

Acting Executive Director: John Arnold

JLBC Analyst: Jake Corey/Leatta McLaughlin

	FY 2005 Actual	FY 2006 Estimate	FY 2007 Approved
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	18.0	18.0	18.0
Personal Services	1,033,800	1,062,000	1,101,100
Employee Related Expenditures	230,100	261,300	303,400
Professional and Outside Services	145,200	148,400	148,400
Travel - In State	15,200	25,000	25,000
Travel - Out of State	700	0	0
Other Operating Expenditures	177,800	169,300	169,300
Equipment	3,700	0	0
OPERATING SUBTOTAL	1,606,500	1,666,000	1,747,200
SPECIAL LINE ITEMS			
New School Facilities	0	250,000,000	250,000,000 ^{1/}
New School Facilities Debt Service	43,009,600	50,940,100	75,733,500
Building Renewal	70,000,000	70,000,000	86,283,500 ^{2/}
Deficiencies Correction	100,000,000	20,000,000	0
Full-Day Kindergarten	4,000,000	0	0
AGENCY TOTAL	218,616,100	392,606,100	413,764,200^{3/}
FUND SOURCES			
General Fund	218,616,100	392,606,100	413,764,200
SUBTOTAL - Appropriated Funds	218,616,100	392,606,100	413,764,200
Other Non-Appropriated Funds	428,290,000	210,521,600	153,749,300
TOTAL - ALL SOURCES	646,906,100	603,127,700	567,513,500

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.

	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2007 Approved
PERFORMANCE MEASURES				
• % of school districts inspected meeting minimum adequacy standards	NA	99	100	100
Comments: The agency did not submit information for this measure in FY 2003.				
• % of school districts rating the board’s services as “good” or “excellent” in an annual survey	NA	80	80	90

Operating Budget

The budget provides \$1,747,200 from the General Fund for the operating budget in FY 2007. The approved amount includes an increase of \$81,200 from the General Fund 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 2007. This amount is unchanged from FY 2006.

Of this \$250,000,000 amount, \$50,000,000 was advanced appropriated by Laws 2005, Chapter 287. As a result, the

^{1/} Includes \$50,000,000 appropriated by Laws 2005, Chapter 287.

^{2/} Laws 2006, Chapter 353 appropriation of \$86,283,500.

^{3/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

FY 2007 General Appropriation Act only includes \$200,000,000.

In prior years, the School Facilities Board (SFB) instructed the State Treasurer to transfer funding for new school construction directly to the New School Facilities Fund from Transaction Privilege Tax revenues. Beginning in FY 2007, however, funding for the program is subject to legislative appropriation.

FY 2007 new school construction will be financed on a cash basis, which continues the policy enacted in FY 2006 to provide cash instead of lease-purchase debt financing. From FY 2003 to FY 2005, new school construction was financed through lease-purchase agreements.

Total FY 2007 expenditures are expected to be \$360,749,700. Of the total, \$35,000,000 will be allocated for land, \$324,742,700 for construction projects, and \$1,000,000 for Emergency Deficiencies Correction projects. *Table 1* provides revenue and expenditure activity for the New School Facilities Fund from FY 2005 to FY 2007.

	FY 2005	FY 2006	FY 2007
	Actual	Estimate	Estimate
Beginning Balance	\$97,188,900	\$109,430,400	\$75,277,800
Revenues			
General Fund			
Appropriation	0	250,000,000 ^{2/}	250,000,000
Transfer from the			
Deficiencies Correction			
Fund	30,000,000	15,000,000	25,893,200
Lease-to-Own Proceeds	253,200,000	0	0
Full-Day Kindergarten			
Appropriation	4,000,000	0	0
Lease Revenue	16,381,400	8,946,100	10,000,000
Other Revenue	251,300	2,793,800	0
Total Funds Available	\$401,021,600	\$386,170,300	\$361,171,000
Funds Expended			
Land	30,854,500	46,570,100	35,000,000
Projects	257,044,100	251,500,000	324,742,700
Full-Day Kindergarten	2,684,600	5,315,400	0
Transfer to the Emergency			
Deficiencies Correction			
Fund	1,000,000	7,500,000	1,000,000
Board Expenditures	8,000	7,000	7,000
Total Funds Expended	291,591,200	310,892,500	360,749,700
Fund Balance	\$109,430,400	\$ 75,277,800	\$ 421,300

^{1/} This table was also included in the FY 2007 JLBC Book I. SFB has since updated its spending projections.
^{2/} Includes \$4 million for Full-Day Kindergarten.

The spending will be financed with \$250,000,000 of appropriated monies, \$10,000,000 in lease revenues from the Land Department, a \$25,893,200 transfer from the Deficiencies Correction Fund, and \$75,277,800 remaining from the New School Facilities Fund balance. Of the monies available in the fund balance, \$17,200,000 is from remaining lease-purchase proceeds, and \$58,077,800 is cash. Based on expected expenditures and available

revenues, this would leave the New School Facilities Fund with a FY 2007 ending balance of \$421,300.

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. 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. 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).

The dollar amount per square foot is adjusted annually based on a construction market index identified by the Joint Legislative Budget Committee. In FY 2006 the committee approved a 12.85% adjustment to the funding per square foot. This increase represented the midpoint between a 9.0% adjustment based on the U.S. Department of Commerce national index, and a 16.7% adjustment based on the Marshall Valuation Service (MVS) Phoenix index. The committee chose the 12.85% adjustment, which was higher than actual prior year inflation under either the national or local index, to account for the high rate of growth in construction costs over the past few years. (See *Table 2* for statutory funding guidelines.)

Type of School	Square Feet Per Student	Funding Per Square Foot^{1/2/}
K-6	90	\$116.87
7-8	100	\$123.37
9-12 (<1,800 pupils)	134	\$142.83
9-12 (≥1,800 pupils)	125	\$142.83

^{1/} Increased by 5% for rural school districts.
^{2/} FY 2006 amounts. Adjusted annually for inflation.

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 SFB. 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. In FY 2005, school districts issued approximately \$500 million in new Class B bonds.

New School Facilities Debt Service

The budget provides \$75,733,500 from the General Fund for New School Facilities Debt Service in FY 2007.

Restore One-Time Savings

The budget includes an increase of \$24,793,400 from the General Fund in FY 2007 to make the debt service

payment on all outstanding lease-purchase agreements. The increase consists of: 1) \$22,005,100 to restore the one-time FY 2006 savings generated from a payment holiday; 2) \$1,585,000 for the higher payment associated with the payment holiday; and 3) \$1,203,300 to annualize the payment of the FY 2005 lease-purchase agreement.

To achieve a one-time savings of \$(22,005,100) in FY 2006, 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 resulted in an annual increase in debt service costs of \$1,585,000 from FY 2007 to FY 2020.

The K-12 Education Budget Reconciliation Bill (BRB) (Laws 2006, Chapter 353) prohibits the board from entering into any new lease-purchase agreements to finance new school construction, and specifies the Legislature's intent not to appropriate funding in the future for debt service payments on any lease-purchase transactions entered into by the board from and after May 15, 2006. A similar provision was included in the School Facilities BRB (House Bill 2875), but that bill was vetoed by the Governor.

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 \$826,810,000.

Building Renewal

The budget provides \$86,283,500 from the General Fund for Building Renewal in FY 2007.

Revised Building Renewal Amount

The budget includes an increase of \$16,283,500 from the General Fund in FY 2007 to fully fund a revised building renewal formula.

The School Facilities BRB 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 the FY 2007 Building Renewal formula cost from \$161,465,300 to \$86,283,500. The Governor vetoed the bill, which contained the formula changes. The Governor, however, did not veto the appropriation of \$86,283,500.

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.

In prior years, SFB instructed the State Treasurer to transfer funding for building renewal directly to the Building Renewal Fund from Transaction Privilege Tax revenues. Beginning in FY 2007, however, funding for the program is subject to legislative appropriation.

Deficiencies Correction

The budget provides no funding from the General Fund for Deficiencies Correction in FY 2007.

Eliminate Deficiencies Correction Program

The budget includes a decrease of \$(20,000,000) from the General Fund in FY 2007 to eliminate funding for the Deficiencies Correction Program, which is scheduled to be completed by the end of FY 2006.

The Deficiencies Correction Special Line Item provided funding to correct existing space and quality deficiencies at school districts. The state has provided the Deficiencies Correction Program with a total of \$1,314,000,000.

Adequacy requirements are defined in statute and 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, 2006.

Full-Day Kindergarten

The budget provides no funding from the General Fund for Full-Day Kindergarten in FY 2007.

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. In FY 2004, \$4,000,000 was appropriated to this special line item. The board also received \$4,000,000 in FY 2005, but this amount was included as part of the \$250,000,000 provided to the New School Facilities Special Line Item.

The K-12 Education BRB established a new Kindergarten "Group B" funding weight, but requires school districts to provide any capital monies needed to expand their Kindergarten programs. (*See Department of Education for more information.*)

Additional Legislation

Hayden-Winkleman

Laws 2006, Chapter 353 appropriates \$1,865,400 from the School Improvement Revenue Bond Debt Service Fund to the Arizona Department of Education (ADE) in FY 2007 to distribute to Hayden-Winkleman Unified School District for supplemental state aid. The appropriation is reflected in the ADE budget.