

SCHOOL FACILITIES BOARD

Philip Geiger, Executive Director

A.R.S. § 15-2001

JLBC Analyst: Lynne Smith

General Fund and Other Appropriated Funds	FY 1999 Actual	FY 2000 Estimate	FY 2001 Approved
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FTE Positions	9.0	15.0	15.0
Personal Services	342,000	694,800	708,600
Employee Related Expenditures	62,800	141,100	148,900
Professional and Outside Services	212,200	217,200	218,200
Travel - In State	11,400	25,000	25,900
Travel - Out of State	1,300	0	0
Other Operating Expenditures	131,900	124,500	124,500
Equipment	131,700	10,000	10,000
Operating Subtotal	893,300	1,212,600	1,236,100
New School Facilities - General Fund	200,000,000	200,000,000	200,000,000 ^{1/}
New School Facilities - Capital Reserve	0	180,980,400	0
Deficiencies Correction - General Fund	35,000,000	35,000,000	150,000,000 ^{1/2/}
Deficiencies Correction - Capital Reserve	0	15,000,000	0
Building Renewal Fund	75,000,000	82,500,000	120,000,000 ^{1/}
Total	310,893,300	514,693,000	471,236,100
Additional Appropriations -			
School Facilities Board; Rulemaking, Ch.163	0	760,000 ^{4/}	450,000
Total Appropriations	310,893,300	515,453,000	471,686,100 ^{3/}
Fund Summary			
General Fund	310,893,300	318,712,600	471,236,100 ^{5/}
Deficiencies Correction Fund	0	760,000	450,000
Capital Reserve Fund	0	195,980,400	0
Total Appropriations	310,893,300	515,453,000	471,686,100

Agency Description — *The School Facilities Board was created by Laws 1998, Chapter 1, 5th Special Session. It is composed of 8 members appointed by the Governor, and the Superintendent of Education or her designee. The board administers the New School Facilities Fund, the Building Renewal Fund, and the Deficiencies Correction Fund to provide capital funding for K-12 school districts.*

The School Facilities Board's statutory funding formulas will require \$132,500,000 more from the General Fund than was originally budgeted for FY 2001. As these monies are not subject to the appropriation process, this funding change does not appear in the Supplemental Appropriation Act.

The Students FIRST bill (Laws 1998, Chapter 1, 5th Special Session), as amended, established 3 expenditure categories for K-12 school capital construction: new school construction, building renewal, and deficiencies correction. Monies for these issues are budgeted as General Fund expenditures and consist of Transaction

^{1/} Funding is provided through a direct transfer of Transaction Privilege Tax revenues into the fund by the State Treasurer pursuant to A.R.S. § 15-2002A(11), rather than through the General Appropriation Act.

^{2/} The \$150,000,000 total consists of a \$135,000,000 transfer pursuant to A.R.S. § 15-2002A(11) plus a \$15,000,000 appropriation from Laws 1998, Chapter 1, 5th Special Session, ("Students FIRST"), Section 67D.

^{3/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

^{4/} This appropriation is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. In addition to the \$760,000 appropriated by Chapter 163 for assessing school facilities, \$2,000,000 is available for this purpose from a FY 1999 appropriation that is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations, until the end of FY 2000. The \$2,000,000 appropriation was made by Laws 1998, Chapter 1, 5th Special Session, Section 63, as amended by Laws 1999, Chapter 6, 1st Special Session, Section 8 and Laws 1999, Chapter 299, Section 40.

^{5/} Includes Transaction Privilege Tax revenues transferred into the Building Renewal Fund, New School Facilities Fund, and Deficiencies Correction Fund pursuant to A.R.S. § 15-2002A(11).

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Privilege Tax (TPT) revenues credited to School Facilities Board funds.

Under state law, the board determines its own funding for the 3 expenditure categories. The original FY 2001 budget had placeholders for each of these categories. The board subsequently determined that the placeholders were insufficient for building renewal and deficiencies correction requirements. For new school construction, the board adopted the amount previously budgeted.

New School Facilities Fund — The approved FY 2001 amount for the New School Facilities Fund includes a total of \$200,000,000 from the General Fund. As discussed above, the amount determined by the board matched the original budget estimate.

Background

The New School Facilities Fund exists pursuant to A.R.S. § 15-2041. Its purpose is to provide funding for the construction of schools under the Students FIRST school capital funding program. Funding is distributed to school districts based on statutory definitions, as applied through an analysis of the districts' need for new schools by board staff.

Pursuant to A.R.S. § 15-2002A(11), the \$200,000,000 will be provided through a direct transfer of TPT revenues into the fund, rather than through a General Fund appropriation. Therefore, it does not appear in the FY 2000 General Appropriation Act (Laws 1999, Chapter 1, 1st Special Session).

In addition to the TPT revenue transfer, A.R.S. § 15-2041A requires the State Treasurer, on June 30 of each fiscal year, to credit any unobligated monies in the New School Facilities Fund to the Capital Reserve Fund. Accordingly, the State Treasurer credited a total of \$195,980,400 to that fund at the end of FY 2000. Appropriations out of the Capital Reserve Fund for FY 2000 included \$180,980,400 to the New School Facilities Fund and \$15,000,000 to the Deficiencies Correction Fund. The \$180,980,400 amount reflects an update to an estimate of \$110,000,000 included in the FY 2000 General Appropriation Act.

If Capital Reserve Fund monies are available in FY 2001, the first \$15,000,000 is automatically appropriated to the Deficiencies Correction Fund pursuant to Students FIRST (Laws 1998, Chapter 1, 5th Special Session, Section 67C). However, no Capital Reserve Fund appropriation is expected for FY 2001 because the board anticipates that the entire \$380,980,400 available from the New School Facilities Fund for FY 2000 will be obligated in contract by the end of that fiscal year. This will leave no monies available for transfer from the New School Facilities Fund to the Capital Reserve Fund on June 30, 2000.

(Unexpended monies from the New School Facilities Fund are the only fund source for the Capital Reserve Fund pursuant to A.R.S. § 15-2003A.)

Deficiencies Correction Fund — The approved amount from the Deficiencies Correction Fund will require \$100,000,000 more from the General Fund than was originally budgeted for FY 2001. The program's expected cost has risen from \$50,000,000 to \$150,000,000.

Background

The Deficiencies Correction Fund is established by A.R.S. § 15-2021 to correct existing square footage and quality deficiencies. Adequacy requirements are defined in A.R.S. § 15-2011 and in related guidelines, which were adopted by the board and approved by the Joint Committee on Capital Review (JCCR) in August 1999. Deficiencies are to be corrected by June 30, 2003. The board was statutorily required to inform the Legislature by December 15, 1999 of the total amount necessary to resolve all deficiencies. Due to delays in the board's development of the facility standards and a contract to assess school conditions relative to the standards, it did not meet this date. Preliminary assessment results are expected from the assessment contractor during the summer of 2000.

FY 2001 Requirement

During the budget process last year, the board estimated its total FY 2000 requirement as \$50,000,000. It did not estimate a FY 2001 amount. The budget, as originally enacted, used the FY 2000 amount of \$50,000,000 as a placeholder for FY 2001. The \$50,000,000 estimate consisted of \$35,000,000 from TPT revenues and \$15,000,000 funded through an advance General Fund appropriation contained in the original Students FIRST legislation (Laws 1998, Chapter 1, 5th Special Session, Section 67D). The Students FIRST appropriation provides that the General Fund amount would be reduced by any transfer of carry-forward monies from the Capital Reserve Fund to the Deficiencies Correction Fund in FY 2001. As previously discussed, the board is projecting that there will not be monies available in the Capital Reserve Fund. Since no Capital Reserve Fund monies will be available for the Section 67D advance appropriation, the approved FY 2001 amount assumes that all \$15,000,000 will, instead, come from the General Fund.

At the December 1999 JCCR meeting, the board reported a total requirement of \$150,000,000 for deficiencies correction. As shown in *Table 1*, this represents an increase of \$100,000,000 over the amount previously budgeted. This includes the \$15,000,000 from the General Fund previously appropriated by Students FIRST and \$135,000,000 that the board instructed the State Treasurer to credit to the Deficiencies Correction Fund from TPT revenues.

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	<u>FY 2001</u>
Original Transfer Estimate	\$ 35,000,000
Transfer Instructions	<u>135,000,000</u>
Difference	\$100,000,000
Transaction Privilege Tax Transfer	\$135,000,000
Advance Appropriation ^{1/}	<u>15,000,000</u>
Total Available	\$150,000,000
^{1/} Appropriated from the General Fund by Students FIRST (Laws 1998, Chapter 1, 5 th Special Session, Section 67A).	

No change to the General Appropriation Act was required since the amount originally set aside was only a placeholder until the board instructed the State Treasurer of the amount to credit to the Deficiencies Correction Fund.

The board’s determination that an additional \$100,000,000 will be required was a rough estimate based on the emergency requests that the board received last year and known deficiencies in a limited number of schools (such as a request from the Tucson Unified School District for \$50,000,000 for air conditioning). As noted previously, sample assessment results are not yet available. The board, however, believes that the assessment will ultimately validate its estimate.

Building Renewal Fund — The approved FY 2001 amount for the Building Renewal Fund includes a total of \$120,000,000. This represents an increase of \$32,500,000 from the General Fund above the amount originally budgeted for FY 2001. The program’s expected cost has risen from \$87,500,000 to \$120,000,000.

Background

The Building Renewal Fund is established by A.R.S. § 15-2031 in order to provide funding for school districts to maintain the adequacy of existing school facilities. Building renewal monies are for major renovations/repairs, upgrading systems to extend the life of a building, and infrastructure costs on academic buildings owned by a district. The amount allocated by the board to each school district is determined by a statutory formula. The primary components of the formula are building age (which is adjusted for significant remodeling/upgrades) and building capacity value (which takes into account the building’s student capacity, square footage, and square footage costs prescribed by statute).

The board reports to the JCCR, by December 1 of each year, the estimated amounts necessary for building renewal in the following fiscal year. By January 1, the board instructs the State Treasurer of the TPT amount to be credited in the following fiscal year to the Building Renewal Fund. The board then distributes the monies to

school districts in 2 equal installments, in November and May.

Table 2 shows the original building renewal amounts, as well as the board’s updated estimates for the first 3 years of the program.

	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Original Estimate	\$ 75,000,000	\$ 82,500,000	\$ 87,500,000
Current Estimate	<u>103,747,800</u>	<u>108,389,300</u>	<u>120,000,000</u>
Difference	\$ 28,747,800	\$ 25,889,300	\$ 32,500,000

Prior Funding

Because this is a new process, original building renewal amounts were set based on rough estimates. The Students FIRST bill set the FY 1999 appropriation at \$75,000,000. For FY 2000, the board reported \$82,500,000 for building renewal at the December 1998 JCCR meeting and instructed the State Treasurer to credit that amount. At about the same time (during last year’s budget process), the Legislature budgeted a FY 2001 placeholder amount of \$87,500,000.

Since then, the board has collected building data from school districts, resulting in the higher “current estimate” amounts shown in Table 2. In May 1999, the board reported to JCCR an updated FY 1999 calculation of \$103,747,800. Since a lesser amount had been appropriated, the board distributed 72% of the updated formula amount to each district, for a total of \$75,000,000 (the original appropriation). Under the reduction, a district that would receive \$1,000,000, for example, under full funding of the building renewal formula, instead received approximately \$720,000. Similarly, in November 1999, the board calculated a FY 2000 formula amount of \$108,389,300. Since a lesser amount had been credited to the fund, the board distributed 76% of the formula amount to each school district, for a total of \$82,500,000.

The board interprets that it had authority to reduce the FY 1999 and FY 2000 allocations because the amount available for distribution each year is governed by the amount credited to the Building Renewal Fund per A.R.S. § 15-2002, rather than by the amount calculated under the building renewal formula. The board’s current estimates are based on self-reported data from school districts. This data will be partially validated as part of a required assessment of school districts, which has been started during FY 2000.

FY 2001 Requirement

For FY 2001, the board estimated the actual building renewal formula amount to be \$116,794,700. However, the board reported to JCCR at the December 1999 meeting and subsequently instructed the State Treasurer to credit \$120,000,000 to the Building Renewal Fund. As noted

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previously, the original placeholder amount was \$87,500,000. Accordingly, an additional \$32,500,000 is required in order to fund \$120,000,000 in FY 2001. However, no change to the General Appropriation Act was required since the amount originally set aside was only a placeholder until the board instructed the State Treasurer of the amount to credit.

Pursuant to A.R.S. § 15-2002A(11), the approved amount will be provided through a direct transfer of Transaction Privilege Tax revenues into the fund, rather than through the General Appropriation Act. Therefore, the approved amounts do not appear in the General Appropriation Act.

Additional Appropriations: School Facilities Board; Rulemaking (Chapter 163) — The bill makes a non-lapsing FY 2000 appropriation of \$760,000 to the board from the Deficiencies Correction Fund for the initial school assessment required by A.R.S. § 15-2002.

A.R.S. § 15-2002E requires the board to contract with one or more private building inspectors for an initial assessment of school facilities and equipment. The board is to use the assessment to distribute monies to school districts for the purpose of correcting existing deficiencies. The Students FIRST bill included an appropriation that provides the board up to \$2,000,000 to contract for this initial assessment. The contracted cost of the assessment is \$2,760,000, including \$93,300 for a performance bond in case the contractor is unable to satisfactorily complete the assessment.

Chapter 163 also appropriates \$450,000 in FY 2001 for operating expenditures. The \$450,000 includes a \$247,500 increase plus \$202,500 for ongoing operations that the board funded in FY 2000 with monies remaining from a non-lapsing FY 1999 appropriation.

Additional Legislation: Schools; Building Renewal; Age Calculation (Chapter 158) — The School Facilities Board distributes building renewal monies to each school district according to a statutory formula. The bill changes the formula so that if adjusting the age of a building for remodeling or upgrades would result in a negative number, the building age will be “0” (i.e., new) instead of negative. The bill also adds “relocation and placement of portable and modular buildings” to the allowable building renewal expenditures for school districts. The JLBC Staff estimates that this will have an annual cost of \$30,300 starting in FY 2002. There will be no FY 2001 cost since the board already has funding for that year in excess of the current statutory formula.

[Click here for more information from the initial biennial appropriations report \(June 1999\)](#)