

Schedule 13
Funding Request for the 2014-15 Budget Cycle

Department: EDUCATION
 Request Title: BEST Gross Debt Appropriation
 Priority Number: R-10

Dept. Approval by: 908 B. J. 6/25/13 Decision Item FY 2014-15
 Date Base Reduction Item FY 2014-15
 OSPB Approval by: Grant W. Huber 10/29/13 Supplemental FY 2013-14
 Date Budget Amendment FY 2014-15

Line Item Information		FY 2013-14		FY 2014-15		FY 2015-16
		1	2	3	4	5
Fund		Appropriation FY 2013-14	Supplemental Request FY 2013-14	Base Request FY 2014-15	Funding Change Request FY 2014-15	Continuation Amount FY 2015-16
Total of All Line Items	Total	57,000,000	-	57,000,000	8,000,000	8,000,000
	FTE	-	-	-	-	-
	GF	-	-	-	-	-
	GFE	-	-	-	-	-
	CF	57,000,000	-	57,000,000	8,000,000	8,000,000
	RF	-	-	-	-	-
	FF	-	-	-	-	-
(2) Assistance to Public Schools, (C) Grant Programs, Distributions, and Other Assistance, (2) Capital Construction, Public School Capital Construction Assistance	Total	57,000,000	-	57,000,000	8,000,000	8,000,000
	FTE	-	-	-	-	-
	GF	-	-	-	-	-
	GFE	-	-	-	-	-
	CF	57,000,000	-	57,000,000	8,000,000	8,000,000
	RF	-	-	-	-	-
	FF	-	-	-	-	-

Letternote Text Revision Required? Yes: No: If yes, describe the Letternote Text Revision:

Cash or Federal Fund Name and COFRS Fund Number: Public School Capital Construction Assistance Fund (Fund 22B)

Reappropriated Funds Source, by Department and Line Item Name:

Approval by OIT? Yes: No: Not Required:

Schedule 13s from Affected Departments:

Other Information:

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Cost and FTE

- The Department requests an \$8.0 million increase from the Public School Capital Construction Assistance Fund in FY 2014-15 so that appropriations for the Building Excelling Schools Today (BEST) Program comply with the Program's Certificates of Participations (COPs) Lease Purchase Agreements.

Current Program

- The six approved BEST lease purchase grants project for FY 2013-14 include school replacements or major school renovations in the following districts: South Conejos RE-10, Kim 88, Limon RE-4J, Creede 1, Haxtun RE-2J, and Moffat 2. These six projects address critical health, safety, and welfare concerns including security concerns, fire code violations, HVAC concerns, water damage, ADA compliance issues, structural problems, electrical system issues, and poor learning environments. These grant projects are dependent upon local bond elections in November 2013.

Problem or Opportunity

- The BEST COP Lease Purchase Agreements require the State to appropriate an amount greater than or equal to the gross base rent payment. The gross base rent payment includes the state share of the COP payment, the local education agency (LEA) matching money lease payments, and the federal subsidies from the use of Build America Bonds (BABs), Qualified School Construction Bonds (QSCBs).

Consequences of Problem

- Without this appropriation increase, the State will not be able to finance the approved 2013-14 BEST lease purchase grants and will be out of compliance with the legal obligations of the BEST COP Lease Purchase Agreements. Failure to annually appropriate the gross base rent payment is an event of default under the Lease.

Proposed Solution

- To appropriate the amount of \$65.0 million in FY 2014-15 (an \$8.0 increase from current appropriations) to cover the entire anticipated gross base rent amount due in FY 2014-15 per the COP Lease Purchase Agreement. The full appropriation would only be required in the rare event that the federal subsidies from the Build America Bonds (BABs) and Qualified School Construction Bonds (QSCBs) were to be eliminated by U.S. government legislative action and LEA matching money bond payments were not to be made.

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State of Colorado
Department of Education
FY 2014-15 Funding Request
November 1, 2013

John W. Hickenlooper
Governor

Robert K. Hammond
Commissioner

Department Priority: R-10
Request Detail: BEST Gross Debt Appropriation

Summary of Incremental Funding Change for FY 2014-15	Total Funds	Cash Funds*
Capital Construction, Public School Capital Construction Assistance	\$8,000,000	\$8,000,000

*Public School Capital Construction Assistance Fund.

Request Summary:

The Department requests an \$8.0 million increase from the Public School Capital Construction Assistance Fund in FY 2014-15 so that appropriations for the Building Excelling Schools Today (BEST) Program comply with the Program's Certificates of Participations (COPs) Lease Purchase Agreements.

Problem or Opportunity:

A technical adjustment is needed to the Public School Capital Construction Assistance Board – Lease Payments line item to reflect the approved 2013-14 Building Excelling Schools Today (BEST) lease purchase grants and to ensure the State complies with the legal certificates of participation (COP) requirements.

The Colorado State Board of Education and Capital Development Committee approved six BEST lease purchase grants submitted by the Public School Capital Construction Assistance Board for 2013-14. These grants total almost \$95 million and include the following projects:

- South Conejos RE-10: PK-12 School Replacement
- Kim 88: PK-12 School Renovation and Addition
- Limon RE-4J: New PK-12 School and Gym Renovation
- Creede 1: K-12 School Replacement
- Haxtun RE-2J: K-12 Renovation and Addition
- Moffat 2: PK-12 School Replacement

The average age of the original school structures to be replaced or renovated by these projects is 65 years. As such, there are critical health, safety, and welfare concerns identified for these schools including:

- HVAC code violations and inadequate ventilation were noted in six schools resulting in heating and cooling issues and poor indoor air quality. Radon tests results were above EPA standards in two schools and elevated CO2 levels resulting in lethargy and aching muscles were present in another school.
- Water damage from drainage problems or leaking roofs or flooded basements were noted in six schools leading to bacterial, fungus, and/or mold growth.
- Structural problems were noted in five schools, including compromised foundations and exterior walls, and bucking flooring.
- Poor learning environments were noted in five schools, including outdated, undersized, or oppressive classrooms and poor acoustics impairing the students' ability to learn.
- Deteriorating plumbing and utility systems were noted in three schools, including reoccurring sewage back-ups.
- Friable asbestos in cracked ceiling tiles with reoccurring water damage was noted in one school.
- Security concerns were noted in six schools, including unsecured and unmonitored entries and inadequate communication systems.
- Fire code violations were noted in six schools including non-existent or inadequate fire detection or fire suppression systems, inadequate fire separation walls and fire-rated corridors, and unsafe egress paths. Two of the schools have an inadequate water supply distribution system to support fire response efforts.
- ADA compliance issues were noted in five schools, including a legal proceeding at one school.
- Electrical system issues were noted in five schools, including code violations and insufficient capacity to support school needs.
- Chronic and expensive maintenance issues and high utility costs were noted in four schools.

The six approved grants are all dependent upon the passage of local education agency (LEA) bond elections to fund the required matching moneys in November 2013. In the event that one or more of these LEA bond election do not pass in November, there are two approved back-up lease-purchase grants totaling \$47.7 million: Ft. Morgan RE-3 Middle School Replacement and Ross Montessori Charter School: K-8 School Replacement. The Ross Montessori Charter School project does not require a bond election. The lease purchase financing (COPs) associated with the 2013-14 BEST projects are scheduled for December 2013.

The BEST COP Lease Purchase Agreements require the State to appropriate an amount greater than or equal to the gross base rent payment. Gross base rent payments are the annual lease payments due for awarding BEST grants and financing them with COPs. The gross base rent payment includes the State share of the COP payment, the local education agency (LEA) matching money lease payments, and the federal subsidies from the use of Build America Bonds (BABs), Qualified School Construction Bonds (QSCBs). The estimated FY 2014-15 COP gross base rent payment including the new issuance is projected to be \$64,233,071 as shown in the following table.

Table 1: Gross Base Rent Payments for BEST COPs

	FY2013-14 Estimates and Appropriation	FY2014-15 Estimates and Request	Change
State Share COP Payment *	\$34,305,990	\$39,099,667	\$4,793,677
LEA Matching Money Lease Payment	\$13,160,351	\$16,516,791	\$3,356,440
Federal Subsidy	\$9,477,645	\$8,616,613	(\$861,032)
Gross Base Rent Payment	\$56,943,986	\$64,233,071	\$7,289,085
Public School Capital Construction Assistance Board – Lease Payments Line Item	\$57,000,000	\$65,000,000	\$8,000,000

* Pursuant to State statute, the State share of the COP lease payments may not exceed \$40 million.

The total amount anticipated to be spent from the appropriation is \$55,616,458, which is comprised of the State share COP payment (\$39,099,667) and the LEA matching money lease payment (\$16,516,791).

Proposed Solution:

The Department requests the Public School Capital Construction Assistance Board – Lease Payments line item from \$57,000,000 by \$8,000,000 to a total appropriation for FY2014-15 of \$65,000,000 to reflect the projected gross base rent payments for the approved 2013-14 BEST lease purchase grants. This appropriation is cash funded from the Public School Capital Construction Assistance Fund created in Section 22-43.7-104 (1), C.R.S.

Anticipated Outcomes:

The approved BEST lease purchase grants will allow local school districts to make critical improvements to their school facilities, which will in turn, help support student achievement for years to come.

If the Public School Capital Construction Assistance Board – Lease Payments line item is not adjusted, the State will not be able to finance the approved 2013-14 Building Excelling Schools Today (BEST) lease purchase grants and the State will be out of compliance with the legal obligations of the BEST COP Lease Purchase Agreements. Failure to annually appropriate the gross base rent payment is an event of default under the Lease.

Assumptions and Calculations:

The requested \$8,000,000 appropriation increase assumes that all of the projects in the 2013 finance cycle will be successful with elections, interest rates remain at the June 2013 levels, and the June 2013 proposed financing structure criteria remains constant. These assumptions are prone to change between June and December 2013. Thus, the exact amount of gross base rent for FY 2014-15 will not be finalized until December 2013, following pricing and the requested amount of \$8,000,000 may change.

Under the Budget Control Act of 2011, automatic spending cuts have resulted in a reduction of federal subsidies applicable to the COP payment attributable to the Build America Bonds (BABs) and Qualified

School Construction Bonds (QSCBs). The estimated net amount of the federal subsidies for FY 2014-15 is \$8,616,613, which assumes a reduction of 8.7 percent or \$861,032, an amount consistent with the current reduction.

The entire appropriation amount of \$65,000,000 will not be utilized unless the federal BABs and QSCBs subsidies are eliminated by U.S. government legislative action and LEA matching money lease payments are not made. There is no indication from the State's financial advisors or the Department's legal counsel in Washington D.C. that the entire amount of the federal subsidies would be eliminated.