

School Facilities Board

JLBC: Jake Corey/Leatta McLaughlin
 OSPB: Stacey Morley

DESCRIPTION	FY 2005 ACTUAL	FY 2006 ESTIMATE	FY 2007 JLBC
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	18.0	18.0	18.0
Personal Services	1,033,800	1,045,300	1,045,300
Employee Related Expenditures	230,100	258,100	258,100
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	1,646,100	1,646,100
SPECIAL LINE ITEMS			
New School Facilities	0	250,000,000	250,000,000
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
Deficiencies Correction	100,000,000	20,000,000	0
Full-Day Kindergarten	4,000,000	0	0
AGENCY TOTAL	218,616,100	392,586,200	413,663,100

FUND SOURCES			
General Fund	218,616,100	392,586,200	413,663,100
SUBTOTAL - Appropriated Funds	218,616,100	392,586,200	413,663,100
Other Non-Appropriated Funds	428,290,000	210,521,600	153,749,300
TOTAL - ALL SOURCES	646,906,100	603,107,800	567,412,400

	FY 2006 to FY 2007 JLBC	
	\$ Change	% Change
General Fund	21,076,900	5.4%
Total Appropriated Funds	21,076,900	5.4%
Non Appropriated Funds	(56,772,300)	(27.0%)
Total - All Sources	(35,695,400)	(5.9%)

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 2004	FY 2005	FY 2007
	Actual	Actual	Actual	JLBC
<ul style="list-style-type: none"> % of school districts inspected meeting minimum adequacy standards Comments: The agency did not submit information for this measure in FY 2003.	NA	99	100	100
<ul style="list-style-type: none"> % of school districts rating the board's services as "good" or "excellent" in an annual survey Comments: The agency did not submit information for this measure in FY 2003 and FY 2005.	NA	80	NA	90

RECOMMENDED CHANGES FROM FY 2006

Operating Budget

The JLBC recommends \$1,646,100 from the General Fund for the operating budget in FY 2007. This amount is unchanged from FY 2006.

Special Line Items

New School Facilities

The JLBC recommends \$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 has already been appropriated by Laws 2005, Chapter 287. As a result, the FY 2007 General Appropriation Act will only include \$200,000,000. The original cost estimate for new school construction in FY 2007 would have required a \$300,000,000 appropriation. That estimate has since been reduced.

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. Chapter 287, however, specified that, beginning in FY 2007, 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 \$314,087,000, which will be financed with the \$250,000,000 appropriation as well as other revenue sources. *Table 1* provides revenue and expenditure activity for the New School Facilities Fund from FY 2005 to 2007.

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

Table 1

**NEW SCHOOL FACILITIES FUND
Revenue and Expenditure Activity**

	FY 2005 Actual	FY 2006 Estimate	FY 2007 Estimate
Beginning Balance	\$97,077,100	\$108,862,900	\$54,268,400
Revenues			
General Fund			
Appropriation		0	250,000,000 ^{1/}
Transfer from the			
Deficiencies Correction			
Fund	30,218,000	40,893,200	0
Lease-to-Own Proceeds	252,744,300	0	0
Full-Day Kindergarten			
Appropriation	4,000,000	0	0
Lease Revenue	16,381,400	15,000,000	10,000,000
Other Revenue	33,300	2,500,000	0
Total Funds Available	\$400,454,100	\$417,256,100	314,268,400
Funds Expended			
Land	30,854,500	40,000,000	35,000,000
Projects	257,044,100	310,165,300	278,080,000
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	362,987,700	314,087,000
Fund Balance	\$108,862,900	\$ 54,268,400	\$ 181,400

^{1/} Includes \$4 million for Full-Day Kindergarten.

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.)

Table 2

**New School Facilities:
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.

Prior to the 12.85% adjustment, SFB was projected to spend \$308,383,400 in FY 2007 on new construction. Taking into account the adjustment, total construction costs would be \$314,087,000. Based on expected FY 2006 project approvals, the total cost of the 12.85% adjustment

is estimated to be approximately \$28.9 million; however, these costs are expected to be spread out over 4 years.

Of the \$314,087,000 in projected FY 2007 expenditures, \$35,000,000 would be allocated for land, \$278,087,000 for construction projects, and \$1,000,000 for Emergency Deficiencies Corrections projects.

This spending will be financed with \$250,000,000 of appropriated monies, \$1,500,000 in remaining lease-purchase proceeds, \$10,000,000 in lease revenues from the Land Department, and \$54,268,400 in cash from the New School Facilities Fund balance. Based on expected expenditures and available revenues, this would leave the New School Facilities Fund with a FY 2007 ending balance of \$181,400.

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 JLBC recommends \$75,733,500 from the General Fund for New School Facilities Debt Service in FY 2007. This amount includes the following adjustment:

FY 2007 Restore One-Time Savings GF \$24,793,400

The JLBC recommends 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 associated with 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 is now being 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 JLBC further recommends prohibiting the board from entering into any new lease-purchase agreements to finance new school construction in the future, and that the Legislature specify its intent that it will not appropriate funding in the future for debt service payments on lease-purchase transactions entered into by the board in FY 2007. (*See JLBC Recommended Statutory Changes for more information.*)

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 \$838,850,000.

Building Renewal

The JLBC recommends \$86,283,500 from the General Fund for Building Renewal in FY 2007. This amount includes the following adjustment:

Revised Building Renewal Formula GF 16,283,500

The JLBC recommends an increase of \$16,283,500 from the General Fund in FY 2007 to fully fund a revised building renewal formula. Under the current statutory formula, the FY 2007 cost of building renewal would be \$161,465,300. The JLBC instead recommends funding a revised building renewal formula at \$86,283,500, 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.

(*See JLBC Recommended Statutory Changes for more information.*)

Laws 2005, Chapter 287 made the above statutory changes to the building renewal formula. The Governor, however, line item vetoed the changes. Under the revised formula, the total cost of building renewal would have been \$70,000,000 in FY 2006. The additional \$16,283,500 in FY 2007 reflects the following increases:

Table 3**FY 2007 Building Renewal Formula Increase**

JLBC Adopted Inflation	12.85%	\$9,093,600
Age increase	8.50%	\$6,015,200
New space increase	1.66%	<u>\$1,174,700</u>
		\$16,283,500

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. Chapter 287, however, specified that, beginning in FY 2007, funding for the program is subject to legislative appropriation.

Deficiencies Correction

The JLBC recommends no funding from the General Fund for Deficiencies Correction in FY 2007. This amount reflects the following adjustment:

Eliminate Deficiencies**Correction Program GF (20,000,000)**

The JLBC recommends 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. *Table 4* lists the revenue and expenditure activity for FY 2005 and FY 2006.

The Deficiencies Correction Special Line Item provides funding to correct existing square footage and quality deficiencies at school districts. Including the \$20 million appropriation in FY 2005, the state has 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.*)

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, 2006.

Table 4**DEFICIENCIES CORRECTION FUND
Revenue and Expenditure Activity**

	FY 2005	FY 2006
	<u>Actual</u>	<u>Estimate</u>
Beginning Balance	\$19,576,300	\$45,857,000
Revenues		
General Fund Appropriation	100,000,000	20,000,000
Interest Earnings	0	791,600
Transfer from the School Improvement Revenue Bond Proceeds Fund	<u>0</u>	<u>5,214,200</u>
Total Funds Available	\$119,576,300	\$71,862,800
Funds Expended		
Funds Expended from the General Fund	24,143,000	30,435,500
Funds Expended from the Deficiencies Correction Fund	<u>19,576,300</u>	<u>0</u>
Total Funds Expended	43,719,300	30,435,500
Total Transfer to the New School Facilities Fund	<u>30,000,000</u>	<u>40,893,200</u>
Fund Balance	\$45,857,000	\$534,100

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JLBC RECOMMENDED FORMAT — Operating Lump Sum with Special Line Items by Agency

JLBC RECOMMENDED STATUTORY CHANGES

The JLBC recommends:

1. Amending A.R.S. § 15-2006 to prohibit the board from entering into any future lease-purchase agreements for new school construction. (*See New School Facilities Debt Service Special Line Item for more information.*)
2. Amending A.R.S. § 15-2031 to make a number of changes to the building renewal formula to better reflect actual costs to maintain school facilities. (*See Building Renewal Special Line Item for more information.*)

SUMMARY OF FUNDS	FY 2005 Actual	FY 2006 Estimate
Building Renewal Fund (SFA2465/A.R.S. § 15-2031)		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.		
Purpose of Fund: To provide school districts with monies for maintaining the adequacy of existing school facilities. Of its \$70 million appropriation in FY 2005, the board only distributed \$57.1 million as some districts did not submit a building renewal plan. It is expected that the board will distribute the remaining \$12.9 million in future years.		
Funds Expended	0	0
Year-End Fund Balance	12,930,700	12,930,700
Capital Reserve Fund (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 Expended	0	0
Year-End Fund Balance	0	0
Deficiencies Correction Fund (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. In FY 2005 \$30.2 million was returned to the New School Facilities Fund and \$40.9 million was returned in FY 2006. The fund expires at the end of FY 2006.		
Funds Expended	19,576,300	0
Year-End Fund Balance	45,857,000	534,100
Emergency Deficiencies Correction Fund (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 Expended	454,800	7,500,000
Year-End Fund Balance	664,700	664,700
Lease to Own Debt Service Fund (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 Expended	1,456,700	0
Year-End Fund Balance	63,400	63,400
New School Facilities Fund (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. To prevent double counting, FY 2006 expenditures exclude \$250 million from the General Fund.		
Funds Expended	291,591,200	112,987,700
Year-End Fund Balance	108,862,900	54,268,400

SUMMARY OF FUNDS	FY 2005 Actual	FY 2006 Estimate
School Capital Equity Fund (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 were repaid in FY 2005. As a result, \$278,000 was transferred to the General Fund.		
Purpose of Fund: To complete school capital projects previously approved by the State Board for School Capital Facilities. Laws 1997, Chapter 9, 1st 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 Expended	0	0
Year-End Fund Balance	10,300	10,300
School Facilities Revenue Bond Debt Service Fund (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.		
Funds Expended	0	0
Year-End Fund Balance	0	0
School Facilities Revenue Bond Proceeds Fund (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.		
Funds Expended	0	0
Year-End Fund Balance	0	0
School Improvement Revenue Bond Debt Service Fund (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. Of the total FY 2006 fund balance, \$5,080,000 is set aside to make future QZAB payments.		
Funds Expended	64,619,000	64,602,500
Year-End Fund Balance	2,877,300	6,213,600
School Improvement Revenue Bond Proceeds Fund (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 Expended	0	0
Year-End Fund Balance	0	0
State Land Trust Bond Debt Service Fund (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. Of the total fund balance amounts, \$12,303,700 is set aside in reserve, and will be used for the final debt service payment.		
Funds Expended	25,947,300	25,431,400
Year-End Fund Balance	13,788,700	15,788,600
State Land Trust Bond Proceeds Fund (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 Expended	24,644,700	0
Year-End Fund Balance	22,200	129,100