

STATE OF ARIZONA

Joint Committee on Capital Review

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JOINT COMMITTEE ON CAPITAL REVIEW

August 22, 2002

1:30 p.m.

House Hearing Room 4

AGENDA

- Call to Order
 - Approval of Minutes of July 17, 2002.
 - DIRECTOR'S REPORT (if necessary).
1. DEPARTMENT OF ECONOMIC SECURITY – Review of Scope, Purpose, and Estimated Cost of Data Center Upgrades.
 2. ARIZONA BOARD OF REGENTS/NORTHERN ARIZONA UNIVERSITY – Consider Approval of Revised Scope, Purpose, and Estimated Cost of Bond Projects.
 3. MARICOPA COMMUNITY COLLEGE DISTRICT – Review of Bond Projects.
 4. SCHOOL FACILITIES BOARD – Presentation on New Qwest Contract and Status of Lease-to-Own-New School Construction Financing.

The Chairman reserves the right to set the order of the agenda.

08/16/02

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DATE: August 15, 2002

TO: Representative Laura Knaperek, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - REVIEW OF SCOPE, PURPOSE,
AND ESTIMATED COST OF DATA CENTER UPGRADES

Request

Pursuant to A.R.S. § 41-1252(C), the Department of Economic Security (DES) requests that the Committee review its plan to spend \$1,400,000 appropriated from the General Fund to DES in FY 2000 for upgrades to its data center.

Recommendation

The JLBC Staff recommends a favorable review of the request. Of the \$1,400,000 appropriated, DES anticipates a total project cost of \$960,700. We recommend that unspent monies revert to the General Fund when the project is completed.

Analysis

The FY 2000 - FY 2001 Capital Outlay bill (Laws 1999, Chapter 2, 1st Special Session) included a FY 2000 appropriation of \$1,400,000 from the General Fund to DES for data center upgrades. A.R.S. § 41-1252(C) requires that the Committee review the scope, purpose, and estimated cost of this project.

The primary purpose of the appropriation was to allow DES to replace the Uninterrupted Power Supply (UPS) system at its data center, along with required facility modifications. The UPS system provides continuous clean power that levels out power fluctuations experienced with the raw power directly provided by the utility company. The system also helps provide power in case of utility power outages.

The current UPS system has not been updated since it was installed in 1986. DES reports that according to industry standards, UPS systems should have life expectancies of 10 to 15 years. DES' UPS system has now exceeded those life expectancies. The department also reports that the manufacturer has stopped producing the UPS system and its parts, requiring DES to custom-build replacement parts.

(Continued)

Under DES' proposed plan, the department would spend \$960,674 of the \$1,400,000 appropriation, divided into the following categories:

<u>Item</u>	<u>Cost</u>
Engineering Services	\$100,320
UPS & Battery System	\$489,261
Facility Modifications	\$283,759
Contingencies	<u>\$ 87,334</u>
Total Project Cost	\$960,674

DES reports that the project costs are lower than the appropriated amount because it is replacing the existing 600 KVA UPS system with a new 600 KVA system instead of the 1,000 KVA system assumed in its original budget request. This decision is based upon an engineering analysis indicating that a 600 KVA system would be adequate for current and future usage, based on current computer technology, future equipment types and usage, and future data center growth.

The facility modifications include replacing 6 computer room air conditioning (CRAC) units, moving 3 CRAC units, and installing a water leak detection system.

Any remaining monies when the project is completed will be available for reversion. DES estimates the project will be completed by July 1, 2003.

The JLBC Staff recommends that the Committee give the DES plan a favorable review. We recommend that unspent monies revert to the General Fund when the project is completed.

RS/SSH:jb

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DATE: August 16, 2002

TO: Representative Laura Knaperek, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Jill Young, Fiscal Analyst

SUBJECT: ARIZONA BOARD OF REGENTS/NORTHERN ARIZONA UNIVERSITY –
CONSIDER APPROVAL OF REVISED SCOPE, PURPOSE, AND ESTIMATED
COST OF BOND PROJECTS

Request

Pursuant to Laws 1996, Chapter 334 and Laws 2001, Chapter 233, the Arizona Board of Regents (ABOR) requests Committee approval to issue bonds for 4 projects.

These projects were presented to the Committee at its October 4, 2001 meeting. At that time the Committee approved the issuance of revenue bonds for these projects and 16 additional projects. It is now Northern Arizona University's (NAU) intent to sell \$31,400,000 for these 4 projects with revisions in scope and budget. NAU will bring a revised plan to JCCR within the next 6 months for the expenditure of the \$31,600,000 balance of revenue bonds authorized.

Recommendation

The JLBC Staff recommends that the Committee approve the issuance of \$31,400,000 in revenue bonds for the Communications Building Renovation, Modular Swing Space, Gateway Student Success Center, and Campus Infrastructure Upgrades.

Analysis

Multi-Year Bonding Plan

Laws 1996, Chapter 334 authorized ABOR to issue up to \$245,400,000 in revenue bonds for the universities under its jurisdiction. Of the total amount, NAU was allocated \$54,800,000. The Committee gave a favorable review to the initial plan in May 1997. There have been revisions to each university plan since the initial review. The last bonding plan for NAU was favorably reviewed by the Committee in October 2001. In addition to the bonding authority from Chapter 334, Laws 2001, Chapter 233, authorized additional bonding authority of \$39,100,000 for NAU. This additional amount gives NAU total bonding authority of \$93,900,000. Chapter 334 and Chapter 233 require the Committee to review the multi-year bonding plan and approve any project in the plan prior to the issuance of bonds. *Table 1* shows the distribution of bonding authority from Chapter 334 and Chapter 233 for each university.

(Continued)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>Undetermined</u>	<u>Totals</u>
NAU (Current)	\$30,900	\$ --	\$ --	\$ --	\$ --	\$ 62,918	\$ --	\$ 82	\$93,900
NAU (Requested)	\$30,900	\$ --	\$ --	\$ --	\$ --	\$ --	\$31,400	\$31,600	\$93,900
ASU	--	--	--	15,000	--	85,000	--	--	100,000
UofA	--	--	--	23,683	30,000	36,900	--	--	90,583
TOTAL	\$30,900	\$ --	\$ --	\$38,683	\$30,000	\$121,900	\$31,400	\$31,600	\$284,483

Table 2 shows the current and revised bond allocations for each NAU project.

<u>Original Projects</u>	<u>Original Allocation</u>	<u>Revised Allocation</u>
<i>1997 Bond Issuance</i>		
Building Systems Repair/Replacement	\$ 1,441	\$ 1,441
Biology/Biochemistry Building	13,959	13,959
Centennial Building	2,500	2,500
Utility Infrastructure Renovation	3,000	3,000
Eastburn Building Renovation	4,000	4,000
Performing Arts Renovation	5,500	5,500
Television Studio Renovation	500	500
Subtotal - 1997 Issuance	\$30,900	\$30,900
Communication Building Renovation	\$ 10,000	\$13,250
Modular Swing Space	1,600	2,640
Campus Infrastructure Upgrades	11,250	12,250
Gateway Student Success Center	--	3,260
Central Dining Renovation	250	--
University Union Projects	1,701	--
Forestry Building Lower Level Build Out	997	On Hold
Creative Communication Relocation	1,200	On Hold
Storage Pads	200	On Hold
Gammage Building Renovation	7,000	On Hold
Hotel & Restaurant Mgt. Renovation	500	On Hold
Health Professions Addition/Renovation	2,000	On Hold
North Union Renovation	3,500	On Hold
Adel Math Building Renovation	1,120	On Hold
Engineering Building Renovation	3,500	On Hold
Social & Behavioral Sciences and		
Anthropology Buildings Renovation	2,000	On Hold
Site Preparation for Applied Research Building	2,000	On Hold
Arts & Sciences Complex Renovation	8,000	On Hold
College of Business Renovation	5,000	On Hold
Bond Issuance Costs	1,100	On Hold
Unallocated	82	31,600
Subtotal – Post 1997 Issuance	\$63,000	\$63,000
TOTAL	\$93,900	\$93,900

NAU was appropriated \$4 million from the General Fund in FY 2003 to offset the loss of tuition collections that will be used to pay the debt service on these bonds. The repayment period for the bonds will be 30 years. Table 3 shows the NAU estimates for the revenue bond issuance and estimated annual debt service based on a 4.88% interest rate for each project.

(Continued)

<u>Project</u>	<u>Amount Financed</u>	<u>Annual Debt Service</u>
Communication Renovation (School of Communication)	\$13,250,000	\$1,717,000
Modular Swing Space	2,640,000	342,000
Gateway Student Success Center	3,260,000	422,000
Campus Infrastructure Upgrades	<u>12,250,000</u>	<u>1,587,000</u>
TOTAL	\$31,400,000	\$4,068,000

Bonding Projects

The following provides a description of each of the 4 projects.

Communication Building Renovation – The building was constructed in 1960 and requires major repair and upgrade of its electrical and mechanical system components and reconfiguration of space to accommodate changing program needs. Achieving compliance with building codes, correcting poor indoor air quality and ADA regulations will comprise a significant portion of the project. Relative to the original estimate, the cost for this project has increased by \$3 million, resulting from an assessment which confirms the failing electrical and mechanical components, and further identifies additional code deficiencies in accessibility, fire life safety and plumbing. The project will be completed in May 2004.

Modular Swing Space – This project involves the construction of infrastructure and concrete pads upon which modular facilities can be installed as needed by user groups relocated during interior building renovations planned across campus. The 12-acre site will consist of 60' X 68' concrete pads to accommodate modular units. At the completion of this project, there will be approximately 23 pads with utility extensions for hook-ups to prefabricated modular buildings. The site will provide for a u-shaped 30-foot wide service/delivery road for all vehicular traffic. The project will include a drainage, storm sewer and catch basin system. The project costs have increased by \$1 million, based on updated estimates. The project should be completed in May 2003.

Gateway Student Success Center (formerly University Union Projects and Central Dining) – Project scope was originally defined as interior renovations in the University Union (\$1,701,000) with supplementary services and renovation in Central Dining (\$250,000). A recent recruitment and retention assessment has changed the project scope from the previous site options to a single centralized location, Central Dining, to enhance delivery of services directly related to student retention and success. This project will relocate Student Advisement, Career Services, and representatives of ancillary student services into a consolidated unit of integrated services. The scope of work is the adaptive reuse of dining space into a student resource center including computer areas, training facility, advising classrooms, as well as private space for student advising. Renovation will also include code upgrades, ADA modifications, and asbestos abatement. Project completion is anticipated in July 2003 and will cost \$3,260,000.

Campus Infrastructure Upgrades – The \$12,250,000 upgrade to campus infrastructure is intended to allow for increased efficiency and reliability of utility distribution systems (Electrical Distribution, High Temperature Hot Water Distribution, and Domestic Water Distribution) serving the south campus facilities. Combining these utilities into one project allows for efficient use of campus trenching activities. Construction will occur over a 3-year period with an expected completion in 2005. The cost is \$1,000,000 greater than in October.

After the issuance of bonds for these projects, NAU will have \$31,600,000 of remaining bonding authority. NAU plans to submit a bonding plan for the remaining authority within the next 6 months. The other projects approved in October are on hold until the new plan is developed.

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DATE: August 16, 2002

TO: Representative Laura Knaperek, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Jill Young, Fiscal Analyst

SUBJECT: MARICOPA COMMUNITY COLLEGE DISTRICT – REVIEW OF BOND PROJECTS

Request

Pursuant to Laws 2002, Chapter 330, Maricopa County Community College District (District) requests Committee review of two district projects to be financed by revenue bonds.

Recommendation

The JLBC Staff recommends a favorable review of the request.

The 2 projects represent revenue bond issuances totaling \$14,820,000 to be issued on October 1, 2002. Of the \$14,820,000 million, \$6,650,000 will fund a Performing Arts Center at South Mountain Community College and \$8,100,700 will fund a new Student Information System. The repayment for the Performing Arts Center over a 20-year period at an estimated interest rate of 4.6% will equate to approximately \$4,706,500 in interest payments. The repayment for the Student Information System over an 8-year period at an estimated interest rate of 4.6% will equate to approximately \$1,268,600 in interest payments. Total payment for the 2 projects will be approximately \$20,795,100 funded by tuition and fees.

Analysis

Prior to Laws 2002, Chapter 330, 2nd Regular Session, community college district bond issuances required oversight by the State Board of Directors for Community Colleges. Chapter 330 amended A.R.S. § 15-1483 and transferred review of community college bond projects to JCCR.

The Governing Board of the Maricopa County Community College District has provided approval for the issuance of revenue bonds to finance the Performing Arts Center at South Mountain Community College and the Student Information System. Both projects will be repaid by student tuition and fees. The Governing Board previously has adopted District tuition and fee schedules and budgets to support the development of these two projects. The following table shows the estimated annual debt service for each project from FY 2003 through FY 2007.

(Continued)

Revenue Bond Debt Service Schedule					
FY 2003 – FY 2007					
(\$ in Thousands)					
	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Performing Arts Center at South Mountain Community College	\$ 266	\$ 305	\$ 305	\$ 305	\$ 305
Student Information System	<u>1,128</u>	<u>593</u>	<u>221</u>	<u>2,221</u>	<u>1,651</u>
TOTAL	\$1,394	\$898	\$526	\$2,526	\$1,956

Performing Arts Center (PAC) at South Mountain Community College

The South Mountain Community College PAC is part of a larger proposal to develop these centers at five of the District's colleges that lack such buildings. These centers will allow the colleges to offer a more comprehensive instructional program with the appropriate facilities and increase services to the community. Currently, South Mountain does not have any space that will accommodate more than 150 people. The District will construct a 32,640 square foot auditorium that will seat 350. The new center will be used by faculty and students to expand the current music program and add a new theater program. The PAC will provide a venue for community meetings in addition to cultural events and activities for the residents of South Phoenix, Ahwahtukee, Tempe, and Laveen.

Revenue bonds totaling \$6.5 million for the PAC will fund the design, construction, furnishings, and equipment of the facility. The new center is expected to be completed in July 2003. Annual operating costs are estimated to be \$241,000 and will be funded with existing revenue sources.

Student Information System (SIS)

The District will replace the 20-year-old system which lacks vendor support and cannot keep pace with demands for tracking and reporting requirements as well as service to students. The SIS is used to admit and register students, record grades and provide transcripts, record financial aid, record student bills and payments, develop course schedules, and track faculty teaching assignments.

Revenue bonds totaling \$8 million for the SIS will be used for consulting services, equipment and software purchases and training. The new SIS is expected to be phased in during the 2005-2006 academic year. Annual operating costs are estimated to be \$2.7 million and will be funded with existing revenue sources.

RS/JY:jb

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MARION L. PICKENS

DATE: August 15, 2002

TO: Representative Laura Knaperek, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Jake Corey, Fiscal Analyst

SUBJECT: SCHOOL FACILITIES BOARD – PRESENTATION ON THE NEW QWEST
CONTRACT AND THE STATUS OF LEASE-TO-OWN NEW SCHOOL
CONSTRUCTION FINANCING

Request

At the request of the Chairman of the Committee, the School Facilities Board (SFB) will give a presentation on 1) the revised networking and internet connectivity contract with Qwest, and 2) the board's current status and future plans for implementing lease-to-own financing for new school construction.

Recommendation

This item is for informational purposes only and does not require Committee action.

Analysis

Qwest Contract

On February 1, 2001, the board approved a purchase order for Qwest to provide all Arizona schools with internet connectivity and networking capabilities within and across school districts. Although the purchase order was capped at \$100 million, it was structured on a pay-as-you-go basis. Qwest, therefore, was not bound by the purchase order to complete the project in all Arizona schools. On May 17, 2002, Qwest notified SFB that the project would be halted as the work that had been completed to date had already exceeded the \$100 million amount specified in the purchase order. At the August 1, 2002 board meeting, the board approved a new funding level of \$140.8 million for the Qwest contract. Qwest would be required to complete the project in all Arizona schools. In contrast to the previous purchase order, Qwest will not be required to monitor schools for 3 years, the warranty does not include a maintenance provision, and non-educational space will not be wired. With the new contract, the board has approved Deficiencies Correction Fund project expenditures of about \$165 million above and beyond the amount of funding that has been provided for the program to date.

(Continued)

Lease-to-Own Financing of New School Construction

Laws 2002, Chapter 330 gives SFB authority to enter into lease-to-own transactions. The board may enter into lease-to-own transactions in an amount not to exceed \$200 million in any one year. In FY 2003, however, Chapter 330 gives SFB the authority to enter into lease-to-own transactions for a maximum amount of \$400 million. The board will update the Committee on their plans for implementing these agreements.

RS/JC:jb