

Fiscal Note

BILL # HB 2180

TITLE: school facilities; replacement; renovation; funding

SPONSOR: Udall

STATUS: As Amended By House ED

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Description

The bill would, under certain application criteria, allow the School Facilities Oversight Board (SFOB) within the School Facilities Division (SFD) of the Arizona Department of Administration (ADOA) to award funding from the New School Facilities (NSF) Fund to replace or renovate school buildings. The awards authorized under the bill would be subject to the availability of funds appropriated by the Legislature.

Estimated Impact

We estimate the bill could increase required ADOA School Facilities Division General Fund spending by several hundred million dollars. The ultimate fiscal impact would depend on which schools qualify under the bill and certain decisions made by the SFOB, such as the funding per square foot allocated to qualifying projects.

Our broad estimate of the bill's impact is based on the following assumptions. The state currently has approximately 8.8 million square feet of school district space that is at least 45 years old and that also meets another bill criteria of having enrollment of at least 75% of capacity at the school campus. Using that as a metric for the potential list of projects, we assume that 10% of that space would qualify for a complete replacement project at \$300 per square foot and 10% of that space would qualify for a major renovation project at \$150 per square foot. Under those assumptions, the state would realize a cost of approximately \$397 million.

Analysis

School Replacement Process

Under current law, when a school district has a building that has outlived its useful life, the district may request funding from SFD to build a replacement school. Under that process, SFD removes the obsolete space from its database for the purposes of calculating district capacity. SFD would then calculate the district's need under the standard new construction formula, approving a new replacement school if the district is overcapacity within the next 2 years.

Under the proposed bill, districts could apply for replacement or renovation space at a specific school site regardless of overall district capacity. To qualify for funding, the school to be replaced would need to meet the following criteria:

- 1) The district may not have excess space of the same type located on same school property. For example, if a school has an obsolete 6-8 school building and those students could shift into the remaining 6-8 space on the property, the obsolete space would not qualify for replacement/renovation under the bill.
- 2) The cost of bringing the school building up to the SFD minimum guidelines over a 5-year period would exceed 50% of the replacement cost.
- 3) The school has enrollment of at least 75% of SFD calculated capacity.
- 4) The school has not received a D or F letter grade on the 3 most recent report cards.

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Once a district applies for funding under the bill for a school building replacement/renovation, there are several potential costs:

- SFD would procure a Facilities Condition Index (FCI) assessment of the building, which compares the cost to repair or correct building deficiencies to the current replacement value. This would confirm if the school building meets criteria #2 above. ADOA reports that the cost to conduct an FCI is approximately \$0.15 per square foot.
- SFD would award funding for the replacement or renovation of the school building. The bill does not require the SFOB to award funding based on the current new construction cost per square foot formula, which ranges from \$288.16 to \$352.20 a square foot for urban schools depending on the grades served (rural schools receive an additional 5% funding allocation). For the purposes of this analysis, we assume \$300 per square foot for replacement costs based on a midrange amount of the current new construction formula. In addition, we assume \$150 per square foot for major renovation costs.
- SFD may also award funding for demolition if the project involves a full replacement of the school building. ADOA recently reported that the cost to demolish 3 buildings on the Capitol Mall is \$18.81 per square foot.
- Depending on geographic factors, a replacement school project could involve the purchase of additional land if an existing school building site is no longer suitable for permanent structures. Our analysis excludes land costs, as we assume this scenario will only occur in limited circumstances, as prior school replacement projects have generally been built within existing school sites (such as on sports fields).

Cost Estimate

As noted above, under the state's current policy on obsolete buildings, a district can only qualify for total replacement funding of a school building, with the condition the district has capacity needs following the removal of the obsolete building. Given the state's historical population growth patterns, most older school facilities in the state are located within school districts that have significant excess capacity. Therefore, the current policy has seen limited recent use and the current JLBC Baseline includes no such replacement projects during the 3-year budget timeframe (FY 2023 – FY 2025).

Under HB 2180, significantly more districts may qualify for replacement funding. For example, in districts with flat or declining enrollment, the bill would authorize qualifying for a replacement school if an individual school is at 75% capacity, without SFD being required to assess their overall district capacity.

In addition, HB 2180 would broaden the scope of remedies for an obsolete building. Under current law, a district can only apply for a full replacement. Because the bill also allows a district to apply for major renovation funding, it could significantly increase state costs by creating a new type of state-funded projects beyond the standard building renewal grant program.

In order to estimate the potential list of qualifying projects, we analyzed school district buildings that were over 45 years old (built before 1978). This building age threshold was used based on the recent Executive Budget proposal to demolish 3 Capitol Mall buildings, all of which exceed that age.

Based on SFD data, there are approximately 774 school buildings statewide at 142 school campuses that were built before 1978 and that also meet another bill criteria of having enrollment of at least 75% of capacity. These buildings have a total area of 8.8 million square feet. We assume these schools older than 45 years old are a proxy for the total potential school buildings that would qualify under the bill.

In terms of evaluating how much of the 8.8 million square feet would qualify for funding under the bill, we assume that 20% of this space would qualify. This 20% ratio accounts for some portion of space not qualifying due to not meeting other criteria under the bill – such as the Facilities Condition Index metric of 50% and D/F academic limitation. In developing our cost estimate, we further subdivide the potential qualifying projects: 50% of projects would be a complete replacement (10% of the 8.8 million square feet) and 50% of projects would be a major renovation (10% of the 8.8 million square feet).

In terms of developing a cost per square foot estimate for these potential projects, as noted above the bill does not include specific amounts for the SFOB to use when making awards.

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For complete replacement projects, we have selected \$300 per square foot using a midrange amount of the current dollar inputs for the SFD new construction formula. This amount excludes any potential costs for a Facilities Condition Index assessment, demolition, or land. For major renovation projects, we have selected \$150 per square foot by using a discount factor of 50% applied to our new construction estimate. Given recent inflation in both the construction market and overall economy, these dollar amounts may be understated.

Given the broad assumptions, our cost estimate could be understated if additional buildings qualify, such as those less than 45 years old (built after 1978). In addition, our cost estimate could be overstated if older buildings have difficulty qualifying under the program – for example, if many already had recent renovations (and do not meet the Facilities Condition Index metric) or if many are located in D/F rated schools.

Local Government Impact

Under the state's school capital finance system, school districts may also finance major renovations or complete replacement projects with local bonds ("Class B bonds") whose debt service is funded with local property taxes. To the extent that the bill authorizes state funding for these types of projects, there may be a lower amount of Class B bonds issued in the future and lower associated property tax assessments for debt service.

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