



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. The Board uses these funds to correct deficiencies in existing school facilities and make 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 by 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.



2005

Year Ended June 30, 2005

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 \$1.3 Billion of Revenue Bonds for Deficiency Corrections

In order to provide immediate funding to correct existing facility deficiencies, the Board has issued approximately \$1.3 billion of revenue bonds and qualified zone academy bonds (QZABs). This amount includes the Series 2004A State School Trust Revenue Bonds of \$246,600,000 that were issued at a fixed interest rate in July 2004 to refund the variable interest rate Series 2003A State School Trust Revenue Bonds of \$247,125,000. 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

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	247,125
Series 2004A	<u>246,600</u>
Total Issues	<u>\$1,313,725</u>

the district is unable to comply with the Board's established facility adequacy guidelines. Quality deficiencies may include deficiencies in areas such as the school site, lighting, air quality, food services, and technology. As of June 30, 2005, after principal payments, \$929 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)**

	2005	2004	2003
Funding Sources			
Sales Taxes	\$ 65,815	\$ 66,053	\$ 57,290
Sales and Charges for Services	12,850		
Investment Earnings	15,083	546	7,739
Bond Proceeds	246,600	247,125	349,729
Bond Premiums	25,788		
Transfers In	<u>12,621</u>	<u>8,513</u>	
Total Sources	<u>378,757</u>	<u>322,237</u>	<u>414,758</u>
Funding Uses			
Deficiency Corrections Projects	24,645	234,673	582,058
Bond Principal Payments	42,225	27,215	25,010
Bond Interest Payments	48,778	38,554	36,905
Transfers Out	17,557	23,514	15,000
Payment to Refunded Bond Escrow Agent	247,417		
Other		<u>8,304</u>	<u>743</u>
Total Uses	<u>380,622</u>	<u>332,260</u>	<u>659,716</u>
Change	(1,865)	(10,023)	(244,958)
Beginning Fund Balances	<u>25,638</u>	<u>35,661</u>	<u>280,619</u>
Ending Fund Balances	<u>\$ 23,773</u>	<u>\$ 25,638</u>	<u>\$ 35,661</u>

The following schedule presents principal and interest payments due on the revenue bonds and QZABs at June 30, 2005.

**Debt Service Requirements
As of June 30, 2005
(In Thousands)**

Fiscal Year	Total Principal	Total Interest	Total
2006	\$ 43,130	\$ 46,906	\$ 90,036
2007	45,035	44,993	90,028
2008	48,280	43,039	91,319
2009	50,525	40,790	91,315
2010	52,940	38,375	91,315
2011-2015	315,820	147,034	462,854
2016-2020	370,760	54,728	425,488
2021-2025	<u>2,625</u>	<u>131</u>	<u>2,756</u>
Total	<u>\$929,115</u>	<u>\$415,996</u>	<u>\$1,345,111</u>

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Year Ended June 30, 2005