

## School Facilities Board

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	17.0	17.0	17.0
Personal Services	944,400	993,600	993,600
Employee Related Expenditures	327,600	336,400	330,200
Professional and Outside Services	139,200	140,000	140,000
Travel - In State	22,900	36,000	36,000
Other Operating Expenditures	160,300	166,500	166,900
Equipment	35,200	0	0
<b>OPERATING SUBTOTAL</b>	<b>1,629,600</b>	<b>1,672,500</b>	<b>1,666,700</b>
<b>SPECIAL LINE ITEMS</b>			
Access Our Best Public Schools Fund Deposit	0	23,900,000	0
Access Our Best Public Schools Funding	0	23,900,000	0
Building Renewal Grants	15,128,600	31,667,900	31,667,900
New School Facilities	858,200	2,249,600	24,253,200 <sup>1/2/</sup>
New School Facilities Debt Service	160,739,300	171,109,400	170,006,600 <sup>3/</sup>
Public School Credit Enhancement Transaction Costs	0	0	500,000 <sup>4/5/6/</sup>
<b>AGENCY TOTAL</b>	<b>178,355,700</b>	<b>254,499,400</b>	<b>228,094,400 <sup>7/8/</sup></b>
<b>FUND SOURCES</b>			
General Fund	178,355,700	230,599,400	228,094,400
<u>Other Appropriated Funds</u>			
Access Our Best Public Schools Fund	0	23,900,000	0
<b>SUBTOTAL - Other Appropriated Funds</b>	<b>0</b>	<b>23,900,000</b>	<b>0</b>
<b>SUBTOTAL - Appropriated Funds</b>	<b>178,355,700</b>	<b>254,499,400</b>	<b>228,094,400</b>
Other Non-Appropriated Funds	87,743,500	90,646,800	89,073,400
<b>TOTAL - ALL SOURCES</b>	<b>266,099,200</b>	<b>345,146,200</b>	<b>317,167,800</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 Grant Fund, and the Emergency Deficiencies Correction Fund to provide capital funding for K-12 school districts. In addition, SFB Staff provides support to the Credit Enhancement Eligibility Board, which operates the Arizona Public School Credit Enhancement program for district and charter schools.

- <sup>1/</sup> Pursuant to A.R.S. § 15-2041, the amount appropriated for New School Construction shall be used only for facilities that are to be constructed for school districts that received final approval from the School Facilities Board on or before March 1, 2016. (General Appropriation Act footnote)
- <sup>2/</sup> If, after reviewing revised enrollment projections for a union high school district project approved on or before March 1, 2016, the School Facilities Board determines the awarded project is no longer required pursuant to the A.R.S. § 15-2041E, the sum of \$16,705,000 appropriated to the New School Facilities line item in FY 2017 shall revert to the state General Fund. The School Facilities Board may adjust the amount reverted to deduct any monies distributed to the union high school district for architectural and engineering fees, project management services and preconstruction services that were spent before the School Facilities Board's determination the awarded project is no longer required. (General Appropriation Act footnote)
- <sup>3/</sup> At least 30 days before any monies are transferred out of the New School Facilities Debt Service Line Item, the School Facilities Board shall report the proposed transfer to the Director of the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- <sup>4/</sup> Laws 2016, Chapter 129 appropriated \$500,000 from the General Fund for public school credit enhancement transaction costs.
- <sup>5/</sup> The sum of \$500,000 is appropriated from the state General Fund in FY 2017 to the School Facilities Board for one-time funding for transaction costs associated with the Arizona Public School Credit Enhancement Program established by A.R.S. § 15-2155.
- <sup>6/</sup> This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations, except that all monies remaining unexpended and unencumbered on June 30, 2018 revert to the state General Fund.
- <sup>7/</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 2017 must be deposited in or revert to the state General Fund. (General Appropriation Act footnote)
- <sup>8/</sup> General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

### **Operating Budget**

The budget includes \$1,666,700 and 17 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

#### **Statewide Adjustments**

The budget includes a decrease of \$(5,800) from the General Fund in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations Section.)*

### **Access Our Best Public Schools Fund Deposit**

The budget includes no funding from the General Fund in FY 2017 for the Access Our Best Public Schools Fund Deposit. This amount funds the following adjustments:

#### **Eliminate Deposit**

The budget includes a decrease of \$(23,900,000) from the General Fund in FY 2017 for the Access Our Best Public Schools Fund Deposit.

The Access Our Best Public Schools (AOBPS) Fund was created in FY 2016. The fund consisted 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.

The FY 2017 Credit Enhancement Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 129) repealed the fund, effective September 1, 2017. *(See Additional Legislation for more information.)*

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 no funding from the AOBPS Fund in FY 2017 for Access Our Best Public Schools Funding. This amount funds the following adjustments:

#### **AOBPS Fund Decrease**

The budget includes a decrease of \$(23,900,000) from the AOBPS Fund in FY 2017 for Access Our Best Public Schools Funding. This adjustment corresponds to the reduced AOBPS General Fund Deposit.

The FY 2017 Credit Enhancement BRB transfers \$23,900,000 from the AOBPS Fund to the newly-established Arizona Public School Credit Enhancement Fund in FY 2017 and repeals the AOBPS Fund, effective

September 1, 2017. *(Please see Additional Legislation for more information.)*

An FY 2016 General Appropriation Act footnote and the FY 2016 K-12 Education Budget Reconciliation Bill (BRB) specified that monies in the AOBPS 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 required Joint Legislative Budget Committee (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 fund (A.R.S. § 15-2042) requires at least 50% of the projects that receive monies from the fund be in low socioeconomic areas. The FY 2016 expenditure plan was never submitted to the JLBC for review.

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 \$31,667,900 from the General Fund in FY 2017 for Building Renewal Grants. This amount is unchanged from FY 2016.

The budget includes a supplemental one-time increase of \$15,000,000 from the General Fund in FY 2016 for Building Renewal Grants. The budget continues this one-time increase of \$15,000,000 from the General Fund in FY 2017. *(Please see Other Issues for more information.)*

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 beginning of FY 2017, absent any other changes.

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 \$24,253,200 from the General Fund in FY 2017 for New School Facilities. This amount funds the following adjustments:

**Agua Fria Union High School District Project**

The budget includes an increase of \$16,705,000 from the General Fund in FY 2017 for additional space for grades 9-12 in the Agua Fria Union High School District (UHSD). The project is to be funded in FY 2017 and FY 2018. Agua Fria will construct a new 200,000 square foot high school with capacity for 1,600 students. The total project cost is \$33,410,000 (\$16,705,000 in FY 2017 and \$16,705,000 in FY 2018). There is no additional funding for land or site conditions.

In addition, the FY 2017 General Appropriation Act (Laws 2016, Chapter 117, Section 155) appropriates funding for this project in FY 2018.

The budget includes footnotes reverting \$16,705,000 to the General Fund in both FY 2017 and FY 2018 if SFB determines that the awarded project for the Agua Fria Union High School District is no longer required in accordance with A.R.S. § 15-2041 based on revised enrollment projections.

**Chandler Unified School District Project**

The budget includes an increase of \$6,373,600 from the General Fund in FY 2017 for additional space for grades 7-12 in the Chandler Unified School District (USD). The project is to be funded in FY 2017 and FY 2018. Chandler will construct 15,420 of additional square feet, which will provide added capacity for 685 students. This is an expansion of Camille Casteel High School, which opened in fall 2015. The first phase of the school was constructed by Chandler USD using local monies. The total project cost is \$12,747,200 (\$6,373,600 in FY 2017 and

\$6,373,600 in FY 2018). There is no additional funding for land or site conditions.

In addition, the FY 2017 General Appropriation Act (Laws 2016, Chapter 117, Section 155) appropriates funding for this project in FY 2018.

**Benson Unified School District Project**

The budget includes a decrease of \$(1,075,000) from the General Fund in FY 2017 for the second year of funding.

An amount of \$1,174,600 of funding in FY 2017 will continue construction of a new 17,190 square foot school with capacity for 191 students at Benson USD. 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 included \$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.

*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 2015 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. *(Please see Table 1 for FY 2017 statutory funding guidelines.)*

<b>New School Facilities Statutory Funding Guidelines</b>		
<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 2017 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 2015, there were \$4.5 billion of school district bonds outstanding.

### **New School Facilities Debt Service**

The budget includes \$170,006,600 from the General Fund in FY 2017 for New School Facilities Debt Service. This amount funds the following adjustments:

#### **Lease-Purchase Payment**

The budget includes a decrease of \$(128,500) from the General Fund in FY 2017 for decreased lease-purchase payments. This reflects the variations in SFB's existing lease-purchase schedule.

#### **Refinancing Agreement**

The budget includes a decrease of \$(974,300) from the General Fund in FY 2017 due to savings from the FY 2016 refinancing agreement.

The FY 2016 K-12 Education BRB authorized SFB to enter into a refinancing agreement provided that the agreement must: 1) reduce SFB's lease-purchase payments by a combined total of at least \$7,000,000 in FY 2016 through FY 2024 and 2) not vary lease-purchase payment reduction by more than \$1,000,000 in any single fiscal year during that period. At its June 2015 meeting, the JCCR favorably reviewed a refinancing agreement, which reduced SFB's lease-purchase payments by a combined total of \$15,088,700 in FY 2016 through FY 2024. *(Please see the Other Issues 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 2017, the outstanding amount of General Fund lease-purchase principal to be paid will be \$624,487,700.

The FY 2017 budget includes \$9,938,100 for the entire debt service requirement for the Qualified School Construction Bonds (QSCB) issuance in FY 2017. 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 2017 related to the lease-purchase payment.

However, this amount may be reduced by an unknown amount due to sequestration. 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.

### **Public School Credit Enhancement Transaction Costs**

The FY 2017 Credit Enhancement BRB (Laws 2016, Chapter 129) appropriates one-time funding of \$500,000 from the General Fund in FY 2017 for Public School Credit Enhancement Transaction Costs.

The FY 2017 Credit Enhancement BRB created the Public School Credit Enhancement Program and included funding of \$500,000 from the General Fund in FY 2017 for transaction costs associated with the program. This appropriation is non-lapsing, except that all monies remaining unexpended and unencumbered on June 30, 2018 revert to the General Fund.

### **Other Issues**

This section includes information on the following topics:

- FY 2016 Supplemental
- FY 2016 Ex-Appropriation
- Long-Term Budget Impacts
- K-12 Capital Bonding
- Class B Approvals
- Additional Legislation

### **FY 2016 Supplemental**

The budget includes a one-time supplemental appropriation for \$15,000,000 from the General Fund in FY 2016 for Building Renewal Grants.

### **FY 2016 Ex-Appropriation**

The FY 2017 budget includes a one-time ex-appropriation of \$(1,278,700) from the General Fund in FY 2016 as part of the refinancing agreement reviewed by JCCR in June 2015. *(See the New School Facilities Debt Service section above for additional information.)*

### **Long-Term Budget Impacts**

As part of the budget's 3-year spending plan, SFB's General Fund costs are projected to decrease by \$(16,919,500) in FY 2018 below FY 2017 and \$(58,553,100) in FY 2019 below FY 2018. These estimates are based on:

**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.

SFB debt service is expected to decrease by \$(244,900) in FY 2018 and \$(35,474,500) in FY 2019. The significant decrease in FY 2019 is due to the retirement of a FY 2014 refinancing agreement, (which affected issuances that originally occurred during FY 2003 – FY 2005).

**New School Construction** – The estimates assume no additional funding will be provided for new school facilities beyond the Agua Fria UHSD 9-12 space and the Chandler USD 7-12 space. In FY 2018, new school construction spending would decline by \$(1,174,600) with the completion of the Benson USD project. In FY 2019, new school construction spending would then decline by \$(23,078,600) with the completion of the Agua Fria UHSD and Chandler USD projects.

Long-term budget estimates are subject to change depending on SFB's future awards of new school construction.

The Building Renewal Grants line item is expected to decrease by \$(15,000,000) in FY 2018 due to the removal of one-time funding. Funding will remain unchanged in FY 2019.

Public School Credit Enhancement Transaction Costs line item is expected to decrease by \$(500,000) in FY 2018 due to the removal of one-time funding. Funding will remain unchanged in FY 2019.

### **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 2015, 128 school districts have outstanding voter-approved bonds. The total amount of voter-approved bonds outstanding at the end of FY 2015 was approximately \$4.5 billion.

### **Class B Bond Approvals**

A.R.S. § 15-2002 requires 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. SFB submitted its annual report to JLBC on December 31, 2015. However, due to a lack of school district reporting, the data contained in the SFB submission was incomplete. Based on JLBC Staff estimates, there were 14 districts with Class B bond approvals in 2015 for a total of \$937.1 million.

### **Additional Legislation**

#### **New School Funding Reimbursement**

The K-12 Education BRB (Laws 2016, Chapter 124) allows a district to use SFB New School Facilities Funding to reimburse itself for SFB-approved new construction that the district funded initially with non-SFB monies. This applies only to monies appropriated to the SFB for New School Facilities during FY 2017 and FY 2018.

#### **Public School Credit Enhancement Program**

The Credit Enhancement BRB creates the Arizona Public School Credit Enhancement Program. The program is established to assist achievement district schools in obtaining financing by guaranteeing the payment of principal and interest.

The Credit Enhancement BRB:

- Defines program eligibility for traditional district schools and charter schools. Requires an "A" letter grade, sound financial plan, and verifiable enrollment demand.

- Creates the Credit Enhancement Eligibility Board to approve school applications and operate the program. The board consists of the Governor, the Treasurer, and the ADOA Director.
- Directs SFB to provide staff to support the board.
- Creates the Arizona Public School Credit Enhancement Fund, which may be used to make payments of principal and interest on guaranteed financing of achievement district schools.
- Transfers \$23,900,000 from the Access Our Best Public Schools Fund to the Arizona Public School Credit Enhancement Fund during FY 2017.
- Allows the Credit Enhancement Board to use \$80,000,000 of program funding obligations (PFOs) from the Treasurer's operating fund balance for deposit in the Arizona Public School Credit Enhancement Fund. PFOs are to be sold by the board to the State Treasurer in order to allow the State Treasurer to earn interest on the operating balance monies deposited into the Credit Enhancement Fund.
- Requires SFB Staff, in collaboration with the board, to submit a quarterly report on the implementation of the program, including details on program participation, guaranteed financings, and any delinquent financings.

***Adjacent Ways Verification***

Laws 2016, Chapter 48 requires SFB to validate adjacent ways projects that cost greater than \$50,000 before a school district makes an adjacent ways expenditure.

Laws 2016, Chapter 48:

- Requires SFB to validate the following:
  - The project proposed is in compliance with state laws relating to adjacent ways projects; and
  - The proposal selected by the school district does not contain additional work that is not listed in the adjacent ways proposal submitted by the school district.
- Requires each adjacent ways project proposal funded through an adjacent ways property tax assessment to be filed with SFB and include the project cost estimate.
- Requires the school district to include expenditures from the Adjacent Ways Fund in their annual financial report.