STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

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CHAIRMAN 2003
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JOINT COMMITTEE ON CAPITAL REVIEW
Tuesday, September 21, 2004
1:30 p.m.
House Hearing Room 4

MEETING NOTICE

- Call to Order

- Approval of Minutes of August 17, 2004.

- DIRECTOR'S REPORT (if necessary).

1. ARIZONA DEPARTMENT OF ADMINISTRATION –
   A. Consider Transfer of Fund Balance for Arizona State Hospital Capital Projects.
   B. Review of Revised FY 2005 Building Renewal Allocation Plan.

2. ARIZONA STATE LOTTERY – Review of FY 2005 Building Renewal Allocation Plan.

3. OFFICE OF ARIZONA STATE TREASURER – Consider Recommending Rent Exemption.

4. ARIZONA DEPARTMENT OF TRANSPORTATION –
   A. Report on 5-Year Transportation Plan. Presentation
   B. Review of East Valley Maintenance Yard Project.

5. ARIZONA STATE UNIVERSITY –
   A. Report on ASU Scottsdale Center for New Technology and Innovation. Presentation
   B. Review of Instructional/Research Laboratory Renovations Phase II and Report on Instructional/Research Laboratory Renovation Phase I.

6. UNIVERSITY OF ARIZONA – Report on Capital Project Contingency Allocations.

The Chairman reserves the right to set the order of the agenda.
9/14/04

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MINUTES OF THE MEETING
JOINT COMMITTEE ON CAPITAL REVIEW

Tuesday, August 17, 2004

The Chairman called the meeting to order at 1:30 p.m. Tuesday, August 17, 2004 in House Hearing Room 4 and attendance was as follows:

Members:	Representative Pearce, Chairman	Senator Burns, Vice Chairman
	Representative Biggs	Senator Bee
	Representative Boone	Senator Brown
	Representative Lopez	Senator Cannell
	Representative Lopes	Senator Mead
	Representative Loredo	Senator Soltero
		Senator Waring
Absent:	Representative Farnsworth	
Staff:	Richard Stavneak	Jan Belisle, Secretary
	Lorenzo Martinez	John Malloy
	Shelli Carol	Jeremy Olsen
	Tim Sweeney	Tim Everill
Others:	Carolyn Atwater	Senate
	Nikki Amberg	Senate
	Wendy Baldo	Senate
	Joy Hicks	House
	Jennifer Daly	House
	Mernoy Harrison	ASU
	Steve Miller	ASU
	Charlene Ledet	UofA
	Dick Davis	UofA
	Sam Polito	NAU
	Paul Shannon	ADOA
	Alan Ecker	ADOA
	Bruce Meyers	ADOA
	Jack Jones	ADOA
	John Webster	ADOA
	Bob Rocha	DEQ
	Jim Buster	DEQ
	Willis Sawyer	ADMMR
	Norris Nordvold	Phoenix
	Alan Maguire	The Maguire Company

Representative Pearce moved that the Committee approve the minutes of June 22, 2004. The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION – Review of FY 2005 Building Renewal Allocation Plan.

Ms. Shelli Carol, JLBC Staff, presented the Arizona Department of Administration (ADOA) request that the Committee review the FY 2005 Building Renewal Allocation Plan for its $3.5 million Capital Outlay Stabilization Fund (COSF) appropriation. There is some uncertainty over COSF revenue collections, but the department will complete a revised forecast by the end of the month. The Staff has revised the original recommendation and now recommends a favorable review for only $1 million of the $3.5 million request with the provisions stated in the memo with the revised recommendation.

There was no discussion on this item.

Senator Burns moved the Committee give a favorable review for only $1 million of request with the following provisions:

- *The $1 million represents $686,000 for the five projects detailed in Table 1 of the revised memo, plus $314,000 for FY 2005 emergency projects.*
- *ADOA report to JLBC Staff any allocations for FY 2005 emergency projects from the above-referenced $314,000 amount. The JLBC Staff will report to the Committee on significant allocations, typically those above $50,000.*
- *ADOA submit for Committee review any reallocations above $50,000 of the favorably-reviewed $1 million plan*
- *ADOA submit for Committee review an allocation plan for the remaining $2.5 million COSF appropriation.*

The motion carried.

ARIZONA STATE UNIVERSITY – Review of ASU-East Research Infrastructure Lease-Purchase Project.

Shelli Carol, JLBC Staff, presented the Arizona State University (ASU) request that the Committee review the Interdisciplinary Science and Technology Building III. This project would be financed with a COP issuance of $12 million. The Interdisciplinary Science and Technology Building III is part of the university research infrastructure lease-purchase plan authorized by the Legislature in 2003. The COP issuance for this project would be repaid over a 25-year period at an estimated interest rate of 6.0%. ASU would capitalize interest payments until FY 2008, when annual debt service of $939,000 would begin, with $783,000 from the General Fund and $156,000 from tuition.

The Staff recommends a favorable review of the request with the provisions listed in the memo.

Senator Burns asked if ASU continues to construct these new research buildings and use non-appropriated fund sources for operating these buildings, what is ASU doing to ensure that these fund sources can support operating costs when the buildings are finished.

In response to Senator Burns, Steve Miller, Deputy VP for Public Affairs, Arizona State University stated that the project is an infrastructure lease-purchase plan, which was authorized by the Legislature in 2003, and they would not seek an appropriation for the operation of the buildings.

Senator Burns moved that the Committee give a favorable review with the following provisions:

- *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 the case of an emergency, ASU may report immediately on the scope and estimated cost of the emergency rather than submit the item for review. JLBC Staff will inform the university if they do not concur with the emergency nature of the change of scope.*
- *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.*

The motion carried.

COMMUNITY COLLEGES – Consider Review of Yuma/LaPaz Community College District Bond Projects.

Mr. Lorenzo Martinez, JLBC Staff, presented the Yuma La Paz Community College District plan to hold a bond election on November 2, 2004. If approved by the voters, the district would be authorized to issue $73.9 million in General Obligation bonds. The $73.9 million from the bond proceeds would be combined with $10 million from other fund sources for a total of $83.9 million, and would be used to fund construction and renovation projects to address student growth in the district. The bonds would be repaid over a 27-year period.

In response to Chairman Pearce, Mr. Martinez said information was received with reference to how the district projects enrollment growth. Projections are based primarily on historical trends and the Department of Economic Security population growth statistics. There is no information available on area by area enrollment projections. Mr. Martinez referenced *Table 1* in the memo. For new construction, the costs appear to be lower compared to new construction for university research related facilities which range from $300 - $507 per square foot. The district's preliminary average estimate is $298 per square foot. The scopes of the district projects are likely to be less complex than the university facilities. The estimates for new construction appear reasonable and possibly on the low end as construction costs in less urban regions of the state tend to be higher than urban areas.

The district renovation costs appear to be on high end with a range of $124 - $295 per square foot compared to $133 - $154 per square foot for recent university projects. The district will develop more refined estimates as they get closer to bond issuance.

Senator Burns moved that the Committee give a favorable review with the provision that the district return to the Committee for review prior to each actual bond issuance. The motion carried.

DEPARTMENT OF ENVIRONMENTAL QUALITY – Consider Recommending Allowing Rent Payments on Cash Flow Basis.

Mr. John Malloy, JLBC Staff, presented the Department of Environmental Quality (DEQ) request that the Committee consider recommending allowing rent payments on a cash flow basis. The department is requesting an exemption from this requirement in order to pay its rent in monthly or quarterly installments rather than in one lump sum payment.

The JLBC Staff recommends the Committee recommend the Arizona Department of Administration authorize a permanent exemption from payment of the rental fee in one lump sum payment, with the following stipulations:
1. DEQ pay its rental fee on a quarterly basis.
2. DEQ make the quarterly payments on the 15th of the month prior to the beginning of the next quarter.

Mr. Malloy indicated that the original recommendation included a third stipulation, which after consultation with DEQ, is no longer part of the JLBC Staff recommendation.

Senator Burns asked why this third option was no longer being considered.

Mr. Malloy replied that the third stipulation would have required DEQ to pay its first quarter installment utilizing all general fund dollars. Because the agency uses general fund dollars for programs that eventually get reimbursed by non-general fund monies, this option would cause cash flow problems for the agency.

Senator Burns moved that the Committee recommend the Arizona Department of Administration authorize a permanent exemption from payment of the rental fee in one lump sum payment, with the following stipulations:
1. DEQ pay its rental fee on a quarterly basis.
2. DEQ make the quarterly payments on the 15th of the month prior to the beginning of the next quarter
The motion carried.

DEPARTMENT OF MINES AND MINERALS RESOURCES – Consider Recommending Rent Exemption.

Mr. Jeremy Olsen, JLBC Staff, presented the Arizona Department of Mines and Minerals (ADMMR) request that the Committee consider recommending the Arizona Department of Administration authorize a partial rent exemption in

the amount of $136,400 for FY 2005. Pursuant to A.R.S. § 41-792.01D, "if a state agency does not have the financial resources for state owned space … the Director of the Arizona Department of Administration, on recommendation of the Joint Committee on Capital Review, may authorize a whole or partial exemption from payment of the rental fee."

In FY 2004 ADMMR requested and was granted a rent exemption in the amount of $136,400. At that time the rent requirement for ADMMR was $368,100, which accounted for 57% of the agency's operating budget.

Based on the Committee's action in FY 2004, JLBC Staff recommends the rent exemption in FY 2005 as well.

There was no discussion on this item.

Senator Burns moved that the Committee recommend the Arizona Department of Administration authorize a partial FY 2005 General Fund rent exemption of $136,400 for the Arizona Department of Mines and Mineral Resources. The motion carried.

CITY OF PHOENIX – Report on Civic Plaza Expansion Project.

Mr. Tim Everill, JLBC Staff, presented the City of Phoenix report on the Civic Plaza Expansion project. Laws 2003, Chapter 266 established the Arizona Convention Center Development Fund, and authorized the state to participate financially in projects that qualify under the terms of the legislation. The City of Phoenix is proceeding with a project to expand and renovate the Phoenix Civic Plaza. One of the requirements for qualified projects is that the progress of the project be reported twice annually to the Committee.

This item is for information and no Committee action is required. The report submitted noted that:

- Major construction has begun on the expansion project, is currently on schedule, and completion is anticipated in 2009.
- A new 1,000 room downtown hotel located at 3rd Street and Van Buren will be owned by the city and operated by Sheraton. The hotel is scheduled to be completed in late 2008.

In the next report to JCCR, JLBC Staff recommends that the City provide a discussion of updated financing cost estimates for both the expansion project and the downtown hotel, as well as any revisions to the construction timelines for both projects.

The 2003 legislation provides that the state is to subsidize half of the $600 million construction cost of the Civic Plaza expansion project by paying debt service and other related costs on $300 million of the construction bonds that will ultimately be issued for the project.

The City estimates that the first bonds, in the amount of $100-$150 million, will be issued sometime after the beginning of 2005. However, it should be noted that the state's financial obligation does not begin until one-year after the completion of the expansion project.

The state's total obligation in dollar terms is unknown at this time because of the uncertainty of future bond rates. Estimates prepared by the city's consultant during the discussion of the legislation indicated that the total cost to the state could be somewhere around $625 million, including $300 million of principal, and $325 million in debt service over the estimated 30-year life of the bonds. This could vary depending on interest rates and length of the bonds.

The City will own the hotel, and it will be operated by Sheraton. The construction cost is estimated to be around $210 million, funded by $280 million in construction bonds. The total cost of the project could be around $580 million, including $300 million in interest on the bonds. Construction is scheduled to begin in mid-2006, with completion in late 2008.

In reply to questions, Mr. Alan Maguire, Consultant, The Maguire Company said that the hotel project is definitely a financial advantage to the Civic Plaza expansion project. In reference to the potential for not enough revenue to pay the costs of the hotel project, Mr. Maguire stated that the city's guarantee is behind the project. The estimated costs of the hotel represents approximately $210,000 "per key" (per room). The numbers are an estimate, and they are trying

to gather information to get more accurate comparative costs. Data from 7 comparable hotel properties indicated key costs ranging form $208,000 (Chicago Hyatt) to $350,000 (Austin Hilton). The average per key cost of the 7 hotels is $258,000.

Chairman Pearce mentioned that he struggles with the whole issue. He said that we are competing with free enterprise and it is a bad policy.

Mr. Maguire said that the convention business has changed patterns. He noted that Phoenix is an attractive place to have a convention.

No Committee action was required.

NORTHERN STATE UNIVERSITY – Report on Northern Arizona University Green Building Savings.

Ms. Shelli Carol, JLBC Staff, presented the report on the Northern Arizona University costs of meeting "green building" standards as compared to the savings generated through energy and other operating efficiencies. At its June 2004 meeting, the Committee gave a favorable review to the Applied Reseach and Development Facility, a research infrastructure project that will house environmental academic programs. NAU plans to construct this building to U.S. Green Building Council standards. Due to this unique design, the Committee requested that NAU provide a cost-benefit analysis.

The energy efficient planning and construction of the building puts a $2.7 million premium on the $20.5 million project. Even with this premium, total and direct construction costs per square foot fall on the low end of the range of other university research infrastructure projects. NAU estimates $54,000 in annual utilities savings. Those savings, considered alone, represent a return on investment of around 2% with a repayment period of 50 years. The university believes this project will also provide intangible benefits including positive publicity and higher employee productivity.

The JLBC Staff recommends that the Arizona Board of Regents (ABOR) establish standard rates of return to evaluate energy efficient construction designs in the future. Ms. Carol stated that the item was information and no Committee action was required.

In response to Senator Burns, Sam Polito, Northern Arizona University said the "green building" design was funded under a Department of Commerce grant. NAU is expected to save approximately 60% of their energy costs, assuming no increase in traditional energy prices. Additionally, the energy efficient construction of the building required the installation of fewer major mechanical systems. Another value of "building green" comes from the ability to market/publicize the fact that the university serves as a leader in the development of sustainable facilities and positive environmental stewardship.

No Committee action was required.

UNIVERSITY OF ARIZONA – Reports on Capital Project Contingency Allocations

Mr. Shelli Carol, JLBC Staff, reported on the contingency allocation changes for 3 projects, due to rising raw materials prices. Those projects are the Medical Research Building, the Residence Life Building Renewal Phase I, and the Highland Avenue Parking Structure. U of A is reallocating $3 million out of $7.1 million in total contingency funds. The individual total budgets for the three projects remain unchanged from the original Committee-reviewed amounts and per-unit cost estimates for the projects are still reasonable after adjustment.

In reply to Senator Soltero, Ms. Carol stated the discussion of contingency reallocations at a prior meeting references different buildings.

No Committee action was required.

Without objection the Committee meeting adjourned at 2:37 p.m.

Respectfully submitted:

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: September 14, 2004

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

THRU: Richard Stavneak, Director

FROM: Beth Kohler, Senior Fiscal Analyst

SUBJECT: Arizona Department of Administration/Department of Health Services – Consider Transfer of Fund Balance for Arizona State Hospital Capital Projects

Request

The Arizona Department of Administration (ADOA) requests Committee approval to transfer the remaining $3.5 million from the Arizona State Hospital Capital (ASH) Construction Fund appropriation for FY 2005 capital projects, including building renewal, at the Arizona State Hospital. A.R.S. § 35-173 requires the transfer of monies appropriated for capital projects to be approved by the Committee.

Recommendation

The Committee has at least the following options:

1. Approve the transfer of the entire $3.5 million from the Arizona State Hospital Capital Construction Fund to ADOA for FY 2005 capital projects, including building renewal. The costs of these projects appear reasonable relative to other projects that the Committee has reviewed in the past.
2. Do not approve the transfer of these monies. Under this option, all $3.5 million in unencumbered monies remaining in the fund would instead revert to the Budget Stabilization Fund (BSF) by July 1, 2005.

Another significant capital issue at the State Hospital is the forensic hospital, which houses mentally ill persons who have been committed through the criminal justice process. As discussed below, the original State Hospital capital construction project included the renovation and expansion of the existing forensic hospital. As a cost saving measure, however, Laws 2003, 1st Special Session, Chapter 2 prohibited ADOA from using funds to proceed with this project. The original budget for the project was $12.9 million, but DHS estimates that it would now cost $26 million. Approximately $1.5 million of the requested $3.5 million transfer will be used for projects at the forensic hospital.

(Continued)

Analysis

Background

Laws 2000, Chapter 1, as amended by Laws 2000, 7th Special Session, Chapter 1, and Laws 2001, 2nd Special Session, Chapter 3, appropriated $77.5 million from the BSF over 4 years for the demolition, construction and renovation of the Arizona State Hospital. Laws 2002, 6th Special Session, Chapter 1 transferred $13.4 million ($10.4 million from the appropriation and $3 million in interest earnings) from the Arizona State Hospital Capital Construction Fund, leaving the net budget for the ASH projects at $67.1 million.

The original project planned to provide at least 176 new civil beds at ASH, and to renovate and expand existing facilities to address physical plant needs for civil and forensic populations, an adolescent unit, and sexually violent offenders. However, Laws 2003, 1st Special Session, Chapter 2 prohibited ADOA from using any unexpended or unencumbered monies in the fund for forensic hospital renovations or expansions and therefore, the only renovations that occurred at the forensic hospital were the installation of a replacement security fence and new lighting. All major projects at the State Hospital are essentially complete at this time.

Table 1 below displays the originally budgeted amounts for each portion of the ASH demolition and construction project, the revised budget after the reductions included in Chapter 1, and the actual expenditures as reported by ADOA.

Table 1

	Original Budget By Project	Revised Budget By Project	Actual Expenditures By Project
SVP Program	$ 5,869,200	$ 5,869,200	$ 6,442,000
Civil Hospital and Adolescent Facility	45,037,700	45,037,700	42,858,000
Sitework/Infrastructure Improvements	12,364,900	12,364,900	12,971,000
Forensic Hospital	12,685,000	2,285,000	1,329,000
Contingency	1,543,200	1,543,200	0
TOTAL	**$77,500,000**	**$67,100,000**	**$63,600,000** 1/
Amount Remaining In Fund			**$ 3,500,000** 2/

1/ Of this amount, $375,000 has not yet been spent but is encumbered for finishing touches on projects.
2/ Does not include interest earnings of $1.5 million, which also remain in the fund but require legislative authorization before they are spent.

Transfer of Monies

ADOA reports that there is $3.9 million from the original appropriation remaining in the fund. Of this amount, approximately $375,000 is encumbered for finishing touches on existing projects, leaving $3.5 million available to be used for other purposes.

ADOA is requesting to transfer these remaining monies for FY 2005 building renewal and capital projects at the State Hospital. ADOA has developed a list of 28 projects, which they have prioritized in an attached list. Table 2 also summarizes the projects, grouping them by type of project and location (civil hospital, forensic hospital, or general hospital support/administration). Projects characterized as general hospital support are either hospital-wide projects (in buildings throughout the hospital) or projects located in buildings that provide services to the entire hospital (such as the dietary). The ADOA detailed list of projects (by project number) can be found in the attachment.

Table 2

	Cost	Location
Building Renewal		
Projects 4, 19	$ 110,000	Civil Hospital
Projects 8, 13, 26	1,295,800	Forensic Hospital
Project 15 1/	165,000	Civil and Forensic Hospitals
Projects 1, 2, 5, 7, 9, 10, 11, 12, 14, 16, 17, 18, 20, 21, 22, 23, 24, 27	2,644,224	General Hospital Support/Administration
Subtotal – Building Renewal	$4,215,024	
Other Capital Projects		
Projects 3, 28	$ 578,600	Civil Hospital
Project 25	165,000	Forensic Hospital
Project 6	143,000	General Hospital Support/Administration
Subtotal – Other Capital Projects	$ 886,600	
Total – All Projects	$5,101,624	

1/ This project consists of modifying , replacing, and expanding the closed-circuit television systems at the hospitals. The expansion component of the project would not technically be considered building renewal. ADOA is not able to provide an estimate of how much of the cost is associated with the expansion.

The cost of the projects on the list totals $5.1 million. If the estimates provided are accurate, projects 22-28 in the attached list will not be completed. These include replacing the Commissary and Dietary air handlers, abating asbestos from the General Services building, renovating the Granada building, upgrading bathrooms in certain buildings, and building out shell space in the Civil Hospital.

Some of the cost estimates represent preliminary estimates from the architectural and engineering firms involved in the original ASH project, and other estimates are based on ADOA's historical cost experience for similar projects. In general, the costs appear reasonable relative to other building renewal costs that the Committee has reviewed in the past.

Pursuant to Laws 2000, Chapter 1, as amended by Laws 2000, 7th Special Session, Chapter 1, and Laws 2001, 2nd Special Session, Chapter 3, all monies in the fund remaining unexpended and unencumbered on July 1, 2005 revert to the BSF. Furthermore, any monies approved by the Committee for building renewal projects that remain unencumbered and unexpended on September 30, 2006, will revert to the BSF.

If the Committee does not approve the $3.5 million transfer, the monies will revert to the BSF by July 1, 2005.

Interest Earnings

In addition to the $3.5 million remaining in the fund from the original appropriation, the fund also includes $1.5 million in interest earnings. Neither ADOA nor DHS can spend these interest earnings without a separate appropriation. If the Legislature does not appropriate this $1.5 million for a specific purpose, it will revert to the BSF by July 1, 2005.

RS/BK:ck

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DATE: September 14, 2004

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

THRU: Richard Stavneak, Director

FROM: Jeremy Olsen, Fiscal Analyst

SUBJECT: Arizona Department of Administration - Review of Revised FY 2005 Building Renewal Allocation Plan

Request

Laws 1986, Chapter 85 established the Joint Committee on Capital Review and charged it with developing a Building Renewal formula to guide the Legislature in appropriating monies for the maintenance and repair of state buildings. A.R.S. § 41-1252 requires JCCR review of the expenditure plan for Building Renewal monies. The Arizona Department of Administration (ADOA) requests Committee review of $2,500,000 of its $3,500,000 FY 2005 Building Renewal allocation plan from the Capital Outlay Stabilization Fund (COSF). The Committee reviewed the expenditure of $1,000,000 from this fund at its August 17, 2004 meeting.

Recommendation

JLBC Staff recommends a favorable review for $1,300,000 of the request with the following provisions:

- The $1,200,000 represents $949,000 for the 11 projects listed under the *New Projects* subtitle in Table 1, plus $351,000 for FY 2005 emergency projects.
- ADOA report to JLBC Staff any allocations for FY 2005 emergency projects from the above-referenced $351,000 amount. JLBC Staff will report to the Committee on significant allocations, typically those above $50,000.
- ADOA submit for Committee review any reallocation above $50,000 between the individual projects in the favorably reviewed $1,300,000 plan.
- ADOA submit for Committee review an allocation plan for the remaining $1.2 million COSF appropriation.

(Continued)

Analysis

A.R.S. ' 41-790 defines building renewal as a major activity which involves the repair or reworking of a building and the supporting infrastructure that will result in maintaining a building's expected useful life. Building renewal does not include new building additions, new infrastructure additions, landscaping and area beautification, routine maintenance or the demolition and removal of a building. ADOA will consider projects for building renewal funding if the building or infrastructure component has a useful life of 3 years or more and has a cost of at least $1,000.

The ADOA building system contains 2,795 structures and includes all state buildings, excepting the Arizona Department of Transportation and the Board of Regents. ADOA reports that these buildings have a cumulative size of 19,451,228 square feet, and a replacement cost of $2.1 billion.

The ADOA Building Renewal plan was reviewed by the Committee at its August 17, 2004 meeting. The Committee favorably reviewed allocating $1,000,000 of the $3,500,000 COSF funds. This amount included $461,000 for the four projects listed under the *Previously Reviewed* subsection of table 1, $225,000 for construction services project management, and $314,000 for emergencies. After this original submission, ADOA revised the cost of repairs to the Pioneer's Home roof project upward by $40,000.

Since the August meeting, ADOA has submitted 10 additional projects, listed in table 1 under the *New Project* subsection, which total $899,000. In addition, $10,000 has been allocated for construction insurance premiums. ADOA is also requesting an additional emergency allocation of $1,551,000 for unspecified projects.

In combination with the $314,000 emergency funding allocation from the August meeting, ADOA's total emergency funding would be $1,865,000. This amount would represent slightly more than half of the total building renewal funding. While there is some need for unplanned emergency funding, it is unlikely that half of all monies would be needed in the month between JCCR meetings. An emergency allocation of this level also undercuts the Committee's statutory responsibility to review projects.

As a result, the Staff recommends favorably reviewing $351,000 of the $1,551,000 for emergency use. In combination with the August allocation, a total of $665,000 would be available for emergencies. This recommendation would leave $1,200,000 yet to be reviewed , which would be done when ADOA has more specific plans available for the Committee.

(Continued)

ADOA Building Renewal

Table 1

Agency	*New Projects*	*Allocation*
Administration	Replace Capital Mall cooling towers	$ 130,000
Administration	Replace carpet, 1st & 2nd floors, 402 W Congress, Tucson	150,000
Supreme Court	Repair & rehabilitate cooling tower, concrete repairs, condenser	200,000
Juvenile Corrections	Re-roof Esperanza building, Adobe Mountain School	225,000
Economic Security	Replace carpet in DES group homes	30,000
Economic Security	ADA bathroom renovations, group homes	40,000
Pioneers Home	Kitchen repairs phase II	40,000
School for Deaf & Blind	Replace carpet, dormitories	35,000
School for Deaf & Blind	Replace HVAC systems, Phoenix day school classrooms	40,000
Public Safety	Replace shingle roofs, Sanders remote housing units	25,000
Public Safety	Statewide HVAC replacements	24,000
Risk Management	Construction insurance premiums	10,000
Administration	FY 2005 Emergency Projects 1/	351,000
	COSF Project Allocation Subtotal	**1,300,000**
	Previously Reviewed Request	
Pioneers Home	Kitchen roof structural repairs phase I	100,000
State Treasurer	Remodeling	170,000
Corrections	Roof replacement of the Central Unit Kitchen at the Arizona State Prison Complex in Florence	105,000
Corporation Commission and State Parks Board	Exterior building repairs to fix multiple leaks at 1300 West Washington	86,000
Administration	Construction Services Project Management	225,000
Administration	FY 2005 Emergency Projects	314,000
	Previously Approved Request Subtotal	**1,000,000**
To be determined	Additional ADOA allocation plan submitted for Committee review	1,200,000
	Building Renewal Total	**$3,500,000**

1/ Agency has requested $1,551,000. The JLBC Staff recommends $351,000.

RS/JO:jb

STATE OF ARIZONA

Joint Committee on Capital Review

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DATE: September 14, 2004

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

THRU: Richard Stavneak, Director

FROM: Brian Cary, Principal Economist

SUBJECT: Arizona Lottery Commission – Review of FY 2005 Building Renewal Allocation Plan

Request

The Arizona Lottery Commission requests Committee review of its FY 2005 Building Renewal allocation plan of $41,200 from the Lottery Fund.

Recommendation

The JLBC Staff recommends a favorable review of the FY 2005 Building Renewal allocation plan. The proposed expenditure plan is consistent with building renewal requirements.

Analysis

Laws 1986, Chapter 85 established the Joint Committee on Capital Review (JCCR) and charged it with developing a Building Renewal formula to guide the Legislature in appropriating monies for maintenance and repair of state buildings. A.R.S. § 41-1252 requires JCCR review of the expenditure plans for Building Renewal monies. Laws 2004, Chapter 276 appropriated a total of $41,200 in FY 2005 from the Lottery Fund to the Lottery Commission to be used for major maintenance and repair activities in accordance with A.R.S. § 41-793. The FY 2005 plan is submitted for formal review.

The Lottery operates out of two facilities: a 38,600 square-foot state-owned building located in Phoenix and a 3,080 square-foot leased building in Tucson. The Lottery's plan provides information on proposed maintenance expenditures for the Phoenix facility, which houses the Lottery's administrative offices as well as a ticket sales and redemption site.

The Lottery Commission plans to use its $41,200 FY 2005 allocation on the following projects:

• Resurface the 8,640 square-foot parking lot	$16,000
• Replace cracked and damaged tiles and countertops	$15,000
• Repair property elevation for drainage	$ 3,000
• Repair exterior patio draining system	$ 2,500
Total	$36,500

(Continued)

The remaining $4,700 is available for contingencies.

The plan appears to be reasonable and is consistent with legislative intent. The JLBC Staff recommends a favorable review of the FY 2005 Building Renewal allocation plan.

RS/BC:jb

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DATE: September 14, 2004

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

THRU: Richard Stavneak, Director

FROM: Justin Narducci, Assistant Fiscal Analyst

SUBJECT: Office of the Arizona State Treasurer – Consider Recommending Rent Exemption

Request

The Office of the State Treasurer (ASTO) requests a rent exemption in the amount of $40,000 for FY 2005. Pursuant to A.R.S § 41-792.01D "if a state agency does not have the financial resources for state owned space…the Director of the Arizona Department of Administration (ADOA), on recommendation of the Joint Committee on Capital Review, may authorize a whole or partial exemption from payment of the rental fee."

Recommendation

JLBC Staff recommends that the Joint Committee on Capital Review recommend that ADOA authorize a FY 2005 rent exemption of $40,000, as part of the Treasurer Office's tenant improvements for FY 2005.

Analysis

The Treasurer requested $360,000 in FY 2005 for one-time office renovations. Of this amount, $320,000 was requested for building improvements, while $40,000 was for rent of temporary space during the renovation period.

The FY 2005 budget includes $150,000 from the Capital Outlay Stabilization Fund and allocates $170,000 from the ADOA appropriation for building renewal (Capital Outlay Bill) to the Treasurer for building improvements. Since monies were not appropriated for the temporary space, the ASTO requests a rent exemption of $40,000. The JLBC Staff recommends an exemption for the temporary space. The Treasurer has already made the rent payment for FY 2005 on its permanent office space.

RS/JN:jb

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DATE: September 14, 2004

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

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst
Jeremy Olsen, Fiscal Analyst

SUBJECT: Arizona Department of Transportation – Report on 5-Year Transportation Plan

Request

In compliance with a Committee request, the Arizona Department of Transportation (ADOT) has submitted an Executive Summary of their 5-Year Transportation Facilities Construction Program for FY 2005-FY 2009.

Recommendation

This item is for information only, and no Committee action is required. JLBC Staff recommends, however, that:

- ADOT provide an Executive Summary of its 5-Year Transportation Facilities Construction Program for FY 2006-FY 2010, when the department requests Committee review of its FY 2006 highway construction budget Professional & Outside Services expenditure plan in the summer of 2005.
- The Executive Summary include the following additional information:
  - -- Clarify the definition of "over capacity" highway segments for both urban areas and the rest of the state.
  - -- List all state highway segments that are "over capacity" for ½ hour or longer, including the number of "over capacity" AM and PM hours separately for each segment.
  - -- Identify the "over capacity" segments addressed in the 5-Year Plan.
  - -- Provide maps of "over capacity" segments, and which are addressed by projects in the 5-Year Plan.
  - -- Highlight changes from the 5-Year Plan submitted to the Committee in the previous year.
  - -- Update information on "over capacity" segments, which is now over 2.5 years old.
  - -- Provide other measures of change in traffic congestion, as available. For example, the Texas Transportation Institute recently released their 2004 Urban Mobility Report with data for 2002.

The entire 5-year plan costs $3.8 billion. Of this amount, $1.4 billion will be spent on 19 major projects. During the 5 years, the annual spending level decreases dramatically from $1.5 billion in FY 2005 to less than $800 million in each of the last 3 fiscal years, FY 2007 through FY 2009. This is mainly due to: 1) losing Maricopa Regional Area Road Fund (MRARF) revenue from the ½ cent sales tax, which will expire December 31, 2005 unless extended by the voters, and 2) repaying $200 million of Board Funding Obligations (BFO) in FY 2008 per current statute.

(Continued)

ADOT has reported that the plan addresses 12 out of 15 "over capacity" highway segments. "Over capacity" means that traffic volume exceeds capacity for all 3 hours of the morning or evening rush hours. However, there are additional highway segments that are "over capacity" from ½ hour to 2.5 hours, which ADOT did not report on. On August 31, 2004, JLBC Staff asked ADOT to provide this information by September 10, 2004, since ADOT has already completed their analysis.

Analysis

The 5-Year Transportation Facilities Construction Program for FY 2005-FY 2009 includes a 5-year total of $3.8 billion for the highway program and $0.7 billion for the aviation program. The last page of ADOT's Executive Summary shows expenditures broken out by fiscal year for each county. The following table shows the estimated revenues and expenditures for the 5-year highway program.

5 Year Highway Program

Revenues		Expenditures	
		Statewide Program	
State Highway Fund	$ 1,007,000,000	Preservation	$ 764,000,000
Regional Area Road Fund	212,000,000	Improvements	2,013,000,000
Federal Funds	1,837,000,000	Management	345,000,000
Bonds, Notes, & HELP Loans 1/	730,000,000	Total Statewide Program	$3,122,000,000
Total	$3,786,000,000		
		MAG Freeway System	$ 664,000,000
		Total	$3,786,000,000

1/ Bonds, Grant Anticipation Notes, and Highway Expansion and Extension Loan Program Loans.

Attachment A lists the estimated expenditures by fiscal year for 19 major highway projects (those over $25 million), which total $1.4 billion of estimated expenditures for the 5-year program. The largest of the 19 highway projects are as follows:

- The Red Mountain section of Loop 202 connects the Price Freeway (Loop 101) with the Superstition Freeway (US 60). The project began June 1996 and currently extends to Higley Road. The 5 remaining sections are to be completed by September 2007 at a multiple year cost of $295.3 million beginning in FY 2005.
- The Santan Freeway section of Loop 202 connects the Superstition Freeway (US 60) to the Maricopa Freeway (I-10). Construction on the Santan began November 2000 and has been completed from I-10 to State Route 87 (Arizona Avenue). The remaining work is to be completed by December 2006 at a multiple year cost of $201.9 million beginning in FY 2005.
- The I-10/16th Street to 40th Street to Baseline project consists of a series of "connector distributor" roadway projects at a multiple year cost of $131.4 million beginning in FY 2005. Collector distributor roads are similar to frontage roads except that access to abutting property is not permitted, and the number of entrance and exit points to the freeway are reduced.
- The 5.5 mile Tucson section of I-10 from Prince Road to 29th Street is currently 3 lanes in each direction. The project will add one lane in each direction and improve the traffic interchanges at a multiple year cost of $122.4 million for portions scheduled to begin in FY 2006. The project may take 3 years to complete.
- The four-mile section of US 60 from Gilbert Road to Power Road currently consists of three travel lanes in each direction. This project will add two general purpose lanes, a High Occupancy Vehicle (HOV) or carpool lane, and merge (auxiliary) lanes in each direction. It will also be repaved with rubberized asphalt. The merge lanes will be constructed between Val Vista Drive and Higley Road. The multiple year cost is $91.7 million beginning in FY 2005.

Five of the 19 major projects are not new to the 5-Year Plan, but do now meet the $25 million threshold. These projects are as follows.

- The 6 mile section of I-10 from State Route 202L to Riggs Road is to be widened from 2 to 4 lanes in each direction, including an HOV lane and another general purpose lane in each direction for a multiple year cost of $44.9 million beginning in FY 2006 (including $42 million in FY 2009).

(Continued)

The US 60 overpass at 59th and Glendale avenues includes $27.8 million for the overpass and $9.2 million for additional right of way cost associated with the corridor. The project is to be completed by July 2006 for a multiple year cost of $37 million beginning in FY 2005. Last year $23.8 million was programmed for the overpass, and ADOT did not include additional right of way cost associated with the corridor in their definition of this project.

- The 3 mile section of State Route 179 Sedona is to be widened by 1 lane in each direction from the "Y" south on State Route 179 at a multiple year cost of $27.6 million beginning in FY 2005. This year ADOT grouped 3 related segments into 1 project for reporting purposes (this grouping then exceeded the $25 million threshold), whereas last year they did not.
- The State Route 195 Yuma Area Service Highway/Goldwater Range project is a new 26 mile long, 4 lane divided highway connecting the San Luis port of entry to I-8 east of Yuma, at a multiple year cost of $31.2 million beginning in FY 2006 (including $8 million in FY 2009). The project primarily uses right of way from the Marine training facility.
- The State Route 260 Doubtful Canyon Section project will widen 4 miles beginning at milepost 269 from a 2 lane highway to a 4 lane divided highway, at a multiple year cost of $33.8 million beginning in FY 2005 (including $32.3 million in FY 2009). This is one of six projects that will ultimately widen and straighten 21 narrow, winding miles of State Route 260 east of Payson at a cost $100 million.

ADOT's Executive Summary also includes their 5-Year Aviation Program for FY 2005-FY 2009 which totals $685.2 million, including revenues of $580 million from federal grants, $78 million from the state, and $27.2 million from local governments. The aviation program provides for planning, construction, development, and improvement of state, county, city and town airports.

Congestion Performance Measures

ADOT reported on their traffic congestion performance measures at the June 22, 2004 Committee meeting. Congested highway segments are defined as those with traffic volume at or over 100% of capacity during peak driving periods from 6 a.m. to 9 a.m. and 3:30 p.m. to 6:30 p.m. Throughout the state, ADOT reported that 15 road segments met this criteria, including 12 segments with action in the 5-Year Plan. However, they may not have included every "over capacity" highway segment, making their list of 15 road segments incomplete. The Committee asked ADOT to submit for Committee review a complete list of "over capacity" state highway segments by September 1, 2004.

ADOT responded that the 15 road segments previously reported as "over capacity" includes only those segments which are "over capacity" for the entire 3 hour duration of either the peak morning or evening driving period. The department's initial report did not include segments that are "over capacity" from ½ hour to 2.5 hours. (*See Attachment B*)

Our office asked ADOT on August 31, 2004 to provide a complete list of state highway segments (including those segments already reported to the Committee) that are "over capacity" for ½ hour or longer. The department provided maps of congested segments for the Phoenix area from a Maricopa Association of Governments (MAG) study in the fall of 2001. (*See Attachment C*) The Phoenix area maps are of limited use, since they are 2.5 years old and the data was collected prior to completion of projects such as the Loop 101, the SR 51 to Loop 101 connection, and a 34 lane mile improvement on US 60 from I-10 to Val Vista Road.

The maps show 13 segments during the morning rush and 15 during the afternoon rush that were "over capacity" from ½ to 3 hours. Since then, the congested segments may have improved or shifted to other parts or the freeway system as a result of these and other projects coupled with continuing population growth in the valley. At the June 2004 Committee meeting, ADOT reported that 6 of the 15 "over capacity" 3 hour segments are in the Phoenix area, and that 3 of the 6 have action in the 5-Year Plan.

ADOT also reported to the Committee that there are 4 "over capacity" 3 hour segments in the Tucson area and 5 "over capacity" segments for the rest of the state, all with action in the 5-Year Plan. ADOT states that they

(Continued)

have provided no additional congestion information for the Tucson area, because no highway segments are "over capacity" for ½ to 2.5 hours. This does not seem reasonable, and ADOT said that they would re-check their information. Also, in the past ADOT's 3-hour definition of congested segments has applied to the Phoenix and Tucson areas, but not the rest of the state. It is unclear what the definition is for congested segments in rural areas.

Financial Basis of 5-Year Plan

ADOT provided an outline of the financial assumptions behind the current 5-Year Plan (*See Attachment D*). The department projects that total Highway User Revenue Fund (HURF) revenues will increase from $1.18 billion in FY 2004 to $1.44 billion in FY 2009, or a 22% increase. This seems reasonable, since total HURF revenues increased by 20% from $983 million in FY 1999 to $1.18 billion in FY 2004. The $1.007 billion of State Highway Fund revenue for the 5-Year Plan shown in the previous table is the remainder of HURF revenues after various distributions and appropriations such as to cities, counties, the Department of Public Safety, ADOT's operating budget, ADOT's capital outlay and building renewal, and the $118 million vehicle license tax transfer to the General Fund in FY 2005.

The 5-Year Plan's dollar value of projects begun plus debt service decreases dramatically from $1.5 billion in FY 2005, to less than $800 million in each of the last 3 fiscal years, FY 2007 through FY 2009. This is mainly due to 2 reasons.

- First, Maricopa Regional Area Road Fund (MRARF) revenue from the ½ cent sales tax decreases from $305 million in FY 2005 to $212 million in FY 2006 to $0 in FY 2007 and beyond, since the current tax expires December 31, 2005. If the voters extend the Maricopa ½ cent sales tax at the November general election, then we would expect to see higher levels of expenditure in future 5-Year Plans.
- Second, ADOT will need to repay $200 million of BFO's to the State Treasurer in FY 2008 under current statute. BFO's are loans totaling $200 million from the General Fund operating balance to the department, as authorized by statute. If the statutory authorization for BFO's is extended, then we would again expect to see higher levels of expenditure in future 5-Year Plans.

Highlights of ADOT's bonding plans include the following.

1) HURF bonds are near the $1.3 billion statutory limit. They range from $1.15 billion in FY 2005 to $1.22 billion in FY 2008 before decreasing to $1.2 billion in FY 2009.
2) MRARF Bonds would be repaid by the end of FY 2006, due to the expiration of the Maricopa ½ cent sales tax. MRARF bonds outstanding decrease from $289 million in FY 2005 to $80 million in FY 2006 to $0 thereafter.
3) Grant Anticipation Notes (GANS) outstanding range from $330 million in FY 2005 to $456 million in FY 2008 before decreasing to $393 million in FY 2009. GANS are repaid from future federal funds.
4) Under current statute, $200 million of BFO's will need to be repaid in FY 2008 and would be $0 thereafter. The $200 million includes $60 million repaid from the State Highway Fund and $140 million repaid from the Highway Expansion and Extension Loan Program (HELP) Fund.
5) HELP Fund loans outstanding decrease from $145 million in FY 2005 and $195 million in FY 2006 to $42 million in FY 2009. This is due to ADOT having less money available to make loans from the HELP Fund in FY 2009, after repaying $140 million of BFO's from the HELP Fund to the State Treasurer in FY 2008. The HELP Fund is a state infrastructure bank which provides loans to political subdivisions, Indian tribes and state agencies for eligible transportation projects.

Attachments (4)
RS/BH:jb

Attachment A

MAJOR PROJECTS (Over $25,000,000)

	Completion	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Previous Projects						
Red Mountain Freeway – L202 Projects	9/07	$166,850	$117,409	$11,030		
Santan Freeway – L202 Projects	12/06	187,959	6,761	7,215		
Sky Harbor Freeway – Superior Ave. to University Dr.	9/07	4,072	21,928	1,019		
South Mountain Freeway – L202 "Set-Aside"		16,868	56,320			
I-10/16th St.–40th St.–Baseline – Collector Distributor *		400	14,000	97,000		$20,000
Tucson I-10, Twin Peaks – New Traffic Interchange			28,000			
Tucson I-10, Prince Rd to 29th St. – Widen to 4 lanes each way	FY 09		122,413			
I-17, SR101 – SR 74 – Carefree Highway – Widen			5,000		$26,560	33,000
SR 51, Shea Blvd – Bell Rd.– HOV Lanes				2,800	27,000	
US 60, Gilbert – Power Rd. - HOV/SOV Lanes		6,700		50,000	35,000	
US 60, Florence Jct. – Picket Post – Widen			37,000			
SR 85 – Widen Projects		26,895	18,189	15,665		25,300
SR 93 - Wickenburg By-Pass		27,000				
US 93 Old US 93 to Antelope Wash - Parallel Road		29,607				
New Projects						
I-10, SR 202L – Riggs Road – Widen			2,900			42,000
US 60, 59th Ave – Glendale overpass	7/06	36,972				
SR 179 Sedona, - Widen projects *		9,400	10,865	7,335		
SR 195 Yuma Service Highway/Goldwater Range – Widen *			19,150		4,000	8,000
SR 260 Doubtful Canyon Section – Widen		1,500				32,300

* Indicates projects that address "over capacity" segments, as reported by ADOT. We are awaiting further information from ADOT as to whether more of these projects address congested segments.

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DATE: September 17, 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 East Valley Maintenance Yard Project

Request

In compliance with A.R.S. § 41-1252, the Arizona Department of Transportation (ADOT) requests Committee review of the East Valley Maintenance Yard project.

Recommendation

JLBC Staff recommends that:
- The Committee give a favorable review of the project.
- The Committee express its concern that the project has already moved forward without Committee review.
- The Committee request that ADOT formally respond by October 7, 2004 as to what procedures will be implemented to prevent projects from proceeding without Committee review.

Analysis

Laws 2002, Chapter 343 appropriated $1,184,000 from the State Highway Fund to the department to revamp the East Valley maintenance yard located in Tempe. A.R.S. § 41-1252 requires that the Committee review the scope, purpose and estimated cost, before the release of monies for construction of a new capital project costing over $250,000.

JLBC Staff tracks action taken on previously enacted capital outlay appropriations. Since ADOT had not yet requested a review of this item, JLBC Staff inquired as to the status of the project earlier this month. On September 15, ADOT informed Staff that they had begun the project on May 3, 2004 without the required Committee review.

(Continued)

ADOT has spent $246,400 out of the $1,184,000 appropriation for architectural & engineering, site work and initial construction. The project is one-third done, with an estimated completion date of October 15, 2004. ADOT reports that they are looking into a couple of options to rectify the problem of proceeding without Committee review, including not loading the appropriation into the accounting system until the ADOT budget office authorizes approval.

The project would replace a 2,040 square foot double wide mobile home installed in 1981, which is used as an office and ready room for 9 employees. In its place, ADOT would construct a 3,855 square foot single story office building and a 4,263 square foot material and equipment warehouse for a construction cost of $718,000. The architectural & engineering contract is for $86,000. In addition, a fire hydrant line would be extended to cover the new buildings at a cost of $108,000, connecting to the city sewer would cost $20,100, and paving would cost $112,000. There is a $139,900 contingency set aside for unspecified expenditures. ADOT reports that there were 19 bids and that they took the low bid. The following table summarizes ADOT's projected costs.

ADOT's Projected Costs	
Architectural & Engineering	$ 86,000
Office & Warehouse Buildings	718,000
Fire Hydrant Extension	108,000
Sewer Line Connection	20,100
Paving	112,000
Contingency Set Aside	139,900
Total	$1,184,000

The project would nearly double the amount of office space from 2,040 square feet to 3,855 square feet to accommodate ADOT's anticipated future highway maintenance staffing increases as the miles of East valley freeways continues to expand. The office and warehouse would cost $99 per square foot, which seems reasonable for this space.

RS/BH:jb

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DATE: September 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 – Report on ASU Scottsdale Center for New Technology and Innovation

Request

JLBC Staff has been working with Arizona State University (ASU) to provide information to the Committee on a new partnership between the ASU Foundation (ASUF) and the City of Scottsdale. Together, the two organizations will construct the ASU Scottsdale Center for New Technology and Innovation at the site of the former Los Arcos Mall in Scottsdale. Envisioned as a blending of research park, business park, and university campus, bringing together the disciplines of engineering, art, science, and entrepreneurship, the center will house certain ASU units and private technology businesses.

Recommendation

This item is for information only and no Committee action is required. JLBC Staff recommends that:

- The Committee request annual updates from ASUF on the project, including physical progress, construction costs, pre-leasing and leasing activity and rates, gross revenues, debt service, and payments to the City of Scottsdale.

- ASU report to the Committee, when appropriate, on the lease rate for and amount of space the university will occupy at the Center.

ASUF has entered a 99-year ground lease for 37 acres in South Scottsdale. In consideration for the lease, ASUF must construct 1.2 million square feet of space by 2028, a project estimated to cost between $250 million and $300 million, and reimburse the City of Scottsdale for the costs of the land and structural improvements, totaling $81.4 million. If ASUF cannot or chooses not to meet the minimum schedule, the sole remedy of the City of Scottsdale is to cancel the lease on undeveloped portions of the site. ASUF would continue to own its constructed buildings and lease the developed land. The lease allows ASUF to transfer facility ownership to ASU or a private corporation, should it choose to do so in the future.

(Continued)

Analysis

On August 9, 2004, ASUF purchased the 42-acre site of the former Los Arcos Mall at Scottsdale and McDowell Roads in Scottsdale from The Ellman Companies. The foundation immediately sold the site to the City of Scottsdale at the same price, $41.5 million. Due to ongoing issues between the City of Scottsdale and The Ellman Companies, ASUF became the intermediary in negotiations and transactions. ASUF and the city then signed a 99-year ground lease for 37 acres of the property. The lease also provides ASUF an option for one 99-year renewal. Scottsdale will retain the other 5 acres of the site for complementary commercial development.

Involved Parties

ASUF is a non-profit organization distinct and separate from ASU and exists to support the mission of the university. Therefore, ASU has no legal responsibility for any ASUF contracts. ASUF has the financial resources to construct the Center for New Technology and Innovation, as well as the legal freedom to sublet the site, as a benefit to ASU. ASUF and the City of Scottsdale will jointly hire, by next January, a master developer to design, construct, and operate the facility. The City of Scottsdale will prepare and build infrastructure at the site, while ASUF will be responsible for constructing the office and retail space. Any site plan will be subject to public comment from the surrounding communities.

ASU envisions that the center will house existing ASU innovation, enterprise, and education units, including research labs and office space. The facility will accommodate in whole or part: ASU Technopolis, which provides strategic coaching, courses, and workshops to technology and life sciences entrepreneurs; student-focused entrepreneurship programs; the Arts, Media, and Engineering Program; the Technology-Based Learning and Research Program; the ASU President's Enrichment Series; the ASU Institute for Advanced Studies; and Arizona Technology Enterprises, LLC, an ASU-affiliated technology commercialization company.

With these core elements, the ASU Scottsdale Center for New Technology and Innovation intends to attract emerging technology and advanced science companies. ASU also predicts the center will attract technology commercialization organizations, financial investment services, professional business support services, community education programs, and compatible retail shops.

Obligations

The City of Scottsdale is responsible for preparing the site, including rezoning and structural improvements such as the demolition of Los Arcos Mall, grading, environmental remediation, and the installation of streets, utilities, and public plazas. This process must be completed by January 2006. Should the city fail to conclude site preparations on time, the lease provides ASUF additional construction time equal to the city's delay. Scottsdale will also construct parking structures for up to 4,000 vehicles, but not before July 2007 and not before ASUF completes approximately 350,000 square feet of the project.

The lease requires ASUF to begin construction of the Center for New Technology and Innovation by August 2006. ASUF must then build a minimum of 150,000 square feet, estimated to house 450 jobs, by August 2007, with another minimum 150,000 square feet every three years, up to a total of at least 1.2 million square feet. The final facility, as envisioned, will consist of 90% office and lab space and 10% retail space, accommodating 3,600 workers. The contract requires project completion by 2028.

(Continued)

ASUF believes, based on market forecasts, that sufficient demand exists to construct the facility more rapidly than the lease requires. The foundation intends to begin construction in late 2005, completing an initial 250,000 square feet of buildings, estimated to house 750 jobs, by late 2006, with another 250,000 square feet every two years. At this rate, ASUF plans to complete the entire project by 2015.
In addition to the minimum required building schedule, the lease mandates that ASUF maintain the character of the complex as a facility for technology, innovation, and creativity. Until completion of 1.0 million square feet or 2025, whichever comes first, the majority of office space must house compatible tenants.

The City of Scottsdale will retain ownership of the land and its infrastructure improvements and will be responsible for their operation and maintenance. ASUF will own the buildings it constructs and will be responsible for their operation, maintenance, and property taxes. Scottsdale will not provide ASUF with any special consideration, fee waivers, or tax abatements.

The sole remedy of the City of Scottsdale, should ASUF fail to meet the schedule or character requirements of the lease, is to terminate the lease on any land undeveloped by the foundation. The city cannot cancel the lease or seize buildings on land in development or fully developed by ASUF. The lease permits no other liability. Therefore, the only penalty to ASUF for not meeting its obligations is the loss of its option to develop the remaining property.

Financing

City of Scottsdale

The City of Scottsdale will invest $86.5 million in the Center for New Technology and Innovation, including the $41.5 million land purchase and up to $45 million in infrastructure improvements. The city issued Municipal Property Corporation bonds, backed by Scottsdale excise tax revenues, to purchase the land. Initially, the city expects to spend $10 million to $15 million from economic investment and capital contingency reserves to prepare the site. Once the facility has sufficient mass to necessitate parking structures, Scottsdale will fund the remaining $30 million to $35 million of structural work from existing capital funds or additional municipal bonds. The city's infrastructure improvements and debt service will not be dependent upon lease revenues from the center. Scottsdale estimates a total debt service between $33 million and $43 million.

ASUF

ASUF will be responsible for the costs, ranging between $250 million and $300 million, of constructing the buildings themselves and making any infrastructure improvements, if needed, beyond Scottsdale's $45 million limit. ASUF will fund the endeavor through lease revenues.

To reduce its risk, ASUF will not initiate construction on additional space until the foundation succeeds in pre-leasing approximately 80% of the area. ASUF will collect facilities rent as well as parking fees. Of the foundation's annual net revenues from the center, which exclude operations and maintenance costs, building debt service payments, and capital expenditure reserves, half will go to the City of Scottsdale as lease payment, up to $81.4 million. This value represents the city's initial cost for the land, minus 5 acres retained, and infrastructure improvements. ASUF will not repay Scottsdale for the city's debt service costs.

ASUF estimates that its repayment to the City of Scottsdale could take as long as 40 years, assuming construction of the entire 1.2 million square feet, but ASUF believes the market will support a more rapid payback. The foundation believes that the ASU brand can distinguish this center from standard office parks. ASUF anticipates that it can secure a return of at least 7.5% on its initial investment. Should the foundation choose to refinance or sell the facility anytime in the future, the foundation and the City of Scottsdale will share equally in the proceeds.

(Continued)

The lease requires ASUF to charge fair market rates to corporate tenants. However, ASUF will negotiate a rent discount, based on market rates, to ASU for areas occupied by the university. The foundation envisions that ASU will occupy approximately 20% of the space. However, the exact amount of the facility that will house ASU programs and the funding source for university lease payments are not certain at this time.

Rationale

ASUF believes that the Center for New Technology and Innovation will provide necessary space for ASU as it expands its programs. The lease provides maximum flexibility to the foundation with a minimum of risk, allowing ASUF to transfer ownership of completed facilities to ASU or private corporations, so long as the project continues to meet its educational mission. Additionally, the foundation's net profits ultimately support the university.

The City of Scottsdale, in addition to lease payments from ASUF, anticipates revenues from the 5 acres it has retained for commercial development. The city will also collect sales and property taxes from businesses locating in the center. Furthermore, Scottsdale foresees an indirect benefit of the facility in the redevelopment of surrounding communities now in economic decline.

Several Scottsdale City Council members have expressed concern over the city's large initial capital outlay. Should ASUF fail to develop the site or prove unable to retain sub-lessees, Scottsdale would face additional costs and complications in recovering the site.

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DATE: September 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 Instructional/Research Laboratory Renovations Phase II and Report on Instructional/Research Laboratory Renovation Phase I

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 $11.4 million for Instructional/Research Laboratory Renovations Phase II. ASU would finance this project with a total new revenue bond issuance of $20 million. ASU will identify the remaining $8.6 million in projects during the coming months.

Recommendation

JLBC Staff recommends a favorable review of the $11.4 million expenditure plan with the following provisions:

- The $11.4 million represents $9.7 million for the 14 projects currently detailed in the Instructional/Research Laboratory Renovations Phase II request, plus the $1.7 million requested as contingency funding for this plan.
- 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 <u>do not expand</u> the scope of the project. ASU shall also report to the Committee before any reallocation exceeding $100,000 among the individual planned projects.
- 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 <u>expand</u> 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. JLBC staff will inform the university if they do not agree with the change of scope as an emergency.
- ASU shall submit for Committee review an expenditure plan for the remaining $8.6 million of Phase II, including scope of work and estimated cost for each building, prior to starting any construction with those monies.
- 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.

Of the $20 million total revenue-bonding amount, ASU has identified 14 projects that would cost only $9.7 million. *(See table in Analysis section for project detail.)* Additionally, the university is requesting a $1.7 million fund for design and construction contingencies. ASU wishes to set aside the remaining monies in anticipation of hiring new researchers over the next eight months. Not taking into account the extra $1.7 contingency funding of the recommended favorable review, the estimated per-square-foot costs for this request are

below those for Instructional/Research Laboratory Renovations Phase I, favorably-reviewed by this Committee in December 2003.

ASU plans to issue system revenue bonds to be repaid over a 20-year period at an estimated interest rate of 5.0%. Annual debt service would be approximately $1.6 million, with $0.4 million deriving from collected tuition and $1.2 million deriving from indirect cost recovery and other local university resources. The total 20-year debt service would be $32.1 million, with $8.0 million from tuition revenues and $24.1 million from indirect cost recovery and other local sources. Tuition collections used for debt service would be unavailable to support operating expenses and may, therefore, impact the General Fund in the future. ASU does not anticipate any additional operating and maintenance costs associated with these renovations.

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. The $20 million bond issuance would increase the ASU debt ratio from 6.0% to 6.1%.

Analysis

Instructional/Research Laboratory Renovations Phase II encompasses at least 14 renovation projects and up to 66,000 square-feet, at an estimated total cost of $20 million. ASU has tied only $9.7 million of those expenditures to specific projects and would use an additional $1.7 million as a contingency fund. The table below lists estimated capital costs and renovation scopes for the 14 projects associated with the $9.7 million university plan. Staff has requested additional detail from ASU on the $2.4 million Bio-Safety/Lab Security item.

ASU Instructional/Research Laboratory Renovations Phase II Costs and Scope

Project	Request	Sq-Ft	Description
ASU East Field Lab	$960,000	6,100	Renovations and extensions for classroom, labs and external observation area
Bio-Safety/Lab Security Phase II	2,400,000	N/A*	Replacement of security doors in four buildings, engineering study to diagram and upgrade fire sprinkler systems
Goldwater Center – High Performance Computing Lab	400,000	2,200	New computer center in existing space
Goldwater Center – WINTECH Lab	260,000	1,400	New Wireless Integrated Nano-Technology Center in existing space, extensions for administrative and faculty offices
Engineering Center – G Wing	600,000	12,000	Comprehensive student amenities on first floor
Engineering Research Center Code Upgrades, Phase II	2,600,000	N/A*	New toxic gas storage and piping, fire suppression systems, life safety alarms and monitors, and exhaust and air filtration mechanisms
Life Sciences Center – A & C Wings	475,000	2,175	Molecular Interactions/Bioimaging laboratories and offices in existing space
Physical Science Center – C Wing	582,000	2,670	New chemistry equipment and fire safety systems
Life Sciences Center – E Wing	245,000	1,408	Biogeochemistry/Microbial Ecology research suite in existing space
Physical Science Center – F Wing	142,000	488	New Electron Probe Microanalysis Facility in existing space
Life Sciences Center Backup Electric Service	260,000	N/A*	Generator, controls, and wiring for emergency power in A, B, and C Wings
ASU East – Applied Biological Sciences Greenhouses Completion	125,000	N/A*	Benches, storage cabinets, shelving, emergency wash station, automated misting and irrigation systems, additional structure
ASU East – Health Sciences Center Lab	120,000	2,127	Permanent cages and cage washing system
Physical Science Center – D Wing Phase II	562,000	2,601	Chemistry laboratories in existing space
PROJECT SUBTOTAL	***$9,731,000***	***33,169****	
Contingency Fund	1,716,000	N/A*	Design and construction contingencies
TOTAL	**$11,447,000**	**33,169***	

* These projects, by nature, occur in multiple areas of campus. ASU cannot determine square footage.

ASU anticipates hiring new researchers in the next eight months and cannot renovate laboratories until it knows the specific needs of those faculty members. Since the university usually makes offers in the spring and requires renovations to be complete before the start of the fall semester, a tight timeline for project approvals exists. Therefore, JLBC Staff recommends a favorable review for ASU to bond the entire $20 million at once, with the provision that the Committee review all projects associated with the unallocated $8.6 million before construction begins.

According to ASU, many of its laboratories are out of date and in danger of code violations. They do not support instructional and research requirements and are inadequate to handle state-of-the-art technologies. The renovations will include infrastructure improvements and construction of additional space to support new faculty. ASU estimates the series of renovations would occur over 23 months of construction. ASU does not anticipate any additional operating and maintenance costs upon project completion.

When considering just those projects that the university has identified, the average total cost per square foot would be $293 and the direct construction cost per square foot would be $185. These calculations do not take into account the extra $1.7 contingency funding of the recommended favorable review. Since these renovations include significant purchases of laboratory equipment, it is difficult to make meaningful comparisons to other renovation projects. However, Phase II as a whole has identical costs per square foot to those projects comprising Instructional/Research Laboratory Renovations Phase I, favorably-reviewed by this Committee in December 2003.

Report on Instructional/Research Laboratory Renovations Phase I

In December 2003, the Committee favorably reviewed the issuance of $10 million in revenue bonds for Instructional/Research Laboratory Renovations Phase I on the ASU main campus. That review included the provision that ASU report to the Committee on the scope of work and estimated cost for each building prior to starting any construction. In June 2004, ASU provided this revised cost report. Total funding remained the same, but the university reallocated monies among some of the projects, resulting in an unallocated amount of $1.7 million. ASU is now reporting on the allocation of those funds.

The table below lists the estimated capital costs and renovation scopes for 6 projects with costs totaling $1.7 million. There have been no further changes in scope or budget to Phase I projects previously reported to the Committee. The total funding amount remains the same.

ASU Instructional/Research Laboratory Renovations Phase I Additional Project Costs and Scope

Project	Request	Sq-Ft	Description
Moeur Building – Expand Mars Area	$89,000	1,100	Research suite in existing space
Life Sciences Center – C Wing Lobby	50,000	750	Computer room, study area, multimedia conference room
McGraw Lab	660,000	3,800	Evolutionary and Systems Biology laboratory and office in existing space
Escalante Lab	610,000	2,800	Ecology and Infectious Diseases laboratory and office in existing space
Physical Science Center – D Wing Phase I	151,000	699	Chemistry laboratories in existing space
Laboratory Security for InCise	100,000	N/A*	Power, networking, door hardware and software, camera surveillance, computer lockdowns
TOTAL	**$1,660,000**	**9,149***	

* These projects, by nature, occur in multiple areas of campus. ASU cannot determine square footage.

When considering just the above-mentioned projects, the average total cost per square foot is $181 and the direct construction cost per square foot is $128. For Phase I as a whole, ASU previously estimated total cost per square foot of $303 and direct construction cost per square foot of $236.

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JOHN LOREDO

DATE: September 14, 2004

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

THRU: Richard Stavneak, Director

FROM: Shelli Carol, Fiscal Analyst

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

Request

The University of Arizona (U of A) is reporting on contingency allocation changes for three projects. At its September 2003 meeting, the Committee gave a favorable review for Roy P. Drachman Hall, a revenue bond project, as well as the Medical Research Building and the Thomas W. Keating Bioresearch Buildings, both research infrastructure projects. With these reviews, the Committee stipulated that U of A report on allocations that exceed the greater of $100,000 or 10% of each project's contingency fund amounts.

Recommendation

This item is for information only and no Committee action is required. U of A reported previous contingency allocation changes in all these projects, tied to significant cost increases for raw materials. The university plans further adjustments to take advantage of improvements in laboratory and security technologies.

U of A is reallocating $1.3 million of Roy P. Drachman Hall's remaining $2.3 million contingency fund, $0.5 million of the Medical Research Building's remaining $2.7 million contingency fund, and $0.7 million of the Thomas W. Keating Bioresearch Building's remaining $4.2 million contingency fund. The per-square-foot cost estimates for these three projects are still reasonable after modification. *(See table in Analysis section for a summary of revised costs.)*

Analysis

Laboratory and security technologies are constantly evolving. U of A aims, within its approved budget, to acquire the most state-of-the-art equipment available. Therefore, U of A will shift monies from the Roy P. Drachman Hall, Medical Research Building, and Thomas W. Keating Bioresearch Building contingency allocations to cover the costs of more advanced laboratory and security systems. The three individual total budgets remain unchanged from the original Committee-reviewed amounts.

(Continued)

U of A will complete change orders to include the equipment upgrades in its overall project contracts. Therefore, if real equipment costs rise above the quoted prices, the contract manager, rather than the university, will be responsible for the additional expense. However, if further technological advancements necessitate additional equipment upgrades, the university will need to manage those costs.

U of A reported to the Committee at its June 2004 meeting on a $0.4 million reallocation from Roy P. Drachman Hall's original $2.7 million contingency fund and a $1.5 million reallocation from the Thomas W. Keating Bioresearch Building's original $5.8 million contingency fund. The university reported again to the Committee at its August 2004 meeting on a $1.7 million reallocation of the Medical Research Building's original $4.4 million contingency fund. These previous adjustments derived from rising construction expenses. Material costs for such items as steel, cement (concrete), petroleum, copper, and gypsum (drywall) rose above the university's original estimates due to increasing worldwide demand for raw materials, especially from economic growth areas in Asia.

The following table shows the total budgets and contingency reallocations for the three projects.

University of Arizona Contingency Reallocations
Total Project Budgets and Revised Costs

Project	Roy P. Drachman Hall	Medical Research Building	Thomas W. Keating Bioresearch Building
Total Project Budget	$ 30,000,000	$ 54,350,000	$ 65,700,000
Original Contingency	$ 2,692,000	$ 4,360,000	$ 5,772,000
Previously Reallocated Funds	$ 420,190	$ 1,682,000	$ 1,544,200
Additional Reallocated Funds	$ 1,310,030	$ 478,000	$ 669,000
Original Construction Unit Cost	$ 191/sq ft	$ 287/sq ft	$ 289/sq ft
Revised Construction Unit Cost	$ 206/sq ft	$ 303/sq ft	$ 302/sq ft

The subsequent excerpts from memos presented to the Committee at its September 2003 meeting contain direct construction costs per unit that reflect the reallocation of contingency funds.

Drachman Hall

U of A will construct 113,000 square feet of expansion 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 $30.0 million.

The cost per square foot for this project is $266 and the direct construction cost per square foot is $206. Based on market increases for construction materials and the university's historical actual costs for similar buildings, the costs per square foot for the project appear reasonable.

Medical Research Building

U of A will construct 138,710 square feet of space to provide laboratory, support, and office space for programs related to translational research and to alleviate a shortage of wet laboratory space, at an estimated cost of $54.4 million.

The cost per square foot for this project is $392 and the direct construction cost per square foot is $303. Based on historical actual costs for similar U of A buildings and accounting for unique research design and fixed equipment requirements, the costs per square foot for the project appear reasonable.

(Continued)

Thomas W. Keating Bioresearch Building (former Institute for Biomedical Science and Biotechnology)

U of A will construct 170,000 square feet of space dedicated to molecular life sciences research at an estimated cost of $65.7 million.

The cost per square foot for this project is $389 and the direct construction cost per square foot is $302. Based on market increases for construction materials and U of A 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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