

STATE OF ARIZONA

# Joint Committee on Capital Review

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CHRISTINE WEASON

## JOINT COMMITTEE ON CAPITAL REVIEW

Wednesday, December 12, 2001

8:30 a.m.

Senate Appropriations Room 109

## AGENDA

- Call to Order
- [Approval of Minutes of November 29, 2001.](#)
- DIRECTOR'S REPORT (if necessary).
- 1. [ARIZONA STATE PARKS – Review of State Lake Improvement Fund Projects.](#)
- 2. [SCHOOL FACILITIES BOARD – Report on FY 2003 Instructions to the Treasurer.](#)
- 3. [ARIZONA DEPARTMENT OF TRANSPORTATION – Review of Scope, Purpose, and Estimated Cost of Douglas MVD Service Center.](#)
- 4. [ARIZONA BOARD OF REGENTS/ARIZONA STATE UNIVERSITY-EAST – Report on Education 2000 Lease-Purchase Projects.](#)

The Chairman reserves the right to set the order of the agenda.  
12/11/01

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**MINUTES OF THE MEETING  
JOINT COMMITTEE ON CAPITAL REVIEW**

Thursday, November 29, 2001

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The Chairman called the meeting to order at 9:35 a.m. Thursday, November 29, 2001 in Senate Appropriations Room 109 and attendance was noted.

Members:	Senator Solomon, Chairman Senator Brown Senator Bennett Senator Cirillo Senator Hamilton Senator Mitchell	Representative Gray Representative Pearce Representative Weason
Absent:	Senator Guenther	Representative Knaperek, Vice-Chairman Representative Allen Representative Chevront Representative Lopez
Staff:	Lorenzo Martinez Gina Guarascio Chris Earnest	Adele Garcia, Secretary Beth Kohler Tim Sweeney
Others:	Debbie Johnston, Senate Candy Cooley, SFB Guadalupe Valencia, Senate	John Arnold, SFB Jay Ziemann, State Parks Jay Reams, State Parks Bruce Ringwald, ADOA John Sempert, ADOA

Senator Cirillo moved the Committee approve the minutes of October 25, 2001 as presented. The motion carried.

**EXECUTIVE SESSION**

Senator Bennett moved that the Committee go into Executive Session. The motion carried.

At 9:50 a.m. the Joint Committee on Capital Review went into Executive Session.

(Continued)

**EXECUTIVE SESSION - ARIZONA DEPARTMENT OF ADMINISTRATION/DEPARTMENT OF HEALTH SERVICES – Review of Requests for Proposals for Forensic Hospital Renovation of the Arizona State Hospital Construction Project.**

At 9:55 a.m. the Committee reconvened into open session.

*Senator Bennett moved the Committee give a favorable review to the Requests for Proposals for architectural and construction services for the forensic hospital renovation component of the Arizona State Hospital construction project. The motion carried.*

**SCHOOL FACILITIES BOARD - Review of FY 2002 Building Renewal Allocation Plan.**

Chris Earnest, JLBC Staff presented the request that the Committee review the School Facilities Board (SFB) Building Renewal Allocation Plan. The Attorney General's Office has informed the SFB that they are required to distribute the monies with or without JCCR review. Mr. Earnest stated that there is a proposal in the House budget to reduce the total proposed allocation of \$122 million by \$40 million. If the Committee were to go ahead and give a favorable review at this time, the SFB could make the full distribution in November of \$61 million. If the House proposal were to occur, the May distribution of \$61 million could still be reduced by \$40 million.

In response to Senator Cirillo, Mr. Earnest replied that the request from the SFB is for both the November and May distributions, and is the full FY 2002 authorization. The Committee could give direction to the SFB that this review only applies to the November distribution and that the SFB submit the May distribution to the Committee for its review.

Discussion occurred on the fact that some school districts do not report building renewal expenditures as required. The SFB assumes these non-reporting districts spend zero monies from the previous year allocation. This provides more formula funding than if SFB assumes the entire previous year allocation is expended. If the SFB were to assume the entire previous year allocation is expended, this could provide an incentive for districts to report actual expenditures.

*Senator Bennett moved the Committee give a favorable review to the November disbursements of building renewal monies to school districts and that the School Facilities Board submit the May distributions for Committee review prior to distribution. The motion carried.*

**ARIZONA STATE PARKS – Consider Approval of Enhancement Fund monies for the Condemnation of Land Adjacent to Kartchner Caverns State Park.**

Tim Sweeney, JLBC Staff presented the Arizona State Parks request that \$1,080,000 be released from the State Parks Enhancement Fund (SPEF) for the purchase of 160 acres of property adjacent to Kartchner Caverns State Park, through the process of condemnation. The JLBC Staff feels this is a policy decision for the Committee. Staff does believe, however, that use of SPEF monies is consistent with Park statutes provided that the land be incorporated as part of the park.

Mr. Jay Ziemann, State Parks, indicated that the Parks Board voted to condemn land adjacent to Kartchner Caverns. Parks' preference is to work out a willing sale with the landowner. If this can be done, Parks will use the Heritage Fund thereby freeing up the Enhancement Fund to help address the \$140 million in identified capital projects that the Committee asked Parks to prioritize at the last JCCR meeting. Heritage Fund monies cannot be used to acquire property through condemnation.

(Continued)

The \$1,080,000 comes from an appraisal commissioned by the Parks Department. At this point, this is the only formal appraisal that has been done and accepted by the Parks Board. The seller has indicated that he is more interested in \$1.4 million. If the developer can get an appraisal that supports \$1.4 million, then that appraisal could be submitted to the Parks Board. The Parks Board has the decision-making authority to decide whether or not that appraisal is valid. If it is, the Parks Board has the ability to negotiate something within the two appraisals.

*Senator Bennett moved the Committee approve the release of \$1,080,000 from the State Parks Enhancement Fund for the purchase of 160 acres of property adjacent to Kartchner Caverns State Park though the process of condemnation provided the land is incorporated as part of Kartchner Caverns State Park. The motion carried.*

#### **Quarterly Status Report on Kartchner Caverns State Park.**

Tim Sweeney, JLBC Staff stated the construction of the lower caves remain on target for the November 2003 opening. Over \$31 million has been allocated to the parks' development to-date and about \$2.7 million remains unobligated.

No Committee action was required.

#### **DEPARTMENT OF HEALTH SERVICES – Review of FY 2002 Southern Arizona Mental Health Center (SAMHC) Building Renewal Allocation Plan.**

Lorenzo Martinez, JLBC Staff presented the Department of Health Services (DHS) request to the Committee for review of the FY 2002 Southern Arizona Mental Health Center Building Renewal Allocation Plan. The plan allocates \$75,800 for termite elimination, HVAC system cleaning, 2 roof projects, and emergency contingencies. In FY 1996, the center's operations were privatized and the facilities are now leased to a private provider. Lease payments are deposited in the fund for building renewal. DHS is in the process of attempting to sell the SAMHC building located in Tucson.

*Senator Bennett moved the Committee give a favorable review to the FY 2002 Southern Arizona Mental Health Center Building Renewal Allocation Plan. The motion carried.*

#### **ARIZONA DEPARTMENT OF TRANSPORTATION – Consider Adoption of Additional Performance Measures for the FY 2002 Construction Budget Operating Expenditure Plan.**

Bob Hull, JLBC Staff indicated that the Committee requested the Arizona Department of Transportation (ADOT) come back with some congestion-related performance measures for its highway construction program. There are 3 tables indicating the percent of the highway system over capacity and in gridlock during peak driving periods. ADOT has included the segments of the roads that are in gridlock and what its action will be in the 5-year plan to address the congestion. JLBC Staff recommends that the performance measures be adopted and ADOT report on these additional performance measures as part of next year's Committee review of ADOT's highway construction budget operating expenditure plan for FY 2003.

*Senator Bennett moved the Committee adopt the additional performance measures related to congestion mitigation with the requirement that the department report on these additional performance measures as part of next year's Committee review of the highway construction budget operating expenditure plan for FY 2003. The motion carried.*

(Continued)

**Report on Executive Summary of Arizona 5-Year Transportation Facilities Construction Program.**

Bob Hull, JLBC Staff stated that the Committee requested that Arizona Department of Transportation (ADOT) develop an executive summary that was more user-friendly. The program allocates \$4 billion over 5 years. The ADOT submission includes descriptions of the process, a summary of 10 major projects, and a breakout by county and by fiscal year of the \$4 billion. Of the major projects the biggest one is Loop 202.

This is for information only and no Committee action is required. The JLBC Staff recommends that ADOT provide an executive summary of its 5-year transportation facilities and construction program for FY 2003 through FY 2007 when the department requests Committee review of next year's FY 2003 highway construction budget operating expenditure plan.

No Committee action was required.

**ARIZONA DEPARTMENT OF ADMINISTRATION/DEPARTMENT OF HEALTH SERVICES -  
Report on the Arizona State Hospital Construction Project.**

Gina Guarascio, JLBC Staff presented the quarterly report on the Department of Health Services' Arizona State Hospital (ASH) Project. This is the 6<sup>th</sup> quarterly report on the status of this project. Over the past quarter, progress has occurred on construction of 2 new dormitories for the Sexually Violent Persons population. According to the Arizona Department of Administration (ADOA), the one dormitory will be finished this month, and the second dormitory should be finished by early next year. The Committee has also approved an expenditure plan to address infrastructure issues at ASH, including telecommunications expansion, repair of sewer lines, repairs to address water temperature control issues, and Central Plant repairs. Infrastructure rerouting is now about 75% complete. ADOA expects completion of Central Plant upgrades by January of 2002. Work is progressing on the civil facilities. The foundations and some walls are in place and completion is scheduled for the end of next year.

In response to Senator Cirillo, Ms. Guarascio stated she had no indication that the \$80 million would not be sufficient; however, there is a budget proposal to reduce the \$80 million by \$2.5 million. This reduction would eliminate funding for a 5<sup>th</sup> SVP dormitory.

No Committee action was required.

The meeting adjourned at 10:33 a.m.

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Adele Garcia, Secretary

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Lorenzo Martinez, Senior Fiscal Analyst

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Senator Ruth Solomon, Chairman

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CHRISTINE WEASON

**DATE:** December 11, 2001

**TO:** Senator Ruth Solomon, Chairman  
Members, Joint Committee on Capital Review

**THRU:** Richard Stavneak, Director

**FROM:** Timothy Sweeney, Fiscal Analyst

**SUBJECT:** ARIZONA STATE PARKS – REVIEW OF STATE LAKE IMPROVEMENT  
FUND PROJECTS

This item was originally on the agenda for the October 25<sup>th</sup> JCCR meeting, but was held due to budget reduction options involving the State Lake Improvement Fund (SLIF). The original memo and the agency request to allocate \$13.5 million for projects are both attached.

In their respective budget proposals the House and Senate have both included fund transfers from SLIF to the General Fund. The Senate included a \$1 million transfer in FY 2002, and the House included \$5 million in each of FY 2002 and FY 2003. The Governor's plan also included a transfer from SLIF of \$13 million in FY 03.

This request from the Parks Department is for the approval of grants using FY 2001 revenue. As a result, the above transfers from SLIF in FY 2002 and FY 2003 would not be affected by Committee action on the grants requested by the Parks Department. SLIF generates approximately \$11 million in annual revenues including interest earned and excluding any carry-forward balances.

RS/TS:jb  
Attachments

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DATE: December 11, 2001

TO: Senator Ruth Solomon, Chairman  
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Chris Earnest, Senior Fiscal Analyst

SUBJECT: SCHOOL FACILITIES BOARD – REPORT ON FY 2003 INSTRUCTIONS TO THE  
TREASURER

**Request**

As required by A.R.S. § 15-2002, the School Facilities Board is updating the Committee on the estimated amounts necessary in FY 2003 for the Building Renewal Fund, New School Facilities Fund and the Deficiencies Correction Fund.

**Recommendation**

This item is for information only and no Committee action is required. The board will instruct the Treasurer to transfer a total of \$416.3 million in FY 2003. This amount includes:

- \$28.0 million for Deficiencies Correction Fund. This is \$16.0 million more than was originally budgeted for FY 2003. Laws 2001, Chapter 233, however, limits the FY 2003 Deficiencies Correction Fund transfer to \$12.0 million.
- \$128.3 million for Building Renewal, which is \$(9.5) million less than was originally estimated in the FY 2003 budget.
- \$260.0 million for the New School Facilities Fund, which is the same amount as originally budgeted.

Legislation in the current special session proposes to change the way monies would be deposited to the funds starting in FY 2003. The House Engrossed version of the education omnibus reconciliation bill would negate the proposed transfers by eliminating SFB's authority to instruct the Treasurer and the Treasurer's authority to transfer monies to the funds. Under the bill, monies to the fund are subject to legislative appropriation beginning in FY 2003. The Senate Engrossed version of the bill does not appropriate the funds but does require JCCR to review SFB's instruction to the Treasurer.

(Continued)

## **Analysis**

A.R.S. § 15-2002 requires SFB to instruct the State Treasurer by January 1 of each year as to the amounts under the Transaction Privilege Tax (TPT) to be credited to the Deficiencies Correction Fund, Building Renewal Fund, and New School Facilities Fund in the following fiscal year. Prior to issuing these instructions, statute requires SFB to report these amounts to JCCR. The transfers are done without appropriation. The amounts credited to the funds are budget as General Fund expenditures because TPT revenues would otherwise be deposited into the General Fund.

The following paragraphs discuss the proposed instructions for each of the funds:

### **Deficiencies Correction Fund**

The Deficiencies Correction Fund is established to correct existing facility and equipment deficiencies at all state public schools. All identified deficiencies are to be corrected by June 30, 2003 and are estimated to cost \$1.1 billion. The SFB will instruct the Treasurer to transfer \$28.0 million in FY 2003. This amount is \$16 million more than was originally budgeted for FY 2003 due to SFB's concern that \$16 million in Federal School Renovation Grants cannot be used for the Deficiencies Correction program. The federal monies had been included as a fund source for the \$1.1 billion total. The SFB contends, however, that in Students FIRST, the state committed to fully funding the Deficiencies Correction program and that utilizing the federal grant money would supplant state resources. Under the federal requirements, the \$16 million cannot be used to supplant state funding.

Although SFB is proposing instructions to transfer \$28.0 million, the amount the treasurer can transfer to the Deficiencies Correction fund is limited to \$12.0 million. Laws 2001, Chapter 233 instructs the Treasurer to disregard any instructions from SFB and instead transfer \$12.0 million in FY 2003. Proposed special session legislation in both the Senate and the House of Representative, however, would eliminate the FY 2003 transfer, leaving no additional funding for the program in that year. The FY 2003 appropriation is being eliminated as a means of recouping the unobligated balance in the Deficiencies Correction Fund. Prior to last week's SFB meeting, the fund had an unobligated balance of \$43 million. This amount includes \$31.0 million from prior year transfers and the \$12.0 million FY 2003 transfer. The SFB did, however, obligate an additional \$7 million at their December 6 meeting, reducing the unobligated amount to \$36 million.

### **Building Renewal Fund**

The Building Renewal Fund's purpose is to provide funding for school districts to maintain adequacy standards of existing schools. Building renewal monies are for major renovations and repairs but are not to be used for new construction. The amount distributed to each school district is based on a statutory formula. The primary formula components are building age, prior renovations, square footage, and construction costs. Monies are distributed in equal installments in November and May of each fiscal year.

The SFB reports that it will instruct the Treasurer to transfer \$128,274,100 in FY 2003. This amount is \$(9.5) million less than the \$137.8 million that was originally estimated for the year.

The proposed instruction is based on the statutory formula and does not include any additional inflationary factors.

The proposed House of Representative budget plan reduces the FY 2003 transfer by \$(40.0) million due to the size of the building renewal balances held by all school districts. The proposed Senate budget plan does not address the building renewal transfer in FY 2003.

### **New School Facilities Fund**

The New School Facilities Fund provides funds to school districts for new school construction. The board reports that it will instruct the Treasurer to transfer \$260.0 million in FY 2003. This amount is

(Continued)

equal to the original FY 2003 projection and represents a \$10 million increase above the FY 2002 transfer. Monies in the fund are distributed to school districts based on enrollment projections, square footage requirements, and construction costs. Monies are only distributed upon invoice of work completed. After all estimated distributions in FY 2003, SFB currently projects they will end the year with a \$34.5 million balance.

The proposed House of Representatives' budget plan includes the full \$260.0 million in FY 2003. The proposed Senate budget does not address the FY 2003 new construction allocation.

RS/CE:jb

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DATE: December 11, 2001

TO: Senator Ruth Solomon, Chairman  
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF TRANSPORTATION - REVIEW OF SCOPE, PURPOSE,  
AND ESTIMATED COST OF DOUGLAS MOTOR VEHICLE DIVISION SERVICE  
CENTER

### Request

The Arizona Department of Transportation (ADOT) requests that the Committee review the scope, purpose, and estimated cost of the Douglas Motor Vehicle Division (MVD) Service Center.

### Recommendation

The JLBC Staff recommends a favorable review of the request. The project was appropriated \$1,150,000 from the State Highway Fund in FY 2001. Of the total amount, \$949,500 is for the low bid, \$56,800 is for architectural and engineering fees, \$95,600 is for furnishings and equipment, and the remaining \$48,100 is for exterior projects and contingencies.

### Analysis

Pursuant to A.R.S. § 41-1252(C), the Committee shall review the scope, purpose, and estimated cost of appropriated capital projects prior to the release of monies for construction. Laws 1999, Chapter 2, 1<sup>st</sup> Special Session appropriated \$1,150,000 in FY 2001 from the State Highway Fund to ADOT, to construct and furnish a new Douglas MVD Service Center. The new service center would be built on 5 acres already owned by ADOT near the Douglas city limits, at the intersection of US 80 and SR 191. The new building would have 5 work stations and would replace a converted mobile home in Douglas.

The department reports a low base bid of \$949,500 to construct the new 4,834 square foot Douglas MVD Service Center, and projects spending the \$1,150,000 appropriation as shown in following table, for an average cost of \$238 per square foot.

For comparison, a new 14,430 square foot Scottsdale MVD Service Center was completed in August 1999 with a construction cost of \$2,160,000, for an average cost of \$150 per square foot. A new 14,430 square foot

(Continued)

Mesa MVD Service Center was completed in March 2000 with a construction cost of \$2,250,000, for an average cost of \$156 per square foot. The Committee gave a favorable review, at their June 28, 2001 meeting, to both the 14,000 square foot Glendale MVD Service Center (estimated construction cost of \$2,133,900), and the 7,000 square foot Cottonwood MVD Service Center (estimated construction cost of \$1,064,700) for an average cost of \$152 per square foot for each new facility. Construction costs tend to fluctuate depending on market conditions and geographic locations.

<b>Estimated Expenditures</b>	
Low Construction Base Bid	\$949,500
Architect & Engineering	56,800
Secured Parking Area	3,400
Exterior Pole Lighting	29,600
Exterior Split Face Block	4,100
Furnishings, Telecommunications, & Equipment	95,600
Contingencies	<u>11,000</u>
Total Expenditures	\$1,150,000

No monies have been set aside for Risk Management in these estimated expenditures. The Arizona Department of Administration (ADOA) Risk Management capital construction insurance rate had been 0.6% of total project costs for each capital project in FY 2000. Then the rate decreased to 0% in FY 2001, since the fund had sufficient monies on hand for FY 2001. At its June 22, 2000 meeting, the Committee gave a favorable review, to ADOA setting the FY 2001 Risk Management capital construction insurance rate at 0%. The Committee also requested that ADOA report back to the Committee if a change in the rate is needed for FY 2002. From informal discussions with ADOA Risk Management, we understand that the current 0% capital construction insurance rate is likely to be continued through FY 2002. If ADOA charges ADOT for capital construction insurance for all or part of FY 2002, the \$11,000 for contingencies would decrease by the amount of the Risk Management charge. For instance, if ADOT were charged 0.6% for the entire year the Risk Management charge would be \$6,800, which would leave \$4,200 for contingencies.

The request is within the scope, purpose, and monies available for this project. The JLBC Staff recommends that the Committee give a favorable review to the Douglas MVD Service Center construction project.

RS/BH:jb

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DATE: December 11, 2001

TO: Senator Ruth Solomon, Chairman  
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Jill Young, Fiscal Analyst  
Lorenzo Martinez, Senior Fiscal Analyst

SUBJECT: ARIZONA BOARD OF REGENTS/ARIZONA STATE UNIVERSITY-EAST –  
REPORT ON EDUCATION 2000 LEASE-PURCHASE PROJECTS

**Request**

The Arizona Board of Regents (ABOR) has submitted follow-up information on Arizona State University (ASU)-East lease-purchase capital projects being financed with Education 2000 monies.

**Recommendation**

This item is for information only and no Committee action is required.

The Committee gave a favorable review for the issuance of Certificates of Participation (COPs) to finance projects on the ASU-East and ASU-West campuses at its June 28, 2001 meeting. The Committee does not normally review university COP issuances; however, the legislation for “Education 2000” (Proposition 301), which authorized these issuances, required Committee review before the COPs were issued. As part of its favorable review, the Committee requested that additional information on ASU-East projects be submitted when the university completed its assessment.

A COP issuance of \$27,500,000 is planned for ASU-East, and a COP issuance of \$21,600,000 is planned for ASU-West. Repayment of the COPs will be paid from Education 2000 monies.

**Analysis**

The accompanying legislation (Laws 2000, Chapter 1, 5<sup>th</sup> Special Session) to “Education 2000” (Proposition 301) appropriated \$2,500,000 in FY 2002 from the Technology and Research Initiative (TRI) Fund for first year COP costs for the lease-purchase financing of buildings and associated infrastructure at the ASU-East and ASU-West campuses. Of the amount appropriated, \$1,400,000 was appropriated for ASU-East and \$1,100,000 was appropriated for ASU-West. The legislation also

(Continued)

included intent language that future monetary requirements also be appropriated from the TRI Fund. No appropriations beyond FY 2002 have been made. After allocations for debt service on state school facilities revenue bonds, the TRI Fund receives 12% of the remaining revenues from the Education 2000 enacted increase to the sales tax. This amount is estimated to be \$46,630,900 in FY 2002.

Over the next 3 years approximately 18 buildings on the ASU-East campus will be renovated to convert space from its original military configuration to academic use. A number of infrastructure improvements are required to accommodate the renovations and development of the campus. Items include roadway and parking lot improvements, campus mall and landscaping development, telecommunications infrastructure improvements, and recreational space and facilities. Additionally, the plan includes one new construction project, the Flightline Facility, which is planned to expand student capacity for existing flight training programs and hanger/storage space.

The following table summarizes the estimated costs of the ASU-East Capital projects. The additional annual operating impact of these projects is estimated to be \$1,802,400.

<b>Summary of ASU-East Capital Projects</b>		
	<u>Current Estimated Project Cost</u>	<u>Additional Operating Impact</u>
Building Renovation Projects	\$ 16,865,757	\$ 1,296,594
Flightline Facility	3,200,000	161,560
Campus Infrastructure Projects	<u>7,158,629</u>	<u>344,250</u>
<b>TOTALS</b>	<b>\$27,224,386</b>	<b>\$ 1,802,404</b>

The COP issuance for ASU-East will be \$27,500,000 and will be repaid over a 20-year period. At an assumed interest rate of 5.44%, the required annual payment will be \$2,289,700.

The attached material includes the list of projects submitted by ASU-East and an excerpt of material on the projects submitted for the review in June.

RS/LM/JY:jb