At its June 22nd meeting, the Joint Committee on Capital Review considered the following issues:

**Maricopa Community College District Bond Projects** – The Committee gave a favorable review to the district’s ten-year, $951.4 million General Obligation bond proposal. Proceeds from the issuance will fund $651.4 million in capital projects and $300.0 million in technology upgrades. Debt service will extend 22 years, ranging between $21.0 million and $97.2 million annually, paid through increases to secondary property taxes in the district. These tax rates will fluctuate with outstanding debt, but will average $16 for every $100,000 of property value. The Committee recommended that the district obtain Committee review before each actual bond issuance. The district will sell the bonds in five biennial installments of $190.3 million each. The total issuance still requires voter approval in November.

**Department of Transportation** – The Committee gave a favorable review to the ADOT FY 2005 highway construction budget expenditure plan for consulting services, totaling $105 million. Additionally, the Committee adopted traffic congestion performance measures and required the department to report on those measures as part of its FY 2006 expenditure plan review. The Committee also requested a complete list of over-capacity state highway segments by September 1, 2004.

**Game and Fish Canyon Creek Hatchery** – The Committee gave a favorable review to the Arizona Game and Fish Department (AGFD) Canyon Creek fish hatchery clarifier project. AGFD will combine a total of $685,000 from previously appropriated and federal grant monies to upgrade effluent treatment facilities at the hatchery.

**NAU Research Infrastructure Lease-Purchase Projects** – The Committee gave a favorable review to the issuance of $39.3 million in Certificates of Participation (COP) for the College of Engineering and Technology Renovation, as well as to the Applied Research and Development Facility. The COP issuance will be $15.0 million for the College of Engineering, $18.0 million for the Applied R&D Facility, and $6.3 million to capitalize interest until General Fund support becomes available in FY 2008. Starting in FY 2008, debt service will extend 23 years at $2.9 million annually. The financing will increase NAU’s debt ratio (debt service as a percent of total expenditures) from 4.2% to 5.3%. The statutory cap is 8%.

The Committee requests that NAU report on any project changes that exceed 10% of the budgeted contingency. The Committee’s favorable review does not endorse future General Fund appropriations for related operational costs. Lastly, the Committee requested a cost-benefit analysis of the building’s “green building” standards.

**U of A Arizona Capital Project Revisions** – The Committee gave a favorable review to the revised cost of the Chemistry Building Expansion research infrastructure lease-purchase project. At its September 2003 meeting, the Committee favorably reviewed a total project cost of $45,000,000. Since then, construction material costs, especially for steel, rose significantly. To address these cost increases, U of A will reduce the expansion from 88,500 to 85,000 square feet, reallocate $2.6 million of contingency funds, and spend an additional $1.1 million of indirect cost recovery and gift monies. Some Committee members expressed concerns that this university research infrastructure project, originally more costly than any other by $50 per square-foot, now requires an additional $30 per square-foot to complete. Building expansions tend to have a higher cost than new construction.

U of A also reported to the Committee on contingency reallocations for two other projects, both related to rising construction material costs.

**ASU Academic Renovations and Maintenance** – The Committee gave a favorable review to the issuance of $10.0 million in system revenue bonds for Academic Renovations and Deferred Maintenance Phase I. Debt service will extend 15 years at $1.0 million annually, paid through tuition collections. This financing will increase ASU’s debt ratio from 5.8% to 5.9%. The statutory cap is 8%.

The Committee requested that ASU report on any project changes that exceed 10% of the budgeted contingency. The Committee’s favorable review does not endorse future General Fund appropriations to offset tuition collection shortfalls. Lastly, the Committee recommended that bonding not finance any repairs whose typical life span is less than the bond repayment period.

**School Facilities Board** – The Committee approved conversion of $247.1 million in short-term variable-rate taxable bonds to long-term fixed-rate tax-exempt bonds. The Committee approved the original short-term bond issuance at its August 2003 meeting to fund deficiencies correction in light of certain IRS issues, but requested that SFB obtain approval before converting the bonds.

Converting to tax-exempt bonds will save SFB $33.4 million in taxes over the life of the issuance. However, bond-rating agencies indicated they would issue a junk bond rating to SFB unless the board established a reserve fund. The poor rating resulted from uncertain annual revenues to the Permanent State School Fund, which SFB will use for debt service. To obtain the highest bond rating, SFB had to purchase $7.2 million in insurance and establish a $12.8 million reserve fund. Some Committee members expressed concerns that the board did not anticipate the IRS issues, conversion fees, or its potential low credit rating.

The Committee also gave a favorable review to the board’s list of potential new school construction projects, to be financed with $230 million in lease-purchase agreements. The list covers 35 projects in 27 school districts. Debt service will extend 15 years at approximately $18.6 million annually.

**State Parks Board Yuma Crossing Transfer** – The Committee approved a land transfer of approximately 2.2 acres at Yuma Crossing State Historical Park to the City of Yuma. The City of Yuma requested this land as part of its
downtown redevelopment, while the state originally obtained the land at no cost and the board had no plans to develop it. The Committee recommended that the U.S. General Services Administration also approve the transfer.

ADC Prison Reports – The Committee received a report from the Arizona Departments of Administration and Corrections on prison projects that the Committee approved at its March 2004 meeting. The 1,000-bed state prison expansion projects are on schedule for completion in November 2004. Meanwhile, ADC is reviewing contract proposals for 1,000 new private prison beds and expects to award the contract in July 2004, with occupancy beginning March 2005. The Committee requested continuing reports at least every other month.

Telecommunications Privatization – The Committee received an informational update on the State Telecommunications Privatization Solicitation, issued by the Arizona Department of Administration (ADOA). Some Committee members expressed concerns that the released request for proposals, by allowing the possibility of full scale telecommunications outsourcing, could reduce competition. The Committee requested more detail on ADOA planned oversight and control of any final contracts. ADOA must secure Committee review and award any final contracts by mid-August.