STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

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HOUSE OF
REPRESENTATIVES

RUSSELL K. PEARCE
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JOHN LOREDO

JOINT COMMITTEE ON CAPITAL REVIEW
Tuesday, June 22, 2004
9:30 a.m.
House Hearing Room 4

MEETING NOTICE

- Call to Order

- Approval of Minutes of March 26, 2004.

- DIRECTOR'S REPORT (if necessary).

1. ARIZONA DEPARTMENT OF TRANSPORTATION – Review of FY 2005 Construction Budget Operating Expenditure Plan.

2. GAME AND FISH DEPARTMENT – Review of Canyon Creek Hatchery Project.

3. NORTHERN ARIZONA UNIVERSITY – Review of Infrastructure Research Lease-Purchase Projects.

4. UNIVERSITY OF ARIZONA –
   A. Review of Revised Cost of Chemistry Building Expansion Lease-Purchase Project.
   B. Reports on Capital Projects Contingency Allocations.

5. ARIZONA STATE UNIVERSITY – Review of Academic Renovations and Deferred Maintenance-Phase 1 Bond Project and Report on Instruction and Research Lab Renovation Lease-Purchase Projects.

6. SCHOOL FACILITIES BOARD –
   A. Consider Approval of Converting Deficiencies Correction Bonds from Variable to Fixed Interest Rates.
   B. Review of FY 2005 New School Construction Lease-Purchase Projects.

7. ARIZONA STATE PARKS – Consider Approval of Yuma Crossing Transfer.

(Continued)

8. MARICOPA COMMUNITY COLLEGE – Consider Review of $900 Million Bond Proposal.

9. DEPARTMENT OF ADMINISTRATION/DEPARTMENT OF CORRECTIONS – Reports on Prison Construction Schedule and Status of Private Prison Bed Contracts.

10. JLBC STAFF – Report on Telecommunications Privatization.

The Chairman reserves the right to set the order of the agenda.
6/15/04

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MINUTES OF THE MEETING
JOINT COMMITTEE ON CAPITAL REVIEW

Friday, March 26, 2004

The Chairman called the meeting to order at 9:40 a.m. Friday, March 26, 2004 in House Hearing Room 4 and attendance was as follows:

Members:	Representative Pearce, Chairman	Senator Burns, Vice Chairman
	Representative Biggs	Senator Bee
	Representative Lopez	Senator Brown
	Representative Lopes	Senator Waring
Absent:	Representative Farnsworth	Senator Soltero
	Representative Boone	Senator Cannell
	Representative Loredo	Senator Mead
Staff:	Richard Stavneak	Jan Belisle, Secretary
	Lorenzo Martinez	Jake Corey
	Tony Vidale	Steve Schimpp
	Shelli Carol	
Others:	Mark Swenson	Senate
	Carolyn Atwater	Senate
	Nikki Amberg	Senate
	Betsey Bayless	ADOA
	Clark Partridge	ADOA
	Bruce Ringwald	ADOA
	Alan Ecker	ADOA
	Mike Smarik	DOC
	Helen Gouvert,	DOC
	Dora Schriro	DOC
	Chris Cummiskey	GITA
	Chris Muir	GITA
	Steve Miller	ASU
	Mernoy Harrison	ASU
	Scott Cole	ASU
	Scott Smith	ASU
	Bill Greeney	OSPB
	Theresa Garcia	OSPB
	Greg Fahey	UofA
	Dick Roberts	UofA
	Charlene Ledet	UofA
	John Arnold	SFB

	William Bell	SFB
Others:	Candice Cooley	SFB
(Cont'd)	Jack Stackhouse	Burton Group
	Manny Lerma	Qwest
	Frank Saraceno	MCI
	John Kaites	Cox Telecom

Representative Pearce moved the Committee approve the minutes of December 18, 2003 with the corrections made on page 2. The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION/DEPARTMENT OF CORRECTIONS –

Consider Approval of Lease-Purchase Prison Expansion Projects.

Tony Vidale, JLBC Staff, presented the Department of Corrections request that the Committee consider approval of the 1,000-bed prison expansion projects and the issuance of $33.3 million in Certificates of Participation (COPs) to finance the projects. The plan would add 200 beds at the ASPC-Douglas, 500 Beds at ASPC-Perryville, and 300 beds at ASPC-Tucson. Total project costs are estimated to be $31,867,800 or $31,868 per bed.

The COP issuance will generate a total of $33,736,300 when reoffering premiums and interest earnings are included.

Dora Schriro, Director, Department of Corrections updated the Committee on the status of private bed contracts and in response to Chairman Pearce, Dora Schriro stated that Level 3 beds take longer to construct and the department is on schedule with their proposed timeline.

Senator Burns moved the Committee approve the 1,000-bed prison expansion projects and the COP issuance in the amount of $33,275,000 with the following stipulation:

- *Arizona Department of Administration and the Arizona Department of Corrections report to the Committee by June 1, 2004 on the construction schedule to determine if the proposed completion date of November 2004 is achievable. The report should also contain a timeline for the finalization of contracts to add 1,000 new private prison beds and projected opening dates and the issuance of $33.3. million in Certificates of Participation (COPs) to finance the projects.* The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION – Consider Approval of Refinancing of 1993B Certificates of Participation.

Jake Corey, JLBC Staff, presented the Arizona Department of Administration (ADOA) request that the Committee approve the refinancing of Certificates of Participation (COPs) that were issued in 1993. JLBC Staff recommends a favorable review and approval of the refinancing with the stipulation that ADOA report back to the Committee on the interest rate, debt service schedule, costs and estimated savings of the refinanced COPs after the issuance. The refinancing will involve the refunding of $19,896,800 in outstanding COPs. One-time savings are estimated to be $991,400, almost all of which will be realized in FY 2005. The FY 2005 $2.7 million debt service payment will be reduced to $1.8 million. Similar to the existing financing agreement, the debt service payment under the refinancing would return to $2.7 million in FY 2006 and would continue at approximately that level until FY 2011, when the final payment would be $4.0 million.

There was no discussion on this item.

Senator Burns moved the Committee give a favorable review and approve the refinancing of the 1993B Certificates of Participation (COPs) issuance with the stipulation that Arizona Department of Administration report back to the Committee on the interest rate, debt service schedule, costs and estimated savings of the refinanced COPs after the issuance. The motion carried.

(Continued)

GOVERNMENT INFORMATION TECHNOLOGY AGENCY – Review of Request for Proposals for Telecommunications Privatization.

Shelli Carol, JLBC Staff presented the Government Information Technology Agency (GITA) request that the Committee review the Request for Proposals (RFP) for Telecommunications Privatization. Laws 2003, Chapter 263, Section 101 requires that GITA, in consultation with the Arizona Department of Administration (ADOA), prepare and submit to the Joint Committee on Capital Review (JCCR) an actionable RFP to privatize the state's telecommunication services. GITA, with conditional approval from the Information Technology Authorization Committee (ITAC), issued its final draft of the RFP on October 30, 2003. ADOA must release the RFP within ten business days after JCCR review. One-hundred twenty days after the RFP release, ADOA will select the winning bid, with ITAC and this Committee's review, and oversee the implementation of the telecommunications privatization initiative.

The proposed RFP outlines a three-year contract, with possible extensions for up to two additional years. The first step in implementing the proposed RFP would be privatization. A facilities management or telecommunications services management contractor, overseen by ATS, would immediately replace ATS in administering the state's telecommunications system. The state would continue to own its core telecommunications infrastructure and utilize existing contracts through their expiration. The proposed RFP prohibits the chosen management contractor from bidding on carrier service contracts, but allows it to bid on specific agency contracts.

The second phase of the state's telecommunications initiative would be consolidation, with all agencies moving to one centralized voice network and one centralized data network, including the elimination of redundant telecommunications administration and management and improvements to inter-agency communication. Service rates would decline with increasing agency participation. The management contractor would share savings from its improvements to infrastructure, technology configuration, and procurement.

The third stage of the state's telecommunications initiative would be convergence, which involves the transmission of voice, video, and data through a single line. All bidders would be required to include a high-level plan for convergence in their RFP response. The chosen management contractor would have 180 days from the award of the contract to submit a detailed convergence plan, including cost estimates and alternative financing suggestions. Agencies would still be responsible for purchasing their own equipment. Since convergence technology is relatively new and rapidly evolving, its compatibility and prices should be more favorable as this stage begins.

The proposed RFP sets out a clear implementation only for the privatization phase of the telecommunications initiative. Neither consolidation nor convergence has a mandatory schedule and both would require state agency cooperation. Furthermore, a plan for convergence would be created only after a management contractor is selected.

The total cost of the proposed contract would be the rate offered by the chosen management contractor, multiplied by the length of the contract and the number of lines provided. The savings that the telecommunications initiative might generate for the state cannot be determined at this point. Management contractor rates lower than current ATS rates would generate short-term savings, but funding ATS oversight through a still-to-be-identified mechanism would lessen those discounts. Additionally, the lack of detail in the RFP on consolidation and convergence may prevent bidders from developing firm long-term cost estimates for this Committee's review of the final contract. The limited scope of this RFP does not address the total cost of the state's entire telecommunications initiative, which would include many complementary hardware, software, and network upgrades by individual agencies through their own RFPs.

GITA and ADOA do not agree on all aspects of the RFP.

GITA feels that the size and complexity of state government and the rapidly changing nature of the telecommunications industry and related technology make it unfeasible to identify all costs for all agencies in all three stages prior to releasing an RFP. Since the management contractor would provide only centralized services and would have information on the exact nature of those services in advance, GITA anticipates that the RFP will limit change orders. GITA believes it can control costs through its PIJ review process, in which it evaluates all automation projects with costs above $25,000.

(Continued)

ADOA believes that the RFP should identify the grand total, long-term costs for all Executive Branch agencies and all three phases of the telecommunications initiative. ADOA is concerned that, if bidders do not study all agencies in advance, the chosen management contractor would have the ability to submit change orders whenever an agency joined the system.

Under the proposed RFP, the state would continue to own all core telecommunications infrastructure. The management contractor is encouraged to propose alternative funding arrangements, such as leasing, for agency-specific capital equipment, but such projects would be handled individually. ADOA desires that all non-core telecommunications equipment for state agencies be privatized, with associated costs built into the management contractor's service rates. Meanwhile, GITA believes that a large-scale privatization would limit agency flexibility and competition and increase costs. Additionally, any uniform rate structure would force more technologically advanced agencies to subsidize less advanced ones.

The Committee has the following options:

1) A favorable review of the GITA RFP with no conditions.
2) A favorable review with the following stipulations:
   a) Delay the effective date of the favorable review until April 9. ADOA has ten business days from the date of the Committee's review to issue the RFP. By delaying the effective date of the review, ADOA will have until April 23rd to publish the RFP. This will give ADOA time to modify the RFP based on Committee input and for ITAC to approve the modified RFP.
   b) Require ADOA to submit information on funding for the non-privatized portion of the Arizona Telecommunications System (ATS) as part of its cost analysis report, which is due to JCCR before finalizing the telecommunications contract.
3) An unfavorable review. However, given that Laws 2003, Chapter 263 provides JCCR authority for only review, ADOA can still release the RFP.

In response to Senator Burns, Ms. Carol stated that it is not clear at this time whether the savings could cover the oversight amounts. This will not be known until the bids come in.

Senator Burns asked if there had been consideration to the leasing of the equipment. Ms. Carol stated that this RFP considered only the core infrastructure of the state and that will continue to be owned by the state. Individual agencies will be expected to make upgrades to their own hardware/software through separate RFP's.

In response to Senator Burns, Ms. Carol stated oversight is currently provided by ADOA. If the change order exceeds $25,000, it would then be reviewed by GITA.

Representative Lopes expressed concern of not being able to determine savings. Representative Lopes suggested that ADOA report to JCCR 10 days before entering the contract, with short and long term costs. This would give the Committee an opportunity to ask questions and or hear about cost savings. Ms. Carol stated that at the review with ADOA on the contract, you would then be provided with long and short term numbers. If compatibility does not improve, then each agency will have to choose a single vendor for all their hardware, but all agencies will not have to choose the same vendor. Each agency will have its own RFP process for its own hardware.

In response to Representative Lopez, Ms. Carol gave a quick overview of the Telecommunications RFP Review possible stipulations.

In response to Representative Lopez, Ms. Carol stated that the advantage of allowing for a 5-year contract is to encourage more bids.

Representative Lopes asked what would happen to the 60 FTEs at ATS. Ms. Carol stated that the RFP states that the management contractor would consider hiring the employees.

Chairman Pearce commented on the excellent presentation by Ms. Carol and mentioned that this is a great opportunity for the State of Arizona.

(Continued)

Betsey Bayless, Director, Arizona Department of Administration stated that they have had opportunity to look at the stipulations and commended GITA for the work that they have done in a short period of time. They will be looking at a total statewide telecommunications system eventually. As the volume increases, they would like to know how the price would increase. Eventually, the option of leasing is where they would need to go. The ADOA is in agreement with the stipulations reviewed and would make everything more efficient with the statewide telecommunications system.

In response to Representative Lopes, Ms. Bayless stated that there is no way to know what the savings will be to the state.

Chris Cummiskey, Director, Government Information Technology Agency stated that this has been a massive and complex effort trying to get this into a position for the JCCR to review. The RFP is made up of 5 components; 1) the phased approach, 2) state efficiency issue, 3) increased functionality, 4) flexibility and 5) risk mitigation. Mr. Cummiskey then highlighted three of the stipulations being #5, 6 and 9.

In response to Senator Burns, Mr. Cummiskey stated the core of this commission is the project investment justification. Every agency that came forward with a technology project was reviewed for justification.

Manny Lerma, Director of Government Relations, Qwest expressed concerns regarding bidding policies on contracts for the state.

John Kaites, COX Communications stated that they would like the ability to compete fairly and to be judged on services i.e. local and long distance service based on price. If they can provide the same level of service at a lower price they would like to be considered for the carrier service contract.

Frank Saraceno, MCI also expressed concerns regarding bidding policies from some of the vendors and mentioned that MCI could be fair and competitive in bidding for both management and carrier services contracts.

Senator Burns moved the Committee give a favorable review of the GITA RFP with the following stipulations:

1) *Delay the effective date of the favorable review until April 2. ADOA has ten business days from the date of the Committee's review to issue the RFP. By delaying the effective date of the review, ADOA will have until April 16 to publish the RFP. This will give ADOA time to modify the RFP based on Committee input and for ITAC to approve the modified RFP.*
2) *Require ADOA to submit information on funding for the non-privatized portion of the Arizona Telecommunications System (ATS) as part of its cost analysis report, which is due to JCCR before finalizing the telecommunications contract.*
3) *The State Procurement Office may make technical revisions necessary to standardize the RFP procurement language and bring the RFP into compliance with procurement code.*
4) *Direct and indirect General Fund budget increases over FY 2004 levels must be specifically reviewed and authorized by JCCR. Monies to be saved through cost reduction measures shall be reported to JCCR during the final contract review. Reported savings shall be delineated by amounts to be reinvested in the initiative, amounts to be contributed to budget reductions, and amounts to be shared with the management contractor. ADOA shall encourage bidders to provide creative funding models that do not require additional capital expenditures by the State.*
5) *The contract term shall be five years (instead of three years with an option to renew for up to two additional years).*
6) *Bidders shall include in their pricing appropriate investments in new technology to upgrade existing state telecommunications infrastructure, separately delineating the capitol mall and the rest of the state. Upgrades shall be consistent with GITA network architecture standards.*
7) *Moves/Adds/Changes (MAC) of telecommunication lines shall be the responsibility of the management contractor and such costs shall be priced as a separate fee-per-service. The State understands that, once convergence occurs, MAC will no longer have a cost, and therefore, expects the elimination of these fees under convergence.*

(Continued)

8) *The solicitation period shall include a "due diligence" component. The State Procurement Office (SPO) shall issue the final version of the RFP, receive proposals (including pricing) from vendors, short-list those vendors who submit proposals determined by the solicitation evaluation committee to be reasonably susceptible of being selected for award ("susceptible" vendors), and assist the susceptible vendors in performing a 4-week maximum due diligence to verify information provided by the State that significantly affects the vendors' proposals. Once the due diligence period and negotiations with SPO are completed, the susceptible vendors shall submit their Best and Final Offers (BAFO). The State shall then award the contract based on the vendors BAFO's, if award is advantageous to the State. Implementation in a timely fashion is a high priority and shall be a key consideration in evaluation of the RFP responses. This process shall be conducted within the time schedule required by Laws 2003, Chapter 263, Section 101.*
9) *The RFP shall provide the expected schedule for inclusion of all executive branch agencies, assuming the award of a cost-effective solution, specifying the number of lines added by month for the duration of the contract. Agencies shall conduct their implementations as a whole, to avoid urban or rural bias and leverage the benefits of one statewide network. This schedule does not represent any guarantee by the state.*
10) *The draft RFP pricing section shall be modified to request pricing for all years of the project, and to provide the opportunity to show the savings to be generated by the vendors in areas such as carrier charges and modernization. Specific pricing line items shall be provided for all RFP requested elements that are not currently in the ATS base pricing, for example, a new billing system and expanded helpdesk system. All such additional costs shall not be part of the base-offer.*

The motion carried.

ARIZONA STATE UNIVERSITY – Review of Information Technology/Telecommunications Infrastructure Upgrade Bond Project.

Lorenzo Martinez, JLBC Staff, presented the Arizona State University (ASU) request that the Committee review the Phase 1 of Information Technology/Telecommunications Infrastructure Upgrades bond project. The project will upgrade and enhance the ASU computer networks and voice, data and video distribution systems. The upgrades will supplement the existing data network with the addition of a wireless network; upgrade building wiring to meet the latest data standards; upgrade the network connections to improve the speed of communications; add redundant systems to the existing networks to improve reliability of the systems and upgrade the in-ground distribution system. The annual debt service of approximately $2.9 million will be paid from tuition collections and local retention funds over a 10-year period.

In response to Representative Biggs, Mr. Martinez stated that of the $2.9 million in debt service, $1.4 million will be paid from tuition collections and $1.4 million from indirect cost recovery funds.

Senator Burns moved the Committee give a favorable review of Phase 1 of the Information Technology/Telecommunications Infrastructure Upgrades project, which will be financed with a $22,000,000 revenue bond issuance. The motion carried.

Review of University Research Infrastructure Lease-Purchase Projects.

Lorenzo Martinez, JLBC Staff, presented the Arizona State University (ASU) request that the Committee review the Interdisciplinary Science and Technology Buildings 1 and 2. These projects will be financed with a COP issuance totaling $92,000,000. The JLBC Staff recommends a favorable review of the request with the stipulations noted in the memo. Both of these projects are research infrastructure projects that were authorized by legislation from the last session.

There was no discussion on this item.

(Continued)

Senator Burns moved the Committee give a favorable review to the Interdisciplinary Science and Technology Buildings university research infrastructure lease-purchase projects with the following stipulations:

- *ASU report to the Committee before expenditure of any allocations that exceed the greater of $100,000 or 10% of the reported contingency amount total for add alternates that do not expand the scope of the project.*
- *ASU submit for Committee review any allocations that exceed the greater of $100,000 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.*

The motion carried

ARIZONA STATE UNIVERSITY/ARIZONA BOARD OF REGENTS – Review of Phase 3 of Infrastructure Improvements and Revised Scope and Estimated Cost of Phase 1 of the Arizona Biodesign Institute Bond Projects.

Lorenzo Martinez, JLBC Staff, presented the Arizona State University (ASU) request that the Committee review Phase 3 of Infrastructure Improvements and the revised scope and estimated cost of Phase 1 of the Arizona Biodesign Institute bond projects.

The projects will be financed with an $11,200,000 system revenue bond issuance, which will be repaid over a 30-year period at an estimated interest rate of 6%. Of the total, $7,400,000 will be used for infrastructure improvements and $3,800,000 will be used to expand the scope of the Arizona Biodesign Institute. Annual debt service of $537,600 for the infrastructure projects will be paid from tuition collections and $276,100 for the Biodesign Institute revisions will be paid from Indirect Cost Recovery Funds.

There was no discussion on this item.

Senator Burns moved the Committee give a favorable review of the Infrastructure Improvements and the revised scope and estimated costs of Phase 1 of the Arizona Biodesign Institute bond projects. The projects will be financed with an $11,200,000 revenue bond issuance. The motion carried

UNIVERSITY OF ARIZONA/ARIZONA BOARD OF REGENTS – Review of Parking and Residential Life Lease-Purchase Projects.

Lorenzo Martinez, JLBC Staff, presented the University of Arizona (UofA) request that the Committee review the Highland Avenue Parking Structure and Phase 1 of Residence Life Building Renewal lease-purchase projects. The Committee has 3 options as shown in the memo.

In response to Representative Biggs, Mr. Martinez stated that more information was received regarding the issue and therefore the JLBC Staff recommends a favorable review.

Senator Burns moved the Committee give a favorable review to the Highland Avenue Parking Structure and Phase 1 of Residence Life Building Renewal lease-purchase projects with the following stipulations:

- *The University report to the Committee before expenditure of any allocations that exceed the greater of $100,000 or 10% of the reported contingency amount total for add alternates that do not expand the scope of the project.*
- *The University submit for Committee review any allocations that exceed the greater of $100,000 or 10% of the reported contingency amount total for add alternates that expand the scope of the project. In case of an emergency, the University 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.*

The motion carried.

(Continued)

SCHOOL FACILITIES BOARD – Review of Revised Lease-to-Own Project List.

Jake Corey, JLBC Staff, presented the School Facilities Board request that the Committee review its list of $49.2 million in new school construction projects to be financed with lease-purchase agreements. The JLBC Staff recommended a favorable review of the request.

There was no discussion on this item.

Senator Burns moved the Committee give a favorable review of the to the revised Lease-to-Own Project List totaling $49,165,700. The motion carried.

Review of New School Construction Report.

Jake Corey, JLBC Staff, presented the School Facilities Board request that the Committee review its demographic assumptions, proposed construction schedule, and new school construction cost estimates for FY 2005. The JLBC Staff recommended a favorable review of the request. The board estimates that it will oversee 64 new school construction projects in FY 2005 and that it will spend $319.7 million in that year. The Committee previously heard this item at its December 2003 meeting, but did not take action on the item as SFB had not provided cost estimate information at that time.

There was no discussion on this item.

Senator Burns moved the Committee give a favorable review to the FY 2005 New School Construction Report. The motion carried.

The meeting adjourned at 11:15 a.m.

Jan Belisle, Secretary

Lorenzo Martinez, Assistant Director

Representative Russell Pearce

NOTE: A full tape recording of this meeting is available at the JLBC Staff Office, 1716 W. Adams.

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DATE: June 15, 2004

TO: Representative Russell Pearce, 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 FY 2005 Construction Budget Operating Expenditure Plan

Request

In compliance with a Capital Outlay Bill footnote, the Arizona Department of Transportation (ADOT) requests that the Committee review its FY 2005 highway construction budget expenditure plan for Professional & Outside Services (contracted consultants).

Recommendation

The JLBC Staff recommends:
1. A favorable review of ADOT's $105 million Professional & Outside Services expenditure plan for FY 2005.
2. Adoption of the traffic congestion performance measures (Tables 2, 3 and 4) with the following stipulations:
   a. ADOT report on these performance measures as part of next year's Committee review.
   b. ADOT submit for Committee review a complete list of "over capacity" state highway segments by September 1, 2004.

In summary, the Staff has recommended a favorable review as the consultants' budget remains the same as in FY 2004. It remains difficult, however, to measure the efficiency of these expenditures.

The "traffic congestion" measures have been useful in identifying the targets for future improvements. However, ADOT reports that they may not have included every "over capacity" highway segment, hence, the requirement to provide the Committee with a complete list.

Analysis

ADOT's approved operating budget, in the General Appropriation Act (Laws 2004, Chapter 275), includes $52 million and 619 FTE Positions from the State Highway Fund in FY 2005 for field administration, engineering, and oversight on highway construction projects. Additional monies for consulting services in the capital budget allow ADOT the flexibility to handle any interim changes in the level of funding for highway construction.

(Continued)

The Capital Outlay Bill appropriated $218 million from the State Highway Fund to ADOT for highway construction in FY 2005. Of the $218 million, ADOT will expend $105 million for capital construction consultant services. ADOT reports the same level of expenditures for Professional and Outside Services as in FY 2004. It is difficult to evaluate Professional and Outside Services and whether resources are being used efficiently.

Performance Measures

Last year the Committee adopted the performance measures in Tables 1-4.

Table 1

PERFORMANCE MEASURES	FY 2003 Est./Actual	FY 2004 Estimate	FY 2005 Estimate
• Design Expenditures as % of Total Construction Operating Budget	51/65	--	--
• Professional and Outside Services $ for Design Work by Consultants ($ in millions)	75.7/88	80.7	--
• Projects Designed by Consultants	1,307/1,244	1,270	--
• Personal Services $ for Design Work by ADOT Staff ($ in millions)	1.2/1.2	--	--
• Projects Designed by ADOT Staff	612/549	--	--
• Field Administration of Projects as % of Total Construction Operating Budget	24/17	--	--
• Professional and Outside Services $ for Field Administration of Projects by Consultants ($ in millions)	21.4/22.9	22.9	--
• Projects Administered by Consultants	420/370	380	--
• Personal Services $ for Field Administration of Projects by ADOT Staff ($ in millions)	13.6/12.2	--	--
• Projects Administered by ADOT Staff	521/455	--	--
• Percent of state highway system with traffic volume from 0% to 80% of capacity during peak driving periods in Phoenix Metro area [1/]	62/64	64	--
• Percent of state highway system with traffic volume from 0% to 80% of capacity during peak driving periods in Tucson Metro area [1/]	73/75	75	75
• Percent of state highway system with traffic volume from 0% to 80% of capacity in balance of state	97/98	96	96

1/ Peak driving periods means from 6 a.m. to 9 a.m. and from 3 p.m. to 7 p.m., Monday through Friday.

The JLBC Staff recommends eliminating the performance measures in Table 1, as these have not proven useful in evaluating ADOT's Professional & Outside Services expenditures. These "operational" performance measures tend to be descriptive of the magnitude of ADOT's work and do not necessarily measure efficiency.

(Continued)

Tables 2, 3 and 4, describe how ADOT's 5-year plan addresses some of the state's most crowded roadways. They list "over capacity" highway segments that, for the most part, have some action in the 5-Year Plan. However, ADOT reports that they may not have included every "over capacity" highway segment in the tables, making them incomplete.

Table 2

PERFORMANCE MEASURES – PHOENIX AREA	FY 2003 Est./Actual	FY 2004 Estimate	FY 2005 Estimate
• Percent of state highway system with traffic volume over 100% of capacity during peak driving periods in Phoenix Metro area	12/14	14	14

Phoenix Metro Area Highway Segments Over 100% of Capacity During Peak Driving Periods

Action in 5-Year Plan	Route	Segment	ADOT Action
Yes	US 60	I-10-Loop 202	8 intersection grade separations; 63% done; 6/06 completion.
Yes	I-10	Baseline-16th St	Design concept report; 50% done; spring 2006 completion.
Yes	SR 51	Northern-Thomas	HOV lanes; 95% done; summer 2004 completion.
No	I-10	7th St-67th Ave	Probable spot studies in the future.
No	Loop 101	Guadalupe-Pima	Future HOV lanes.
No	Loop 202	24th St-Loop 101	Future HOV lanes.
Completed Projects			
	I-17	Greenway-Indian School	Widening and HOV project completed.
	I-10	40th St-24th St	Environmental study part of project completed.

Table 3

PERFORMANCE MEASURES – TUCSON AREA	FY 2003 Est./Actual	FY 2004 Estimate	FY 2005 Estimate
• Percent of state highway system with traffic volume over 100% of capacity during peak driving periods in Tucson Metro area	6/10	10	10

Tucson Metro Area Highway Segments Over 100% of Capacity During Peak Driving Periods

Action in 5-Year Plan	Route	Segment	ADOT Action
Yes	I-10	Prince Rd – 25th Ave	Widening project and frontage roads; 2008 completion.
Yes	I-10	Ruthruaff – Prince Rd	Widen from 6 to 8 lanes; 2011 completion.
Yes	Oracle Rd	Calle Concordia - 1st Ave	Widen from 4 to 6 lanes; fall 2005 completion.
Yes	Oracle Rd	Ina Rd - River Rd	Add shoulders; 20% done; fall 2004 completion.
Completed Projects			
	I-10	Ina Rd - Contaro Rd	Widening completed.

Table 4

PERFORMANCE MEASURES – BALANCE OF STATE	FY 2003 Est./Actual	FY 2004 Estimate	FY 2005 Estimate
• Percent of state highway system with traffic volume over 100% of capacity in balance of state	1/1	1	1

State Highway Segments Over 100% of Capacity in Balance of State

Action in 5-Year Plan	Route	Segment	ADOT Action
Yes	SR 95	S. of Bullhead City (MP 236.2 - 242.8)	Bought right-of-way; 2006 completion.
Yes	SB 8	Yuma (MP 12 - 12.9)	Design area service highway; 2008 completion.
Yes	US 93	Hoover Dam Bypass (MP 0 – 1.7)	South bridge approach; 99% done.
Yes	US 93	Hoover Dam Bypass (MP 1.7 - 16.1)	Widen from 2 to 4 lanes; start in FY 2006.
Yes	SR 179	I-17 - Sedona (MP 306.2 - 307)	Needs study; 2009 completion.
Completed Projects			
	US 60	Miami – Globe (MP 242.8 – 243.5)	Engineering and environmental study done.

MP - Mile post. SA – Alternate route. SR - State route. SB - Business route.

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DATE: June 15, 2004

TO: Representative Russell Pearce, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Jeremy Olsen, Fiscal Analyst

SUBJECT: Arizona Game and Fish Department – Review of Canyon Creek Hatchery Project

Request

The Arizona Game and Fish Department (AGFD) requests the Committee review the Canyon Creek fish hatchery clarifier project. A.R.S. § 41-1252 requires Committee review of capital projects.

Recommendation

The JLBC Staff recommends a favorable review of the request. Total cost of the project is $685,000, which represents the low bid received by Arizona Game and Fish Department.

Analysis

Laws 2003, Chapter 261 (Capital Outlay Bill) appropriated $360,000 from the Game and Fish Fund in FY 2004 for Canyon Creek Hatchery improvements. AGFD will combine the appropriation with $335,000 from federal grant monies to complete the project.

The clarifier project is designed to upgrade effluent treatment facilities at the Canyon Creek fish hatchery. After completion, the hatchery will meet effluent standards set by the Arizona Department of Environmental Quality. Primary clarification is the initial phase in a series of treatment processes in which heavier waste matter generated in hatchery operations settles, allowing for its removal.

Total costs for the project are estimated to be $685,000. The budget for construction of the primary clarifier is $610,000, while the remaining $75,000 is allocated to construction of tertiary treatment facilities. A majority of the costs associated with the clarifier are for excavation, footings, walls, and slab construction. The following table shows the components of the project.

(Continued)

Category	**Expenditure Plan**
Primary Clarifier	
Design	$ 35,000
Construction	430,000
Contingencies	45,000
Construction Management	35,000
Pumping Equipment	15,000
Tractor	50,000
Tertiary Treatment	
Design	$ 15,000
Construction	50,000
Contingencies	5,000
Construction Management	5,000
Total	**$685,000**

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DATE: June 14, 2004

TO: Representative Russell Pearce, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Shelli Carol, Fiscal Analyst

SUBJECT: Northern Arizona University – Review of Infrastructure Research Lease-Purchase Projects

Request

A.R.S. § 15-1682.01 requires Committee review of any university projects financed with Certificates of Participation (also known as COPs or lease-purchase). Northern Arizona University (NAU), on behalf of the Arizona Board of Regents (ABOR) requests Committee review of the College of Engineering and Technology Renovation and the Applied Research and Development Facility. These projects would be financed with a total new COP issuance of $33,000,000.

Recommendation

JLBC Staff recommends a favorable review of the request with the following stipulations:

- NAU report to the Committee before expenditure of any allocations that exceed the greater of $100,000 or 10% of the reported contingency amount total for add alternates that <u>do not expand</u> the scope of the project.
- NAU submit for Committee review any allocations that exceed the greater of $100,000 or 10% of the reported contingency amount total for add alternates that <u>expand</u> 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. 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 for operational costs when the projects are complete. These costs should be considered by the entire Legislature through the budget development process.
- NAU report to the Committee with a comparison between the costs of meeting "green building" standards and the savings generated through energy and other operating efficiencies.

(Continued)

Both of the projects under review are part of the university research infrastructure lease-purchase plan authorized by the Legislature in 2003. The College of Engineering and Technology Renovation has a total capital cost of $15,000,000, which would be financed with the COP issuance. The Applied Research and Development Facility has a total capital cost of $20,500,000, of which $18,000,000 would be financed with a COP issuance and $2,500,000 would be financed from a U.S. Department of Commerce grant. The COPs would be repaid over a 26-year period at an estimated interest rate of 5.28%. The total interest costs would be a projected $29,991,500. By FY 2008, the combined annual debt service payment would be $2,511,500 and would be paid from the $5,900,000 appropriation to NAU in Laws 2003, Chapter 267.

The per-square-foot costs for these projects are comparable to other university projects of their respective scopes. *(See tables in Analysis section for per-square-foot cost comparisons with other projects.)*

A.R.S. § 15-1683 allows each state university to incur a projected annual debt service for bonds and certificates of participation of up to 8% of each institution's total projected annual expenditures. This calculation is known as the debt ratio. These projects would increase the NAU debt ratio from 5.10% to 6.19%.

NAU does not anticipate any additional operating and maintenance costs deriving from the College of Engineering and Technology Renovation. NAU estimates $400,000 of new operating and maintenance costs when the Applied Research and Development Facility is complete. The university plans to fund these operating costs through rent and the Indirect Cost Recovery Fund.

Analysis

NAU submitted both the College of Engineering and Technology Renovation and the Applied Research and Development Facility as "research infrastructure" projects. Laws 2003, Chapter 267 amended A.R.S. § 42-5075 to confer tax-exempt status on the proceeds and income of research-infrastructure-related construction contracts. A.R.S. § 15-1670 defines research infrastructure as "installations and facilities for continuance and growth of scientific and technological research activities at the university."

The intent of the Chapter 267 tax exemptions is to lower the cost of such projects and to reduce debt service payments until General Fund appropriations from Chapter 267 become available in FY 2008. Chapter 267 makes an annual General Fund appropriation of $5,900,000 to NAU for debt service payments from FY 2008 through FY 2031. These are the first Chapter 267 research infrastructure projects submitted by NAU. Assuming this COP issuance takes place, approximately $3,388,500 would remain available for debt service on other NAU research infrastructure projects.

The following table lists the capital project costs and financing related costs for each project.

NAU Research Infrastructure COP Projects

Project	Issuance Amount	Annual Debt Service	Total Debt Payments	Operating Costs
College of Engineering Technology Renovation	$15,000,000	$1,141,600	$28,632,500	$ 0
Applied Research and Development Facility	18,000,000	1,369,900	34,359,000	400,000
TOTAL	**$33,000,000**	**$2,511,500**	**$62,991,500**	**$400,000**

College of Engineering and Technology Renovation

NAU would renovate the existing three-story, 70,700 square-foot building and construct a new three-story, approximately 18,000 square-foot extension at an estimated total cost of $15,000,000. The facility has not been significantly renovated since its original construction in 1972. The north face, which would be removed for the extension, is experiencing structural problems. The facility's fire and life safety

(Continued)

system, ventilation system, and disability access are all aged and no longer comply with new codes and standards. The renovation would include asbestos abatement, replacement or addition of major mechanical and electrical systems, and a complete reconfiguration of the building interior to comply with the Americans with Disabilities Act and create integrated lab classrooms. Furthermore, the proposed renovation would address the concerns of the Accreditation Board for Engineering and Technology (ABET), which found this facility, and especially its laboratories, inadequate and antiquated.

NAU estimates the project would take 16 months of construction. NAU does not anticipate any additional operating and maintenance costs upon project completion. The university expects that installation of energy efficient systems would offset any cost increases associated with the additional square footage. Additionally, NAU plans to cover fixtures, furniture, and equipment costs through external fundraising.

The total cost per square foot for the College of Engineering and Technology Renovation would be approximately $169 and the direct construction cost per square foot would be $130. The following table shows cost comparisons for various university major renovation projects.

University Major Renovation Projects
Estimated Per Square Foot Costs

Project	Total Project Finance Cost	Total Cost Per Square Foot	Direct Construction Cost Per Square Foot
NAU-School of Communication Renovations	14,020,000	$154	$131
NAU-Engineering & Technology Renovation	**63,568,800**	**169**	**130**
AVERAGE		***$229***	***$184***
ASU-Instructional Research Renovation	10,000,000	303	236

Applied Research and Development Facility

NAU would construct a new three-story, approximately 60,000 square-foot environmental research facility at an estimated total cost of $20,500,000. The building would house the Keim Genetics Research Laboratory, the National Park Service, the U.S. Geological Survey, the Institute for Tribal Environmental Professionals, a business development center, and classroom and laboratory spaces for up to ten environmental academic programs. As such, the facility would consolidate resources now spread across campus. Rent payments collected from non-university tenants would support ongoing operating and maintenance costs.

NAU plans to construct this building to achieve the highest Leadership, Energy, and Environmental Design (LEED) rating available. This standard, published by the U.S. Green Building Council, would allow the facility to highlight environmentally friendly technologies and building processes in its very construction and significantly reduce operations and maintenance costs.

NAU estimates the project would take 18 months of construction. Annual ongoing operating and maintenance costs when the project is complete are estimated to be $400,000, a 33% reduction from standard costs for a facility of this size, due to the energy savings of the LEED design. NAU intends to fund these costs through rent and indirect cost recovery. NAU plans to cover fixtures, furniture, and equipment costs through external fundraising.

The total cost per square foot for the Applied Research and Development Facility would be approximately $342 and the direct construction cost per square foot would be $275. These estimates fall on the low end of the per-square-foot cost range of other university research infrastructure projects. The following table shows cost comparisons.

(Continued)

University Research Infrastructure Projects
Estimated Per Square Foot Costs

Project	Total Project Finance Cost	Total Cost Per Square Foot	Direct Construction Cost Per Square Foot
ASU-Interdisciplinary Science and Technology Building 2	$18,000,000	$300	$217
NAU-Applied Research and Development Facility	**18,000,000**	**342**	**275**
UA-Institute for Biomedical Science and Biotechnology Building	70,241,700	389	285
UA-Medical Research Building	63,568,800	392	287
ASU-Interdisciplinary Science and Technology Building 1	74,000,000	412	285
AVERAGE		***$404***	***$299***
ASU-Biodesign Institute 2	73,000,000	425	307
UA-Chemistry Building Expansion	53,848,200	507	410

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DATE: June 14, 2004

TO: Representative Russell Pearce, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Lorenzo Martinez, Assistant Director

SUBJECT: University of Arizona – Review of Revised Cost of Chemistry Building Expansion Lease-Purchase Project

Request

The University of Arizona (UofA) requests Committee review of the revised cost for the Chemistry Building Expansion university research infrastructure project. The project was favorably reviewed by the Committee at its September 2003 meeting. A.R.S. § 15-1682.01 requires Committee review of any university projects financed with Certificates of Participation (also known as lease-purchase).

The total project cost is increasing from $45,000,000 to $46,100,000. The increase of $1,100,000 will be funded from Indirect Cost Recovery and gift monies. In addition, $2,573,000 from the project's contingency funds have been reallocated to cover higher than anticipated construction costs.

Recommendation

The Committee has at least 2 options:

1. Favorable review of the request with the same stipulations from the September meeting concerning the use of contingency funds.

2. UofA provide further information with options for keeping the project within its original budget. Prior to the cost revisions, the Chemistry Building's $475 per square foot cost was the most expensive of the university research projects by $50. With the latest cost increase, the cost per square foot is $507.

Analysis

UofA will construct 85,000 square feet (original scope was 88,500 square feet) of expansion space in the Chemistry Building. The expansion will add laboratory and office space, and allow the consolidation of the chemistry research and instructional programs in one area. The construction amount also includes $3,000,000 to relocate the insectary and agriculture greenhouses from the chemistry building to another location on campus.

(Continued)

The Committee favorably reviewed the Chemistry Building Expansion project at its September 2003 meeting. At that time, the estimated cost of the project was $45,000,000. UofA reports that the net cost of the project has increased by $1,100,000 due to rising costs for construction materials such as steel, copper and drywall. In combination with reductions for items in the original budget and the use of $2,573,000 from contingency amounts, the additional cost of $1,100,000 will be funded with Indirect Cost Recovery Fund and gift monies.

In addition to the $1,100,000 from indirect cost recovery funds and gift monies, and as part of a larger COP issuance (for Keating Bioresearch Building, Medical Research Building and Chemistry Building Expansion), UofA will allocate $53,848,200 of the proceeds to fund $45,000,000 for construction, $910,200 for issuance costs, and $7,938,000 for interest only payments through FY 2007.

The estimated annual debt service will be $3,704,100 by FY 2008. UofA will use $7,938,000 of the COP issuance to make interest only payments on the debt service through FY 2007, after which General Fund appropriations from Laws 2003, Chapter 267 will be used to make the payments. The project is estimated to take 21 months from the start of construction to completion. Annual on-going operating and maintenance costs when the project is complete are estimated to be $772,300 and will be funded with indirect cost recovery funds.

The revised cost per square foot for this project is $507 (original cost was $475) and the revised direct construction cost per square foot is $410 (original cost was $324). The square foot costs for this project are higher than costs for other research infrastructure projects the Committee has reviewed. Design and construction costs for building expansions are usually higher than new construction. The following table shows the costs for other university research infrastructure projects.

University Research Infrastructure Projects
Per Square Foot Costs

Project	Total Project Finance Cost	Total Cost Per Square Foot	Direct Construction Cost Per Square Foot
ASU-Biodesign Institute 2	$73,000,000	$425	$307
ASU-Interdisciplinary Science and Technology Building 1	74,000,000	412	285
ASU-Interdisciplinary Science and Technology Building 2	18,000,000	300	217
UA-Keating Bioresearch Building	70,241,700	389	294
UA-Medical Research Building	63,568,800	392	287
UA-Chemistry Building Expansion	53,848,200	507	410
Average		$404	$300

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DATE: June 15, 2004

TO: Representative Russell Pearce, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Lorenzo Martinez, Assistant Director

SUBJECT: University of Arizona – Reports on Capital Project Contingency Allocations

Request

The University of Arizona (UofA) is reporting on contingency allocation changes for 2 projects previously reviewed by the Committee. The Committee requested at its September 2003 meeting that UofA report on allocations that exceed the greater of $100,000 or 10% of the contingency amounts for the Drachman Hall bond project and the Keating Bioresearch Building (formerly known as the Institute for Biomedical Science and Biotechnology) lease-purchase project.

Recommendation

This item is for information only, and no Committee action is required. UofA is reallocating $420,190 of the Drachman Hall project's $2,692,000 contingency funds to cover higher than anticipated costs of construction materials (steel, copper, drywall, etc.) and data/communication infrastructure costs. UofA is also reallocating $1,544,200 of the Keating Bioresearch Building project's $5,772,000 contingency funds to cover higher costs of construction materials. The cost estimates for both projects would still be reasonable with these adjustments.

Analysis

At its September 2003 meeting, the Committee favorably reviewed the Drachman Hall bond project and the Keating Bioresearch Building university research infrastructure lease-purchase project with the stipulation that any allocations from reviewed contingency amounts that exceeded $100,000 or 10% of the contingency amount, which ever is greater, be reported to the Committee.

UofA is reporting that costs for construction material such as steel, copper and drywall have and continue to rise beyond the original estimates. As a result, UofA is shifting monies from the contingency allocations for the 2 projects to cover the higher costs of construction. The total budgets for the 2 projects remain unchanged from the amounts reported to the Committee in September.

(Continued)

The following is an excerpt from the memo presented to the Committee at the September meeting. Direct construction costs per square foot have been revised to reflect the reallocation of contingency amounts.

Drachman Hall
UofA will construct 113,000 square feet of expansion space to provide academic building space and consolidate the Colleges of Public Health, Pharmacy and Nursing at the Arizona Health Sciences Center at an estimated cost of $30,000,000.

The cost per square foot for this project is $266 and the direct construction cost per square foot is $191 ($195 with additional $420,190 from contingencies). Based on market increases for construction materials and UofA's historical actual costs for similar buildings, the costs per square foot for the project appear reasonable.

Keating Bioresearch Building (formerly Institute for Biomedical Science and Biotechnology Building)
UofA will construct 170,000 square feet of space dedicated to molecular life sciences research at an estimated cost of $65,700,000.

The cost per square foot for this project is $389 and the direct construction cost per square foot is $289 ($294 with additional $1,544,200 from contingencies). Based on market increases for construction materials and UofA's historical actual costs for similar buildings and accounting for unique research design and fixed equipment requirements, the costs per square foot for the project appear reasonable.

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DATE: June 14, 2004

TO: Representative Russell Pearce, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Shelli Carol, Fiscal Analyst

SUBJECT: Arizona State University – Review of Academic Renovations and Deferred Maintenance Phase I Bond Project and Report on Instruction and Research Lab Renovation Lease-Purchase Projects

Request

A.R.S. § 15-1683 requires Committee review of any university projects financed with system revenue bonds. Arizona State University (ASU), on behalf of the Arizona Board of Regents (ABOR) requests Committee review of Academic Renovations and Deferred Maintenance Phase I. ASU would finance this project with a total new revenue bond issuance of $10,000,000.

Recommendation

JLBC Staff recommends a favorable review of the request with the following stipulations:

- ASU shall report to the Committee before expenditure of any allocations that exceed the greater of $100,000 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 $100,000 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 tuition collections that may be required for debt service.
- 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.

(Continued)

ASU plans to issue system revenue bonds to be repaid over a 15-year period at an estimated interest rate of 6.0%. Annual debt service would be approximately $1,030,000, deriving from collected tuition. The interest paid would total $5,450,000. ASU does not anticipate any additional operating and maintenance costs associated with this project.

The per-square-foot costs for this project are comparable to other university projects of its scope. *(See table in Analysis section for per-square-foot cost comparisons with other projects.)*

A.R.S. § 15-1683 allows each state university to incur a projected annual debt service for bonds and certificates of participation of up to 8% of each institution's total projected annual expenditures. This calculation is known as the debt ratio. This project would increase the ASU debt ratio from 5.8% to 5.9%.

Analysis

State agencies typically fund on-going routine maintenance and minor repairs to existing facilities through their operating budgets. For example, the Arizona Department of Administration and the Arizona Department of Transportation fund maintenance for their respective building systems from their operating budgets. Larger repairs, those that would extend the useful life of a facility, qualify as building renewal. Building renewal projects are typically categorized into the following categories: Fire and life safety, preservation of assets, and critical for continued operations of existing programs. Typical building renewal projects include infrastructure replacement (utility distribution systems), HVAC system replacement and roof replacement.

ABOR policy requires the universities to request Legislative appropriations to cover the amounts needed for building renewal. The university system has not received any state funding for building renewal since FY 2001. Full annual funding of the building renewal formula in FY 2005 would have provided $16,541,600 for the ASU main campus. As a result, ASU has deferred maintenance on a number of buildings and has developed a phased approach to use long-term financing to address deferred maintenance items. In this initial phase, ASU plans to renovate eleven buildings, covering approximately 75,000 square-feet, at an estimated total cost of $10,000,000. All eleven buildings require major renovations and some violate life safety codes.

ASU seeks to improve the safety, attractiveness, and disability access of the buildings, as well as to support enrollment growth by reconfiguring the interiors to increase academic space. The estimated overall average useful life for these renovations is 17 years. Some of these repairs are cosmetic in nature and do not appear essential to the larger renovations. However, these repairs make up only a small percentage of the project total.

In general, bonding for cosmetic or other short-term renovation projects is not recommended given that the useful life of these projects is usually significantly shorter than the financing periods. To the extent cosmetic repairs are necessary as part of a larger more involved renovation whose useful life expectancy is equal to or greater than the repayment period, long-term financing is appropriate. As stand-alone or projects whose primary purpose is cosmetic in nature, long-term financing is not recommended.

The following table lists the estimated capital costs and renovation scopes of the eleven buildings associated with this $10,000,000 bond issuance.

(Continued)

ASU Academic Renovations and Deferred Maintenance Phase I Costs and Scope

Building	Request	Ext. Structure	Int. Structure	Air	Plumbing	Electric	Safety	Elevators	Cosmetic
Payne Hall	$1,600,000	X	X	X	X	X		X	X
Nursing	1,500,000	X	X	X	X	X	X		X
Farmer Education	1,300,000	X	X	X	X	X	X	X	X
University Archives	1,200,000	X	X	X	X	X	X		X
Dixie Gammage Hall	960,000	X	X	X	X	X	X		X
Durham Language & Literature	884,000	X	X	X	X	X			X
Schwada Classroom Office	800,000	X	X	X	X		X		X
Psychology N. 2nd & 3rd Floor	716,000		X			X			X
Wilson Hall	668,000	X	X	X	X	X	X		X
Armstrong Hall	332,000		X		X	X			X
Ross-Blakely Law Library	40,000		X						
Total	**$10,000,000**	**8**	**11**	**8**	**9**	**9**	**6**	**2**	**10**

ASU estimates the project would take 16 months of construction. ASU does not anticipate any additional operating and maintenance costs upon project completion.

The total cost per square foot for Academic Renovations and Deferred Maintenance Phase I would be approximately $133 and the direct construction cost per square foot would be $100. Since this project combines both minor and major renovations, it is difficult to make meaningful comparisons to other renovation projects. However, the following table shows cost comparisons for some assorted renovation projects.

Assorted Renovation Projects
Estimated Per Square Foot Costs

Project	Total Project Finance Cost	Total Cost Per Sq. Ft.	Direct Construction Cost Per Sq. Ft.
ASU-Backfill Space Renovation II	$3,800,000	$40	$24
Treasurer Renovations	360,000	42	34
AVERAGE		***$79***	***$63***
ASU-Academic Renovations & Deferred Maintenance Phase I	**10,000,000**	**133**	**100**
NAU-School of Communication Renovations	14,020,000	154	131

Report on Instructional / Research Laboratory Renovations

ASU has also provided a revised cost report for this previously reviewed project. In December 2003, the Committee favorably reviewed the issuance of $10,000,000 in revenue bonds for Instructional/Research Laboratory Renovations Phase I on the ASU main campus. The total funding amount remains the same, but ASU reallocated funding among two of the four buildings. The following table shows the original and revised costs of each facility.

Instructional/Research Renovation Projects

	Original Allocation	Revised Allocation
Bateman Physical Sciences – F Wing	$ 2,810,000	$ 3,650,000
Engineering Research Center	4,500,000	2,000,000
Bio Safety/Lab Security	2,040,000	2,040,000
Schwada Classroom Office Building	650,000	650,000
Unallocated	0	1,660,000
TOTAL	**$10,000,000**	**$10,000,000**

(Continued)

The Bateman Physical Sciences research lab renovation cost will increase by $840,000. ASU will construct a metal-free clean room laboratory with a specialized HVAC system for the Geological Science Department.

Meanwhile, the university better defined the scope of code compliance upgrades for the Engineering Research Center, resulting in reduced costs for that project of $2,500,000.

Due to these cost changes, $1,660,000 remains available in project bonds. ASU plans to use these monies to renovate additional space for new hires and is currently identifying appropriate targets. The university will submit reports to the Committee as these plans progress.

RS/SC:jb

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DATE: June 15, 2004

TO: Representative Russell Pearce, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Jake Corey, Fiscal Analyst

SUBJECT: School Facilities Board – Consider Approval of Converting Deficiencies Correction Bonds from Variable to Fixed Interest Rates

Request

At its August 14, 2003 meeting, the Committee gave SFB approval to issue $247.1 million in short-term taxable bonds with a variable interest rate to finance Deficiencies Correction projects. The Committee granted approval with the understanding that the bonds would be converted to long-term fixed rate tax-exempt bonds after resolving issues with the Internal Revenue Service (IRS) and that the board return to the Committee for approval prior to the conversion.

The SFB requests Committee approval to convert to long-term fixed rate tax-exempt bonds.

Recommendation

The JLBC Staff has the following concerns:

1) Neither the SFB nor its consultants anticipated the IRS issues. As a result of two different issuances, the transaction fees are significantly higher. Total bond counsel and financial advisor fees are $617,160, including $317,160 for the initial variable-rate issuance and $300,000 for the conversion to fixed-rate bonds. Each issuance also includes approximately $815,600 in other fees, primarily underwriting fees.

2) The low credit rating for land trust earnings revenue bonds was also not anticipated. The state is incurring insurance costs of $7.2 million and reserve fund costs of $12.4 million due to this low rating. If this project was going to use debt financing, it may have been less expensive to pay for the cost of the projects through some other means.

(Continued)

Despite the above concerns, the current choice is to continue with variable-rate bonds or convert to a fixed-rate. Converting the bonds will allow the state to lock in a current low fixed-rate and generate lower costs. At current interest rates, the board estimates total debt service on the bonds would be $366.9 million. As a result, the JLBC Staff recommends approval of the request.

Analysis

To pay for Deficiencies Correction Program costs, Laws 2003, Chapter 264 authorized SFB to issue up to $247.1 million in revenue bonds in FY 2004 to be paid back with earnings from the Permanent State School Fund. The legislation required SFB to receive Committee approval prior to issuing the bonds.

In preparing for the issuance, SFB was informed by the IRS that any bonds issued against Permanent State School Fund revenues would not be granted tax-exempt status. The SFB believed, however, that they could reach an agreement with the IRS that would allow the board to issue tax-exempt bonds. Since taxable bonds typically have a higher interest rate than tax-exempt bonds, the board thought that they could ultimately generate a lower interest rate by reaching an agreement with the IRS to issue tax-exempt bonds.

To continue work on the Deficiencies Correction Program and meet its cash flow needs, the board could not wait until it reached an agreement with the IRS to receive the financing from the bonds. At the August Committee meeting, therefore, SFB requested to issue short-term variable rate taxable bonds to be converted to long-term fixed rate tax-exempt bonds once the IRS approved tax-exempt status. The board provided information on long-term costs for both taxable and tax-exempt bonds, estimating total debt service would be $361.5 million for taxable bonds and $339.5 million for tax-exempt bonds at then current interest rates. The Committee approved the board's proposal to issue short-term variable rate taxable bonds, and to convert them to long-term fixed rate tax-exempt instruments, but required SFB to return for Committee approval prior to converting the bonds.

Since that time, the bond rating agencies have indicated that $247.1 million in bonds would be rated non-investment grade (junk bonds) unless the board established a reserve fund. The poor rating for the issuance appears to be the result of a number of factors related to the Permanent State School Fund, which will pay the debt service. Revenues for the fund are generated from interest earned on securities held in the fund, leases of state land, and interest earned on state trust land purchases that are financed through the State Land Department. Reasons for the low rating include the uncertainty of year-to-year fund revenues, the risk associated with 60% of the fund being invested in equities, and a 37% decrease in fund revenues in FY 2004. The FY 2004 decrease in fund revenues was due to a new earnings formula calculation, which is based on a 5-year rolling average.

The SFB purchased insurance for $7.2 million to receive a AAA rating. The insurer required SFB to establish a reserve fund equal to 10% of the principal amount, or $24.7 million. The insurer allowed the board to establish the reserve fund with 50% of the monies provided by SFB and the other 50% provided by the insurer through which the SFB purchased a surety bond. The amounts associated with each component to achieve a higher bond rating are detailed below:

Reserve Fund – Cash	$ 12.4 M
Reserve Fund – Surety Bond	0.4 M
Insurance	7.2 M
TOTAL	**$ 20.0 M**

(Continued)

The board did not anticipate these costs when they came before the Committee in August 2003. At the time, SFB estimated insurance would cost approximately $900,000, and the board did not anticipate the need to create a reserve fund. Though SFB will later be able to recoup the cash it has provided for the reserve fund and use those monies for the final debt service payment, the need to receive up front financing generates higher interest rates for the issuance.

As stated earlier, SFB is estimating total debt service payments of $366.9 million. (See SFB Attachment #1) The payments are to be made over a 15-year period. The FY 2004 payment, which will be paid from the proceeds of the issuance, is expected to be $2.7 million. The FY 2005 budgeted payment is $23.8 million and will be made from Permanent State School Fund earnings, as will future payments. Since Permanent State School Fund expendable earnings have typically been used to defray K-12 Basic State Aid costs, any earnings used for debt service have been replaced with General Fund dollars in the Department of Education FY 2005 approved budget.

The total $366.9 million debt service payment consists of $247.1 million in principal and $132.1 million in interest. Included within the total interest amount are the costs to purchase the insurance and the surety bond mentioned above, as well as the higher interest rate costs associated with generating monies up front to pay the financing costs. In addition, the total interest amount includes $1.1 million for issuance costs associated with the initial short-term variable rate issuance, $1.1 million for issuance costs associated with the conversion to long-term fixed rate, and $2.4 million for interest and remarketing fees for the variable rate bonds. The table below details the amounts required to finance the issuances:

Credit Rating Enhancement	$ 20.0 M
Issuance Costs – Variable-Rate	1.1 M
Issuance Costs – Fixed-Rate	1.1 M
Variable-Rate Interest	0.4 M
Variable-Rate Remarketing Fees	2.0 M
TOTAL	$ 24.6 M

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DATE: June 18, 2004

TO: Representative Russell Pearce, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Jake Corey, Fiscal Analyst

SUBJECT: School Facilities Board – Review of FY 2005 New School Construction Lease-Purchase Projects

Request

Pursuant to A.R.S. § 15-2004, the School Facilities Board (SFB) requests the Committee review its list of $230 million in potential new school construction projects to be financed with lease-purchase agreements. The board will return to the Committee later in the year to review additional projects to bring the yearly total to $250 million.

Recommendation

The JLBC Staff recommends a favorable review of the request.

The board has submitted for review a potential list of 35 projects in 27 school districts. While the total value of these projects is $230 million; SFB will reduce the list to $200 million for its initial lease-purchase offering. The term of the lease-purchase agreement will be 15 years. Certificates of Participation will be issued at a projected average interest rate of 4.24%. The board estimates the FY 2006 payment to be approximately $17.7 million. Future year payments are estimated to average $18.6 million. Total debt service is projected to be about $278.8 million. The following table shows the estimated costs associated with the lease-purchase financing agreement.

Construction Proceeds	$200,000,000
Issuance Cost	390,000
Underwriting Fee	347,100
Insurance	569,800
Total	$201,306,900

Analysis

A.R.S. § 15-2004 grants SFB the authority to enter into lease-purchase agreements to pay for the costs of new school construction. Before any agreement takes effect, the statute requires the board to submit for Committee review the projects related to the agreement.

(Continued)

Projects

The potential lease-purchase projects are detailed in the attached letter from the agency. There are a total of 35 projects. In March 2004, when SFB submitted to the Committee its annual New School Construction Report (A.R.S. § 15-2002), the board provided a list of projects to be financed over the next couple of years. All the projects on the current list (except for one) were included on the previous list. Regarding the current list:

- Approximately 25,000 students will be housed in the space provided by these projects.
- Of the total number of projects, 25 are for new schools and 10 are for additional space at existing schools.
- Thirty-one of the projects are for K-8 space, 3 are for high school space, and 1 combines 7-8 and high school space.
- Pursuant to A.R.S. § 15-2041, the approved square footage amounts are: 90 square feet per pupil for K-6 space, 100 square feet per pupil for 7-8 space, 134 square feet per pupil for 9-12 space in a district with fewer than 1,800 high school students, and 125 square feet per pupil for 9-12 space in a district with at least 1,800 high school students.
- Currently, 7 of the projects are under construction, 2 are in the process of bidding for a contractor, and 26 are in the design phase.
- Geographically, the projects are located in the following areas:

Location	Projects
Phoenix Metropolitan Area	25
West Valley (18)	
East Valley (7)	
Tucson	3
Coconino County	1
Pinal County	2
Yavapai County	2
Cochise County	1
Yuma County	1
TOTAL	35

Financing

The board plans to enter into a total of $250 million in lease-purchase agreements in FY 2005. The board is proposing to immediately enter into a lease-purchase agreement for $200 million and subsequently enter into another agreement for $50 million.

Under A.R.S. § 15-2006, SFB only has the authority to enter into lease-purchase agreements for up to a maximum of $200 million in any one fiscal year. Laws 2004, Chapter 274 notwithstands A.R.S. § 15-2006 and grants SFB the authority to enter into lease-purchase agreements for up to a maximum of $250 million in FY 2005; however, the legislation does not become effective until August 25, 2004.

The board plans to enter into two separate agreements, rather than wait for the authority to issue all $250 million at once, so that the board can limit the impact of rising interest rates and avoid paying interest on proceeds that would not be expended until later in the year. Entering into two separate lease-purchase agreements, however, will increase the issuance costs of the total $250 million transaction.

If the board continues to lease-purchase finance new school construction in future years, the state may wish to look at options to provide SFB the ability to issue the full amount of its authorization at one time.

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DATE: June 15, 2004

TO: Representative Russell Pearce, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Tim Sweeney, Fiscal Analyst

SUBJECT: Arizona State Parks Board – Consider Approval of Yuma Crossing Transfer

Request

The Arizona State Parks Board requests the Committee approve the proposed transfer of approximately 2.2 acres at Yuma Crossing State Historical Park to the City of Yuma. Pursuant to A.R.S. § 41-511.05, any disposition of property requires Committee approval.

Recommendation

The JLBC Staff recommends the Committee approve the proposed land transfer of approximately 2.2 acres at Yuma Crossing State Historical Park to the City of Yuma with the stipulation that the U.S. General Services Administration (GSA) also approves the transfer. Per the existing agreement between the Parks Department and GSA, any reimbursement for the property would be transferred to GSA.

Analysis

The Arizona State Parks Board acquired the Yuma Crossing property from the U.S. GSA in 1999. The City of Yuma is in the process of beginning a downtown redevelopment plan that includes obtaining 2 parcels of land currently owned by the Parks Department, but that are not attached to the main section of the park. The original acquisition was made at no cost to the state, but requires that the property be maintained and used only for "historic monument purposes." State Parks officials have indicated that the GSA would agree to void the land use requirements for these 2 parcels to allow sale of the land to the City of Yuma.

The GSA would, however, require reimbursement for the land if it were transferred to the City of Yuma. Payment would be made, through the Parks Department, from the City to the GSA. The Parks Department received an appraisal, which values the land at $300,000, and GSA is currently reviewing the appraisal. The parcels of land the City is interested in obtaining are across the Yuma Main Canal from the Historical Park and the agency itself does not have plans to develop them. For this reason, and to aid the City of Yuma in their redevelopment goals, the Parks Board has authorized the transfer of this land.

While the Parks Department would not receive monetary reimbursement for transferring the 2 parcels to the City of Yuma, the agency is in the process renegotiating their current Intergovernmental Agreement (IGA) with the City of Yuma. The current IGA includes a yearly contribution of $150,000 from the city for the operations of Yuma Crossing State Historical Park and stipulates that revenue raised at the park must be spent on the operations of Yuma Crossing State Historical Park. Park revenues combined with

the city's current contribution do not sufficiently cover all the operating costs of the park, therefore, the agency is anticipating that the City will agree to increase its yearly contribution. In FY 2003, park operating costs were approximately $207,000, while park revenues totaled approximately $30,000, not including the city's contribution.

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DATE: June 15, 2004

TO: Representative Russell Pearce, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Jake Corey, Fiscal Analyst

SUBJECT: Maricopa Community College District – Consider Review of Bond Projects

Request

Maricopa Community College District (MCCD) plans to hold a bond election on November 2, 2004. If approved by the voters, the district would be authorized to issue $951.4 million in General Obligation (GO) bonds. Proceeds from the issuance would be used to fund capital projects ($651.4 million) and to purchase and upgrade technology and equipment ($300.0 million) to address student growth in the district. The bonds would be issued in five equal installments of $190.3 million every two years, with the first issuance being in FY 2005.

There are two statutory sections granting community college districts the authority to issue bonds. One section requires Committee review while the other does not. The district plans to issue the bonds under the section that does not require Committee review. As a result, the district is submitting this information as a report and is not requesting a review. A legal argument, however, can be made that legislative intent requires Committee review of this item.

Recommendation

The Committee has at least five options:

1) A favorable review with no stipulations.

2) A favorable review with the stipulation that the district return to the Committee for review prior to each actual bond issuance. The district plans to issue the first $190.3 million in FY 2005. The final issuance would not be made until FY 2013. Requiring the district to return for review prior to each actual bond issuance would allow the Committee to receive greater detail on the projects to be funded with each individual issuance.

3) An unfavorable review.

(Continued)

4) Receive the item as a report, thereby eliminating the need for a review. The Committee could require, however, that the district continue to report prior to individual bond issuances.

5) Before making a decision, receive additional information from the district on how enrollment projections for campuses relate to the issuance amounts and projects designated for each campus. The district's student population will continue to grow in future years, which will require capital expenditures. The district provided information on district-wide growth projections. JLBC Staff has requested additional information on estimates for enrollment growth by campus and how those estimates were used to determine capital needs for each campus.

The issuances represent a total of $951.4 million in projects. Over a 22-year period, and with an estimated interest rate of 6%, total interest payments would equal $485.5 million. Total debt service would be approximately $1.44 billion. The first payment of $21.0 million would be in FY 2006. The amount would progressively increase as new bonds are issued, equaling $97.2 million in FY 2013. Payments would later decline as older bonds are paid off, with the final payment in FY 2027. *(See Attachment #1)*

To make the debt service payments, the district estimates increasing the secondary property tax rate by 7¢ in FY 2006. The rate would progressively increase as new bonds are issued, equaling 26¢ in FY 2013. The rate would subsequently decline as earlier bonds are retired. Over the life of the bonds, the district estimates increasing secondary property tax rates by an average of 16¢. This would annually result in approximately $16 in additional taxes for every $100,000 of house value.

The $190.3 million FY 2005 issuance amount would increase the district's outstanding GO debt from approximately $235 million to $425 million. The Constitution limits the amount of GO debt a community college district may incur. Despite the FY 2005 increase, the district would still be well below its constitutional limit.

Analysis

Two different statutory sections authorize community college districts to issue bonds to pay for capital expenditures. One section (A.R.S. § 15-1483) requires a district, prior to the issuance of bonds, to submit information on the projects to the Committee for review. If the issuance requires voter approval, the statute requires the district to submit the information before seeking voter approval. The other section (A.R.S. § 15-1465) does not require a district to seek Committee review in order to issue bonds.

Maricopa has indicated that the district intends to issue the bonds pursuant to A.R.S. § 15-1465. The district believes, therefore, that the Committee is not required to review the projects to be financed with the bond proceeds.

JCCR has had oversight of community college bond issuances since the elimination of the State Board. Laws 2002, Chapter 330, originally amended A.R.S. § 15-1483 to require JCCR review on bond issuances prior to voter approval. As written, there were questions as to whether JCCR review applied to all bond issuances or only to bond issuances requiring voter approval. As a result, Laws 2003, Chapter 264, amended A.R.S. § 15-1483 to clarify that JCCR review was required for all projects funded with bond proceeds, not just the projects funded with bonds requiring voter approval. Given the steps the Legislature took to clarify JCCR review for bond projects, a legal argument could be made that the Legislature intended all community college bond projects undergo JCCR review. On the other hand, technically, A.R.S. § 15-1465 was never amended to require JCCR review. As noted above, MCCD is issuing bonds under A.R.S. § 15-1465, which was not addressed in either Chapter 330 or Chapter 264.

(Continued)

Project Costs

Tables 1 and 2 provide greater detail on the district's $951.4 million expenditure plan. Of the total, $536.9 would be allocated to individual colleges and $414.5 would be allocated for district-wide projects. Funds for the individual colleges would primarily be used for facilities construction, additions, and renovations. Approximately 2.2 million square feet would be involved in all projects, including both college and district-wide projects. Further detail is provided in the district's "2004 Capital Development Program Summary." *(See Attachment #2)* Information on prioritization of projects was not provided.

Table 1

Estimated College Expenditures
($ in millions)

Chandler-Gilbert	$56.1	Paradise Valley	$ 55.8
Estrella Mountain	61.1	Phoenix	55.0
Gateway	44.6	Rio Salado	50.0
Glendale	60.3	Scottsdale	50.7
Mesa	60.8	South Mountain	42.5
		Total	$ 536.9

Table 2

Estimated District-Wide Expenditures
($ in millions)

Expand Existing College Centers	$ 98.0
New College Centers	45.0
Land – Future College Development	19.0
Maintenance and Security	67.5
Regulatory Compliance, Energy and Water Conservation	20.0
Technology	95.0
Occupational Programs	70.0
Total	$ 414.5

Enrollment Growth

The district's student population will continue to grow in future years, which will require capital expenditures. The district based its capital plan on 5% annual enrollment growth. The district reported that it had a student population of 268,000 (headcount, not full-time equivalent) in FY 2003 and estimates a student population of over 400,000 (headcount) by FY 2011. While the district has identified specific capital projects for each campus, it did not provide information on estimates for enrollment growth by campus and how those estimates were used to determine capital needs for each campus. The JLBC Staff has requested additional information on enrollment projections for each campus and how the capital projects tie to those projections. The JLBC Staff also requested current square footage information and future square footage estimates as base measures for how the proposed capital projects correlate to enrollment projections.

Bond Issuances and Debt Service

Attachment #1 provides information on the issuances and the district's estimated debt service payment schedule. Bonds issued for $651.4 million in capital projects would have a 15-year payment term and bonds issued for $300 million in technology and equipment would have a 6-year payment term.

(Continued)

In addition to the debt service payments associated with the new issuance, the district is currently paying debt service on older bonds that will be retired in FY 2015. Including amounts for new and previous GO issuances, the total district FY 2006 debt service payment is estimated to be $51.1 million. By FY 2011, the district will be making a $112.1 million debt service payment for all GO issuances.

Total outstanding debt for the district at the end of FY 2003 was $285.6 million. This amount consists of $261.0 million in principal from GO bonds and $24.6 million from revenue bonds. The Constitution limits the amount of outstanding GO debt the district the district may incur to 15% of the district's total Secondary Net Assessed Valuation (NAV). In FY 2003 the district's outstanding debt was equal to approximately 1% of its Secondary NAV. The FY 2005 planned issuance of $190.3 million would increase that amount to approximately 1.5%.

Tax Rates

To pay for the annual debt service costs, the district estimates it will have to increase secondary property tax rates. *Attachment #1* details the estimated tax rates associated with the new issuances. Over the life of the debt service payments the district estimates that rates would increase by an average of approximately 16¢. *Table 3* provides the impact on the estimated tax rates for each year of the debt service and the tax revenue on a house valued at $100,000.

Table 3

Estimated Annual Impact of New Tax Rates on $100,000 House

	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16
Tax Rate	7¢	13¢	12¢	17¢	17¢	22¢	21¢	26¢	25¢	24¢	23¢
Revenue	$7	$13	$12	$17	$17	$22	$21	$26	$25	$24	$23

	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26	FY 27
Tax Rate	23¢	22¢	21¢	16¢	16¢	11¢	11¢	7¢	7¢	3¢	3¢
Revenue	$23	$22	$21	$16	$16	$11	$11	$7	$7	$3	$3

To determine the level of tax rates necessary to make the debt service payments, the district has assumed annual Secondary NAV growth of 3%. Since the actual tax rate for each year is calculated based on actual Secondary NAV, the actual tax rates required to fund the debt service payments will depend on future NAV growth. Over the past 10 years secondary NAV in Maricopa has grown by an average of 7.6%. The district, therefore, is likely underestimating secondary NAV growth, which could result in lower secondary property tax rate increases if Secondary NAV is above the 3% used in the estimates.

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DATE: June 15, 2004

TO: Representative Russell Pearce, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Tony Vidale, Senior Fiscal Analyst

SUBJECT: Arizona Department of Administration – Reports on Prison Construction Schedule and Status of Private Prison Bed Contracts

The Arizona Department of Administration (ADOA) and Department of Corrections (ADC) are providing a report to the Committee on the construction schedule of the 1,000-bed state prison expansion projects and a timeline and current status on the acquisition of 1,000 new private prison beds.

Recommendation

This report is for information only and no Committee action is required. The construction completion date of November 2004 for the 1,000 state beds remains on schedule. ADC is currently reviewing contract proposals for the 1,000 new private prison beds and expects to award the contract in July 2004, with occupancy beginning in March 2005.

The JLBC Staff recommends the department continue to keep staff apprised of the status of these projects no later than every other month. The department has already been providing these updates on a comparable scheduled.

Analysis

At its March 26, 2004 meeting, the Committee reviewed and approved the 1,000-bed prison expansion project and issuance of Certificates of Participation (COPs) in the amount of $33,275,000. The Committee also required ADOA and ADC to report back by June 1, 2004 on the construction schedule for the 1,000 state beds and provide a timeline for finalization of contracts to add 1,000 new private prison beds and their projected opening dates.

Laws 2003, Chapter 5, 2nd Special Session authorized ADOA to issue COPs for the expansion of facilities that will provide 1,000 beds in the prison system. Chapter 5 also directed ADC to contract for 1,000 new private prison beds.

(Continued)

1,000 State Prison Beds
COPs have been issued and construction documents completed for expansion of the Douglas, Perryville, and Tucson prison complexes. Relocation of existing utilities has started at Perryville and Douglas and grading and earthwork at the 3 sites are scheduled for June. The construction contractor has confirmed substantial completion by November 2004 and the department will begin occupancy in December 2004.

1,000 Private Prison Beds
ADC is currently reviewing contract proposals for the 1,000 new private prison beds and expects to award the contract in July 2004, pending resolution of any environmental requirements and approval of the contract by the Office of the Attorney General (AG). The 2 proposed sites are ASP-Florence West, operated by Correctional Services Corporation (CSC) and the Eloy Detention Center, operated by Corrections Corporation of America (CCA). While ADC expects an occupancy date of March 2005, vendors have estimated a construction timeline of 8 to 12 months for the private prison beds to open.

The following table displays ADC's timeline and status of acquisition of the private beds.

Timeline and Status of 1,000 New Private Prison Beds

February 20, 2004	ADC issues a proposed contract
March 8, 2004	ADC received responses from vendors
April 16, 2004	ADC evaluated proposals and requested clarifications
April 26, 2004	ADC received and evaluated clarifications
May 11-12, 2004	ADC conducted public hearings
May 13-14, 2004	ADC met with vendors and discussed modifications
June 18, 2004	Best and Final Offers are expected
July 30, 2004	Award of contract
March 2005	Begin occupancy

In addition, the department has been providing periodic updates on these projects and expects to continue providing these updates until project completion.

RS/TV:jb

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DATE: June 15, 2004

TO: Representative Russell Pearce, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Shelli Carol, Fiscal Analyst

SUBJECT: JLBC Staff - Report on Telecommunications Privatization

Background

Laws 2003, Chapter 263 required the Government Information Technology Agency (GITA), in consultation with the Arizona Department of Administration (ADOA), to prepare and submit to the Joint Committee on Capital Review (JCCR) an actionable request for proposals (RFP) to privatize the state's telecommunication services. That draft RFP was favorably reviewed by the Information Technology Authorization Committee (ITAC), as well as by JCCR on March 26, 2004.

While Chapter 263 assigned GITA the responsibility to develop the draft RFP, the statute required ADOA to release the bid and select a contractor. ADOA released the Statewide Telecommunications Outsourcing RFP on April 16, 2004 as scheduled. However, the ADOA RFP significantly changed several business decisions, as outlined below, from the original ITAC RFP. ITAC approved the ADOA RFP on May 12, 2004. The ITAC approval included conditions seeking detailed information on bid evaluation criteria, reasoning behind bid selection, methods of approach, and exit strategies. ITAC also requested monthly status reports. GITA recommended that JCCR, as well, review the new ADOA RFP.

The solicitation period for the telecommunications RFP closed on June 2, 2004. ADOA received proposals from eight vendors. ADOA has put together an evaluation committee of eight voting members and over twenty technical advisors and anticipates choosing a competitive range of bidders for the second phase of the solicitation process in the next few weeks. ADOA plans to have any final contracts ready for ITAC approval and JCCR review in mid-August.

Recommendation

This report is for information only and requires no Committee action. However, JLBC Staff recommends that ADOA report on the status of the Committee's prior stipulations when it submits any final contracts for review.

(Continued)

Key Changes to Original JCCR-Reviewed ITAC RFP

- The ADOA RFP extended the range of possible telecommunications plans to include full scale outsourcing of the state's telecommunications services, including management, core infrastructure, carrier services, agency equipment, and maintenance, to one contractor. The original ITAC RFP envisioned outsourcing management services only, leaving all other telecommunications services under the control of the various state agencies. It is possible, although not required, that a single contractor could provide all management, carrier, and maintenance services, as well as hardware and software to agencies without going through any other solicitation process.

- The ADOA RFP asked bidders to provide pricing information using separate totals for each agency, rather than the universal service rates requested by the original ITAC RFP. This change requires specific agency information, which bidders may have difficulty obtaining.

- The ADOA RFP specified that the contractor will own all assets it provides to the state, including core telecommunications infrastructure. The state earns ownership only when the contractor recovers the cost of such assets through fees to the state or the state purchases such assets or assumes such leases at the termination of the contract. The original ITAC RFP required that the state retain ownership of all infrastructure assets. The ADOA modification could complicate any transition to a different contractor in the future. The cost and legal implications of the final asset ownership plan merit review before the state awards any contracts.

- The ADOA RFP did not allow the contractor to consolidate certain overhead that the original ITAC RFP envisioned outsourcing. ADOA will retain the first level of technical support and the contractor must hire all affected employees. ADOA estimates that up to 154 FTE Positions could be impacted.

- The ADOA RFP did not include an expected month-by-month detailed schedule for consolidation of all executive branch agencies, although JCCR Review Stipulation #9 requested one. ADOA added the GITA Telecommunications Roadmap as an amendment to the released RFP. The Roadmap contained only a preliminary schedule.

- JCCR Review Stipulation #6 requested that the released RFP solicit separately delineated pricing for the various corridors of the state, to provide a better understanding of the differences in urban and rural costs. Additionally, JCCR Review Stipulation #9 advised agencies to conduct their telecommunications implementations as a whole, providing improvements to both urban and rural sites. The ADOA RFP did not include requirements to address either stipulation. ADOA plans to address specific corridor costs during the second stage of the solicitation process. However, ADOA states that delivery of broadband services to rural Arizona is not achievable in any contract resulting from this solicitation.

Laws 2003, Chapter 263 mandates that ADOA secure approval from ITAC before awarding a contract or contracts. Once ITAC approves any contracts, Chapter 263 also requires ADOA to submit the contract provisions for JCCR review in Executive Session.

RS/SC:jb