



ARIZONA STATE SENATE
Forty-ninth Legislature, First Regular Session

PROGRAM PRESENTATION
School Facilities Board

Background

The establishment of the School Facilities Board (SFB) is the result of legislation intending to remedy a lawsuit filed against the state by a group of school districts claiming the state's system for school capital funding was unconstitutional. The Arizona Supreme Court held in *Roosevelt v. Bishop*, that the existing school capital funding system did not comply with the general and uniform clause of the Arizona Constitution because of its heavy reliance on local property taxation, among other factors, directly causing substantial capital disparities among school districts. Several pieces of legislation were enacted in order to address the ruling and were rejected by the court as unsatisfactory. Below is the legislative history and resulting court action:

- Laws 1996, Fifth Special Session, Chapter 8, established the State Board for School Capital Facilities – Court action: held the new system did not comply with the *Roosevelt* ruling, and prohibited the state from funding public schools unless it adopted a constitutional system by June 30, 1998.
- Laws 1997, First Special Session, Chapter 9, authorized the Assistance to Build Classrooms Fund (ABC) – Court action: held that ABC failed to meet the ruling's constitutional requirements because it continued to cause "substantial disparities between districts and delegated to the school districts the state's responsibility to maintain adequate facilities, and failed to provide minimum adequacy standards."
- Laws 1998, Third Special Session, Chapter 1, established a centralized state school capital funding system, including a process by which school districts could opt-out of the state system – Court action: ruled unconstitutional because the financing system itself "results in systemic, structural differences in the abilities of districts to exceed the state minimums through local funding." Delayed the lower court mandate to withhold funds to the public school system until August 15, 1998.

The Legislature addressed the Supreme Court's ruling in Laws 1998, Fifth Special Session, Chapter 1, and adopted Students FIRST (Fair and Immediate Resources for Students Today), which maintained a number of the major features of its predecessor, including establishing a centralized school capital funding system, building adequacy standards, a mechanism for correcting existing deficiencies, a building renewal formula and a new construction funding formula. Most notably, in comparison to the previous version, this legislation eliminated school district opt-out provision and authorized limited bonding for all school districts to exceed the state mandated minimum adequacy standards. This legislation satisfied the ruling's requirements and was implemented, establishing the SFB to oversee the centralized funding system and other mandates. Initially exempt from the legislative appropriations process, the SFB received its funding by annually informing the Treasurer its requirements. The Treasurer then transferred the required amount to the SFB. Laws 2005,

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Chapter 287, required future funding to be appropriated by the Legislature. The SFB administers three capital funds and related programs:

Deficiencies Corrections – The SFB was required to adopt rules establishing minimum school facility adequacy guidelines for existing school facilities and new construction. The guidelines needed to include the minimum quality and quantity of school buildings, facilities and equipment necessary and appropriate to enable students to achieve the Arizona academic standards. The SFB adopted the Minimum Adequacy Guidelines (Guidelines) on November 18, 1999, after which the SFB was then required to conduct a statewide facility assessment. Each existing school facility was assessed against the Guidelines and if deficiencies were found, the SFB funded projects to correct those deficiencies from the Deficiencies Corrections Fund. All deficiencies were to be corrected by June 30, 2006. The state provided a total of \$1,316,585,000 (see below for detail) for the Deficiencies Corrections Program, which has now been completed. Currently, districts may apply for funding through an Emergency Deficiencies process if a defect will cause facilities to drop below the Guidelines.

Building Renewal – The Building Renewal (BR) formula generates funding for school districts to maintain existing school facilities. Monies may be expended for major building renovations and repairs, upgrades to systems in order to maintain or extend the building's life, and infrastructure costs. Prohibited uses include: new construction, aesthetic remodeling or beautification, demolition, soft capital items or routine maintenance. The SFB calculates the required amount based on data submitted annually by the school districts. The Legislature amended the statute in 2002, requiring districts to perform routine preventative maintenance, develop guidelines for such maintenance and allowed up to eight percent of the districts' BR formula amount be utilized for this purpose. The SFB must inspect districts for compliance and require noncompliant districts to use BR monies to bring such facilities into compliance. The BR formula consists of several factors, taking into account building age, square footage and replacement cost. Portable buildings are treated differently, but also receive BR funds. Appropriated as part of the initial funding for the SFB, the BR amount for FY 1998-1999 and FY 1999-2000 were calculated on estimated district data and did not sufficiently fund the full formula amounts generated using district submitted data. The formula received full funding for FY 2000-2001. Since that time, BR has not been funded at the formula amount. (See below for BR formula amounts, funding levels and school district balances.) A lawsuit was filed by school districts seeking full formula funding for BR; the court ruled that the plaintiff districts were unable to demonstrate that the lack of funding caused districts to fall below the Guidelines and did not violate the original ruling as districts had not exhausted all sources of funding. No funding was provided for FY 2008-2009, instead \$20,000,000 was appropriated to fund grants for BR projects.

New School Facilities – The New School Facilities Fund (Fund) provides monies to construct new schools to meet the minimum adequacy guidelines. The criteria to determine district eligibility for monies from the Fund are based on an annual evaluation and approval of school district enrollment projections and the additional square footage required by the district to maintain adequacy standards. The SFB distributes monies to school districts based on a formula with additional monies provided for land purchases. New School Facilities are funded through state General Fund appropriations but the Legislature has authorized lease-to-own purchasing in several fiscal years (see below for detail).

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Fiscal Information

Deficiencies Corrections – Funding Breakdown

FY 1999 Appropriation	\$35,000,000
FY 2000 Appropriation	\$15,000,000
FY 2000 General Fund Transfer	\$35,000,000
FY 2001 Appropriation	\$15,000,000
FY 2001 General Fund Transfer	\$135,000,000
FY 2003 School Capital Equity Fund Transfer	\$15,000,000
FY 2003 Oil Overcharge Fund Transfer	\$8,000,000
FY 2003 School Improvement Revenue Bond Debt Service Transfer	\$15,000,000
FY 2005 Appropriation	\$100,000,000
FY 2006 Appropriation	\$20,000,000
Proposition 301 Revenue Bonds	\$835,360,000
K-12 Expendable Endowment Earnings Revenue Bonds	\$247,225,000
Qualified Zone Academy Bonds	\$20,000,000
General Fund Reversions (FY 2002 & FY 2003)	(\$179,000,000)
TOTAL	\$1,316,585,000
<i>Data from JLBC Appropriations Reports & SFB</i>	

Building Renewal Funding History with School District Expenditure Levels

Fiscal Year	Formula Amount	Funded Amount	Aggregate District Expenditures	Aggregate District Balances
FY 1999	\$103,747,800	\$75,000,000	\$16,102,875	\$58,897,126
FY 2000	\$108,389,300	\$82,500,000	\$57,867,825	\$81,052,468
FY 2001	\$122,725,300	\$122,725,300	\$71,881,925	\$125,638,962
FY 2002	\$132,000,000	\$62,065,300	\$81,240,453	\$111,116,730
FY 2003	\$137,827,900	\$38,274,100	\$48,594,231	\$106,817,154
FY 2004	\$128,800,000	\$0	\$43,260,289	\$65,859,619
FY 2005	\$134,894,500	\$70,000,000	\$44,332,905	\$89,607,718
FY 2006	\$130,080,500	\$70,000,000	\$69,848,317	\$83,832,508
FY 2007	\$161,465,300	\$86,283,500	\$80,529,057	\$101,699,704
FY 2008	\$190,220,000	\$40,685,800	\$73,732,772	\$76,043,624
FY 2009	\$216,511,500	\$0	N/A	N/A
<i>Data from JLBC Appropriation Reports, SFB & ADE Annual Reports, FY 1999 & 2000 Funded Amounts based on estimates when program was established.</i>				

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New School Facilities Funding History

Fiscal Year	General Fund Amount	Lease-to-Own Authority
FY 1999	\$200,000,000	\$0
FY 2000	\$200,000,000	\$0
FY 2001	\$200,000,000	\$0
FY 2002	\$250,000,000	\$0
FY 2003	\$0	\$400,000,000
FY 2004	\$0	\$250,000,000
FY 2005	\$0	\$250,000,000
FY 2006	\$250,000,000	\$0
FY 2007	\$224,000,000	\$26,000,000
FY 2008	\$44,000,000	\$318,000,000
FY 2009	\$0	\$237,000,000

Data from JLBC Appropriations Reports, FY 2009 includes \$8 million for FDK space.

FY 2008-2009 Budget Action

Laws 2009, First Special Session, Chapter 1, reduced the Building Renewal Grant amount by \$13,000,000 leaving \$7,000,000 remaining for FY 2008-2009.

Committee Activity

The Committee on Education Accountability & Reform heard presentations on the SFB by Joint Legislative Budget Committee (JLBC) staff, the Executive Director of the SFB and Arizona Tax Research Association (ATRA) staff and took public testimony. The topics discussed were:

- Judicial and legislative history
- The agency's statutory responsibilities
- Building Renewal
- New Construction

Attachments

Handouts outlining the presentations from JLBC staff, SFB staff and ATRA staff.

Prepared by Senate Research

February 16, 2009

SM/jas