

School Facilities Board

JLBC: Jake Corey
 OSPB: Dawn Nazary

Subcommittee: Education

DESCRIPTION	FY 2002 ACTUAL	FY 2003 ESTIMATE	FY 2004	
			OSPB	JLBC
PROGRAM BUDGET				
School Facilities Board	1,591,800	1,672,300	1,678,200	1,678,400
Building Renewal SLI	132,000,000	38,274,100	78,147,800	0
Deficiencies Correction SLI	0	0	0	0
New School Facilities SLI	250,000,000	0	22,000,000	21,260,000
<i>Program Subtotal - School Facilities Board</i>	383,591,800	39,946,400	101,826,000	22,938,400
6th SS Lump Sum Reduction SLI	0	(100,900)	(100,900)	(100,900)
AGENCY TOTAL	383,591,800	39,845,500	101,725,100	22,837,500

OPERATING BUDGET

	19.0	18.0	18.0	18.0
<i>Full Time Equivalent Positions</i>				
Personal Services	1,029,600	1,126,700	1,126,700	1,126,700
Employee Related Expenditures	178,600	200,300	202,900	203,000
Professional and Outside Services	158,500	154,400	154,400	154,400
Travel - In State	28,300	20,000	20,000	20,000
Travel - Out of State	11,400	0	0	0
Other Operating Expenditures	163,600	160,900	164,200	164,300
Equipment	21,800	10,000	10,000	10,000
OPERATING SUBTOTAL	1,591,800	1,672,300	1,678,200	1,678,400
Special Line Items (SLI)	382,000,000	38,173,200	100,046,900	21,159,100
AGENCY TOTAL	383,591,800	39,845,500	101,725,100	22,837,500

FUND SOURCES

General Fund	383,591,800	39,845,500	101,725,100	22,837,500
SUBTOTAL - Appropriated Funds	383,591,800	39,845,500	101,725,100	22,837,500
Other Non-Appropriated Funds	314,184,000	945,674,300	NA	343,034,400
TOTAL - ALL SOURCES	697,775,800	985,519,800	NA	365,871,900

CHANGE IN FUNDING SUMMARY

General Fund	FY 2003 to FY 2004 JLBC	
	\$ Change	% Change
	(17,008,000)	(42.7%)

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.*

suspension of the formula, the board did not instruct the Treasurer to transfer any monies to the fund in that year. As a result, the JLBC recommendation does not include funding for building renewal in FY 2004.

The JLBC further recommends a number of statutory changes to the building renewal formula:

1. *The maximum age of a building in the formula shall be 30 years.* Building renewal monies are intended for use in maintaining and replacing building systems. The average life of a building system is less than 30 years.
2. *Portable buildings shall be subject to the same formula as permanent buildings.* Currently, the formula distinguishes between a portable building and a permanent building, generating about 6 times as much money for a portable building as for a permanent building. As portable buildings have a shorter life than permanent buildings, the formula is designed to provide portable buildings greater funding. The life of a portable buildings *system*, however, is about the same as that of a permanent building system.
3. *The cost per square foot shall be the replacement cost.* Currently, the formula uses the new school construction cost per square foot. This amount, however, includes funding for equipment, furniture, and any contingencies. Funding for these items is not necessary to maintain and replace building systems.
4. *The square foot per student shall be according to the minimum adequacy guidelines.* The formula currently uses the new school construction square foot per student. The new school construction square foot per student, however, is designed to build facilities that allow for student growth.

These changes to the formula would not generate any dollar savings in FY 2004 as the formula is suspended in that year. (See *JLBC Recommended Statutory Changes for more information.*)

Deficiencies Correction

The Deficiencies Correction Fund is established by A.R.S. § 15-2021 to correct existing square footage and quality deficiencies. 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 Deficiencies Correction Fund.

The board instructed the Treasurer to transfer \$280 million to the Deficiencies Correction Fund in FY 2004. This figure is based on the board's estimate of the total costs to complete the Deficiencies Correction Program. If the estimate is too high, any remaining monies would be transferred to the General Fund.

Assuming the \$280,000,000 estimate is correct, the board actually only requires \$247,135,000 in additional funding. The reason for this is that the board currently has the authority to issue \$32,865,000 in revenue bonds. A.R.S. §

42-5029 allows the board to issue School Improvement Revenue Bonds in a *principal* amount not to exceed \$800,000,000 to help pay for the costs of the Deficiencies Correction program. Though the board has received \$800,000,000 in cash from these bond agreements, the principal amount is only \$767,135,000. The remaining \$32,865,000 is considered premium, a result of the favorable interest rates of the bond issuance. Therefore, it is possible for the board to issue \$32,865,000 more in revenue bonds with no changes to current law. Issuance of these bonds would carry with it no costs to the General Fund, as repayment of the bonds would be made from Proposition 301 sales tax revenues. Proposition 301 increased the sales tax from 5.0% to 5.6% to fund several education issues. If the board were to issue those additional bonds, they would only require \$247,135,000, according to their estimate, to complete the Deficiencies Correction Program.

Though the board has instructed the Treasurer to transfer \$280 million in TPT revenues to the Deficiencies Correction Fund, the JLBC recommends directing the board to issue up to \$247,135,000 in revenue bonds that would be paid back with K-12 Expendable Endowment Earnings. The first payment on the bonds would be made in FY 2005. (See *JLBC Recommended Statutory Changes for more information.*)

The JLBC further recommends delaying, from June 30, 2003 to December 31, 2004, the date by which all existing school deficiencies in the state shall be corrected. The current statutory date does not give the board enough time to correct all existing deficiencies. (See *JLBC Recommended Statutory Changes for more information.*)

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JLBC RECOMMENDED FORMAT — Detailed Line Item with Special Line Items by Agency. (In the FY 2003 budget, the board had a Lump Sum by Agency format.)

JLBC RECOMMENDED FOOTNOTES

Deletion of Prior Year Footnotes

The JLBC recommends deleting the one-time footnote concerning the board report to the Joint Committee on Capital Review on the effect of any deficiencies correction made on the funding requirements of the building renewal formula.

JLBC RECOMMENDED STATUTORY CHANGES

The JLBC recommends:

- 1) Notwithstanding the board's instructions to the Treasurer to transfer \$250 million to the New School Facilities Fund and instead authorizing the board to enter into lease-to-own agreements for a maximum of \$250 million in FY 2004. (See the "New School Facilities" policy issue for more information.)

- 2) Notwithstanding the board's instructions to the Treasurer to transfer \$280 million to the Deficiencies Correction Fund and instead authorizing the board to issue up to \$247,135,000 in State School Facilities Revenue Bonds. (See the "Deficiencies Correction" policy issue for more information.)
- 3) Amending A.R.S. § 15-2031 to make a number of changes to the building renewal formula to better reflect actual costs to maintain school facilities. (See the "Building Renewal" policy issue for more information.)
- 4) Amending A.R.S. § 15-2021 to delay the date by which all existing deficiencies in the state shall be corrected from June 30, 2003 to December 31, 2004. (See the "Deficiencies Correction" policy issue for more information.)

SUMMARY OF FUNDS	FY 2002 Actual	FY 2003 Estimate
Building Renewal (SFA2465/A.R.S. § 15-2031)		Non-Appropriated
Source of Revenue: Appropriated monies and Transaction Privilege Tax revenues that are credited to the fund each year in an amount determined by the School Facilities Board.		
Purpose of Fund: To provide school districts with monies for maintaining the adequacy of existing school facilities.		
Funds Available		
Balance Forward	0	0
Revenue		
General Fund Appropriation/TPT Transfer	132,000,000	38,274,100
Total Funds Available	132,000,000	38,274,100
Funds Expended from the General Fund	62,065,300	38,274,100
Funds Transferred to the General Fund	69,934,700	0
Year-End Fund Balance	0	0
Capital Reserve (SFA2450/A.R.S. § 15-2003)		Appropriated
Source of Revenue: Earnings on the investment of Capital Reserve Fund balances and unobligated monies from the New School Facilities Fund that are credited to the Capital Reserve Fund by the State Treasurer on June 30 of each year.		
Purpose of Fund: To serve as a clearing account for any New School Facilities Fund monies that are unobligated at the end of each fiscal year. This allows the monies to be invested by the State Treasurer until they are appropriated either to the Deficiencies Correction Fund or back to the New School Facilities Fund.		
Funds Available		
Balance Forward	0	0
Transfer from New School Facilities Fund	0	0
Total Funds Available	0	0
Funds Expended	0	0
Year-End Fund Balance	0	0
Deficiencies Correction (SFA2455/A.R.S. § 15-2021)		Non-Appropriated
Source of Revenue: Appropriated monies and Transaction Privilege Tax revenues that are credited to the fund each year in an amount determined by the School Facilities Board. Does not include \$800,000,000 in Proposition 301 revenue bond proceeds. (See the School Improvement Revenue Bond Proceeds Fund.)		
Purpose of Fund: To provide school districts with monies for correcting existing deficiencies.		
Funds Available		
Balance Forward	126,140,800	113,820,600
Revenue		
General Fund Appropriation	0	0
General Fund TPT Transfer	0	0
Transfer from the School Improvement Revenue Bond Debt Service Fund	0	15,000,000
Transfer from the Oil Overcharge Fund	0	8,000,000
School Capital Equity Fund Transfer	0	15,000,000
Transfer from the School Improvement Revenue Bond Proceeds Fund	43,841,600	0
Total Funds Available	169,982,400	151,820,600
Funds Expended from the General Fund	161,800	113,820,600
Funds Expended from the School Capital Equity Fund Transfer	0	15,000,000
Funds Transferred to the General Fund	56,000,000	23,000,000
Year-End Fund Balance	113,820,600	0 ^{1/}

SUMMARY OF FUNDS	FY 2002 Actual	FY 2003 Estimate
New Schools Facilities (SFA2460/A.R.S. § 15-2041)		Non-Appropriated
Source of Revenue: Appropriated monies, Transaction Privilege Tax revenues credited to the fund each year in an amount determined by the School Facilities Board, and monies received by the State Land Department from the lease of state public school land.		
Purpose of Fund: To provide school districts with monies for constructing new school facilities.		
Funds Available		
Balance Forward	234,798,600	68,698,300
Revenue		
General Fund Appropriation /TPT		
Transfer	250,000,000	0
Capital Reserve Fund Appropriation	0	0
Rental Income	7,300	20,000,000
Lease-to-Own Proceeds	0	400,000,000
Total Funds Available	484,805,900	488,698,300
Funds Expended from the General Fund	332,857,600	88,698,300
Funds Expended from the Capital Reserve		
Appropriation	0	0
Funds Expended from Lease-to-Own		
Proceeds	0	370,000,000
Funds Transferred to the General Fund	83,250,000	0
Year-End Fund Balance	68,698,300	30,000,000
School Capital Equity (SFA2273/A.R.S. § 15-1051[repealed])		Non-Appropriated
Source of Revenue: Transfers from the General Fund and the Permanent State School Fund.		
Purpose of Fund: To complete school capital projects previously approved by the State Board for School Capital Facilities. Laws 1997, Chapter 9, 1 st Special Session automatically repealed the board upon the Arizona Supreme Court's ruling that the state's system of school capital funding was unconstitutional. All remaining monies will be transferred to other funds in FY 2003.		
Funds Available		
Balance Forward	17,487,200	17,460,400
Total Funds Available	17,487,200	17,460,400
Funds Expended	26,800	0
Funds Transferred to the Deficiencies		
Correction Fund	0	15,000,000
Funds Transferred to the General Fund	0	2,460,400
Year-End Fund Balance	17,460,400	0
School Facilities Revenue Bond Debt Service (SFA5010/A.R.S. § 15-2054)		Non-Appropriated
Source of Revenue: Monies credited to the fund, if necessary, from the Permanent State School Fund (A.R.S. § 37-521.B1) or state Transaction Privilege Tax revenues.		
Purpose of Fund: To pay the debt service on State School Facilities Revenue Bonds issued for new construction.		
Total Funds Available	0	0
Funds Expended	0	0
Year-End Fund Balance	0	0
School Facilities Revenue Bond Proceeds (SFA3325/A.R.S. § 15-2053)		Non-Appropriated
Source of Revenue: Proceeds from the sale of up to \$200,000,000 in revenue bonds that may be issued by the School Facilities Board if authorized by the Legislature.		
Purpose of Fund: To provide monies for constructing new school facilities.		
Funds Expended	0	0
Year-End Fund Balance	0	0

1/ As reported by the board. It is unlikely that these funds will be totally expended by the end of FY 2003.

SUMMARY OF FUNDS	FY 2002 Actual	FY 2003 Estimate
School Improvement Revenue Bond Debt Service (SFA5020/A.R.S. § 15-2084)		Non-Appropriated
Source of Revenue: Revenues from a 0.6% increase in the state Transaction Privilege Tax, as approved under Proposition 301 in the 2000 General Election.		
Purpose of Fund: To pay the debt service on \$800,000,000 in State School Improvement Revenue Bonds.		
Funds Available		
Balance Forward	277,000	11,159,100
General Fund Dedicated Sales Tax	80,778,800	64,000,000
Total Funds Available	81,055,800	75,159,100
Funds Expended	69,896,700	63,181,200
Year-End Fund Balance	11,159,100	11,977,900
School Improvement Revenue Bond Proceeds (SFA3335/A.R.S. § 15-2083)		Non-Appropriated
Source of Revenue: Proceeds from the sale of up to \$800,000,000 in revenue bonds that may be issued by the School Facilities Board. See the Deficiencies Correction Fund for more information on Deficiencies Correction Program funding.		
Purpose of Fund: To provide monies for correcting existing deficiencies and for bond related expenses.		
Funds Available		
Balance Forward	441,855,100	203,944,600
Revenue Bond Proceeds	6,350,000	293,548,500
Total Funds Available	448,205,100	497,493,100
Funds Expended	244,260,500	497,493,100
Year-End Fund Balance	203,944,600	0^{1/}

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