

School Facilities Board

JLBC: Jake Corey
 OSPB: Dawn Nazary

DESCRIPTION	FY 2004 ACTUAL	FY 2005 ESTIMATE	FY 2006 JLBC
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	18.0	18.0	18.0
Personal Services	1,003,900	1,049,700	1,049,700
Employee Related Expenditures	211,500	211,300	234,600
Professional and Outside Services	128,700	132,900	132,900
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	1,599,500
SPECIAL LINE ITEMS			
New School Facilities	0	0	300,000,000
New School Facilities Debt Service	19,800,800	43,009,600	72,945,200
Building Renewal	0	70,000,000	70,000,000
Deficiencies Correction	0	100,000,000	20,000,000
Full-Day Kindergarten	0	4,000,000	0
AGENCY TOTAL	21,375,300	218,616,100	464,544,700
FUND SOURCES			
General Fund	21,375,300	218,616,100	464,544,700
SUBTOTAL - Appropriated Funds	21,375,300	218,616,100	464,544,700
Other Non-Appropriated Funds	679,755,000	477,819,600	424,205,400
TOTAL - ALL SOURCES	701,130,300	696,435,700	888,750,100

CHANGE IN FUNDING SUMMARY

FY 2005 to FY 2006 JLBC

	\$ Change	% Change
General Fund	245,928,600	112.5%
Total Appropriated Funds	245,928,600	112.5%
Non Appropriated Funds	(53,614,200)	(11.2%)
Total - All Sources	192,314,400	27.6%

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 2005 Estimate	FY 2006 JLBC
• Number of schools inspected	0	276	300	--
• % of cumulative critical deficiency correction projects completed	100	100	100	--
• % of cumulative non-critical deficiency correction projects completed	57	94	100	--
• % of school districts inspected meeting minimum adequacy standards (NEW)	NA	99	--	100
• % of school districts rating the boards' services as "good" or "excellent" in an annual survey	NA	80	92	90
• Administration as a % of total cost (excluding deficiencies correction)	0.5	NA	0.4	--

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

RECOMMENDED CHANGES FROM FY 2005

Operating Budget

The JLBC recommends \$1,599,500 from the General Fund for the operating budget in FY 2006. This amount would fund the following adjustment:

Standard Changes	GF	FY 2006 \$(7,000)
The JLBC recommends a decrease of \$(7,000) from the General Fund in FY 2006 for standard changes.		

Special Line Items

New School Facilities

The JLBC recommends \$300,000,000 from the General Fund for New School Facilities in FY 2006. This amount would fund the following adjustment:

Cash Finance New School Facilities GF 300,000,000

The JLBC recommends an increase of \$300,000,000 from the General Fund in FY 2006 to provide cash financing for K-12 new school facilities. The SFB lease-purchase financed new school construction costs in FY 2005. With the recommended \$300,000,000 amount, the board will be able to fund an estimated 35 new school facilities projects for approximately 24,300 students and purchase \$5,000,000 of land.

The New School Facilities Special Line Item provides pay-as-you-go funding for school districts to build 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.

The board has not instructed the Treasurer to transfer any monies to the New School Facilities Fund in FY 2006. The board has instead requested the authority to enter into approximately \$300,000,000 in lease-purchase agreements to finance new school construction. Currently statute permits the board to enter into up to \$200,000,000 in lease-purchase agreements without further legislative authorization (A.R.S. § 15-2006). The board's current statutory authority would have to be notwithstanding in order to implement the JLBC recommendation. (*See JLBC Recommended Statutory Changes for more information.*)

New School Facilities Debt Service

The JLBC recommends \$72,945,200 from the General Fund for New School Facilities Debt Service in FY 2006. This amount would fund the following adjustment:

Increased Debt Service GF 29,935,600

The JLBC recommends an increase of \$29,935,600 from the General Fund in FY 2006 to make the debt service payment on all existing new school facilities lease-

purchase obligations. The increase represents the annualization of payments for the FY 2004 lease-purchase \$250,000,000 lease-purchase agreement, as well as a partial first year payment for the FY 2005 \$250,000,000 lease-purchase agreement.

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 \$846,405,000.

Building Renewal

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

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.

The board has instructed the Treasurer to transfer \$130,080,500 to the Building Renewal Fund in FY 2006, 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 at \$70,000,000, 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

funding primarily for preventative maintenance. Total funding under the new proposal is estimated to be \$70,717,400 in FY 2006, which would represent an increase of \$717,400 over the amount being provided for building renewal in FY 2005.

Under the new system, each district would establish a preventative maintenance fund with a budget limit equal to 1% of the replacement value of district facilities. (The replacement cost of the facilities would equal the product of district square footage and 85% of the statutory formula cost per square foot for new school facilities.)

The state would distribute 50% of the calculated budget limit to the district provided the district contributes the other 50%. (In its budget request, SFB notes that the district match does not represent new monies being expended for preventative maintenance, but rather the recognition that district funds are already being dedicated to preventative maintenance.) In FY 2005, SFB calculates a cost of \$50,717,400 for preventative maintenance.

In addition to providing funding for preventative maintenance, under the new proposal SFB would continue to provide some building renewal monies to districts.

Rather than allocate monies based on the existing statutory formula, districts would apply for funding from SFB. Funding would be available to districts that have fallen below the minimum adequacy guidelines or would do so within the next year. The actual amount of money provided would be equal to the actual value of completing the project.

For FY 2006, SFB estimates providing districts with \$20,000,000 in building renewal monies. The total amount distributed in FY 2006 for preventative maintenance and building renewal, therefore, would equal \$70,717,400.

Emergency Deficiencies Correction Fund

The board projects spending \$5,800,700 in FY 2005 and \$6,487,000 in FY 2006 for emergency deficiencies. The board plans to transfer monies from the New School Facilities Fund to the Emergency Deficiencies Correction Fund to pay for the cost of the projects. A.R.S. § 15-2022 grants the board the authority to transfer monies from the New School Facilities Fund or the Deficiencies Correction Fund to the Emergency Deficiencies Correction Fund.

SUMMARY OF FUNDS	FY 2004 Actual	FY 2005 Estimate
Building Renewal (SFA2465/A.R.S. § 15-2031)		Non-Appropriated
Source of Revenue: 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.		
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	0	40,000,000
General Fund TPT Transfer	0	134,894,500
Total Funds Available	<u>0</u>	<u>174,894,500</u>
Funds Expended from the General Fund	0	70,000,000
Funds Transferred to the General Fund	0	104,894,500
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	<u>0</u>	<u>0</u>
Funds Expended	0	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2004 Actual	FY 2005 Estimate
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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 \$832,865,000 in Proposition 301 revenue bond proceeds or \$20,000,000 in Qualified Zone Academy Bond revenue bond proceeds. (See the School Improvement Revenue Bond Proceeds Fund.) Does not include \$246,600,000 in Permanent State School Fund revenue bond proceeds. (See the State Land Trust Bond Proceeds Fund.)

Purpose of Fund: To provide school districts with monies for correcting existing deficiencies.

Funds Available

Balance Forward	29,682,600	13,793,000
Revenue		
General Fund Appropriation	0	100,000,000
General Fund TPT Transfer	0	0
Interest Earnings	136,200	410,600
District Reimbursement	892,700	6,000,000
Transfer from the New School Facilities Fund ^{1/}	<u>99,000,000</u>	<u>0</u>
Total Funds Available	129,711,500	120,203,600

Funds Expended

Funds Expended from the General Fund	0	11,500,000
Funds Expended from the Deficiencies Correction Fund	<u>105,418,500</u>	<u>35,203,600</u>
Total Funds Expended	105,418,500	46,703,600

Funds Transferred to the New School

Facilities Fund ^{1/}	10,500,000	73,500,000
Year-End Fund Balance	13,793,000	0

Emergency Deficiencies Correction (SFA2484/A.R.S. § 15-2022)

Non-Appropriated

Source of Revenue: Monies transferred from the Deficiencies Correction Fund or the New School Facilities Fund.

Purpose of Fund: To provide school districts monies for facility emergencies.

Funds Available

Balance Forward	0	119,500
Revenue		
Transfer from the Deficiencies Correction Fund	0	0
Transfer from the New School Facilities Fund	<u>127,400</u>	<u>5,800,700</u>
Total Funds Available	127,400	5,920,200
Funds Expended	7,900	5,800,700
Year-End Fund Balance	119,500	119,500

^{1/} To address a temporary cash flow shortage and provide funding for Deficiencies Correction projects, SFB transferred \$99,000,000 from the New School Facilities Fund to the Deficiencies Correction Fund in FY 2004. The board partially reimbursed the New School Facilities Fund by transferring \$10,500,000 from the Deficiencies Correction Fund and \$15,000,000 from the State Land Trust Bond Proceeds Fund in FY 2004. After the Legislature appropriated \$100,000,000 to the Deficiencies Correction Fund in FY 2005, the board transferred the remaining \$73,500,000 from the Deficiencies Correction Fund to the New School Facilities Fund.

SUMMARY OF FUNDS	FY 2004 Actual	FY 2005 Estimate
Lease to Own Debt Service (SFA2373/A.R.S. § 15-2004)		Non-Appropriated
Source of Revenue: Appropriated monies and interest earnings from the investment of lease-to-own Certificates of Participation (COP) proceeds.		
Purpose of Fund: 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.		
Funds Available		
Balance Forward	0	1,459,200
Revenue		
General Fund Appropriation	21,260,000	43,009,600
Interest Earnings	<u>1,371,500</u>	<u>0</u>
Total Funds Available	22,631,500	44,468,800
Funds Expended		
Funds Expended from the General Fund	19,800,800	43,009,600
Funds Expended from the Lease to Own Debt Service Fund	<u>1,371,500</u>	<u>1,451,300</u>
Total Funds Expended	21,172,300	44,460,900
General Fund Reversion	0	7,900
Year-End Fund Balance	1,459,200	0
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, monies received by the State Land Department from the lease of state public school land, and proceeds from lease-to-own agreements.		
Purpose of Fund: To provide school districts with monies for constructing new school facilities.		
Funds Available		
Balance Forward	185,239,100	96,645,900
Revenue		
General Fund Appropriation/TPT Transfer	0	0
Full-Day Kindergarten General Fund Appropriation	0	4,000,000
Capital Reserve Fund Appropriation	0	0
Rental Income	5,993,500	20,000,000
Lease-to-Own Proceeds	250,690,000	250,000,000
Other Revenue	0	5,000,000
Transfer from the Deficiencies Correction Fund ^{1/}	10,500,000	73,500,000
Transfer from the State Land Trust Bond Proceeds Fund ^{1/}	<u>15,000,000</u>	<u>0</u>
Total Funds Available	467,422,600	449,145,900
Funds Expended		
Funds Expended from the General Fund for Full-Day Kindergarten	0	4,000,000
Funds Expended from the New School Facilities Fund	55,737,000	66,237,500
Funds Expended from Lease-to-Own Proceeds	<u>215,912,300</u>	<u>226,540,700</u>
Total Funds Expended	271,649,300	296,778,200
Funds Transferred to the Deficiencies Correction Fund ^{1/}	99,000,000	0
Funds Transferred to the Emergency Deficiencies Correction Fund	127,400	5,800,700
Year-End Fund Balance	96,645,900	146,567,000

^{1/} To address a temporary cash flow shortage and provide funding for Deficiencies Correction projects, SFB transferred \$99,000,000 from the New School Facilities Fund to the Deficiencies Correction Fund in FY 2004. The board partially reimbursed the New School Facilities Fund by transferring \$10,500,000 from the Deficiencies Correction Fund and \$15,000,000 from the State Land Trust Bond Proceeds Fund in FY 2004. After the Legislature appropriated \$100,000,000 to the Deficiencies Correction Fund in FY 2005, the board transferred the remaining \$73,500,000 from the Deficiencies Correction Fund to the New School Facilities Fund.

SUMMARY OF FUNDS	FY 2004 Actual	FY 2005 Estimate
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 2005.		
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.		
Funds Available		
Balance Forward	0	0
District Loan Repayment	0	297,800
Total Funds Available	0	297,800
Funds Expended	0	0
Funds Transferred to the General Fund	0	278,000
Year-End Fund Balance	0	19,800
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. The fund is currently not in use since financing for new school construction has been generated from lease-purchase proceeds rather than revenue bonds.		
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. The fund is currently not in use since financing for new school construction has been generated from lease-purchase proceeds rather than revenue bonds.		
Funds Expended	0	0
Year-End Fund Balance	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) and monies credited to the fund from the Permanent State School Fund.		
Purpose of Fund: To pay the debt service on \$832,865,000 in Proposition 301 revenue bonds and \$20,000,000 in Qualified Zone Academy Bond (QZAB) revenue bonds for Deficiencies Correction.		
Funds Available		
Balance Forward	461,500	5,035,500
Revenue		
General Fund Dedicated Sales Tax	66,053,200	65,814,700
Permanent State School Fund Revenues	0	70,000
Interest Earnings	222,400	548,100
Transfer from the School Improvement Revenue Bond Proceeds Fund	4,422,000	174,800
Total Funds Available	71,159,100	71,643,100
Funds Expended	64,853,600	64,614,700
Funds Appropriated to the Arizona Department of Education ^{1/}	0	3,215,000
Funds Transferred to the General Fund	0	1,756,500
QZAB Payment Set Aside ^{2/}	1,270,000	1,270,000
Year-End Fund Balance	5,035,500	786,900

^{1/} These monies will be distributed to Hayden-Winkelman Unified School District to provide the district with supplemental state aid.

^{2/} Though SFB will not pay back the Qualified Zone Academy Bond principal amount until FY 2007, the board will annually set aside \$1,270,000 from FY 2003 to FY 2007 to make the \$6,350,000 payment.

SUMMARY OF FUNDS	FY 2004 Actual	FY 2005 Estimate
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 \$20,000,000 in Qualified Zone Academy revenue bonds that were 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	56,928,900	27,837,700
Revenue		
Revenue Bond Proceeds	0	0
Interest Earnings	<u>122,200</u>	<u>3,000</u>
Total Funds Available	57,051,100	27,840,700
Funds Expended	24,791,400	27,665,900
Funds Transferred to the School		
Improvement Revenue Bond Debt		
Service Fund	4,422,000	174,800
Year-End Fund Balance	27,837,700	0
State Land Trust Bond Debt Service (SFA5030/Laws 2003, Chapter 264)		Non-Appropriated
Source of Revenue: Monies credited to the fund from the Permanent State School Fund (A.R.S. § 37-521.B1).		
Purpose of Fund: To pay the debt service on \$246,600,000 in State Land Trust Revenue bonds.		
Funds Available		
Balance Forward	0	72,100
Revenue		
Permanent State School Fund Revenues	0	25,630,200
State Land Trust Revenue Bond Proceeds ^{1/}	0	12,303,700
Transfer from the State Land Trust Bond Proceeds Fund	<u>2,532,400</u>	<u>0</u>
Total Funds Available	2,532,400	38,006,000
Funds Expended	2,460,300	25,630,200
Reserve Fund Set Aside ^{1/}	0	12,303,700
Year-End Fund Balance	72,100	72,100
State Land Trust Bond Proceeds (SFA3339/Laws 2003, Chapter 264)		Non-Appropriated
Source of Revenue: Proceeds from the sale of \$246,600,000 in Permanent State School Fund revenue bonds that were 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	0	29,900
Revenue		
Revenue Bond Proceeds	226,464,700	24,645,100
Interest Earnings	<u>300,100</u>	<u>0</u>
Total Funds Available	226,764,800	24,675,000
Funds Expended	209,202,500	24,675,000
Funds Transferred to the New School		
Facilities Fund	15,000,000	0
Funds Transferred to the State Land Trust		
Bond Debt Service Fund	2,532,400	0
Year-End Fund Balance	29,900	0

^{1/} As part of its efforts to achieve an AAA rating for the \$246,600,000 in state Land Trust Revenue Bond issuance, SFB established a debt service reserve fund and placed \$12,303,700 from the bond proceeds in the fund. Monies in the fund will be used for the final debt service payment.

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