STATE OF ARIZONA

Joint Committee on Capital Review

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* * R E V I S E D * *

JOINT COMMITTEE ON CAPITAL REVIEW
Thursday, July 19, 2007
~~1:30 p.m.~~ **2:00 p.m.**
Senate Appropriations Room 109

MEETING NOTICE

- Call to Order

- Approval of Minutes of June 19, 2007.

- DIRECTOR'S REPORT (if necessary).

1. ARIZONA STATE PARKS BOARD - Review of State Lake Improvement Fund Projects.

2. SCHOOL FACILITIES BOARD - Review of FY 2008 New School Construction Report.

The Chairman reserves the right to set the order of the agenda.
7/16/07

People with disabilities may request accommodations such as interpreters, alternative formats, or assistance with physical accessibility. Requests for accommodations must be made with 72 hours prior notice. If you require accommodations, please contact the JLBC Office at (602) 926-5491.

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MINUTES OF THE MEETING
JOINT COMMITTEE ON CAPITAL REVIEW

Wednesday, June 19, 2007

The Chairman called the meeting to order at 9:17 a.m., Tuesday, June 19, 2007 in Senate Appropriations Room 109. The following were present:

Members:	Senator Burns, Chairman	Representative Pearce, Vice-Chairman
	Senator Aboud	Representative Kavanagh
	Senator Aguirre	Representative Lopes
	Senator Arzberger	Representative Schapira
	Senator Johnson	
	Senator Verschoor	
	Senator Waring	
Absent:		Representative Boone
		Representative Groe
		Representative Lujan

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee, Chairman Robert Burns stated the minutes of May 16, 2007 would stand approved.

ARIZONA STATE UNIVERSITY – Review of Revised Scope of Academic Renovations and Deferred Maintenance Phase IIA Bond Projects

Ms. Leah Ruggieri, JLBC Staff, presented the Arizona State University (ASU) request for review of a scope revision to a project within the Deferred Maintenance Phase IIA bond issuance. The project was originally favorably reviewed by the Committee in August 2006. The project in particular is the Physics Chair Renovation Project. When this project was first brought to the Committee in August 2006, it encompassed 2,300 square feet with a total cost of $1.1 million. ASU would like to change the scope to accommodate renovations for about 4,500 square feet at a new cost of $1.9 million, a $750,000 cost increase. This new cost increase and square footage is associated with additional research requirements for nanotechnology thin-film processing and associated renovations to accommodate the lab. ASU proposes to finance the increase by using previously unallocated funds from the Academic Renovations and Deferred Maintenance Phase IIB bond issuance, which was favorably reviewed by the Committee in January 2007. The JLBC Staff is recommending a favorable review of ASU's scope revision to the specific Physics Chair Renovation Project.

There was no discussion on this item.

Representative Pearce moved the JLBC Staff recommendation that the Committee give a favorable review to the scope revision for the Physics Chair Renovation project within the Academic Renovations and Deferred Maintenance Phase IIA with the following standard university financing provisions:

- *ASU shall report to the Committee before expenditure of any allocations that exceed the greater of $500,000 or 10% of the reported contingency amount total for add alternates that do not expand the scope of the project.*
- *ASU shall submit for Committee review any allocations that exceed the greater of $500,000 or 10% of the reported contingency amount total for add alternates that expand the scope of the project. In case of an emergency, ASU may immediately report on the scope and estimated cost of the emergency rather than submit the item for review. The JLBC Staff will inform the university if they do not agree with the change of scope as an emergency.*
- *A favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any auxiliary revenues that may be required for debt service, or any operations and maintenance costs when the project is complete. Auxiliary funds derive from substantially self-supporting university activities, including student housing.*
- *ASU shall not use bonding to finance any repairs whose typical life span is less than the bond repayment period. Such repairs include, but are not limited to new flooring and painting. The exceptions to this stipulation are circumstances where such repairs are required to complete a major renovation.*

The motion carried.

ARIZONA DEPARTMENT OF TRANSPORTATION – Review of Asphalt Storage Tanks Project.

Mr. Bob Hull, JLBC Staff, presented the Arizona Department of Transportation (ADOT) request for review of the Asphalt Storage Tanks Project. ADOT will install 4 asphalt storage tanks, concrete containment basins, and dispose of the existing tanks. The JLBC Staff recommends a favorable review of the $1,082,800 for the project, leaving a remaining balance of $98,400 in the original appropriation. JLBC Staff also recommends ADOT report the use of any of the remaining balance or the $134,800 contingency for a different project.

There was no discussion on this item.

Representative Pearce moved the JLBC Staff recommendation that the Committee give a favorable review to $1,082,400 for the project to install 4 asphalt storage tanks, concrete containment basins and dispose of existing tanks. Prior to expenditure of any of the remaining balance of $98,400 or the $134,800 in the contingency for a different project, ADOT shall report the use of the funds to the Committee. The motion carried.

NORTHERN ARIZONA UNIVERSITY – Review of Dining Expansion Bond Project.

Ms. Amy Strauss, JLBC Staff, presented the review of the Northern Arizona University (NAU) dining expansion bond project. The project would expand the University Union dining facilities located on the NAU main campus in Flagstaff. Statute requires Committee review of any university capital projects financed with system revenue bonds. The JLBC Staff recommends a favorable review with the standard financing provisions. NAU would issue about $9.5 million in system revenue bonds later this summer, which is also the total project cost of the expansion. The issuance has a AA credit bond rating with an interest rate of about 5% with a 30-year term.

Discussion ensued on the capacity needs analysis conducted to support the expansion of dining facilities.

Ms. Christy Farley, Director of Government Affairs, NAU and Mr. Mark Flynn, Executive Director of Capital Assets and Services, NAU, responded to member questions.

Representative Kavanagh moved that the Committee take no action on this item pending JLBC Staff review of existing data. The motion failed.

Representative Pearce moved the JLBC Staff recommendation that the Committee give a favorable review to the dining expansion project with the following standard university financing provisions:

- *NAU shall report to the Committee before expenditure of any allocations that exceed the greater of $500,000 or 10% of the reported contingency amount total for add-alternates that do not expand the scope of the project. NAU shall also report to the Committee before any reallocation exceeding $500,000 among the individual planned renovations, renewals, or extensions.*
- *NAU shall submit for Committee review any allocations that exceed the greater of $500,000 or 10% of the reported contingency amount total for add-alternates that expand the scope of the project. In case of an emergency, NAU may immediately report on the scope and estimated cost of the emergency rather than submit the item for review. JLBC Staff will inform the university if they do not concur with the emergency nature of the change in scope.*
- *A favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any revenues that may be required for debt service, or any operations and maintenance costs when the project is complete.*

The motion carried.

ARIZONA DEPARTMENT OF TRANSPORTATION – Review of De-Icer Buildings Project.

Mr. Bob Hull, JLBC Staff, presented the review of the Arizona Department of Transportation (ADOT) project to install 4 de-icer buildings. The JLBC Staff recommends that the Committee give a favorable review of $1,478,000 for the project and that ADOT report on the use of any of the $200,800 in the contingency for any new project.

Discussion ensued on this item.

Representative Pearce moved the JLBC recommendation that the Committee give a favorable review to $1,478,000 for the project to install 4 de-icer buildings. Prior to expenditure of any of the $200,800 in the contingency for any new project, ADOT shall report the use of the funds to the Committee. The motion carried.

Without objection, the meeting adjourned at 10:16 a.m.

Respectfully submitted:

Yvette Medina, Secretary

Lorenzo Martinez, Assistant Director

Senator Robert Burns, Chairman

NOTE: A full audio recording of this meeting is available at the JLBC Staff Office, 1716 W. Adams. A full video recording of this meeting is available at http://www.azleg.gov/jlbc/meeting.htm.

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DATE: July 12, 2007

TO: Senator Bob Burns, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Matt Busby, Fiscal Analyst

SUBJECT: Arizona State Parks Board – Review of State Lake Improvement Fund Projects

Request

Pursuant to A.R.S. § 5-382, the Arizona State Parks Board requests Committee review of State Lake Improvement Fund (SLIF) capital grants and projects totaling $2,452,100. Of that amount, $1,500,000 would be for planning a new recreation area near the current Lake Havasu State Park. The remaining $952,100 would be used for the replacement of water mains and to provide electricity and potable water to the existing campsites at Lake Havasu State Park. Of this amount, $452,100 is unused portions of previously awarded SLIF grants.

Recommendation

The JLBC Staff recommends a favorable review of the portion of the Parks Board request concerning $942,100 in improvements at Lake Havasu State Park.

The Committee has at least the following 2 options for the $1,500,000 project to plan for a new recreation area to be called Contact Point:

1) A favorable review of the Parks Board request for the planning and design of Contact Point with the condition that the favorable review does not constitute an endorsement of General Fund support of the project in the future. The basis for a favorable review would be that the proposal is an allowable use of SLIF monies and there are sufficient SLIF monies available for planning.

2) An unfavorable review. The basis for an unfavorable review is that there is insufficient information regarding the need, capacity, and financial impact of the project for the Committee to evaluate the request. The total cost of the project is estimated to be approximately $19 million and the long-term financing implications are unclear.

(Continued)

As an alternative, the Parks Board could report back to the Committee after conducting a smaller-scale study to assess the need for project, including how the project would affect the boat capacity of the lake. The report would include an analysis of the amount of revenue that would be generated by the new facility, along with a long-term financing plan. Upon reviewing that information, the Committee may be in a better position to assess the merits of the project before committing $1.5 million.

Analysis

Recent SLIF History and the Current Request

SLIF receives its revenue from a portion of watercraft license fees and an allocation of gasoline tax attributable to watercraft use. Monies in the fund are available to state agencies, counties, and local governments for capital improvement projects and acquisitions of real property on waters where gasoline-powered boats are permitted.

The Arizona Outdoor Recreation Coordinating Commission (AORCC), established under A.R.S. § 41-511, reviews eligible projects and presents a list of recommendations to the Arizona State Parks Board. The Parks Board then submits proposed capital projects to the Committee for review, as required by A.R.S. § 5-382.

Current AORCC guidelines establish that no more than 30% of grant/project allocations may go to the Parks Department, and that no other applicant may receive more than 20% of available grant resources in a given grant cycle. Using the evaluation criteria, AORCC and the Parks Board have approved both projects for funding in FY 2007 at a total cost of $2,452,100.

Contact Point Development Planning
The Parks Board requests $1,500,000 to contract for the planning of the development of Contact Point recreation area located approximately 4 miles south of Lake Havasu State Park. Lake Havasu is a man-made lake along the Colorado River. The Contact Point recreation area would be located on undeveloped land owned by the Parks Board. However, part of the roadway that would be used to access the recreation area is located on Bureau of Land Management (BLM) land.

The Parks Board expects to use SLIF dollars in the future to fund part of the construction of the development. However, it is possible that some of the local stakeholders will also contribute to the development costs. The Parks Board estimates the cost for the construction of Contact Point to total $19,380,000. Of that amount, the Parks Board expects to request $17,180,000 in future SLIF grant cycles. However, the project cost would have to be spread out over several years as SLIF monies are available (see below) and because current AORCC guidelines limit the Parks Board to 30% of SLIF allocations each year. It is important to note that the amounts are Parks Board estimates and that the planning and design of the overall project will ultimately determine the cost.

The Parks Board reports that the development at Contact Point is needed because congestion at Lake Havasu State Park forces traffic to back up onto Highway 95 as people are waiting to enter the park. They state that the problem is most severe on holidays in the summer months and to a lesser degree on weekends. On holidays, the park reportedly closes its gates by 9:30 A.M. and opens the gates mid-afternoon as soon as people leave and there are available parking spaces. On a typical summer weekend, they report that the park closes the gates and stops admitting boaters around 12 P.M. This results in a potential loss of revenue to the Parks Board. The Parks Board suggests that the development of Contact Point along with the new road will allow for the excess traffic to wait on the new roadway instead of Highway 95 and additional boat launch ramps would allow for more boaters on the lake.

(Continued)

Listed below are the various projects at Contact Point along with the estimated cost for each:

- Pavement of Dirt Road on BLM land - $2,200,000. Funds will come from the Parks Board's Arizona Department of Transportation account. Currently, the road is unpaved and is used to access BLM's dock on the lake. The road is approximately 1 mile long.
- Site preparation including grading and other earthwork - $1,500,000.
- Marina, Fueling Station, and Boardwalk - $5,430,000. The Parks Board would construct the new Marina using SLIF funds and is considering contracting with a private concession company to operate the Marina. The Parks Board has a similar arrangement at Kartchner Caverns. The Parks Board contracts with a private concessions vendor and retains anywhere between 3% and 27% of the revenues from the Kartchner Caverns gift shop. A similar contractual arrangement could be used at the Contact Point marina and would potentially provide revenue to the Parks Board.
- Marina Parking Lot - $1,750,000.
- Beach Area - $1,000,000. Retaining walls and erosion control is required to maintain the beach.
- Day Use Area - $2,500,000. This area would include amenities similar to other areas in the Lake Havasu State Park, including picnic tables, ramadas, restrooms, etc.
- Potable and Wastewater Services - $2,500,000.
- Boat Launch Area - $2,500,000.

Capacity Issues
The Parks Board states that the project at Contact Point is needed to relieve congestion at Lake Havasu State Park. Developing another recreation area on the lake will increase the number of boats, which raises the question of the lake's carrying capacity. The Parks Board reports that there have not been definitive studies on the boat capacity on Lake Havasu, however, there have been a number of local and federal agency studies related to utilization of the lake. In 2005, the BLM reported that boat densities on the lake ranged from 86.2 to 102.6 boats per square mile on holiday weekends and 54.8 boats per square mile on average weekends in August. The lake covers approximately 21,000 surface acres, or 33 square miles. Based on the boat densities above, as many as 3,400 boats were found on the lake on holiday weekends. On average August weekends, there were approximately 1,800 boats. BLM also reported the average separation distances between boats varied from 255 to 312 feet and a location preference measure showed that 75% of all boating activity is located within 33-53% of the lake.

The Parks Board reports that Lake Havasu has the highest utilization of any lake in Arizona and that boat densities listed above are relatively high. They state that despite the high boat densities, however, boaters continue to use the lake. As stated above, the lake covers approximately 33 square miles. Although the Parks Board acknowledges that it appears that boaters at Lake Havasu prefer the company of other boaters, resulting in higher boat densities in some areas of the lake, they also believe opening a new recreation area at Contact Point may encourage boaters willing to travel further distances to utilize other areas.

Lake Havasu State Park Improvements
The Parks Board requests $500,000 of new SLIF funds and $452,100 of unused monies from previously awarded grants for capital improvements at Lake Havasu State Park's existing facilities. The monies would be used to install new 8-inch water mains with 9 hydrants and provide electricity and potable water to all 47 campsites throughout the park. Currently the park has 4-inch water mains for fire suppression. The Parks Board was recently notified by the Fire Marshall that these mains were insufficient and need to be upgraded to 8-inch mains to remain in compliance. No current campsites have electricity or potable water.

The total cost of this project is estimated to be $1,020,000. The new monies requested and the unused portions of previous SLIF grants total $952,100. Of the $452,100 of unused monies, $250,000 was reviewed by the Committee last November for the replacement of the water mains, but estimates of the

(Continued)

total cost were too low. The remaining $202,100 was reviewed by the Committee in December 2001 for projects at Lake Havasu State Park but was never expended. The Parks Board anticipates using other fund sources for the $67,900 balance of the total projected cost, although it is currently unclear which funds would be used.

Status of the Fund

The Parks Board estimates the uncommitted SLIF will have a FY 2007 ending balance of $13.6 million, prior to consideration of the $2.5 million request. This amount has been adjusted for prior year obligations. *(See Attachment A.)*

This balance would be available for FY 2008 operating and capital expenditures. In FY 2007, new capital expenses were $4.0 million and operating expenses were $3.0 million. If similar amounts are expended again in FY 2008 for these items, approximately $6.6 million would remain for the Parks Board's current $2.5 million request.

Annual fund revenues are currently $9.5 million. At this level, full development of Contact Point would require almost 2 years worth of new revenues. Given current AORCC policy limiting the Parks Board to 30% of project grants, it would require 6 years or more to fund the project through SLIF grants.

RS/MB:ym

Attachment A

Fund Availability for Parks Board Request
State Lake Improvement Fund

FY 2006 Ending Balance	$19,060,000
Prior Year Obligations	(7,882,800)
Grants Approved by JCCR last November	(4,015,800)
FY 2007 Operating Expenditures	(3,000,000)
Estimated FY 2007 Revenue	9,500,000
Estimated FY 2007 Ending Balance	**$13,661,400**
Possible FY 2008 Uses: *	
FY 2008 Operating Expenditures	$(3,000,000)
Estimated New FY 2008 SLIF Awards	(4,000,000)
Estimated FY 2008 Fund Availability	**$6,661,400 ****

* Assumes FY 2008 expenditure plan similar to FY 2007.
** Amount available for State Parks Board request.

"Managing and conserving natural, cultural, and recreational resources"

Arizona State Parks

Senator Robert L. Burns, Chair
Joint Committee on Capital Review
Arizona House of Representatives
1700 West Washington
Phoenix, Arizona 85007

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RE: State Lake Improvement Fund Project Review

Dear Senator Burns:

On behalf of the Arizona State Parks (ASP) Board, I submit $2 million of State Lake Improvement Fund projects per A.R.S. §5-382 to the Joint Committee on Capital Review. Funding for these projects comes from a portion of the fuel sales tax attributable to gas-powered boating, and watercraft registration fees.

These monies are in excess of the grant program needs for this year and would allow us to address issues surrounding Lake Havasu. ASP has one of the last developable pieces of land on the lake. Various entities (see enclosure) have requested that ASP develop this property at Contact Point to address traffic congestion, both on land and on the water, safety and law enforcement, as well as economic development. ASP would like to move forward in addressing these issues and to proceed with the planning process. The $1.5 million should address this process and a portion of the future development costs. In addition, approximately $500,000 would be used for improvements at Lake Havasu State Park.

Should you have any questions on these State Lake Improvement Fund projects, please contact Jay Ziemann, Assistant Director, at (602) 542-7104.

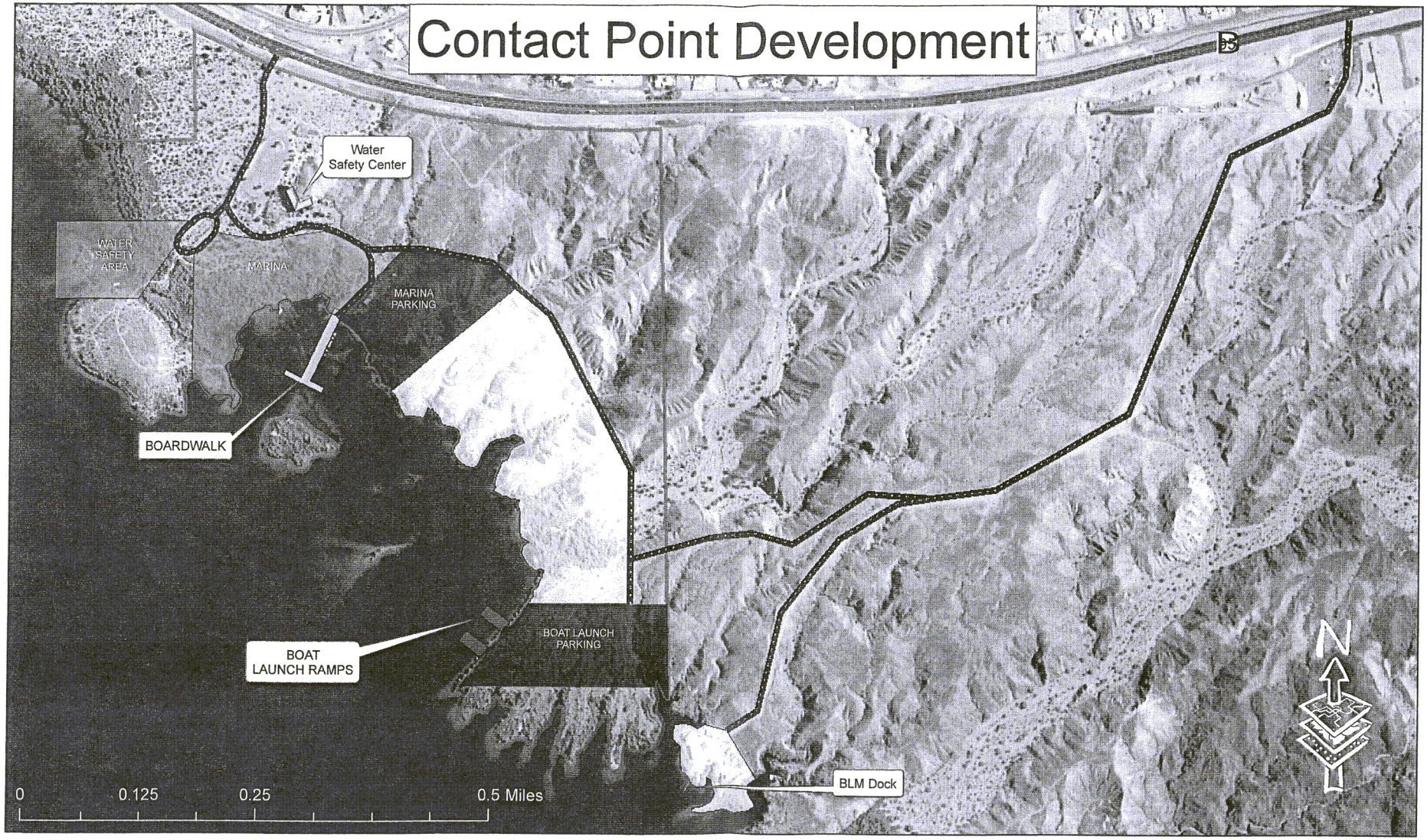
Sincerely,

Kenneth E. Travous
Executive Director

KET/mds

Enclosure

Contact Point Development



Enclosure

List of Interested Parties

Public Entities
City of Lake Havasu
Mohave County Sheriff's Office
Mohave County Community College
Arizona Game and Fish
San Bernardino County Sheriff's Office, California
United States Coast Guard
United States Coast Guard Auxiliary
Bureau of Land Management
US Fish and Wildlife Service
Chemehuevi Tribe

Organizations
Havasu Foundation for Higher Education
Western Arizona Law Enforcement Association (14 Agencies and Departments)
Personal Water Craft Course and Stadium Group

Review of Arizona State Parks State Lake Improvement Fund (SLIF) Capital Projects

Background

The State Lake Improvement Fund (SLIF) is administered by the Arizona State Parks Board for staff support to plan and administer the SLIF and LEBSF (Law Enforcement and Boating Safety Fund) programs, to fund design and engineering for acquisition and development projects that enhance boating opportunities, and to purchase watercraft, in conjunction with other recreation plans of the Board.

Operating budgets are to be based upon 11.8% of the annual revenue, as stated in the Memorandum of Understanding (MOU) between the State Parks Board and the Arizona Outdoor Recration Coordinating Committee (AORCC). The remaining 88.2% is split according to the MOU with 70% going to competitive grants and 30% to State Parks for qualified projects.

Due to the budget cuts and fund sweeps, Arizona State Parks (ASP) has used its SLIF capital monies for operations since FY 2002. In FY 2004 and FY 2005, grants funds were also used for operations. ASP continues to request restoration of its funding so SLIF can again be used as delineated in the MOU. In FY 2007, ASP reduced its SLIF operating budget from $4 million to $3 million, funded by a combination of cuts and a supplemental appropriation.

The SLIF grant program was fully funded this year with $7,313,100 available for grants. Twelve grants were awarded for a total of $3,765,750, leaving a $3,547,300 grant carry-forward. ASP requests to use $2 million of this grant carry-forward for qualified State Parks capital projects. This leaves over $1.5 million in the grant carry-forward.

Since estimated SLIF grant revenues are over $6 million this year, funding for next year's grant cycle should exceed $7.5 million. The SLIF grant cycle for September 2007 has now closed with 13 applications for a total of $6,119,386. Therefore, the SLIF grant program is fully funded for this year even with using $2 million for qualified State Parks capital projects.

The major impetus for this request is development at Contact Point. Due to numerous interested parties, including the City of Lake Havasu, Mohave County, various Law Enforcement and Federal Agencies, etc, numerous proposals are being received by ASP regarding how to best use one of the last developable parcels of land on Lake Havasu. Before further progress can be made in discussions with the various parties, ASP needs to begin its planning process to move the project forward. It is anticipated that this funding will not only address the planning process but also a portion of ASP's share of any future development cost. Approximately $500,000 will be available for campsite improvements and other amenities at Lake Havasu State Park.

AORCC gave a favorable review to this request.

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DATE: July 12, 2007

TO: Senator Bob Burns, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Leatta McLaughlin, Fiscal Analyst

SUBJECT: School Facilities Board – Review of FY 2008 New School Construction Report

Request

Pursuant to A.R.S. § 15-2002, the School Facilities Board (SFB) requests the Committee review its demographic assumptions, proposed construction schedule, and new school construction cost estimates for FY 2008. The board is annually required to submit this information by October 15, but the Committee deferred action on this item until the FY 2007 construction approval cycle was over, which has historically happened in May. In recognition of that, Laws 2007, Chapter 266 changed the deadline of the report from October 15 to June 15.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review.

2. An unfavorable review.

This item was presented at the November meeting, but action was deferred until the board had completed its project approval process for FY 2007. The approval process begins in November and was completed in June. The Committee requested that the board report after the FY 2007 construction approval cycle was completed on its proposed construction schedule and cost estimates by project.

The board estimates that it will oversee 85 new school construction projects in FY 2008 and will spend a total of $448.7 million. This amount includes funding for all the construction projects that have already been approved by the board in the FY 2007 approval cycle. Of the $448.7 million, $370 million is from the General Fund. In October, the board had originally estimated spending $401.8 million on new school construction. The estimate has increased due to the board approving more projects in FY 2007 than expected and also because of the 12.2% inflation adjustment adopted by the Joint Legislative Budget Committee (JLBC) in October.

(Continued)

In its original June 20th report, SFB reported a shortfall of about $(40) million in FY 2007 and FY 2008, or a total of about $(80) million across both years. SFB has since revised its expenditures, which shows a positive cash balance at the end of FY 2007. SFB now anticipates having a balance of $700,500 in FY 2007 and a $(73.0) million shortfall in FY 2008. To ensure a positive cash balance at the end of FY 2007, SFB shifted $38.0 million worth of FY 2007 expenditures into FY 2008. (Please see the attached balance sheet provided by SFB.) While SFB is projecting a FY 2008 shortfall, SFB includes the following caveat in their cover letter: "SFB staff would strongly caution the committee against relying too heavily on these projections. The SFB has limited control over when and how quickly districts choose to build awarded schools."

Analysis

Demographic Assumptions
The SFB bases its demographic assumptions on its analysis of the school district forecasts of Average Daily Membership (ADM) included in the Capital Plans submitted by districts to the board. To conduct the analysis, SFB uses state population data, grade progression estimates, historical ADM growth, and, if applicable, residential housing growth. Analysis of student enrollment growth is performed on a district-by-district basis.

Actual student growth in districts with growing enrollment was 7.6% in FY 2006. The board expects "growth districts" to increase by 6.3% in FY 2007 and 7.0% in FY 2008. In comparison, the overall K-12 growth rate, including flat and declining enrollment districts, was 2.8% in FY 2006 and is expected to be 3.25% in FY 2007 and 3.0% in FY 2008.

For FY 2008 Maricopa County "growth districts," SFB expects an increase of approximately 6.1% in the southeastern portion of the county, including the cities of Chandler and Gilbert. In the northern part of the county, including Deer Valley and Dysart, the board expects growth of about 6.7%. In the western and southern districts of Phoenix, including Tolleson, the board expects growth of 4.5%. In the districts outlying the western edge of the Phoenix metro area, including Agua Fria, Avondale, Buckeye, Litchfield, and Saddle Mountain, SFB expects growth of 11.8%.

In the other "growth districts" of the state, the board expects an increase of 20.0% in Pinal County, 2.8% in Yuma and La Paz Counties, 5.8% in Southern Arizona, and 1.4% in Northern Arizona for FY 2008.

Construction Schedule
The board estimates it will oversee 85 new school construction projects in FY 2008. Of the total, SFB estimates that 27 prior year projects will be completed in FY 2008, 3 prior year projects will be on-going (and finish construction in FY 2009), and 55 will begin construction in FY 2008.

In the year of its approval, SFB awards 5% of the total project cost to the district for architectural and engineering fees. Based on historical spending patterns, SFB estimates that it will, on average, award 26.6% of the project cost in the next year, followed by 37.8%, 20.5%, 5.3%, and 4.7% each of the following years.

Cost Estimates
The board estimates spending a total of $448.7 million in FY 2008, including:

- $35 million for land. The estimate is based on prior year expenditures.
- $12.7 million on land expenditures that were shifted from FY 2007.
- $375.6 million for construction projects. The estimate is based on prior year expenditures and includes:
    - $244.1 million for projects approved prior to FY 2007.

(Continued)

  - $109.1 million for projects approved in FY 2007. The board approved a total of $410.2 million of projects in FY 2007. Based on prior year trends, the board expects to spend 26.6% of the total amount, or $109.1 million, in FY 2008.
  - $22.4 million for architecture and engineering fees. Once the board approves a project, it immediately distributes 5% of the total cost of the project to the school district. Based on an estimate of $448.7 million of approvals in FY 2008, the board would distribute $22.4 million for these fees.
- $25.4 million for construction project expenditures that were shifted from FY 2007.

In October, the board had originally estimated spending $401.8 million on FY 2008 new school construction, which is $(46.9) million less than the updated estimate of $448.7 million. The estimate has increased due to the board approving more projects in FY 2007 than expected and also because of the 12.2% inflation adjustment adopted at the October JLBC meeting. In FY 2007, SFB expended $332.1 million on new construction, which is $(116.6) million less than the expected FY 2008 expenditure amount.

To finance the projected $448.7 million in expenditures, the board expects to use new cash funding. In prior years, the board was able to use lease-purchase proceeds from prior year lease-purchase agreements, which were all spent in FY 2007.

Given the uncertainty of the estimates surrounding new approvals and project expenditures, it is not clear at this time if a supplemental is needed. Of the FY 2008 total $448.7 million expenditure amount, the board expects to allocate funding from the following revenue sources:

- FY 2008 beginning cash balance of $700,500.
- $370 million in cash provided in FY 2008. This is based on the General Fund amount appropriated by the Legislature, and is a $120 million increase from what SFB received in FY 2007.
- $5 million in lease revenues from the State Land Department. The State Land Department leases land to school districts. Any monies the State Land Department receives from school district leases, however, are deposited in the New School Facilities Fund.

Table 1 lists the amounts of new construction approvals in FY 2002 through FY 2007 and an estimate for FY 2008. In FY 2007, about $(38) million less of new construction projects were approved that in FY 2006. In FY 2006, about $200 million more of new construction projects were approved than in FY 2005. A portion of the increase in FY 2006 approvals was due to a greater level of high school approvals in that year. Since high schools require more square feet under the new construction formula, they cost more to construct than an elementary or junior high school.

Table 1
New School Construction Approvals

FY	New School Approvals
FY 2002	$215,310,672
FY 2003	$220,399,967
FY 2004	$272,578,172
FY 2005	$243,713,838
FY 2006	$447,978,656
FY 2007	$410,186,003
FY 2008	$448,672,703

(Continued)

New School Construction Funding Guidelines

SFB provides new construction funding based on the product of the following statutory New School Facility (NSF) formula:

No. of pupils x Sq. foot per pupil x Cost per sq. foot = Allocation amount

The square foot per pupil is specified in statute, and varies depending on elementary, junior high, and high schools. The cost per square foot is also specified by school type and may be adjusted annually for inflation by JLBC.

SFB has the authority to provide additional funding above and beyond the statutory allocation amount to a district if it cannot build a school within the NSF formula amount. A district can prove they cannot build a minimum guidelines school by demonstrating they are building the least expensive school they possibly can but are still over the formula amount.

Since the enactment of Students FIRST, some of these projects have been funded above the formula with SFB monies. In FY 2006, SFB funded 38% of their projects over the formula amount for a total additional inflationary funding of $20.4 million. In FY 2007, SFB funded 83% of their projects over the funding amount for a total additional inflationary funding of $25.7million, which translates into about $1 million additional funding per project.

Minimum School Facility Guidelines

Minimum guidelines for school facilities were developed by SFB, adopted by the Committee, and became effective in 1999. Since their adoption, no significant changes related to new school construction standards had been made to the guidelines until the board approved SFB Staff's recommendations on how to apply 7 areas of the minimum guidelines for new construction projects in February 2007. Those 7 areas include: indoor flooring, gym flooring, millwork (cabinetry), exterior lighting, canopies, playground structures and canopies, and landscaping. These newly adopted guidelines raised the NSF formula by about $7 per square foot.

RS/LMc:ym

Attachment A

School Facilities Board New Construction Report Highlights

Demographic Projections

- For FY 2008, SFB projects enrollment growth of 7.0%.
- High growth areas include northwest Pinal County, districts outlying the western edge of Phoenix, and the cities of Dysart and Queen Creek.

Construction Schedule

- SFB estimates overseeing approximately 85 projects in FY 2008.
  - Includes 27 prior year projects that will be completed in FY 2008, 3 prior year projects that will be on-going (and finish construction in FY 2009), and 55 that will begin construction in FY 2008.
- SFB has approved another 7 projects that won't start construction until after FY 2008.

Cost Estimates

- Total FY 2008 projected spending equals $448.7 million.
- According to SFB, this leaves them with a $(73.0) million shortfall in FY 2008.

Expenditures		**Financing**	
Land	$ 47.7 M	Beginning Balance	$ 0.7 M
Construction Projects	401.0 M	Appropriation	370.0 M
		Lease Revenues (Land Dept.)	5.0 M
Total	**$448.7 M**	**Total**	**$375.7 M**
		FY 2008 SFB Estimated Shortfall	**$(73.0) M**

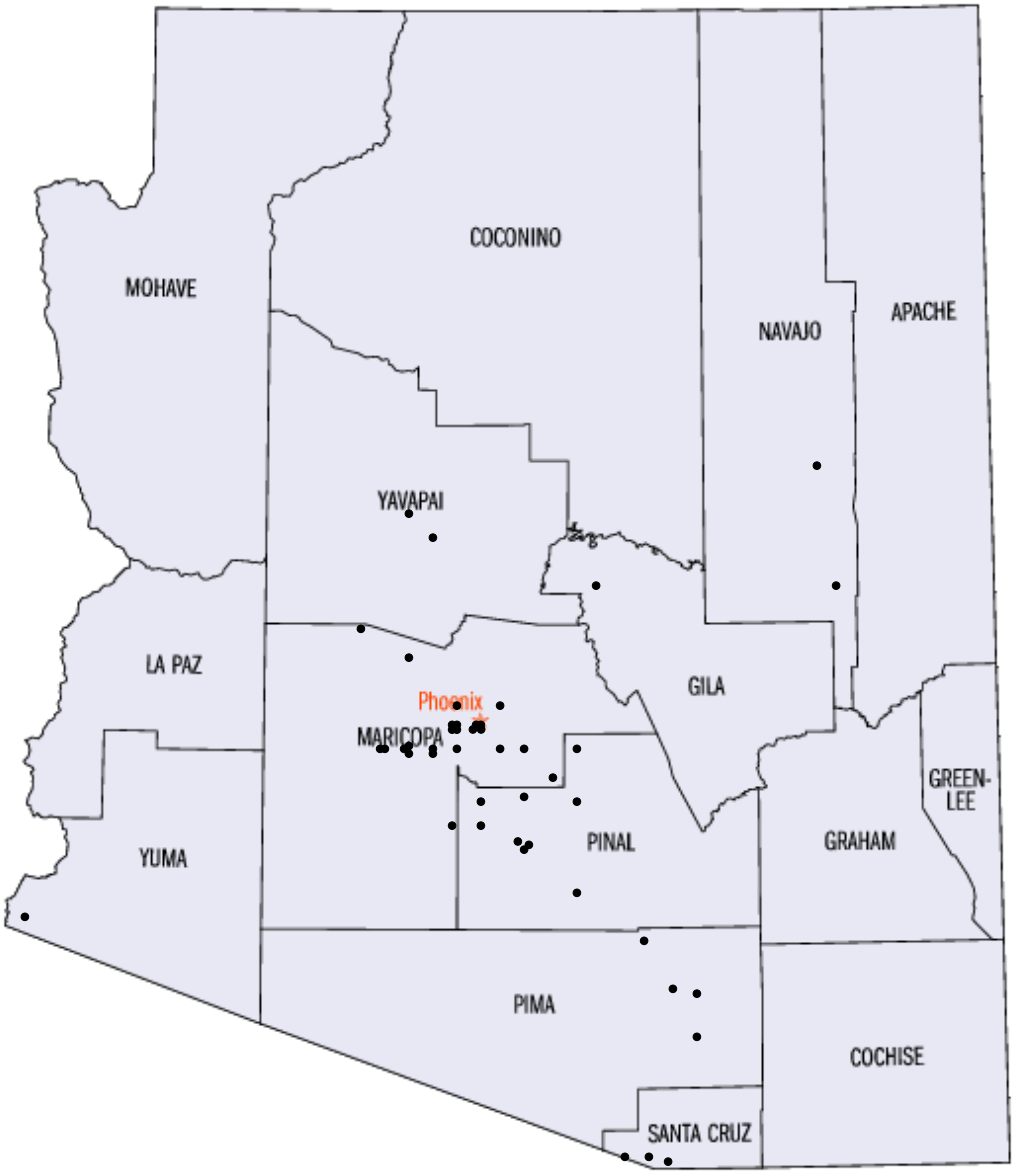
Current District Projects

District	# of Projects	District	# of Projects	District	# of Projects
Maricopa Unified	6	Littleton Elementary	2	Palo Verde Elementary	1
Chandler Unified	5	Sunnyside Unified	2	Payson Unified	1
Dysart Unified	5	Union Elementary	2	Prescott Unified	1
JO Combs Elementary	4	Agua Fria Union High	1	Queen Creek Unified	1
Marana Unified	4	Apache Junction Unified	1	Red Rock Elementary	1
Saddle Mountain Unified	4	Avondale Elementary	1	Riverside Elementary	1
Cartwright Elementary	3	Blue Ridge Unified	1	Sahuarita Unified	1
Florence Unified	3	Casa Grande Union	1	San Fernando Elementary	1
Fowler Elementary	3	Cave Creek Unified	1	Santa Cruz County Accommodation	1
Buckeye Elementary	2	Humboldt Unified	1	Santa Cruz Valley Unified	1
Buckeye Union High	2	Isaac Elementary	1	Stanfield Elementary	1
Casa Grande Elementary	2	Liberty Elementary	1	Tolleson Union High	1
Coolidge Unified	2	Maricopa County Regional	1	Vail Unified	1
Higley Unified	2	Mobile Elementary	1	Wickenburg Unified	1
Laveen Elementary	2	Nadaburg Elementary	1	Yuma Elementary	1
Litchfield Elementary	2	Navajo County Accommodation	1		
				TOTAL - 47 Districts	**85**

Attachment B

School Facilities Board FY 2008 New Construction Projects

(85 Projects for 47 School Districts)



Agua Fria Union High – 1
Apache Junction High – 1
Avondale Elem. – 1
Blue Ridge Unified -1
Buckeye Elem. – 2
Buckeye Union High -2
Cartwright Elem.– 3
Casa Grande Elem. – 2
Casa Grande Union – 1
Cave Creek Unified -1
Chandler Unified – 5
Coolidge Unified – 2
Dysart Unified – 5
Florence Unified – 3
Fowler Elem. – 3
Higley Unified – 2
Humboldt Unified – 1
Isaac Elem. – 1
JO Combs Elem. – 4
Laveen Elem. – 2
Liberty Elem. – 1
Litchfield Elem. – 2
Littleton Elem. – 2
Marana Unified – 4
Maricopa Co. Reg. – 1
Maricopa Unified – 6
Mobile Elem.- 1
Nadaburg Elem. – 1
Navajo Co. Accom. – 1
Palo Verde Elem. – 1
Payson Unified – 1
Prescott Unified – 1
Queen Creek Unified – 1
Red Rock Elem. – 1
Riverside Elem. – 1
Saddle Mtn. Unified – 4
Sahuarita Unified – 1
San Fernando Elem.- 1
Santa Cruz Co. Accom. - 1
Santa Cruz Valley Unified – 1
Stanfield Elem. – 1
Sunnyside Unified - 2
Tolleson Union High - 1
Union Elem. - 2
Vail Unified - 1
Wickenburg Unified - 1
Yuma Elementary - 1

STATE OF ARIZONA
SCHOOL FACILITIES BOARD

RECEIVED
JUL 12 2007
JOINT BUDGET COMMITTEE

Governor of Arizona
Janet Napolitano

Executive Director
John Arnold

July 12, 2007

The Honorable Robert Burns
Chairman Joint Committee on Capital Review
1716 West Adams
Phoenix, Arizona 85007

Dear Chairman Burns,

A.R.S. 15-2002 A 13 requires the School Facilities Board (SFB) to submit demographic assumptions, a proposed construction schedule and cost estimates for the upcoming fiscal year. To include all available information, your committee asked that we update the original report at the conclusion of the new construction award cycle. The SFB concluded the FY 2007 cycle on June 7, 2007.

This year, the SFB awarded 32 projects valued at $410.2 million. The Board also cancelled or revised three projects valued at $17.7 million, for a total net award of $392.5 million.

In addition, at the request of JLBC Staff we have updated our FY 2007 projection to reflect actual expenditures. In FY 2007, we spent $332.1 million but had to defer FY 2007 expenditures into FY 2008 to cover our projected shortfall. Approximately half of the shortfall was due to overstatements of revenues and beginning balance. The other half can be attributed to project cost increases driven by inflation.

For FY 2008 SFB staff is projecting total expenditures of $448.7 million including the deferred FY 2007 expenditures, which creates a sizable projected shortfall in the FY 2008 anticipated SFB budget. However, SFB staff would strongly caution the committee against relying too heavily on these projections. The SFB has limited control over when and how quickly districts choose to build awarded schools. The FY 2008 projections are not based on any set of specific projects; instead, the SFB staff reviews district historical expenditure patterns in an effort to project future cash needs. Constant changes in the construction and housing markets as well as changes in migration patterns suggest expenditure patterns could also change. SFB staff will provide monthly updates to both JLBC and OSPB on specific project development in order to have a more detailed expenditure projection by January 2008.

Sincerely,

John Arnold

x.c. Richard Stavneak
James Apperson
Lauren Kielsmeier
Stacey Morley

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NEW SCHOOL FACILITIES FUND -- FUND 2460
Sources and Uses Statement

	FY 2006	FY 2007	FY 2008
Beginning Balance	$34,047,483	$31,232,337	$700,517
Revenues			
Transfers In			
- From School Facilities Revenue Bond Debt Fund		$9,801,518	
- From Deficiency Corrections Fund	$15,000,000	$25,893,153	
Appropriation	$250,000,000	$250,000,000	$370,000,000
Lease Revenues (LD Department)	$8,946,089	$3,094,125	$5,000,000
Other Revenues	$108,760	$0	$0
Lease To Own Transfers			
LTO FY 2003	$6,641	$0	$0
LTO FY 2004	$5,860,885	$0	$0
LTO FY 2005	$56,000,000	$12,799,956	$0
Total Lease-to-Own Transfers	$61,867,526	$12,799,956	$0
Total Revenues	$335,922,375	$301,588,752	$375,000,000
Total Available	$369,969,858	$332,821,089	$375,700,517
Expenditures			
Projects			
- Projects	$276,186,356	$308,939,018	$375,645,822
- June 07 payments deferred to July 07			$25,387,839
Land			
- Land Projects	$38,713,960	$17,477,975	$35,000,000
- Land - June 07 payments deferred to July 07			$12,645,000
Full Day Kindergarten	$4,027,966	$569,289	$0
Transfer To Emergency Deficiency Fund	$10,000,000	$0	$0
Board Expenditures	$2,700	$5,700	$5,500
Operations	$5,021	$0	$0
Transfers Out			
To School Facilities Revenue Bond Debt Fund	$9,801,518		
Administrative Adjustments		$5,128,590	
Total Expenditures	$338,737,521	$332,120,572	$448,684,161
Balance	$31,232,337	$700,517	($72,983,645)

	Total Approvals	FY 2008
FY 1999	$139,987,599	
FY 2000	$596,707,482	
FY 2001	$238,767,694	
FY 2002	$215,310,672	
FY 2003	$220,399,967	$10,358,798
FY 2004	$272,578,172	$14,446,643
FY 2005	$243,713,838	$49,961,337
FY 2006	$447,978,656	$169,335,932
FY 2007	$410,186,003	$109,109,477
FY 2008	$448,672,703	$22,433,635
		$375,645,822

Year	Percent of Total Award Expended
0	5.0%
1	26.6%
2	37.8%
3	20.5%
4	5.3%
5	4.7%
	100.0%