

School Facilities Board

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 BASELINE
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	342,600
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	164,900
Equipment	600	0	0
OPERATING SUBTOTAL	1,587,100	1,677,100	1,677,100
SPECIAL LINE ITEMS			
Building Renewal Grants	16,667,900	16,667,900	16,667,900
New School Facilities	672,000	858,200	766,600
New School Facilities Debt Service	172,719,800	170,155,200	172,388,100
AGENCY TOTAL	191,646,800	189,358,400	191,499,700
FUND SOURCES			
General Fund	191,646,800	189,358,400	191,499,700
SUBTOTAL - Appropriated Funds	191,646,800	189,358,400	191,499,700
Other Non-Appropriated Funds	89,183,600	89,747,600	89,062,800
TOTAL - ALL SOURCES	280,830,400	279,106,000	280,562,500

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 Baseline includes \$1,677,100 and 17 FTE Positions from the General Fund in FY 2016 for the operating budget. These amounts are unchanged from FY 2015.

Building Renewal Grants

The Baseline 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.

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 \$766,600 from the General Fund in FY 2016 for New School Facilities. FY 2016 adjustments would be as follows:

New School Construction **GF** **FY 2016**
\$(91,600)

The Baseline includes a decrease of \$(91,600) from the General Fund in FY 2016 for funding associated with New School Construction. This amount would bring New School Construction funding to \$766,600, which reflects the following changes:

- The completion of 9,720 square feet of additional space with a capacity of 116 K-6 students for Thatcher Unified School District (USD). The project costs a total of \$1,530,200 including additional costs related to site conditions. Of the total cost, \$858,200 occurred in FY 2015 and is being removed in the Baseline.
- Funding to begin construction of additional K-4 space for Benson USD. The project would be funded in FY 2016 and FY 2017, and would construct 7,560 additional square feet with capacity for 84 students. The total project cost, including site conditions, would be \$1,283,200. The project would be funded as follows: FY 2016 funding of \$766,600, which includes \$516,600 for construction and \$250,000 for site conditions; and FY 2017 funding of \$516,600 for construction.

Benson USD qualifies for new school construction when its K-4 Average Daily Membership (ADM) exceeds 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. The Joint Legislative Budget Committee (JLBC) Staff estimates average annual growth of 3.0% over the next 5 years, based on historical growth and an assumption of a moderate increase in growth rates. Under that projection, Benson USD would have 471 students in 2020, or 84 students over the 387 student threshold.

SFB assumes average annual ADM growth of 7.3% over the next 5 years. Given the uncertainty of this rapid growth projection, the Baseline funding is instead based on the more moderate 3.0% annual growth rate. Since SFB has already awarded Benson a new 191 student school, the Baseline includes a statutory provision to notwithstand SFB’s award.

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 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.)

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 Baseline includes \$172,388,100 from the General Fund in FY 2016 for New School Facilities Debt Service. FY 2016 adjustments would be as follows:

Lease-Purchase Payment **GF** **(1,567,900)**

The Baseline 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 **GF** **3,800,800**

The Baseline includes an increase of \$3,800,800 from the General Fund in FY 2016 to restore one-time savings from the refinancing agreement reviewed by the Joint Committee on Capital Review (JCCR) in October 2013. The FY 2014 K-12 Education Budget Reconciliation Bill

(BRB) (Laws 2013, 1st Special Session, Chapter 3) authorized SFB to enter into a refinancing agreement. At its October 2013 meeting, the JCCR favorably reviewed a refinancing agreement. That provided \$3,800,800 of non-recurring savings in FY 2015. This policy issue does not include the impact of the second SFB refinancing review by JCCR in April 2014. Due to the timing of that second review, those savings were not included in the enacted budget and are not included in the SFB budget table. *(Please see Other Issues for Legislative Consideration 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 2016, the outstanding amount of General Fund lease-purchase principal to be paid will be \$765,251,600.

The FY 2016 Baseline 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.

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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 2016 must be deposited in or revert to the state General Fund.

STATUTORY CHANGES

The Baseline would:

- As permanent law, require the School Facilities Board to annually report to the Joint Legislative Budget Committee by December 1 on all Class B bond approvals by school districts in that year. *(Please see Other Issues for Legislative Consideration for additional information.)*
- As session law, notwithstanding the School Facilities Board's awards for new school construction in FY 2016, and instead require the School Facilities Board to construct the Benson USD K-4 project to accommodate 84 students based on JLBC Staff enrollment projections.

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

FY 2015 Ex-Appropriation

Due to the timing of the JCCR review, the savings from the second SFB refinancing agreement that occurred in spring 2014 were not included in the FY 2015 enacted budget. The Baseline includes a one-time FY 2015 ex-appropriation of \$(9,415,900) from the General Fund 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

Beyond FY 2016 Baseline changes, JLBC Staff estimates that School Facilities Board statutory caseload changes will result in a decrease of \$(378,400) in FY 2017 and an additional decrease of \$(761,600) in FY 2018 below FY 2017. This estimate assumes no additional funding for school facilities beyond the Benson USD K-4 space and includes adjustments for SFB's existing lease-purchase schedule.

These estimates are subject to change depending on SFB's future awards of new school construction.

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.

The Baseline adds a provision to permanent law that requires SFB to annually report to JLBC by December 1 of each year on all Class B bond approvals by school districts in that year. This will provide a better understanding of the amount of bond issuances and school construction occurring outside of state funding. This will also enable the state to calculate the total capacity of school districts across the state compared to enrollment in order to more easily project new school facilities requirements.

SUMMARY OF FUNDS	FY 2014 Actual	FY 2015 Estimate
Building Renewal Grant Fund (SFA2392/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 2014 and FY 2015 expenditures exclude \$16,667,900 in each year from the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Emergency Deficiencies Correction Fund (SFA2484/A.R.S. § 15-2022)		Non-Appropriated
Source of Revenue: Monies transferred from the Deficiencies Correction Fund or New School Facilities Fund.		
Purpose of Fund: To provide school districts monies for facility emergencies.		
Funds Expended	133,600	712,000
Year-End Fund Balance	596,500	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 2014 and FY 2015 expenditures exclude \$172,719,800 and \$170,155,200, respectively, from the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	2,562,900	2,534,900
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. To prevent double counting, FY 2014 and FY 2015 expenditures exclude \$672,000 and \$858,200, respectively, from the General Fund.		
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	5,396,600	9,300
Year-End Fund Balance	825,100	194,700
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 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.		
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	56,259,000	64,125,300
Year-End Fund Balance	28,776,400	29,605,000