

**SCHOOL FACILITIES BOARD**  
**June 25, 2003**  
**Phoenix, Arizona**

The School Facilities Board held a board meeting at the School Facilities Board Office, 1700 West Washington, Suite 230, Phoenix, Arizona. The meeting began at approximately 10:10 A.M.

| <u>Members Present</u>                                      | <u>Guests Present</u>                                     |
|---|---|
| Conley, Patrice (via telephone)                             | Mike LaVallee, Stone and Youngberg                        |
| McGee, Kate (via telephone)                                 | Steven Race, ADE  |
| Metz, Forrest (via telephone)                               | Chuck James, Squire, Sanders & Dempsey<br>(via telephone) |
| Vaughan, G. Keith (via telephone)                           |   |
| Wright, John, Vice-Chair (via telephone)                    |   |
|   | <u>Staff Present</u>                                      |
| <u>Members Absent</u>                                       | Edward Boot, Interim Exec. Director                       |
| Keenan, Brooks  | John Arnold, Deputy Director                              |
| Van Sittert, Logan  | Judith Darknall, Assistant Attorney General               |
| Wicks, Michael  | Kristen Landry, Public Information Officer                |
| Vicki Salazar, Superintendent's Representative (non-voting) | Amber Peterson, School Finance Specialist                 |

Welcome

Ed Boot announced the names of attendees.

I. Call to Order

The meeting was called to order at approximately 10:10 A.M.

II. Roll Call

There were five Board Members present at this meeting, all participating via telephone.

III. Board Resolution Regarding QZAB Authorization

Chuck James explained that Peacock Hislop, the SFB's financial advisor for this issue, recommended a modification to the additional bonds test as described in Section 7 of the General Bond Resolution. Staff realized that the information provided to the Board members contained only the Series Bond Resolution and did not contain the General Bond Resolution. Since both items needed to be considered for resolution by the Board members, John Arnold left the meeting to e-mail the missing document to the attending Board members.

Chuck James finished his explanation regarding the issue stating that many of the General Bond Resolution's provisions are similar to provisions from the SFB's previous bond issues, but the Series Bond Resolution authorizes this particular block of QZAB's, worth \$20 million. Section 7 of the General Bond Resolution contains an additional bonds test, which restricts the Board from issuing more bonds payable from the same revenue source, unless it can demonstrate that the prior year's revenues would cover the debt service from

these bonds plus any bonds issued in the future by at least 1.1 times. Peacock Hislop had informed Mr. James, prior to the meeting, that the potential buyers may not commit to buy the QZAB's unless the additional bonds test is changed to 1.2 times the total debt service (changed from the original 1.1 times). Pat Conley asked what the revenue source is. Mr. James replied that the revenue would come from annual distributable income from the permanent State School fund, and from rental income on State School trust land. Mr. James further explained that land was originally granted to the State at the time of statehood, a portion of which was set up as a trust for K-12 schools. John Wright asked if this requirement would be difficult to meet based on that revenue stream, and Ed Boot replied that it would not. There would potentially be a problem if the SFB wanted to issue additional bonds from the same fund source, but there is no intention of doing that at this time. John Wright clarified that the issuance of any additional bonds from the same source would require a similar additional bonds test, and Chuck James confirmed that it would.

John Arnold returned to the meeting and explained that the QZAB is a federal program that allows states and/or districts to issue bonds essentially interest-free. In lieu of receiving interest, the bondholders receive tax credits from the Federal Government. Large financial institutions such as banks, which get tax credits each year that they hold the bonds, usually purchase these types of bonds. The tax credit does not always compensate for the interest, and sometimes there is minimal interest paid by the issuer. On the first set of QZAB's issued by the SFB in December 2001, the SFB paid 0.14% interest. Staff anticipates paying approximately 1.0% interest on this issue over a 15-year debt service period.

There are certain federal requirements that must be met for this type of issue. First, the money must be spent on a qualified school (a qualified school is one in an enterprise zone, in an empowerment zone, or which has at least 35% of its student body on a free or reduced lunch program). In addition, the issuer must show private contributions to these same schools worth 10% of the value of the QZAB's (in this case the SFB is issuing \$20 million, and therefore needed to secure \$2 million worth of donations). For this issue, the State has secured contributions from Learned.com, who will donate licenses for on-line coursework. The donations will be given to eight schools in the Tucson Unified School District. John Wright asked if the program would be available to faculty as well as students, and John Arnold replied that it would. Forrest Metz asked who found this particular software company to do the donation. John Arnold replied that a company out of Kansas City called McLiney and Company specializes in QZAB's and acts as "contribution brokers". This company identified and secured the contributions, which are actually valued at \$3 to 3.5 million at the retail level, but due to educational discounts, the SFB will only claim a \$2 million donation (which is sufficient).

John Arnold explained that staff is still trying to negotiate regarding the 1.2 times vs. the 1.1 times additional bonds test. Chuck James explained that one bank is expected to buy the entire issue, and it could be persuaded to accept something less than 1.2 times at a later date. Kate McGee moved that the Board approve the General Bond Resolution and the Series Bond Resolution, with a modification to Section 7 of the General Resolution, which changes it to read, "1.2 times"

instead of "1.1 times". Forrest Metz seconded. Motion passed on a 4-0-1 voice vote with John Wright abstaining (he had no fax or e-mail available and did not receive the materials that John Arnold e-mailed during the Board meeting).

IV. Public Comment  
None

Adjournment

There being no further business, Board Vice Chair John Wright, adjourned the meeting at approximately 10:30 A.M.

Approved by the School Facilities Board on \_\_\_\_\_, 2003

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John Wright, Vice Chair