



School Facilities Board Deficiency Corrections Debt Financing

REPORT HIGHLIGHTS COMPLIANCE ATTESTATION

Subject

The School Facilities Board administers the School Improvement Revenue Bond Proceeds and State School Trust Revenue Bond Proceeds Funds and their related School Improvement Revenue Bond Debt Service and State 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.



2006

Year Ended June 30, 2006

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 (QZABs), and certificates of participation. This report only addresses revenue bond and QZABs 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 \$1.8 Billion of Revenue Bonds for Deficiency Corrections

In order to provide immediate funding to correct existing facility deficiencies, the Board has issued approximately \$1.8 billion in revenue bonds and QZABs. Monies received from bond issuances and deposited into the School Improvement and State School Trust Revenue Bond Proceeds Funds are 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 deficiencies may include deficiencies in areas such as the school site, lighting, air quality, food services, and technology. Included in the \$1.8 billion is the Series

Bonds Issued As of June 30, 2006
(In Thousands)

School Improvement Revenue Bonds:	
Series 2001	\$ 482,150
Series 2002	278,635
Series 2003	32,865
Series 2005	448,760
Qualified Zone Academy Bonds:	
Series 2001A	6,350
Series 2003B	20,000
State School Trust Revenue Bonds:	
Series 2003A	247,125
Series 2004A	<u>246,600</u>
Total Issues	<u>\$1,762,485</u>

2005 School Improvement Revenue Bonds that were issued in August 2005 to partially refund and redeem in advance of maturity Series 2001, 2002 and 2003 School Improvement Revenue Bonds. As of June 30, 2006, after principal payments, \$877 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, 2004 through 2006
(In Thousands)**

	2006	2005	2004
Funding Sources			
Sales taxes	\$ 65,805	\$ 65,815	\$ 66,053
Sales and charges for services	13,520	12,850	
Investment earnings	14,846	15,083	546
Bond proceeds	448,760	246,600	247,125
Bond premiums	37,304	25,788	
Transfers in	9,947	12,621	8,513
Total sources	<u>590,182</u>	<u>378,757</u>	<u>322,237</u>
Funding Uses			
Deficiency corrections projects	5,387	24,645	234,673
Bond principal payments	47,920	42,225	27,215
Bond interest payments	42,114	48,778	38,554
Transfers out		17,557	23,514
Payment to refunded bond escrow agent	484,963	247,417	
Other	1,143		8,304
Total uses	<u>581,527</u>	<u>380,622</u>	<u>332,260</u>
Change in fund balances	8,655	(1,865)	(10,023)
Beginning fund balances	<u>23,773</u>	<u>25,638</u>	<u>35,661</u>
Ending fund balances	<u>\$ 32,428</u>	<u>\$ 23,773</u>	<u>\$ 25,638</u>

The following schedule presents principal and interest payments due on the revenue bonds and QZABs at June 30, 2006:

**Debt Service Requirements
As of June 30, 2006
(In Thousands)**

Fiscal Year	Total Principal	Total Interest	Total
2007	\$ 47,844	\$ 43,417	\$ 91,261
2008	49,818	41,463	91,281
2009	52,064	39,213	91,277
2010	54,478	36,799	91,277
2011	57,289	33,987	91,276
2012-2016	334,467	121,424	455,891
2017-2021	<u>280,697</u>	<u>31,014</u>	<u>311,711</u>
Total	<u>\$876,657</u>	<u>\$347,317</u>	<u>\$1,223,974</u>

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Year Ended June 30, 2006