

# School Facilities Board

JLBC: Jake Corey  
 OSPB: Dawn Nazary

DESCRIPTION	FY 2003	FY 2004	FY 2005	
	ACTUAL	ESTIMATE	OSPB	JLBC
<b>OPERATING BUDGET</b>				
<i>Full Time Equivalent Positions</i>	18.0	18.0		18.0
Personal Services	963,700	1,022,700		1,022,700
Employee Related Expenditures	181,400	220,600		220,600
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
<b>OPERATING SUBTOTAL</b>	<b>1,547,100</b>	<b>1,577,500</b>		<b>1,577,500</b>
<b>SPECIAL LINE ITEMS</b>				
New School Facilities	0	0		0
New School Facilities Debt Service	0	21,260,000		45,204,400
Building Renewal	38,274,100	0		70,000,000
Deficiencies Correction	0	0		100,000,000
<b>AGENCY TOTAL</b>	<b>39,821,200</b>	<b>22,837,500</b>		<b>216,781,900</b>

## FUND SOURCES

General Fund	39,821,200	22,837,500		216,781,900
<b>SUBTOTAL - Appropriated Funds</b>	<b>39,821,200</b>	<b>22,837,500</b>		<b>216,781,900</b>
Other Non-Appropriated Funds	890,421,900	736,444,000		377,289,700
<b>TOTAL - ALL SOURCES</b>	<b>930,243,100</b>	<b>759,281,500</b>		<b>594,071,600</b>

## CHANGE IN FUNDING SUMMARY

FY 2004 to FY 2005 JLBC

	\$ Change	% Change
General Fund	193,944,400	849.2%
Total Appropriated Funds	193,944,400	849.2%
Non Appropriated Funds	(359,154,300)	(48.8%)
Total - All Sources	(165,209,900)	(21.8%)

**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.

PERFORMANCE MEASURES	FY 2003	FY 2003	FY 2004	FY 2005
	Appropriation	Actual	Appropriation	Recommend.
• 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."

**RECOMMENDED CHANGES FROM FY 2004**

**Operating Budget**

The JLBC recommends \$1,577,500 from the General Fund for the operating budget in FY 2005. This amount is unchanged from FY 2004.

**Special Line Items**

**New School Facilities**

The JLBC recommends 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 JLBC recommends the board be authorized to enter into lease-purchase agreements for up to \$250,000,000. There would be no FY 2005 General Fund cost, as the first payment for the agreements would begin in FY 2006. As statute only allows the board to enter into agreements for a maximum of \$200,000,000, current law would have to be notwithstanding or amended to implement this recommendation. *(See JLBC Recommended Statutory Changes for more information.)*

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 JLBC recommends \$45,204,400 from the General Fund for New School Facilities Debt Service in FY 2005. This amount would fund the following adjustment:

**Increased Debt Service** **GF \$23,944,400**

The JLBC recommends an increase of \$23,944,400 from the General Fund 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 that will be entered into in FY 2004.

The table below shows total payments related to each fiscal year. The payment for agreements entered into in FY 2004 is an estimated amount, as the board has currently only entered into \$200,000,000 in agreements in FY 2004. The board plans to lease-purchase the remaining \$50,000,000 in February 2004.

FY 2003 (\$400 M)	\$33,393,300
FY 2004 (\$250 M) Est.	<u>11,811,100</u>
<b>TOTAL</b>	<b>\$45,204,400</b>

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 JLBC recommends \$70,000,000 from the General Fund for Building Renewal in FY 2005. This amount would fund the following adjustment:

**Fully Fund Revised Building**

**Renewal Formula** **GF 70,000,000**

The JLBC recommends an increase of \$70,000,000 from the General Fund to fully fund a revised building renewal formula.

The board has instructed the Treasurer to transfer \$134,894,500 to the Building Renewal Fund in FY 2005, based on the current building renewal formula. By January 1 of each year, the board is required to instruct the State Treasurer of the Transaction Privilege Tax (TPT) amount to be credited in the following fiscal year to the Building Renewal Fund. The JLBC instead recommends funding a revised building renewal formula, which would require the following statutory changes to the current 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. The current formula does not cap the age of the building.
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 building 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.



SUMMARY OF FUNDS	FY 2003 Actual	FY 2004 Estimate
<b>Building Renewal (SFA2465/A.R.S. § 15-2031)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Appropriated monies and Transaction Privilege Tax (TPT) revenues that are credited to the fund each year in an amount determined by the School Facilities Board.		
<b>Purpose of Fund:</b> To provide school districts with monies for maintaining the adequacy of existing school facilities.		
<b>Funds Available</b>		
Balance Forward	0	0
General Fund Appropriation/TPT Transfer	38,274,100	0
<b>Total Funds Available</b>	<b>38,274,100</b>	<b>0</b>
<b>Funds Expended from the General Fund</b>	<b>38,274,100</b>	<b>0</b>
<b>Year-End Fund Balance</b>	<b>0</b>	<b>0</b>
 <b>Capital Reserve (SFA2450/A.R.S. § 15-2003)</b>		 <b>Appropriated</b>
<b>Source of Revenue:</b> 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.		
<b>Purpose of Fund:</b> 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.		
<b>Funds Available</b>		
Balance Forward	0	0
Transfer from New School Facilities Fund	0	0
<b>Total Funds Available</b>	<b>0</b>	<b>0</b>
<b>Funds Expended</b>	<b>0</b>	<b>0</b>
<b>Year-End Fund Balance</b>	<b>0</b>	<b>0</b>
 <b>Deficiencies Correction (SFA2455/A.R.S. § 15-2021)</b>		 <b>Non-Appropriated</b>
<b>Source of Revenue:</b> 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 \$832,865,000 in Proposition 301 revenue bond proceeds or \$6,350,000 in Qualified Zone Academy Bond revenue bond proceeds. (See the School Improvement Revenue Bond Proceeds Fund.) Does not include \$247,100,000 in Permanent State School Fund revenue bond proceeds. (See the State Land Trust Bond Proceeds Fund.)		
<b>Purpose of Fund:</b> To provide school districts with monies for correcting existing deficiencies.		
<b>Funds Available</b>		
Balance Forward	113,792,000	29,682,500
Revenue		
General Fund Appropriation	0	0
General Fund TPT Transfer	0	0
Transfer from the School Improvement Revenue Bond Debt Service Fund	15,000,000	0
Transfer from the Oil Overcharge Fund	8,000,000	0
School Capital Equity Fund Transfer	14,972,800	0
Transfer from the New School Facilities Fund	0	50,000,000
Administrative Adjustments	1,445,400	0
<b>Total Funds Available</b>	<b>153,210,200</b>	<b>79,682,500</b>
<b>Funds Expended</b>	<b>527,700</b>	<b>78,682,500</b>
<b>Funds Transferred to the General Fund</b>	<b>123,000,000</b>	<b>0</b>
<b>Year-End Fund Balance</b>	<b>29,682,500</b>	<b>1,000,000</b>

SUMMARY OF FUNDS	FY 2003 Actual	FY 2004 Estimate
<b>Emergency Deficiencies Correction (SFA2484/A.R.S. § 15-2022)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Monies transferred from the Deficiencies Correction Fund or the New School Facilities Fund.		
<b>Purpose of Fund:</b> To provide school districts monies for facility emergencies.		
<b>Funds Available</b>		
Balance Forward	0	0
Revenue		
Transfer from the Deficiencies Correction Fund	0	0
Transfer from the New School Facilities Fund	0	4,185,800
<b>Total Funds Available</b>	0	4,185,800
<b>Funds Expended</b>	0	4,185,800
<b>Year-End Fund Balance</b>	0	0
<b>Lease to Own Debt Service (SFA2373/A.R.S. § 15-2004)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Appropriated monies and interest earnings from the investment of lease-to-own Certificates of Participation (COP) proceeds.		
<b>Purpose of Fund:</b> To pay the debt service on any lease-to-own agreements entered into by the School Facilities Board to finance the costs of new school construction.		
<b>Funds Available</b>		
Balance Forward	0	0
Revenue		
General Fund Appropriation	0	21,260,000
Interest Earnings	0	1,371,500
<b>Total Funds Available</b>	0	22,631,500
<b>Funds Expended</b>		
Funds Expended from the General Fund	0	19,808,700
Funds Expended from Interest Earnings	0	1,371,500
<b>Total Funds Expended</b>	0	21,180,200
<b>General Fund Reversion</b>	0	1,451,300
<b>Year-End Fund Balance</b>	0	0
<b>New Schools Facilities (SFA2460/A.R.S. § 15-2041)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Appropriated monies, Transaction Privilege Tax revenues credited to the fund each year in an amount determined by the School Facilities Board, monies received by the State Land Department from the lease of state public school land, and proceeds from lease-to-own agreements.		
<b>Purpose of Fund:</b> To provide school districts with monies for constructing new school facilities.		
<b>Funds Available</b>		
Balance Forward	68,696,400	209,388,300
Revenue		
General Fund Appropriation/TPT Transfer	0	0
Capital Reserve Fund Appropriation	0	0
Rental Income	1,647,700	0
Lease-to-Own Proceeds	400,000,000	250,000,000
<b>Total Funds Available</b>	470,344,100	459,388,300
<b>Funds Expended</b>		
Funds Expended from the General Fund	0	20,001,200
Funds Expended from Lease-to-Own Proceeds	260,955,800	291,000,000
<b>Total Funds Expended</b>	260,955,800	311,001,200
<b>Funds Transferred to the Deficiencies Correction Fund</b>	0	50,000,000
<b>Funds Transferred to the Emergency Deficiencies Correction Fund</b>	0	4,185,800
<b>Year-End Fund Balance</b>	209,388,300	94,201,300

SUMMARY OF FUNDS	FY 2003 Actual	FY 2004 Estimate
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**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. In addition, the School Facilities Board collects payment on outstanding loans to school districts. The loans were administered by the State Board for School Capital Facilities. All outstanding loans will be repaid in FY 2004.

**Purpose of Fund:** To complete school capital projects previously approved by the State Board for School Capital Facilities. Laws 1997, Chapter 9, 1<sup>st</sup> Special Session automatically repealed the board upon the Arizona Supreme Court's ruling that the state's system of school capital funding was unconstitutional.

<b>Funds Available</b>		
Balance Forward	17,460,300	0
District Loan Repayment	0	330,000
<b>Total Funds Available</b>	17,460,300	330,000
<b>Funds Expended</b>	0	52,000
<b>Funds Transferred to the Deficiencies</b>		
Correction Fund	14,972,800	0
<b>Funds Transferred to the General Fund</b>	2,487,500	0
<b>Year-End Fund Balance</b>	0	278,000

**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.

<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	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.

<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	0	0

**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 \$832,865,000 in Proposition 301 revenue bonds and \$6,350,000 in Qualified Zone Academy Bond (QZAB) revenue bonds.

<b>Funds Available</b>		
Balance Forward	11,159,000	1,885,700
Revenue		
General Fund Dedicated Sales Tax	63,181,200	63,034,400
Interest Earnings	5,726,700	3,678,800
<b>Total Funds Available</b>	80,066,900	68,598,900
<b>Funds Expended</b>	61,913,100	64,777,900
<b>Funds Transferred to the Deficiencies</b>		
Correction Fund	15,000,000	0
<b>QZAB Payment Set Aside</b> <sup>1/</sup>	1,268,100	1,270,000
<b>Year-End Fund Balance</b>	1,885,700	2,551,000

<sup>1/</sup> Though SFB will not pay back the Qualified Zone Academy Bond principal amount until FY 2007, the board will annually set aside approximately \$1,270,000 from FY 2003 to FY 2007 to make the \$6,350,000 payment.

SUMMARY OF FUNDS	FY 2003 Actual	FY 2004 Estimate
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**School Improvement Revenue Bond Proceeds (SFA3335/A.R.S. § 15-2083) Non-Appropriated**

**Source of Revenue:** Proceeds from the sale of up to \$832,865,000 in Proposition 301 revenue bonds and \$6,350,000 in Qualified Zone Academy 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.

<b>Funds Available</b>		
Balance Forward	260,294,600	48,774,300
Revenue		
Revenue Bond Proceeds	349,098,300	0
Interest Earnings	6,406,700	500,000
<b>Total Funds Available</b>	<b>615,799,600</b>	<b>49,274,300</b>
<b>Funds Expended</b>	<b>567,025,300</b>	<b>49,274,300</b>
<b>Year-End Fund Balance</b>	<b>48,774,300</b>	<b>0</b>

**State Land Trust Bond Proceeds (SFA3339/Laws 2003, Chapter 264) Non-Appropriated**

**Source of Revenue:** Proceeds from the sale of up to \$247,135,000 in Permanent State School Fund 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.

<b>Funds Available</b>		
Balance Forward	0	0
Revenue Bond Proceeds	0	247,100,000
<b>Total Funds Available</b>	<b>0</b>	<b>247,100,000</b>
<b>Funds Expended</b>	<b>0</b>	<b>247,100,000</b>
<b>Year-End Fund Balance</b>	<b>0</b>	<b>0</b>

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