School Facilities Commission

- Continuation operating budget
- 97.7% of the total funding is for debt service payments
- Receives $4.12 billion from tobacco securitization proceeds for use in the next three years

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OVERVIEW

Duties and Responsibilities

The Ohio School Facilities Commission (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. SFC is responsible for providing funding, management oversight, and technical assistance to school districts for the construction and renovation of classroom facilities. Since its inception, SFC has received over $7.0 billion in capital appropriations and disbursed more than $5.5 billion. With these funds, SFC has assisted approximately 290 school districts and provided support for 480 new or renovated buildings in those districts.

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.

Agency in Brief

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Number of Employees*	Total Appropriations-All Funds		GRF Appropriations		Appropriation Bill(s)
	2008	2009	2008	2009	
61	$315.22 million	$347.43 million	$307.47 million	$339.65 million	Am. Sub. H.B. 119

* Employee count obtained from the Department of Administrative Services (DAS) payroll reports as of June 2007.

The all-fund appropriations for SFC total $315.2 million in FY 2008, an increase of 17.8%, and $347.4 million in FY 2009, an increase of 10.2%. The vast majority of these appropriations are supported by the General Revenue Fund (GRF), which accounts for $647.1 million (97.7%) of the $662.7 million in total biennial appropriations. All of the GRF appropriations for SFC are for debt service on bonds issued for classroom facilities projects. The operating expense funding for SFC, which accounts for the remaining 2.3% of the total biennial appropriations, is supported entirely through investment earnings from its capital accounts. These funds allow SFC to maintain its current staffing level over the biennium.

Tobacco Securitization

The budget creates the Buckeye Tobacco Settlement Financing Authority for the securitization of up to 100% of Ohio payments to be received over the next 40 or more years under the Tobacco Master Settlement Agreement. The 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 to SFC and other capital facilities projects. It also provides that any net proceeds in excess of $5.0 billion must be deposited into Fund 032 to assist SFC with additional support for school facilities projects.

The Office of Budget and Management (OBM) has estimated the net proceeds from the securitization to be $5.04 billion. According to OBM, $2.20 billion would cover all of the tobacco funding allocated by former section 183.02 of the Revised Code to the Education Facilities Trust Fund (Fund N87) and the Education Facilities Endowment Fund (Fund P87) for FY 2008 through FY 2025. The remaining $2.84 billion would be used to pay for 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 serviced by GRF, the required GRF debt service payments for SFC and higher education will be lower in the next three years. Under the budget, GRF moneys that would otherwise be used to finance bonds issued for SFC and higher education projects in the next three years will be used to expand the Homestead Exemption Program.

In May 2007, SFC offered funding to 44 new districts. In anticipation of the additional funding provided through the tobacco securitization, in July 2007 SFC offered funding to another 57 districts. With these two rounds of funding, SFC has offered assistance to over half of all school districts in the state.

The budget requires the Director of Budget and Management to transfer $40.0 million cash from the Education Facilities Endowment Fund (Fund P87) to the GRF. Fund P87 has received $5.0 million in each fiscal year since FY 2000 through tobacco appropriation bills.

Vetoed Provision

The Governor vetoed a provision that would have prevented a school district's percentile wealth ranking from being raised higher for purposes of determining eligibility for the Classroom Facilities Assistance Program (CFAP) funding after the district had entered into an agreement with SFC under the Expedited Local Partnership Program and after the district's voters had approved a bond issue to pay the district's portion of the basic project cost.

ANALYSIS OF THE BUDGET

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.

Fund	ALI	Title	FY 2008	FY 2009
General Revenue Fund (GRF)				
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 Revenue Fund Subtotal	**$307,470,400**	**$339,648,300**
State Special Revenue Fund (SSR)				
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**

Operating Expense Funding

As indicated in the Overview section, SFC's operating expenses are entirely funded by investment earnings from its capital accounts. Investment earnings from the School Buildings Assistance Fund (Fund 032), the Public School Building Fund (Fund 021), and the Education Facilities Trust Fund (Fund N87) are transferred quarterly to Fund 5E3, a State Special Revenue Fund, to cover the projected disbursements for the quarter. SSR Fund 5E3 appropriation item 230-644, Operating Expenses, receives increases of 0.8% in FY 2008 and 0.5% in FY 2009. These funds are used to support wage and benefits of 61 employees, contract for technical support and consulting services with private construction management contractors who directly manage school district projects, and pay for other equipment and maintenance costs of SFC.

Debt Service Funding

Debt service funding for SFC is provided through two GRF appropriation items: 230-428, Lease Rental Payments, and 230-908, Common School General Obligation Debt Service. Ohio voters approved a constitutional amendment in November 1999 to authorize the state to issue general obligation (G.O.) bonds for financing capital needs of primary and secondary education and higher education. Both G.O. bonds and special revenue bonds are considered direct debt of the state; however, G.O. bonds are backed by the full faith and credit of the state while special revenue bonds are paid for by a dedicated revenue source (in this case, GRF). Because of the additional backing, G.O. bonds generally can be issued at lower interest rates than special revenue bonds. Since 2000 the state has issued only G.O. bonds for SFC projects. All existing special revenue bonds for SFC projects are expected to be retired in 2008. This is why item 230-428 receives no appropriation in FY 2009.

The costs of SFC projects over the next three years will primarily be paid for by the net proceeds of the tobacco securitization. The budget authorizes the Director of Budget and Management to reduce GRF appropriations for item 230-908 and use those excess funds to help pay for the costs of homestead exemption expansion.

Summary of Major Programs and Budget Provisions Affecting the Programs

SFC provides state funding and assistance through its four major programs: the Classroom Facilities Assistance Program, the Exceptional Needs Program, the Expedited Local Partnership Program, and the Vocational Facilities Assistance Program. These four major programs and the budget provisions affecting these programs are briefly discussed below.

Classroom Facilities Assistance Program (CFAP). Created by S.B. 102 of the 122nd General Assembly, CFAP is the key program of SFC that addresses a school district's entire facilities needs. The determination of eligibility in the program and of the state and local shares of project costs are based largely on an annually updated school district property wealth-ranking list ("the equity list"). A school district's wealth level is measured by its three-year average adjusted valuation per pupil. Lower wealth districts generally are served first and receive a greater state share of project costs. CFAP has served approximately 180 districts, including 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. Of these 180 districts, 102 school districts have completed their district wide projects.

The budget adds a district's net gain in interdistrict open enrollment students to its formula ADM (average daily membership) for purposes of determining the district's adjusted valuation per pupil used in the equity list, if its open enrollment net gain (the difference between the number of students coming in from another district and the number of the district's own resident students going out to enroll in another district) is at least 10% of its formula ADM. For an eligible district, this provision will lower its adjusted valuation per pupil, which will then lower its percentile ranking in the equity list and subsequently allow the district to become eligible for CFAP funding sooner and to receive a greater share of the project cost from the state.

The budget permits a school district undertaking a state-assisted school facilities project to use the interest earned on school district moneys in the district's project construction fund (not the interest earned on the state moneys in the fund) to pay the costs of locally funded initiatives, which are items that do not qualify for state funding. If a district chooses to use the interest in this manner and, later, the state-assisted project costs exceed the amount in the project construction fund, the budget requires the district to restore the interest used for locally funded initiatives before the state will release any additional moneys for the project.

The budget also permits a school district, upon completion of its state-assisted school facilities project, to: (a) transfer the interest earned on school district moneys left over in the district's project construction fund to its permanent improvement fund, (b) leave the moneys in the project construction fund, or (c) transfer the moneys to the district's maintenance fund. Under previous law, the school district had to transfer all interest earned on school district moneys to its maintenance fund to help maintain the buildings assisted by the state.

Exceptional Needs Program (ENP). ENP was created by H.B. 850 of the 122nd General Assembly. In contrast to CFAP, where the entire district's facilities needs are addressed and eligibility is generally based on the equity list, ENP addresses special instances where a school district has significant health or safety needs associated with a specific building. Eligibility for ENP is open to any district at or below the 75th percentile in the equity list and to any district covering at least 300 square miles, regardless of wealth. State and local shares of an ENP project are the same as they would have been under CFAP. Since inception ENP has served 37 school districts.

The budget permits a school district, under certain circumstances, to exceed the statutory debt limits. Generally, a school district may not incur debt in net amount greater than 9.0% of its total taxable value and may not submit to its voters the question of incurring debt in an amount that will make the district's net indebtedness exceed 4.0% of its total taxable value. Under the budget, a district can exceed these two limits in order to issue voter-approved bonds to pay for the cost of an ENP project, including the cost of locally funded initiatives, if the district has already undertaken an ENP project prior to July 1, 2007 and will construct another single building housing students in grades six to twelve (including locally funded initiatives) under ENP before June 30, 2009. The total net indebtedness after the issuance of those bonds for a district using this option cannot exceed 11.25% of the district's total taxable value.

Expedited Local Partnership Program (ELPP). Unlike the CFAP and ENP, which provide state funds to districts immediately after they participate in the program, ELPP does not directly provide state funding to its participating districts. 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 or renovate 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. Since its establishment in 2000, ELPP has served about 90 school districts; these 90 districts have accumulated a total credit of $1.9 billion against state funds. The Governor vetoed a provision that would have prevented a school district's percentile wealth ranking from being raised higher for purposes of determining eligibility for CFAP funding after the district had entered into an agreement with SFC under ELPP and after the district's voters had approved a bond issue to pay the district's portion of the basic project cost.

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, this program generally serves lower 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 joint vocational school district projects. Since its creation in 2003, VFAP has served eight joint vocational school districts. Joint vocational school districts are also served by a parallel expedited local partnership program; two districts have participated in this program and accumulated a combined credit of $7.7 million against state funds.

The budget abolishes the former 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. This program provided interest-free loans to eligible school districts and joint vocational school districts for the construction and renovation of vocational classroom facilities and the purchase of vocational education equipment. According to SFC, only one or two loans were made annually as joint vocational school districts are now served by two comprehensive facilities assistance programs. The budget also requires that existing money in the Career-Technical School Building Assistance Fund (Fund 020) and any loan repayments be transferred into the Public School Building Fund (Fund 021).

Line Item Detail by Agency

Report For: Main Operating Appropriations Bill **Version:** Enacted

SFC School Facilities Commission

			FY 2005:	FY 2006:	FY 2007 Adj. Appropriations:	FY 2008 Appropriations:	% Change 2007 to 2008:	FY 2009 Appropriations:	% Change 2008 to 2009:
GRF	230-428	Lease Rental Payments	$ 31,697,465	$ 31,684,689	$ 31,603,200	$ 22,702,000	-28.17%	$ 0	-100.00%
GRF	230-908	Common Schools General Obligation Debt Service	$ 133,667,174	$ 171,455,309	$ 224,911,500	$ 284,768,400	26.61%	$ 339,648,300	19.27%
General Revenue Fund Total			**$ 165,364,639**	**$ 203,139,998**	**$ 256,514,700**	**$ 307,470,400**	**19.86%**	**$ 339,648,300**	**10.47%**
3X9	230-601	Federal School Facilities Grant	$ 4,976,397	$ 889,532	$ 1,460,663	$ 0	-100.00%	$ 0	N/A
Federal Special Revenue Fund Group Total			**$ 4,976,397**	**$ 889,532**	**$ 1,460,663**	**$ 0**	**-100.00%**	**$ 0**	**N/A**
5E3	230-644	Operating Expenses	$ 6,243,681	$ 6,458,322	$ 7,691,485	$ 7,749,813	0.76%	$ 7,786,197	0.47%
State Special Revenue Fund Group Total			**$ 6,243,681**	**$ 6,458,322**	**$ 7,691,485**	**$ 7,749,813**	**0.76%**	**$ 7,786,197**	**0.47%**
020	230-620	Career-Tech School Building Assistance	----	----	$ 2,000,000	$ 0	-100.00%	$ 0	N/A
Lottery Profits/Education Fund Group Total			**----**	**----**	**$ 2,000,000**	**$ 0**	**-100.00%**	**$ 0**	**N/A**
School Facilities Commission Total			***$ 176,584,718***	***$ 210,487,852***	***$ 267,666,848***	***$ 315,220,213***	***17.77%***	***$ 347,434,497***	***10.22%***