

School Facilities Board

A.R.S. § 15-2001

Executive Director: Philip Geiger

JLBC Analyst: Patrick Fearon

	FY 2000 Actual	FY 2001 Estimate	FY 2002 Approved	FY 2003 Approved
PROGRAM BUDGET				
School Facilities Board	2,322,300	1,849,800	1,731,500	1,793,400
New School Facilities SLI	380,980,400	200,000,000 ^{1/}	250,000,000 ^{1/}	260,000,000 ^{1/}
Building Renewal SLI	82,500,000	122,725,300	132,000,000 ^{1/}	137,827,900 ^{1/}
Deficiencies Correction SLI	50,000,000	150,000,000 ^{2/}	0	12,000,000 ^{1/2/}
Deficiencies Correction Bond Repayment SLI	0	0	70,000,000 ^{3/}	70,000,000 ^{3/}
TOTAL APPROPRIATIONS	515,802,700	474,575,100	453,731,500	481,621,300
OPERATING BUDGET				
Full Time Equivalent Positions	15.0	19.0	19.0	19.0
Personal Services	774,800	1,087,700	1,112,100	1,168,000
Employee Related Expenditures	152,500	192,300	192,500	192,100
Professional and Outside Services	1,182,500	396,100	237,900	242,200
Travel - In State	10,200	25,900	25,900	25,900
Travel - Out of State	1,000	0	0	0
Other Operating Expenditures	139,100	137,800	153,100	155,200
Equipment	62,200	10,000	10,000	10,000
<i>Operating Subtotal</i>	2,322,300	1,849,800	1,731,500	1,793,400
Special Line Items (SLI)	513,480,400	472,725,300	452,000,000	479,827,900
TOTAL APPROPRIATIONS	515,802,700	474,575,100	453,731,500 ^{4/}	481,621,300 ^{4/}
FUND SOURCES				
General Fund	319,062,300	473,965,100	383,731,500 ^{5/}	411,621,300 ^{5/}
General Fund - Dedicated	0	0	70,000,000	70,000,000
Other Appropriated Funds				
Deficiencies Correction Fund	760,000 ^{6/}	610,000	0	0
Capital Reserve Fund	195,980,400	0	0	0
<i>Subtotal - Other Appropriated Funds</i>	196,740,400	610,000	0	0
TOTAL APPROPRIATIONS	515,802,700	474,575,100	453,731,500	481,621,300

AGENCY DESCRIPTION — *The School Facilities Board is composed of 8 gubernatorial appointments and the Superintendent of Education. The board administers the New School Facilities Fund, the Building Renewal Fund, and the Deficiencies Correction Fund to provide capital funding for K-12 school districts.*

^{1/} Funding is provided through a direct transfer of Transaction Privilege Tax revenues (TPT) into the fund by the State Treasurer pursuant to A.R.S. § 15-2002A(10), rather than through the General Appropriation Act.

^{2/} The FY 2003 amount includes a \$12,000,000 transfer of TPT revenues to the Deficiencies Correction Fund pursuant to Laws 2001, Chapter 233, Section 5.

^{3/} Includes \$70,000,000 in both FY 2002 and FY 2003 in General Fund - Dedicated monies. These monies consist of TPT revenues dedicated to paying debt service on School Improvement Revenue Bonds issued by the board pursuant to A.R.S. § 15-2081.

^{4/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

^{5/} Includes Transaction Privilege Tax revenues transferred into the Building Renewal Fund (\$132,000,000 in FY 2002 and \$137,827,900 in FY 2003), New School Facilities Fund (\$250,000,000 in FY 2002 and \$260,000,000 in FY 2003), and Deficiencies Correction Fund (\$0 in FY 2002 and \$12,000,000 in FY 2003) pursuant to A.R.S. § 15-2002A(10). All remaining monies are appropriated from the General Fund for the agency's operating budget by the General Appropriations Act.

PERFORMANCE MEASURES	FY 1999 Est./Actual	FY 2000 Est./Actual	FY 2001 Estimate	FY 2002-03 Estimate
• % of school districts meeting minimum adequacy standards	NA	NA	NA	NA/100
• % of schools annually inspected for adequacy	NA	NA/100	10	20
• % of inspected schools determined to have an adequate maintenance program	NA	NA	NA	75/100
• % of cumulative critical deficiency correction projects completed	NA	NA/8	75	95/100
• % of cumulative non-critical deficiency correction projects completed	NA	NA/0	26	53/100
• Number of new school construction projects completed	NA	NA/5	32	50/35
• % of school districts rating the boards' services as "good" or "excellent" in an annual survey	NA	NA	NA	80/90
• Administration as a % of total cost (excluding deficiencies correction)	NA	NA/1.1	0.5	0.4

Operating Budget — The approved amount includes a decrease of \$(160,000) in both FY 2002 and FY 2003 from FY 2001 due to the elimination of a one-time supplemental transfer from the Deficiencies Correction Fund into the operating budget in FY 2001. (The decrease is partially offset by technical changes associated with the agency's operating budget.) The approved operating budget in both FY 2002 and FY 2003 includes an increase of \$450,000 in General Fund monies to replace \$450,000 that had been appropriated from the Deficiencies Correction Fund for the FY 2001 operating budget by Laws 2000, Chapter 163. This change is made to better reflect the actual source of funding for the board's operating budget. In FY 2002 and FY 2003, the board's operating budget is financed entirely from the General Fund.

Laws 2001, Chapter 232 transferred \$160,000 from the Deficiencies Correction Fund to the board's operating budget in FY 2001. This supplement to the board's operating budget was required because of higher-than-expected costs to complete the board's assessment of facility adequacy in every Arizona school as mandated in A.R.S. § 15-2002(E).

New School Facilities Special Line Item — The New School Facilities Fund is established by A.R.S. § 15-2041 in order to provide funding for school districts to construct new K-12 school facilities. The amounts allocated to each school district are determined by statutory requirements as interpreted by the board.

The board reports to the Joint Committee on Capital Review (JCCR), by December 1 of each even-numbered year, the estimated amounts necessary for new school construction in the following 2 fiscal years. By December 1 of each odd-numbered year, the board reports an updated estimate to JCCR for the second year of the biennium. By January 1 of each year, the board instructs the State Treasurer of the Transaction Privilege Tax (TPT) amount

to be credited in the following fiscal year to the New School Facilities Fund, pursuant to A.R.S. § 15-2002.A(10). The board then distributes the monies to school districts as work is completed on approved projects.

The approved amount includes a FY 2002 increase of \$50,000,000 above FY 2001 and a FY 2003 increase of \$60,000,000 above FY 2001 for the New School Facilities Fund. The FY 2002 increase is consistent with the total amount of \$250,000,000 that the board instructed the State Treasurer to transfer to the New School Facilities Fund for that year. This funding represents a cost to the General Fund. It does not appear in the General Appropriation Act, however, because the transfer is not subject to legislative appropriation.

The FY 2003 increase is based on the board's estimate of \$260,000,000 in total funding that will be needed to construct new school facilities in that year. This funding represents a cost to the General Fund, but again does not appear in the General Appropriation Act because the transfer is not subject to appropriation.

Building Renewal Special Line Item — The Building Renewal Fund is established by A.R.S. § 15-2031 in order to provide funding for school districts to maintain the adequacy of existing school facilities. Building Renewal monies are for major renovations and repairs, system upgrades to extend the life of a building, and infrastructure costs on academic buildings owned by a district. The amount allocated to each school district is determined by a statutory formula.

Pursuant to A.R.S. § 15-2002.A(10), the board reports to JCCR, by December 1 of each even-numbered year, as to the estimated amounts necessary for building renewal in the following 2 fiscal years. By December 1 of each odd-numbered year, the board reports an updated estimate to JCCR for the second year of the biennium. By January 1

of each year, the board instructs the State Treasurer of the TPT amount to be credited in the following fiscal year to the Building Renewal Fund. The board then distributes the monies to school districts in 2 equal installments, in November and May.

The approved amount includes a FY 2002 increase of \$9,274,700 above FY 2001 and a FY 2003 increase of \$15,102,600 above FY 2001 for the Building Renewal Fund. (The FY 2001 amount includes a supplemental appropriation, as described below.) The FY 2002 increase is consistent with the total amount (\$132,000,000) that the board instructed the State Treasurer to transfer to the Building Renewal Fund for FY 2002. This funding represents a cost to the General Fund. It does not appear in the General Appropriation Act, however, because it is not subject to legislative appropriation.

The FY 2003 increase is based on the board's total estimate of the amount (\$137,827,900) that will be needed for Building Renewal in FY 2003. This funding represents a cost to the General Fund, but again does not appear in the General Appropriation Act because it is not subject to appropriation.

Laws 2001, Chapter 232 provided a supplemental appropriation of \$2,725,300 for the Building Renewal Fund in FY 2001 to make up a shortfall between the amount that the board instructed the State Treasurer to transfer into the fund for that year and the amount subsequently calculated pursuant to the board's building renewal formula. For FY 2001, the board instructed the State Treasurer to credit \$120,000,000 to the Building Renewal Fund. Subsequently, the board recalculated the formula cost for building renewal to be \$122,725,300 for FY 2001. In a decision addressing the legality of prior-year shortfalls between the transfer instructions to the State Treasurer and the calculated formula cost, a Maricopa County district court ruled in October 2000 that funding for building renewal each year should be determined by the formula cost. In January 2001, the Attorney General issued a formal opinion that the court ruling does not require or permit the board to present a revised instruction to the State Treasurer to make up the shortfall of \$2,725,300 for FY 2001. The board therefore requested, and the Legislature granted, a request for a supplemental appropriation of \$2,725,300 for the Building Renewal Fund for FY 2001.

Deficiencies Correction Special Line Items — The Deficiencies Correction Fund is established by A.R.S. § 15-2021 in order to provide funding to correct existing square footage and quality deficiencies at school districts. Adequacy requirements are defined in A.R.S. § 15-2011 and in related guidelines that were adopted by the board and approved by JCCR in August 1999. All deficiencies are to be corrected by June 30, 2003. The board has estimated that it will require a total of \$1,078,124,200 to resolve all deficiencies (*see Table 1*).

The final funding requirements for deficiencies correction will not be known, however, until all required projects are bid and under way.

Table 1

Revised Cost Estimate for Deficiencies Correction Program	
Deficiencies Correction	\$ 794,615,700
Networking	100,000,000
Impact on Market (8%)	63,569,300
Equipment Purchases	55,000,000
Project Management	47,676,900
Margin of Error (2%)	15,892,300
Operations	1,370,000
Total	<u>\$1,078,124,200</u>

Taking into account \$233,630,000 in previous years' General Fund allocations for deficiencies correction, a new \$12,000,000 General Fund transfer, \$800,000,000 in "School Facilities Revenue Bonds" provided for by Proposition 301, a \$15,000,000 transfer from the School Capital Equity Fund, and approximately \$16,000,000 expected to be available in federal "school renovation grants," the funding is essentially in place to meet the board's current estimate of deficiencies correction costs (*see Table 2*). The various funding sources are described in more detail below.

Table 2

Funding Breakdown for Deficiencies Correction	
Prior Year Funds	\$ 233,630,000
FY 2003 General Fund Transfer	12,000,000
Revenue Bonds (Proposition 301)	800,000,000
FY 2003 Transfer from School Capital Equity Fund	15,000,000
FY 2003 Federal School Renovation Grants	16,000,000
Total Funding	<u>\$1,076,630,000</u>

Direct TPT Transfer (Deficiencies Correction SLI). The \$12,000,000 transfer relates to special transfers of TPT revenues provided for in statute. Pursuant to A.R.S. § 15-2002.A(10), by December 1 of each even-numbered year, the board reports to JCCR regarding the estimated amounts needed for deficiencies correction in the following 2 fiscal years. By December 1 of each odd-numbered year, the board provides an update to JCCR regarding the estimated amount needed for the second year of the biennium. By January 1 of each year, the board instructs the State Treasurer as to the TPT amount to be credited in the following fiscal year to the Deficiencies Correction Fund.

For FY 2002, the board prescribed, in January 2001, a transfer of \$500,000,000 if it did not issue School Improvement Revenue Bonds in that year, and no monies if it did issue the bonds. For FY 2003, the board indicated that it would instruct the State Treasurer to transfer \$436,210,000 if it did not issue revenue bonds, but only \$136,210,000 if it did issue the bonds. Section 5 of the

Education ORB (Laws 2001, Chapter 233) notwithstanding these amounts and instead requires a transfer of \$12,000,000 to the Deficiencies Correction Fund in FY 2003. The approved transfer amount is lower than the board's earlier transfer instructions because the revenue bonds were issued (*see below*) and because the board's January 2001 transfer instruction was based on an estimated total cost of the deficiencies correction program of \$1,171,210,000. In March 2001, the board revised its total cost estimate for the deficiencies correction program to \$1,078,124,200. The reduction of \$93,085,800 in the total estimated cost allowed essentially full funding of the program with only a \$12,000,000 transfer in FY 2003.

Reflecting the language in the Education ORB, the approved amount includes a FY 2002 decrease of \$(150,000,000) below FY 2001 and a FY 2003 decrease of \$(138,000,000) below FY 2001 for deficiencies corrections. The FY 2002 decrease of \$(150,000,000) results from the elimination of \$150,000,000 in General Fund appropriations provided for the Deficiencies Correction Fund in FY 2001. The FY 2003 decrease of \$(138,000,000) results from the elimination of all but \$12,000,000 of the \$150,000,000 in General Fund appropriations provided for the Deficiencies Correction Fund in FY 2001. These reductions are based on the availability of proceeds from the board's School Improvement Revenue Bonds, as described below.

School Improvement Revenue Bonds (Deficiencies Correction Bond Repayment SLI). Up to \$800,000,000 in revenue bonds for deficiencies correction were authorized by Proposition 301 (Education 2000), which passed in the General Election of November 2000. In addition to authorizing the bonds, Proposition 301 raised the 5% state TPT tax rate to 5.6% and dedicated a portion of the new revenues for debt service on the bonds. Because TPT revenues would otherwise go into the General Fund, the debt service is designated here as "Dedicated General Fund" expenditures. The approved amount includes an increase of \$70,000,000 in both FY 2002 and FY 2003 above FY 2001 for debt service on the board's School Improvement Revenue Bonds. The approved budget does not include the \$800,000,000 because it is neither appropriated nor derived from the General Fund.

The FY 2002 increase of \$70,000,000 in "Dedicated General Fund" monies is for debt service on \$500,000,000 in School Improvement Revenue Bonds issued by the board for deficiencies corrections in May 2001. The \$70,000,000 in FY 2002 includes \$43,035,000 in principal payments and \$26,962,100 in interest (*see Table 3*).

For FY 2003, the increase of \$70,000,000 in Dedicated General Fund monies is for debt service on bonds outstanding from the May 2001 issuance plus debt service on an additional \$300,000,000 in School Improvement Revenue Bonds that the board expects to issue in mid-

2002. Total debt service on the School Improvement Revenue Bonds will remain approximately \$70,000,000 in FY 2003 even with the additional \$300,000,000 bond issuance in that year because of the structure of the 2001 bond issue, which provided for the retirement of \$43,035,000 in bonds after only one year.

After FY 2003, the annual debt service amount will remain at approximately \$70,000,000 per year until the bonds are retired (*see Table 3*).

The amount assumed for debt service for FY 2002 and FY 2003 (\$70,000,000 per year) is somewhat larger than the actual debt service amounts shown in *Table 3* for those years because the exact debt service amount was not known at the time when the budget was adopted.

School Capital Equity Fund Transfer. In addition to the amounts described above, the supplemental bill (Laws 2001, Chapter 232, Section 18) transfers \$15,000,000 in remaining funding from the School Capital Equity Fund (A.R.S. § 15-1051) to the Deficiencies Correction Fund in FY 2003 to provide further funding. The funds in the School Capital Equity Fund are dedicated to complete school capital projects previously approved by the State Board for School Capital Facilities, which was repealed by Laws 1997, Chapter 9, 1st Special Session.

Federal School Renovation Grants. The board is also expected to receive approximately \$16,000,000 in federal "School Renovation Grants" in FY 2003. These monies are earmarked for renovations at local schools.

Additional Legislation: School Facilities Board; Construction (Chapter 11) — Permits the board to centrally contract for deficiencies correction construction services and to combine multiple deficiencies correction projects under one contract. Previously, individual school districts separately contracted for deficiencies correction construction services, which in turn were funded by the board. Savings from centralized contracting are estimated to be between \$(18,409,000) and \$(73,636,000) in both FY 2002 and FY 2003. These savings are reflected in the board's current deficiencies correction cost estimate of \$1,078,124,200.

Chapter 11 also allows the board to transfer monies in the New School Facilities Fund to the Deficiencies Correction Fund before the end of FY 2001. Chapter 11 requires the board, in FY 2002, to transfer from the Deficiencies Correction Fund to the New School Facilities Fund an amount not to exceed the amount transferred to the Deficiencies Correction Fund from the New School Facilities Fund in FY 2001. This transfer authority was required because of a potential cash shortfall in the Deficiencies Correction Fund near the end of FY 2001.

Omnibus Budget Reconciliation: Education (Chapter 233)

— Section 5 of this bill notwithstanding the requirement that the State Treasurer transfer to the Deficiencies Correction Fund in FY 2002 and FY 2003 the amounts prescribed by the board pursuant to A.R.S. § 15-2002(A)(10). See *Deficiencies Correction SLI section in the narrative above for more detail.*

Table 3

Projected Debt Service Payments on School Improvement Revenue Bonds

Fiscal Year	Series 2001 Bonds ^{1/}			Series 2002 Bonds ^{2/}			Total Debt Service
	Principal Payments	Interest Payments	Total	Principal Payments	Interest Payments	Total	
2002	\$43,035,000	\$26,962,100	\$69,997,100	\$ 0	\$ 0	\$ 0	\$69,997,100
2003	16,870,000	22,951,600	39,821,600	10,000,000	19,950,000	29,950,000	69,771,600
2004	17,665,000	22,159,000	39,824,000	10,700,000	19,285,000	29,985,000	69,809,000
2005	18,575,000	21,248,500	39,823,500	11,400,000	18,573,500	29,973,500	69,797,000
2006	19,405,000	20,417,500	39,822,500	12,200,000	17,815,400	30,015,400	69,837,900
2007	20,365,000	19,455,900	39,820,900	13,000,000	17,004,100	30,004,100	69,825,000
2008	21,380,000	18,443,100	39,823,100	13,800,000	16,139,600	29,939,600	69,762,700
2009	22,440,000	17,383,200	39,823,200	14,800,000	15,221,900	30,021,900	69,845,100
2010	23,610,000	16,212,400	39,822,400	15,800,000	14,237,700	30,037,700	69,860,100
2011	24,905,000	14,916,200	39,821,200	16,800,000	13,187,000	29,987,000	69,808,200
2012	26,135,000	13,689,300	39,824,300	17,900,000	12,069,800	29,969,800	69,794,100
2013	27,565,000	12,258,800	39,823,800	19,100,000	10,879,400	29,979,400	69,803,200
2014	29,080,000	10,744,100	39,824,100	20,400,000	9,609,300	30,009,300	69,833,400
2015	30,680,000	9,145,100	39,825,100	21,700,000	8,252,700	29,952,700	69,777,800
2016	32,365,000	7,460,100	39,825,100	23,200,000	6,809,600	30,009,600	69,834,700
2017	34,140,000	5,684,700	39,824,700	24,700,000	5,266,800	29,966,800	69,791,500
2018	36,010,000	3,813,200	39,823,200	26,400,000	3,624,300	30,024,300	69,847,500
2019	<u>37,925,000</u>	1,897,600	39,822,600	<u>28,100,000</u>	1,868,700	29,968,700	69,791,300
	<u>\$482,150,000</u> ^{3/}			<u>\$300,000,000</u>			

^{1/} As issued in May 2001

^{2/} Projected. Actual debt service will depend on the amount of bonds issued, their interest rate, and their maturity.

^{3/} Represents the "par" amount of the bonds only. Net "premium" was \$19,765,800 and accrued interest totaled \$276,500, for total proceeds of \$502,192,300. Underwriter's fee was \$911,300 and other costs of issuance were expected to total approximately \$500,000, leaving \$500,504,500 available for deposit into the Bond Proceeds Fund.

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