STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

ROBERT "BOB" BURNS
CHAIRMAN 2003
TIMOTHY S. BEE
JACK A. BROWN
ROBERT CANNELL, M.D.
SLADE MEAD
VICTOR SOLTERO
JIM WARING

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

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JOINT COMMITTEE ON CAPITAL REVIEW
Thursday, October 14, 2004
1:30 p.m.
House Hearing Room 4

MEETING NOTICE

- Call to Order
- Approval of Minutes of September 21, 2004.
- DIRECTOR'S REPORT (if necessary).

1. ADOPTION OF REVISED COMMITTEE RULES AND REGULATIONS.
2. ARIZONA DEPARTMENT OF ADMINISTRATION – Review of Revised FY 2005 Building Renewal Allocation Plan
3. ARIZONA STATE PARKS – Review of State Lake Improvement Fund Projects.
4. ARIZONA DEPARTMENT OF TRANSPORTATION –
   A. Review of Parker Motor Vehicle Division Field Office Relocation.
   B. Review of FY 2005 Building Renewal Allocation Plan.
5. UNIVERSITY OF ARIZONA – Review of La Aldea Student Housing Complex Purchase and Report on Chemistry Expansion Project Contingency Allocation.
6. NORTHERN ARIZONA UNIVERSITY –
   A. Review of Capital Project Cost and Scope Changes.
   B. Review of New System Revenue Bond Capital Projects
7. SCHOOL FACILITIES BOARD –
   A. Review of Lease-to Own Projects.
   B. Review of FY 2005 Building Renewal Allocation Plan.
8. DEPARTMENT OF PUBLIC SAFETY – Review of Remote Officer Housing Project.
9. ARIZONA STATE UNIVERSITY – Report on ASU Scottsdale Center for New Technology and Innovation.

The Chairman reserves the right to set the order of the agenda.
10/7/04

People with disabilities may request accommodations such as interpreters, alternative formats, or assistance with physical accessibility. Requests for accommodations must be made with 72 hours prior notice. If you require accommodations, please contact the JLBC Office at (602) 542-5491.

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MINUTES OF THE MEETING
JOINT COMMITTEE ON CAPITAL REVIEW

Tuesday, September 21, 2004

The Chairman called the meeting to order at 1:35 p.m. Tuesday, September 21, 2004 in House Hearing Room 4 and attendance was as follows:

Members:	Representative Pearce, Chairman	Senator Burns, Vice Chairman
	Representative Biggs	Senator Brown
	Representative Boone	Senator Cannell
	Representative Lopez	Senator Mead
	Representative Lopes	Senator Soltero
	Representative Loredo	Senator Waring
Absent:	Representative Farnsworth	Senator Bee

Representative Pearce moved the Committee approve the minutes of August 17, 2004. The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION

A. Consider Transfer of Fund Balance for Arizona State Hospital Capital Projects.

Ms. Beth Kohler, JLBC Staff, presented the Arizona Department of Administration (ADOA) request that the Committee approve the transfer of the remaining $3.5 million from the Arizona State Hospital Capital (ASH) Construction Fund appropriation to FY 2005 building renewal for the Arizona State Hospital. There was an appropriation of $77.5 million for the construction of the new civil hospital and renovation and expansion of the forensic hospital. The new civil hospital is up and running but, due to budget constraints, there was a transfer of $13.4 million out of the Arizona State Hospital Capital Construction Fund, leaving the net budget for the ASH projects at $67.1 million. Renovation and expansion of the forensic hospital was suspended.

ADOA reported 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 developed a prioritized list of 28 projects and the cost of the projects totals $5.1 million. All monies in the fund remaining unexpended and unencumbered on July 1, 2005 revert to the Budget Stabilization Fund (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.

Ms. Kohler explained that the Committee had the option of approving the transfer for ASH projects or not approving the transfer in which case remaining monies would revert to the Budget Stabilization Fund.

In response to Senator Burns, Bruce Ringwald, General Manager, Construction Services, ADOA stated that when the project was started approximately 6 years ago, the scope included the civil hospital and the forensic hospital. The

costs to complete the civil hospital were identified and the remaining money would have been put toward the renovation the forensic hospital. As the civil hospital projects were completed, there was $3.5 million left and the expectation was to apply that money into the remodel of the forensic hospital. About the time that happened the project was stopped. Subsequent to that, as time has gone by, the cost of construction has gone up considerably.

Ms. Catherine Eden, Director, Department of Health Services stated that the forensic buildings are in bad shape but wants to wait a year before submitting a proposal for consideration. Maricopa County has decided to do a lot of the restoration to competency within their own facilities. Waiting another year will show us what our population needs would be in the future.

In response to Senator Burns, Jack Silver, Superintendent, Arizona State Hospital stated that there are approximately 140 people living in the older portion of the hospital. It is an old building and they are trying to keep it in good repair.

In answer to Senator Burns, Ms. Eden stated that the law states they can either be taken to the state hospital or can be taken care of in the county jail.

Richard Stavneak, JLBC Staff mentioned that the counties are charged for the use of the state hospital. Maricopa County pays 100% and all other counties pay 86% of the costs associated with patients sent by the county.

In response to Representative Biggs, Ms. Kohler stated that the document stating that the project replacing the HVAC in the civil hospital was an error and should have been part of the central power plant under general hospital support.

Ms. Eden stated that some automated drug machines were included in the original scope for the civil Hospital. The use of these machines is now usual and customary. This is a very accurate way of dispensing medicine and keeping track of the medications for the records.

Senator Burns moved the Committee approve the transfer of $3.5 million from the Arizona State Hospital Capital Construction Fund appropriation for FY 2005 capital projects, including building renewal at the Arizona State Hospital. The motion carried.

B. Review of Revised FY 2005 Building Renewal Allocation Plan.

Mr. Jeremy Olsen, JLBC Staff, presented the Arizona Department of Administration (ADOA) request that the Committee review $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.

JLBC Staff recommends a favorable review for $1,300,000 of the request with the provisions outlined in the memo.

Combined with $1 million reviewed at its August meeting, the Committee has favorably reviewed $2.3 million of the $3.5 million building renewal appropriation from the Capital Outlay Stabilization Fund.

In response to Senator Mead, Mr. Martinez stated that the funding for the State Treasurer office improvement project came from various sources. There was $150,000 appropriated directly to the Treasurer's budget and $170,000 allocated from the FY 2005 Building Renewal appropriation. In addition, that funding plan assumed that the Treasurer's Office would receive a $40,000 rent exemption to move into a temporary space while their office was renovated.

Senator Burns moved the Committee give a favorable review to an additional $1,300,000 in the revised Arizona Department of Administration FY 2005 Building Renewal allocation plan with the following provisions:

- *The $1,300,000 represents $949,000 for the 11 projects listed in Table 1 of the memo, 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.*

The motion carried.

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

Mr. Brian Cary, JLBC Staff, presented the Arizona Lottery Commission FY 2005 Building Renewal allocation plan of $41,200 from the Lottery Fund for Committee review. The Lottery's plan provides information on proposed repair expenditures for the Phoenix facility, which houses the Lottery's administrative offices as well as a ticket sales and redemption site. The Lottery plans to use $36,500 of the FY 2005 allocation on four projects. The remaining $4,700 is available for contingencies.

In response to Senator Burns, Mr. Cary stated that the Lottery Commission is not planning for any additional contingencies other than the extent to which the actual cost of the projects may vary from the planned estimates.

Senator Burns moved that the Committee give a favorable review to the FY 2005 Building Renewal Allocation Plan of $41,200 from the Lottery Fund. The motion carried.

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

Mr. Justin Narducci, JLBC Staff, presented the Office of the State Treasurer request that the Committee consider recommending a rent exemption. 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 JLBC Staff recommends the Committee recommend the Arizona Department of Administration authorize a FY 2005 rent exemption of $40,000, as part of the Treasurer Office's tenant improvements for FY 2005.

There was no discussion on this item.

Senator Burns moved that the Committee recommend the Arizona Department of Administration authorize a FY 2005 rent exemption of $40,000, as part of the Treasurer Office's tenant improvements for FY 2005. The motion carried.

ARIZONA DEPARTMENT OF TRANSPORTATION (ADOT)

A. Report on 5-Year Transportation Plan.

Mr. Bob Hull, JLBC Staff, presented the Arizona Department of Transportation Executive Summary of the 5-Year Transportation Facilities Construction Program for FY 2005-FY 2009. Mr. Hull reviewed the handout presentation and stated that the total for the 5-year plan is $4.5 billion, including $3.8 billion for highways and $0.7 billion for aviation. Mr. Hull stated that this item is for information only, and no Committee action is required. However, Mr. Hull reviewed the revised recommendation.

Representative Lopes asked if ADOT had a congestion report including the methodology on how this is accomplished. Mr. Hull stated that it is presumed that they have a methodology but it is not exactly clear on what it is.

In response to Senator Burns, Terry Trost, Director, Budgeting & Planning, ADOT stated that for the 5-Year Plan each of the organizations meet and have discussions regarding design and detail that is involved. The Transportation Board has a monthly study session and details are laid out with some discussion. Once it is ready, it is taken to the formal board meeting and adopted. There are annual updates to the plans, as one year is dropped a new year is added. Literally, the plan is revised every month. There is not a formal process of sharing the revisions with the Committee.

Chairman Pearce asked if the ½ cent tax is passed, what would it do to the 5-year plan. Mr. Trost stated that the plan would be modified.

Senator Burns asked what ADOT's plan is to update the 2001 road congestion data. Mr. Trost stated that the data used is based upon survey information collected in September 2001. There is a data time lag, Maricopa Association of Governments (MAG) and ADOT have recently received the 2002 data through the Federal Highway Administration (FHWA).

In response to Senator Burns, Mr. Trost stated that with enough resources you could do the calculations with the data regarding the road congestion. The monitoring of the federal highways is the responsibility of ADOT. They also partner with others such as MAG.

Representative Biggs asked for a copy of the projects that are planned for the next 10 years. Mr. Trost said that the next 5-year plan is in the very early phases.

Representative Biggs asked to receive information on Pinal County projects that are included in the 5-Year Plan. Mr. Trost said that he would get the information for him.

Senator Mead asked what is "set aside." Mr. Trost said that it is a way of saying that there is money identified that is being held for a project.

Senator Waring asked how it is decided to set aside the right amount of money. Mr. Trost stated it is the best estimate at this time. If the amount is substantially short, ADOT needs to go back and reprioritize its issues.

Senator Burns moved the Committee request the following information:

- *ADOT provide an Executive Summary of its 5-Year Transportation Facilities Construction Program for FY 2006-FY 2010 due by July 31, 2005.*
- *The Executive Summary include the following additional information:*
  - *List all Maricopa County 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.*
- *ADOT report to the Committee by October 27, 2004:*
  - *The status of highway congestion reporting in ½ hour increments by the Maricopa Association of Governments (MAG). MAG is currently in the process of implementing a new computer model to measure congestion. The report should include the revised congestion information, with updated maps, if it is available at that time. This update should also include an explanation of how this model works.*
  - *An explanation of highway congestion reporting for both Pima County and for the remaining 13 counties. This report should provide information on the methodology used to determine congestion and the timeliness of the data.*
  - *Recommendations for any different measures that would provide the Committee with a timely gauge of traffic congestion.*
- *ADOT report back revisions in the 5-year plan once it is amended if the Maricopa County sales tax is extended.*

The motion carried.

B. Review of East Valley Maintenance Yard Project.

Mr. Bob Hull, JLBC Staff, presented the Arizona Department of Transportation (ADOT) request that the Committee review the scope, purpose and estimated cost of the East Valley Maintenance Yard project.

The Department of Transportation was appropriated $1,184,000 from the State Highway Fund to revamp the East Valley maintenance yard located in Tempe. 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. The Staff was informed that ADOT had begun the project on May 3, 2004 without the required Committee review.

Mr. Terry Trost stated that the facility staff are responsible for managing these projects. When the Committee gave the authorization for the asbestos and lead testing abatement, ADOT thought that it also included approval for the East Valley Maintenance Yard renovation and they moved forward. Corrective action will be taken to control the appropriations so that this will not happen again in the future.

In response to Senator Burns, Mr. Trost mentioned that they have gotten together with the ADOA and accounting staff. One option they are considering would be to not load the appropriation until the ADOT budget office authorizes it.

Senator Burns moved that the Committee give a favorable review to the East Valley Maintenance Yard Project and request that ADOT formally respond by October 7, 2004 as to what procedures will be implemented to prevent projects from proceeding without Committee review. The motion carried.

ARIZONA STATE UNIVERSITY (ASU)

A. Report on ASU Scottsdale Center for New Technology and Innovation.

Ms. Shelli Carol, JLBC Staff, presented the report on the Arizona State University Scottsdale Center for New Technology and Innovation. The ASU Foundation (ASUF) and the City of Scottsdale together 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.

ASUF has signed a 99-year ground lease for 37 acres in South Scottsdale. ASUF must construct 1.2 million square feet of space by 2028, the estimated cost of the project is 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.

Ms. Carol continued to review the involved parties, obligations, financing and the 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. The foundation's net profits ultimately support the university.

In response to Senator Waring, Ms. Carol stated that what is envisioned is that when ASUF completes the construction of the entire facility that it is going to be able to transfer ownership. There is nothing in the plan that suggests that ASU would assume this lease before construction is complete. If something would go wrong, the City of Scottsdale would have to pay.

Mr. Richard Stavneak, JLBC Staff mentioned that if ASU is occupying a substantial amount of space in the facility and there is a default on other tenants that there could be a pressure for ASU to acquire the facility at that point.

Mr. Scott Smith, ASU mentioned that the project is an ASUF project. The foundation representatives are not present and he cannot speak for the foundation.

Senator Burns asked for more information on the foundation; how are they funded and how are they governed. Mr. Smith said that the ASUF is governed by a Board of Directors and funded through grants and gifts. Senator Burns asked for the number of members on the Board and who they are. Mr. Smith will get that information for him.

Senator Burns questioned the fact that the ASUF bought the land and then sold it to the City of Scottsdale. Senator Burns asked why the City of Scottsdale did not buy it outright. Also, why didn't ASU get involved directly instead of the foundation. Mr. Smith stated that it is a foundation deal and cannot speak for them.

Chairman Pearce also mentioned that he had several questions regarding this issue.

Senator Waring asked how much money is brought in every year and how much money is on hand.

Ms. Carol stated that the foundation did express their willingness to answer questions. Senator Burns also suggested that a written request to the foundation be in order with questions.

Representative Biggs said that one of the revenue streams is going to be property taxes that the foundation is going to pay on the buildings and the real property is going to continue to be owned by the City of Scottsdale and the structure will be owned by the foundation. He then asked on what is the property value going to be assessed. Ms. Carol stated that the property value of the buildings will be assessed for the property tax that ASUF has to pay to the city. Representative Biggs asked if it was a normal procedure to assess property taxes for a structured independent of the property upon which it sits. Ms. Carol did not know if the City of Scottsdale could answer that.

Chairman Pearce asked what the impact would be if the issue is tabled. Mr. Stavneak stated that there is not a review requirement here because it is not a state facility.

The Committee tabled the Arizona State University – Report on ASU Scottsdale Center for New Technology and Innovation until a decision is made to hear at another JCCR meeting.

B. Review of Instructional/Research Laboratory Renovations Phase II and Report on Instructional/Research Laboratory Renovation Phase I.

Ms. Shelli Carol, JLBC Staff presented the Arizona State University request that the Committee review $11.4 million for Instructional/Research Laboratory Renovations Phase II. ASU reports that some laboratories have code violations. 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.

The JLBC Staff recommends a favorable review of the $11.4 million expenditure plan with the provisions in the memo.

In response to Senator Burns, Scott Cole, Executive Vice President, ASU stated that the university has pursued homeland security grants and as of yet, has heard nothing back.

In response to Chairman Pearce, Mr. Cole stated that the first request for security grants was approximately $1 million. It is not clear on how much money is available for the project grants. A follow-up request is usually sent out on a monthly basis.

Chairman Pearce requested that ASU work with the Arizona Office of Homeland Security within the Department of Emergency and Military Affairs as an alternative avenue for pursuing homeland security grant funding to meet the mandates of the Federal Bioterrorism Act.

Senator Burns moved the Committee give a favorable review to $11.4 million of the $20 million bond issuance for Phase II of the Instructional Research Laboratory Renovations project 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 do not expand 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 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. 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.*

The motion carried.

UNIVERSITY OF ARIZONA – Reports on Capital Project Contingency Allocations

Ms. 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.

There was no discussion on this item and no Committee action was required.

Without objection the Committee meeting adjourned at 3:05 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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PETE RIOS

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DATE: October 7, 2004

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

FROM: Richard Stavneak, Director

SUBJECT: ADOPTION OF REVISED COMMITTEE RULES AND REGULATIONS

The Chairman proposes the following changes in the Committee rules:

Rule 8

- revise the timeline for agencies to submit a request to appear on the JCCR agenda. A request must now be made 2 weeks prior to the meeting. The revision would require agencies to make the request 3 weeks in advance of the meeting. The rules would retain the existing language that allows the Chairman to place an item on the agenda if an agency has not met the submission deadline.

Please see the attachment for the revised rule language.

RS:jb
Attachment

JOINT COMMITTEE ON CAPITAL REVIEW
RULES AND REGULATIONS

RULE 1

NAME OF COMMITTEE AND METHOD OF APPOINTMENT

The name of the Committee is the Joint Committee on Capital Review, hereinafter referred to as the Committee, consisting of fourteen members designated or appointed as follows:

1. The Chairman of the Senate and House of Representatives Appropriations Committees.

2. The Majority and Minority Leaders of the Senate and House of Representatives.

3. Four members of the Senate and four members of the House of Representatives who are members of their Appropriations Committees and who are appointed to the Committee by the President of the Senate and the Speaker of the House of Representatives, respectively.

RULE 2

CHAIRMAN OF THE COMMITTEE

The Chairman of the Senate Appropriations Committee shall have a term as Chairman of the Joint Committee on Capital Review from the first day of the First Regular Session to the first day of the Second Regular Session of each legislature and the Chairman of the House of Representatives Appropriations Committee shall have a term as Chairman from the first day of the Second Regular Session to the first day of the next legislature's First Regular Session.

RULE 3

QUORUM

A majority of the members of the Committee shall constitute a quorum for the transaction of business.

RULE 4

MEETINGS OF THE COMMITTEE

The Committee shall meet as often as the members deem necessary.

RULE 5

COMMITTEE PROCEEDINGS

The Committee proceedings shall be conducted in accordance with Mason's Manual of Legislative Procedure, except as otherwise provided by these rules.

RULE 6

STATUTORY POWER AND DUTIES OF THE COMMITTEE

The Committee shall:

1. Develop and approve a uniform formula for computing annual building renewal funding needs and a uniform format for the collection of data for the formula.

2. Approve building systems for the purposes of computing and funding building renewal and for preparing capital improvement plans.

3. Review the state capital improvement plan and make recommendations to the Legislature concerning funding for land acquisition, capital projects and building renewal. The recommendations should give priority to funding fire and life safety projects.

4. Review the expenditure of all monies appropriated for land acquisition, capital projects and building renewal.

5. Review the scope, purpose and estimated cost of the project prior to the release of monies for construction of new capital projects.

6. Approve transfers within a budget unit of monies appropriated for land acquisition, capital projects or building renewal.

7. Review and approve the acquisition of real property or buildings by the Arizona Department of Administration and Arizona Department of Transportation.

8. Review the acquisition of real property or buildings by the Department of Economic Security.

9. Determine the rental fee charged to state agencies for using space in a building leased to the state.

10. Approve expenditures from the Corrections Fund by the Director of the Department of Administration for major maintenance, construction, lease, purchase, renovation or conversion of Corrections facilities.

11. Review Arizona Board of Regents, Community College and Game and Fish bond projects.

12. Review School Facilities Board building renewal calculations and distributions.

13. Review School Facilities Board and school district lease-to-own projects.

14. The Committee shall have other duties and responsibilities as outlined in statute or determined by the Chairman, consistent with law.

RULE 7

STAFF

The Joint Legislative Budget Committee Staff shall provide staff assistance to the Committee as directed by the Committee.

RULE 8

AGENDA FOR MEETINGS

An agenda for each Committee Meeting shall be prepared by the Director, and, whenever possible, mailed or delivered to members of the Committee, not less than one week prior to the meeting. The Director must have at least ~~two~~ THREE weeks prior notice for any state agency-requested items that appear on the agenda, unless the Chairman of the Committee approves of a later submission.

RULE 9

ORDER OF BUSINESS

The Order of Business at a committee meeting shall be determined by the Chairman of the Committee. It shall normally be as follows:

- Call to order and roll call
- Approval of minutes
- Director=s Remarks (if any)
- Review of capital projects
- Other Business - For information only
- Adjournment

RULE 10

ADOPTION AND AMENDMENT OF THE RULES AND REGULATIONS

These rules and regulations shall be adopted and may be amended by a majority vote of the Committee members.

E:\JCCR\JCCRRULE.R7-2004

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DATE: October 7, 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 $366,000 of its $3,500,000 FY 2005 Building Renewal allocation plan from the Capital Outlay Stabilization Fund (COSF). The Committee has favorably reviewed the expenditure of $2,300,000 from this fund in previous meetings.

Recommendation

JLBC Staff recommends a favorable review of the $366,000 request, which is to be used for the following projects:

- Department of Corrections: $300,000 to replace 4 air handlers at the SMU-1 facility.
- Economic Security: $36,000 for roof repairs at ATP – Coolidge, Buildings 12 and 13.
- Economic Security: $30,000 to replace 8 gas packs at Kingman Office.

JLBC Staff also recommends the department submit for committee review an allocation plan for the remaining $834,000 COSF appropriation.

Analysis

At its August 17, 2004 meeting, the Committee favorably reviewed $1,000,000 of the $3,500,000 Capital Outlay Stabilization Fund allocation. The Committee favorably reviewed an additional $1,300,000 of COSF expenditures at its September 21, 2004 meeting, leaving $1,200,000 in available COSF monies.

(Continued)

If the requested $366,000 were favorably reviewed, the remaining unallocated COSF balance would be $834,000. Table 1 lists the items of the building renewal allocation plan that have been presented to the Committee for review to date. The costs of the 3 new projects appear reasonable and consistent with guidelines for building renewal.

Table 1

Agency	*New Projects*	*Allocation*
Corrections	Replace air handlers	$ 300,000
Economic Security	Roof Repairs	36,000
Economic Security	Replace Gas Packs	30,000
	COSF Project Allocation Subtotal	**366,000**
	Previously Reviewed Requests	
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
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	665,000
	Previously Approved Requests Subtotal	**2,300,000**
To be determined	Additional ADOA allocation plan submitted for Committee review	834,000
	Building Renewal Total	**$3,500,000**

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1716 WEST ADAMS
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DATE: October 7, 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 – Review of State Lake Improvement Fund Projects.

Request

Pursuant to A.R.S. § 5-382 the Arizona State Parks Board requests Committee review of State Lake Improvement Fund (SLIF) grants and projects totaling $1,468,400.

Recommendation

The JLBC Staff recommends a favorable review of 10 SLIF grants and projects totaling $1,468,400. These monies are available due to the return of unused funds from a grant awarded in FY 2001, and do not include any estimated FY 2005 revenue, which is unallocated at this point.

No SLIF funds were transferred to the General Fund for FY 2005. Due to prior obligations and the use of $4 million from SLIF to operate State Parks in FY 2005, however, the Parks Board does not anticipate awarding any additional grants until Summer 2005.

Analysis

Recent SLIF History and the Current Request

SLIF receives its revenue from a portion of watercraft license fees and an allocation of gasoline tax attributable to watercraft use. Monies in the fund are available to state agencies, counties, and local governments for capital improvement projects and acquisitions of real property on waters where boats are permitted. SLIF grants were last reviewed and awarded in September 2001, using FY 2001 SLIF revenue. Since that time, fund transfers were enacted from SLIF to the General Fund totaling $22.8 million between FY 2002-2004. The enacted FY 2005 budget does not transfer SLIF monies to the General Fund.

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

required by A.R.S. § 5-382. Outside grants are evaluated based on several factors, including project design, community involvement, and the conditions of current infrastructure. In addition to awarding grants to localities, however, the Parks Department is also eligible to receive funds for capital improvement projects and real property acquisitions at parks with boating facilities. Current AORCC guidelines establish that no more than 30% of grant/project allocations may go to the Parks Department, and that that no other entity may receive more than 20% of the available grant resources in a given grant cycle. Using the evaluation criteria, AORCC and the Parks Board have approved 10 projects/grants for funding in FY 2005 at a total cost of $1,468,400. These awards include:

- 9 grants totaling $1,268,400 to 2 cities and 6 different county governments for purposes such as the purchase of law enforcement watercraft, the development of currently owned properties, and the purchase and development of new properties. These awards are all consistent with SLIF statutes and are listed in further detail below:
    - Apache County: Law enforcement watercraft - $11,156
    - Bullhead City: Non-motorized boat launch facility and group campground - $294,000
    - Coconino County: Law enforcement watercraft - $60,488
    - Gila County: Law enforcement watercraft for Roosevelt Lake - $107,064
    - Lake Havasu City: Acquire and develop 17.6 acres of State Trust Land for public shoreline access - $294,000
    - La Paz County: Renovate and rebuild shoreline and boating ramp at La Paz County Park - $129,500
    - Maricopa County: Law enforcement watercraft - $240,000
    - Maricopa County: Day use development at Lake Pleasant Regional Park - $54,337
    - Yuma county: Law enforcement watercraft - $77,867
- 1 State Parks project totaling $200,000 to purchase boats, buoys, radios, signage, and boating safety and operational equipment at boating parks.

SLIF Administrative Funding

In addition to the above grants and projects, the Parks Department may use SLIF funds to administer the grant program. Based on an agreement with AORCC, the agency is allowed to use up to 11.8% of the available revenues to administer the SLIF program. Due to reduction in other funding sources, however, the Parks Board has approved the use of SLIF monies for operating costs in excess of 11.8% in FY 2004 and FY 2005.

In FY 2004 the Parks Board approved an additional $700,000 to offset the loss of funding due to the Governor's veto of a $700,000 appropriation from the Land Conservation Fund (LCF) Administration Account, which consists of interest earned on the Public Conservation Account (Growing Smarter). This $700,000 is again authorized in FY 2005. SLIF funds will also be used in FY 2005 to offset losses in Heritage Fund interest earnings that have occurred since FY 2001. Heritage Fund interest earnings are used to administer the Heritage Fund grant programs, however, low interest rates have reduced interest earnings from approximately $1.7 million in FY 2001 to approximately $500,000 in FY 2004 (a decline of approximately 70%).

In total, the agency is expecting to use $4 million from SLIF for operating costs in FY 2005, compared to $1.8 million in FY 2004, and the expenditures are summarized below in *Table 1*.

Table 1

SLIF USED FOR PARKS OPERATION

	FY 04	FY 05
SLIF Administration	$1,160,500	$2,365,300
LCF Offset	613,200	700,000
Heritage Shift	-	934,700
Total	$1,773,700	$4,000,000

Status of the Fund

At the end of FY 2004, SLIF had cash balances of approximately $16.5 million, though these funds are essentially all committed. Of the $16.5 million, $6.3 million is obligated to grants awarded in prior years and $4.4 million is obligated for State Parks projects that have received Committee review in previous years. After taking these obligations into account, SLIF has approximately $5.8 million in unobligated funds, prior to the realization of any FY 2005 revenue. Of this amount, the Parks Board has approved grants and projects totaling $1.5 million, which would leave $4.3 million in the fund, unobligated. As discussed above, the agency is expecting to use $4 million in SLIF funds for operating costs in FY 2005.

The agency is expecting to review and award grants and projects next summer, based on actual FY 2005 revenue. *Table 2*, below, summarizes the current status of SLIF, including an estimated FY 2005 ending balance of $7.8 million that would be available for operating expenditures and grants and projects in FY 2006.

Table 2

STATE LAKE IMPROVEMENT FUND

FY 04 Ending Balance	$16,509,000
Prior Year Obligations	(10,695,500)
Current Grant/Projects Request	(1,468,400)
FY 05 Operating Expenditures	(4,000,000)
Estimated FY 05 Revenue	7,500,000
Estimated FY 05 Ending Balance	$ 7,845,100

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DATE: October 4, 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 Parker Motor Vehicle Division Field Office Relocation

Request

In compliance with A.R.S. § 41-1252, the Arizona Department of Transportation (ADOT) requests Committee review of the Parker Motor Vehicle Division (MVD) field office relocation.

Recommendation

JLBC Staff recommends a favorable review of the project with the following provision:

- ADOT report back to the Committee with updated expenditure estimates once they have signed construction contracts.

Analysis

Laws 2004, Chapter 276 appropriated $500,000 from the State Highway Fund to the department to relocate the Parker MVD field office. 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.

ADOT reports that the current Parker MVD field office occupies 1,200 square feet in a strip mall. When the lease expired in April 2004, the owner indicated that he was looking for a different type of tenant. Since then, ADOT has rented the property month-to-month for $1,000 per month on a 6-month extension, which runs through October 31, 2004. The owner has agreed to another extension through March 31, 2005 for $1,000 per month.

(Continued)

ADOT proposes relocating the office and leasing 3 acres from the Colorado River Indian Tribe for 10 years at a cost of $875 per month, with an option for an additional 10 years. ADOT would make certain improvements to the parcel and install a new triple-wide 2,880 square foot modular building. ADOT is still negotiating with the tribe, and has no contracts for site work or firm price for the modular building. The following table summarizes ADOT's projected costs.

ADOT's Projected Costs

Architectural & Engineering	$ 12,000
Site Development [1/]	75,000
Utility Connection	50,000
Purchase Triple-wide Modular Building	216,000
Telecommunications & Customer Tracking System	54,000
Furniture, & Security Equipment	54,000
Contingency Set Aside	39,000
Total	$500,000

1/ Includes survey, clear, grade and trench the site, pave and stripe parking lot, and install curbs, barriers, lights and fences.

The project would more than double the amount of office space from 1,200 square feet to 2,880 square feet to accommodate anticipated population growth and related staffing increases over the 10-year lease. All costs are ADOT estimates, with no contracts for site work or firm price for the modular building yet in place.

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DATE: October 4, 2004

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

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: Department of Transportation – Review of 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 Transportation (ADOT) requests that the Committee review its $2,780,900 FY 2005 Building Renewal allocation plan, including $2,715,000 from the State Highway Fund and $65,900 from the State Aviation Fund.

Recommendation

JLBC Staff recommends a favorable review of the plan with the following provisions:

- ADOT report to JLBC Staff any allocations for FY 2005 projects from the $148,800 contingency amount. JLBC Staff will report to the Committee on significant allocations, typically those above $50,000.
- ADOT submit for Committee review any reallocation above $50,000 between the individual projects in the $2,780,900 favorably reviewed plan.

ADOT has allocated $2,566,200 from the State Highway Fund among 135 projects leaving a contingency amount of $148,800. ADOT has allocated $65,900 from the State Aviation Fund for 1 project. All of the projects fit within the guidelines for building renewal projects.

Analysis

The Capital Outlay Bill (Laws 2004, Chapter 276) appropriated a total of $2,780,900 to ADOT for building renewal in FY 2005, including $2,715,000 from the State Highway Fund and $65,900 from the State Aviation Fund. The FY 2005 Building Renewal appropriations represent 84% of the amount generated by the Building Renewal Formula for the ADOT Building System and 100% for the Grand Canyon Airport. ADOT expects to allocate the Building Renewal monies from the State Highway Fund in the following categories for 135 projects:

Category	Projects	State Highway Fund	% of Total
Fire/Life/Safety	21	$ 413,200	15.2%
Roofs Repair/Replacement	17	233,300	8.6
Exterior Preservation (Doors, Windows, Siding)	36	328,100	12.1
Building Systems (HVAC, Electrical, Plumbing)	27	566,600	20.8
Interior Finishes (Paint, Carpet, Tile)	9	60,500	2.2
Remodel	10	191,800	7.1
Americans with Disabilities Act	2	295,000	10.9
Infrastructure (Sewers, Parking)	13	477,700	17.6
Contingencies		148,800	5.5
Total	**135**	**$2,715,000**	**100.0%**

For the Committee's information, the following 12 State Highway Fund projects require $50,000 or more:

Project	Allocation
Install fire detection/alarm system – Phoenix Equipment Shop	$ 89,000
Replace footing walls of de-icer building – Keams Canyon	50,000
Inspect and report needed roof repairs – Central Region	90,000
Install new air conditioning units – Various Phoenix Locations	75,000
Replace transfer switch – Administration Building 206 S. 17th Ave	95,000
Upgrade electrical - Seligman	90,000
Upgrade electrical – Flagstaff Shop	80,000
Remodel storage vault into office area – Administration Building	60,000
ADA compliance & remove asbestos – Phoenix Maintenance HQ	95,000
ADA compliance – Multiple MVD Locations	200,000
Connect to city sewer – Payson Maintenance Yard	225,000
Connect to city sewer – Wickenburg Maintenance Yard	150,000
Subtotal	$1,299,000

ADOT expects to allocate the $65,900 of Building Renewal monies from the State Aviation Fund for a partial reroof of the Grand Canyon Airport terminal.

The JLBC Staff recommends a favorable review of the FY 2005 expenditure plan. The attached material submitted by ADOT lists each project and its estimated cost. The projects are consistent with Building Renewal guidelines and appropriations.

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1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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FAX (602) 542-1616

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DATE: October 7, 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 – Review of La Aldea Student Housing Complex Purchase and Report on Chemistry Expansion Project Contingency Allocation

Request

A.R.S. § 15-1683 requires Committee review of any university projects financed with system revenue bonds. The University of Arizona (U of A), on behalf of the Arizona Board of Regents (ABOR) requests Committee review of the $21.9 million acquisition of La Aldea Student Housing Complex from Southern Arizona Capital Facilities Finance Corporation (SACFFC).

SACFFC is a non-profit organization distinct and separate from U of A and exists to support the university in constructing capital projects. La Aldea Student Housing Complex is the sole campus residential facility constructed through this method or managed by a private firm.

Recommendation

The Committee has at least the following options:

- A favorable review of the purchase, with the provisions that U of A submit for further Committee review any changes in scope, as well as that a favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any rent collections that may be required for debt service.

- A deferral of review until U of A pursues options for alternative management of the La Aldea Student Housing Complex.

- An unfavorable review of the purchase.

(Continued)

U of A desires to purchase the complex in order to provide consistency and flexibility of service to students. Per bed costs are not unreasonable as compared to another U of A housing facility.

U of A plans to issue system revenue bonds to be repaid over a 25-year period at an estimated interest rate of under 6.0%. Annual debt service would be approximately $1.7 million, paid entirely from student hall rental fees. Those fees would also completely fund operations and maintenance expenses. The total 25-year debt service could reach $42.5 million.

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 8.0% of each institution's total projected annual expenditures. This calculation is known as the debt ratio. The $21.9 million bond issuance would increase the U of A debt ratio from 4.29% to 4.39%.

Analysis

Statewide interest in public-private property development partnerships led ABOR to create SACFFC in April 2002, for the express purpose of funding the La Aldea Student Housing Complex, a 150-unit, 325-bed facility for graduate students with no children. A board of three directors governs SACFFC. As a non-profit corporation, SACFFC had the ability to issue federal tax-exempt bonds for $20.8 million.

U of A ground-leased a campus site to SACFFC. The ground lease terminates whenever the SACFFC bonds are retired or prepaid. U of A selected a property management firm to design, build, and manage the facility. Since the bond issuance came from SACFFC and not U of A, the project was not subject to Committee review. U of A did not provide the Committee any information at that time.

The La Aldea Student Housing Complex is the first of its kind at U of A. The university built and financed all its other residential halls through traditional direct contracts with architects, engineers, and construction managers. U of A also manages all other housing complexes through its Residence Life Auxiliary Enterprise, which has operated using student hall rental fees with no deficits.

The ground lease and the management agreement both require the private management firm, whose main experience is in undergraduate housing, to serve the bonds solely from student rent revenues. The firm has not been able to meet its contractual obligations. La Aldea Student Housing Complex fully opened by the end of September 2003, two months behind schedule and after the start of the Fall 2003 semester. Although the private management firm's market analysis indicated that a large population of graduate students were seeking on-campus housing and that proposed rents would be reasonable and obtainable, the delayed opening forced many students into alternative housing.

Occupancy in the first year of La Aldea Student Housing Complex operation was approximately 50%. U of A expressed some dissatisfaction and the private management firm was able to raise occupancy to 71% for the current academic year. To allow the firm to make its debt service payments, U of A has rented some rooms in the facility. Staff is exploring the university's use and financial loss for that space.

(Continued)

La Aldea Student Housing Complex is an apartment style residence offering 568 square-feet per bed with kitchen facilities and multiple bathrooms in each unit. The private management firm offers 10-month and 11-month leases ranging from $495 to $765 per month and 12-month leases ranging from $460 to $730 per month. For comparison, U of A Highland District Housing, which the Committee favorably reviewed at its March 2002 meeting, is a traditional dorm with double and quadruple occupancy rooms offering 330 square-feet per bed. U of A charges between $378 and $460 per month for the academic year at all the residence halls it manages. The university has a system-wide internal formula for calculating annual fees at the various facilities.

U of A would purchase the 325-bed La Aldea Student Housing Complex for a cost of $67,400 per bed. Meanwhile, Highland District Housing provided 776 beds for a total cost of $39.7 million, or $53,600 per bed. The differences between the two buildings advise against direct comparison, but indicate that a $21.9 million purchase price may not be unreasonable. However, since U of A may currently be losing money renting rooms in the La Aldea Complex, the $21.9 million may not be a true reflection of the university's actual costs.

The property management firm's failure to meet debt service requirements constitutes a breach of both the ground lease and the management contract. U of A is seeking an agreed-upon termination and senses that the private firm, which is also losing money, is amenable to such a separation. However, SACFFC has the ability, if necessary, to cancel the lease and contract for cause. Neither SACFFC nor U of A would have a financial obligation to the property management firm. However, U of A would bear the $21.9 million cost of refinancing the debt under its own administration.

U of A is reporting a 6.0% interest rate as a conservative estimate for its bond issuance. The debt service amounts described herein are based on that rate. However, the university has requested that ABOR allow a combination of interest rate strategies, based on the recommendations of a financial advisor, during the bond sale. U of A approximates that it would actually secure a bond rate between 5.25% and 5.50%.

Although U of A did not conduct any studies of the matter, the university does not believe that any other private firm could generate improved management results. Rather, U of A states that experimenting with another firm could injure the university's credit rating. Since U of A itself has the most experience in this arena, the university feels it could better serve students by acquiring and self-managing the facility.

Arizona State University (ASU) has also used public-private development partnerships to build and manage four student residential facilities: two on the main campus, one at ASU West, and one at ASU East. ASU West and its associated non-profit capital development corporation experienced a similar situation to U of A last year. The corporation leased university land, bonded for an undergraduate student-housing complex, and hired a private construction and management firm. This firm also failed to meet its occupancy targets. ASU West and its non-profit partner replaced the initial private manager with another company and are thus far pleased with the results. Staff cannot comment on the operational differences between undergraduate and graduate student housing management.

(Continued)

U of A continues to experience shortages of on-campus housing, coupled with increases in student enrollment. Through economies of scale, the university believes it can charge lower rates and provide better student residential programs. Therefore, U of A does not anticipate any difficulty finding tenants for the entire building under university control.

However, the university's lower rental rates do not appear sufficient to cover the debt service costs of purchasing La Aldea Student Housing Complex. Consequently, university housing auxiliary fund balances would subsidize debt payments. In effect, other U of A dormitory fees would support the La Aldea facility.

Chemistry Expansion Project Contingency Allocation

The University of Arizona (U of A) is reporting on a contingency allocation change for the Chemistry Building Expansion. The Committee originally favorably reviewed an 88,500 square-foot facility for $45.0 million in September 2003. At its June 2004 meeting, the Committee favorably reviewed a total project cost increase of $1.1 million, a reallocation of $2.6 million of the project's $3.9 million contingency fund, and a scope reduction to 85,000 square feet. These changes were tied to significant cost increases in raw materials. With these reviews, the Committee stipulated that U of A report on contingency allocations that exceed 10% of the project's contingency fund amount.

This item is for information only and no Committee action is required. U of A is reallocating $0.2 million of the project's remaining $1.3 million contingency fund to remove old underground utilities. The university's older infrastructure was not consistently documented and U of A could not predict what the contractor might uncover in site preparation. The total previously-revised project budget of $46.1 million remains unchanged, as does the total cost per square foot, at $507. However, the direct construction cost per square foot has increased from $410 to $413. As staff previously noted, the amount of specialized laboratory space in the Chemistry Building Expansion has created project costs significantly higher than in other projects of its class.

RS/SC:jb

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1716 WEST ADAMS
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DATE: October 7, 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 Capital Project Cost and Scope Changes

Request

A.R.S. § 15-1683 requires Committee review of any university projects financed with system revenue bonds. Northern Arizona University (NAU), on behalf of the Arizona Board of Regents (ABOR) requests Committee review of $4.4 million for cost and scope changes in three capital projects. NAU would finance these additions with a total new revenue bond issuance of $15 million. The remaining $10.6 million would finance new capital projects addressed separately in this agenda.

At its August 2002 meeting, the Committee approved the School of Communication Renovation, a revenue bond project. At its November 2003 meeting, the Committee approved the New College of Business Administration and the first scope revision of the School of Communication Renovation, both revenue bond projects. Then, at its June 2004 meeting, the Committee gave a favorable review for the College of Engineering and Technology Renovation, a lease-purchase research infrastructure project.

Recommendation

JLBC Staff recommends a favorable review of the $4.4 million expenditure plan with the following provisions:

- NAU 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 projects. NAU shall also report to the Committee before any reallocation exceeding $100,000 among the individual planned projects.
- NAU 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 any project. In case of an emergency, NAU may immediately report on the scope and estimated cost of the emergency rather than submit the item for review. JLBC Staff will inform the university if we do not agree with the change of scope as an emergency.

(Continued)

- 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, or any operations and maintenance costs.
- The Committee expresses its concerns with the NAU planning process. NAU is now seeking to fill out 30,000 square feet of space in the School of Communications for classrooms, to expand the New College of Business Administration building by 11,000 square feet for common areas, and to add a 10,000 square-foot shell space to the College of Engineering and Technology.

Had the planning process been more comprehensive, NAU could have included these new design elements in the original building scopes. All main design features should be incorporated in initial project plans, so that the Committee has a more accurate representation of true capital needs upon initial review. Contingency reallocations or overall cost adjustments should be reserved for commodity price increases and other uncontrollable circumstances.

NAU plans to add $0.8 million to the $13.9 million School of Communication Renovation, $2.1 million to the $22.0 million New College of Business Administration, and $1.5 million to the $15.0 million College of Engineering and Technology Renovation. The per-square-foot cost estimates for these three projects are still reasonable after modification. *(See table in Analysis section for a revised cost summary.)*

NAU plans to issue system revenue bonds to be repaid over a 30-year period at an estimated interest rate of 5.5%. Annual debt service would be approximately $0.2 million, paid from tuition collections and other local university resources. NAU has stated its intention to request legislative appropriations to support the debt service, but is prepared to continue making payments from tuition. Tuition collections used for debt service would be unavailable to support operating expenses and may, therefore, impact the General Fund in the future.

The total 30-year debt service for these three scope changes would be $6.4 million in total, with $1.5 million for the School of Communication Renovation, $2.8 million for the New College of Business Administration, and $2.1 million for the College of Engineering and Technology Renovation. NAU anticipates a $0.6 million increase in annual operating and maintenance costs associated with these scope changes. The university plans to fund those costs through local resources.

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 8.0% of each institution's total projected annual expenditures. This calculation is known as the debt ratio. The total $15 million bond issuance would increase the NAU debt ratio from 5.3% to 5.5%.

Analysis

As NAU commenced construction on the School of Communication Renovation, the New College of Business Administration, and the College of Engineering and Technology Renovation, the university identified additional uses that the facilities could serve. While the university had hoped to accommodate its additional needs out of the existing capital budgets, NAU faces significant cost increases in both materials and labor. Due to increasing worldwide demand for raw materials, especially from economic growth areas in Asia, construction material costs for such items as steel, cement (concrete), petroleum, copper, and gypsum (drywall) continue to rise. Furthermore, Flagstaff must import construction contractors from surrounding areas and therefore, pays a premium for labor. Continuing high demand for construction workers in the Phoenix and Las Vegas metropolitan areas has exacerbated the situation.

The following table shows the total original and revised budgets and scopes for the three projects.

Northern Arizona University Capital Projects
Original and Revised Costs and Scopes

Project	School of Communication Renovation [1/]	New College of Business Administration	College of Engineering and Technology Renovation
Original Square Footage	90,000	100,000	88,700
Revised Square Footage	90,000	111,000	98,700
Original Total Project Budget	$ 13,900,000	$ 22,000,000	$ 15,000,000
per square foot	$ 145	$ 202	$ 169
Revised Total Project Budget	$ 14,700,000	$ 24,075,000	$ 16,500,000
per square foot	$ 153	$ 217	$ 167
Original Direct Construction Cost	$ 11,834,981	$ 18,150,981	$ 12,488,197
per square foot	$ 123	$ 163	$ 141
Revised Direct Construction Cost	$ 12,604,884	$ 20,643,995	$ 14,122,988
per square foot	$ 131	$ 186	$ 143
Annual Debt Service	$ 50,400	$ 94,500	$ 70,875
Debt Ratio Change	0.012%	0.030%	0.022%
Added Operations & Maintenance	$ 0	$ 550,000	$ 58,860

1/ At its November 2003 meeting, the Committee approved a previous scope change and project budget increase for the School of Communication Renovation.

School of Communication Renovation

The Committee originally approved the School of Communication Renovation in August 2002, to address failing electrical, mechanical, and plumbing systems, to comply with new accessibility and life safety codes, and to reconfigure the space for changing program needs. The original scope of the project was 60,000 square feet. At its November 2003 meeting, the Committee approved a scope change allowing a 30,000 square-foot expansion for a lecture hall and several classrooms, adding $900,000 to the total project cost.

While the contractor completes remaining minor work to the building, the School of Communications is in use for the fall term. Due to the materials and labor cost increases mentioned previously, NAU built the exterior of the expansion, but was unable to complete the interior. Currently, NAU has only one lecture hall on the north side of campus. Since the contractor is still on-site, NAU seeks to complete the mediated lecture hall and classrooms by January 2005, at a total additional cost of $800,000.

New College of Business Administration

Due to major mechanical, electrical, plumbing, and structural problems at the existing NAU College of Business Administration, the Committee approved construction of a new 100,000 square-foot facility providing state-of-the-art computer labs, classrooms, seminar and conference rooms, office space, student-centered areas, flexible spaces, and an auditorium. The new facility will house the Accounting, Computer Information Systems, Economics, Finance, and Management and Marketing programs and departments.

The final design added 11,000 square feet for common areas, including computer kiosks in hallways, to facilitate student-faculty interaction outside the classroom. NAU may also build more classrooms. Again, NAU planned to accommodate the increases out of its existing budget, but rising materials and labor costs precluded these efforts. NAU is requesting $2.1 million to complete the project as envisioned. Construction began in July 2004, two months behind the original schedule. Since NAU will now be contending with colder weather, completion is projected to take three months longer than previously anticipated.

(Continued)

College of Engineering and Technology Renovation

At its June 2004 meeting, the Committee favorably reviewed the renovation of the 70,700 square-foot College of Engineering and Technology, including an 18,000 square-foot extension. These renovations are addressing structural, life safety, mechanical and electrical system, disability access, and space reconfiguration issues.

As university faculty more clearly defined their needs in the new building, NAU realized additional space would be required. The university plans to construct an adjoining 10,000 square-feet of empty space to house the Engineering and Applied Research Laboratory (EASEL). EASEL would attract additional opportunities for applied engineering research, entrepreneurship, and industry collaboration. NAU anticipates using future research grants from government and industry to fill the space, as the individual projects require. Since empty space costs less to construct than filled buildings, the EASEL addition would lower the total cost per square foot of this project from $169 to $167.

Construction began on schedule in August 2004 and NAU anticipates that the entire project can still be completed within the original 18-month timeframe.

RS/SC:jb

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DATE: October 7, 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 New System Revenue Bond Capital Projects

Request

A.R.S. § 15-1683 requires Committee review of any university projects financed with system revenue bonds. Northern Arizona University (NAU), on behalf of the Arizona Board of Regents (ABOR) requests Committee review of $10.6 million for Building System Repair and Replacement and Wayfinding / Landscaping Infrastructure. NAU would finance these new initiatives with a total new revenue bond issuance of $15 million. The remaining $4.4 million would finance scope and project budget changes addressed separately in this agenda.

Recommendation

JLBC Staff recommends a favorable review of the $10.6 million expenditure plan with the following standard university bonding provisions:

- NAU 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 projects. NAU shall also report to the Committee before any reallocation exceeding $100,000 among the individual planned projects.
- NAU 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 any project. In case of an emergency, NAU may immediately report on the scope and estimated cost of the emergency rather than submit the item for review. JLBC Staff will inform the university if it does 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, or any operations and maintenance costs.
- NAU shall not use bonding to finance the purchase of any capital assets whose typical life span is less than the bond repayment period. The exceptions to this stipulation are circumstances where more minor repairs are required to complete a major renovation.

NAU plans to issue system revenue bonds to be repaid over a 30-year period at an estimated interest rate of 5.5%. NAU would dedicate $6.7 million of the bond issuance to Building System Repair and Replacement and $4.0 million to Wayfinding / Landscaping Infrastructure.

(Continued)

Annual debt service would be approximately $422,000 for Building System Repair and Replacement and $252,000 for Wayfinding / Landscaping Infrastructure. NAU has stated its intention to request legislative appropriations to support the debt service, but is prepared to make payments from tuition collections and other local university resources. Tuition collections used for debt service would be unavailable to support operating expenses and may, therefore, impact the General Fund in the future. The combined total 30-year debt service would be $20.2 million.

NAU does not foresee any additional operating and maintenance costs for Building System Repair and Replacement. However, the university does anticipate a $110,000 annual increase associated with Wayfinding / Landscaping Infrastructure. The university plans to fund these costs through local resources.

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 8.0% of each institution's total projected annual expenditures. This calculation is known as the debt ratio. The total $15 million bond issuance would increase the NAU debt ratio from 5.3% to 5.5%.

Analysis

State agencies normally 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 operations monies. Larger repairs, those that extend the useful life of a facility, qualify as building renewal. Building renewal projects are usually categorized into fire and life safety improvements, preservation of assets, and critical repairs for continued operation of existing programs. Typical building renewal projects include replacement of utility distribution systems; Heating, Ventilating, Air Conditioning (HVAC) systems; and roofs.

In general, bonding for cosmetic or other short-term renovation projects is problematic, 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. For stand-alone additions or cosmetic projects, long-term financing is not recommended.

Based on past experience, JLBC Staff does not believe that the overall average useful life for the components of Building System Repair and Replacement and Wayfinding / Landscaping Infrastructure is as long as 30 years. Therefore, Staff recommended, and NAU indicated its willingness, to restructure debt service for a shorter term. At its June 2004 meeting, the Committee provided the same guidance to Arizona State University for a similar request. Any restructuring to a shorter period would raise the annual debt service amounts and debt ratio impacts, while lowering the overall debt service amounts described herein.

<u>Building System Repair and Replacement</u>

ABOR policy requires the universities to request Legislative appropriations to cover the amounts needed for building renewal. Full annual funding of the building renewal formula in FY 2005 would have provided $7.7 million for NAU. The university system has not received any state funding for building renewal since FY 2001. Consequently, NAU has deferred maintenance on a number of buildings and has developed a phased approach to use long-term financing to address deferred maintenance items. Building System Repair and Replacement encompasses 12 systems renovation initiatives, at an estimated total cost of $6.7 million. The attached table provides project descriptions and estimated capital costs, which appear reasonable.

These renovations would address federal and state mandated fire and life safety system upgrades in 34 buildings; elevator code compliance upgrades; roof replacements; mechanical and electrical systems replacement or renovation; asbestos, chemical, and hazardous waste code compliance; disability access; and sidewalk and bridge repairs. NAU estimates the projects would take 13 months to complete.

Annual debt service on Building System Repair and Replacement would be $422,000, representing a 0.1% increase in the university's debt ratio. NAU has stated its intention to request legislative appropriations to support the debt service, but is prepared to make payments from tuition collections and other local university resources.

(Continued)

Wayfinding / Landscaping Infrastructure

The NAU campus consists of 736 acres, including 7 miles of streets, 23 miles of pedestrian walkways, and 70 acres of parking lots. However, signage throughout the university is absent in many places and inconsistent where it does exist. NAU believes it is important to address this issue as the university focuses on recruitment and retention of students, as well as community relations. The university plans to spend $4 million on the project. A breakdown of costs is attached. If the Committee feels that extensive signage is a priority for the NAU campus, then these costs do not appear unreasonable. However, as this project differs significantly from other university capital projects, JLBC Staff has no relevant cost comparisons to provide.

Wayfinding / Landscaping Infrastructure would target key intersections, primary campus entrances, and the entire campus boundary to create a consistent design that regulates traffic and distinguishes the university from the surrounding community. NAU would complete the project in 14 months.

NAU would install signage, including new directional monuments, campus maps, student-posting areas, building identity markers, and parking and regulatory signs. Furthermore, landscape improvements would unify the campus design. The improvements would also remove interior campus parking lots that overlap pedestrian walkways and adjoin buildings to mitigate pedestrian safety and homeland security concerns. NAU currently has excess parking capacity, especially in external parking lots, to handle the displaced vehicles. The university would also install new emergency-call light poles, as well as low-pressure sodium exterior lighting to comply with Flagstaff's new dark-sky ordinances.

Annual debt service on Wayfinding / Landscaping Infrastructure would be $252,000, representing a 0.06% increase in the university's debt ratio. NAU has stated its intention to request legislative appropriations to support the debt service, but is prepared to make payments from tuition collections and other local university resources. NAU attempted to select the most maintenance-free signage and landscaping available, but the university still estimates annual operations and maintenance costs of $110,000. NAU plans to fund these expenses through local resources.

RS/SC:jb

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JIM WARING

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

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DATE: October 7, 2004

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

THRU: Richard Stavneak, Director

FROM: Jake Corey, Senior Fiscal Analyst

SUBJECT: School Facilities Board – Review of Lease-to Own Projects

Request

Pursuant to A.R.S. § 15-2004, the School Facilities Board (SFB) requests the Committee review its list of $50 million in potential new school construction projects to be financed with lease-purchase agreements in FY 2005. The total amount of FY 2005 lease-purchase agreements is $250 million. At the June 2004 meeting the Committee reviewed the other $200 million of projects. In addition, the board requests the Committee review its slightly revised list of projects from the June 2004 meeting.

Recommendation

The Committee has at least two options:

1) Favorably review all projects.

2) Defer action on the Cave Creek Unified District land lease item until more information is received on the financing of the project, but favorably review all remaining projects. There are a number of questions concerning the Cave Creek lease and size of the parcel.

For the $50 million lease-purchase agreement, the board has submitted for review 4 construction projects and the Cave Creek land lease. The total value of the land and construction projects is $49.8 million. The term of the lease-purchase agreement will be 15 years. At a projected interest rate of 3.96%, SFB estimates the FY 2006 debt service payment to be $2.1 million and remaining annual payments in the range of $4.7 to $5.0 million. Total debt service is estimated to be about $70.4 million, which includes $50.0 million in principal and $20.4 million in interest. The following table shows the estimated costs associated with the lease-purchase financing agreement.

Construction Proceeds	$ 49,835,200
Issuance Cost	153,000
Underwriting Fee	115,000
Insurance	119,700
Total Issuance	$50,222,900

For the $200 million lease-purchase agreement, the board submitted for review *potential* lease-purchase projects to be included in the agreement at the June 2004 Committee meeting. The board received a favorable review at the meeting; however, the *actual* list of projects has been slightly revised to include a project that was not submitted at the June meeting.

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.

<u>$50 Million Agreement</u>

The 4 construction projects and the land lease the board estimates will be included in the $50 million agreement are detailed in SFB *Attachment 1*. Regarding the 4 construction projects:

- Approximately 2,850 students will be housed in the space provided by the projects.
- All 4 projects are for new schools.
- Three of the projects are for K-8 space and 1 is for high school space.
- Two of the projects are under construction and two have been approved by the board.
- Two of the projects include the cost of land.
- Geographically, two of the projects are located in the West Valley of Phoenix, 1 is located in Pinal County, and 1 is located in the Tucson area.

The land lease is for a site in Cave Creek Unified School District where construction on a K-5 school has already begun. The term of the lease is 75 years. The construction cost of the school, as well as the first year land lease payment, was included in a $200 million lease-purchase agreement entered into in FY 2004. The $16.1 million that is included in the current $50 million lease-purchase agreement will be used to pay off the remaining 74 years of the lease agreement.

A.R.S. § 15-2041 allows the board to provide monies to lease rather than purchase land if the length of the lease exceeds the life expectancy of the school by at least 50%. Per A.R.S. § 37-221, any monies the State Land Department receives from the lease of state lands for public education are transferred to the SFB New School Facilities Fund. By entering into a lease with the State Land Department, any monies SFB spends to make the lease payments are automatically returned to the board. The net cost to SFB to lease the land, therefore, is zero.

If the board had purchased the site from the State Land Department, the purchase price of the land would have been deposited in the Permanent State Land Trust. This option, however, would have cost the state $16 million. The disadvantage of entering into a lease agreement is that the Permanent Trust Fund does not receive any monies. Interest earnings from the Trust are ultimately transferred to the Classroom Site Fund for distribution to K-12 school districts. On an annual basis, this is a loss of about $1 million to the Classroom Site Fund.

The $16.1 million cost for the land in Cave Creek is due to the 160 acre size of the site. The size of the parcel is considerably larger than the 17 acres allotted to the K-5 school. The board has indicated that in the future the district would add a middle school and a high school to the site. The board estimates building the high school in FY 2008 or FY 2009, and the middle school later.

$200 Million Agreement

The actual projects to be included in the $200 million lease-purchase agreement are identified in SFB *Attachment 2*. When SFB submitted its list of potential projects in June, the list included one project in Gilbert Unified School District that had been approved by the board in FY 2004. Since then the board has decided to delay construction on that project. The board has instead decided to include a project in Gilbert that was approved in FY 2003. The FY 2003 approved project was not included in the prior submittal as the district was not in possession of the land at that time. The district has since obtained the land and is ready to begin construction.

Including both the current $50 million agreement and the previous $200 million transaction, the board plans to enter into a total of $250 million in lease-purchase agreements in FY 2005.

RS/JC:jb
Attachments (2)

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1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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DATE: October 7, 2004

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

THRU: Richard Stavneak, Director

FROM: Jake Corey, Senior Fiscal Analyst

SUBJECT: School Facilities Board – Review of FY 2005 Building Renewal Allocation Plan

Request

Pursuant to A.R.S. § 15-2031, the School Facilities Board (SFB) requests that the Committee review its proposal to distribute $70 million of Building Renewal Fund monies for FY 2005.

Recommendation

The JLBC Staff recommends a favorable review of the proposed distribution of monies. The board would distribute the $70 million in two equal $35 million installments in November 2004 and May 2005. The formula calculation generated a $135 million amount. The board was allocated $70 million for building renewal in FY 2005.

Analysis

The Building Renewal Fund is established by A.R.S. § 15-2031 to provide funding for school districts to maintain the adequacy of existing school facilities. Building renewal monies are intended for major renovations and repairs, systems upgrades to extend the life of a building, infrastructure, and relocation and placement of portable buildings. Statute requires the Committee to review the board's plan for distributing Building Renewal Funds to school districts prior to their being allocated. A.R.S. § 15-2031E requires these amounts be distributed in two equal installments in November and May, after Committee review.

The budget provides a total of $70 million for Building Renewal in FY 2005. The proposed allocation to each district appears in the attached letter from the board. To determine individual district distributions, SFB has taken the district proportion of the $135 million total calculated amount and has applied these ratios to the $70 million figure.

In FY 2003, school districts spent $44 million from their local building renewal funds. The FY 2003 year-end balance for all districts was $135 million. (FY 2004 data is not yet available. Statute requires districts to report prior year building renewal activity to SFB by October 15.)

Regarding the on-going building renewal litigation, the Arizona Court of Appeals recently ruled that the plaintiff school districts did not show that underfunding the building renewal formula negatively impacted the districts' ability to meet academic standards. The Court of Appeals remanded the case to a trial court, where it is currently in the discovery phase.

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Attachment

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JIM WARING

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DATE: October 7, 2004

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

THRU: Richard Stavneak, Director

FROM: Tony Vidale, Senior Fiscal Analyst

SUBJECT: Department of Public Safety – Review of Remote Officer Housing Project

Request

The Department of Public Safety (DPS) requests Committee review of the scope, purpose, and estimated cost of the Remote Officer Housing Project. A.R.S. § 41-1252 requires Committee review of capital projects.

Recommendation

The JLBC Staff recommends a favorable review of the request. The project would consist of constructing 2 housing units in Ajo and 1 housing unit in Seligman, at a total estimated cost of $355,700.

Analysis

Laws 2004, Chapter 276 appropriated $360,000 from the Arizona Highway Patrol Fund to DPS to install 3 housing units for officers stationed in remote areas of the state. The department provides housing for officers stationed in remote parts of the State where adequate housing is not readily available. The use of remote housing allows DPS to provide better coverage of rural Arizona and faster response times to collisions and other emergencies.

The department would replace 3 housing units, 2 located in Ajo and 1 in Seligman, with double-wide modular homes at an estimated total cost of $355,700. The project will consist of purchasing the housing units, completing site-work (concrete work, grading, and fencing), and infrastructure work consisting of installing water, electrical and telephone lines and septic

(Continued)

systems. The department estimates work on the 3 sites will begin in November 2004 and be complete by June 2005. The following table lists the estimated costs of the various project components. The costs appear reasonable and are consistent with the intent of the appropriation.

Estimated Costs for Remote Officer Housing

Ajo (2 units)	
Housing Units	$ 134,000
Site-work	106,300
Storage Sheds	5,000
Contingency (5%)	12,300
Ajo Subtotal	$ 257,600
Seligman (1 unit)	
Housing Unit	$ 67,200
Site-work	23,800
Storage Shed	2,500
Contingency (5%)	4,600
Seligman Subtotal	$ 98,100
Project Total	$ 355,700

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JIM WARING

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JOHN LOREDO

DATE: October 7, 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

At its September 2004 meeting, the Committee received information from JLBC Staff and Arizona State University (ASU) 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.

As no representatives from ASUF were available to answer the Committee's more detailed questions, the Committee tabled the item for a meeting where ASUF spokespeople could attend. ASU has indicated that ASUF will send representatives to the October 14 meeting to address the Committee's concerns.

The remainder of this memo is identical to information the Committee received at its September 2004 meeting.

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.

(Continued)

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.

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.

(Continued)

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.

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.

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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.

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.

RS/SC:jb