

Executive Director: William Bell

JLBC Analyst: Jake Corey

	FY 2003 Actual	FY 2004 Estimate	FY 2005 Approved
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	18.0	18.0	18.0
Personal Services	963,700	1,022,700	1,040,700
Employee Related Expenditures	181,400	222,500	223,300
Professional and Outside Services	152,600	149,000	149,000
Travel - In State	30,900	20,000	20,000
Travel - Out of State	1,200	0	0
Other Operating Expenditures	199,800	164,200	164,200
Equipment	17,500	1,000	1,000
OPERATING SUBTOTAL	1,547,100	1,579,400	1,598,200
SPECIAL LINE ITEMS			
New School Facilities	0	0	0
New School Facilities Debt Service	0	21,260,000 ^{1/}	43,009,600
Building Renewal	38,274,100	0	30,000,000 ^{2/3/}
Deficiencies Correction	0	0	75,000,000 ^{4/5/}
Ch. 278 Full Day Kindergarten	0	0	4,000,000 ^{6/}
AGENCY TOTAL	39,821,200	22,839,400	153,607,800^{7/}
FUND SOURCES			
General Fund	39,821,200	22,839,400	153,607,800
SUBTOTAL - Appropriated Funds	39,821,200	22,839,400	153,607,800
Other Non-Appropriated Funds	890,421,900	736,444,000	377,289,700
TOTAL - ALL SOURCES	930,243,100	759,283,400	530,897,500

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/} Pursuant to Laws 2004, Chapter 274, this appropriation is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.
^{2/} This amount does not include a triggered appropriation made by Laws 2004, Chapter 275. Triggered appropriations in FY 2005 depend on the availability of excess revenues. (For more information, refer to the "Building Renewal Special Line Item" description and the "Summary of Appropriations Triggered by Revenues" table at the front of this report.)
^{3/} The \$30,000,000 amount is the net result of a \$134,894,500 transfer from the General Fund to the Building Renewal Fund (made pursuant to A.R.S. § 42-5030.01 and not included in the General Appropriation Act) and a \$104,894,500 transfer from the Building Renewal Fund to the General Fund (made pursuant to the General Appropriation Act).
^{4/} Includes \$75,000,000 appropriated by Laws 2003, 1st Special Session, Chapter 2 as amended by Laws 2004, Chapter 274 for Deficiencies Correction Program costs.
^{5/} This amount does not include a triggered appropriation made by Laws 2004, Chapter 275. Triggered appropriations in FY 2005 depend on the availability of excess revenues. (For more information, refer to the "Deficiencies Correction Special Line Item" description and the "Summary of Appropriations Triggered by Revenues" table at the front of this report.)
^{6/} Pursuant to Laws 2004, Chapter 278, this appropriation is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.
^{7/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

PERFORMANCE MEASURES	FY 2003	FY 2003	FY 2004	FY 2005
	Appropriation	Actual	Appropriation	Appropriation
• Number of schools inspected	--	0	60	300
• % of cumulative critical deficiency correction projects completed	100	100	100	100
• % of cumulative non-critical deficiency correction projects completed	100	57	100	100
• % of school districts rating the boards' services as "good" or "excellent" in an annual survey	90	NA	92	92
• Administration as a % of total cost (excluding deficiencies correction)	0.4	0.5	0.4	0.4

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

Operating Budget

The budget provides \$1,598,200 from the General Fund for the operating budget in FY 2005. This amount includes an increase for statewide salary and other adjustments. (Please see the *Statewide Adjustments* section at the end of this *Appropriations Report* for details.)

Special Line Items

New School Facilities

The budget provides no funding from the General Fund for "pay-as-you-go" cash financing of New School Facilities in FY 2005. No General Fund monies were provided for New School Facilities in FY 2004.

To pay for the costs of new school construction in FY 2005, the School Facilities Budget Reconciliation Bill (Laws 2004, Chapter 274) directs the board to enter into lease-purchase agreements in an amount not to exceed \$250,000,000. The debt service for these lease-purchase agreements will begin in FY 2006. The FY 2006 payment is estimated to be approximately \$22,000,000.

With the approved \$250,000,000 lease-purchase financing, the board estimates funding approximately 38 New School Facilities projects housing 27,000 students.

The New School Facilities 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. The board distributes the monies to school districts as work is completed on approved projects.

New School Facilities Debt Service

The budget provides \$43,009,600 from the General Fund for New School Facilities Debt Service in FY 2005. This amount includes a \$21,749,600 increase to make the FY 2005 debt service payment on all existing new school facilities lease-purchase obligations, including

\$400,000,000 in agreements entered into in FY 2003 and \$250,000,000 in agreements entered into in FY 2004.

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

Building Renewal

The budget provides \$30,000,000 from the General Fund for Building Renewal in FY 2005. No General Fund monies were provided for Building Renewal in FY 2004 due to the suspension of the Building Renewal formula in that year (Laws 2002, Chapter 330).

Pursuant to A.R.S. § 15-2002.A(10), the board had instructed the Treasurer to transfer \$134,894,500 to the Building Renewal Fund in FY 2005. Chapter 274, however, transfers \$104,894,500 from the Building Renewal Fund to the General Fund. The net result, therefore, is to provide \$30,000,000 to the Building Renewal Fund in FY 2005.

In addition to the amounts above, the General Appropriation Act conditionally appropriates \$40,000,000 in FY 2005 from the General Fund for additional Building Renewal funding if FY 2004 or FY 2005 General Fund revenues exceed the budgeted forecast. (For more information, see the "Summary of Appropriations Triggered by Revenues" table at the front of this report.)

Chapter 274 also made a number of changes to the Building Renewal formula. The changes would have reduced annual Building Renewal costs from approximately \$135,000,000 to \$70,000,000. The Governor, however, line item vetoed the changes.

The Building Renewal 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.

The board distributes the monies to school districts in 2 equal installments, in November and May.

Deficiencies Correction

The budget provides \$75,000,000 from the General Fund for Deficiencies Correction in FY 2005. No General Fund monies were provided for Deficiencies Correction in FY 2004.

Chapter 274 amended Laws 2003, 1st Special Session, Chapter 2 to reduce the appropriation to the Deficiencies Correction Fund from \$100,000,000 to \$75,000,000. To fund the remaining \$25,000,000, Chapter 274 authorizes the board to issue State School Trust Revenue Bonds. The debt service payments on these bonds will be paid back with K-12 Expendable Endowment Earnings. Payments would begin in FY 2006. Assuming an equalized debt service payment schedule, the FY 2006 payment is estimated to be approximately \$2,400,000.

Including the \$100,000,000 (\$75,000,000 in cash financing and \$25,000,000 in bonding authority), the state will have provided the Deficiencies Correction Program with a total of \$1,294,000. The \$100,000,000 represents the cost to complete all remaining projects and conclude the Deficiencies Correction Program.

In addition to the amounts above, the General Appropriation Act conditionally appropriates \$25,000,000 in FY 2005 from the General Fund to provide cash financing to replace the bonding authority if FY 2004 or FY 2005 General Fund revenues exceed the budgeted forecast.

As part of the \$1,294,000,000 total cost, the board issued \$247,135,000 in revenue bonds in FY 2004 to be paid back with K-12 Expendable Endowment Earnings. The amount budgeted for the FY 2005 debt service payment is \$23,753,900. Laws 2003, Chapter 264 directs the State Treasurer and the State Land Department to annually transfer endowment earnings to SFB for the debt service payments. These monies, therefore, do not appear in the General Appropriation Act.

Since endowment earnings have traditionally been used to defray the costs of K-12 Basic State Aid, any earnings used for debt service have to be replaced in the Department of Education budget. (See the "Endowment Earnings" policy issue in the "Department of Education" pages for more information.)

The Deficiencies Correction 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 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.

Ch. 278 Full Day Kindergarten

Laws 2004, Chapter 278 includes \$4,000,000 from the General Fund in FY 2005. The funding will be used to provide capital grants to school districts that immediately require additional space in order to provide full-day kindergarten. This appropriation is non-lapsing, and therefore, unspent monies do not revert to the General Fund.

The Ch. 278 Full Day Kindergarten Special Line Item provides funding for full-day kindergarten in FY 2005 to schools with at least 90% of students qualifying for free or reduced price lunches. (See the "Ch. 278 Full Day Kindergarten" Special Line Item in the "Department of Education" pages for more information.)

In addition to the FY 2005 appropriation, the Legislature is required to develop a plan to provide statewide full-day kindergarten by FY 2010. The board estimates the initial capital costs to implement statewide full-day kindergarten would be approximately \$100,000,000.

Fund Transfers

School Improvement Revenue Bond Debt Service

The General Appropriation Act transfers \$1,756,500 from the School Improvement Revenue Bond Debt Service Fund to the General Fund in FY 2005. This transfer is not part of the agency's appropriation and is not reflected in the tables above.

School Capital Equity

The General Appropriation Act transfers \$278,000 from the School Capital Equity Fund to the General Fund in FY 2005. This transfer is not part of the agency's appropriation and is not reflected in the tables above.

Other Issues

Hayden-Winkelman

Chapter 278 appropriates \$3,215,000 from the School Improvement Revenue Bond Debt Service Fund to the Arizona Department of Education (ADE) in FY 2005 to distribute to Hayden-Winkelman Unified School District for supplemental state aid. The appropriation is reflected in the ADE budget. (See the "Ch. 278 Hayden-Winkelman" Special Line Item in the "Department of Education" pages for more information.)

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