

School Facilities Board

	FY 2010 ACTUAL	FY 2011 ESTIMATE	FY 2012 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	18.0	17.0	17.0
Personal Services	775,500	756,900	772,000
Employee Related Expenditures	299,900	258,200	211,400
Professional and Outside Services	134,900	144,000	144,000
Travel - In State	18,500	30,000	30,000
Other Operating Expenditures	184,900	193,400	150,500
Equipment	8,700	5,700	5,700
OPERATING SUBTOTAL	1,422,400	1,388,200	1,313,600
SPECIAL LINE ITEMS			
Building Renewal Grants	2,667,900	2,667,900	2,667,900
New School Facilities	0	0	0
New School Facilities Debt Service	100,604,700	63,520,100	160,105,700
AGENCY TOTAL	104,695,000	67,576,200	164,087,200 ^{1/2/3/}
FUND SOURCES			
General Fund	104,695,000	67,576,200	164,087,200
SUBTOTAL - Appropriated Funds	104,695,000	67,576,200	164,087,200
Other Non-Appropriated Funds	100,462,900	140,820,400	123,445,300
Federal Funds	59,600	13,428,000	5,780,400
TOTAL - ALL SOURCES	205,217,500	221,824,600	293,312,900

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 Fund, the Building Renewal Grants Fund, and the Emergency Deficiencies Correction Fund to provide capital funding for K-12 school districts.

Operating Budget

The budget includes \$1,313,600 and 17 FTE Positions from the General Fund in FY 2012 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(93,000) from the General Fund in FY 2012 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Restore Furlough Reduction

The budget includes an increase of \$18,400 from the General Fund in FY 2012 for eliminating the mandatory FY 2011 furlough. (Please see the General Provisions section.)

Building Renewal Grants

The budget includes \$2,667,900 from the General Fund in FY 2012 for Building Renewal Grants. This amount is unchanged from FY 2011.

The Building Renewal Grants 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 is to distribute monies to school districts to fund primary building renewal projects that are prioritized by SFB, with additional priority given to school districts that have provided routine preventative maintenance on their facility and that can provide a match of monies provided by the fund. Primary building renewal projects are defined to include necessary projects that are owned by the school

^{1/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

^{2/} In addition to these amounts, a total of \$34,000 GF is appropriated in FY 2012 for costs associated with an additional pay period. (Please see the Agency Detail and Allocations section.)

^{3/} 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 2012 shall be deposited in or revert to the state General Fund. (General Appropriation Act footnote)

district and are required to meet the minimum school facility adequacy guidelines. SFB is required to only approve projects that can be completed in 12 months unless similar projects on average take longer to complete.

Since FY 2009, the Building Renewal formula has been wholly suspended, having been replaced with the Building Renewal Grants program. The FY 2012 Building Renewal Fund amount, under the suspended statutory formula, would have been \$241,593,600.

While the Building Renewal formula has been recently suspended, the Legislature recently increased the statutory limits for locally issued Class B bonds. These bonds, which are issued by local school districts, are funded with local property taxes and may be used for building renewal projects. *(Please see Additional Legislation for more information.)*

New School Facilities

The budget includes no funding from the General Fund in FY 2012 for New School Facilities. This amount is unchanged from FY 2011.

The FY 2012 Education Budget Reconciliation Bill (BRB) (Laws 2011, Chapter 29) continued the FY 2009 - FY 2011 limitation on new school construction projects into FY 2012. While the prior FY 2009 - FY 2011 budget legislation generally prohibited SFB from authorizing or awarding funding for the design or construction of any new school facility, or from distributing funds for school site acquisition, Laws 2009, 3rd Special Session, Chapter 12 authorized \$100,000,000 in lease-purchase capacity primarily supported by Federal Funds. The limitation was enacted due to declines in the state’s housing market and the state’s population growth rate.

In FY 2011, SFB entered into \$91,325,000 worth of lease-purchase transactions to be financed through a federal program known as Qualified School Construction Bonds (QSCBs). QSCBs are taxable instruments which allow the state to receive a direct interest subsidy from the federal government. This subsidy essentially leaves the state to pay approximately 20% of the traditional taxable interest rate upon each lease-purchase payment.

SFB projects new construction to cost \$51,573,200 in FY 2011. This amount is associated with the 8 projects being financed from the federally subsidized QSCB program. SFB estimates that it will spend \$34,870,700 in FY 2012 to complete these 8 projects. In total, these projects will cost \$86,443,900 to build, including land and other site conditions.

Background – The New School Facilities SLI 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 district-wide square feet per student falls below the statutory minimum. (As noted above, however, a limitation on new construction projects is authorized for FY 2009 - FY 2012.) 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 Joint Legislative Budget Committee (JLBC). For FY 2012, JLBC approved a 0% adjustment. *(See Table 1 for FY 2012 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 2012 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, and 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. *(Please see Additional Legislation for more information.)*

A.R.S. § 15-2004 prohibits the board from entering into any new lease-purchase agreements to finance new school construction, and specifies the Legislature’s intent not to appropriate funding in the future for payments on any lease-purchase transactions entered into by the board from and after May 15, 2006. The FY 2010 and FY 2011 Education BRBs notwithstanding this statute for the \$100,000,000 authorization.

New School Facilities Debt Service

The budget includes \$160,105,700 from the General Fund in FY 2012 for New School Facilities Debt Service. This amount funds the following adjustments:

Prior Lease-Purchase Payment Increase

The budget includes an increase of \$26,464,500 from the General Fund in FY 2012 for an increased lease-purchase

payment. This change is the result of 2 factors: 1) The lease-purchase payment on the FY 2003 - FY 2005 outstanding lease-purchase agreements' increases by \$26,464,500 in FY 2012 to reflect the current payment schedule on these 15-year agreements; 2) The lease-purchase payment on the FY 2009 outstanding issuance decreases by \$(1,000) to reflect the current payment schedule. Currently, the outstanding principal from these agreements will be \$1,184,945,000 at the end of FY 2011.

QSCB Lease-Purchase Payment

The budget includes an increase of \$7,671,300 from the General Fund in FY 2012 for a new lease-purchase payment related to the FY 2011 QSCB issuance.

This increase reflects the entire debt service requirement for the QSCB issuance in FY 2012. 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 \$6,213,800 in FY 2012 related to the lease-purchase payment. These funds will be deposited as revenue into the state General Fund, thereby leaving a net debt service obligation of \$1,457,500.

Backfill Lease-Purchase Refinance

The budget includes an increase of \$60,000,000 from the General Fund in FY 2012 to backfill one-time savings related to the FY 2011 refinancing of SFB's outstanding new construction lease-purchase payments. The FY 2011 Education BRB required SFB to enter into a refinancing or refunding agreement that reduced the board's FY 2011 lease-purchase obligations by up to \$60,000,000. The legislation prohibited this agreement from reducing lease-purchase payments in other years in order to prevent multi-year savings from the refinancing agreement. The refinancing was executed in early FY 2011.

Lease-Purchase Refinance Payment

The budget includes an increase of \$2,449,800 from the General Fund in FY 2012 for a new lease-purchase payment due to the FY 2011 refinance.

The FY 2011 refinance was carried out by the state issuing additional Certificates of Participation (COPs), and using these funds to pay a portion of the existing FY 2011 lease-purchase requirements, along with any transaction costs.

Because the transaction involved the issuance of additional COPs, the state will be required to make payments related to this issuance, beginning in FY 2012, and extending through FY 2020. The outstanding principal on the COPs will be paid in FY 2019 and FY 2020, where the lease-purchase payments increase to \$20,273,300 and \$41,633,400, respectively.

Fund Transfers

The budget includes transfers from this agency's funds to the General Fund. *(Please see the Fund Transfers section at the back of this report for more details.)*

Additional Legislation

School District Bonding Limits

Laws 2011, Chapter 344 increases the limits on Class B construction bonding from 10% to 20% of secondary Net Assessed Valuation (NAV) for unified districts and from 5% to 10% of NAV for non-unified districts for bonds that were approved by voters before April 15, 2011. Any Class B bonds approved on or after April 15, 2011 may not be issued unless total outstanding Class B bonds will not exceed the permanent limits (5% and 10% for non-unified and unified districts, respectively).

The legislation allows districts to issue bonds which were within the statutory limits at the time of approval, but due to significant declines in property values, were no longer able to be issued.