

**STATE OF ARIZONA
SCHOOL FACILITIES BOARD**

Meeting Date: October 2, 2008

Agenda Item VI.d.

Subject: VI. Director's Report

d. Moratorium Impact

Last month the Board discussed potential reimbursements for districts that use local funds to construct SFB awarded projects during the moratorium. While the Board cannot guarantee or offer any reimbursement for these local expenditures, the Board does need to take a position on how the Board will view the nature of these projects.

Last month, the Board considered a proposal that a project would no longer be eligible for reimbursement once the district signed a construction contract. Another proposal is that the district would remain eligible until the district takes possession of the school at substantial completion.

In considering this question, staff reviewed the following arguments.

Equity

By using local funds to construct the school, a qualifying district is temporarily using local funds to finance a State responsibility. The intent of the moratorium was to ask districts to temporarily make due with local resources. Other districts are overcrowding classrooms or converting other spaces. These measures will be corrected when the moratorium is lifted. If a district's local step is to use local funds to construct, this should be corrected as well if possible. If the moratorium extends into FY 2010, then no FY 2009 expenditures can be reimbursed, but the SFB should hold the reimbursement window open as long as possible.

Fiscal Impact

Assuming the moratorium is lifted, choosing to extend the reimbursement window may have a fiscal impact in FY 2010. If a district is close to completing a school project at the beginning of FY 2010, the SFB will owe the district the bulk of the new construction award. If the window is not extended, at the beginning of FY 2010, the SFB will still owe the school project, but that school will not likely be built in FY 2010. Therefore, while ultimately, the SFB will fund the project, an aggressive reimbursement policy will bring that cost into FY 2010. A non-reimbursement policy will defer that cost into future years.

Practicality

If the SFB does not reimburse a school project built with local funds, when the moratorium is lifted, the SFB will still owe space to that district. Ultimately, the district may need the space, but in the short term this project probably becomes unnecessary. In most cases the district could not afford to operate the extra space even if it is built.

Staff Recommendation

Based on the above analysis, staff recommends the Board adopt the following policy statement that would continue to recognize a school project as an SFB project until substantial completion. This would allow a district to be eligible for any potential reimbursement until the project is substantially complete.

Policy Statement

If a school district uses local funds to design and construct a new school facility project that has been approved by the SFB pursuant to ARS §15-2041, but for which State funds have not been provided due to a lack of funds in the New School Facilities Fund, that project will retain its eligibility for its award from the fund until substantial completion if the following criteria are met:

1. The Executive Director confirms there are no monies available from the new school facilities fund to construct the project when the district signs the construction contract.
2. The district follows all of the requirements in the SFB New Construction Policy (SFB Policy V).
3. The Board confirms the eligibility of the district for the award and the funding level of the project prior to the district signing the construction contract.

As long as the project retains its eligibility for monies from the fund, the SFB will distribute monies according to the New Construction Policy to the school district when there are sufficient funds available. If the project reaches substantial completion before SFB funds are available, it will be consider locally funded space and will no longer be eligible for SFB funds. Nothing in this policy statement can or should be considered as obligating the State for any future expenditure. Please note that this policy statement can be affected, including but not limited to voided, by Executive and/or Legislative action.

Board Action Requested: [] information [X] action / described below

That the Board adopt the policy statement as recommended by staff.

Attachments: Yes [] No [X]