

## School Facilities Board

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
<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	336,400
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	166,500
Equipment	35,200	0	0
<b>OPERATING SUBTOTAL</b>	<b>1,629,600</b>	<b>1,672,500</b>	<b>1,672,500</b>
<b>SPECIAL LINE ITEMS</b>			
Access Our Best Public Schools Fund Deposit	0	23,900,000	21,500,000
Access Our Best Public Schools Funding	0	23,900,000	21,500,000
Building Renewal Grants	15,128,600	16,667,900	16,667,900
New School Facilities	858,200	2,249,600	1,174,600
New School Facilities Debt Service	160,739,300	172,388,100	170,006,600
<b>AGENCY TOTAL</b>	<b>178,355,700</b>	<b>240,778,100</b>	<b>232,521,600</b>
<b>FUND SOURCES</b>			
General Fund	178,355,700	216,878,100	211,021,600
<u>Other Appropriated Funds</u>			
Access Our Best Public Schools Fund	0	23,900,000	21,500,000
SUBTOTAL - Other Appropriated Funds	0	23,900,000	21,500,000
<b>SUBTOTAL - Appropriated Funds</b>	<b>178,355,700</b>	<b>240,778,100</b>	<b>232,521,600</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>331,424,900</b>	<b>321,595,000</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.

### Operating Budget

The Baseline includes \$1,672,500 and 17 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

### Access Our Best Public Schools Fund Deposit

The Baseline includes \$21,500,000 from the General Fund in FY 2017 for the Access Our Best Public Schools Fund Deposit. FY 2017 adjustments would be as follows:

	<b>FY 2017</b>
<b>General Fund Deposit</b>	<b>GF \$(2,400,000)</b>

The Baseline includes a decrease of \$(2,400,000) from the General Fund in FY 2017 for the Access Our Best Public Schools Fund Deposit. This FY 2017 funding level is

consistent with the 3-year budget projections associated with the enacted FY 2016 budget.

The Access Our Best Public Schools (AOBPS) Fund was created in FY 2016. The fund 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 Baseline includes \$21,500,000 from the AOBPS Fund in FY 2017 for Access Our Best Public Schools Funding. FY 2017 adjustments would be as follows:

#### **AOBPS Fund Decrease OF (2,400,000)**

The Baseline includes a decrease of \$(2,400,000) from the AOBPS Fund in FY 2017 for Access Our Best Public Schools Funding. This adjustment corresponds to the reduced AOBPS General Fund Deposit.

An FY 2016 General Appropriation Act footnote and the FY 2016 K-12 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 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. The FY 2016 expenditure plan has not yet come before 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 Baseline includes \$16,667,900 from the General Fund in FY 2017 for Building Renewal Grants. This amount is unchanged from FY 2016.

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.

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 \$1,174,600 from the General Fund in FY 2017 for New School Facilities. FY 2017 adjustments would be as follows:

#### **New School Construction GF (1,075,000)**

The Baseline includes a decrease of \$(1,075,000) from the General Fund in FY 2017 for New School Construction.

The Baseline includes \$1,174,600 in funding in FY 2017 to continue construction of a new 17,190 square foot school with capacity for 191 students at Benson Unified School District (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.)*

Agua Fria Unified High School District (UHSD) and Chandler Unified School District (USD) may qualify for new construction projects in FY 2017 totaling \$35.7 million excluding land costs if formally approved by SFB before March 1, 2016. The Agua Fria UHSD project would cost \$33.4 million (\$11.0 million in FY 2017, \$19.0 million in FY 2018, and \$3.4 million in FY 2019) and would fund 200,000 square feet of additional space in the district. The Chandler USD project would cost \$2.3 million in FY 2017 and would fund 15,420 square feet of additional space in the Chandler USD. Neither project has been formally approved by the board.

Enrollment at Agua Fria UHSD and Chandler USD has previously been short of the Average Daily Membership (ADM) levels needed to officially qualify for new school construction. The districts may become eligible during the next cycle of SFB reviews which will occur December 2015 through March 1, 2016.

<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 Baseline includes \$170,006,600 from the General Fund in FY 2017 for New School Facilities Debt Service. FY 2017 adjustments would be as follows:

**Lease-Purchase Payment**                      **GF**                      **(128,500)**  
The Baseline 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**                      **GF**                      **(2,253,000)**  
The Baseline includes a decrease of \$(2,253,000) 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 will reduce SFB’s lease-purchase payments by a combined total of \$15,100,000 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 \$736,867,700.

The FY 2017 Baseline 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.

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**FORMAT** — Operating Lump Sum with Special Line Items by Agency

**FOOTNOTES**

*Standard Footnotes*  
The monies appropriated to 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 may 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 this state to act as the guarantor for debt financing for member schools. The Executive Branch shall recommend proposed legislation to codify the mechanisms developed.

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.

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 shall be deposited in or revert to the state General Fund.

#### *Deletion of Prior Year Footnotes*

The Baseline would delete the footnote concerning the \$1,000,000 transfer in FY 2015 from the Building Renewal Grants line item to the Emergency Deficiencies Correction Fund.

### **POTENTIAL STATUTORY CHANGES**

The Legislature may also consider modifying A.R.S. § 15-2011 to reduce the current 25% excluded space threshold for locally funded school district projects.

When analyzing new school construction, SFB first calculates a district's minimum square footage requirement, which is the current number of pupils multiplied by the statutory requirement (such as 90 sq. ft. per student for K-6 schools). This minimum standard is then compared to a district's square footage, which is determined by taking into account all square footage required by law and then excluding space which is specifically listed in statute. If a district's square footage is below the minimum statutory guidelines, the district is awarded a new school.

These excluded spaces are as follows:

- 1) All square footage used for district administration;
- 2) Square footage that is used for non-academic purposes (such as storage);
- 3) Locally funded space paid with Class B bonds that were approved after the creation of SFB. This locally funded space is excluded to the extent that this space

is less than 25% of the district's minimum square footage requirement. Once the locally funded space exceeds the 25% threshold, the space above 25% is included in the SFB calculations.

Exclusion #3 (the "25% excluded space threshold") was originally intended to give school districts the flexibility to construct a limited amount of locally funded space to meet district needs without being penalized in future SFB awards. If certain amounts of locally funded space were not excluded from future SFB calculations, this would make the district less likely to qualify for new school construction awards in the future.

However, under current practice, the 25% threshold allows some larger districts to exclude a large amount of locally funded space from SFB new construction award calculations. In certain circumstances, this can lead to significant new school construction awards even in cases where the district is not over capacity when factoring in all available space (state and locally funded).

For example, under the current policy Agua Fria UHSD is allowed to exclude 130,641 square feet of locally funded space from SFB new construction calculations. This level of excluded space is approximately 18.3% of Agua Fria UHSD's minimum square footage requirements.

As noted above in the New School Facilities line item section, Agua Fria USHD may be awarded a 200,000 square foot project in the next several months. If the Legislature were to reduce the 25% excluded space threshold, SFB would count more locally funded space towards meeting the state's minimum guidelines. This, in turn, would mitigate the need for a substantial new school award to Agua Fria USHD.

One option is for the Legislature to adopt a lower threshold, such as 10%. Under this option, 59,248 square feet (or enough space for 474 pupils) for Agua Fria USHD would become "visible" during SFB calculations. This space would accommodate 2 additional years of student growth before requiring an award based on current enrollment patterns.

However, such a revision may require further study. Lowering the excluded space threshold may have a very different impact on large versus small districts. A large district below a 10% threshold could still qualify for funding from the state for New School Construction after building a new locally funded school. Whereas, a small district would likely be unable to qualify for funding from the state after building a new locally funded school if a 10% threshold is used.

**Other Issues**

**Long-Term Budget Impacts**

As part of the Baseline’s 3-year spending plan, SFB’s General Fund costs are projected to decrease by \$(1,419,500) in FY 2018 below FY 2017 and \$(35,474,500) in FY 2019 below FY 2018. These estimates are based on:

Access Our Best Public Schools Fund – The long-term estimates assume the Access Our Best Public Schools Deposit funding would remain unchanged in FY 2018 and FY 2019.

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 Benson USD K-4 space. In FY 2018, new school construction spending would then decline by \$(1,174,600) with the completion of the Benson USD project.

Long-term budget 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 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.

**FY 2016 Ex-Appropriation**

The FY 2017 Baseline 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.)

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
<b>Access Our Best Public Schools Fund (SFA1111/A.R.S. § 15-2042)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Legislative appropriations, grants, gifts, and donations.		
<b>Purpose of Fund:</b> To distribute monies to public schools that are members of the Arizona Public School Achievement District to construct new school facilities or to expand existing school facilities or to serve as a guarantee for debt financing. At least 50% of the projects that receive monies from the fund shall be in low socioeconomic areas. Monies in the fund that are grants, gifts, or donations are continuously appropriated.		
<b>Funds Expended</b>	0	23,900,000
<b>Year-End Fund Balance</b>	0	0

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
<b>Building Renewal Grant Fund (SFA2392/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 2015 and FY 2016 expenditures exclude \$16,667,900 and \$16,667,900, respectively, from the General Fund.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	28,391,600	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 Building Renewal Grants Fund or New School Facilities Fund. \$1,000,000 was transferred from the Building Renewal Grants Fund in FY 2015.		
<b>Purpose of Fund:</b> To provide school districts monies for facility emergencies.		
<b>Funds Expended</b>	142,000	1,569,900
<b>Year-End Fund Balance</b>	1,569,900	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>	23,294,000	24,905,000
<b>Year-End Fund Balance</b>	22,761,400	22,762,800
<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 2015 and FY 2016 expenditures exclude \$160,739,300 and \$172,388,100, respectively, from the General Fund.		
<b>Funds Expended</b>	105,700	14,600
<b>Year-End Fund Balance</b>	351,100	336,500
<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. To prevent double counting, FY 2015 and FY 2016 expenditures exclude \$858,200 and \$2,249,600, respectively, from the General Fund.		
<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>	6,100	9,300
<b>Year-End Fund Balance</b>	540,700	253,900
<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>	64,195,700	64,148,000
<b>Year-End Fund Balance</b>	14,515,900	17,047,800