016 for New School Facilities. This amount funds the following adjustments:

New School Construction

The budget includes an increase of \$1,391,400 from the General Fund in FY 2016 for New School Construction. This amount funds the following changes:

- The elimination of \$(858,200) in one-time construction funds for Thatcher Unified School District (USD). The district had qualified for 9,720 square feet of additional space with a capacity of 116 K-6 students. The project cost a total of \$1,530,200 including additional site condition expenses. Of the total cost, \$858,200 occurred in FY 2015 and is removed in the FY 2016 budget.
- \$2,249,600 to begin construction of additional K-4 space for Benson Unified School District. The project is to be funded in FY 2016 and FY 2017. Benson will construct a new 17,190 square foot school with capacity for 191 students. The total project cost, including land and site conditions, is \$3,424,200. The project is funded as follows: FY 2016 funding of \$2,249,600, which includes: \$1,174,600 for construction, \$825,000 for land, and \$250,000 for site conditions; and FY 2017 funding of \$1,174,600 for construction.

Benson USD qualified for new school construction when its K-4 Average Daily Membership (ADM) exceeded 387 students. As of November 2014, the K-4 ADM at Benson USD was 406 students. For elementary schools, statute allows construction of space to accommodate no more than 5 years of future enrollment growth. SFB formally approved the project at its January 2015 meeting.

SFB assumes average annual ADM growth of 7.3% over the next 5 years. Under that projection, Benson USD would have 578 students in 2020, or 191 students over the 387 student threshold.

Background – The New School Facilities 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 districtwide 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 JLBC. At its December 2014 meeting, JLBC approved a 0% adjustment in the cost per square foot amounts. This inflation adjustment is based on a longitudinal measurement of construction costs since the last time the Committee adopted an adjustment. Construction costs are still below November 2008 levels, which is the last time the construction cost index was increased. *(Please see Table 1 for FY 2016 statutory funding guidelines.)*

New School Facilities 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 2016 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 2014, there are \$4.1 billion Class B bonds outstanding.

New School Facilities Debt Service

The budget includes \$172,388,100 from the General Fund in FY 2016 for New School Facilities Debt Service. This amount funds the following adjustments:

Lease-Purchase Payment

The budget includes a decrease of \$(1,567,900) from the General Fund in FY 2016 for decreased lease-purchase payments. This reflects the variations in SFB's existing lease-purchase schedule.

Refinancing Agreement

The budget includes an increase of \$13,216,700 from the General Fund in FY 2016 to restore one-time savings from FY 2015 refinancing agreements. The FY 2014 K-12 Education BRB (Laws 2013, 1st Special Session, Chapter 3) authorized SFB to enter into refinancing agreements. At its October 2013 meeting, the JCCR favorably reviewed a refinancing agreement. That provided \$3,800,800 of non-recurring savings in FY 2015. The original FY 2015 budget incorporated this savings.

Additionally, at its April 2014 meeting, the JCCR favorably reviewed a second refinancing agreement. That provided an additional \$9,415,900 of non-recurring savings in FY 2015. Unlike the first refinancing, the original FY 2015 budget did not incorporate these savings. As a result, the enacted FY 2016 budget included an ex-appropriation of \$9,415,900 in FY 2015. *(Please see the FY 2015 Ex-Appropriation section for more information.)*

The FY 2016 K-12 BRB allows SFB to enter into a new refinancing agreement in FY 2016 that will reduce SFB's lease-purchase payments by a combined total of at least \$7,000,000 in FY 2016 through FY 2024. SFB's lease-purchase payment reductions may not vary by more than \$1,000,000 in any single fiscal year during this period. Any refinancing agreement would be subject to JCCR review. The budget does not reflect any savings for FY 2016, but does incorporate savings into the 3-year planning projections. *(Please see the Long-Term Budget Impacts section for more 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 2016, the outstanding amount of General Fund lease-purchase principal to be paid will be \$765,251,600.

The FY 2016 budget includes \$9,938,100 for the entire debt service requirement for the Qualified School Construction Bonds (QSCB) issuance in FY 2016. 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 \$3,976,500 in FY 2016 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 \$5,961,600.

Other Issues

FY 2015 Ex-Appropriation

The budget includes a one-time ex-appropriation of \$(9,415,900) from the General Fund in FY 2015 to reflect the additional savings from the refinancing agreement, reviewed by JCCR in April 2014. In addition, any future year savings amounts are included in the state's long-term estimates. *(Please see the New School Facilities Debt Service section for additional information.)*

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, SFB General Fund costs are projected to decrease by \$(5,309,600) in FY 2017 below FY 2016 and by \$(1,419,600) in FY 2018 below FY 2017. These estimates are based on:

Access Our Best Public Schools Fund – The long-term estimates assume the Access Our Best Public Schools Deposit will decrease by \$(2,400,000) in FY 2017 to level funding of \$21,500,000. There would be no change in funding in FY 2018.

Debt Service Changes – The long-term estimates make 2 adjustments for SFB debt service: existing changes in lease-purchase payments and savings from the refinancing agreement authorized by the FY 2016 K-12 BRB.

In terms of existing lease-purchase agreements, SFB debt service is expected to decrease by \$(128,400) in FY 2017 and by another \$(245,000) in FY 2018.

The long-term projections assume that SFB debt service will decline by \$(1,700,000) in FY 2017 due to additional refinancing savings. In FY 2018, there is expected to be no change in refinance savings (that is, the net savings of \$1,700,000 will occur again).

New School Construction – The estimates assume no additional funding will be provided for new school facilities beyond the Benson USD K-4 space. Funding for Benson includes \$1,174,600 in FY 2017, which represents a \$(1,075,000) decrease from FY 2016. New school construction spending would then decline by \$(1,174,600) in FY 2018 with the removal of the Benson USD funding.

Statewide Adjustments – A technical change of \$(6,200) in FY 2017 relating to statewide adjustments.

Long-term budget estimates are subject to change depending on SFB's future awards of new school construction and the actual savings from the refinancing agreement, which may differ from the currently estimated savings.

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). School district Class B bonding is limited to 10% and 20% 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.

As of the end of FY 2014, 99 school districts have outstanding voter approved Class B bonds. The total amount of voter-approved Class B bonds outstanding at the end of FY 2014 was approximately \$4.1 billion.

Class B Bond Approvals

The FY 2016 K-12 Education BRB amended A.R.S. § 15-2002 to require each school district to report Class B bond approvals to SFB by December 1 of each year and requires SFB to annually report to JLBC by December 31 on all Class B bond approvals by school districts in that year.