LSC Redbook

Analysis of the Executive Budget Proposal

School Facilities Commission

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READER'S GUIDE

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 School Facilities Commission (SFC), which includes the following three sections.

1. Overview: Provides a brief description of SFC, an overview of its recommended appropriations, and a description of SFC programs.
2. Analysis of Executive Proposal: Provides a detailed analysis of the executive budget recommendations for SFC, including funding for each appropriation line item.
3. Attachments: Includes the catalog of budget line items (COBLI) for SFC, which briefly describes each line item, and the LSC budget spreadsheet for SFC.

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OVERVIEW

Agency Overview

The Ohio School Facilities Commission (SFC) provides funding, management oversight, and technical assistance to school districts and to the Ohio Schools for the Blind and Deaf 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 plan to rebuild all of Ohio's schools. Since its inception through June 2010, SFC has received about $10.89 billion in capital appropriations and disbursed about $8.56 billion. Approximately $4.10 billion (38%) of the $10.89 billion in SFC capital appropriations are from proceeds of the tobacco securitization authorized in H.B. 119 of the 127th General Assembly. As of the end of 2010, approximately 790 new or renovated buildings had opened across Ohio and another 282 were in design or construction.

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 from its capital accounts. In FY 2011, SFC has an estimated operating budget of nearly $9.8 million, while its capital expenditures are expected to total approximately $990.0 million.

Staffing Levels

In FY 2011, SFC has about 75 employees. In addition to its regular staff, SFC hires private contractors to deliver various services, such as educational planning, enrollment projections, building assessments, claims analysis, and construction management. SFC's staff project planners and managers oversee these private contractors. The executive budget decreases SFC's operational funding by 8.2% in FY 2012 and by 4.5% in FY 2013. According to a spokesperson from SFC, this decrease may make it difficult for the agency to retain its 75 employees over the next biennium. SFC also expects that purchased personal costs for educational planning services will be reduced under the executive budget.

Appropriation Overview

The following table shows the executive recommended appropriations for SFC by fund group. As mentioned previously, SFC's GRF appropriations are for debt service on the bonds issued to finance the state share of school facilities projects. Under the executive budget, as part of a debt restructuring plan, debt service payments decrease by 9.8% in FY 2012. However, because debt service payments are not scheduled to be restructured in FY 2013 under the executive budget, payments in that fiscal year will return to normal levels, which results in the increase in appropriation of 127.0%. SFC's State Special Revenue appropriations are for the operating expenses of the agency. As mentioned above, this funding decreases by 8.2% in FY 2012 and 4.5% in FY 2013. School Building Assistance funds supported payments in FY 2010 and FY 2011 under the community school loan guarantee program, which is discussed below in the "SFC Programs" section. The executive proposal does not appropriate funds for payments under this program in the next biennium.

Executive Recommended Appropriations by Fund Group, FY 2012 and FY 2013					
Fund Group	**FY 2011**	**FY 2012**	**% change, FY 2011-FY 2012**	**FY 2013**	**% change, FY 2012-FY 2013**
General Revenue	$167,038,700	$150,604,900	-9.8%	$341,919,400	127.0%
State Special Revenue	$9,750,000	$8,950,000	-8.2%	$8,550,000	-4.5%
School Building Assistance	$102,000	$0	100.0%	$0	0.0%
TOTAL	**$176,890,700**	**$159,554,900**	**-9.8%**	**$350,469,400**	**119.7%**

*FY 2011 figures represent estimated expenditures.

Executive Proposal Recommendations

The provisions below are executive proposal recommendations that generally apply to SFC's procedure for conducting facilities projects. Those recommendations that are program or funding specific are discussed below, where applicable, in the "SFC Programs" section.

Lapsed SFC Projects

Under current law, a school district receiving conditional approval of state funding for an SFC project has one year to gain voter approval of the bond issue and tax levy necessary to pay its share of the project cost. If the school district does not gain voter approval, the SFC conditional approval for funding lapses. After a district's funding has lapsed, the district may still attempt to receive voter approval. If the voters do eventually approve the local share of the project, the district receives priority for SFC funding as it becomes available. Districts with lapsed projects typically resubmit to their voters the same project scope and costs of their original project.

The executive proposal makes two changes to these procedures. First, the proposal gives districts an additional month to obtain the required voter approval before their funding lapses. Second, the proposal specifies that if a school district wishes to renew a lapsed project, it must request that SFC set a new scope, estimated cost, and estimated millage rate for the project. Instead of resubmitting the original project scope and costs, the district may submit the updated project scope and costs to the district's voters. As under current law, if the district secures voter approval, its project will receive first priority for SFC funding as it becomes available.

Project Close-Out

The executive proposal establishes criteria and procedures for SFC to use to close out its state-assisted projects. The proposal requires SFC to issue a certificate of completion for a school district project when the following have occurred: (1) all facilities have been completed and the district has received certificates of occupancy, (2) SFC has issued certificates of contract completion on all prime construction contracts, (3) SFC has completed a final accounting of the district's project construction fund and determined that all payments were in compliance with SFC policies, (4) any litigation concerning the project has been resolved, and (5) all construction management services provided by SFC have been delivered. SFC also may issue a certificate of completion if it determines that the circumstances preventing any of the five criteria from occurring are so minor that the project should be considered complete.

If a school district does not voluntarily participate in the close-out process, the executive proposal permits SFC to issue a certificate of completion if the construction manager verifies that all facilities have been completed and SFC determines those facilities have been occupied for at least one year. In cases where this close-out procedure is followed, the executive proposal requires the Auditor of State to issue a finding for recovery against the district and request legal action by the Attorney General if any funds remaining in the project construction fund that are owed to SFC have not been returned within 60 days after issuance of the certificate of completion.

Debarment of Contractors on SFC Projects

Continuing law permits the Director of Administrative Services to debar contractors from contract awards for public improvements for a variety of reasons. The executive proposal authorizes SFC to request the Director to do the same for contractors awarded contracts for SFC projects.

General Changes in Public Construction Law

The executive proposal modifies the law governing the construction process for public authorities, including SFC and school districts. In addition to the multiple-prime contract model required under current law, the executive proposal allows state agencies to choose the manager-at-risk or design-build construction contract model for capital projects. The executive proposal also increases from $50,000 to $200,000 the contract threshold for which agencies must obtain additional design or construction documentation, such as full and accurate plans of the construction, a full and accurate estimate of each item of expense, and a life-cycle cost analysis. Agencies that contract with manager-at-risk or design-build firms are exempted from this requirement altogether. For a complete explanation of these proposed changes, please see the bill analysis.

SFC Programs

SFC provides state funding and assistance through a variety of programs including its four major ones: the Classroom Facilities Assistance Program, the Exceptional Needs Program, the Expedited Local Partnership Program, and the Vocational Facilities Assistance Program. SFC's programs, and any executive proposed provisions affecting these programs, are discussed below.

Classroom Facilities Assistance Program (CFAP)

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 $8.56 billion in capital funding disbursed through June 2010, approximately 88.2% ($7.55 billion) was disbursed through this program. As discussed in greater detail below, 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.

The Accelerated Urban Initiative

Included in the 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.[1] Due to size and complexity, these six district projects are divided into multiple segments; although districts generally start projects in different segments 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

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

$4.94 billion, with a combined state share over the lifetime of these projects estimated at approximately $2.61 billion. From FY 2003 through FY 2010, SFC disbursed over $1.28 billion to these six districts and helped build or renovate 150 buildings. All of the six urban districts have secured all or part of their required local shares. Cincinnati, Dayton, and Toledo have reached their final scheduled segments, Cleveland has reached segment five of ten projected segments, and Akron and Columbus have reached phase three of six and seven projected segments, respectively.

CFAP's Eligibility and State and Local Share Determinations

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 its 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.

Determining the Eligibility Ranking List

By September 1st of each fiscal year, the Ohio 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

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 in 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 based on 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 + 0.0002 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 $112.9 million and it currently has no debt that qualifies for the required indebtedness calculation. 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 + 0.0002 x [(District A's Percentile Ranking) - 1] = 0.05 + 0.0002 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) = 0.01 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 + 0.0002 x [(District B's Percentile Ranking) - 1] = 0.05 + 0.0002 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.

Spending Local and State Shares of Facilities Projects

As mentioned above, each SFC project contains a local and a state share. Under current law, the funds for the state share of a project are spent first in most district projects. The executive proposal, instead, requires that local and state funds be spent simultaneously, in proportion to their respective shares, which is currently how funds are spent in projects for joint vocational school districts and the six districts in the Accelerated Urban Initiative.

Segmenting of Facilities Projects

H.B. 562 of the 127th General Assembly permits school districts that have not participated in a CFAP project prior to September 23, 2008 or that received only partial assistance prior to May 20, 1997 to segment their CFAP projects. Prior to H.B. 562, only the six urban school districts participating in the Accelerated Urban Initiative were permitted to segment their CFAP projects, while the other school districts had to complete all of their facilities' needs at once. Through December 2010, approximately 20 school districts had opted to segment their projects.

Leadership in Energy and Environmental Design (LEED)

In September 2007, SFC launched the Green School Initiative by adopting the LEED for Schools rating system as part of its school design standards. All school buildings assisted by SFC after September 2007 will be required to attain at least silver certification. In order to obtain a silver certification, a project must receive a minimum of 37 of 79 possible points. Prior to the establishment of the Green School Initiative, the SFC's school design standards had aligned with 20 to 28 of those 37 points. Created by the U.S. Green Building Council, LEED is a third-party certification program and a widely used benchmark for the design, construction, and operation of high-performance green buildings. LEED for Schools, which was launched in April 2007, recognizes the unique nature of K-12 school design and construction and addresses issues such as classroom acoustics, master planning, mold prevention, and environmental site assessment. According to SFC, two buildings have received certification, including one gold certification. Overall, 255 school buildings have been registered for at least a silver LEED certification.

Corrective Action Grants

H.B. 266 of the 127th General Assembly appropriated $25.0 million to be used by SFC to award grants to school districts to correct defective or omitted work in SFC projects. Schools are currently required to notify SFC of any potential omitted or defective work within five years of project close-out to be eligible for the grants. Funds received from the grants are in addition to those funds received by the school districts from the state for its SFC project. Through June 2010, eight school districts had received approximately $1.0 million in grant funds. The executive proposal codifies this program, with a few changes from the current temporary law provision, including changing the deadline for a school district to notify SFC of defects or omissions to three years after facility occupancy, instead of five years after project close-out.

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 June 2010, 45 school districts have been approved for ENP funding and have received a total of $609.6 million in state funding.

Extreme Environmental Contamination Program

This program allows a school district experiencing extreme environmental contamination to participate in ENP. River Valley Local (Marion), Gorham-Fayette Local (Fulton), and Three Rivers Local (Hamilton) have received assistance under this program. Since 1999, the program has been authorized under temporary law. The executive proposal codifies this program.

Expedited Local Partnership Program (ELPP)

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 2010, 105 school districts have approved master plans to participate in this program and have spent or are eligible to spend a total of $2.25 billion that will be applied to the local shares of ongoing or future CFAP projects. Of these 105 districts, 96 have completed their projects while the remaining nine have projects still in design or construction.

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 (JVSDs). 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. The executive proposal notwithstands this provision and instead permits SFC to provide VFAP assistance to at least one joint vocational school district each year. SFC has disbursed $110.9 million in capital funding and served 14 joint vocational school districts since the program's creation in 2003.

Vocational Expedited Local Partnership Program (VELPP)

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 authorized by H.B. 675 of the 124th General Assembly and created by SFC rule, allows joint vocational school districts to use local resources for new construction or renovations prior to being eligible for VFAP. Through June 2010, four joint vocational school districts have been approved for participating in this program; they are eligible to spend a total of $3.3 million that will later be applied to the local shares of future VFAP projects.

Energy Conservation 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 952 projects in approximately 557 school districts, with estimated savings of over $115.5 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.

The executive proposal requires participating school districts to report (1) forgone residual value of materials or equipment replaced by the energy conservation measures and (2) a baseline analysis of actual energy consumption data for the preceding five years, along with other current law savings estimate requirements, to SFC when applying to SFC for authority to purchase energy conservation measures.

Emergency Assistance Program

The Emergency Assistance Program allows any school district that has suffered a natural disaster "due to an act of God" to receive state grants to help defray the cost of replacing damaged facilities. Assistance under this program is limited to any costs not covered by insurance or other public or private relief money. Additionally, any damage caused by age or lack of timely maintenance is not compensable. There is no local share requirement under this program. Through December 2010, Findlay City (Hancock) and Lake Local (Wood) have been approved for funding under this program.

Schools for the Blind and Deaf Facilities Project

H.B. 699 of the 126th General Assembly appropriated $4.0 million in capital funds to SFC to administer the planning and design of new campuses for the Ohio Schools for the Blind and Deaf. H.B. 562 of the 127th General Assembly appropriated an additional $37.0 million for the construction work. Plans for the project include construction of a combined 170,000 square feet of residential and classroom facilities for both schools. Through June 2010, $3.8 million had been spent on these projects.

Community School Loan Guarantee 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. Through FY 2009, SFC had granted conditional approval of guarantees for 15 community school facilities projects totaling approximately $8.5 million. The loans for 11 of these projects, totaling $5.8 million, have been paid off. Three of the remaining four community schools with approved guarantees are in good standing with their loan payments. One community school, however, closed down in December 2008 with an outstanding loan balance, of which the state has guaranteed $1.0 million. SFC has been making payments on the interest from this loan pending a potential sale of the property and a final calculation of the state's total liability. SFC has not guaranteed any loans since FY 2009. The executive proposal provides no appropriation for this program in the next biennium.

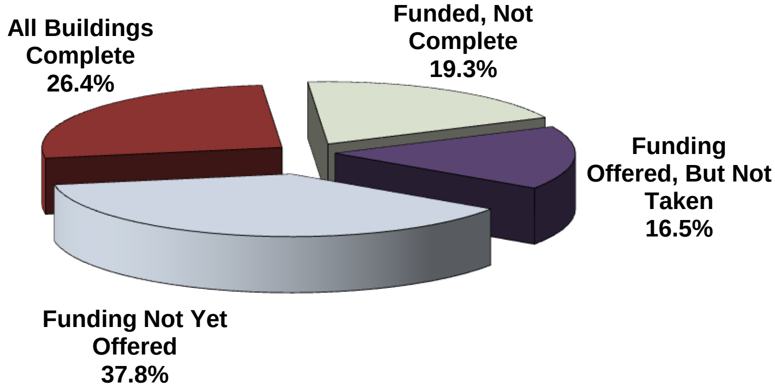
Half-Mill Maintenance Equalization Program

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 half-mill maintenance tax levies as required by CFAP. These subsidies pay the difference between what each district could raise per pupil with one-half mill and what the district with the state average valuation per pupil could raise per pupil with one-half mill at the time each district enters into its CFAP project agreement with the state. Districts that had already entered into 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 executive proposal appropriates $17.3 million in FY 2012 and $18.0 million in FY 2013 for this program in ODE's budget.

SFC Progress in Rebuilding Ohio's Schools

At the end of FY 2010, 169 regular school districts (27.6%) and six JVSDs (12.3%) have completed all buildings on their master facility plans. An additional 120 school districts (19.6%) and eight JVSDs (16.3%) have projects that have been funded, but not completed. Finally, 102 school districts (16.6%) and seven JVSDs (14.3%) have been offered funding, but have either deferred the offer or allowed the offer to lapse because they were unable to secure the local share. These districts will be eligible for funding in the future. This leaves 222 school districts (36.2%) and 28 JVSDs (57.1%) that have not yet been offered funding. These statistics are summarized in the following chart.

Chart 1: Status of School Districts and JVSDs in Completing Master Facility Plans, July 2010



According to SFC's project status report from June 2010, the total project cost for all projects that have been completed or are in progress is $16.73 billion. This amount includes a state share of $10.68 billion (63.8%) and a local share of $6.05 billion (36.2%).

Analysis of Executive Proposal

The following table shows the appropriation in the executive proposal for each appropriation item in SFC's budget in each fiscal year of the biennium.

Governor's Recommended Amounts for the School Facilities Commission				
Fund		**ALI and Name**	**FY 2012**	**FY 2013**
General Revenue Fund				
GRF	230908	Common Schools G.O. Debt Service	$150,604,900	$341,919,400
		General Revenue Fund Subtotal	***$150,604,900***	***$341,919,400***
State Special Revenue Fund Group				
5E30	230644	Operating Expenses	$8,950,000	$8,550,000
		State Special Revenue Fund Group Subtotal	***$8,950,000***	***$8,550,000***
Total Funding: School Facilities Commission			**$159,554,900**	**$350,469,400**

Common Schools G.O. Debt Service (230908)

This line item is used to pay the debt service on general obligation (G.O.) bonds issued to raise funds for the state share of school facilities project costs. Historically, two types of bonds have been issued for SFC-funded programs: special revenue bonds and 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 last remaining special revenue bonds for school facilities assistance were retired in 2008.

The executive proposal recommends a 9.8% decrease in FY 2012 but a 127.0% increase in FY 2013 for this item. As explained above, debt service payments decrease by 9.8% in FY 2012 as part of the proposal's debt restructuring plan. However, because debt service payments are not scheduled to be restructured in FY 2013 under the proposal, payments in that year are expected to return to normal levels resulting in an increase in appropriations of 127.0%.

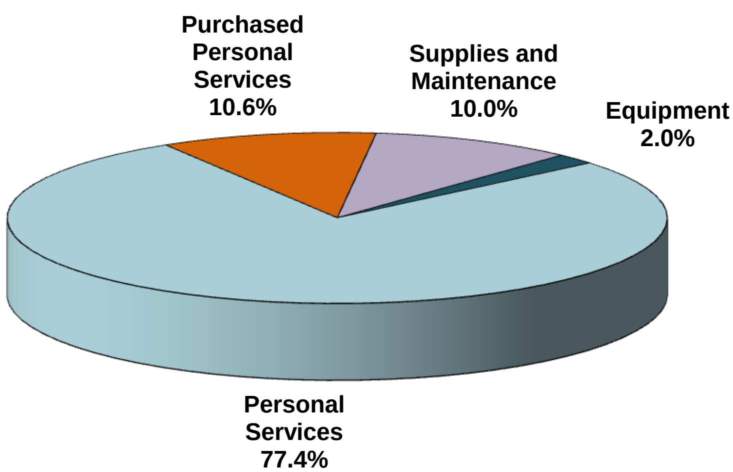
Operating Expenses (230644)

This line item provides funding for administrative support for all of SFC's programs. SFC's 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. As indicated in the Overview, the executive budget recommends decreases of 8.2% in FY 2012 and 4.5% in FY 2013, which may make it difficult for SFC to maintain its administrative support over the next biennium.

The executive proposal authorizes SFC to determine the amount of funding available for disbursement in a given fiscal year for any CFAP project in order to keep aggregate state capital spending within approved limits. The proposal also permits SFC to take actions including, but not limited to, determining the schedule for design or bidding of approved projects, to ensure an appropriate and sustainable cash flow.

Chart 2 shows the executive recommended appropriations for SFC's operating expenses broken down by expense category. As can be seen from the chart, personal services and purchases personal services together make up approximately 88.0% of the recommended appropriations followed by supplies and maintenance (10.0%) and equipment at 2.0%. The purchased personal services category includes contracts for technical support and consulting services with private construction management contractors who directly manage school district projects.

Chart 2: Executive Recommended Biennial Appropriations for SFC Operating Expenses, by Expense Category



Historically, SFC's operating expenses were supported entirely by investment earnings from the School Buildings Assistance Fund (Fund 7032), the Public School Building Fund (Fund 7021), and the Education Facilities Trust Fund (Fund N087). The investment earnings are transferred quarterly to Fund 5E30 to cover the projected disbursements for the quarter. H.B. 1 of the 128th General Assembly permitted the transfer of noninterest cash from Fund 7021 and Fund N087 to support SFC operations. The first transfer of noninterest cash occurred in November 2011. The executive budget continues to permit the transfer of noninterest cash.

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General Revenue Fund

GRF 230428 Lease Rental Payments

FY 2008	FY 2009	FY 2010	Estimate FY 2011	Introduced FY 2012	Introduced FY 2013
$22,692,653	$0	$0	$0	**$0**	**$0**
	-100%	N/A	N/A	**N/A**	**N/A**

Source: General Revenue Fund

Legal Basis: Discontinued line item

Purpose: This line item provided debt service payments to retire special revenue bonds issued for state-supported school facilities projects. These special revenue bonds were issued before 2000; all of them were retired in 2008. A 1999 constitutional amendment authorized the state to issue general obligation bonds for the purpose of financing capital needs of primary and secondary education. In contrast with special revenue bonds, which are paid by a dedicated revenue source (in this case, GRF), general obligation bonds are backed by the full faith and credit of the state. Because of this additional backing, general obligation bonds can generally be issued at lower interest rates than special revenue bonds. Since 2000, the state has issued only general obligation bonds for state-supported school facilities projects.

GRF 230908 Common Schools General Obligation Debt Service

FY 2008	FY 2009	FY 2010	Estimate FY 2011	Introduced FY 2012	Introduced FY 2013
$263,080,401	$204,897,889	$148,231,389	$167,038,700	**$150,604,900**	**$341,919,400**
	-22.1%	-27.7%	12.7%	**-9.8%**	**127.0%**

Source: General Revenue Fund

Legal Basis: Article VIII, Section 2n of the Ohio Constitution; Section 385.10 of Am. Sub. H.B. 1 of the 128th G.A.

Purpose: This line item provides debt service payments to retire general obligation bonds issued for state supported school facilities projects. A 1999 constitutional amendment authorized the state to issue general obligation bonds for the purpose of financing capital needs of primary and secondary education. In contrast with special revenue bonds, which are paid by a dedicated revenue source, general obligation bonds are backed by the full faith and credit of the state. Because of this additional backing, general obligation bonds can generally be issued at lower interest rates than special revenue bonds. Since 2000, the state has issued only general obligation bonds for state-supported school facilities projects.

State Special Revenue Fund Group

5E30 230644 Operating Expenses

FY 2008	FY 2009	FY 2010	Estimate FY 2011	Introduced FY 2012	Introduced FY 2013
$7,373,078	$7,977,124	$7,267,000	$9,750,000	**$8,950,000**	**$8,550,000**
	8.2%	-8.9%	34.2%	**-8.2%**	**-4.5%**

Source: State Special Revenue Fund Group: Transfers of investment earnings from the School Building Assistance Fund (Fund 7032), the Public School Building Fund (Fund 7021), and the Education Facilities Trust Fund (Fund N087)

Legal Basis: ORC 3318

Purpose: This line item is used for the personnel, purchased service, equipment, and maintenance costs of the SFC. These operating funds enable the SFC to perform its duties specified in ORC 3318, such as evaluating school facilities, preparing building design specifications, and providing project management services.

School Building Assistance Fund Group

5S60 230602 Community School Loan Guarantee

FY 2008	FY 2009	FY 2010	Estimate FY 2011	Introduced FY 2012	Introduced FY 2013
$0	$65,064	$49,767	$102,000	**$0**	**$0**
	N/A	-23.5%	105.0%	**-100%**	**N/A**

Source: School Building Assistance Fund Group: Bond proceeds; investment earnings

Legal Basis: Section 385.10 of Am. Sub. H.B. 1 of the 128th G.A. (originally authorized in ORC 3318.50 and 3318.52)

Purpose: This line item supports the Community School Loan Guarantee Program, which provides loan guarantees to community schools to assist them in acquiring, improving, or replacing classroom facilities. These funds pay the interest on a community school's defaulted loan that was guaranteed under the program. This line item is not funded in the FY 2012 - FY 2013 biennium.

School Facilities Commission

7021 230909 School Entrance Improvements

FY 2008	FY 2009	FY 2010	Estimate FY 2011	Introduced FY 2012	Introduced FY 2013
$0	$570,340	$755,716	$0	**$0**	**$0**
	N/A	32.5%	-100%	**N/A**	**N/A**

Source: School Building Assistance Fund Group: Grant from the Ohio Department of Transportation

Legal Basis: As needed line item (originally established by Controlling Board on February 11, 2008)

Purpose: This line item received $4.0 million from the Ohio Department of Transportation, as directed by H.B. 119 of the 127th G.A., to make grants available for state highway improvements at public school entrances if the school is participating in a SFC project and the highway improvements are made at entrances within school zones. Grant awards are limited to $500,000 per school district and are contingent on local government officials or on the school district, or both, matching 25% of the improvement cost.

7021 230910 Statehouse Debt Service

FY 2008	FY 2009	FY 2010	Estimate FY 2011	Introduced FY 2012	Introduced FY 2013
$0	$0	$755,537	$0	**$0**	**$0**
	N/A	N/A	-100%	**N/A**	**N/A**

Source: School Building Assistance Fund Group: Moneys transferred or appropriated by the General Assembly; grants, gifts, or money contributions; investment earnings

Legal Basis: Discontinued line item (originally established by Section 385.93 of Am. Sub. H.B. 1 of the 128th G.A.)

Purpose: This line item was used to pay the outstanding debt obligations issued for the restoration of the Ohio Statehouse that was completed in 1996.

Lottery Profits/Education Fund Group

7020 230620 Career-Tech School Building Assistance

FY 2008	FY 2009	FY 2010	Estimate FY 2011	Introduced FY 2012	Introduced FY 2013
$850,000	$0	$0	$0	**$0**	**$0**
	-100%	N/A	N/A	**N/A**	**N/A**

Source: Lottery Profits/Education Fund Group: 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 or renovation of vocational classroom facilities or purchase of vocational equipment. Prior to FY 2006, this program was called the Vocational School Building Assistance Program and was funded under the Department of Education's Fund 7020 appropriation item 200620, Vocational School Building Assistance. The program was abolished in Am. Sub. H.B. 119 of the 127th G.A., with any outstanding balances in Fund 7020 and loan repayments being transferred to the Public School Building Fund (Fund 7021).

Line Item Detail by Agency

Report For Main Operating Appropriations Bill **Version:** As Introduced

SFC School Facilities Commission

			FY 2010	Estimate FY 2011	Introduced FY 2012	FY 2011 to FY 2012 % Change	Introduced FY 2013	FY 2012 to FY 2013 % Change
GRF	230908	Common Schools General Obligation Debt Service	$ 148,231,389	$ 167,038,700	$ 150,604,900	-9.84%	$ 341,919,400	127.03%
General Revenue Fund Total			**$ 148,231,389**	**$ 167,038,700**	**$ 150,604,900**	**-9.84%**	**$ 341,919,400**	**127.03%**
5E30	230644	Operating Expenses	$ 7,267,000	$ 9,750,000	$ 8,950,000	-8.21%	$ 8,550,000	-4.47%
State Special Revenue Fund Group Total			**$ 7,267,000**	**$ 9,750,000**	**$ 8,950,000**	**-8.21%**	**$ 8,550,000**	**-4.47%**
5S60	230602	Community School Loan Guarantee	$ 49,767	$ 102,000	$ 0	-100.00%	$ 0	N/A
7021	230909	School Entrance Improvements	$ 755,716	$ 0	$0	N/A	$0	N/A
7021	230910	Statehouse Debt Service	$ 755,537	$ 0	$0	N/A	$0	N/A
School Building Assistance Fund Group Total			**$ 1,561,020**	**$ 102,000**	**$ 0**	**-100.00%**	**$ 0**	**N/A**
School Facilities Commission Total			**$ 157,059,409**	**$ 176,890,700**	**$ 159,554,900**	**-9.80%**	**$ 350,469,400**	**119.65%**