



# Arizona School Facilities Board Deficiency Corrections Debt Financing

## REPORT HIGHLIGHTS Compliance Attestation Report

### Subject

The Arizona School Facilities Board administers the School Improvement Revenue Bond Proceeds Fund and the School Improvement Revenue Bond Debt Service Fund for the purpose of correcting deficiencies in existing school facilities and making principal and interest payments on outstanding school improvement revenue bonds. The Board is responsible for spending monies in these funds in accordance with statute.

### Our Conclusion

The Arizona School Facilities Board expended school improvement revenue bond proceeds as required in statute for correcting school facilities' deficiencies, issuing bonds, or establishing bond reserves or sinking accounts. Furthermore, sales tax revenues were expended as required in statute to make principal and interest payments on outstanding school improvement revenue bonds.



# 2003

Year Ended June 30, 2003

## The Board Is Responsible For School Capital Finance

In 1994, Arizona's system of school capital finance was declared unconstitutional because it failed to conform to the State Constitution's "general and uniform" clause. The system relied on property taxes and school district bonding to fund school facilities. As a result, the monies available for capital facilities were in direct proportion to each district's property wealth. As a remedy to the inequities in the school capital finance system, the State adopted Students FIRST (Fair and Immediate Resources for Students Today). Under this law, deficiencies in existing school facilities must be corrected, school facilities must be adequately maintained,

and new schools must be constructed within minimum adequacy guidelines.

The State is responsible for financing these activities, and has done so, through General Fund appropriations, dedicated sales taxes, and the issuance of revenue bonds, qualified zone academy bonds, and certificates of participation. This report only addresses revenue bond and qualified zone academy bond proceeds expended to correct deficiencies in existing school facilities. It does not address monies distributed to school districts for maintenance or new school construction funded by issuing certificates of participation.

## The Board Has Issued \$820 Million Of Revenue Bonds For Deficiency Corrections

In order to provide immediate funding to correct existing facility deficiencies the Board has issued \$820 million of revenue bonds and qualified zone academy bonds. Monies received from these bond issuances are deposited into the School Improvement Revenue Bond Proceeds Fund to pay for the cost of correcting deficiencies. Deficiencies include both square footage deficiencies and quality deficiencies. Square footage deficiencies exist when a school district does not have the required number of square feet per student according to the formula established in statute. A quality deficiency exists when the district is unable to comply with the Board's established facility adequacy guidelines. Quality

<b>School Improvement Revenue Bonds:</b>	
Series 2001	\$482,150
Series 2002	278,635
Series 2003	32,865
<b>Qualified Zone Academy Bonds:</b>	
Series 2001A	6,350
Series 2003B	<u>20,000</u>
Total Issues	<u>\$820,000</u>

deficiencies may include deficiencies in areas such as the school site, lighting, air quality, food services, and technology. As of June 30, 2003, \$752 million of revenue bonds and qualified zone academy bonds remain outstanding.

The following schedule presents a combined summary of the funding sources and funding uses of the School Improvement Revenue Bond Proceeds Fund and the School Improvement Revenue Bond Debt Service Fund since inception. Sales tax revenues are received as a result of the passage of Proposition 301 in November 2000. This

voter-approved initiative increased the State's sales tax from 5 percent to 5.6 percent, effective June 1, 2001. A portion of the revenue generated by the increased tax is dedicated to paying the principal and interest on the Board's revenue bonds and qualified zone academy bonds when due.

**Deficiency Corrections  
Schedule of Funding Sources and Uses  
As of June 30  
(In Thousands)**

	2001	2002	2003
<b>Funding Sources</b>			
Sales Taxes		\$ 75,787	\$ 57,290
Investment Earnings	\$ 817	13,211	7,739
Bond Proceeds	501,005	6,350	349,729
Transfers In		10,015	
Other		377	
Total Sources	<u>501,822</u>	<u>105,740</u>	<u>414,758</u>
<b>Funding Uses</b>			
Deficiency Corrections	2,767	244,411	582,058
Projects			
Bond Principal Payments		43,035	25,010
Bond Interest Payments		26,962	36,905
Transfers Out		9,768	15,000
Other			743
Total Uses	<u>2,767</u>	<u>324,176</u>	<u>659,716</u>
Change	<u>499,055</u>	<u>(218,436)</u>	<u>(244,958)</u>
Beginning Fund Balance	0	499,055	280,619
Ending Fund Balance	<u>\$499,055</u>	<u>\$280,619</u>	<u>\$ 35,661</u>

The following Schedule presents principal and interest payments due on the revenue bonds and qualified zone academy bonds at June 30, 2003.

**Debt Service Requirements  
As of June 30, 2003  
(In Thousand)**

Fiscal Year	Total Principal	Total Interest	Total
2004	\$ 27,215	\$ 37,639	\$ 64,854
2005	28,485	36,130	64,615
2006	29,690	34,915	64,605
2007	31,055	33,539	64,594
2008	33,810	32,074	65,884
2009-2013	196,390	132,983	329,373
2014-2018	280,930	74,779	355,709
2019-2023	<u>124,380</u>	<u>9,949</u>	<u>134,329</u>
Total	<u>\$751,955</u>	<u>\$392,008</u>	<u>\$1,143,963</u>

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**REPORT  
HIGHLIGHTS  
COMPLIANCE ATTESTATION**

Year Ended June 30, 2003