School Facilities Commission

House Primary and Secondary Education Subcommittee

Edward Millane, Budget Analyst
Legislative Service Commission

April 3, 2007

Additional copies are available on our web site at www.lsc.state.oh.us
Click on 'Budget Documents' then 'Redbooks'

LSC Redbook

for the

School Facilities Commission

House Primary and Secondary Education Subcommittee

Edward Millane, Budget Analyst

Legislative Service Commission

TABLE OF CONTENTS

April 3, 2007

School Facilities Commission

- Continuation operating budget
- Debt service increases 26.6% in FY 2008 and 19.3% in FY 2009
- 480 new or renovated buildings assisted by SFC have opened across the state

INTRODUCTION

The Legislative Service Commission prepares an analysis of the executive budget proposal for each agency. These analyses are commonly called "Redbooks." This brief introduction is intended to help readers navigate the Redbook for the Ohio School Facilities Commission (SFC), which includes the following four sections.

(1) **Overview:** Provides a brief description of SFC, including a description of SFC's major program, and an overview of the provisions of the executive budget that affect SFC.

(2) **Master Table:** Lists executive appropriation recommendations for all of SFC's line items indicating the program series and programs funded by each item.

(3) **Analysis of the Executive Proposal:** Provides a detailed analysis of the executive budget recommendations for SFC, including funding for each program. The executive budget recommendations for SFC are organized into one program series that includes a total of seven programs.

(4) **Requests Not Funded:** Compares SFC's budget request with the executive budget recommendations and summarizes the major differences.

(5) **Attachments:** Includes the catalog of budget line items (COBLI) for SFC, which briefly describes each line item, and the LSC budget spreadsheet for SFC.

OVERVIEW

Agency Overview

The Ohio School Facilities Commission (SFC) provides funding, management oversight, and technical assistance to school districts for the construction and renovation of classroom facilities. SFC was created in 1997 by S.B. 102 of the 122nd General Assembly to implement a 12-year plan to rebuild all of Ohio's schools. Since its inception, through the first half of FY 2007, SFC has received approximately $7.0 billion in capital appropriations and disbursed nearly $5.0 billion. With these funds, approximately 290 school districts have been served by or approved to participate in one of SFC's major programs and approximately 480 new or renovated buildings have opened across Ohio.

SFC is governed by a seven-member commission, which consists of three voting members (the Director of Budget and Management, the Director of Administrative Services, and the Superintendent of Public Instruction) and four nonvoting legislative members. The executive director, who is appointed by the Commission, oversees SFC's daily operations. SFC's GRF funding is only used for debt service on bonds issued for capital projects. SFC's operating expenses are entirely funded through investment earnings from its capital accounts. In FY 2007, SFC has an estimated operating budget of $7.7 million, while its capital expenditures are expected to total approximately $900.0 million.

Staffing Levels

As of March 23, 2007, SFC had 59.5 full-time equivalent employees. The executive budget provides SFC a continuation operating budget that maintains its current staffing level over the next two years. SFC's operations are organized into three divisions: (1) administration/finance/information technology, (2) support staff, and (3) planning and project management. The table below shows SFC's staffing levels from FY 2004 to FY 2007 by division. As seen from the table, a little over 50% of SFC's employees are project planners and managers who provide oversight of school districts' facilities projects.

Table 1. SFC Staffing Levels by Division, FY 2004-FY 2007

Division	FY 2004	FY 2005	FY 2006	FY 2007*
Administration/Finance/IT	15.0	15.0	16.0	16.0
Support Staff	11.0	11.0	12.5	12.5
Planning and Project Management	29.0	27.0	29.0	31.0
Total	**55.0**	**53.0**	**57.5**	**59.5**

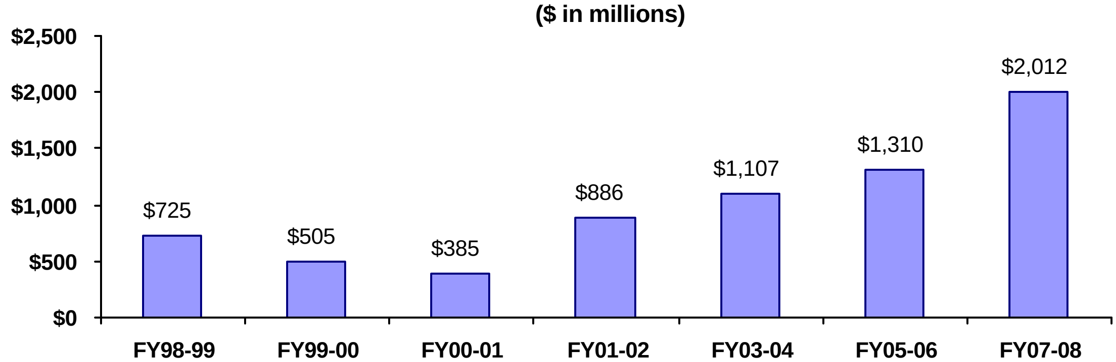
*As of March 23, 2007

SFC also hires a large number of private contractors to deliver various services, such as enrollment projections, building assessments, claims analysis, and construction management. SFC project planners and managers oversee these private contractors.

Capital Appropriations and Disbursements since FY 1998

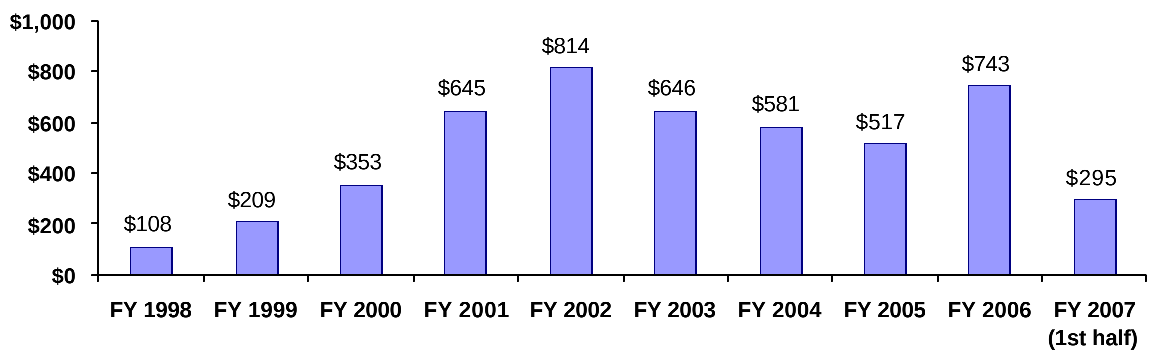
As indicated earlier, SFC has received approximately $7.0 billion in capital appropriations since FY 1998. Of this amount, 62.6% comes from bond moneys, 20.3% from cash, 17.0% from tobacco settlement moneys, and 0.1% from lottery profits. Capital appropriations for the FY 2007-2008 biennium total over $2.01 billion, an increase of 53.6% over the previous biennium. The $2.01 billion figure represents approximately 58.0% of total state capital appropriations for the biennium. SFC capital appropriations have risen every year since the FY 2000-2001 biennium low of $384.6 million. As a result of this steady increase in capital funding each biennium, SFC has been able to increase the number of projects served each fiscal year. Chart 1 below shows SFC's capital appropriations since FY 1998.

Chart 1. SFC Capital Appropriations, FY 1998-FY 2008
($ in millions)



From FY 1998 through the first half of FY 2007, SFC disbursed approximately $4.9 billion in capital funds. Of this amount, 64.2% came from bond moneys, 24.4% from cash, 10.8% from tobacco settlement moneys, and 0.6% from federal funds. Chart 2 shows these disbursements by fiscal year. As can be seen from the chart, the disbursement amount of $743.1 million in FY 2006 ended a trend of annual decreases in disbursements since FY 2002, a year in which SFC's disbursements peaked at $814.3 million. The decreases from FY 2003 through FY 2005 were largely due to the acceptance of six major urban districts (Akron, Cincinnati, Cleveland, Columbus, Dayton, and Toledo) into the program. The size and complexity of these large urban district projects required a longer lead-time before building construction began and funds were disbursed. Capital disbursements are expected to continue to increase as the six urban district projects move further along in their construction segments and as more districts are accepted into the various SFC programs.

Chart 2. SFC Capital Disbursements Since FY 1998
($ in millions)



Summary of FYs 2008-2009 Budget Issues

Appropriation Overview

The executive budget proposes a total appropriation of $315.2 million in FY 2008, an increase of 17.8% over the estimated FY 2007 expenditure level, and $347.4 million in FY 2009, an increase of 10.2% over the FY 2008 appropriation level. Most of the increase in each year is appropriated for debt service payments. The executive budget provides increases of 0.8% in FY 2008 and 0.5% in FY 2009 for SFC's operating appropriation item 230-644, Operating Expenses, in SSR Fund 5E3. As indicated earlier, this level of funding will enable SFC to maintain current staff and other support services over the FY 2008-2009 biennium.

The executive budget recommendations for SFC are organized into seven programs within a single program series. Three of these programs, however, do not have appropriations. Table 2 below summarizes the executive budget recommendations for the remaining four programs. Appropriations for programs 1.01, 1.02, and 1.04 are funded entirely by the GRF. This funding pays the interest and principal on bonds issued to finance projects under the Classroom Facilities Assistance (1.01), the Exceptional Needs (1.02), and the Joint Vocational Facilities Assistance (1.04) programs. The combined GRF debt service funding for these three programs makes up 93.5% of SFC's $662.7 million biennial budget. The remaining 6.5% goes to program 1.07, General School Facilities Assistance. This program provides funding for administrative support (2.3% of entire budget) of *all* of SFC's programs, as well as debt service (4.2% of entire budget) for outstanding bonds issued for programs that have largely been phased out.

Table 2. Biennial Executive Budget Recommendations by Program				
Program	Executive Recommendations FY 2008	Executive Recommendations FY 2009	Biennial Total	Percentage of Biennial Total
1.01: Classroom Facilities Assistance	$264,929,800	$289,511,820	$554,441,620	83.7%
1.02: Exceptional Needs	$27,439,054	$33,578,199	$61,017,253	9.2%
1.04: Joint Vocational Facilities Assistance	$1,534,432	$2,668,129	$4,202,561	0.6%
1.07: General School Facilities Assistance	$21,316,927	$21,676,349	$42,993,276	6.5%
TOTAL	**$315,220,213**	**$347,434,497**	**$662,654,710**	**100.0%**

Tobacco Securitization

Section 183.02 of the Revised Code provides for the allocation of Ohio's expected receipts under the Tobacco Master Settlement Agreement through FY 2025. From FY 2001 through FY 2012, nearly $2.49 billion is allocated to the Education Facilities Trust Fund (Fund N87) and $65.0 million is allocated to the Education Facilities Endowment Fund (Fund P87). In addition, the statute stipulates that 33.36% in FY 2014 and 40.90% each year from FY 2015 to FY 2025 of the amounts credited to the Tobacco Master Settlement Agreement Fund be allocated to Fund P87. No provisions have been made for tobacco settlement receipts after FY 2025.

The executive budget proposes to securitize 100% of the payments to be received over the next 40 or more years under the Tobacco Master Settlement Agreement. The executive budget states that at least 75.0% of the aggregate net proceeds of the obligations issued with tobacco securitization moneys must be paid to the School Building Program Assistance Fund (Fund 032) and limits the use of net proceeds, estimated at approximately $5.04 billion, to SFC projects and expansion of the homestead property tax exemption. Of the estimated $5.04 billion in net proceeds, $2.20 billion is to cover all of the funding currently allocated by section 183.02 of the Revised Code to Fund N87 and Fund P87 for FY 2008 through FY 2025. The remaining $2.84 billion is to cover the capital costs of SFC ($1.92 billion) and higher education ($0.92 billion) over the next three years. Since these capital costs will not be financed with bonds, GRF debt service payments for SFC and higher education will be lower. Under the executive budget, the GRF moneys that would otherwise be used to finance SFC and higher education bonds are used to expand the homestead property tax exemption.

Career-Tech School Building Assistance Program

The executive proposal abolishes the Career-Tech School Building Assistance Program, which was transferred from the Department of Education to SFC by Am. Sub. H.B. 66 of the 126th General Assembly. The program provides interest-free loans to eligible school districts and joint vocational school districts for the construction and renovation of vocational classroom facilities or for the purchase of vocational education equipment. According to SFC, this program is no longer necessary as joint vocational school districts are now served by the Vocational Facilities Assistance Program and the Expedited Local Partnership Program, both of which address their facilities needs.

The executive proposal also requires that existing money in the Career-Technical School Building Assistance Fund (Fund 020) be transferred into the Public School Building Fund (Fund 021) and that any remaining loan repayments be deposited into the Public School Building Fund (Fund 021). Furthermore, the executive proposal requires the Department of Education, at the request of the Executive Director of SFC, to deduct the amount owed by a district from an outstanding loan from that district's foundation payment, or any other funds appropriated to the district by the General Assembly, should that district fail to submit the annual installment of its loan repayment within 60 days after the due date. The deducted amount is to be transferred to SFC to the credit of the Public School Building Fund (Fund 021).

Transfer from Education Facilities Endowment Fund

The executive proposal also requires the Director of Budget and Management to transfer $40.0 million cash from the Education Facilities Endowment Fund (Fund P87) to the Public School Building Fund (Fund 021) in FY 2007[1] and appropriates that amount to CAP-622, Public School Buildings, for use in new or ongoing school facilities projects. Fund P87 has received $5.0 million in each tobacco appropriation bill since FY 2000.

Half-Mill Maintenance Equalization Program

The Half-Mill Maintenance Equalization Program, created in H.B. 66 of the 126th General Assembly, provides equalized subsidies to school districts that have per pupil valuations less than the statewide average valuation per pupil and that have passed their required one-half mill maintenance tax levies as required by the Classroom Facilities Assistance Program (CFAP). These subsidies pay the difference between what each district could raise per pupil with 0.5 mills and what the district with the state average valuation per pupil could raise per pupil with 0.5 mills at the time each district enters into its CFAP project agreement with the state. Districts that had already entered project agreements with SFC prior to H.B. 66 also receive payments as long as their per pupil valuations are lower than the state average. The program was appropriated $10.7 million within the Department of Education in FY 2007. The first payments to school districts are scheduled to be sent in the last quarter of FY 2007; approximately 223 districts are eligible for these payments. The executive proposal appropriates $10.7 million for this program in both FY 2008 and FY 2009.

CFAP's Eligibility and State and Local Share Determinations

The Classroom Facilities Assistance Program (CFAP) is SFC's main program. Under CFAP, a lower wealth district is generally served earlier and receives a greater share of state funding than a higher wealth school district will receive when it is their turn to be served. A school district's wealth level is measured by its three-year average adjusted valuation per pupil. Each district's percentile ranking based on this wealth measure largely determines the order in which the district is served and the state share of the basic project cost for the district. This section briefly describes the CFAP eligibility ranking list and state and local share determinations.

Determining the Eligibility Ranking List

By September 1st of each fiscal year, the Department of Education (ODE) is required to certify to SFC a list ranking all districts in the state according to their three-year average adjusted valuations per pupil. Adjusted valuation per pupil is a measure of each district's property wealth with a small adjustment based on the income level of the residents of each district. The formula used by ODE is given below.

Adjusted Valuation Per Pupil =
Taxable Property Valuation/ADM - [$30,000 x (1-Income Factor)]
ADM = Average Daily Membership (a measure of student enrollment)
Income Factor = District's Median Income/State's Median Income

[1] It is not clear when this transfer is actually to take place, since the main operating appropriations bill, H.B. 119, will not be effective until FY 2008.

The income adjustment is applied to a uniform valuation per pupil ($30,000) in order to standardize its effect, so that two districts with the same median income will have the same adjustment regardless of their property valuations per pupil. For a district with a median income below the state median, the income adjustment makes its first $30,000 valuation per pupil appear to be lower, thus making the district appear to be poorer. Conversely, for a district with a median income above the state median, the income adjustment makes the district appear to be richer. On average, approximately 23% of property valuation is subject to the income adjustment. This income adjustment is intended to measure a district's ability to pay for education services while a district's property wealth is generally considered as a measurement of a district's capacity to pay.

The three-year average adjusted valuation per pupil is the average adjusted valuation per pupil for the current and preceding two fiscal years. ODE ranks the school districts from lowest to highest three-year average adjusted valuation per pupil and then divides them into percentiles (i.e., divides them into 100 approximately equal groups). Each percentile contains about six districts, with the 1st percentile having the lowest wealth districts and the 100th percentile having the highest wealth districts. SFC uses the percentile rankings certified by ODE to determine which school districts are next in line for funding as well as to determine the local and state shares of each district's basic project cost. This determination is described below.

State and Local Share Determination

After receiving the ranking list, SFC identifies the school districts next in line for funding, and then assesses these districts' facilities needs to determine the total basic project cost for each of these districts. Each school district is responsible for financing a portion of its project cost with local resources. The district's local share is the greater of the local shares calculated according to the following two methods, except that it cannot be more than 95% of the district's total basic project cost.

(1) The district's required percentage of the basic project cost. This is calculated for each district as follows:

District's Required Project % =
0.01 x (District's Percentile Ranking)
Local Share = District's Required Project % x Basic Project Cost

(2) The district's required level of indebtedness. A district's required level of indebtedness can range from 5.00% to 6.98% of its total taxable valuation, depending on the district's percentile ranking. The district's required level of indebtedness includes its local share plus its current debt that qualifies for the calculation. This is calculated for each district as follows:

District's Required Indebtedness % =
0.05 + .0002 x [(District's Percentile Ranking) - 1]
Local Share = (District's Required Indebtedness % x District's Taxable Valuation) - Current Qualifying Debt

Once a district's local share is determined, the state share, generally, is the difference between the total basic project cost and the district's local share as follows:

State Share = Total Basic Project Cost - Local Share

Examples of Local Share Determination

Two examples are provided below to demonstrate calculations of the local share for two fictitious school districts.

1. School District A

District A has an adjusted valuation per pupil of $66,000, ranking it 150th in the state and placing it in the 25th percentile. The district's total taxable valuation is $113.0 million and it currently has no debt that qualifies for the required indebtedness calc ulation. District A's total basic project cost is estimated at $26.0 million. District A's local share is equal to the greater of the following two calculations:

District A's Required Project % =
0.01 x (District A's Percentile Ranking) = 0.01 x 25 = 0.25 = 25%
Local Share = Required Project % x Basic Project Cost
= 25% x $26.0 million = $6.5 million

District A's Required Indebtedness % =
0.05 + .0002 x [(District A's Percentile Ranking) - 1] = 0.05 + .0002 X [25 - 1] = 0.0548 = 5.48%
Local Share = (Required Indebtedness % x Taxable Valuation)
= 5.48% x $112.9 million = $6.2 million

The greater of these two amounts is $6.5 million, which is the local share based on District A's required percentage of the basic project cost. The state share for District A's project is equal to $19.5 million ($26.0 million - $6.5 million).

2. School District B

District B has an adjusted valuation per pupil of $180,000, ranking it 560th in the state and placing it in the 92nd percentile. The district's total taxable valuation is $201.0 million and it currently has no debt that qualifies for the required indebtedness calculation. District B's total basic project cost is estimated at $14.5 million. District B's local share is equal to the greater of the following two calculations:

District B's Required Project % =
0.01 x (District B's Percentile Ranking) = .01 x 92 = 0.92 = 92%
Local Share = Required Project % x Basic Project Cost
= 92% x $14.5 million = $13.3 million

District B's Required Indebtedness % =
0.05 + .0002 x [(District B's Percentile Ranking) - 1] = 0.05 + .0002 x [92 - 1] = 0.0682 = 6.82%
Local Share = (Required Indebtedness % x Taxable Valuation)
= 6.82% x $201.0 million = $13.7 million

The greater of these two amounts is $13.7 million, which is the local share based on District B's required level of indebtedness. The state share for District B's project is equal to $0.8 million ($14.5 million - $13.7 million).

While most school districts' state and local shares have been and will continue to be determined by the "required percentage of project cost" method (Example 1), higher wealth school districts and school districts with small projects are more likely to have their state and local shares determined by the "required level of indebtedness" method (Example 2).

It should be noted that, under the current method, as the basic project cost increases, so does the likelihood that the local share would be determined using the "required percentage of basic project cost" method. Since the required local share will increase proportionately with the overall cost of the project, the relationship between project size and the method of calculating the local share acts as a built-in incentive for districts to hold down costs. For example, if School District B's actual project cost is $23.0 million, instead of $14.5 million, its local share under the "required percentage of basic project cost" method would be approximately $21.2 million ($23.0 million x 92%), which is higher than the $13.7 million calculated under the "required level of indebtedness" method. In this case, the required local share for School District B would, therefore, be $21.2 million instead of $13.7 million.

ANALYSIS OF EXECUTIVE PROPOSAL

Single Program Series **School Facilities Commission**

Purpose: To provide school facilities construction assistance to school districts, joint vocational school districts, and qualifying community schools throughout the state

The following table shows the line items that are used to fund programs administered by SFC, as well as the Governor's recommended funding levels.

Fund	ALI	Title	FY 2008	FY 2009
General Revenue Fund				
GRF	230-428	Lease Rental Payments	$22,702,000	$0
GRF	230-908	Common Schools G.O. Debt Service	$284,768,400	$339,648,300
		General Re venue Fund Subtotal	**$307,470,400**	**$339,648,300**
State Special Revenue Fund				
5E3	230-644	Operating Expenses	$7,749,813	$7,786,197
		State Special Revenue Fund Subtotal	**$7,749,813**	**$7,786,197**
Total Funding: School Facilities Commission			**$315,220,213**	**$347,434,497**

- ***Program 1.01: Classroom Facilities Assistance***
- ***Program 1.02: Exceptional Needs***
- ***Program 1.03: Expedited Local Partnership***
- ***Program 1.04: Joint Vocational Facilities Assistance***
- ***Program 1.05: Energy Conservation***
- ***Program 1.06: Community School Loan Guarantee***
- ***Program 1.07: General School Facilities Assistance***

SFC has only one program series that consists of seven programs. Each of these seven programs is described below. Of $662.7 million total biennial funding for SFC, 97.7% comes from the General Revenue Fund, which is used to pay for debt service for bonds issued for school facilities projects. The other 2.3% comes from the State Special Revenue Fund (Fund 5E3), which is used to pay for SFC's operating expenses. All of SFC's operating expenses are included in Program 1.07, General School Facilities Assistance. The appropriations for the other programs, therefore, only include debt service, they do not include the operating expenses of the program.

Program 1.01: Classroom Facilities Assistance

Fund	ALI	Title	FY 2008	FY 2009
GRF	230-428	Lease Rental Payments	$22,702,000	$0
GRF	230-908	Common Schools G.O. Debt Service	$242,227,800	$289,511,820
Total Funding: Classroom Facilities Assistance			**$264,929,800**	**$289,511,820**

Two types of bonds have been issued for the Classroom Facilities Assistance Program (CFAP): special revenue bonds and general obligation (G.O.) bonds. After Ohio voters approved a constitutional amendment in November 1999, however, the state has issued only G.O. bonds for school facilities assistance. G.O. bonds are backed by the full faith and credit of the state. As a result, G.O. bonds generally can be issued at lower interest rates than special revenue bonds, which are not backed by the full faith and credit of the state. The debt service on existing special revenue bonds is paid through GRF appropriation item 230-428, Lease Rental Payments. All existing special revenue bonds for school facilities assistance are expected to be retired in 2008, so appropriations for this item fall to zero in FY 2009. The debt service on G.O. bonds is paid through GRF appropriation item 230-908, Common Schools G.O. Debt Service.

CFAP, which was created by S.B. 102 of the 122nd General Assembly, is SFC's main program. It addresses school districts' entire facilities needs. Of the $4.9 billion in capital funding disbursed through the first half of FY 2007, approximately 85.9% ($4.2 billion) was disbursed through this program. As indicated in the Overview, under CFAP, school districts with the lowest wealth are served first and receive a greater share of state assistance than the higher wealth school districts will receive when it is their turn to be served. CFAP has served approximately 159 districts, with approximately 102 school districts completed. Twenty-six additional school districts are approved for funding in FY 2007. The total cost for these 26 projects is approximately $1.05 billion, with a state share of approximately $737.9 million (70.3%) and a local share of approximately $311.9 million (29.7%). Through February 2007, 19 of these 26 school districts had secured their share of project funding. SFC has now offered CFAP funding to districts in the 34th percentile of the eligibility-ranking list. There are 58 projects currently underway in CFAP, with the number likely to rise to 65 in FY 2008 and 72 in FY 2009.

The Accelerated Urban Initiative. Included in the 159 districts served by CFAP are the six major urban districts (Akron, Cincinnati, Cleveland, Columbus, Dayton, and Toledo) that were accepted into CFAP in FY 2003 under the Accelerated Urban Initiative, which was created in S.B. 272 of the 123rd General Assembly.[2] Due to size and complexity, these six district projects are divided into multiple phases; although districts generally start projects in different phases simultaneously. These six districts have approximately 500 school buildings and their combined enrollment represents approximately 15.4% of the total student enrollment in the state. Total project costs in these six urban districts are estimated at $4.75 billion, with a combined state share over the lifetime of these projects estimated at approximately $2.39 billion. All of the six urban districts have secured all or part of their required local shares. Toledo and Cleveland have entered phase four of their projects, while Cincinnati and Dayton have reached phase three (their final scheduled phases). Akron and Columbus have reached phase two. From FY 2003 through FY 2006, SFC disbursed over $459.9 million to these six districts and helped build or renovate 18 buildings.

The Next-Ten List. Am. Sub. H.B. 524 of the 124th General Assembly required that SFC determine the ten school districts next in line for acceptance into CFAP according to their wealth percentile rankings in each year. These next-ten districts have priority for funding over all other school districts in the next fiscal year, even if their percentile rankings change in that year. In July 2006, SFC approved the next-ten districts to be served in FY 2008. They are (county and FY 2007 rank in parentheses): Liberty Center Local, (Henry – 194); North Fork Local, (Licking – 215); Barberton City, (Summit – 209); Gallipolis City, (Gallia – 204); Clay Local, (Scioto – 203); Hamilton City, (Butler – 200); Madison Local, (Butler – 246); Massillon City, (Stark – 196); Clyde-Green Springs Ex Village, (Sandusky – 205); and Madison Local, (Lake – 242).

[2] The other two major urban districts, Canton and Youngstown, had already been served by CFAP prior to FY 2003.

Program 1.02: Exceptional Needs

Fund	ALI	Title	FY 2008	FY 2009
GRF	230-908	Common Schools G.O. Debt Service	$27,439,054	$33,578,199
Total Funding: Exceptional Needs			**$27,439,054**	**$33,578,199**

The funds appropriated for this program pay the debt service on bonds issued for projects under the Exceptional Needs Program (ENP). ENP, which was created by H.B. 850 of the 122nd General Assembly, is designed to assist school districts in addressing the health and safety needs associated with a specific building instead of addressing the entire classroom facilities needs of the district as under CFAP. School districts ranked up to the 75th percentile in wealth or with a territory larger than 300 square miles are eligible for participation in the program. An ENP school district's state and local shares are the same as they would have been under CFAP. Through FY 2006, 37 school districts have been approved for ENP funding and have received a total of $413.0 million in state funding. Two additional districts have been offered ENP funding in FY 2007. The state share of these two projects is approximately $11.4 million (29.4%) and the local share is approximately $27.4 million (70.6%). As of February 2007, neither of these two districts had secured their local funding. There are 9 projects being completed under this program in FY 2007, with the number of projects expected to rise to 12 in FY 2008 and 15 in FY 2009.

Extreme Environmental Contamination Program. This program, which continues to be authorized under the executive budget, allows a school district experiencing extreme environmental contamination to participate in ENP. River Valley Local (Marion) and Gorham-Fayette Local (Fulton) received assistance under this program. In addition, Three Rivers Local (Hamilton), one of the two districts offered ENP funding in FY 2007, was offered the funding through this program.

Program 1.03: Expedited Local Partnership

There are no bonds issued for the Expedited Local Partnership Program (ELPP), so there are no appropriations for this program. ELPP, which was created by S.B. 272 of the 123rd General Assembly, permits a school district that is not yet eligible for CFAP to enter into an agreement with SFC that will allow the district to spend local resources to construct new classroom facilities or to make major renovations to the district's existing classroom facilities. The local resources spent by the district will then be applied to the district's share of the basic project cost when it becomes eligible for assistance under CFAP. Through FY 2006, 88 school districts have approved master plans to participate in this program. These 88 participating districts have accumulated a total credit of approximately $1.8 billion against state funds. Eight of these 88 districts became eligible and were served by CFAP or ENP in FY 2006; these eight districts had a combined ELPP credit of $98.3 million. Another 7 of these 88 ELPP districts are currently being served by CFAP in FY 2007, with a combined ELPP credit of $120.0 million. No new ELPP projects have been approved in FY 2007; SFC expects the number of new ELPP projects to decrease as more districts become eligible to receive assistance under other SFC programs. Through December 2006, 67 ELPP buildings had opened across the state.

Program 1.04: Joint Vocational Facilities Assistance

Fund	ALI	Title	FY 2008	FY 2009
GRF	230-908	Common Schools G.O. Debt Service	$1,534,432	$2,668,129
Total Funding: Joint Vocational Facilities Assistance			**$1,534,432**	**$2,668,129**

The funds appropriated for this program pay the debt service on bonds issued for projects under the Joint Vocational Facilities Assistance Program (VFAP). VFAP, which was created by H.B. 675 of the 124th General Assembly, provides classroom facilities assistance to the state's 49 joint vocational school districts. Similar to CFAP, VFAP generally serves low wealth joint vocational school districts first and provides them with greater state shares. SFC has the authority to spend up to 2% of its annual capital appropriations for VFAP projects. It has disbursed nearly $9.0 million in capital funding and served six joint vocational school districts since the program's creation in 2003. Two additional joint vocational school districts are being served in FY 2007; the state and local shares for these two projects are estimated to be $24.1 million (75.1%) and $8.0 million (24.9%), respectively, for a total project cost of $32.1 million. These two joint vocational school districts have both secured the local shares of their project costs.

Joint vocational school districts may participate in a slightly modified version of the ELPP program called the Vocational Expedited Local Partnership Program (VELPP). VELPP, which was created by H.B. 675 of the 124th General Assembly, allows joint vocational school districts to use local resources for new construction or renovations prior to being eligible for VFAP. To date, two joint vocational school districts have been approved for participating in this program; they have accumulated $7.7 million of credit against state funds.

As mentioned in the Overview, the executive proposal abolishes the Career-Tech School Building Assistance program, which was transferred from the Department of Education to SFC in Am. Sub. H.B. 66 of the 126th General Assembly. This program provides interest-free loans to eligible school districts and joint vocational school districts for the construction and renovation of vocational classroom facilities or for the purchase of vocational education equipment. According to SFC, only one or two loans are made annually as joint vocational school districts are now served under VFAP.

Program 1.05: Energy Conservation

There are no bonds issued for the Energy Conservation Program, so there are no appropriations for this program. The Energy Conservation Program allows school districts with older facilities to borrow funds to make energy-saving facilities improvements without seeking voter approval. The cost of the improvements may not exceed the savings in energy, operating, and maintenance costs over a 15-year period. This program has been used for 937 projects in approximately 555 school districts, with estimated savings of over $97.8 million since the program began in 1985. Prior to its approval of a district's plan, SFC largely relies on the Department of Development to conduct a cost-benefit analysis.

Program 1.06: Community School Loan Guarantee

There are no bonds issued for the Community School Loan Guarantee Program, so there are no appropriations for this program. The Community School Loan Guarantee Program provides loan guarantees to community schools to assist them in acquiring, improving, or replacing classroom facilities. H.B. 94 of the 124th General Assembly appropriated $10 million for the program. Under this program, SFC may guarantee for a maximum of 15 years and for up to 85% of the principal and interest a loan made to the governing authority of a community school by a financial institution regulated by the federal government or the state of Ohio. The maximum loan guarantee amount is $1 million. To date, SFC has granted conditional approval of guarantees for 15 community school facilities projects totaling approximately $8.5 million.

Program 1.07: General School Facilities Assistance

Fund	ALI	Title	FY 2008	FY 2009
GRF	230-908	Common Schools G.O. Debt Service	$13,567,114	$13,890,152
SSR 5E3	230-644	Operating Expenses	$7,749,813	$7,786,197
Total Funding: General School Facilities Assistance			**$21,316,927**	**$21,676,349**

This program provides funding for administrative support for *all* of SFC's programs, as well as debt service for outstanding bonds issued for programs that have largely been phased out. SFC operating costs are primarily driven by the amount of capital appropriations SFC receives annually. Generally, SFC's operating budget is less than 1.0% of its annual capital funding. The funds from SSR Fund 5E3 appropriation item 230-644, Operating Expenses, are used to support all SFC staff in providing planning, oversight, and technical assistance on state supported school facilities projects. Additionally, these funds are used to contract for technical support and consulting services with private construction management contractors who directly manage school district projects. Fund 5E3 is supported entirely by investment earnings from the School Buildings Assistance Fund (Fund 32), the Public School Building Fund (Fund 21), and the Education Facilities Trust Fund (Fund N87). The investment earnings are transferred quarterly to cover the projected disbursements for the quarter. As indicated in the Overview, the executive budget provides SFC with a continuation operating budget, which will enable SFC to maintain current staff and other support services for the next biennium.

Funding under this program in appropriation item 230-908, Common Schools G.O. Debt Service, supports debt service on outstanding bonds that were previously sold to support the capital costs of the "Big Eight" Program (which provided matching state funds in eight large urban districts for major building repairs) and the state Emergency Repair Program (which provided state equity funds for emergency facility repairs in qualified school districts). These two programs have been discontinued.

REQUESTS NOT FUNDED

This section describes requests not funded in the executive budget and the effects on SFC's activities and spending decisions during the next biennium.

Operating Expenses						
Fund Line Item	**FY 2008 Requested**	**FY 2008 Recommended**	**Difference**	**FY 2009 Requested**	**FY 2009 Recommended**	**Difference**
5E3 230-644	$8,671,485	$7,749,813	$921,672	$8,901,485	$7,786,197	$1,115,288

The executive budget does not fully fund SFC's request for operating expenses in both FY 2008 and FY 2009. SFC's request included funding for the hiring of two new employees over the next biennium. The executive budget does not fund this portion of the request and, instead, provides funds for SFC to maintain its current staff and other support services.

g:\budget\budget.127\redbooks\houseredbooks\edu agencies\sfc.doc/lb

General Revenue Fund

GRF 230-428 Lease Rental Payments

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
$31,765,182	$31,697,465	$31,684,689	$31,603,200	**$22,702,000**	**$0**
	-0.2%	0.0%	-0.3%	**-28.2%**	

Source: GRF

Legal Basis: ORC 3318.01 through 3318.20

Purpose: This line item provides funds to pay for debt service incurred by the Treasurer of State from the issuance of non-general obligation bonds to fund state supported school facilities projects. Debt service paid from this line item was from revenue bonds issued prior to the end of FY 2000. Because they have higher interest rates than general obligation debt, it is unlikely that new revenue bonds will be issued. A 1999 constitutional amendment authorized general obligation bond to be issued to support school facilities projects. All of the existing revenue bonds are scheduled to be retired in 2008.

GRF 230-908 Common Schools General Obligation Debt Service

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
$91,859,332	$133,667,174	$171,455,309	$224,911,500	**$284,768,400**	**$339,648,300**
	45.5%	28.3%	31.2%	**26.6%**	**19.3%**

Source: GRF

Legal Basis: Section 209.90 of Am. Sub. H.B. 66 of the 126th G.A. (originally authorized by Article VIII, Section 2n of the Ohio Constitution)

Purpose: This line item provides debt service payments to retire general obligation bonds issued for state supported school facility projects. A 1999 constitutional amendment authorized general obligation debt, in amounts authorized by the General Assembly, to be issued for the purpose of paying the state share of capital facilities for a system of common schools throughout the state.

Federal Special Revenue Fund Group

3X9 230-601 Federal School Facilities Grant

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
$16,489,008	$4,976,397	$889,532	$1,460,663	**$0**	**$0**
	-69.8%	-82.1%	64.2%		

Source: FED: CFDA 84.352, School Renovation, IDEA, and Technology Grants Program

Legal Basis: Discontinued line item (originally established by Controlling Board on October 29, 2001)

Purpose: This line item provided competitive grants to local education agencies to make emergency renovations and repairs necessary to ensure the health and safety of students and staff. In 2001, the U.S. Department of Education awarded a one-time grant to Ohio for the School Renovation, IDEA, and Technology Program in the amount of $37.6 million with the Ohio Department of Education as the grantee and the SFC and SchoolNet Commission as sub-grantees. The Controlling Board last established appropriation for this line item on August 14, 2006. The program has ended.

State Special Revenue Fund Group

5E3 230-644 Operating Expenses

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
$5,426,340	$6,243,681	$6,458,322	$7,691,485	**$7,749,813**	**$7,786,197**
	15.1%	3.4%	19.1%	**0.8%**	**0.5%**

Source: SSR: Transfers of investment earnings from the School Building Assistance Fund (Fund 032), the Public School Building Fund (Fund 021), and the Education Facilities Trust Fund (Fund N87)

Legal Basis: ORC 3318

Purpose: This line item is used by the SFC to evaluate school facilities, prepare building design specifications, provide project management services, and perform other duties specified in ORC 3318.

Lottery Profits/Education Fund Group

020 230-620 Career-Tech School Building Assistance

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
$0	$0	$0	$2,000,000	**$0**	**$0**
			N/A		

Source: LPE: Funds transferred by the Controlling Board, as needed

Legal Basis: Discontinued line item (originally established in ORC 3318.47; transferred to School Facilities Commission in Am. Sub. H.B. 66 of the 126th G.A.)

Purpose: This line item provided school districts, including joint vocational school districts, with interest-free loans for the construction, renovation, or purchase of vocational classroom facilities. Prior to FY 2006, this program was called the Vocational School Building Assistance Program and was funded under the Department of Education's Fund 020 appropriation item 200-620, Vocational School Building Assistance. The program is being abolished in H.B. 119 of the 127th General Assembly, with any outstanding Fund 020 moneys and loan repayments being transferred to the Public School Building Fund (Fund 021).

LSC Budget Spreadsheet by Line Item, FY 2008 - FY 2009

Fund	ALI	ALI Title	2006	Estimated 2007	Executive 2008	% Change 2007 to 2008	Executive 2009	% Change 2008 to 2009
SFC School Facilities Commission								
GRF	230-428	Lease Rental Payments	$ 31,684,689	$31,603,200	$ 22,702,000	-28.2%	$ 0	-100.0%
GRF	230-908	Common Schools General Obligation Debt Service	$ 171,455,309	$224,911,500	$ 284,768,400	26.6%	$ 339,648,300	19.3%
General Revenue Fund Total			**$ 203,139,998**	**$ 256,514,700**	**$ 307,470,400**	**19.9%**	**$ 339,648,300**	**10.5%**
3X9	230-601	Federal School Facilities Grant	$ 889,532	$1,460,663	$ 0	-100.0%	$ 0	N/A
Federal Special Revenue Fund Group Total			**$ 889,532**	**$ 1,460,663**	**$ 0**	**-100.0%**	**$ 0**	**N/A**
5E3	230-644	Operating Expenses	$ 6,458,322	$7,691,485	$ 7,749,813	0.8%	$ 7,786,197	0.5%
State Special Revenue Fund Group Total			**$ 6,458,322**	**$ 7,691,485**	**$ 7,749,813**	**0.8%**	**$ 7,786,197**	**0.5%**
020	230-620	Career-Tech School Building Assistance	----	$2,000,000	$ 0	-100.0%	$ 0	N/A
Lottery Profits/Education Fund Group Total			**----**	**$ 2,000,000**	**$ 0**	**-100.0%**	**$ 0**	**N/A**
Total All Budget Fund Groups			***$ 210,487,852***	***$ 267,666,848***	***$ 315,220,213***	***17.8%***	***$ 347,434,497***	***10.2%***