

STATE OF ARIZONA

## Joint Committee on Capital Review

STATE  
SENATE

ROBERT L. BURNS  
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HOUSE OF  
REPRESENTATIVES

TOM BOONE  
CHAIRMAN 2006  
AMANDA AGUIRRE  
ANDY BIGGS  
JACK A. BROWN  
PHIL LOPES  
RUSSELL K. PEARCE  
STEPHEN TULLY

### MINUTES OF THE MEETING JOINT COMMITTEE ON CAPITAL REVIEW

Tuesday, April 18, 2006

The Chairman called the meeting to order at 8:20 a.m., Tuesday, April 18, 2006 in House Hearing Room 5 and attendance was as follows:

Members:	Senator Burns, Vice-Chairman	Representative Boone, Chairman
	Senator Aboud	Representative A. Aguirre
	Senator Gould	Representative Biggs
	Senator Johnson	Representative Brown
		Representative Lopes
		Representative Pearce
Absent:	Senator L. Aguirre	Representative Tully
	Senator Bee	
	Senator Cannell	

*Senator Burns moved the Committee approve the minutes of February 23, 2006, as presented. The motion carried.*

#### **ARIZONA GAME AND FISH DEPARTMENT – Review of Scope, Purpose, and Estimated Cost of Headquarters Relocation Project.**

Mr. Jeremy Olsen, JLBC Staff, presented the review of the relocation of the Game and Fish headquarters. The new headquarters will be located on the Ben Avery property at I-17 and Carefree Highway. The elevations, floor plans, and site plans were completed on January 9, 2006. It is expected that the department will sign a lease by mid July 2006. They are expected to break ground for the project on August 1, 2006, with completion by April 2007. The project will have 80,000 square feet of office space, 25,000 square feet of storage space, and 8,000 square feet for a vehicle and maintenance facility. The site will have room for additional office space as needed. The cost of the project will be \$16.5 million which is a cost of \$150 per square foot. The project will be financed through a Privatized Lease-To-Own (PLTO) agreement for a length of 25 years with payments starting at \$1.5 million for the first years and the final year will be \$1.9 million. Funding for the project will be from the Wildlife Conservation Fund, which receives revenue from the tribal gaming proceeds. The department estimates that the fund will receive \$5.5 million in 2006. The payment of \$1.5 million for this project will be 27% of the fund.

Senator Robert Burns asked what the source is for the Wildlife Conservation Fund.

Mr. Olsen replied that the Wildlife Conservation Fund receives revenue from tribal gaming proceeds. As part of the state's share of tribal revenue, each year a portion of the revenue is allocated to the fund.

Senator Burns asked if there were any other sources considered other than the Wildlife Conservation Fund.

Mr. Steve Ferrell, Deputy Director, Arizona Game and Fish Department, disclosed that all fund sources were considered. The Wildlife Conservation Fund was chosen because legislation for the fund mirrors the department's mission almost in its entirety, with the exception of watercraft. It allows the use of the funds for all the components of the expenses of the department. The Game and Fish Commission also favored the use of this fund because they expect it to grow over the life of the project.

Senator Burns observed that the projected square footage cost is lower than those seen in the past. In the event that the cost does not come in at the projected rate, he asked if there was another plan to continue the project.

Mr. Ferrell responded that the Game and Fish Commission has authorized up to \$16.5 million. If that amount should be exceeded, they would have to re-approach the Commission for authority to build with the increase.

Representative Tom Boone questioned whether the budget of \$146 per square foot was an adequate amount.

Mr. Ferrell replied that it is an adequate amount.

Senator Karen Johnson noted that the total building cost for construction is \$16.5 million, yet when financed for 25 years, the total will be \$42.5 million.

Mr. Ferrell explained that the total of \$42.5 million is accurate, but it also includes costs for the leasor to operate the building and provide security and maintenance.

Senator Johnson clarified that the \$42.5 million is not for just the cost of the building with the payment over the 25 year period, it also includes something in addition to the payment.

Mr. Ferrell replied that it is the cost of the payment, but in return, as part of the agreement the leasor maintains, operates, and provides security for the building.

Senator Johnson inquired about the yearly cost to operate the building if the one-time cost of \$16.5 million was to be paid. She wondered if the cost could be funded through the Wildlife Conservation Fund.

Mr. Richard Rico, Assistant Director, Arizona Game and Fish Department, explained that the operations and maintenance portion starts at \$360,000 per year, with annual percentage increases, which would reach \$650,000 at the end of the 25 year term. Included is a maintenance reserve which is for long term maintenance.

Senator Johnson suggested that this should be a one-time endeavor to pay the \$16.5 million then allow the department to fund the maintenance and operations out of the Wildlife Conservation Fund each year rather than pay \$42.5 million over a 25-year period.

Representative Russell Pearce pointed out that the department does not receive General Fund monies, so the issue would be that they would not have the money. He agrees with Senator Johnson's concept in paying cash.

Representative Boone reiterated that the recommended method would be based upon the cash flow to get the facility built in a timely manner.

*Senator Burns moved option 1, a favorable review to relocate the Arizona Game and Fish Department headquarters to the Ben Avery property and that the department report to the Committee concerning the future of the Deer Valley parcel when plans for the property are finalized.*

Senator Johnson asked how much the Deer Valley parcel is worth.

Mr. Ferrell replied that the department anticipates \$3.5 million to \$4 million.

There was no further discussion. The motion carried.

#### **YUMA-LA PAZ COMMUNITY COLLEGE DISTRICT – Review of General Obligation Bond Issuance.**

Ms. Amy Strauss, JLBC Staff, presented the review of the Yuma-LaPaz Community College District proposed \$53.9 million General Obligation bond issuance. This is the final issuance from an authorized 2004 bond election to issue a total of about \$74 million in bonds, which was reviewed by the Committee in August 2004. The Committee also reviewed the first issuance of \$20 million in May of 2005. The \$74 million from the bond proceeds would be combined with approximately \$5 million from other sources for a total of \$79 million. The issue will be over a 25-year period, and with an estimated interest rate of 5%, total interest payments would equal about \$43 million. The first annual payment for this issuance is about \$3 million. The payment on the \$20 million issuance is about \$1 million. She referred to Tables 1 and 2 of the JLBC recommendation memo that provide a summary of the new projects and renovation projects, which will be funded by the bond proceeds. The Committee favorably reviewed the Main Campus projects listed under Table 1 in May 2005. The projects would add approximately 300,000 new square feet to the district with an estimated average cost per square foot of \$262. Debt service is paid from property taxes, which will result in an increase of about \$30 dollars for every \$100,000 of house value.

Representative Biggs recalled that 2 or 3 years ago, the Committee provided the universities money for their biotech labs with part of it going to the Yuma campus for a new lab. He asked if this is for a different campus and if the Science and Agricultural Complex has received any of that money.

Mr. Dan Hann, Vice President for Business and Administrative Services, Arizona Western College, responded that the projects do not include the Northern Arizona University (NAU) project.

Senator Linda Aguirre expressed her support for this project.

Senator Burns asked if the college has any plans for other long term capital projects that would be funded from sources other than this bond.

Mr. Hann acknowledged that the college has a multi-year master plan that goes through 2015. These projects go through 2010. He expects that the district will go back to the public and request consideration of additional improvement bonds as the district continues to grow in the future.

Representative Boone noted that the projects are to go out to bid May 1, 2006.

Mr. Hann replied that the bids will be released on May 1 with bids due May 31. On June 13, the recommendation will go before the Board and a contract will be awarded by July 1.

Representative Boone stated his interest in the method of procurement for construction projects. He asked what type of bidding will occur for this project.

Mr. Hann responded that it will be a design-bid-build project.

Representative Boone mentioned that most construction projects presented to the Committee in the past have been the Construction Manager at Risk method which is not a sealed competitive pricing bid. He expressed his appreciation for using the sealed bid concept.

*Senator Burns moved the Committee give a favorable review as recommended by JLBC Staff to issue the remaining \$53.9 million General Obligation bond.* The motion carried.

## **ARIZONA STATE PARKS BOARD – Review of State Lake Improvement Fund Projects.**

Ms. Leah Ruggieri, JLBC Staff, presented the review of State Lake Improvement Fund Projects (SLIF). She summarized the February 23, 2006 meeting where the Committee favorably approved capital grants and projects funded by SLIF. At the meeting, the Committee requested that the Parks Board provide additional information on its specific proposal to allocate \$150,000 to State Parks projects and the use of pricing guidelines to ensure that local governments receive comparable grants for comparable equipment. This information can be found in the meeting packets. The Committee also requested that the Parks Board report back on the appropriate level of administrative expenditures from SLIF in FY 2006.

Representative Boone asked for clarification on whether in FY 2006, the Parks Board anticipates spending \$3.7 million for administrative costs. Ms. Ruggieri stated that it is the maximum amount of expenditure anticipated by the Board.

Mr. Jay Ziemann, Assistant Director, Arizona State Parks, stated that the recommendation misses the most important point that the money should not be spent on operating state parks. The money should be used for capital projects in state parks that have boats. Operating funds for the agency have been reduced in past budget cycles, so there is no way to meet operating demands. Other operating funds, General Fund, revenue and interest on the Heritage Fund have all been reduced to the point that there is no way to maintain operations other than using SLIF to make ends meet. He informed the Committee that these are the last funds available in the agency. The \$4 million was budgeted by the Board for administrative expenses, but they do not expect to expend any more than \$ 3.7 million. The SLIF grant program is for local communities and that component has been fully funded.

Representative Boone asked what the adjusted amount would be in 2007 from the \$3.7 million for administrative costs for the salary increases that were given.

Mr. Ziemann replied that he does not have the information available.

Representative Pearce said he has been concerned about SLIF for a long time. There are cities with small lake projects asking for SLIF money when they were never intended to be eligible. The SLIF money comes from gas taxes and boat registrations, and has always been intended for major lakes that allow gas powered boats, not small city or man-made lakes. He would like to see legislation stating the funds are only used for major lakes that allow gas powered watercraft. He asked if the agency has a list of all the grant receipts of the SLIF and Boating and Safety Law Enforcement Fund (BSLF).

Mr. Ziemann stated that he does have the list and will be able to send copies. He noted that the department tries to administer the fund as the statute dictates.

Representative Pearce said he would like to limit the use of the funds for what they are intended for through a motion. There are agencies that use 100% of their funds through the BSLF for enforcement activities in small counties for lakes and rivers which has never been the intent. He would like to have included in the motion the intent to stay with the original legislation that the funds are to be used for major lakes and law enforcement purposes for major lakes.

Senator Burns asked how much SLIF money will be used for administrative costs in 2007.

Mr. Ziemann replied that the expenditures will be the same. The revenues are flat and the interest earned on the Heritage Fund is not going to change a great deal, so it would be up to the Legislature to determine whether the General Fund will increase. If the General Fund increases, there would be less need to rely on revenue and SLIF. If the budget does not change it would be at \$4 million for administrative cost to operate state parks out of SLIF.

Senator Gould asked if the state park system operates at a loss, where the revenue cannot support the operation.

Mr. Ziemann said that it is the case.

Senator Gould questioned why services could not be priced on the user fees rather than being a net drain on the General Fund.

Mr. Ziemann replied that the parks have become increasingly self-sufficient. In 1989 the Legislature allowed the department to hold on to the revenue collected. In 1989 the parks system generated about \$11.5 million in revenue compared to last year's revenue of \$9 million. Kartchner Caverns generates the most at \$2.5 million compared to the rest of the parks system which has become more entrepreneurial. The parks fees are amongst the highest in the country and need to be affordable so people will be able to come to the parks.

Senator Gould inquired as to the percentage loss for parks operations.

Mr. Ziemann stated that some parks do well although Kartchner Caverns helps sustain many of the other parks that do not generate much revenue. The historic parks cost a lot to operate and maintain, and do not generate a large number of visitors, but they are important places of Arizona history that need to be available to the public.

Senator Gould would like to know how much fees would have to be raised based upon the loss percentage of park operations.

Mr. Ziemann did not have the numbers available and cannot speculate the amounts. He will be able to provide the information at a later time.

Senator Gould suggested that fees should increase to where the parks break even and not be a burden on the taxpayers. There are people that do not visit the parks because they can barely get by on their income and yet they are subsidizing the enjoyment of other people that have expendable income that can afford to travel.

Mr. Ziemann replied that the General Fund provides \$2.3 million for the entire state parks system, and revenue generated within the system is \$9 million, which is largely unheard of for a state parks system anywhere in the country.

Representative Pearce recommended that if the fees were increased a little, there would be better use of SLIF money that ought to be going to grants and capital projects for major lakes.

Mr. Ziemann mentioned that this discussion on what is appropriate, what the fees are and a comparison of our parks to other state parks had occurred 2 to 3 years ago. He will provide the information from those discussions.

Representative Jack Brown commented that parks is an area where you put money into, and do not expect to get money out of it. Parks are a quality of life component that some people never see, but that does not mean they should not be subsidized. We have a good parks system, but it needs to improve and we need to make it better.

Representative Phil Lopes clarified that SLIF was originally for capital projects in boating lakes. He asked who gives the authority.

Mr. Ziemann replied that authority is from statute.

Representative Lopes pointed out that there is no question that the intention of SLIF was for capital projects in boating lakes. He recalled that money has been taken from SLIF. He questioned why the parks board continued to fund the grants if the money was needed for administrative costs and other purposes.

Mr. Ziemann remarked that SLIF revenue comes from a percentage of gas tax and boating licensing. From that, 11.8% is used for state parks and administrative purposes, the remainder is split 70% to the local communities for their projects and 30% to state parks for capital projects in lake parks. The 70/30 split came into agreement when

10 to 15 years ago State Parks was rating the SLIF grant applications, and at the same time the State Parks own development section was applying for SLIF grants. This turned out to not be a good system. It is the 30% that the Parks Board has put in place for operating. It does not make sense to lay off people and close state parks throughout the state and yet build lake amenities when the budget was cut. There was also session laws that stated parks could not be closed. There was no other place to go for the operating funds.

Representative Lopes asked if the reason there was no cut back on the local SLIF grants was because there were statutory reasons.

Mr. Ziemann stated that to some degree they did not want to violate the 70/30 split which was made by agreement. They also did not want to penalize the grant recipients around the state if there was a potential to solve a problem that was not of their making.

Representative Lopes acknowledge their point that they do not want to penalize grant recipients. He stated that it may be an opportunity to penalize recipients because the penalty is not coming from the parks board, it is coming from the Legislature. Tax payers need to know the reason why they are not receiving a SLIF grant.

Representative Boone proposed the Committee take motion #2 in the JLBC recommendation but make a modification in terms of the original intent and adjust the \$3.7 million to \$3.8 million for the salary increase approved earlier in the session.

Mr. Richard Stavneak clarified that at the last meeting, the Committee favorably reviewed all projects which included the \$150,000, however more information was requested on how the money was going to be spent. The response to the information was there is no specific plan other than for emergencies. The money will be spent on facility and site repair work that needs to be done as circumstances arise and not on 1 big emergency.

*Senator Burns moved the Committee adopt JLBC recommendation #2 that the Parks Board limit SLIF funding for administrative expenses to \$3.7 million to make an additional \$300,000 available for SLIF grants and projects, with a change of \$3.7 million to \$3.8 million and change \$300,000 to \$200,000. In addition, the State Parks Board use future SLIF monies to meet the original intent that grants be used for major lakes and rivers that allow gas powered boats. The motion carried.*

Without objection the Committee meeting adjourned at 9:17 a.m.

Respectfully submitted:

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Yvette Medina, Secretary

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Lorenzo Martinez, Assistant Director

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Representative Tom Boone, Chairman

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