STATE OF ARIZONA

Joint Committee on Capital Review

STATE SENATE	1716 WEST ADAMS PHOENIX, ARIZONA 85007	HOUSE OF REPRESENTATIVES
ROBERT L. BURNS CHAIRMAN 2005 LINDA AGUIRRE TIMOTHY S. BEE ROBERT CANNELL GABRIELLE GIFFORDS RON GOULD KAREN S. JOHNSON	PHONE (602) 542-5491 FAX (602) 542-1616 http://www.azleg.state.az.us/jlbc.htm	TOM BOONE CHAIRMAN 2006 AMANDA AGUIRRE ANDY BIGGS JACK A. BROWN PHIL LOPES RUSSELL K. PEARCE STEPHEN TULLY

JOINT COMMITTEE ON CAPITAL REVIEW
Tuesday, May 10, 2005
8:30 a.m.
Senate Appropriations Room 109

MEETING NOTICE

- Call to Order
- Approval of Minutes of February 9 and 10 and February 22, 2005.
- Director's Report (if necessary).

1. Pinal Community College District – Review of Bond Projects.
2. Yuma-La Paz Community College District - Review of General Obligation Bond Issuance.
3. Arizona Exposition and State Fair Board – Review of FY 2005 Building Renewal Allocation Plan.
4. Arizona Department of Administration – Review of Revised FY 2005 Building Renewal Allocation Plan.
5. Arizona Board of Regents – Report on Private Office Leases.

The Chairman reserves the right to set the order of the agenda.
05/04/05

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 REVIEW3

Wednesday, February 9, and Thursday, February 10, 2005

The Chairman called the meeting to order at 8:05 a.m. Wednesday, February 9, 2005 in Senate Appropriations Room 109 and attendance was as follows:.

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

Representative Pearce moved the Committee approve the minutes of December 20, 2004 as presented. The motion carried.

ADOPTION OF COMMITTEE RULES AND REGULATIONS –

Representative Pearce moved the Committee adopt the Rules and Regulations as presented.

Representative Lopes questioned the use of the word “approve” and in reply, Richard Stavneak, JLBC Staff stated that current statute uses the word approve.

The motion carried.

MARICOPA COMMUNITY COLLEGE DISTRICT – Review of General Obligation Bond Issuance

Mr. Jake Corey presented the Maricopa Community College District (MCCD) request that the Committee review its proposed $190.3 million General Obligation (GO) bond issuance. This will be the first of five that the district plans to issue. In the fall, the district approved $950 million total in bonds. JCCR did review the program with the provision that the district return prior to each individual bond issuance. At this time, the district has not fully defined some of its projects. They have identified approximately $316 million in potential projects with which to spend money on with this first bond issuance.

Dr. Rufus Glasper, Chancellor, Maricopa Community Colleges, stated that the Governing Board is authorizing them to proceed with the first of five series to begin to issue bonds in the first week of March. Mr. Glasper proceeded to briefly summarize the Capital Development Program to the Committee. The bond program provides the district with the resources to expand, upgrade and replace equipment. The General Obligation bonds that are issued will be repaid with secondary property taxes. It is estimated that the average tax rate will be approximately 16 cents per hundred dollars of assessed valuation.

Consistent with prior years, the district will repay those bonds in no more than 15 years and on an average it would be 12 years.

In response to Representative Boone, Dr. Glasper stated that he would provide the Committee a list of projects that total to the $190.3 million issuance.

In response to Representative Boone, Mr. Arlen Solochek, MCCD stated that the programs with the cost of $19 million are part of an extended program of major maintenance which includes roofing, paving, and ADA energy programs.

Representative Pearce moved the Committee give a favorable review to the proposed $190.3 million General Obligation bond issuance, with the provision that Maricopa County Community College District report to the Committee on actual project costs of the first bond issuance when the district returns for review of its second issuance. The motion carried.

SCHOOL FACILITIES BOARD – Review of Lease-Purchase Refinancing

Mr. Jake Corey presented the School Facilities Board request that the Committee review its plans to revise its existing new school construction lease-purchase agreements to restructure its debt obligations. The restructuring involves skipping one payment on some of its outstanding debt. The board estimates the restructuring will result in a one-time debt service reduction of $22.2 million in FY 2006 and an annual increase in the debt service of $1.6 million from FY 2007 to FY 2020.

In response to questions, Mr. Corey stated the savings under an alternative plan would be more of a typical refinancing. Under both plans you could take advantage of lower interest rates and under the alternative you simply take advantage of those lower interest rates and restructure your debt so you would have an annual savings. Mr. Corey referenced Attachment 2, which compares the existing debt service with the SFB plan and the alternative plan. The bond rating is not affected.

Representative Pearce expressed concern of skipping a payment vs. paying a bill.

Mr. Jamison Feeley, City Group Global Markets, mentioned that there are savings under either approach. It is a difference of taking your savings over time or taking $20 million of savings in the first year. The restructuring has been utilized by many governments and states across the country. Ratings were confirmed from Moody's at A1 and Standard & Poor's at AA- which is the current existing ratings the state has on its leased debt with a stable outlook. The debt itself is not being extended, it is simply a trade off between taking your money earlier today vs. taking your savings out over time.

In response to Senator Johnson, Mr. Feeley stated that under the proposed SFB structure, the savings in the first year is approximately $22 million.

Further discussion pursued regarding the pros and cons on refinancing.

Chairman Burns asked for a motion.

Representative Pearce moved the Committee give an unfavorable review of the proposal to refinance and restructure outstanding lease-purchase agreements to generate a one-time debt service reduction. The Committee also recommended that the board pursue an alternative plan, such as restructuring its existing debt to take advantage of lower interest rates to lower annual debt service payments, thereby resulting in a total estimated savings of $7.2 million over the life of the payment term. The motion carried.

The meeting recessed to the sound of the gavel at 8:40 a.m., Wednesday, February 9, 2005.

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Thursday, February 10, 2005

Representative Pearce moved that the Committee reconvene into open session. The motion carried.

At 8:05 on Thursday, February 10, 2005 the Committee reconvened into open session. Attendance was as follows:

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

Report on FY 2006 Instructions to the Treasurer

Mr. Jake Corey presented the School Facilities Board report to the Committee on the estimated amounts necessary in FY 2006 for the Deficiencies Correction Fund, Emergency Deficiencies Correction Fund, Building Renewal Fund, and New School Facilities Fund. The board also reported the estimated amounts necessary for these funds for FY 2007. The board has instructed the Treasurer to transfer a total of $150 million to the School Facilities Board. This includes $20 million for the Deficiencies Correction Fund, $130 million for Building Renewal, and no funding for new school construction.

Representative Boone asked if the $130 million for building renewal is based on the existing formula. Mr. Corey stated that was correct.

This item is for information only and no Committee action is required.

ARIZONA DEPARTMENT OF ADMINISTRATION – Review of the State Treasurer's Office Tenant Improvements

Mr. Nick Klingerman, JLBC Staff presented the Arizona Department of Administration (ADOA) request that the Committee review the State Treasurer's Office Tenant Improvements project. The project includes the renovation of the heating, ventilation, air conditioning system, new wiring, new ceiling grid and general renovations. Total project costs are estimated to be $371,800.

In response to Senator Gould, Lorenzo Martinez stated that typically ADOA develops an initial scope for the project. Many times when the work is started, they find additional items that need to be done, and the scope of the project gets expanded. In this case, ADOA is taking the opportunity to undertake some code compliance renovations.

Mr. Roger Berna, Arizona Department of Administration, General Manager, Building Planning Services, explained that the fire marshal has new rules that need to be submitted to the City of Phoenix for their fire code. Their code requires that if an area of a certain size is being worked on, the bulk of that area must be brought into compliance.

The restroom requirements in the l970's do not meet the requirements of today. This was not a cost overrun, the upgrades were not included in the original budget or scope, but do not require additional funding.

Representative Pearce moved the Committee give a favorable review to the State Treasurer's Office Tenant Improvements Project. The motion carried.

ARIZONA GAME AND FISH DEPARTMENT – Review of FY 2005 Building Renewal Allocation Plan

Mr. Jeremy Olsen, JLBC Staff presented the Arizona Game and Fish Department request that the Committee review the FY 2005 Building Renewal Allocation Plan of $350,500 from the Game and Fish Fund. The department has recently begun the process of researching the feasibility of relocating its headquarters to property it owns at 4000 W. Black Canyon Road. The department anticipates constructing new buildings at the site and selling its current headquarters property to offset some of the costs of the new facility.

In response to Representative Pearce, Mr. Richard Rico, Assistant Director, ADOA/Special Services Division stated that it is premature to put a limitation on the building renewal. The department has been researching the Ben Avery shooting range and a RFP has not been issued. The department would request JLBC approval after receiving approval from the Game and Fish Commission, which is expected to review the proposal in September, 2005.

Representative Pearce moved the Committee give a favorable review to the FY 2005 Building Renewal allocation plan of $350,500 from the Game and Fish Fund.

Representative Pearce amended his motion to include that the department also report on capital projects that are in progress if the department makes a decision to seek approval to relocate the headquarters. The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION/DEPARTMENT OF JUVENILE CORRECTIONS – Review of Operating Monies for Department of Juvenile Corrections Space Conversions

Ms. Kim Chelberg, JLBC Staff presented the Department of Juvenile Corrections (DJC) request that the Committee review its operating monies for the DJC space conversions. Due to a lower than projected juvenile population, the DJC has identified $1,213,000 in FY 2005 operating savings. The DJC has proposed converting an existing Adobe Mountain housing unit to a health unit at a cost of $646,000, and to convert an existing Black Canyon housing unit to a vocational education unit at a cost of $567,000.

Debra Peterson, Department of Juvenile Corrections mentioned there are two DJC proposals, one is the Adobe Health Unit and the other is a building used for a boot camp back in the 1990's. The Adobe Health Unit was a trailer installed initially in 1983 as a temporary solution. The maximum expected life was 15 years and it is in the 22^{nd} year of operation. It is in very bad condition. The building has continued to deteriorate and basically leading to the sanitation, safety and security issues. To renovate the trailer would cost approximately $250,000. It was then considered to take a housing unit that wasn't occupied and converting it into a health unit. This request is still in the Capital Budget plan. To convert a housing unit into a health unit would cost approximately $650,000.

Representative Pearce asked if some of this related to the settlement with the Department of Justice. Ms. Peterson said the Department of Justice has been in the trailer and are aware of the conditions. There was a need in FY 2002 before the Department of Justice came in and the request was approved along with the new building, but funding was subsequently eliminated. This would be a long-term fix and would meet the criteria that was in the plan for the $1.2 million building.

In response to Senator Johnson, Ms. Petersen said the bed capacity is approximately 1,228 with 617 clients today.

Representative Pearce moved *that the Committee refer to the full Legislature the Department of Juvenile Corrections request to use FY 2005 operational savings to convert 2 housing units to a health unit and a vocational educational unit.* The motion carried.

CITY OF PHOENIX – Report on Civic Plaza Expansion

Mr. Tim Everill, JLBC Staff presented the report from the City of Phoenix referencing the Civic Plaza Convention Center and the construction of the new downtown hotel. Laws 2003, Chapter 266 authorized the state to participate financially in projects that qualify under the terms of the legislation. One of the requirements for the qualified projects under Chapter 266 is that the progress of the project be reported twice annually to the Committee. The City issued its first report on the project to the Committee in August 2004 and this is their second report.

This item is for information only and no Committee action is required.

The 2003 legislation provides that the state subsidize half of the estimated $600 million construction costs of the Civic Plaza by paying the debt service and other related costs on $300 million of bonds for the project. The state's total dollar obligation is unclear at this time because of the uncertainty of the future bond rates and sales. Based on estimates provided when the legislation was being considered, the cost could be approximately $625 million, including $300 million of principal and $325 million in related debt service and other costs.

The first bonds are to be issued during this first quarter of calendar 2005. The estimated amount will be $150 to $200 million. The state's obligation does not commence until a year after the completion of the project which is estimated to be in 2009.

The downtown hotel is a separate project, with construction anticipated to begin in early 2006, and completion scheduled for the end of 2008. The construction cost of the hotel is estimated to be $220 million, and will be financed by the city through a nonprofit corporation with $350 million worth of bonds, and contributions from the hotel operator and city reserves.

Mr. Jay Green, Director of Civic Plaza Department for the City of Phoenix said that Phase I of the West Conference Center Building is well underway. Phase I is projected to be completed in 2006 at which time Phase II will be started and will be completed by the end of 2008. Phase III is a renovation of the existing South Civic Plaza and will be completed in mid 2009.

In response to questions, Mr. Green stated that the City of Phoenix is a very proven destination market. The hospitality and tourism business is over a billion dollar industry for the state. The problem that we have is the limitation in the package that is provided to conventions. We also have had inadequate supply of convention quality hotel rooms. Limited convention space and quality hotel rooms are both being addressed. The City of Phoenix is the 5th largest city and has one of the finest airports in the country. The convention season is January through May which have the best climate conditions. The worst time is June, July and August for convention meetings. Mr. Green indicated that they feel they will be very successful with the package.

Representative Pearce stated that he would like to see a white paper on the return on investment to the people in Bullhead City and Kingman and other parts of the state in terms of how they benefit from paying for the Phoenix Civic Plaza. He mentioned that the Civic Plaza is a tremendous economic burden to citizens even though they do provide some benefit to the tourism industry, but overall they are a burden to the taxpayer.

Mr. Green stated that private financing for hotels have not worked, the hotels that have been built over the recent years used the tax exempt financing approach. The bonds are to be paid by the operating revenues generated from the hotel operation. There is no cash outlay required by the city up front. With conventional financing, you would have to lay out substantial equity up front. The hotel is not just tied to the convention center project, it is an important piece for all the other development projects in the downtown area such as the Biomedical Science Center and the ASU Campus. The hotel will help all of those projects.

In response to Representative Tully, Mr. Green stated that there is a mixed client base. With the new facility, they will be able to go after the corporate meeting market with the new west building. There are a number of local shows, consumer shows, civic events, etc. The Civic Plaza is set up as an Enterprise Fund in the city, and the charge from city management is to run it like a business. Convention Centers do not make a profit, they are an economic development tool for the community to bring outside guests into the community. National spending average for a tourist is approximately $1,500-$1,600 per visit and that add millions of dollars to the economy.

In response to Representative Tully, Mr. Jeff DeWitt, Assistant Finance Director, City of Phoenix stated that there has been a board appointed that will be overseeing the financing and operations of the hotel. The board is a non-profit entity charged with seeing that the hotel is operated in an efficient and financially responsible manner. The debt service on the hotel will be totally financed from hotel revenues. If there were insufficient funds to cover the debt service, it would be backed with reserve funds from the city. The expectation is that the risk is relatively low. The tax exempt status of the hotel provides more competitive financing opportunities, which will help ensure the success of the project. The hotel will be city owned, and as such, will be exempt from property taxes.

In response to Senator Johnson, Mr. DeWitt stated that the oversight board serves without compensation.

Mr. DeWitt mentioned that the hotel will pay the same sales taxes that other hotels pay, i.e. bed tax.

Representative Boone requested that the Committee receive a copy of the projections and assumptions that were made. Mr. DeWitt stated that they have a city council report that was developed that shows the projections. Mr. Dewitt also mentioned tax exempt financing is typically about 31% cheaper than taxable debt financing. He also mentioned that he would have to do an analysis of the percentage of the operating expense at a typical private hotel would incur in the area of property tax and public financing.

Without objection the Committee meeting adjourned at 9:00 a.m.

Respectfully submitted:

Jan Belisle, Secretary

Lorenzo Martinez, Assistant Director

Senator Bob Burns, Chairman

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

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HOUSE OF
REPRESENTATIVES

MINUTES OF THE MEETING
JOINT COMMITTEE ON CAPITAL REVIEW3

Tuesday, February 22, 2005

The Vice-Chairman called the meeting to order at 8:10 a.m. Tuesday, February 22, 2005 in Senate Appropriations Room 109 and attendance was as follows:

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

CONSIDER ADOPTION OF FY 2006 CAPITAL OUTLAY BUDGET

Mr. Lorenzo Martinez, JLBC Staff presented the Capital Outlay Budget. There are 3 building systems that have been approved by the Joint Committee on Capital Review (JCCR). The Arizona Department of Administration, (ADOA) Building System, Arizona Board of Regents (ABOR) Building System and the Arizona Department of Transportation (ADOT) Building System.

The ADOA has approximately 2,800 facilities, 19.5 million square feet, and there is an estimated replacement value of approximately $2.2 billion. The ABOR has just under 900 facilities, 19.8 million square feet and estimated replacement value at $4.2 billion. These represent academic and support facilities and there is an additional approximately $1 billion in what is called auxiliary facilities for self supported programs. The Department of Transportation has over 1,400 facilities, 3.5 million square feet with an estimated replacement value at just under $290 million.

The Capital Budget has two major components, the first being Building Renewal and the second being individual Capital Projects. Building Renewal is the major maintenance and repair of buildings. The funding requirement for building renewal is determined by formula and that formula takes into account the age of the building, the building replacement value and assumes a useful 50-year life for the buildings. Funding is traditionally based on available fund sources. JCCR review is required of the expenditure plans for any monies appropriated for building renewal. The second component is individual capital projects and these are funded on a case by case basis. Capital requests are submitted by agencies every year similar to the operating budget. The JCCR review is required for projects that have a cost of over $250,000, however, the Committee does have discretion to review any capital projects.

Senator Gould asked where the State Aviation Fund gets its money. Mr. Martinez said the primary revenue source for the fund is airport property tax, which is know as the Flight Property Tax and is paid by airports and from aircraft license fees.

Mr. Martinez proceeded to review the Building Renewal and New Projects for ADOA, ABOR and ADOT as he referred to the JCCR memo and handout.

In response to Senator Gould, Bob Hull, JLBC Staff said it is called the Flight Property Tax and it is paid by airlines on the aircraft equipment.

Senator Johnson asked how much ADOT debt there was. Mr. Martinez said there is $1.8 billion in outstanding debt and the total payment is approximately $260 million for debt service. There is approximately $70 million coming from the appropriated component and about $190 million from the non-appropriated component.

Senator Johnson asked if the debt service was all coming out of the Highway User Revenue Fund (HURF). Mr. Martinez said that it comes from a variety of sources. The $70 million appropriated component comes from the State Highway Fund and there is the Regional Area Road Fund (RARF) that comes from a different non-appropriated source.

Bob Hull referred to footnote #3 in Table 1 on Page 502 of backup material to the JCCR memo which gives a breakdown of the $260 million of debt service and where it is paid from including the $69 million that is appropriated.

Senator Johnson asked if we are paying less out to build highways than we are in bond debt. Mr. Martinez said that it is a mix when it comes to state highway funding. The $56 million from the State Highway Fund is available for highway funding but the Transportation Board also uses bonding to finance projects as well as other sources that they have. Mr. Martinez again referred to the footnote #3 in Table 1.

Senator Johnson asked out of the $520 million construction, is there bonding for part of that amount. Mr. Hull said yes.

In response to Senator Cannell, Mr. Martinez stated the funding source for the Board of Regents building renewal has traditionally been the General Fund.

<u>Representative Boone moved</u> that the Committee approve the JLBC recommendation to the Capital Outlay budget for FY 2006 including footnotes, format and statutory changes if applicable in the budget legislation. The motion carried.

Without objection the Committee meeting adjourned at 8:45 a.m.

Respectfully submitted:

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Jan Belisle, Secretary

____
Lorenzo Martinez, Assistant Director

____
Representative Russell Pearce, Vice-Chairman

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

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DATE: May 4, 2005

TO: Senator Bob Burns, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Jake Corey, Senior Fiscal Analyst

SUBJECT: Pinal Community College District – Review of Bond Projects

Request

Pinal Community College District (PCCD) plans to hold a bond election on May 17, 2005. If approved by the voters, the district would be authorized to issue $435.2 million in General Obligation (GO) bonds. The $435.2 million in GO bond proceeds would be combined with $47.8 million from revenue bond proceeds for a total of $482.9 million, and would be used to fund construction and renovation projects to address student growth in the district. The bonds would be issued in four installments every five years, with the first issuance being in FY 2006.

Recommendation

The Committee has at least three options:

1) A favorable review.

2) A favorable review with the provision that the district return to the Committee for review prior to each actual GO bond issuance. Requiring the district to return for review prior to each actual GO bond issuance would allow the Committee to receive greater detail on the projects to be funded through the issuances. The Committee will be required to review the revenue bond issuances regardless of whether it requires the district to return for additional review of the GO bonds.

3) An unfavorable review.

The GO bond issuances represent a total of $435.2 million in projects. Over a 32-year period, and with an estimated interest rate of 6%, total interest payments would be $323.6 million. Total debt service would be approximately $758.8 million. The first payment of $8.6 million would be in FY 2006. The amount would progressively increase as new bonds are issued, equaling $37.9 million in FY 2018. Payments would decline as older bonds are paid off, with the final payment in FY 2037. *(See Attachment #1.)*

To make the debt service payments on the GO bonds, the district estimates increasing the secondary property tax rate by 68¢ in FY 2006. The rate would progressively increase as new bonds are issued, equaling 94¢ in FY 2018. The rate would subsequently decline as earlier bonds are retired. Over the life of the bonds, the district estimates increasing secondary property tax rates by an average of 54¢. This would annually result in approximately $54 in additional taxes for every $100,000 of house value.

The district currently has no outstanding GO debt. The initial FY 2006 issuance would increase the district's outstanding GO debt to $98.5 million, and by FY 2018 it would be $354.0 million. The Arizona Constitution limits the amount of GO debt a community college district may incur. Despite the increases, the district would still be below its constitutional limit.

The district has not yet developed debt service projections for the revenue bond issuances.

Analysis

Project Costs

Tables 1 and *2* provide greater detail on the district's expenditure plan. The total cost of the projects is $482.9 million. *(See Attachment #2.)* Of the total, $327.0 million would be allocated for construction and renovation, $26.0 million for land, $47.0 million for equipment and furniture, $23.0 million for architecture and engineering fees, $12.6 million for project management, $8.2 million for due diligence, and $39.2 million for contingency funding. The amount allocated for new projects would be $457.0 million and $26.0 million would finance renovations to the existing infrastructure.

Table 1

New Project Expenditures

	Project Cost ($ in millions)	Square Feet	Cost Per Sq. Ft [1/]
New Campus – Maricopa	$ 130.4	400,000	$ 301
New Campus – San Tan	133.0	420,000	293
Replace Existing Campus – Superstition Mountain	100.4	400,000	251
Expand Residence Hall – Signal Peak	11.6	50,000	232
New Administration Building – Signal Peak	9.6	25,000	382
Expand Existing Educational Center – Casa Grande	6.7	23,000	248
Five New Educational Centers	65.3	200,000	302
TOTAL	**$ 457.0**	**1,518,000**	**$ 284**

1/ Does not include expenditures for land.

Table 2

Renovated Project Expenditures

	Project Cost ($ in millions)	Square Feet	Cost Per Sq. Ft.
Interior Spaces, Kitchen, Restrooms, Dining Area – Aravaipa	7.6	63,321	$ 120
Residence Halls, Energy Systems, Restrooms, Classrooms, Student Union, Library, Other – Signal Peak	17.4	409,963	42
Educational Center – Casa Grande	0.9	17,000	55
TOTAL	**$26.0**	**490,284**	**$ 53**

As a comparison of new construction estimates, recent projects submitted to the Committee for review by Maricopa Community College District had an average cost per square foot of $332, and new construction projects submitted by Yuma-La Paz Community College District had an average cost per square foot of

$298. Pinal has submitted a preliminary estimate of $284 per square foot. Given the similarity in costs per square foot between the districts, the estimates for new construction in Pinal appear reasonable.

As a comparison of renovation estimates, Maricopa submitted renovation projects with an average estimated cost of $100 per square foot, and Yuma-La Paz submitted projects with an average of $226 per square foot. Pinal has submitted an estimate of $53 per square foot, which is on the low end; however, the scope for renovation projects can vary significantly.

The Committee has the option of having the district submit updated cost and project information prior to each bond issuance.

To pay for the $482.9 million cost of all projects, the district would finance $435.2 million with GO bond proceeds and the remaining $47.8 million with revenue bond proceeds.

Enrollment Growth

The district's Full-Time Student Equivalent (FTSE) enrollment in FY 2004 was 3,658. Total existing square footage within the district is currently 585,129. The planned projects would provide an additional 1,485,000 square feet to the existing space, for a new total of 2,070,129. *Table 3* details existing and projected district enrollment.

Table 3

Projected Enrollment

	FTSE	Sq. Ft.	Square Foot Per FTSE
FY 2004	3,658	585,129	160
FY 2010	5,469	1,225,129	224
FY 2015	8,120	1,605,129	198
FY 2020	11,331	2,070,129	183

Through FY 2020 the district estimates average annual FTSE growth of 7.3%. While growth in FY 2004 was 8.0%, average annual growth over the last 5 years has only been 3.1%. The district has based its FTSE estimates on projected county population increases over the next 20 years. In 2000 the total population of the county was approximately 180,000 persons. By 2025 the district expects the county to grow to approximately 1 million persons. Over 25 years, therefore, the district expects average annual population growth of 7.1%. The higher than average projected increase is largely due to expected new housing as development crosses the border from Maricopa County to Pinal County.

The state provides funding to the community college districts for operating and capital outlay purposes. Funding is determined by statutory formulas that take into account district FTSE levels. Based on its current FTSE count, Pinal is eligible to receive $6.7 million in state aid in FY 2006. Funding new space from the bond proceeds will allow the district to increase its FTSE count, which it estimates will be 11,331 in FY 2020. These additional students will also qualify for state funding. Under the current formulas, the state would have to provide an additional $8.3 million in aid for these new students. Of course the district will experience some growth regardless of whether it issues bonds to build new space; however, providing new space facilitates that growth and therefore impacts state costs.

Bond Issuances and Debt Service

Attachment #1 provides information on the GO bond issuances and the district's estimated debt service payment schedule. Each of the bond issuances would have a 20-year payment term.

The FY 2006 debt service payment is estimated to be $8.6 million. The annual payment is estimated to increase to $37.9 million by FY 2018, and then decline as older bonds are paid off, with the final payment in FY 2037. Over the life of the bond, the annual payment would average $23.7 million.

The district does not have estimates for the debt service on the revenue bonds.

Total outstanding debt for the district at the end of FY 2004 was $30.9 million, all in revenue bonds. The district currently has no outstanding GO debt. The Arizona Constitution limits the amount of outstanding GO debt the district may incur to 15% of the district's total Secondary Net Assessed Valuation (NAV). The FY 2006 planned issuance of $98.5 million would increase that amount to approximately 7.8%, and by FY 2018 it would be 8.8%.

Debt Service Payment Source

To pay for the annual debt service costs from the GO bonds, the district estimates it will have to increase secondary property tax rates. *Attachment #1* details the estimated tax rates associated with the new issuances. Over the life of the debt service payments the district estimates that rates would increase by an average of approximately 54¢. *Table 4* provides the impact on the estimated tax rates for each year of the debt service and the tax revenue on a house valued at $100,000.

Table 4

	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16
Tax Rate	68¢	61¢	54¢	48¢	79¢	72¢	65¢	59¢	89¢	81¢	75¢
Revenue	$68	$61	$54	$48	$79	$72	$65	$59	$89	$81	$75

	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26	FY 27
Tax Rate	70¢	94¢	87¢	81¢	76¢	72¢	68¢	64¢	60¢	44¢	41¢
Revenue	$70	$94	$87	$81	$76	$72	$68	$64	$60	$44	$41

	FY 28	FY 29	FY 30	FY 31	FY 32	FY 33	FY 34	FY 35	FY 36	FY 37
Tax Rate	39¢	37¢	26¢	25¢	23¢	22¢	11¢	11¢	10¢	9¢
Revenue	$39	$37	$26	$25	$23	$22	$11	$11	$10	$9

The Committee has already favorably reviewed GO bond issuances for other community college districts prior to their elections, including a $951 million proposal from Maricopa and a $74 million proposal from Yuma-La Paz. For those districts, Maricopa estimated an average tax rate increase of 16¢ over 22 years to make the debt service payments, and Yuma-La Paz estimated an average rate of 48¢ over 27 years.

In 2004 the average combined primary and secondary property tax rate for residents of Pinal County was $15.62. In FY 2006, the district estimates increasing the rate by 68¢. The FY 2006 total combined average rate after the bond issuance, therefore, would be approximately $16.30.

To determine the level of tax rates necessary to make the debt service payments, the district has assumed annual Secondary NAV growth of 12% from FY 2006 to FY 2010, 10% from FY 2011 to FY 2015, 8% from FY 2016 to FY 2020, and 6% for each subsequent year. Since the actual tax rate for each year is calculated based on actual Secondary NAV, the actual tax rates required to fund the debt service payments will depend on future NAV growth. Over the past 10 years secondary NAV in Pinal has grown by an average of 7.2%, while in the last 5 years growth has been 12.1%.

To pay for the annual debt service costs from the revenue bonds, the district plans to increase student tuition and fees and use revenues generated from the facilities built with revenue bonds proceeds.

RS/JC:jb

STATE OF ARIZONA

Joint Committee on Capital Review

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

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

DATE: May 4, 2005

TO: Senator Bob Burns, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Jake Corey, Senior Fiscal Analyst

SUBJECT: Yuma-La Paz Community College District - Review of General Obligation Bond Issuance

Request

Yuma-La Paz Community College District requests the Committee review its proposed $20 million General Obligation (GO) bond issuance. The board was authorized by a November 2004 bond election to issue a total of $73.9 million in bonds. The $73.9 million from the bond proceeds would be combined with $10 million from other sources for a total of $83.9 million. The board plans to issue $20 million in bonds now and the remaining $53.9 million in June 2006. At its August 17, 2004 meeting, the Committee gave a favorable review to the entire $73.9 million bond proposal, with the provision that the district return for Committee review prior to each actual bond issuance.

Recommendation

The JLBC Staff recommends a favorable review of the request, with the provision that the district submit the remaining $53.9 million prior to issuing those bonds.

The district plans to issue a total of $20 million in bonds in FY 2005. Over a 25-year period, and with an estimated interest rate of 5%, total interest payments would equal $15.2 million. Total debt service would be approximately $35.2 million.

The first payment of $2.5 million would be in FY 2006. From FY 2007 to FY 2009 the average annual payment would be $1.1 million. Beginning in FY 2010 and continuing until the final payment in FY 2030, the annual payment would be $1.4 million. When the district issues the remaining $53.9 million in June 2006, the district's total debt service obligation would be further increased.

(Continued)

Analysis

Projects

Table #1 provides a summary of the projects the district expects to begin using proceeds from the $20 million issuance. The total amount of projects listed, $56.9 million, is greater than the amount the board is currently issuing, $20 million. The district has indicated that some of the projects will be fully funded by the initial $20 million bond issuance, while others will be funded with proceeds from both this issuance and the $53.9 million issuance. Of the total, $42.6 million would be allocated for project costs, $5.4 million for furniture and equipment, $4.6 million for architecture and engineering, and $4.3 million for contingency funding.

Table 1

Project Expenditures

	Project Cost ($ in millions)	Square Feet	Cost Per Sq. Ft
Science & Agricultural Complex	$ 21.0	63,345	$ 332
Child Development Learning Lab	1.5	11,586	130
Extend Campus Infrastructure	3.0	--	232
College Community Center	31.3	109,543	286
TOTAL	**$56.9**	**184,474**	**$308**

The projects would add approximately 185,000 new square feet to the district. The estimated average cost per square foot is $308. As a point of comparison, recent new construction projects submitted to the Committee for review by Maricopa Community College District had an average cost per square foot of $332. Given the similarity in costs per square foot between the districts, the estimates for new construction in Yuma-La Paz appear reasonable.

To complete its projects, the district plans to use a design-bid-build procurement process.

Financing

The $20 million issuance would have a 25-year payment term. The FY 2006 payment would equal $2.5 million. In future years the average debt service amount would be $1.4 million, with the final payment in FY 2030.

In addition to the debt service payment associated with the new issuance, the district is currently paying debt service on older bonds that will be retired in FY 2010. Including amounts for prior GO issuances and the new $20 million issuance, the total district FY 2006 debt service payment is estimated to be $4.3 million. This amount would increase in future years as the district begins to make payments on the additional $53.9 million issuance.

To make the debt service payments associated with the new $20 million issuance, the district estimates an average increase of 13¢ in the secondary property tax rate over the life of the bond. This would result in approximately $13 in additional taxes for every $100,000 of house value.

To determine the level of tax rates necessary to make the debt service payments associated with the new issuance, the district has assumed annual Secondary Net Assessed Valuation (NAV) growth of

(Continued)

4.9% from FY 2007 to FY 2010, and 1% in the following years. Since the actual tax rate for each year is calculated based on actual Secondary NAV, the actual tax rates required to fund the debt service payments will depend on future NAV growth. Over the past 10 years secondary NAV in Yuma-La Paz has grown by an average of 4.6%. The district, therefore, is likely underestimating long-term secondary NAV growth, which could result in lower secondary property tax rate increases if Secondary NAV is above the rates used in the estimates.

Total outstanding debt for the district at the end of FY 2004 was $8.8 million, including $8.4 million in principal from GO bonds and $0.4 million from revenue bonds. The Arizona Constitution limits the amount of outstanding GO debt the district the district may incur to 15% of the district's total Secondary NAV. In FY 2004 the district's outstanding GO debt was equal to approximately 1% of its Secondary NAV. The FY 2005 planned issuance of $20 million would increase that amount to approximately 3.4%.

RS/JC:jb

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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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DATE: May 4, 2005

TO: Senator Bob Burns, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Nick Klingerman, Assistant Fiscal Analyst

SUBJECT: Arizona Exposition & State Fair Board - Review of FY 2005 Building Renewal Allocation Plan.

Request

The Arizona Expositions and State Fair (AESF) requests the Committee review its FY 2005 Building Renewal allocation plan of $1,007,000 from the Arizona Exposition and State Fair Fund and that $240,400 remaining from the appropriation be available for contingencies. AESF was appropriated a total of $1,247,400 for building renewal in FY 2005.

Recommendation

The JLBC Staff recommends a favorable review of the $1,007,000 for the 5 submitted projects with the following provisions:

- AESF be allowed to allocate $100,000 from the remaining $240,400 as a contingency amount if needed to complete the projects (this would make a total of $1,107,000 available for the projects).
- AESF submit for Committee review an allocation plan for the remaining $140,400 if monies are to be used for new projects.

Analysis

A.R.S § 41-1252 requires JCCR review of the expenditure plan for Building Renewal monies. Laws 2004, Chapter 276 appropriated a total of $1,247,400 in FY 2005 from the Arizona Exposition and State Fair Fund to AESF to fully fund the building renewal formula.

The agency has proposed a Building Renewal Plan of $1,007,000 in FY 2005 for 5 projects. This amount is $240,400 less than AESF's FY 2005 Building Renewal appropriation and AESF has requested these monies be made available as contingencies. The following table displays the recommended allocation for each project:

Project	Building Renewal Allocations
Security Fencing Replacement	$347,000
Asphalt Reconstruction	258,000
Coliseum Roof Repair	220,000
Light Fixture Replacement	140,000
Underground Cabling	42,000
Contingencies	100,000
Unallocated Monies	140,400
Total	**$1,247,000**

(Continued)

The allocation plan is consistent with building renewal guidelines and the appropriation. Based on the information provided by the agency and similar projects reviewed by the committee in the past, the costs appear reasonable.

Security Fencing Replacement
Portions of the State Fair Grounds on 19th Avenue and the 20th Avenue parking lot use chain link fencing around the perimeter. The agency has proposed replacing the chain link fencing since sections are rusting and becoming unstable. The proposal includes the replacement of 1,300 linear feet of fencing along 19th Avenue with a concrete masonry unit (CMU) wall and 2,624 linear feet of fencing at the 20th Avenue parking lot with a wall made from a combination of CMU and wrought iron fence. The amount requested is $347,000 or $88.43 per foot and is based on an estimate received by the department.

Asphalt Reconstruction
The agency has proposed replacing 16,200 square yards of asphalt at the 19th Avenue parking lot entrance, the 17th Avenue entrance and driveway, and the area around the coliseum loading docks due to cracking. Based on estimates received by the State Fair, the deteriorating condition of the asphalt is a result of poor drainage. The estimates recommend that the areas be leveled to improve draining before the new asphalt is applied. AESF has requested $258,000 or $15.93 per square yard to replace and reconstruct the asphalt

Coliseum Roof Repair
The building renewal plan also includes a proposal to repair portions of the Coliseum roof that have deteriorated due to poor drainage. The following displays information about each section of roof that will be replaced:

Roof Section	**Type of Repair**	**Square Feet of Area**
Administration Offices	Replacement	8,635
Box Office	Retrofitted roofing	2,162
Canopies	Replacement	5,120 (4 canopies at 1280 sq. ft.)
Power Plant	Replacement	2,944

The requested amount for the project is $220,000 or $11.64 per square foot.

Light Fixtures
Included in the building renewal request is the proposal to replace North Parking Lot light fixtures to reduce dark spots and reduce utility expenses. The North Parking Lot currently uses 64 light poles and 154 fixtures. The proposal will replace the current poles and fixtures with 14 poles and 70 fixtures. The new light fixtures are energy efficient. It is estimated these fixtures will save $40,000 in utility expenses and $2,000 in bulb replacement expenses annually. The proposal for the fixtures is $140,000 or $2,000 per fixture.

Underground Cabling
As part of the building renewal plan, the agency proposes installing 600 feet of underground cabling in the Midway. Currently cabling in the midway is exposed or covered. As a result, the cabling in high traffic areas creates a potential for a customer to trip and fall, and the agency has documented cases were visitors tripped over exposed cabling on the Midway. The agency has requested $42,000 or $70 per foot for the project.

RS/NK:jb

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STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

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HOUSE OF REPRESENTATIVES

DATE: May 4, 2005

TO: Senator Bob Burns, 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 $812,000 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 $2,766,000 from this fund in previous meetings, leaving $734,000 unallocated. The Department has also requested reallocating $200,000 from a $300,000 air handler building renewal project at a Department of Corrections facility. This $200,000 reallocation would increase the unallocated amount to $934,000. Of the $934,000, $812,000 would be allocated to the requested projects and the remaining $122,000 would be available for emergency projects (in addition to $665,000 previously authorized for emergency projects).

Recommendation

JLBC Staff recommends a favorable review of the $812,000 request and the $200,000 reallocation, with the provision that the department continue to report to JLBC Staff on allocations from the $787,000 available for emergency projects. JLBC Staff would report to the Committee on allocations greater than $50,000.

Analysis

The revised FY 2005 COSF allocation plan, as submitted by the ADOA, would fund the following projects:

- $350,000 for the first phase of roof replacements at the Arizona state prison complex - Douglas Mohave unit. At its December 20, 2004 meeting, the committee favorably reviewed a $100,000 COSF appropriation for design of this project.
- $120,000 to re-roof the Tonto Natural Bridge historic lodge.
- $100,000 to repair the roof of the Department of Administration's Data Center located at 1510 - 1520 W. Adams Street.
- $100,000 for structural repairs to the Supreme Court parking garage. These repairs were recommended by the engineer in charge of structural repairs to the cooling tower at the Supreme Court building.
- $92,000 for emergency sidewalk repairs along 17th Avenue between the Capitol and Wesley Bolin Plaza; and for repairs to the parking lot located at 1700 W. Washington Street.
- $50,000 to replace three air units at the Catalina Mountain juvenile facility.

At its October 14, 2004 meeting, the Committee favorably reviewed the department's request to allocate $300,000 to replace air handlers at the Department of Corrections SMU-1 facility. The Department has since accepted a bid to replace the equipment at a cost of $100,000, leaving an amount of $200,000 to be reallocated.

The costs of these projects appear reasonable and consistent with guidelines for building renewal. The following table shows the current and requested building renewal allocation plan.

Agency	**New Projects**	*Prior Allocation*	*Revised Allocation*
Corrections	Douglas Mohave facility roof replacements		$ 350,000
Parks	Re-roof Tonto Natural Bridge Historic Lodge		120,000
Administration	Data Center roof repair		100,000
Courts	Supreme Court Parking Garage structural repairs		100,000
Administration	Sidewalk repairs along 17th Ave., Parking lot "K" repair		92,00
Juvenile Corrections	Replace air units at Catalina Mountain facility		50,000
	COSF Project Allocation Subtotal		**812,000**
Multiple	Previously Reviewed Projects Subtotal	$ 1,801,000	$ 1,801,000
Corrections	Replace air handlers	300,000	**100,000**
Administration	FY 2005 Emergency Projects	665,000	**787,000**
	Projects	**2,766,000**	**2,688,000**
To be determined	Additional ADOA allocation plan submitted for Committee review	734,000	0
	Building Renewal Total	**$3,500,000**	**$3,500,000**

RS/JO:jb

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Joint Committee on Capital Review

STATE SENATE

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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DATE: May 5, 2005

TO: Senator Bob Burns, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Shelli Carol, Fiscal Analyst

SUBJECT: Arizona Board of Regents – Report on Private Office Leases

Request

As required by A.R.S. § 41-792.D, the Arizona Board of Regents (ABOR) is reporting on FY 2003 and FY 2004 private office leases that exceeded the average lease cost per square foot determined by the Lease Cost Review Board (LCRB). A.R.S. § 41-792 charges LCRB with estimating average square foot dollar costs for leasing privately owned office space, as well as recommending a rental rate to be charged to state agencies for using space in buildings owned by or leased to the state. Statute requires ABOR to report biennially on the prior two fiscal years.

Recommendation

This item is for information only and no Committee action is required. LCRB determined a $17.25 average private lease rate for FY 2003 and an $18.25 average private lease rate for FY 2004. Additionally, LCRB estimates the average per square foot cost for leasing privately owned space will remain at $18.25 through FY 2006 and FY 2007.

Of the 169 private leases approved by ABOR in FY 2003, 30 exceeded the $17.25 per square foot estimate for private office space. Of the 186 private leases approved by ABOR in FY 2004, 32 exceeded the $18.25 per square foot estimate for private office space.

Analysis

The 32 leases exceeding $18.25 generally reflect a lack of available space in non-metropolitan areas and the increasing cost of space in metropolitan areas.

The following table lists the 7 highest per square foot lease costs approved by ABOR in FY 2004:

University	Location	Description	Cost
NAU	Tuba City	Office Space	$48.00
UA	Tucson	Computer Science	$41.60
UA	Tucson	Visitor's Center	$27.53
NAU	Lake Havasu	Office Space & Classrooms	$26.38
ASU	Tempe	Computer Science	$26.25
UA	Tucson	College of Medicine	$25.04
ASU	Tempe	Decision Theatre	$24.83

The following table lists the 7 highest per square foot lease costs approved by ABOR in FY 2003:

University	Location	Description	Cost
UA	Tucson	Computer Science	$41.60
UA	Tucson	Visitor's Center	$27.00
ASU	Tempe	Bio-Engineering	$26.25
UA	Tucson	Space Management	$25.04
ASU	Tempe	Seidman Institute	$24.00
UA	Tucson	College of Medicine	$23.78
ASU	Tempe	College of Business	$23.50

In FY 2004, ABOR approved 186 active private leases, including both office and warehouse space. The 186 leases represent 1,644,063 square feet of space and $13,240,160 in annual lease payments ($16.70 per square foot). For comparison, the Arizona Department of Administration approved 326 leases in FY 2004, largely for office space. Of this total, 3 leases (1%) exceed $18.25 per square foot. The 326 leases represent 2,635,735 square feet of space and $39,990,051 in annual lease payments ($15.17 per square foot).

RS:SC:ss