

Capital Outlay

JLBC Analyst: Lorenzo Martinez/Tony Vidale

	FY 2004	
	General Fund	Other Funds
BUILDING SYSTEM SUMMARY		
Arizona Department of Administration		
Building Renewal	0	5,059,300
Individual Projects	0	2,350,100
<i>Subtotal - ADOA ^{1/2}</i>	0	7,409,400
Arizona Department of Transportation		
Building Renewal	0	1,592,500
Individual Projects	0	99,707,000
<i>Subtotal - ADOT</i>	0	101,299,500
TOTAL APPROPRIATIONS	0	108,708,900
BUILDING RENEWAL:		
Arizona Department of Administration Building System		
Arizona Department of Administration		
Capital Outlay Stabilization Fund ^{3/}	0	3,500,000
Arizona Exposition and State Fair		
Arizona Exposition and State Fair Fund	0	1,198,100
Game and Fish Department		
Game and Fish Fund	0	323,300
Arizona Lottery Commission		
State Lottery Fund	0	37,900
<i>Subtotal - ADOA Building System</i>	0	5,059,300
Arizona Department of Transportation Building System		
Arizona Department of Transportation		
State Aviation Fund	0	32,000
State Highway Fund	0	1,560,500
<i>Subtotal - ADOT Building System</i>	0	1,592,500
<i>Subtotal - Building Renewal ^{4/}</i>	0	6,651,800
INDIVIDUAL PAY-AS-YOU-GO PROJECTS:		
Arizona Department of Administration		
Change Fund Source from General Fund for Pioneers' Home Plumbing Renovations		
Legislative, Executive and Judicial Public Buildings Land Fund	0	500,000
DHS Privatized Lease To Own Project Management and Relocation ^{5/}		
Capital Outlay Stabilization Fund	0	580,100
<i>Subtotal - ADOA</i>	0	1,080,100
Game and Fish Department		
Canyon Creek Hatchery Improvements		
Game and Fish Fund	0	360,000
Pinetop Warehouse and Paving		
Game and Fish Capital Improvement Fund	0	310,000
Headquarters Security System		
Game and Fish Capital Improvement Fund	0	200,000
Ex-Appropriate \$1,512,300 for Headquarters Renovations		
Game and Fish Capital Improvement Fund	0	0
Lake Havasu Shooting Range Development		
Game and Fish Capital Improvement Fund	0	300,000
Migratory Waterfowl Development		
Waterfowl Conservation Fund	0	100,000
<i>Subtotal - Game and Fish</i>	0	1,270,000

	FY 2004	
	General Fund	Other Funds
Arizona Department of Transportation		
Airport Planning and Development ^{6/}		
State Aviation Fund	0	15,232,000
Highway Construction (includes debt service) ^{7/8/}		
State Highway Fund	0	83,475,000
Nogales Study, Improvements and Equipment ^{9/}		
Safety Enforcement and Transportation Infrastructure Fund	0	372,000
Douglas Improvements ^{9/}		
Safety Enforcement and Transportation Infrastructure Fund	0	428,000
San Luis Improvements ^{9/}		
Safety Enforcement and Transportation Infrastructure Fund	0	200,000
<i>Subtotal – ADOT</i>	<u>0</u>	<u>99,707,000</u>
<i>Subtotal - Individual Pay-As-You-Go Projects</i>	0	102,057,100
INDIVIDUAL DEBT-FINANCED PROJECTS:		
Arizona Department of Administration/Department of Revenue		
Phoenix Civic Plaza Expansion ^{10/}	0	0
School Facilities Board		
Deficiencies Correction ^{11/}	0	0
New School Construction ^{12/}	0	0
Universities		
Research Infrastructure Projects ^{13/}	0	0
<i>Subtotal - Individual Debt-Financed Projects</i>	<u>0</u>	<u>0</u>
TOTAL APPROPRIATIONS ^{14/15/16/}	0	108,708,900

FUND SOURCES

General Fund	0	0
<u>Other Appropriated Funds</u>		
State Aviation Fund	0	15,264,000
Capital Outlay Stabilization Fund	0	4,080,100
Arizona Exposition and State Fair Fund	0	1,198,100
Game and Fish Fund	0	683,300
Game and Fish Capital Improvement Fund	0	810,000
State Highway Fund	0	85,035,500
Legislative, Executive and Judicial Public Buildings Land Fund	0	500,000
State Lottery Fund	0	37,900
Safety Enforcement and Transportation Infrastructure Fund	0	1,000,000
Waterfowl Conservation Fund	0	100,000
<i>Subtotal - Other Appropriated Funds</i>	<u>0</u>	<u>108,708,900</u>
TOTAL APPROPRIATIONS	0	108,708,900

^{1/} The ADOA shall report on the status of project-specific FTE Positions for capital projects in its annual capital budget request. (Capital Outlay Appropriation Act footnote)

^{2/} The ADOA may allocate FTE Positions authorized for specific projects to other projects in this act provided that funding for the FTE Positions is cost allocated among the projects receiving benefit. The ADOA shall report any FTE Position reallocations to the Joint Committee on Capital Review by December 31, 2003. (Capital Outlay Appropriation Act footnote)

^{3/} The ADOA shall allocate the monies to state agencies for necessary building renewal. If monies in the Capital Outlay Stabilization Fund (COSF) are insufficient to fund the appropriation to the ADOA for building renewal, the appropriation to the ADOA shall be reduced by the difference between the amount appropriated to the ADOA from COSF and the balance in COSF. (Capital Outlay Appropriation Act footnote)

^{4/} Notwithstanding section 41-793.01, Arizona Revised Statutes, the amounts appropriated in this section are appropriated for FY 2004 and shall be used by the applicable agency for major maintenance and repair activities for state buildings in accordance with Title 41, Chapter 4, Article 7, Arizona Revised Statutes. Twenty-five per cent or less of the monies may be spent for state building modifications to comply with the federal Americans With Disabilities Act (42 United States Code sections 12101 through 12213 and 47 United States Code sections 225 and 611) or for major maintenance and repair activities for state infrastructure. The monies may only be used for facilities on the state building inventory or for infrastructure that directly supports those facilities. Of the amounts appropriated to the ADOA, up to \$275,000 in Personal Services and Employee Related Expenditures for up to 5 FTE Positions may be allocated each fiscal year until the building renewal projects are completed. All other monies appropriated in this section shall not be spent for Personal Services or Employee Related Expenditures or for maintenance contracts on building components and equipment without review by the Joint Committee on Capital Review. Any monies appropriated for building renewal in FY 2004 that are unexpended or unencumbered on September 30, 2005 shall revert to the fund from which they were appropriated. (Capital Outlay Appropriation Act footnote)

^{5/} Of the amount appropriated, ADOA may use up to \$127,100 for up to 3 full-time positions. (Capital Outlay Appropriation Act footnote)

DESCRIPTION — *The Capital Outlay Budget consists of one-time appropriations to maintain, expand, or enhance the state's capital stock which includes office buildings, service centers, residential treatment centers, state parks, prisons, highways, and other facilities which support the missions of the various state agencies. For the purposes of capital management and planning, the state is divided into 3 building systems, the Arizona Department of Administration (ADOA) Building System, the Arizona Department of Transportation (ADOT) Building System, and the Arizona Board of Regents (ABOR) Building System. Capital appropriations are typically made through the Capital Outlay Bill, but may be made through other bills as well.*

Unless otherwise specified, funding for capital projects was appropriated by Laws 2003, Chapter 261 (FY 2004 Capital Outlay Bill).

Building Renewal — Building Renewal appropriations provide for the major maintenance and repair of state-owned buildings. The appropriations are based on support of a formula determined by the Joint Committee on Capital Review (JCCR). The formula takes into account the replacement value, age, and life-cycle of a building. Available appropriations are administered by the Arizona Department of Administration (ADOA) or individual agencies within the ADOA Building System that have their own funding source for building renewal, the Arizona Department of Transportation (ADOT), and the Arizona Board of Regents (ABOR) for their respective building systems.

The approved amounts represent 100% funding of the Building Renewal Formula, except the appropriation to ADOA from the Capital Outlay Stabilization Fund (COSF) of \$3,500,000, which represents 18.5% of the formula, and the appropriations to ADOT of \$1,560,500 from the State Highway Fund and \$32,000 from the State Aviation Fund, which represent 50% of the formula. The ABOR Building

System did not receive a Building Renewal appropriation in FY 2004.

Individual Pay-As-You-Go Projects — Capital appropriations may be made to the agency that administers the building system (ADOA, ADOT, or ABOR) on behalf of an agency or directly to an agency within a building system.

Arizona Department of Administration

Pioneers' Home Plumbing Renovations — Laws 2002, Chapter 343 advance appropriated \$500,000 from the General Fund in FY 2004 to ADOA to complete plumbing renovations at the Arizona Pioneers' Home. The FY 2004 Capital Outlay Bill changed the fund source for the \$500,000 from the General Fund to the Legislative, Executive and Judicial Public Buildings Land Fund.

DHS Privatized Lease to Own Project Management and Relocation 7 — The approved amount provides \$580,100 from the Capital Outlay Stabilization Fund to ADOA for activities related to relocating various Department of Health Services (DHS) functions from private space to the new DHS privatized lease-to-own

^{6/} The amount is appropriated from the State Aviation Fund for the planning, construction, development and improvement of state, county, city or town airports as determined by the State Transportation Board. Any balances and collections in the State Aviation Fund in excess of the specific amounts appropriated in the General Appropriations Act and in this act are appropriated to ADOT for the purposes provided in this paragraph. (Capital Outlay Appropriation Act footnote)

^{7/} The amount appropriated for highway construction is from the State Highway Fund for the planning and construction of state highways, including the national system of interstate highways within this state, the state primary or secondary system, the county primary or secondary system and urban rural routes, the acquisition of rights-of-way, the cost of contracted field administration and field engineering on construction projects and debt service payments on bonds issued for highway construction. Any balances and collections in the State Highway Fund in excess of the specific amounts appropriated in the General Appropriations Act and in this act are appropriated to the department for the purposes provided in this paragraph. (Capital Outlay Appropriation Act footnote)

^{8/} Before the expenditure of any monies for Professional and Outside Services, including contracted field administration and field engineering, ADOT shall submit information on Professional and Outside Services funded from the capital budget to the Joint Committee on Capital Review by July 1, 2003 for review. The submitted information shall contain at least as much detail for Professional and Outside Services as the department's annual operating budget. (Capital Outlay Appropriation Act footnote)

^{9/} Appropriated by Laws 2003, Chapter 231.

^{10/} Authorized by Laws 2003, Chapter 266. Appropriations from the General Fund for debt service on the project will occur in future years as outlined in the legislation.

^{11/} Laws 2003, Chapter 264 (Education ORB) authorized the issuance of \$247,135,000 in revenue bonds in FY 2004 to finance Deficiencies Correction. K-12 Expendable Endowment Earnings will be used to repay the bonds. First debt payment will not occur until FY 2005.

^{12/} Laws 2003, Chapter 264 (Education ORB) authorized the issuance of \$250,000,000 in Certificates of Participation in FY 2004 to finance new school construction. First debt payment will not occur until FY 2005.

^{13/} Laws 2003, Chapter 267 makes annual General Fund appropriations of \$34,625,000 in FY 2008 - FY 2031 to the universities for debt service on lease-purchase financing of \$440,000,000 for university research infrastructure projects.

^{14/} Unless otherwise specified, the monies appropriated in this act shall not be spent for Personal Services or Employee Related Expenditures of state employees, excluding any services provided as part of the inmate construction program for correctional facilities. (Capital Outlay Appropriation Act footnote)

^{15/} Unless otherwise specified, the appropriations made in this act do not lapse until the purpose for which the appropriation was made has been accomplished or abandoned, or the appropriation stands for a full fiscal year without an expenditure or an encumbrance. (Capital Outlay Appropriation Act footnote)

^{16/} Unless otherwise specified, funding for capital projects was appropriated by Laws 2003, Chapter 261 (FY 2004 Capital Outlay Bill).

office building on the Capitol Mall. Of the \$580,100, \$127,600 is for 3 FTE Positions related to project management, \$391,400 is for relocation and furniture reconfiguration expenses, \$20,000 is for IT consultants and \$41,100 is for a 10% contingency amount.

Under a privatized lease-to-own agreement, a private entity finances and constructs the building and leases it to the state. At the end of the lease term, the state takes possession of the building. The DHS building will consist of 170,000 square feet and the annual lease payment will be made from monies currently being used for leases in private space.

Game and Fish Department

Canyon Creek Hatchery Improvement — The approved amount provides \$360,000 from the Game and Fish Fund to upgrade the water clarifier system at the hatchery.

Pinetop Warehouse and Paving — The approved amount provides \$310,000 from the Game and Fish Capital Improvement Fund to build a warehouse and provide paving improvements at the Pinetop Regional Office.

Headquarters Security System — The approved amount provides \$200,000 from the Game and Fish Capital Improvement Fund to provide upgrades to the security system including card readers, compatible alarm panels, and video monitoring systems.

Headquarters Renovation and Expansion Reversions — Laws 1999, 1st Special Session, Chapter 2 appropriated \$300,000 from the Game and Fish Capital Improvement Fund in FY 2001, and Laws 2001, Chapter 237 appropriated \$500,000 in FY 2002 and \$800,000 in FY 2003 from the Game and Fish Capital Improvement Fund for Game and Fish Headquarters Renovations and Expansion. The FY 2004 Capital Outlay Bill requires any of the \$1,600,000 that remains unspent or unencumbered revert to the Game and Fish Capital Improvement Fund. The estimated amount of the reversion is \$1,512,300. Rather than renovating and expanding the current headquarters, the department is researching the feasibility of moving the headquarters to a new location.

Lake Havasu Shooting Range Development — The approved amount provides \$300,000 from the Game and Fish Capital Improvement Fund for initial development of a shooting range in the Lake Havasu area. An additional \$300,000 will be required in FY 2005 to complete the project which will include fencing, roads, utilities and 5 shooting areas.

Migratory Waterfowl Development — The approved amount provides \$100,000 from the Waterfowl Conservation Fund as matching grants for the acquisition of waterfowl habitat. The Waterfowl Conservation Fund receives revenues from the sale of annual duck stamps.

Arizona Department of Transportation

Airport Planning and Development — The approved amount provides \$15,232,000 from the State Aviation Fund for planning, construction, development and improvement of state, county, city or town airports as determined by the State Transportation Board. Any balances and collections in the State Aviation Fund in excess of the specific amounts appropriated in the General Appropriation Act and the Capital Outlay Bill are appropriated to the department for airport planning and development. A footnote in the Capital Outlay Bill appropriates any additional monies in the State Aviation Fund above the appropriations to ADOT for airport planning and development. (See Footnote 6)

Highway Construction — The approved amount provides \$83,475,000 from the State Highway Fund for highway construction and debt service on bonds, however, a revised estimate of \$201,047,000 will actually be available for highway construction and debt service. A footnote in the Capital Outlay Bill appropriates any additional monies in the State Highway Fund above the appropriations to ADOT for highway construction. (See Footnote 7)

The approved amount was originally based on transferring \$128,000,000 from the Highway User Revenue Fund (HURF) to the General Fund. That transfer did not occur and will result in additional monies distributed to the State Highway Fund from HURF for highway construction. (See the ADOT Summary section for a chart showing the distribution of HURF monies.)

The following table shows the allocation of the approved and revised amounts related to highway construction.

FY 2004 Highway Construction & Debt Service	
	Revised
State Highway Construction	\$ 56,678,000
Controlled Access	84,514,000
Debt Service	<u>59,855,000</u>
Total	\$ 201,047,000

Expenditure of highway construction funding is determined by the 5-year plan developed by the State Transportation Board. Controlled Access funding is dedicated to urban highway construction. The Maricopa Association of Governments receives 75% and the Pima County Association of Governments receives 25%. Debt Service funding represents the appropriated portion of debt service on bonds.

SETIF Appropriations — Laws 2003, Chapter 231 appropriated a total of \$1,000,000 from the Safety Enforcement and Transportation Infrastructure Fund to ADOT for the following projects:

- \$300,000 for a scoping and engineering planning study for a new cyber port at Nogales to determine site for connector road and border access to Nogales, Sonora.

- \$178,000 for infrastructure improvements at the junction of Interstate Highway 191 and State Route 80 in support of a new weigh and inspection station at Douglas.
- \$54,000 for site and facility improvements at the Nogales inspection annex.
- \$18,000 for electric carts to escort commercial vehicles, conduct security checks, and provide traffic management and control at Nogales compound.
- \$250,000 for alternate truck route between Douglas and Agua Prieta, Sonora.
- 200,000 for a new connector road at the San Luis port of entry.

Individual Debt-Financed Projects — Agencies may be authorized to enter into long-term financing for capital projects through the Capital Outlay Bill or through separate legislation.

Arizona Department of Administration/Department of Revenue

Phoenix Civic Plaza Expansion — Laws 2003, Chapter 266 establishes the Arizona Convention Center Development Fund, and authorizes the state to pay for a portion of the debt service on the project. The project consists of a 489,000 square foot expansion of the Phoenix Civic Plaza Convention Center at a total cost of \$600 million. The state’s obligation is to pay the debt service on \$300 million of construction bonds to fund the project. The state’s obligation begins at \$5 million the first year after the construction is completed, and increases to \$10 million the second year, \$15 million the third year, and \$20 million the fourth year. It would then increase by an additional \$500,000 each year (for the next 30 years) up to a maximum of \$30 million per year.

While the state’s portion of debt service is as noted above, the state will transfer \$20 million per year into the fund until a certification of completion for the project is filed. For any year in which a certification of completion is not filed, the \$20 million transfer will be returned to the state.

After the certification of completion is filed, the annual transfer amounts will be \$25 million the first year, \$30 million the second year, \$35 million the third year, \$40 million the fourth year, and then an additional \$1 million per year. The state’s portion of debt service will be paid from these transferred amounts. Any remaining monies are transferred back to the state General Fund.

The Civic Plaza expansion is expected to generate additional convention activity, which would lead to increased economic activity and revenue collections. The latter is hoped to offset the state’s subsidy.

School Facilities Board

Deficiencies Correction — The Education ORB (Laws 2003, Chapter 264) directs the State Treasurer to disregard the instructions from SFB for transfers from the transaction privilege tax in FY 2004 to provide pay-as-you-go funding for school building repairs, and instead authorizes the School Facilities Board (SFB) to issue \$247,135,000 in revenue bonds to finance remaining deficiencies correction projects. The bonds will be repaid using K-12 Expendable Endowment Earnings. The initial debt service for the bonds will not occur until FY 2005. Debt service is appropriated in the SFB operating budget.

New School Construction — The Education ORB directs the State Treasurer to disregard the instructions from SFB for transfers from the transaction privilege tax in FY 2004 to provide pay-as-you-go funding for new school construction, and instead authorizes SFB to enter into \$250,000,000 of lease-purchase agreements to finance new schools. The initial debt service for these agreements will not occur until FY 2005. Debt service is appropriated in the SFB operating budget.

Universities

Research Infrastructure Projects — Laws 2003, Chapter 267 appropriates the amounts shown in the following table from the General Fund in FY 2008 – FY 2031 to the universities to allow them to issue Certificates of Participation (COPs) to finance university research infrastructure projects. COPs are a financing instrument similar to bonds, however, repayment is acknowledged by COP holders to be contingent on annual appropriations by the state. The state is relieved of any further obligation if an appropriation is not made. COP issuances under Chapter 267 must occur before July 1, 2006.

University Research Infrastructure Project Debt Service Appropriations	
<u>FY 2008 – FY 2031</u>	
	<u>Annual Appropriation</u>
Arizona State University	\$14,472,000
Northern Arizona University	5,900,000
University of Arizona	14,253,000
Total	\$34,625,000

The estimated amount of COPs that the universities will issue is \$440 million. Chapter 267 also provides tax-exempt status to construction contracts related to university research infrastructure projects. For FY 2008 – FY 2031, universities are also required to deposit a portion of the revenue generated from the sale or licensure of intellectual property, up to an amount equal to the total appropriation in that year, into the General Fund.

Long-Term Financing Summary

Bonding Summary

The Arizona Board of Regents (ABOR), on behalf of the universities, the Arizona Department of Transportation (ADOT), and the School Facilities Board (SFB) have issued bonds to renovate, acquire and construct facilities, as well as purchase equipment.

SFB has also issued Qualified Zone Academy Bonds (QZABs). The QZAB program, enacted through federal legislation, allows state and local agencies to issue QZABs at low interest rates by providing federal tax credits to bond holders. SFB issued \$20,000,000 in QZABs in FY 2003. The debt service on QZABs is paid from Permanent State School Fund revenues.

The following table shows the original bond issuance and the payment for FY 2004 for current bond issuances.

Bonding Summary		
	Original Issue	FY 2004 Payment
Arizona Board of Regents		
Arizona State University	\$ 344,301,000	\$ 25,042,000
Northern Arizona University	116,620,000	11,430,000
University of Arizona	294,725,000	27,821,000
Subtotal – ABOR	\$ 755,646,000	\$ 64,293,000
Department of Transportation	\$ 916,449,000	\$174,705,470
School Facilities Board		
Proposition 301	800,000,000	66,053,200
QZABs	20,000,000	70,000
Subtotal – SFB	\$ 820,000,000 ^{1/}	\$ 66,123,200
Total	\$2,492,095,000	\$305,121,670

^{1/} Has authority to issue an additional \$247.1 million in FY 2004.

Lease-Purchase Facilities

Under a traditional lease-purchase agreement, the state issues Certificates of Participation (COPs) to generate proceeds to finance capital projects. ADOA, the Arizona Health Care Cost Containment System, the Industrial Commission, and the universities have entered into lease-purchase agreements for the acquisition and construction of state facilities. The following table provides information related to current state lease-purchase agreements.

Lease-Purchase Summary		
	Original Issue	FY 2004 Payment
<u>ABOR Building System</u>		
Arizona State University	\$172,559,000	\$13,198,000
Northern Arizona University	4,514,000	476,000
University of Arizona	320,872,000	26,438,000
Subtotal – ABOR	\$497,945,000	\$40,112,000
<u>ADOA Building System</u>		
Prisons/ENSCO – 1991	\$55,080,000	\$5,296,400
Revenue Building – 1992	19,617,800	2,038,900
DES Group Homes – 1992	2,507,200	260,600
16th Avenue Parking – 1992	4,675,000	213,300
Courts Building – 1992	41,745,000	1,916,100
Historical Museum – 1992	15,350,000	704,200
ASDB Food Service – 1992	4,605,000	212,200
DES West – 1992	36,800,000	1,690,100
Tucson Office Building – 1992	26,465,000	1,213,500
Capital Center – 1992	16,780,000	1,518,700
Records Management – 1993	2,180,000	191,350
Library for the Blind – 1993	1,150,000	100,350
ASDB Projects – 1993	14,370,000	1,225,700
1616 West Adams – 1993	6,595,000	631,000
Tonto Natural Bridge – 1993	4,285,000	365,700
AHCCCS Buildings – 1995	12,641,800	1,656,100
HRIS System – 2002	34,685,000	1,508,600
Health Laboratory – 2002	30,000,000	2,317,500
Subtotal – ADOA	\$329,531,800	\$23,060,300
Industrial Commission	\$17,500,000	\$1,400,000
School Facilities Board	\$372,730,000 ^{1/}	\$21,260,000
Total	\$1,217,706,800	\$85,832,300

^{1/} Has authority to issue an additional \$250 million in FY 2004.

Privatized Lease-to-Own Facilities

Under a privatized lease-to-own agreement, a private entity finances and constructs a building and leases it to the state. At the end of the lease term, the state takes possession of the building.

ADOA has entered into privatized lease-to-own (PLTO) agreements with private entities for 3 office buildings on the Capitol Mall. The 3 buildings will house ADOA, the Department of Environmental Quality and the Department of Health Services. The following table provides information on current lease-to-own agreements.

Privatized Lease to Own Summary		
	Original Issue	FY 2004 Payment
Department of Environmental Quality	NA	\$4,803,500
Department of Administration	NA	2,822,900
Department of Health Services	NA	2,047,700
Total	NA	\$9,674,100