



STATE OF ARIZONA  
SCHOOL FACILITIES BOARD

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OFFICE OF THE PRESIDENT

Governor of Arizona  
Janet Napolitano

Director  
John Arnold

December 1, 2008

Honorable Russell Pearce  
Chairman  
Joint Committee on Capital Review  
1716 W. Adams  
Phoenix, AZ 85007

Dear Representative Pearce:

A.R.S. §15-2002 subsection A paragraph 10 requires that the School Facilities Board report to the Joint Committee on Capital Review (JCCR) by December 1 of each year the amounts necessary to fulfill the requirements of sections 15-2022 (Emergency Deficiency Corrections), 15-2031 (Building Renewal) and 15-2041 (New School Facilities) for the following fiscal year and the estimated amounts necessary to fulfill the requirements of sections 15-2022, 15-2031 and 15-2041 for the fiscal year following the next fiscal year. The Board shall provide copies of the report to the President of the Senate, the Speaker of the House of Representatives and the Governor.

Laws 2005, Chapter 287 (HB 2769) eliminated the School Facilities Board's authority to instruct the State Treasurer no later than January 1 of each year as the amount of transaction privilege tax to be credited for the next fiscal year to the Deficiency Corrections, Building Renewal, and New School Facilities Funds. The reporting requirement, however, remains in statute and also requests information for the fiscal year following the next fiscal year, which is not contained in our budget since we are an annual budget unit.

Emergency Deficiency Corrections

The Emergency Deficiency Corrections program is funded from transfers from the New School Facilities fund. SFB staff anticipates currently available funds will provide \$1.5 million for expenditure in FY 2010 and no funds for FY 2011. If the SFB is unable to fund an emergency due to a lack of funding, the district may levy a local property tax to fund the emergency.

It is worth noting that it is impossible to predict what districts will make emergency requests and for what amount so it is conceivable that a single project could require the entire program's available cash. Further, the Emergency Deficiency Corrections Fund does not have a dedicated revenue source. The fund was established by A.R.S. §15-2022 consisting of monies transferred from the Deficiency Corrections Fund or the New School Facilities Fund as long as the transfer would not interfere with, disrupt, or reduce any capital projects already approved by the Board. Given the repeal of the Deficiency Corrections and the shortfall in the New School Facilities Fund, neither fund sources will be a revenue option.

Building Renewal

The FY 2010 formula requirement for building renewal is \$227,913,527. Our FY 2009 budget request submitted on September 1 was for \$235,977,500. The request was an estimate and the data elements

driving the formula have since been updated with square footage and renovation information reported by the districts to our office on September 1.

Building Renewal has grown an average of 9.3% between FY 1999 and FY 2010. For FY 2011, the SFB assumes that building renewal will grow 10% from \$227,913,527 to \$250,704,880.

New Construction

*New Construction Projects*

The FY 2010 budget request for new school construction is for \$275.7 million. The SFB budget request assumed two revenue sources for this expenditure need: \$10 million from the state land trust and \$265.7 million in lease-to-own proceeds. Therefore, there is no associated General Fund appropriation with this program.

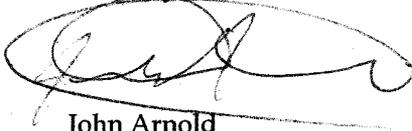
The FY 2011 expected cost of new school construction is estimated at \$331.5 million. However, the estimated appropriation need cannot be adequately determined based on the uncertainty on how the economy will impact long-term growth in Arizona.

*Lease-to-Own Debt Service*

The Lease-to-Own Debt Service in FY 2010 is \$108,683,305. In FY 2011 it will be \$123,520,142.

Please feel free to contact me should you or any members of the committee have questions.

Sincerely,



John Arnold

cc: Janet Napolitano, Governor  
✓ Jim Bee, President of the Senate  
Jim Weiers, Speaker of the House  
Leatta McLaughlin, JLBC  
Lauren Kielsmeier, Office of the Governor  
Stacy Morley, OSPB