

Executive Director: William Bell

JLBC Analyst: Jake Corey

	FY 2004 Actual	FY 2005 Estimate	FY 2006 Approved
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	18.0	18.0	18.0
Personal Services	1,003,900	1,049,700	1,067,500
Employee Related Expenditures	211,500	211,300	262,000
Professional and Outside Services	128,700	132,900	134,300
Travel - In State	25,700	25,000	25,000
Other Operating Expenditures	191,800	187,600	157,300
Equipment	12,900	0	0
OPERATING SUBTOTAL	1,574,500	1,606,500	1,646,100
SPECIAL LINE ITEMS			
Ch. 287 New School Facilities	0	0	250,000,000 ^{1/}
New School Facilities Debt Service	19,800,800	43,009,600	50,940,100
Building Renewal	0	70,000,000	70,000,000 ^{2/}
Deficiencies Correction	0	100,000,000	20,000,000 ^{3/}
Full-Day Kindergarten	0	4,000,000	0 ^{4/}
AGENCY TOTAL	21,375,300	218,616,100	392,586,200^{5/}
FUND SOURCES			
General Fund	21,375,300	218,616,100	392,586,200
SUBTOTAL - Appropriated Funds	21,375,300	218,616,100	392,586,200
Other Non-Appropriated Funds	679,755,000	477,819,600	424,205,400
TOTAL - ALL SOURCES	701,130,300	696,435,700	816,791,600

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 Actual	FY 2004 Actual	FY 2006 Approved
• % of school districts inspected meeting minimum adequacy standards	NA	99	100
• % of school districts rating the board’s services as “good” or “excellent” in an annual survey	NA	80	90

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

^{1/} Funding is provided through a direct transfer of Transaction Privilege Tax (TPT) revenues into the fund by the State Treasurer pursuant to Laws 2005, Chapter 287, rather than through the General Appropriation Act.
^{2/} The \$70,000,000 amount is the net result of a \$130,080,500 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 \$60,080,500 transfer from the Building Renewal Fund to the General Fund (made pursuant to Laws 2005, Chapter 287).
^{3/} Funding is provided through a direct transfer of Transaction Privilege Tax revenues into the fund by the State Treasurer pursuant to A.R.S. § 42-5030.01, rather than through the General Appropriation Act.
^{4/} Of the \$250,000,000 total provided for New School Facilities in FY 2006, Laws 2005, Chapter 287 requires the board to allocate up to \$4,000,000 for Full-Day Kindergarten capital grants.
^{5/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Operating Budget

The budget provides \$1,646,100 from the General Fund for the operating budget in FY 2006.

The approved amount includes an increase of \$39,600 from the General Fund in FY 2006 for statewide 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 \$250,000,000 from the General Fund for New School Facilities in FY 2006.

The approved amount includes an increase of \$250,000,000 from the General Fund in FY 2006 to provide cash financing for K-12 new school facilities. The School Facilities Board (SFB) lease-purchase financed new school construction costs in FY 2005.

The School Facilities Board Budget Reconciliation Bill (Laws 2005, Chapter 287) specifies that, of the \$250,000,000 amount, the board shall use up to \$4,000,000 for Full-Day Kindergarten capital grants. The K-12 Education Budget Reconciliation Bill (Laws 2005, Chapter 329) expands the program in FY 2006 to include districts with at least 80% of students qualifying for free or reduced price lunches. *(See the Full-Day Kindergarten Special Line Item in the Department of Education pages for more information.)*

In addition to the \$250,000,000 provided in FY 2006, Chapter 287 appropriates \$50,000,000 from the General Fund in FY 2007 for K-12 new school facilities. With the total \$300,000,000 amount, the board will be able to fund the following: 1) \$244,500,000 for construction, 2) \$30,000,000 for land, 3) \$15,000,000 for architecture and engineering fees, 4) \$6,500,000 for emergency deficiencies, and 5) \$4,000,000 for Full-Day Kindergarten capital grants.

The New School Facilities Special Line Item provides pay-as-you-go funding for school districts to build new K-12 school facilities. The board distributes the monies to school districts as work is completed on approved projects.

Table 1

New School Facilities: Statutory Funding Guidelines

Type of School	Square Feet Per Student	Funding Per Square Foot ^{1/2/}
K-6	90	\$103.56
7-8	100	\$109.32
9-12 (<1,800 pupils)	134	\$126.59
9-12 (≥1,800 pupils)	125	\$126.59

^{1/} Increased by 5% for rural school districts.

^{2/} FY 2005 amounts. Adjusted annually for inflation.

The amounts allocated to each school district are determined by statute. A school district qualifies for new construction funding when the district-wide square feet per student falls below the statutory minimum. Funding is then provided to the district at a statutorily prescribed dollar amount per square foot. This amount is adjusted annually based on a construction market index identified by the Joint Legislative Budget Committee. Currently the Committee uses a U.S. Department of Commerce index that tracks state and local government capital spending. *(See Table 1 for statutory funding guidelines.)*

For individual projects, the board may modify the square footage per student or the cost per square foot under certain circumstances (A.R.S. § 15-2041).

In addition to state funding, districts can generate local funding for new school construction projects by holding a Class B bond election (A.R.S. § 15-1021). Class B bonds are designed to supplement, and not supplant, funding received from the School Facilities Board. Space funded with Class B bond proceeds, therefore, is generally not included in the calculation for determining if a school district qualifies for funding from the board.

New School Facilities Debt Service

The budget provides \$50,940,100 from the General Fund for New School Facilities Debt Service in FY 2006.

The New School Facilities Debt Service Special Line Item provides funding to pay the debt service on lease-purchase agreements entered into from FY 2003 to FY 2005 to finance new school construction. Currently, the outstanding debt from these agreements is \$839,060,000.

The approved amount includes an increase of \$7,930,500 from the General Fund in FY 2006 to make the debt service payment on all existing new school facilities lease-purchase obligations. The \$7,930,500 amount is the net result of: 1) a \$29,935,600 increase to annualize payments for existing lease-purchase agreements; and 2) a one-time \$(22,005,100) decrease to defer payment on some of the board's outstanding lease-purchase obligations.

To achieve the one-time savings of \$(22,005,100), the board deferred payment on some of its Certificates of Participation (COP's) with a maturity date of September 1, 2005, a technique referred to as a "payment holiday." The maturity date of these COP's has now been spread over 15 years, which will result in an annual increase in debt service costs of \$1,585,000 from FY 2007 to FY 2020.

In FY 2007 total debt service will be \$75,733,500, an increase of \$24,793,400 over FY 2006. The increase consists of: 1) \$22,005,100 to restore the one-time FY 2006 savings; 2) \$1,585,000 for the higher payment associated with the payment holiday; and 3) \$1,203,300 to annualize the payment associated with the FY 2005 lease-purchase agreement.

Chapter 287 prohibits the board from entering into any lease-purchase agreements to finance new school construction in FY 2006 and specifies that the Legislature does not intend to appropriate funding in the future for debt service payments on any lease-purchase transactions entered into by the board in FY 2006.

Building Renewal

The budget provides \$70,000,000 from the General Fund for Building Renewal in FY 2006. This amount is unchanged from FY 2005.

Pursuant to A.R.S. § 15-2002(A)(10), the board had instructed the Treasurer to transfer \$130,080,500 to the Building Renewal Fund in FY 2006. Chapter 287, however, suspends the Building Renewal formula in FY 2006 and transfers \$60,080,500 from the Building Renewal Fund to the General Fund. The net result, therefore, is to provide \$70,000,000 to the Building Renewal Fund in FY 2006.

Chapter 287 also made the following changes to the Building Renewal formula: 1) limit the age of a building in the formula to 30 years; 2) subject portable buildings to the same formula as permanent buildings; 3) use the replacement cost per square foot; and 4) use the square foot per student requirements designated by the minimum adequacy guidelines. The changes would have reduced annual Building Renewal costs from approximately \$130,000,000 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 \$20,000,000 from the General Fund for Deficiencies Correction in FY 2006.

The approved amount includes a decrease of \$(80,000,000) from the General Fund in FY 2006 to reflect the SFB revised estimate of the total cost to complete the Deficiencies Correction Program. The board was appropriated \$100,000,000 in FY 2005 to complete all remaining projects and conclude the program. The board now estimates it will require an additional \$20,000,000 to complete the program.

The board has indicated that, of the total \$20,000,000 estimate, \$4,500,000 is due to unanticipated inflation and expansion of project costs, \$12,000,000 to change orders executed during the construction phase of projects, and the

remaining \$3,500,000 largely to increased oversight and project development costs.

To allow the board to complete all remaining projects, Chapter 287 extends the Deficiencies Correction Fund through FY 2006 and delays the deadline for correcting existing deficiencies to June 30, 2006 for Mesa Unified School District, Glendale Union School District, and Tucson Unified School District.

The Deficiencies Correction Special Line Item provides funding to correct existing square footage and quality deficiencies at school districts. Including the \$20,000,000, the state will have provided the Deficiencies Correction Program with a total of \$1,314,000,000. (*See the FY 2004 Appropriations Report for detail on funding provided in prior years.*)

Facility 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 were 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, 2006.

Full-Day Kindergarten

The FY 2006 budget provides \$4,000,000 for Full-Day Kindergarten, but includes the funding as part of the \$250,000,000 provided for New School Facilities. In comparison, the FY 2005 budget also provided \$4,000,000 for Full-Day Kindergarten, but included the funding in a separate budget line item. Actual state funding provided for Full-Day Kindergarten, therefore, is unchanged from FY 2005.

The Full-Day Kindergarten Special Line Item was created to provide the board with funding in FY 2005 to distribute capital grants to school districts with at least 90% of students qualifying for free or reduced price lunches. A.R.S. § 15-901.02 requires the Legislature to develop a plan to provide statewide Full-Day Kindergarten by FY 2010. The board estimates that the initial impact of implementing statewide Full-Day Kindergarten on capital costs would be approximately \$50,000,000 on a cash basis.

Additional Legislation

School Facilities Board Budget Reconciliation Bill

The School Facilities Board Budget Reconciliation Bill (Laws 2005, Chapter 287) requires future Building Renewal and New School Facilities funding to be appropriated by the Legislature. Currently, the board instructs the State Treasurer to transfer the necessary amounts directly to those funds from Transaction Privilege Tax revenues.