

**School Facilities Board**

A.R.S. § 15-2001

Executive Director: William Bell

JLBC Analyst: Jake Corey

	FY 2002 Actual	FY 2003 Estimate	FY 2004 Approved
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	19.0	18.0	18.0
Personal Services	1,029,600	1,076,300	1,076,300
Employee Related Expenditures	178,600	190,800	193,500
Professional and Outside Services	158,500	118,400	118,400
Travel - In State	28,300	15,000	15,000
Travel - Out of State	11,400	0	0
Other Operating Expenditures	163,600	160,900	164,300
Equipment	21,800	10,000	10,000
<b>OPERATING SUBTOTAL</b>	<b>1,591,800</b>	<b>1,571,400</b>	<b>1,577,500</b>
<b>SPECIAL LINE ITEMS</b>			
New School Facilities	250,000,000	0	0
New School Facilities Debt Service	0	0	21,260,000
Building Renewal	132,000,000	38,274,100	0
Deficiencies Correction	0	0	0
<b>AGENCY TOTAL</b>	<b>383,591,800</b>	<b>39,845,500</b>	<b>22,837,500<sup>1/</sup></b>
<b>FUND SOURCES</b>			
General Fund	383,591,800	39,845,500	22,837,500
<b>AGENCY TOTAL</b>	<b>383,591,800</b>	<b>39,845,500</b>	<b>22,837,500</b>

**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.*

<b>PERFORMANCE MEASURES</b>	FY 2002 Appropriation	FY 2002 Actual	FY 2003 Appropriation	FY 2004 Appropriation
• % of school districts meeting minimum adequacy standards	NA	NA	100	--
• % of schools annually inspected for adequacy	20	0	20	--
• % of inspected schools determined to have an adequate maintenance program	75	NA	100	--
• Number of schools inspected	--	NA	--	60
• % of cumulative critical deficiency correction projects completed	95	100	100	100
• % of cumulative non-critical deficiency correction projects completed	53	16	100	100
• Number of new school construction projects completed	50	47	35	--
• % of school districts rating the boards' services as "good" or "excellent" in an annual survey	80	90	90	92
• Administration as a % of total cost (excluding deficiencies correction)	0.4	NA	0.4	0.4

**Comments:** The agency did not submit information for any measure labeled as "NA."

<sup>1/</sup> General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

**Technical Adjustments** — The FY 2004 approved amount includes technical adjustments for Employee Related Expenditures and Risk Management charges. *(Please see the General Provisions section at the end of this Appropriations Report for further details on these changes.)*

There were no substantive changes to the operating budget.

### **Special Line Items**

**New School Facilities** — This Special Line Item provides “pay as you go” 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.

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 FY 2004 amount includes no new funding for “pay as you go” cash financing for new school construction. The Education Omnibus Reconciliation Bill (ORB) (Laws 2003, Chapter 264) directs the State Treasurer to disregard the instructions from the board related to the New School Facilities Fund TPT transfer amount. The Education ORB instead gives the board and local school districts collectively the authority to enter into lease-purchase transactions in an amount not to exceed \$250,000,000 in FY 2004. The initial debt service for these lease-purchase agreements will not be paid until FY 2005. The FY 2005 payment is estimated to be approximately \$24,100,000.

**New School Facilities Debt Service** — This Special Line Item provides funding to pay the debt service on lease-purchase agreements entered into in previous years to finance new school construction.

The approved amount includes a General Fund increase of \$21,260,000 above FY 2003 to make the initial debt service payment on lease-purchase agreements totaling \$400,000,000 that were entered into in FY 2003.

**Building Renewal** — This Special Line Item provides 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.

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 FY 2004 amount includes no funding for building renewal. Laws 2002, Chapter 330 suspended the building renewal formula in FY 2003 and FY 2004, and the Education ORB directed the board not to distribute any monies to school districts for building renewal in FY 2004.

The Education ORB also made a number of changes to the building renewal formula. The Governor, however, line item vetoed these changes. This Appropriations Report has incorporated the veto without making an assessment of its legality. As of this writing, there is pending litigation concerning the legality of this particular veto. *(See Vetoes for more information.)*

**Deficiencies Correction** — This Special Line Item provides 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 the Joint Committee on Capital Review (JCCR) in August 1999. All deficiencies are to be corrected by June 30, 2004. This deadline does not include deficiencies in Tucson Unified School District, Mesa Unified School District, and Glendale Union School District, which are to be corrected by June 30, 2005.

The approved FY 2004 amount includes no cash financing for correcting deficiencies. The Education ORB directs the State Treasurer to disregard the instructions from the board related to the Deficiencies Correction Fund TPT transfer amount. The Education ORB instead requires the board to issue up to \$247,135,000 in revenue bonds to pay for the cost of projects. The debt service on these bonds will be paid back with K-12 Expendable Endowment Earnings. The initial debt service for these bonds will not be paid until FY 2005. The FY 2005 payment is estimated to be approximately \$23,800,000.

Laws 2003, Chapter 2, 1<sup>st</sup> Special Session appropriated \$100,000,000 to the Deficiencies Correction Fund in FY 2005. To help balance the budget in FY 2003, \$100,000,000 was reverted from the Deficiencies Correction Fund to the General Fund. The FY 2005 appropriation is designed to replace those reverted monies.

As of July 1, 2003, the board has been provided with \$1,294,000,000 in funding *(See Table I)*. The final funding requirements for deficiencies correction will not be known, however, until all required projects are bid and under way.

**Table 1****Funding Breakdown for Deficiencies Correction**

Legislative Appropriations		
- FY 1999 (L 98, C 1, 3 SS)	\$	35,000,000
- FY 2000 (L 98, C 1, 5 SS)		15,000,000
- FY 2001 (L 98, C 1, 5 SS)		15,000,000
- FY 2005 (L 03, C 2, 1 SS)		100,000,000 <sup>1/</sup>
General Fund Transfers		
- FY 2000		35,000,000
- FY 2001		135,000,000
Revenue Bonds (Proposition 301)		832,865,000
Revenue Bonds (K-12 Expendable Endowment Earnings)		247,135,000
Qualified Zone Academy Bonds		20,000,000
FY 2003 Transfer from School Capital Equity Fund		15,000,000
General Fund Reversions		
- FY 2002		(56,000,000)
- FY 2003		(123,000,000) <sup>1/</sup>
FY 2003 Oil Overcharge Fund Transfer		8,000,000 <sup>1/</sup>
FY 2003 School Improvement Revenue Bond Debt Service Fund Transfer		15,000,000 <sup>1/</sup>
<b>Total Funding</b>		<b><u>\$1,294,000,000</u></b>

<sup>1/</sup> The FY 2005 legislative appropriation and the transfers from the Oil Overcharge Fund and the School Improvement Revenue Bond Debt Service Fund are intended to offset the FY 2003 General Fund reversion.

**Veto:** Education; Omnibus Budget Reconciliation: 2003-2004 (Chapter 264) — The Governor line item vetoed Section 10 of the Education ORB. The section made the following changes to the building renewal formula: 1) Limit the age of a building to 30 years; 2) Eliminate separate funding formula for portable buildings; 3) Use square foot per student requirements from the minimum adequacy guidelines instead of the new construction guidelines; and 4) Use replacement cost per square foot instead of new construction cost per square foot. This Appropriations Report has incorporated the veto without making an assessment of its legality. As of this writing, there is pending litigation concerning the legality of this particular veto.

[Click here to return to the Table of Contents](#)

**Additional Legislation:** Education; Omnibus Budget Reconciliation: 2003-2004 (Chapter 264) — The Education ORB contains the following provisions:

- Section 9 amends A.R.S. § 15-2002 to require the board to report annually, instead of biennially with an off-year update, to the JCCR the amounts necessary to fulfill its statutory obligations for the following fiscal year and an estimate of the amounts necessary for the fiscal year following the next fiscal year.
- As session law, Section 35 requires the board to receive bids for projects to be paid for with the \$247,135,000 in revenue bonds prior to issuing the bonds and to submit to JCCR for approval a list of project bids and the estimated principal and interest payments.
- As session law, Section 35 requires the board to report to JCCR the cost of projects in Tucson Unified School District, Mesa Unified School District, and Glendale Union School District after receiving bids for projects in those districts. To help balance the FY 2003 budget, Laws 2002, Chapter 2 delayed the date by which deficiencies shall be corrected in these districts to June 30, 2005.