

VIII. Building Renewal

Per ARS §41-1091 B: This substantive policy statement is advisory only. A substantive policy statement does not include internal procedural documents that only affect the internal procedures of the agency and does not impose additional requirements or penalties on regulated parties or include confidential information or rules made in accordance with the Arizona Administrative Procedure Act. If you believe that this substantive policy statement does impose additional requirements or penalties on regulated parties you may petition the agency under ARS §41-1033 for a review of the statement.

A. Parameters for the Expenditure of Monies from the Building Renewal Fund (Adopted June 3, 1999, Modified May 1, 2008)

The Building Renewal program is established and outlined by ARS §15-2031.

1. Allowable Expenditures from the Building Renewal Fund (Fund 690) include:

a. Major Renovations and Repairs of a Building

Renovation is the rejuvenating of an existing building or portion of an existing building where the use and occupancy remains the same. This may include the upgrading or expansion of major systems, which maintains or extends the useful life of a building or portion of an existing building. The renovation must be significant, such as, an entire floor of a building, several classrooms, etc. Examples include the addition, replacement, or major repair of: roofing, electrical, plumbing, heating, ventilating, air conditioning and infrastructure for special systems (fire alarm, intercom, security, telephone, technology, etc.); fixed equipment (fume hoods, laboratory benches, sinks, etc.); and interior surfaces and finishes (flooring, walls, ceilings and partitions). Additionally, remodeling for significant programmatic changes where the use and occupancy of the space may be modified is permissible. Examples include: alteration of storage space into teaching space, the remodel of non-classroom space for use as classrooms, etc.

b. Upgrading Systems and Areas that will Maintain or Extend the Useful Life of a Building

Systems upgrading maintains or extends the useful life of a building or portion of an existing building and may be either a part of a renovation as listed above, or may be completed as a single stand-alone project. Upgrading systems and areas includes the major upgrading of a building system or components of a system that is necessitated by the building's physical plant aging. Examples include the replacement or major repair of: roofing, electrical, plumbing, heating, ventilating, air conditioning, special systems (fire alarm, intercom, security, telephone, technology, etc.) and asbestos abatement. Several other functions and categories of work may also be considered as part of upgrading systems and areas, including but not limited to:

Major Repairs: Major Repairs is the recurring need to keep in good repair building system components, which generally have established maintenance cycles of greater than three years., Examples include programmed re-coating of roofing surfaces, deslugging of septic tanks, water-proofing of exterior surfaces, disassembling and rebuilding of air conditioning systems, water chillers and boilers; overhauling large chilled water

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circulation pumps; filtering and replacing oil in electrical transformers when indicated, rebuilding of compressors, etc.

Life Safety/Code Upgrades: Life Safety/Code Upgrades are specifically related to compliance with life safety/codes, and includes, for example, elimination of dead-end corridors; upgrading of fire alarm systems; improvement of exits from buildings; installation of fire sprinklers in existing construction; eliminating hazardous conditions; work on emergency lighting, etc.

ADA Requirements: ADA requirements refers to making facilities accessible for individuals with physical infirmities, e.g., modifications of seating areas, doorways, bathrooms, exterior/interior access, etc., to allow usage by those in wheelchairs or on crutches. Other examples include capital requirements to accommodate the sight and hearing impaired and may include infrastructure for assisted listening systems, special signage, restroom access, elevator modification, etc.

c. Infrastructure Costs

Pursuant to ARS §41-790, Infrastructure cost is the upgrade, expansion, repair or replacement of utility systems or major components of systems that are physically located external to the building itself. Systems include: egress and ingress (drives, parking, sidewalks); electrical distribution; sewer and water; playground equipment; fire suppressants (hydrants, fire lines, storage tanks, pumps, etc.); irrigation; site security (fencing, lighting, etc.); and external sections of building systems, such as telecommunications, data cabling, etc. Examples include: replacement or resurfacing of existing parking, drives or sidewalks; replacement, modification or upgrading of sewer and water connections; replacement or addition of fencing or exterior lighting for safety/security, etc.

d. Relocation and Placement of Portable or Modular Buildings

Portable and modular buildings are routinely moved in order to accommodate additional children or programs at sites of existing schools. Any costs associated with the movement of these buildings from one site to another would be acceptable. The costs may include such items as: utility hookup, site and/or slab preparation, permitting, or connection of data network.

e. Routine Maintenance

Routine maintenance is the recurring need to keep in good repair building systems or components, and is synonymous with routine preventative maintenance. These items are performed on a regular schedule, at intervals ranging from four times per year to once every three years. Examples include: roofing and flashing repair, routine replacement of cooler pads and filters; replacement of light bulbs and ballasts; replacement of drive belts; replacement of ceiling tiles; routine lubrication; routine interior painting schedules; routine elevator maintenance, etc. A district may spend up to 8% of its annual calculated statutory building renewal formula amount on the functions cited in this section.

f. Staff/ Consultants

The hiring of temporary or permanent staff and/or the use of technical consultants for the purposes of identifying, defining and/or executing building renewal projects as outlined above, is an authorized use of building renewal funds.

2. Prohibited Expenditures from the Building Renewal Fund (Fund 690) include:

a. New Construction

New construction is the creation of a new facility; the addition, expansion, or extension of space to an existing facility that adds to the building's overall external dimensions, i.e. adds to the gross square footage of the building; or the addition, expansion, extension or creation of any parking lots, drives/streets or sidewalks. Examples include: additions to existing facilities; construction of portable, temporary or permanent buildings; the building of fire lanes, drives or additional parking spaces, etc. However, an incidental addition to a building's overall external dimensions due to code, safety, or handicapped modifications (adding an elevator, modifying an entrance, etc.) is not a prohibited use of building renewal funds.

b. Remodeling Interior Space for Aesthetical or Preferential Reasons

Remodeling to change the interior space primarily for aesthetic or preferential reasons is the beautification of space due to personal tastes or preferences. Examples include: changing of interior finishes for color or texture (painting of walls, adding or changing coverings for walls); installation or changing of blinds/drapes, carpet, light fixtures; installation or relocation of a door or window, etc.

c. Exterior (Site) Beautification

Exterior beautification is landscaping of the site, the enhancement of existing exterior areas or the development of new areas. Examples include: planting of grass or turf; addition or replacement of plants and trees; outside seating such as plazas, covered areas, amphitheaters; decorative lighting; the installation of signage, etc.

d. Demolition

Demolition consists of the complete removal of any structure. It does not include the razing or reworking that is associated with a building renovation, remodel, or other eligible project. Demolition associated with an approved new construction project shall be funded as part of that new construction project.

e. Purchase of Soft Capital Items

Pursuant to ARS §15-962, subsection D, "Soft capital allocation monies shall only be used for short-term capital items that are required to meet academic adequacy standards such as technology, textbooks, library resources, instructional aids, pupil transportation vehicles, furniture and equipment." In distinguishing whether or not an equipment item is soft capital, districts shall use USFR Memorandum 185. The replacement, repair or upgrade of equipment listed as "Component Units" (excluding automotive engines), and "Fixtures" under "Other Capital List" are allowable building renewal expenditures, with the exception of mirrors, whiteboards, chalkboards, and ceiling fans.

f. Routine Maintenance

Pursuant to ARS §15-2031, any routine maintenance incurred by a school district that exceeds 8% of the annual calculated statutory building renewal formula amount would be a prohibited expenditure.

3. Expenditure Priorities

School districts that receive building renewal funds must spend those dollars according to the following priorities:

1. Projects to comply with health, fire, or safety codes in non-academic space. Non-academic space is defined as space and the supporting infrastructure to that space that does not generate building renewal dollars. These projects must be pre-approved by the School Facilities Board. To seek approval, a school district must submit a completed Building Renewal Use in Non-Academic Space form. SFB staff will review the completed form and make a recommendation to the Board on whether to approve or disapprove the requested project.
2. Projects in academic space, which are required to comply with the state minimum school facility adequacy guidelines (primary projects). Academic space is any space and supporting infrastructure that generates building renewal dollars. To qualify for this priority, the project must be related to maintaining the minimum guidelines.
3. Secondary Projects. These are projects in either academic space or non-academic space that do not meet the criteria of priority one or priority two projects.

B. Reporting (Modified May 1, 2008)

By September 1, each district must report to the SFB all renovations completed in the previous fiscal year using district funds and building renewal for the purpose of database calculations to the adjusted age of the building. The SFB may review or audit or both to confirm the information submitted by the district and then adjust the age of a building that has been significantly upgraded or remodeled.

By October 15, each school district must report all projects by priority funded with building renewal from the prior year. Building renewal expended on preventative maintenance shall be reported as a single expenditure. In order to reconcile balances, the staff may request an accounting of expenditures reported on the Department of Education AFR's.

See *Exhibit VII. B.* for Instructions.

Expenditure Review

SFB staff shall review an appropriate sample of submitted expenditures. The sample shall be selected based on sound audit principles. If the SFB staff determines that a selected expenditure was not building renewal eligible, SFB staff may review all expenditures reported by that school district. Once the inappropriate expenditure(s) is identified, SFB staff shall notify the school district superintendent. If the district is not able or willing to correct the expenditure within 30 days of notice, the SFB staff shall report the inappropriate expenditure to the Board. At the next SFB meeting, the Board shall review the

expenditure(s) and determine if it was inappropriate. If the Board determines that the expenditure(s) was inappropriate, SFB staff shall notify the school district superintendent of the Board action. If the district has not made corrective action within 30 days of the notification of the Board action, SFB staff shall notify the State Superintendent of Public Instruction according to ARS §15-2031, J.

C. Building Renewal 3-Year Plan (Modified May 1, 2008)

A qualifying plan will contain the following components:

- A brief description of each project
- A reasonable explanation of the estimated cost of the project
- Each project will be correctly categorized based on statutory priorities. Category decisions will be briefly explained. (Plans submitted after FY 2008 only)
- At the end of the three-year period, at least 95 percent of available funds will be programmed in either current or future projects. Future projects are defined as projects that will start after the current three-year plan period.
- See *Exhibit VII. A.* for Instructions.

D. Building Renewal Allocation (Standard Practice since FY2001)

In the event the legislature does not fully fund the requested building renewal distribution, the available amount will be proportionately reduced to correspond to each district's share of the total.

E. Building Renewal Calculation (Modified May 1, 2008)

ARS §15-2002, subsection A, paragraph 10 requires the SFB to report to the Joint Committee on Capital Review the amount necessary to fund the building renewal formula for the upcoming fiscal year. Therefore, the building renewal formula calculation will be based on the information in the building inventory database on December 1 of the year preceding the distribution year.

F. Distribution of Funds (Adopted May 1, 2008)

SFB staff shall distribute the allocated building renewal funds in November and May. The Executive Director may select the actual date for disbursement. Before a district is eligible to receive building renewal funds, the district must have submitted a building renewal expenditure report for every required fiscal year (FY 1999 through current), and have a current, approved three-year building renewal plan. If a school district submits the required expenditure report and has their three-year plan approved after the scheduled payment dates, their building renewal dollars shall be disbursed within ten business days of the SFB approval of the current three-year plan or the submission of the required expenditure report.

If a district does not submit the required documents within the fiscal year, prior fiscal year building renewal allocations will be distributed to the district when the district has filed all required expenditure reports and a current three-year plan has been approved by the Board.

G. Examples (Adopted May 1, 2008)

The following are examples of appropriate and inappropriate building renewal expenditures.

Appropriate

1. Personal services.

This is appropriate as long as the associated employees were working directly on building renewal appropriate projects. For employees that spend part of their time on building renewal projects, personal services expenditures may be prorated accordingly.

2. Resurface of parking lots.

This is an appropriate infrastructure cost.

3. Replacement or major repair of playground equipment.

This is an appropriate infrastructure cost.

4. Replacement or major repair of irrigation components.

This is an appropriate infrastructure cost.

5. Replacement or major repair of a running track.

The track would be considered infrastructure not related to academic space. Therefore, this would be an appropriate secondary project.

6. Install New Fencing and Gates.

Fencing and gates are appropriate infrastructure. However, adding new infrastructure is only appropriate if the additional infrastructure will extend the useful life of the supported building or current infrastructure. Additional security to stem vandalism, trespassing, or other building related issues extend the useful life of the building, and therefore, would be an appropriate addition.

7. Install or Replace Security System.

The replacement of a security system would qualify as infrastructure. The installation of a security system would extend the useful life of the building.

8. Replacement or major repair of clocks.

A major repair or replacement of any device that is attached to the building and part of a building system is an appropriate building renewal expenditure. If the device is not attached to the building or is stand-alone equipment, it would not be appropriate to use building renewal dollars to service that item.

9. Exterior Painting.

If the painting is not for minor repairs, color preference, or more frequent than once every three years, it is appropriate.

10. Interior Painting.

Interior painting is appropriate if the project is not related to personal color preferences, includes at least an entire room, and occurs less frequently than once

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every three years. Touch-up painting or painting for personal preference is preventative maintenance.

11. Replacement or major repair of casework.
If the casework is attached to the building, major repairs and replacement with building renewal dollars is appropriate.
12. Major repair of an outside amphitheater.
The amphitheater is existing infrastructure.
13. Glass Replacement.
Glass qualifies as an existing building system
14. Replacement of Door Hardware.
Door hardware qualifies as an existing building system.

Inappropriate

The examples below are inappropriate building renewal expenditures. Pursuant to ARS §15-2031.N.2, those that are labeled as preventative maintenance may be eligible to be funded from the 8% of building renewal funds that may be dedicated to preventative maintenance.

1. Additional landscaping.
This is considered exterior beautification.
2. Technology upgrades.
Network components (e.g. servers, computers, printers, fax machines, phones) are soft capital items.
3. Replacement or repair of furniture.
Any furniture not attached to the building (e.g. bookcases, desks, chairs, rolling cabinets) is a soft capital item.
4. Replacement or repair of a dishwasher.
Dishwashers and other kitchen equipment are considered soft capital items.
5. Completion of shell space.
The completion of shell space would be considered new construction. This also includes the completion of basements.
6. Minor roof repairs.
Patching minor leaks or spot replacement of roofing material is preventative maintenance.
7. Contracted services.
Contracts for basic preventative maintenance services are not appropriately funded with building renewal monies.