The Chairman called the meeting to order at 8:22 a.m., Tuesday, May 13, 2008 in House Hearing Room 4. The following were present:

Members:
- Senator Burns, Vice-Chairman
- Senator Aguirre
- Senator Arzberger
- Senator Johnson
- Senator Verschoor
- Senator Waring

Representative Pearce, Chairman
- Representative Groe
- Representative Kavanagh
- Representative Lopes
- Representative Lujan
- Representative Schapira

Absent: Senator Aboud

APPREOVAL OF MINUTES

Hearing no objections from the members of the Committee, Chairman Russell Pearce stated the minutes of December 18, 2007 would stand approved.

ARIZONA DEPARTMENT OF TRANSPORTATION (ADOT)

A. Review of the Grand Canyon Airport Modular Housing Project.

Mr. Juan Beltran, JLBC Staff, stated the FY 2007 Capital Outlay Bill appropriated $2.5 million from the State Aviation Fund in FY 2007 for the Grand Canyon Airport modular housing project. Mr. Beltran also stated each unit costs approximately $154,000 to build, and that the costs projections are consistent with the low bid and are within the proposed budget for the project. JLBC Staff recommends a favorable review of the request of the scope, purpose and estimated cost of $2.5 million for construction of 15 modular homes and related infrastructure at the Grand Canyon National Park Airport.

Discussion ensued on this item.

Senator Waring moved that the Committee give a favorable review of $2.5 million for the Grand Canyon Airport Modular Housing Project. The motion carried.
B. Review of Sprinkler and Fire Alarm Systems Project.

Mr. Beltran said this item is a review of ADOT’s sprinkler and fire alarm systems project. The FY 2006 Capital Outlay Bill appropriated $1,265,000 from the State Highway Fund for automatic sprinklers and fire systems in existing ADOT equipment services buildings. ADOT has an expenditure plan for 7 sites for $1.1 million, leaving $164,500 undesignated. ADOT is still evaluating whether to seek a bid for the Show Low facility since they have a long-term desire to relocate the facility, but there are no plans in place.

Mr. Gerald Cody, Senior Architect, and Mr. Roger Gorres, Physical Plant Manager responded to member questions.

Senator Waring moved that the Committee give a favorable review to ADOT for the Sprinkler and Fire Alarm Systems Project in the amount of $1.1 million to install fire sprinkler and alarm systems at 7 sites, and with the requirement that ADOT seek Committee review prior to expending the $164,500 of undesignated monies. The motion carried.

ARIZONA STATE UNIVERSITY (ASU) - Review of Memorial Union Fire Renovations Bond Project.

Ms. Leah Ruggieri, JLBC Staff, presented for review the Memorial Union Fire Renovations Bond Project at ASU. The Committee favorably reviewed this item in December 2007, with the condition that ASU return for Committee review if any change in excess of $500,000 from insurance reimbursement occurred. ASU is now reporting that the total cost is increasing by $13 million, all of which will be covered with insurance reimbursements. The projects per square foot costs are comparable to other projects previously reviewed by the Committee. JLBC Staff recommends a favorable review with the standard university financing provisions.

Discussion ensued on this item.

Ms. Karla Phillips, Director, State Relations, ASU, and Mr. Bruce Jensen, Construction Manager, responded to members questions.

Senator Burns moved that the Committee give a favorable review of the revised Memorial Union Fire Renovations Bond Project with the following standard university financing provisions:

- ASU shall report to the Committee before expenditure of any allocations that exceed the greater of $500,000 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 $500,000 among the individual planned renovations, renewals, or extensions.

- ASU shall submit for Committee review any allocations that exceed the greater of $500,000 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 concur with the emergency nature of the change in scope.

- A favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any revenues that may be required for debt service, or any operations and maintenance costs when the project is complete.

Additionally, ASU shall submit for Committee review any change in the current $40.0 million estimated insurance reimbursement amount in excess of $500,000 and a revised financing plan. The motion carried.
A. Review of Infrastructure Upgrades Bond Project.

Ms. Leah Kritzer, JLBC Staff, stated that this item is a review of the NAU Infrastructure Upgrade Bond Project. NAU is proposing to issue $15 million in system revenue bonds, repaying the bond with tuition revenues. There was no comparable data for JLBC Staff to assess the reasonableness of the project’s cost. As background, the Committee favorably reviewed a similar item in its December 2007 meeting when it reviewed a University of Arizona item where no comparable information was available. JLBC Staff recommends a favorable review of this item with the standard university financing provisions.

Ms. Christy Farley, Director, Government Affairs, NAU, and Mr. Bruce Jensen, Construction Manager, responded to member questions.

Senator Burns moved that the Committee give a favorable review to the NAU Infrastructure Upgrade Bond Project to be financed with a $15 million system revenue bond issuance with the following standard university financing provisions:

- NAU shall report to the Committee before expenditure of any allocations that exceed the greater of $500,000 or 10% of the reported contingency amount total for add-alternates that do not expand the scope of the project. NAU shall also report to the Committee before any reallocation exceeding $500,000 among the individual planned renovations, renewals, or extensions.

- NAU shall submit for Committee review any allocations that exceed the greater of $500,000 or 10% of the reported contingency amount total for add-alternates that expand the scope of the project. In case of an emergency, NAU may immediately report on the scope and estimated cost of the emergency rather than submit the item for review. JLBC Staff will inform the university if they do not concur with the emergency nature of the change in scope.

- A favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any revenues that may be required for debt service, or any operations and maintenance costs when the project is complete. The motion carried.

B. Review of New Residence Life Warehouse Bond Project.

Ms. Kritzer stated that NAU is proposing to issue $3.9 million in revenue bonds for their new residence life warehouse project and plans on repaying the bond with revenue from auxiliary funds, specifically dorm fees. The warehouse will be used to store items for residential life including carpeting, appliances, and snow removal equipment. NAU’s warehouse will include a pallet storage system, 3 offices, and a conference room. The total project cost per square foot for the warehouse is $232, which she mistakenly referenced as the direct construction cost per square foot in Committee packets. The correct direct construction cost per square foot is $168. NAU has suggested that the high cost of the warehouse is due to the small size of the facility, which makes the marginal costs greater than the average building. The Committee has at least the following options: a favorable review with the standard university financing provisions or an unfavorable review as the proposed warehouse appears more expensive than comparable projects.

Ms. Christy Farley, Director, Government Affairs, NAU, and Mr. Lorenzo Martinez, Assistant Executive Director for Capital Resources, Arizona Board of Regents, responded to members questions.

Senator Burns moved that the Committee give a favorable review to the Northern Arizona University New Residence Life Warehouse Bond Project to be financed with a $3.9 million system revenue bond issuance with the standard university financing provisions as listed in Item A. The motion carried.

Ms. Kritzer said the Committee favorably reviewed this item in 2006, at a cost of $4 million, as part of NAU’s research infrastructure project plan. The original project was planned at 10,000 square feet. The facility plan is now revised to include an additional 2,200 square feet as well as expanded research capacity. This will increase the cost by $2.5 million for a total project cost of $6.5 million. NAU is proposing to issue $2.5 million in system revenue bonds, which it will repay with tuition revenues. In comparison to other state university research facilities built over the last 3 to 4 years, the cost per square is on the high end. The JLBC Staff recommends a favorable review of this item with the standard university financing provisions.

Senator Burns moved that the Committee give a favorable review of the revised Applied Research Facility on its Yuma campus to be financed with a $2.5 million system revenue bond issuance with the standard university financing provisions as listed in Item A. The motion carried.

COCHISE COMMUNITY COLLEGE DISTRICT – Review of Revenue Bond Projects

Ms. Kritzer said this is a review of Cochise Community College District’s revenue bond project. In July 2006, the Committee favorably reviewed a General Obligation bond issuance for Cochise in the amount of $87 million. The bond issuance failed in the local election and Cochise now plans on constructing $46.5 million in capital projects with pledged revenue obligations, local district funds, and revenue bonds. Statute requires the Committee review revenue bond issuances for community colleges. Cochise is proposing to issue $11 million in revenue bonds, which will be mainly funded by tuition revenues. The bond will fund a new science building and new student housing complex. Based on comparable projects, the costs per square foot appear reasonable. The Committee has at least the following 2 options: a favorable review or an unfavorable review.

Ms. Kritzer said there is another item to bring to the Committee’s attention, which is Cochise’s submittal of information regarding their planned issuance of pledged revenue obligations, which are a type of lease-purchase agreement. Cochise plans on issuing $15 million in lease-purchase agreements in July. Literal interpretation of statute suggests that no more than $2.5 million in lease-purchase agreements can be issued in 1 year and the total outstanding debt cannot exceed $15 million. Cochise’s bond counsel has interpreted statute to read that annual principal debt payments themselves cannot exceed $2.5 million in a single year, while the total principal issuance cannot exceed $15 million. They also note that other community college districts have interpreted statute in a similar manner.

The Committee is not required to review these lease-purchase agreements and could take no action on this item if it chooses. However, the Committee could also recommend that Cochise remain within the $2.5 million annual cap or recommend that statute be modified to match current practice.

Dr. Karen Nicodemus, President, Cochise Community College, Mr. Keith Hoskins, Gust Rosenfeld, Bond Counsel, and Mr. Kevin Butler, Vice President for Administration, Cochise Community College, responded to member questions.

Senator Burns moved that the Committee give a favorable review to Cochise Community College District’s $11 million bond projects and in addition, the Committee recommended that A.R.S. § 15-1446 language be clarified regarding the financial cap on community college lease-purchase issuances and JCCR review for these issuances. The motion carried.

Without objection, the meeting adjourned at 9:55 a.m.
Respectfully submitted:

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Cheryl Kestner, Secretary

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Leatta McLaughlin, Senior Fiscal Analyst

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Representative Russell Pearce, Chairman

NOTE: A full audio recording of this meeting is available at the JLBC Staff Office, 1716 W. Adams. A full video recording of this meeting is available at http://www.azleg.gov/jlbc/meeting.htm.