

Arizona Department of Administration - School Facilities Division

	FY 2022 ACTUAL	FY 2023 ESTIMATE	FY 2024 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	17.0	17.0	17.0
Personal Services	856,300	1,104,400	1,104,400
Employee Related Expenditures	312,700	432,000	423,100
Professional and Outside Services	209,900	54,000	54,000
Travel - In State	10,100	25,000	25,000
Travel - Out of State	500	0	0
Other Operating Expenditures	206,300	31,700	46,900
OPERATING SUBTOTAL	1,595,800	1,647,100	1,653,400
SPECIAL LINE ITEMS			
New School Facilities			
New School Facilities (FY 2021 Authorizations)	11,730,900	0	0
New School Facilities (FY 2022 Authorizations)	76,881,700	47,950,000	0
New School Facilities (FY 2023 Authorizations)	0	48,253,900	26,365,000 ^{1/}
New School Facilities (FY 2024 Authorizations)	0	0	116,089,400 ^{2/3/4/}
Santa Cruz Valley New School	0	0	2,000,000
Retroactive Rate Increases	63,526,200	0	0
Yuma Union High School	16,515,200	16,515,200	0
Kirkland Elementary Replacement School	3,000,000	0	0
Kirkland Site Conditions	0	400,000	0
New School Facilities Debt Service	9,938,100	9,938,100	9,938,100 ^{5/6/}
Other Programs			
Building Renewal Grants Deposit	200,617,000	199,967,900	199,967,900
School Facilities Inspections	0	0	1,000,000 ^{7/}
AGENCY TOTAL	383,804,900	324,672,200	357,013,800 ^{8/}
FUND SOURCES			
General Fund	383,804,900	324,672,200	357,013,800
SUBTOTAL - Appropriated Funds	383,804,900	324,672,200	357,013,800
TOTAL - ALL SOURCES	383,804,900	324,672,200	357,013,800

AGENCY DESCRIPTION — The School Facilities Division in the Arizona Department of Administration 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. The division is assisted in its duties by a School Facilities Oversight Board composed of 7 gubernatorial appointments, along with the State Superintendent of Public Instruction and the Director of the Department of Administration serving as advisory non-voting members.

FOOTNOTES

- ^{1/} Laws 2022, Chapter 313, as amended by Laws 2023, Chapter 133, appropriated \$26,365,000 from the General Fund in FY 2024 for the New School Facilities FY 2023 authorizations.
- ^{2/} Pursuant to section 41-5741, Arizona Revised Statutes, the amount appropriated for new school facilities shall be used only for facilities and land costs for school districts that received final approval from the division of school facilities on or before December 15, 2022. (General Appropriation Act footnote)
- ^{3/} After approving a distribution of funding for a land purchase, a land lease or the construction of a new school, the division of school facilities shall report to the joint legislative budget committee and the governor's office of strategic planning and budgeting the final amount of the distribution. (General Appropriation Act footnote)
- ^{4/} The division of school facilities may also use the unencumbered balance of up to \$22,811,800 in the new school facilities fund established by section 41-5741, Arizona Revised Statutes, for facilities and land costs for school districts that received final approval from the division of school facilities on or before December 15, 2022, pursuant to section 41-5741, Arizona Revised Statutes. (General Appropriation Act footnote)

- 5/ At least thirty days before any monies are transferred out of the new school facilities debt service line item, the division of school facilities shall report the proposed transfer to the director of the joint legislative budget committee. (General Appropriation Act footnote)
- 6/ Pursuant to section 35-142.01, Arizona Revised Statutes, any reimbursement received by or allocated to the division of school facilities under the federal qualified school construction bond program in fiscal year 2023-2024 shall be deposited in or revert to the state general fund. (General Appropriation Act footnote)
- 7/ This appropriation is a continuing appropriation and is exempt from the provisions of section 35-190, Arizona Revised Statutes, relating to lapsing of appropriations. (General Appropriation Act footnote)
- 8/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by division.

Operating Budget

The budget includes \$1,653,400 and 17 FTE Positions from the General Fund in FY 2024 for the operating budget. Adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$6,300 from the General Fund in FY 2024 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

New School Facilities

The budget includes \$144,454,400 from the General Fund in FY 2024 for New School Facilities, which is an increase of \$31,335,300 from FY 2023. The funding amount for New School Facilities includes the following:

- \$26,365,000 for the remaining 50% of construction funding to complete 3 projects which were authorized to begin construction in FY 2023.
- \$116,089,400 for land costs and the first 50% of construction costs for 8 projects authorized to begin construction in FY 2024. This amount includes \$105,951,900 for land and for construction. This amount also includes \$3,947,500 for site conditions, and \$6,190,000 for land adjustments and land credit donations, including prior year projects.
- \$2,000,000 for additional construction funding for the Santa Cruz Valley 9-12 school authorized for FY 2020.

All new school construction is labeled as one-time spending rather than ongoing spending. (See Table 3 for a summary of New School Facilities Funding)

Background – The New School Facilities line item provides funding for school districts to build new K-12 school facilities. The division distributes the monies to school districts as work is completed on approved projects. A school district qualifies for new construction funding when the districtwide square feet per student is predicted to fall below the statutory minimum within the next 2 years. Funding is then provided to the district at a statutorily-prescribed dollar amount per square foot. The dollar amount per square foot is adjusted annually based on a construction market index identified by the

Table 1

**New School Facilities
Statutory Funding Guidelines – FY 2024 Awards ^{1/2/}**

Type of School	Per Student	Funding Per Square Foot
K-6	90	\$309.11
7-8	100	\$326.34
9-12 (<1,800 pupils)	134	\$377.80
9-12 (≥1,800 pupils)	125	\$377.80

^{1/} Increased by 5% for rural school districts.

^{2/} Adjusted annually for inflation in subsequent years.

JLBC. At its December 13, 2022 meeting, the JLBC approved a 7.27% adjustment in the cost per square foot. This inflation adjustment is based on measure of construction costs since December 2021 when the Committee last adopted an adjustment. This adjustment applies to the FY 2024 projects approved by the division. (See Table 1 for the current statutory funding amounts)

In addition, the division distributes money for land acquisition and site conditions. Site conditions funding is used for extraordinary site-specific construction needs such as: 1) Earth moving costs beyond normal requirements (such as dynamite blasting); 2) Building footings that must be deeper than standard code (in excess of 3 feet below grade); and 3) Replacing poor/collapsing soil which cannot support buildings with other materials such as engineered fill. Site conditions do not include the costs of utilities placement or complying with standard local building codes.

The budget includes a footnote requiring SFD to report to the JLBC Staff and OSPB on the final amount to be distributed for a new school project, such as the amounts for land purchase or lease, and construction costs.

New School Facilities (FY 2022 Authorization)

The budget includes no funding in FY 2024 for New School Facilities projects which are authorized to start construction in FY 2022. Adjustments are as follows:

New School Funding Completion

The budget includes a decrease of \$(47,950,000) from the General Fund in FY 2024 for the completion of the following 5 projects:

- Liberty Elementary (K-8) – for a new elementary school.
- Queen Creek Unified (9-12) – for a new high school including land.
- Sahuarita Unified (9-12) (Cancelled) – for a new high school including land.
- Tanque Verde Unified (K-6) – for a new elementary school, with 100% of the construction costs funded in FY 2022.
- Vail Unified (6-8) – for a new elementary school including land.

Statute requires the SFD to approve the final design of a new school project to ensure it meets the minimum adequacy guidelines. As part of its review, SFD may review updated enrollment projections and modify or cancel a project if the projected enrollment demonstrates that all or some of the square footage is no longer required.

In April 2023, the SFD canceled the Sahuarita Unified School District 9-12 project because updated enrollment projections demonstrated that additional space was no longer required. After accounting for encumbered design and architecture costs, the Sahuarita project savings of \$22,811,500 are left unexpended in the New School Facilities Fund.

The budget included a footnote extending the use of this unencumbered New School Facilities Fund balance for FY 2024 Authorizations. *(Please see below for additional information on the FY 2024 Authorizations)*

New School Facilities (FY 2023 Authorization)

The budget includes \$26,365,000 from the General Fund in FY 2024 for New School Facilities projects which were authorized to start construction in FY 2023. Adjustments are as follows:

Continue New School Construction Projects

The budget includes a decrease of \$(21,888,900) from the General Fund in FY 2024 to continue construction for 3 new school projects authorized to start construction in FY 2023. The enacted FY 2023 budget included 100% of the land costs and 50% of the construction costs. The projects are as follows:

- Marana (9-12) – for a new high school
- Nadaburg (9-12) – for a new high school including land.
- Pima (9-12) – for a new high school including land.

The FY 2023 General Appropriation Act appropriated the \$31,753,900 of second-year funding in FY 2024 for the FY 2023 projects. However, as a result of SFD's review of the proposed Marana project design, the department determined that some space was no longer required due to lower enrollment growth projections. Therefore, the FY 2024 General Appropriation Act reduced the amount appropriated by \$(5,388,900) to \$26,365,000 to fund the balance for the remaining projects.

New School Facilities (FY 2024 Authorization)

The budget includes \$116,089,400 from the General Fund in FY 2024 for New School Facilities projects which are authorized to start construction in FY 2024. Adjustments are as follows:

Begin New School Construction Projects

The budget includes an increase of \$105,951,900 from the General Fund in FY 2024 for new projects. These school districts are projected to be at capacity in FY 2025 or before. The budget assumes 50% of construction costs and 100% of land costs for each project will be appropriated in FY 2024, except for the Glendale project which would be funded 100% in FY 2024 due to its small size. The projects are as follows:

- Agua Fria (9-12) – for a new high school including land
- Glendale (K-8) – for replacement space with 100% of the costs funded in FY 2024.
- Liberty (K-8) – for a new elementary school including land.
- Queen Creek (K-6) – for an elementary school addition.
- Queen Creek (K-6) – for a new elementary school including land.
- Queen Creek (7-8) – for a middle school addition.
- Saddle Mountain (9-12) – for a high school addition.
- Snowflake (9-12) – for a new high school including land.

Total FY 2024 costs for these projects is \$128,763,400. These costs are funded from the FY 2024 appropriation of \$105,951,900 along with the unencumbered balance of \$22,811,500 in the New School Facilities Fund due to the Sahuarita project cancellation.

In addition, the FY 2024 General Appropriation Act appropriated the remaining \$77,898,600 of funding in FY 2025 for these projects.

Prior Year Land Costs

The budget includes an increase of \$6,190,000 from the General Fund in FY 2024 for prior year land cost adjustments. Funding would be distributed as follows:

Land Donation Credit

If a school district acquires real property by donation, SFD is required to distribute an amount to the district equal to 20% of the appraised value of the donated parcel. The funds are placed in the district's unrestricted capital outlay fund. SFD approved the following donation credits:

Littleton Elementary (Bond Funded School)	\$620,000
Queen Creek Unified (Bond Funded School)	480,000
Queen Creek Unified (School Not Yet Built)	390,000

Additional Land Costs

Statute requires the state to pay for land costs for SFD-funded schools in the amount of the lowest of 2 appraisals. The FY 2022 budget included \$17,185,500 for land for a new high school in Queen Creek. The final purchase price was \$21,885,500. The FY 2024 budget includes the following increase for additional land costs:

Queen Creek Unified 9-12 (FY 2022 School)	\$4,700,000
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Prior and Current Year Site Conditions

The budget includes an increase of \$3,947,500 from the General Fund in FY 2024 for site conditions for prior year and current year projects. The projects and the year they were first authorized for construction are listed in *Table 2*.

<u>School District</u>	<u>Year Funded</u>	<u>Allocation</u>
Douglas Unified (9-12)	2020	\$ 550,000
Glendale Elementary (K-8)	2024	118,000
Maricopa Unified (9-12)	2020	675,900
Queen Creek Unified (9-12)	2022	336,400
Santa Cruz Valley Unified (9-12)	2020	348,100
Somerton Elementary (1) (K-6)	2020	291,200
Somerton Elementary (2) (K-6)	2020	227,300
Tanque Verde Unified (7-12)	2021	289,300
Tanque Verde Unified (K-6)	2022	75,000
Yuma Union (9-12)	2022	<u>1,036,300</u>
Total		\$ 3,947,500

Santa Cruz Valley New School

The budget includes \$2,000,000 from the General Fund in FY 2024 for additional project funding for a new school in the Santa Cruz Valley Unified School District. Adjustments are as follows:

Additional Project Funding

The budget includes an increase of \$2,000,000 from the General Fund in FY 2024 for additional project funding for the Santa Cruz Valley Unified School District.

The district was awarded a new high school for FY 2020 and the project received additional funding as part of the new construction statutory rate adjustment in FY 2022. Given that the district required additional funding to award a construction contract for the school, this line item allocates further monies to supplement the project budget. With the additional FY 24 budget funding, the total project costs are \$10,852,000.

Yuma Union High School

The budget includes no funding in FY 2024 for a new high school in the Yuma Union High School District. Adjustments are as follows:

New School Funding Completion

The budget includes a decrease of \$(16,515,200) from the General Fund in FY 2024 for the completion of the Yuma Union High School District project.

Kirkland Site Conditions

The budget includes no funding in FY 2024 for Kirkland Site Conditions. Adjustments are as follows:

Remove One-Time Site Conditions Funding

The budget includes a decrease of \$(400,000) from the General Fund in FY 2024 to eliminate one-time funding for site conditions related to the Kirkland Elementary School replacement project. This funding is in addition to the \$3,000,000 appropriated in FY 2022 to replace the school.

New School Facilities Debt Service

The budget includes \$9,938,100 from the General Fund in FY 2024 for New School Facilities Debt Service. This amount is unchanged from FY 2023.

SFD's only current debt service is for an FY 2010 lease-purchase agreement used to finance the costs of new school construction. That agreement requires the \$9,938,100 annual debt service payment through FY 2027 and a final lower debt service amount in FY 2028.

The FY 2024 budget includes \$9,938,100 for the debt service requirement for the 2010 Qualified School Construction Bonds (QSCB) issuance. 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 \$3,729,900, in FY 2024 related to the lease-purchase payment. The subsidy is deposited into the General Fund.

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 \$6,208,200.

Other Programs

Building Renewal Grants

The budget includes \$199,967,900 from the General Fund in FY 2024 for Building Renewal Grants. This amount is unchanged from FY 2023.

Since FY 2014, the state has funded an ongoing "base" amount of Building Renewal Grant funding of \$16,667,900. (See Table 3.)

Table 3

**Building Renewal Appropriations
FY 2013 - FY 2024**

<u>Fiscal Year</u>	<u>Ongoing</u>	<u>One-Time</u>	<u>Total</u>
2013	2,667,900	0	2,667,900
2014	16,667,900	0	16,667,900
2015	16,667,900	0	16,667,900
2016	16,667,900	15,000,000	31,667,900
2017	16,667,900	15,000,000	31,667,900
2018	16,667,900	27,167,900	43,835,800
2019	16,667,900	59,417,900	76,085,800
2020	16,667,900	90,790,900	107,458,800
2021	16,667,900	129,591,100	146,259,000
2022	16,667,900	183,949,100	200,617,000
2023	16,667,900	183,300,000	199,967,900
2024	16,667,900	183,300,000	199,967,900

Background – SFD distributes monies to school districts to fund “primary” building renewal projects. SFD prioritizes the projects with emphasis given to school districts that have provided routine preventative maintenance on their facility. “Primary” building renewal funding is for projects required to meet the minimum school facility adequacy guidelines. Statute also requires SFD to prioritize funding to critical projects.

Pursuant to A.R.S. § 41-5721, SFD 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.

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.

School Facility Inspections

The budget includes \$1,000,000 from the General Fund in FY 2024 for School Facility Inspections. Adjustments are as follows:

One-Time Funding

The budget includes an increase of \$1,000,000 from the General Fund in FY 2024 for school facility inspections.

Monies in the School Facility Inspection line item will provide resources to the SFD to conduct building inspections. Statute requires the SFD to inspect school buildings once every 5 years. The FY 2024 appropriation is non-lapsing.

Other Issues

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, SFD’s General Fund costs are projected to decrease by \$(142,494,900) in FY 2025 above FY 2024 and increase by \$22,902,400 in FY 2026 above FY 2025. These estimates are based on:

New School Construction

The long-term estimates assume 2 types of new school construction funding: 1) Providing the remaining funding in FY 2025 for the schools which were authorized to begin construction in FY 2024; and 2) Conceptual approvals made by SFD as part of the agencies' long-term planning process.

In FY 2025, new school construction spending is projected to increase by \$40,805,100. In addition, FY 2026 new school construction spending is projected to increase by \$22,902,400.

Long-term estimates include land costs when SFD indicates land is required which is not already available to the district. Unless a land cost estimate was specifically provided by SFD, land costs are projected using an estimated parcel size within the range required by SFD policy (based on school type/size) and estimated land market values.

New construction projects assumed to start in FY 2025 and FY 2026 reflect SFD conceptual approvals as of December 2022.

One-Time Building Renewal Grant Funding

SFD building renewal grant funding would decrease by \$(183,300,000) in FY 2025 and remain unchanged for FY 2026. The enacted budget 3-year spending plan labeled the \$183,300,000 of FY 2024 funding as one-time and discontinues it in FY 2025, which would return SFD building renewal grant funding to the ongoing "base" level of \$16,667,900.

Table 4

Long-Term New School Facilities Funding ^{1/}

	<u>Type</u>	<u>Sq. Ft</u>	<u>Student Capacity</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
<u>FY 2022 Starts</u>							
Liberty K-8	New	73,920	800	\$ 10,120,100			
Queen Creek 9-12	New	120,375	963	19,880,000			
Sahuarita 9-12 (Cancelled)	New	55,375	443	9,145,300			
Vail 6-8	New	62,836	650	8,804,600			
Subtotal - FY 2022 Starts				\$ 47,950,000			
<u>FY 2022 New School Line Items</u>							
Yuma Union 9-12	New	100,000	800	16,515,200			
<u>FY 2023 Starts</u>							
Marana 9-12	New	37,400	369	\$ 8,805,100	3,416,200		
Nadaburg 9-12	New	67,000	500	11,799,000	11,799,000		
Nadaburg Land				12,000,000			
Pima 9-12 (Rural)	New	60,300	450	11,149,800	11,149,800		
Pima Land				4,500,000			
Subtotal - FY 2023 Starts				\$ 48,253,900	\$ 26,365,000		
<u>FY 2023 New School Line Items</u>							
Kirkland Site Conditions				\$ 400,000			
<u>FY 2024 Starts ^{1/}</u>							
Agua Fria 9-12	New	125,000	1000		\$ 23,613,000	\$ 23,613,000	
Aqua Fria Land					24,000,000		
Glendale K-8	Replacement	2,442	28		764,800		
Liberty K-8	New	73,920	800		11,575,400	11,575,400	
Liberty Land					10,000,000		
Queen Creek K-6	Addition	32,850	365		5,077,100	5,077,100	
Queen Creek K-6	New	90,000	1000		13,909,800	13,909,800	
Queen Creek Land					11,100,000		
Queen Creek 7-8	Addition	65,000	650		10,606,000	10,606,000	
Saddle Mountain 9-12	Addition	57,620	430		10,884,700	10,884,700	
Snowflake 9-12 (Rural)	New	11,256	84		2,232,600	2,232,600	
Snowflake Land					5,000,000		
Sahuarita Project Savings					(22,811,500)		
Prior Year Land Adjustments					6,190,000		
Prior and Current Year Site Conditions					3,947,500		
Subtotal - FY 2024 Starts					\$ 116,089,400	\$ 77,898,600	
<u>FY 2024 New School Line Items</u>							
Santa Cruz Valley 9-12					\$ 2,000,000		
<u>FY 2025 Starts</u>							
Laveen K-8	New	92,400	1000			\$ 14,469,300	\$ 14,469,300
Maricopa 6-8	New	72,503	750			11,620,200	11,620,200
Queen Creek K-6	New	67,500	750			10,432,300	10,432,300
Queen Creek 9-12	New	62,500	500			11,806,500	11,806,500
Tolleson 9-12	New	312,500	2500			59,032,600	59,032,600
Subtotal - FY 2025 Starts						\$ 107,360,900	107,360,900
<u>FY 2026 Starts</u>							
Buckeye Elementary K-8	New	87,780	950				\$ 13,745,800
Buckeye Union 9-12	New	225,000	1800				42,503,500
Higley 9-12	Addition	60,000	480				11,334,300
Nadaburg 9-12	New	67,000	500				12,656,600
Palo Verde K-8	New	64,680	700				10,128,500
Queen Creek K-6	New	67,500	750				10,432,300
Subtotal - FY 2026 Starts							\$ 100,801,000
Total				\$ 113,119,100	\$ 144,454,400	\$ 185,259,500	\$ 208,161,900

^{1/} See the Arizona Department of Administration section for additional FY 2024 funding associated with the Miami Unified School District and the Skull Valley Elementary District