

STATE OF ARIZONA

Joint Committee on Capital Review

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REPRESENTATIVES

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JACK A. BROWN
PHIL LOPES
RUSSELL K. PEARCE
STEPHEN TULLY

MINUTES OF THE MEETING JOINT COMMITTEE ON CAPITAL REVIEW

Thursday, August 24, 2006

The Chairman called the meeting to order at 9:35 a.m., Thursday, August 28, 2006 in Senate Appropriations Room 109 and attendance was as follows:

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

Senator Burns moved the Committee approve the minutes of July 27, 2006, as presented. The motion carried.

ARIZONA STATE UNIVERSITY – Review of Academic Renovations and Deferred Maintenance Phase IIA Bond Projects.

Ms. Leah Ruggieri, JLBC Staff, presented the ASU request to review, on behalf of the Arizona Board of Regents, the Academic Renovations and Deferred Maintenance Phase IIA to be financed with a revenue bond issuance of \$10 million. The 11 projects that comprise Phase IIA will total approximately \$9.2 million, leaving \$800,000 of the bond issuance unallocated. The projects include updated and growth space for academic programs and new faculty members, as well as renovations for vacated space from departments moving to the ASU Downtown Phoenix Campus.

Handout 1 lists 6 of the 11 projects. These projects are specifically to accommodate new hires. New annual research funds brought to the university by the new faculty are estimated to be approximately \$2.5 million. The School of Earth and Space Explorations has \$350,000 in new annual research funds. The renovation cost associated with this space is approximately \$1.5 million, which includes an all plastic lab. While the cost is high, the new annual research funds of \$350,000 will contribute \$70,000 annual indirect cost, which is roughly 20% of the new grant. This amount represents what will be used to defray the cost of the debt service from the \$10 million bond. ASU plans to pay off the debt with half coming from tuition collections and the other half from the Indirect Cost Recovery Fund.

The Committee has the options of a favorable or unfavorable review as detailed in the memo. In addition, there are standard university provisions listed when debt financing requests come forward. The last provision is that when ASU does develop a plan for the \$800,000 unallocated amount, they return to the Committee with a plan and provide an update.

The Committee also has an option to make a recommendation as to the procurement method that is used for the projects. ASU is proposing to use the Construction Manager at Risk method. In the past, the Committee has shown interest in other procurement methods.

Representative Andy Biggs asked if ASU would have to comply with an alternative Committee recommendation.

Mr. Richard Stavneak, JLBC Director, replied that after Committee review, ASU has the ability to proceed with or without taking into consideration the Committee recommendation.

Representative Steve Tully asked what will be done in the all-plastic lab.

Ms. Ruggieri said that it is for highly specialized meteorite research.

Senator Ron Gould referred to the School of Earth and Space Exploration \$350,000 grant. He asked if the \$70,000 for indirect costs will be used to specifically pay off the renovation of \$1.5 million.

Mr. Stavneak stated that all the indirect charges on all the grants across the university are deposited into a pot of money, and this pot of money will be used to pay for half of the debt service on these projects. The \$70,000 is not directly tied to only paying off the specific \$1.5 million renovations.

Senator Gould asked if it would be better to have the accounting numbers to show where each dollar went, rather than putting it in a big pot.

Mr. Stavneak acknowledged that it would be good, but ASU would probably have their own perspective.

Senator Gould asked if there was a guarantee that the grants continue.

In response to Senator Gould, Mr. Stavneak said that to the extent that the grant does not continue, the university is relying on the larger pot of indirect cost monies to continue to fund the debt service. The other half is the tuition payments being used to pay for debt service. To the extent tuition is used for debt service, it is not available for operating costs, and possibly reduce General Fund costs.

Senator Robert Cannell commented that the state is underfunding the university system to the point that they are relying on research to do the job. If they are not going to be fully funded, their research should not be cutoff.

Mr. Scott Cole, Deputy Executive Vice President for Business and Finance, ASU, said the special laboratory has to be completely built out of polymers and plastic because metal in the lab skews the equipment that measures micro amounts of magnetism in meteorites. This researcher is involved in a NASA study that is very sensitive and expensive. Researchers have to generate certain dollars per square foot on an annual basis for each of their laboratories. If they do not meet the amount, there is a 2-year time period within which to secure their grants. If they do not meet this, they are moved out of the space and a researcher that is productive can take over the space.

Representative Biggs noted the Classroom Renovation of 4,800 square feet for \$1.2 million seems disproportionately high. He asked what type of renovations are taking place in the classroom.

Mr. Cole replied that the classrooms that were built in the 1950's will be modernized and upgraded with paint, floor and window coverings. They are also being upgraded with media equipment to run computerized equipment. The HVAC systems and electrical will also be upgraded.

In response to the Indirect Cost questions asked by Senator Gould, Mr. Cole added that the dollar amount shared with the \$350,000 research fund is \$70,000 annually, not a one-time amount. In general, the terms of the grant are usually 4-6 years. The funding is deposited in the Indirect Cost Fund as was correctly stated by JLBC Staff. The fund is allocated to cover debt on any renovations, not a specific researcher.

Senator Burns asked how the breakdown of half collected tuition and half Indirect Cost Recovery Fund is derived for annual debt service payments.

Mr. Jerry Snyder, Associate Vice President for Finance and Treasurer, ASU, replied that they look at the relative mix of cost between research projects versus classroom projects. They then allocate from the funds they believe to be reasonable. As an example, if they had all research project renovations, they would use solely indirect cost. If they had all classroom project renovations, they would use tuition. This particular project is a combination so this is how they derived the 50/50 allocation.

Senator Burns asked if 20% of grants are fixed amounts for indirect cost recovery.

Mr. Cole replied that there is a calculation negotiated with the federal government depending on the department. They allow a certain percentage of the indirect costs to come out of any grant. The 20% is the portion that the university gets for indirect cost based upon the funded federal formula.

Senator Burns said building renewal is derived from a formula and is appropriated through the Legislature for renovations. It appears that the indirect cost money is also available for the same purpose.

Mr. Cole said yes. The university allocates the building renewal appropriation toward the academic components on the campus.

Senator Burns said the indirect cost money is not tracked. He asked how the building renewal formula is balanced against a source of money that is not tracked.

Mr. Stavneak stated there may need to be a better reporting mechanism that shows how much the universities are spending on renovations from different sources.

Mr. Cole clarified that the building renewal money is allocated for the academic components on campus. Any renovation to research space is funded through the indirect cost fund, not the building renewal. If there are upgrades in a lab, such as HVAC or electrical systems, a proportion may be funded out of building renewal if it is available.

Senator Burns asked if there is a distinct line between a laboratory and academic facility.

Mr. Cole replied that the renovations are reported to the Legislature in the Capital Improvement Plan every year. The academic and research components are broken down in that report.

Representative Boone said that he encourages the university to approach the qualified select bidder list method. The Construction Manager at Risk is not always the best method in proceeding on a construction project.

Mr. Cole replied that the university is not opposed to qualified select bidder list method. The state procurement laws currently do not allow that methodology. The university was advised by legal counsel to adhere to the state procurement code.

Mr. Lorenzo Martinez, JLBC Staff, added that the statutes for the procurement code has language that says the universities are exempt from the procurement code provided they adopt policies that are substantially equivalent to the procurement code. A legal opinion would be needed to see if that would give the universities flexibility to adopt an alternate method such as the qualified select bidders.

Representative Boone would like to try to add language to statute to make alternate methods available to universities and other state agencies.

Senator Burns moved the Committee give a favorable review as recommended by the JLBC Staff to the Academic Renovations and Deferred Maintenance Phase IIA 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 \$100,000 or 10% of the reported contingency amount total for add alternates that do not expand the scope of the project.*
- *ASU shall submit for Committee review any allocations that exceed the greater of \$100,000 or 10% of the reported contingency amount total for add alternates that expand the scope of the project. In case of an emergency, ASU may immediately report on the scope and estimated cost of the emergency rather than submit the item for review. The JLBC Staff will inform the university if they do not agree with the change of scope as an emergency.*
- *A favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any auxiliary revenues that may be required for debt service, or any operations and maintenance costs when the project is complete. Auxiliary funds derive from substantially self-supporting university activities, including student housing.*
- *ASU shall not use bonding to finance any repairs whose typical life span is less than the bond repayment period. Such repairs include, but are not limited to new flooring and painting. The exceptions to this stipulation are circumstances where such repairs are required to complete a major renovation.*
- *ASU shall submit to the Committee an expenditure plan for the \$800,000 unallocated to specific projects in Academic Renovations and Deferred Maintenance Phase IIA.*

The motion carried.

ARIZONA DEPARTMENT OF TRANSPORTATION – Consider Approval of Surprise Land Purchase.

Mr. Bob Hull, JLBC Staff, presented the Arizona Department of Transportation (ADOT) request for approval of the expenditure of \$1,779,000 to purchase land for a new Surprise MVD Service Center. ADOT has a \$2.7 million appropriation for this purpose.

There was no discussion on this item.

Senator Burns moved that the Committee approve, as recommended by the JLBC Staff, the purchase of land for a new Surprise MVD Service Center with the provision that the purchase price not exceed the appraised value and ADOT report back on the appraised value. The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION – Consider Approval of Rent Exemption for Structural Pest Control Commission.

Mr. Tyler Palmer, JLBC Staff, presented the consideration for approval of a rent exemption for the Structural Pest Control Commission. The Arizona Department of Administration (ADOA) is authorized on recommendation from the Committee to grant rent exemptions. The Structural Pest Control Commission would use the \$8,800 to pay for motor pool vehicle charges and laptops for 2 new FTE Positions authorized during the last Legislative session. The space is currently occupied by the Arizona Medical Board and the Board of Osteopathic Examiners. Those 2 boards will continue to occupy the space and will assume the payment of the rent within their existing budgets.

There was no discussion on this item.

Senator Burns moved the Committee approve, as recommended by JLBC Staff, a partial rent exemption for \$8,800 of FY 2007 rent charges for the Structural Pest Control Commission. The motion carried.

Without objection the Committee meeting adjourned at 10:10 a.m.

Respectfully submitted:

Yvette Medina, Secretary

Lorenzo Martinez, Assistant Director

Representative Tom Boone, Chairman

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