



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

Our Conclusion

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



2004

Year Ended June 30, 2004

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. Arizona Revised Statutes do not require an audit of monies distributed to school districts for maintenance or new school construction funded by issuing certificates of participation.

The Board Has Issued Approximately \$1.1 Billion of Revenue Bonds for Deficiency Corrections

In order to provide immediate funding to correct existing facility deficiencies, the Board has issued approximately \$1.1 billion of revenue bonds and qualified zone academy bonds (QZABs). Monies received from these bond issuances are deposited into the School Improvement and School Trust Revenue Bond Proceeds funds 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.

Bonds Issued As of June 30, 2004 (In Thousands)

School Improvement Revenue Bonds:	
Series 2001	\$ 482,150
Series 2002	278,635
Series 2003	32,865
Qualified Zone Academy Bonds:	
Series 2001A	6,350
Series 2003B	20,000
School Trust Revenue Bonds:	
Series 2003A	<u>247,125</u>
Total Issues	<u>\$1,067,125</u>

Quality deficiencies may include deficiencies in areas such as the school site, lighting, air quality, food services, and technology. As of June 30, 2004, after principal payments, \$972 million of revenue bonds and QZABs remain outstanding.

The following schedule presents a combined summary of the funding sources and uses for deficiency corrections projects and debt service requirements for the last 3 fiscal years. 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 school improvement revenue bonds and series 2001A QZABs when due. Pledged revenues for debt service on outstanding school trust revenue bonds and series 2003B QZABs consist of certain amounts distributable from the State School Trust, which are derived from State School Land Trust expendable revenues and State School Permanent Fund expendable revenues.

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

	2004	2003	2002
Funding Sources			
Sales Taxes	\$ 66,053	\$ 57,290	\$ 75,787
Investment Earnings	546	7,739	13,211
Bond Proceeds	247,125	349,729	6,350
Transfers In	8,513		10,015
Other			<u>377</u>
Total Sources	<u>322,237</u>	<u>414,758</u>	<u>105,740</u>
Funding Uses			
Deficiency Corrections			
Projects	234,673	582,058	244,411
Bond Principal Payments	27,215	25,010	43,035
Bond Interest Payments	38,554	36,905	26,962
Transfers Out	23,514	15,000	9,768
Other	<u>8,304</u>	<u>743</u>	
Total Uses	<u>332,260</u>	<u>659,716</u>	<u>324,176</u>
Change	(10,023)	(244,958)	(218,436)
Beginning Fund Balances	<u>35,661</u>	<u>280,619</u>	<u>499,055</u>
Ending Fund Balances	<u>\$ 25,638</u>	<u>\$ 35,661</u>	<u>\$280,619</u>

The following schedule presents principal and interest payments due on the revenue bonds and QZABs at June 30, 2004.

**Debt Service Requirements
As of June 30, 2004
(In Thousands)**

Fiscal Year	Total Principal	Total Interest	Total
2005	\$ 41,085	\$ 48,624	\$ 89,709
2006	42,915	46,772	89,687
2007	44,955	44,727	89,682
2008	48,410	42,559	90,969
2009	50,745	40,208	90,953
2010-2014	295,405	159,396	454,801
2015-2019	383,335	72,686	456,021
2020-2024	<u>65,015</u>	<u>3,531</u>	<u>68,546</u>
Total	<u>\$971,865</u>	<u>\$458,503</u>	<u>\$1,430,368</u>

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**REPORT
HIGHLIGHTS
COMPLIANCE ATTESTATION**

Year Ended June 30, 2004