

STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

RUSSELL K. PEARCE
CHAIRMAN 2009
PAULA ABOUD
AMANDA AGUIRRE
SYLVIA ALLEN
JORGE LUIS GARCIA
CHUCK GRAY
AL MELVIN

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

<http://www.azleg.gov/jlbc.htm>

HOUSE OF
REPRESENTATIVES

JOHN KAVANAGH
CHAIRMAN 2010
RICH CRANDALL
DAVID LUJAN
JOHN MCCOMISH
NANCY MCLAIN
DAVID SCHAPIRA
KYRSTEN SINEMA

JOINT COMMITTEE ON CAPITAL REVIEW

Tuesday, January 26, 2010

8:00 A.M.

House Hearing Room 4

MEETING NOTICE

- Call to Order
- [Approval of Minutes of November 19, 2009](#)
- DIRECTOR'S REPORT (if necessary).
- EXECUTIVE SESSION - Arizona Department of Administration/State Department of Corrections - Review of Request for Information for a State Prison Concession Agreement per A.R.S. § 38-431.03A2.
- 1. [ARIZONA DEPARTMENT OF ADMINISTRATION - Review of FY 2010 Emergency Building Renewal Projects.](#)
- 2. [SCHOOL FACILITIES BOARD - Review of FY 2010 New School Construction Report.](#)

The Chairman reserves the right to set the order of the agenda.

1/19/10

sls

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) 926-5491.

STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

RUSSELL K. PEARCE
CHAIRMAN 2009
PAULA ABOUD
AMANDA AGUIRRE
SYLVIA ALLEN
JORGE LUIS GARCIA
CHUCK GRAY
AL MELVIN

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

<http://www.azleg.gov/jlbc.htm>

HOUSE OF
REPRESENTATIVES

JOHN KAVANAGH
CHAIRMAN 2010
RICH CRANDALL
DAVID LUJAN
JOHN MCCOMISH
NANCY McLAIN
DAVID SCHAPIRA
KYRSTEN SINEMA

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

Thursday, November 19, 2009

The Chairman called the meeting to order at 2:04 pm., Thursday, November 19, 2009 in Senate Appropriations Room 109. The following were present:

Members:	Senator Pearce, Chairman	Representative Kavanagh, Vice-Chairman
	Senator Aboud	Representative Crandall
	Senator Allen	Representative Lujan
	Senator Garcia	Representative McComish
	Senator Gray	Representative McLain
	Senator Melvin	Representative Schapira
		Representative Sinema
Absent:	Senator Aguirre	

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee, Chairman Russell Pearce stated the minutes of September 22, 2009 would stand approved.

EXECUTIVE SESSION

Representative Kavanagh moved that the Committee go into Executive Session. The motion carried.

At 2:05 p.m. the Joint Committee on Capital Review (JCCR) went into Executive Session.

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

At 3:22 p.m. the Committee reconvened into open session.

**ARIZONA DEPARTMENT OF ADMINISTRATION/ARIZONA DEPARTMENT OF
CORRECTIONS - Review of Request for Information for a State Prison Concession Agreement
per A.R.S. § 38-431.03A2.**

Chairman Pearce stated that this item will not be voted on at this time. The Committee has given some additional direction as to what they want and they will vote on this item at the next meeting.

(Continued)

ARIZONA STATE UNIVERSITY - Review of Interdisciplinary Science and Technology Building 4 Bond Project.

Ms. Kim Cordes-Sween, JLBC Staff, stated that Arizona State University (ASU) is requesting Committee review of the Interdisciplinary Science and Technology Building 4 bond project at a cost of \$187.4 million, including \$160.0 million in construction costs, \$1.5 million in issuance costs, and \$25.9 million in capitalized interest/net premium costs. The estimated annual debt service payments of \$14.1 million beginning in FY 2013 will be paid from ASU's Indirect Cost Recovery Fund. The JLBC Staff presented options to the Committee.

Mr. Steve Miller, Deputy Vice President for Public Affairs, ASU, responded to member questions.

Representative Kavanagh moved that the Committee give a favorable review to ASU's proposed Interdisciplinary Science and Technology Building 4 to be financed with a \$187.4 million system revenue bond issuance, including \$160.0 million for project construction costs. The review includes 5 provisions:

- 1. Debt service payments cannot be paid from General Fund monies or tuition collection.*
- 2. The total construction cost cannot exceed \$160.0 million. If the project exceeds \$160.0 million, ASU is to submit the issue to JCCR again for review prior to beginning project construction.*

Standard University Financing Provisions

- 3. ASU shall report to the Committee before expenditure of any allocations that exceed the greater of \$1,000,000 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 \$1,000,000 among the individual planned renovations, renewals, or extensions.*
- 4. ASU shall submit for Committee review any allocations that exceed the greater of \$1,000,000 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.*
- 5. 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.

ARIZONA GAME AND FISH DEPARTMENT - Review of FY 2010 Building Renewal Allocation Plan and Ben Avery Shooting Facility Improvements and Consider Approval of Appropriations Transfers.

Mr. Dan Hunting, JLBC Staff, stated that this item contains several requests from the Arizona Game and Fish Department (AGFD). The department requested Committee review of its \$473,200 FY2010 Building Renewal Allocation Plan and \$489,300 Ben Avery Shooting Facility Improvements Plan. AGFD also requested Committee approval of 2 appropriations transfers: 1. Transfer of the Laws 2004, Chapter 276 \$300,000 Tri-State Shooting Range appropriation to the Laws 2003, Chapter 261 \$300,000 Lake Havasu Shooting Range appropriation; and 2. Transfer of the Laws 2004, Chapter 276 \$800,000 Bellemont Shooting Range appropriation to the Laws 2001, Chapter 237 \$500,000 Flagstaff Shooting Range appropriation. The JLBC Staff presented options to the Committee.

(Continued)

Representative Kavanagh moved that the Committee give a favorable review to AGFD's FY 2010 Building Renewal Allocation Plan and the \$489,300 Ben Avery Shooting Facility Improvements Plan, and approved the Tri-State/Lake Havasu and Bellemont/Flagstaff Shooting Range appropriations transfers. The motion carried.

ARIZONA DEPARTMENT OF TRANSPORTATION - Review of FY 2010 Building Renewal Allocation Plan.

Mr. Juan Beltran, JLBC Staff, stated that this item is a review of the Arizona Department of Transportation's (ADOT) FY 2010 Building Renewal Allocation Plan. Laws 2009, 1st Regular Session, Chapter 10 appropriated \$1,000,000 from the State Highway Fund and \$50,000 from the State Aviation Fund in FY 2010 to ADOT to be used for major maintenance and building repair. The department has allocated \$1.1 million, which includes \$71,200 from their FY 2009 contingency allocation, among 102 projects. The JLBC Staff recommended a favorable review.

Representative Kavanagh moved that the Committee give a favorable review to ADOT's FY 2010 Building Renewal Allocation Plan with the provision that ADOT report any project reallocations above \$100,000. The motion carried.

Without objection, the meeting adjourned at 3:45 p.m.

Respectfully submitted:

Sandy Schumacher, Secretary

Leatta McLaughlin, Principal Fiscal Analyst

Senator 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>.

STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

RUSSELL K. PEARCE
CHAIRMAN 2009
PAULA ABOUD
AMANDA AGUIRRE
SYLVIA ALLEN
JORGE LUIS GARCIA
CHUCK GRAY
AL MELVIN

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

<http://www.azleg.gov/jlbc.htm>

HOUSE OF
REPRESENTATIVES

JOHN KAVANAGH
CHAIRMAN 2010
RICH CRANDALL
DAVID LUJAN
JOHN MCCOMISH
NANCY McLAIN
DAVID SCHAPIRA
KYRSTEN SINEMA

DATE: January 19, 2010

TO: Representative John Kavanagh, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Leatta McLaughlin, Principal Fiscal Analyst

SUBJECT: Arizona Department of Administration – Review of FY 2010 Emergency Building
Renewal Projects

Request

A.R.S. § 41-1252 requires Committee review of expenditure plans for building renewal monies prior to expenditure. At its September 2009 meeting, the Committee gave a favorable review for the Arizona Department of Administration (ADOA) to expend its FY 2010 \$1,000,000 building renewal appropriation on emergency projects as the need arises as long as the Chairman is notified.

ADOA is now requesting Committee review for 2 projects totaling \$222,500 that it considers emergencies. ADOA is requesting Committee review of these 2 projects because they do not see them being as immediate of a danger as the prior projects they notified the Chairman about. The projects include a \$22,500 chimney repair at 1688 W. Adams and a \$200,000 cooling towers repair at 15 S. 15th Avenue.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the chimney and cooling towers repair projects totaling \$222,500.

Analysis

Chimney Repair

The state office building located at 1688 W. Adams was constructed in 1929. Even though this building is not a nationally or state registered historic building, the State Historical Preservation Office (SHPO) considers it historical since it is eligible to be registered historically. Pieces of brick started falling from its chimney cap in June 2009, and ADOA subsequently installed a temporary safety fence in the building's parking lot to prevent people from walking beneath the chimney. According to ADOA, the chimney cap is structurally unstable and has open joints between the masonry units on the vertical face.

(Continued)

ADOA received an estimate of \$22,500 to remove the current chimney cap and replace it with a glass fiber reinforced composite material, which will be anchored into the chimney and attached to the inside of the existing chimney. SHPO has approved this repair as it will be built according to the original chimney dimensions to maintain the historical character of the chimney. According to ADOA, it would be more expensive to tear the chimney down than to repair the cap.

Cooling Towers Repair

The building located at 15 S. 15th Avenue was built in 1986 and has 2 cooling towers, which are original to the building. According to ADOA, the cooling towers have surpassed their useful lives and have been on the ADOA imminent failure list for the last 3 years. The water diverting fills and tube bundles have almost completely deteriorated and the main structure of the cooling towers has rusted away, which has allowed chemically treated water to leak out of the towers. The leaking water has eaten away at the parking garage concrete and is leaking through the concrete to lower floors and damaging cars parked in the garage.

ADOA received 2 quotes of \$200,000 to repair the towers. ADOA is in the process of issuing a Request for Proposals for this project. They want to award a contract as soon as possible in order to complete the repairs before summer because they do not think the towers can support air conditioning demands in the summer months.

FY 2010 Emergency Building Renewal Expenditures

At its September 2009 meeting, the Committee gave a favorable review for ADOA to expend \$1,000,000 on emergency building renewal projects in FY 2010 as the need arises with the following provisions: 1. ADOA notify the Chairman and JLBC Staff as they identify specific projects; and 2. The Chairman will notify ADOA if he does not agree that the project is an emergency and will request that the Committee review the project. (An “emergency” project was defined as unforeseen, critical in nature, and of immediate time sensitivity.)

Since the September 2009 meeting, ADOA has notified the Chairman of 6 emergency projects totaling \$67,600 (see *Table 1*). Of the \$1,000,000 appropriation, this leaves \$932,400 in available FY 2010 building renewal monies. The \$932,400 in remaining monies does not include this \$222,500 request.

Table 1	
FY 2010 Emergency Building Renewal Projects Expenditures	
FY 2010 Building Renewal Appropriation	\$1,000,000
<u>Emergency Projects</u>	
15 S. 15 th Ave. – Sewage Ejector Pumps	\$ 20,700
1688 W. Adams – Air Handler Main Shaft Bearings	17,500
2910 N. 44 th St. – Water Source Heat Pumps	12,400
1624 W. Adams – Fire Line Water Main	7,300
1601 W. Jefferson – Sewer Line Section	7,200
Prescott Sharlot Hall Museum – Sewer Discharge Line	2,500
	<u>\$67,600</u>
Remaining FY 2010 Building Renewal Appropriation	\$ 932,400

JANICE K. BREWER
Governor



DAVID RABER
Interim Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

100 N 15TH AVE, SUITE 401
PHOENIX, ARIZONA 85007
(602) 542-1500



December 24, 2009

The Honorable Russell Pearce, Chairman
Joint Committee on Capital Review
Arizona State Senate
1700 West Washington
Phoenix, Arizona 85007

Dear Senator Pearce:

The Arizona Department of Administration (ADOA) requests that the Joint Committee on Capital Review (JCCR) review the allocation of approximately \$22,500 from the building renewal appropriation for emergency repair of the historic chimney at 1688 West Adams, Arizona's original state office building, constructed in 1929. ADOA is requesting JCCR review before proceeding with this emergency repair.

Additional information on the project is enclosed. If you have any questions please contact Lynne Smith, Assistant Director, General Services Division, at (602) 542-1427.

Sincerely,

A handwritten signature in dark ink, appearing to be "DR", written over a horizontal line.

David Raber
Interim Director

Enclosure

- c: The Honorable John Kavanagh, Vice-Chair, JCCR
Richard Stavneak, Director, JLBC Staff
Leatta McLaughlin, Principal Fiscal Analyst, JLBC Staff
John Arnold, Director, OSPB
Bret Cloninger, Assistant Director, OSPB
Jennifer Uharriet, Budget Analyst, OSPB
Paul Shannon, Assistant Director, ADOA
Lynne Smith, Assistant Director, ADOA

1688 West Adams Chimney Repair

Information:

The historic 1688 West Adams is Arizona's original staff office building, constructed in 1929. Due to falling debris from the chimney cap, repair is necessary to the chimney top. The cap of the chimney is approximately twenty-five feet above the roof of the four-story building. The chimney cap is structurally unstable and has open joints between the masonry units on the vertical face. Debris (pieces of brick) has broken off and fallen from the chimney cap, presenting serious liability and life safety concerns for state employees and visitors to the Capitol Mall. The debris can potentially fall in any direction. In addition, if a large piece breaks off, it could fall into the building, causing considerable damage and potentially harming the tenants. ADOA has installed a temporary safety fence in the parking lot to prevent pedestrian traffic directly beneath the chimney.

ADOA has received an estimate of \$22,500 to remove the existing chimney cap and replace it with a new glass fiber reinforced composite (GFRC) material, which is high-strength glass fibers embedded in a cementitious matrix. The GFRC will be anchored into the chimney and attached to the inside of the existing chimney. The structure of the GFRC will be built according to the original chimney dimensions to maintain the historical character of the chimney within budget. The State Historical Preservation Office has approved this repair. ADOA will send this out to bid after JCCR review.

Request:

ADOA requests JCCR review of the emergency repair of the historic chimney at 1688 West Adams.

JANICE K. BREWER
Governor



DAVID RABER
Interim Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

100 N 15TH AVE, SUITE 401
PHOENIX, ARIZONA 85007

(602) 542-1500



December 31, 2009

The Honorable Russell Pearce, Chairman
Joint Committee on Capital Review
Arizona State Senate
1700 West Washington
Phoenix, Arizona 85007

Dear Senator Pearce:

The Arizona Department of Administration (ADOA) requests that the Joint Committee on Capital Review (JCCR) review the allocation of approximately \$200,000 from the ADOA building renewal appropriation for the emergency repair of two 215-ton cooling towers at 15 South 15th Avenue. ADOA is requesting JCCR review before proceeding with this emergency repair.

Additional information on the project is enclosed. If you have any questions please contact Lynne Smith, Assistant Director, General Services Division, at (602) 542-1427.

Sincerely,

A handwritten signature in dark ink, appearing to read "DRaber".

David Raber
Interim Director

Attachment

- c: The Honorable John Kavanagh, Vice-Chair, JCCR
- Richard Stavneak, Director, JLBC Staff
- Leatta McLaughlin, Principal Fiscal Analyst, JLBC Staff
- John Arnold, Director, OSPB
- Bret Cloninger, Assistant Director, OSPB
- Jennifer Uharriet, Budget Analyst, OSPB
- Paul Shannon, Assistant Director, ADOA
- Lynne Smith, Assistant Director, ADOA

15 South 15th Avenue Cooling Tower Replacement

Information:

Two cooling towers are located at 15th South 15th Avenue. These cooling towers are original to the 1986 building and have surpassed their useful lives. ADOA has identified these two cooling towers on the ADOA imminent failure list for the past three years. This repair was included in the FY 2009 Building Renewal allocation plan before the monies were ex-appropriated. The replacement of these towers is now urgent. The water diverting fills and tube bundles have almost completely deteriorated and the main structure of the cooling towers has rusted away, allowing chemically treated water to leak out of the towers (photos 1 to 4, attached).

The cooling towers are located on the top floor of the parking garage, and the leaking water is eating away at the concrete on the parking garage (photos 5 to 7, attached). The chemically treated water is now able to leak through the concrete to lower floors and damage cars parked in the garage. As a "stopgap" measure, ADOA has placed temporary pans with PVC drain-pipes under the cooling towers to divert the leaking water to the closest drains. These temporary fixes cannot catch all of the water leaking from the cooling towers and new leaks spring up daily.

There are 121 water-source heat-pump units at 15th South 15th Avenue dependent on the cooling towers to heat or cool the building. Without both cooling towers functioning, the building is unable to meet peak loads and maintain the air quality of the building properly. Failure to replace these cooling towers will leave the cooling and heating system completely inoperative, resulting in the closure of the building until ADOA could rent a temporary cooling tower on an emergency basis. This would increase the overall cost of repairs and have a detrimental impact on the Attorney General's Office operations.

ADOA is requesting JCCR review before proceeding with this emergency repair. ADOA must award a contract to replace the cooling towers as soon as possible to complete repairs before the summer heat. ADOA is in the process of issuing a Request for Proposals. The cooling towers cannot support summer air conditioning in their current condition.

Request:

ADOA requests JCCR review of the emergency replacement of the two cooling towers at 15 South 15th Avenue.

#1



South side of the cooling tower.

#2



28/10/2009

**The picture is looking east at both cooling towers.
The tank is an expansion for the building closed loop.**

#3



Door to enter wet section of tower.

#4



28/10/2009

Blower housing for tower.

#5

29/10/2009

Below tower in parking garage.

#6



Below tower in parking garage.

#7



29/10/2009

Below tower in parking garage.

STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

RUSSELL K. PEARCE
CHAIRMAN 2009
PAULA ABOUD
AMANDA AGUIRRE
SYLVIA ALLEN
JORGE LUIS GARCIA
CHUCK GRAY
AL MELVIN

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

<http://www.azleg.gov/jlbc.htm>

HOUSE OF
REPRESENTATIVES

JOHN KAVANAGH
CHAIRMAN 2010
RICH CRANDALL
DAVID LUJAN
JOHN MCCOMISH
NANCY McLAIN
DAVID SCHAPIRA
KYRSTEN SINEMA

DATE: January 19, 2010

TO: Representative John Kavanagh, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Jack Brown, Fiscal Analyst
Leatta McLaughlin, Principal Fiscal Analyst

SUBJECT: School Facilities Board – Review of FY 2010 New School Construction Report

This memo also appeared in the cancelled December meeting packet.

Request

Pursuant to A.R.S. § 15-2002, the School Facilities Board (SFB) requests the Committee review its demographic assumptions, proposed construction schedule, and new school construction cost estimates for FY 2010. The board is annually required to submit this information by June 15.

This memo includes construction estimates that have been updated since the November 19, 2009 meeting at which time this item was held.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review.
2. An unfavorable review.

The board estimates that it will oversee 16 new school construction projects in FY 2010 and will spend a total of \$63.6 million. This amount includes completing projects that started construction prior to the FY 2009 new construction moratorium and starting construction on projects that meet the FY 2010 newly authorized federal bonding program.

Analysis

New Construction Moratorium

A moratorium on new construction projects was authorized for FY 2009 by the FY 2009 Education Budget Reconciliation Bill (BRB) (Laws 2008, Chapter 287). The bill prohibited SFB from authorizing

(Continued)

or awarding funding for the design or construction of any new school facility, except for full-day kindergarten (FDK), or for school site acquisition in FY 2009. The moratorium was enacted due to declines in the state's housing market and the state's population growth rate. The moratorium also required SFB to provide monies for architectural and engineering fees, project management services, and preconstruction services if a school district qualifies for additional space in FY 2009 due to the implementation of FDK. It also required school districts to submit capital plans during FY 2009 and permitted SFB to review and award new school projects subject to future appropriations.

The FY 2010 Education BRB (Laws 2009, 3rd Special Session, Chapter 12) continues to prohibit SFB from authorizing or awarding funding for the design or construction of any new school facility, including FDK but excluding \$100.0 million in new bonding authority (*see below*), or for school site acquisitions. The bill continues to require school districts to submit capital plans during FY 2010 and permits SFB to review and award new school facilities subject to future appropriations. The bill also requires kindergarten students to be counted as half-time Average Daily Membership (ADM) pupils for purposes of determining minimum school facility adequacy requirements, thereby not requiring SFB to fund new classroom costs for FDK beginning in FY 2010. In addition, the bill restricts SFB from providing new construction projects inflationary funding above the statutory formula amount beginning in FY 2010.

FY 2010 Bonding

The FY 2010 Education BRB requires SFB to issue up to \$100.0 million of Qualified School Construction Bonds (QSCBs) as authorized by the American Reinvestment and Recovery Act (ARRA) of 2009 to be spent on new construction projects only. The proceeds will first be given to school districts whose projected FY 2010 ADM exceeds the district-wide space capacity. ARRA allows Arizona to issue up to \$186.3 million worth of QSCBs in both CY 2009 and CY 2010, for a total of \$372.6 million. The \$100.0 million authorization will come from Arizona's CY 2010 share of QSCB authority. The proceeds from these bonds can be used for the construction, rehabilitation, or repair of a public school facility or for the acquisition of land, and must be spent within 3 years after issuance. SFB has not yet issued its QSCBs.

Given that SFB is using \$100.0 million of Arizona's \$186.3 million QSCB allocation in CY 2010, there may be additional QSCB bonding capacity depending on the amount of QSCBs issued by school districts in CY 2010. In addition, unused QSCB authority can be carried forward from CY 2009 to CY 2010, which may further increase the state's QSCB allocation. Any additional QSCB issuance by SFB above and beyond the \$100.0 million authorized in the Education BRB would require legislative authorization.

These bonds were designed so that bondholders would receive federal tax credits in lieu of interest, and it was the intent that the tax credit amount would be equivalent to the market level interest rate. However, that has not been the case in the QSCB market to date. By the beginning of October, over 20 QSCBs had been issued nationwide. Since the QSCB market has turned out to be much more narrow than the traditional tax-exempt bond market, issuers have had to pay interest on these bonds above the bondholders' federal tax credit amount. Of the QSCBs issued by the beginning of October, the additional interest required by the issuer was an average of 1.64% for AA rated bonds, 3.14% for A rated bonds, and 4.14% for BBB rated bonds.

Demographic Assumptions

SFB bases its demographic assumptions on its analysis of the school district forecasts of ADM included in the FY 2010 Capital Plans submitted by districts to the board. To conduct the analysis, SFB uses district population data, grade progression estimates, historical ADM growth, and, if applicable, residential housing growth. Analysis of student enrollment growth is performed on a district-by-district basis for districts that submitted a Capital Plan to the board, but only the demographic estimates (not the analysis) are included in the New Construction Report.

(Continued)

The following demographics are included in the FY 2010 New Construction Report for districts that submitted a Capital Plan: FY 2008 actual new home occupancies, FY 2009 – FY 2016 SFB estimated new home occupancies, FY 2007 – FY 2008 actual ADM, and both district and SFB estimated ADM for FY 2009 – FY 2017.

For districts that submitted a Capital Plan to the board, SFB expects “enrollment growth” districts to increase at a slower rate in FY 2009 and FY 2010 than in FY 2008. The board expected enrollment growth to be 1.8% in FY 2009 and 2.3% in FY 2010. Actual enrollment growth was 5.3% in FY 2008. These estimates are higher than overall statewide enrollment growth since the calculation only focuses on districts with increasing population.

For FY 2010 within Maricopa County, SFB expects growth of approximately 3.0% in the southeastern portion of the county, including the cities of Chandler, Higley, and Queen Creek. In the northern part of the county, including Deer Valley and Dysart, the board also expects growth of about 1.1%. In the western and southern districts of Phoenix, including Tolleson, the board expects growth of 1.3%. In the districts outlying the western edge of the Phoenix metro area, including Agua Fria, Buckeye, and Saddle Mountain, SFB expects growth of 3.1%.

In the other areas of the state, the board expects an increase of 8.4% in Pinal County, 1.4% in Yuma and La Paz Counties, 1.2% in Southern Arizona, 3.5% in Gila and Greenlee Counties, and a decline of (0.3)% in Northern Arizona for FY 2010.

Due to the decline in the state’s housing market, student population is expected to grow slower than compared to the previous few years. Even before the FY 2009 new construction moratorium was authorized, SFB put 16 of their new construction projects on hold due to student growth not materializing as fast as previously projected.

Construction Schedule

The board estimates it will oversee 16 new school construction projects in FY 2010. Of the total, SFB estimates 6 prior year projects that began construction prior to the FY 2009 moratorium will be completed in FY 2010 and 10 projects will begin construction in FY 2010 as a result of the newly authorized federal bond program. Of these 16 projects, 7 are currently above their student threshold. This means that the district’s FY 2009 actual ADM count is above their district-wide ADM capacity.

Cost Estimates

The board estimates spending a total of \$63.6 million in FY 2010, including:

- \$6.9 million for land. This estimate includes land for the following projects: Sahuarita Unified (9-12), Vail Unified (9-12), Yavapai Accommodation District (7-12).
- \$56.7 million for construction projects. Of this amount, SFB estimates that \$12.9 million will be spent on completing construction for 6 prior year projects, \$34.6 million will be spent on 10 new projects that will begin construction due to the newly authorized federal bonds, and \$9.2 million will be spent paying off the remaining balances of 57 projects that have already completed construction.

To finance the projected \$63.6 million in expenditures, the board expects to use QSCB financing as authorized by the FY 2010 Education BRB. The board expects to allocate funding from the following revenue sources:

- FY 2010 beginning cash balance of \$32.2 million.
- \$100.0 million in lease-purchase proceeds, which is expected to be issued sometime in the 1st quarter of 2010. This is based on the newly approved QSCB authority authorized by the FY 2010 Education BRB.

(Continued)

After SFB starts construction on the 10 projects associated with the newly authorized federal bonding program, the board will have an estimated \$68.6 million of lease-purchase proceeds remaining at the end of FY 2010. This balance will largely be spent on finishing these 10 projects the board expects to begin construction in FY 2010.

RS/JBr/LMc:sls
Attachment

School Facilities Board New Construction Report Highlights

Demographic Projections

- For FY 2010, SFB projects enrollment increase of 2.3% in growing districts.
- The highest growth area includes Pinal County.

Construction Schedule

- SFB estimates overseeing approximately 16 projects in FY 2010.
 - Includes 6 prior year projects that will be completed in FY 2010 and 10 projects that will begin construction in FY 2010.

Cost Estimates

- Total FY 2010 projected spending equals \$63.6 million. This includes paying off remaining balances for 57 projects worth \$9.2 million that have been completed.

<u>Expenditures</u>		<u>Financing</u>	
Land	\$ 6.9 M	Beginning Balance	\$ 32.2 M
Construction Projects	<u>56.7 M</u>	Lease-Purchase Proceeds	<u>100.0 M</u>
Total	\$63.6 M	Total	\$132.2 M
FY 2010 Expected Ending Balance			\$ 68.6 M

Current District Projects

<u>District</u>	<u># of Projects</u>	<u>District</u>	<u># of Projects</u>
Litchfield Elementary	2	Laveen Elementary	1
Vail Unified	2	Liberty Elementary	1
Cave Creek Unified	1	Maricopa Unified	1
Casa Grande Union	1	Mobile Elementary	1
Dysart Unified	1	Queen Creek Unified	1
Florence Unified	1	Sahuarita Unified	1
JO Combs Unified	1	Yavapai Accommodation	1
TOTAL – 14 Districts			16



STATE OF ARIZONA
SCHOOL FACILITIES BOARD

Governor of Arizona
Janice K. Brewer

Executive Director
John Arnold

June 15, 2009

Senator Russell Pearce, Chairman
Joint Committee on Capital Review
1716 West Adams
Phoenix, Arizona 85007



Dear Chairman Pearce:

A.R.S. §15-2002, subsection A, paragraph 13, requires the School Facilities Board (SFB) to submit demographic assumptions, construction schedules, and cost estimates for the new construction program to the Joint Committee on Capital Review by June 15.

The FY 09 budget authorized the SFB to approve new construction projects, subject to legislative appropriation. The budget also changed how kindergarten students are counted in ADM and provided \$8 million for design costs for projects that were awarded as a result of the new methodology. The SFB awarded seven projects in the FY 09 cycle, valued at \$41.4 million. The Board also cancelled or revised five projects valued at \$64.1 million, for a total net savings of \$22.7 million.

Included in this report are:

- **Demographic Context**

In the FY 2009 Capital Plan cycle, SFB staff reviewed capital plans on a regional basis. Concentrating on an entire region at once proved to be more efficient than simply reviewing Plans in the order in which they were received. Nine major regions were identified and are listed below. Regional overviews are provided in this section in addition to individual district overviews. This section also includes a summary of the statewide new construction climate and its projected impact on the SFB.

- **Projected Schedules of Projects that are Under Construction or Board Approved**

Schedules are provided for all new construction projects approved by the SFB that are not yet completed.

- **New Construction Revenue and Cost Estimates by Fiscal Year**

This is a schedule of SFB's New School Facilities Fund revenues and expenditures for FY 2008, and projected revenues and expenditures for FY 2009 and FY 2010. It is based on projects that were approved or conceptually approved in the FY 2009 Capital Plan cycle and prior years.

- **Projects Scheduled to be Approved in FY 10**

This is a list of conceptually-approved projects that could be approved in the next capital plan cycle if ADM projections materialize.

- **Backup Information used in FY 2009 Capital Plan Cycle**

This section contains the ADM projections established for the districts that applied to the SFB for new construction in their FY 2009 Capital Plans, and information that was used in the analyses. The backup is divided into the following nine geographic regions:

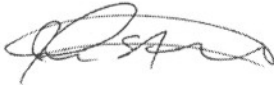
Western Maricopa County
Maricopa County – East Valley
Northern Maricopa County
Pinal County
Yuma and La Paz Counties
Southern Arizona
Northern Arizona
Mohave County
Gila, Graham, and Greenlee Counties

- **Appendix – ADM Projections Submitted by Districts not Requesting New Construction**

Even districts that do not seek new construction funds from the SFB are asked to submit student population projections in their capital plans. This section contains the projections submitted by the districts that complied.

This report will also be posted on the SFB website. Please feel free to contact me with any questions or comments.

Sincerely,



John Arnold

Xc: Jan Brewer, Governor
Eileen Klein, OSPB Director
Members of the School Facilities Board

Table of Contents

- I. Demographic Context
- II. Projected Schedules of Projects that are Under Construction or Board Approved
- III. New Construction Revenue and Cost Estimates by Fiscal Year
- IV. Projects Scheduled to be Approved in FY 2010
- V. Backup Information used in FY 2009 Capital Plan Cycle
 - a. Western Maricopa County
 - b. Maricopa County - East Valley
 - c. Northern Maricopa County
 - d. Pinal County
 - e. Yuma and La Paz Counties
 - f. Southern Arizona
 - g. Northern Arizona
 - h. Mohave County
 - i. Gila, Graham, and Greenlee Counties

Appendix – ADM Projections Submitted by Districts not Requesting New Construction

Demographic Context

Economic and Demographic Context for New School Construction Updated June 15, 2009

The housing market in Arizona has experienced dramatic changes in the past four years (Chart 1). The housing boom reached its peak in the summer of 2005 and the number of permits started to decline in the fall of that year. The market went sideways for about half a year before the bubble finally burst in the summer of 2006. Permitting activities picked up speed in the spring of 2007, giving the false indication of a rebound. The upturn was followed by an even deeper decline that lasted at least until January 2009, the latest month we have data for. Chart 1 shows the monthly number of residential housing permits issued in Arizona between January 2005 and January 2009. The average monthly number of permits issued in the last three months of this period is only about one-tenth of the monthly number of permits issued in the peak months of spring and summer of 2005.

Chart 1: New housing permits in Arizona – June 2005 to January 2009 (Source: *Arizona's Economy**, U of A)



* Various issues published between July 2005 and April 2009.

Chart 2: New housing permits and units sold in Phoenix metro area – January 2005 to January 2009. (Source: *Arizona's Economy*)

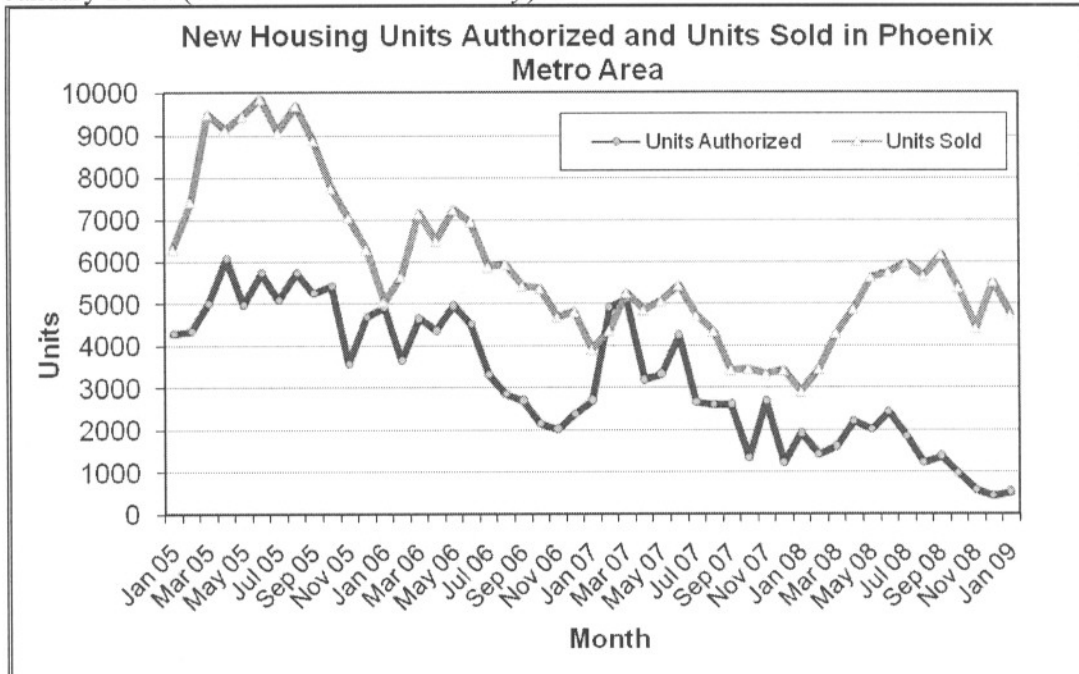


Chart 2 contains information about permits and housing sales (both new and existing) for the Phoenix metro area (Maricopa and Pinal counties). This follows pretty much the same pattern as the State. The situation in the Tucson metro area (Pima County) is very similar.

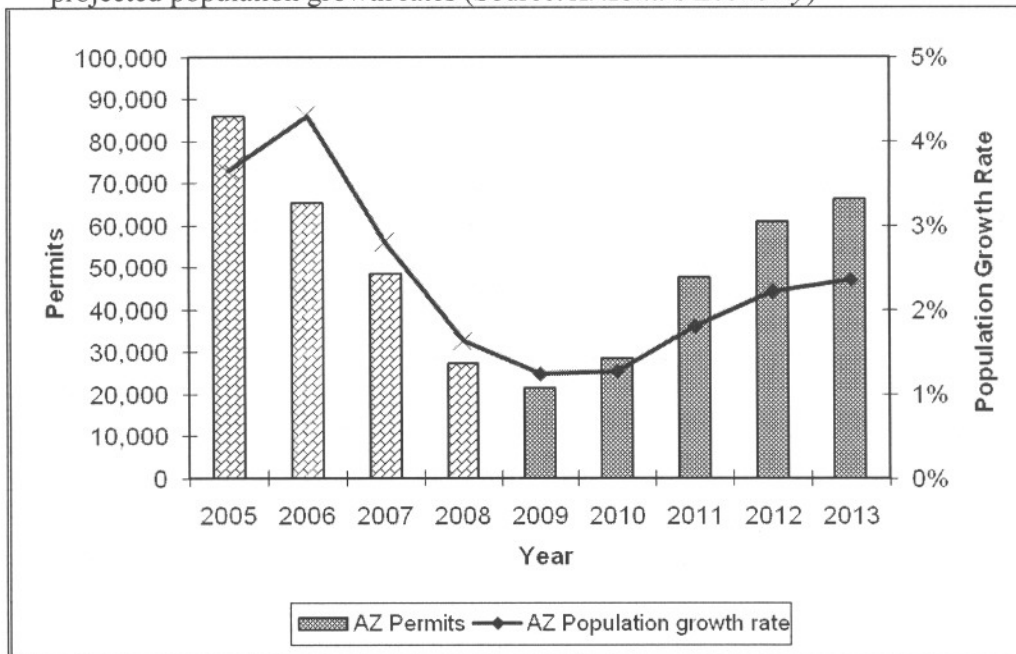
Much has been said about what caused this downturn in the housing market. In a sense, the State, especially in the two major metro areas, was “pre-building” in 2004 and 2005 as a result of investor purchases. “When the bubble burst and the speculators were no longer buying houses, it became obvious that the market was flooded. Some analysts estimate the surplus was as high as 80,000 homes at its peak.” (*Arizona Capital Times*, May 29, 2009, Vol. 110 Issue 22, p. 24). These units need to be absorbed. The situation was confounded by the credit crisis that began to surface in early 2007, became more and more severe throughout the year, and developed into a full-blown crisis in the fall of 2008. The declining housing prices and the difficulty of obtaining credit drove many would-be buyers to the sidelines, prolonging the process of absorbing the housing overstock.

Few economists predicted the severity and length of this housing downturn. In the December 2006 issue of the *Arizona Blue Chip Economic Forecast* (by W. P. Carey School of Business at ASU), the consensus forecast by a panel of 18 economists and institutions was that permits for single-family units in Arizona would drop by 7.5% in 2007 from 2006 while permits for multifamily units would drop by 0.8%. As it turned out, Arizona’s residential building permits declined by 24% in 2007 on top of an almost identical drop in the previous year (*Arizona's Economy*, January 2008 issue). In the December 2007 issue of the *Arizona Blue Chip Economic Forecast*, the forecasters made

almost identical predictions for 2008 as they did for 2007: permits for single-family units in Arizona would drop by 7.5% and permits for multifamily units would drop by 0.2%. They were again wildly off the mark: Residential permits declined by 43.6% in 2008 as compared to 2007 (*Arizona's Economy*, January 2009 issue).

All of this has affected and is expected to continue to affect the state's population growth. Arizona had the highest population growth rate in the nation in 2006 and it ranked No. 2 in 2007 and 2008 (Census Bureau). The growth rate is not yet available for 2009, but is projected to drop to about 1% (see Chart 3).

Chart 3: Actual and projected new residential permits compared with actual and projected population growth rates (Source: *Arizona's Economy*)



Because of the slowdown in population growth and some high profile, proposed school closures widely reported in the media, many people got the impression that Arizona's student enrollment is declining rapidly. A rule change by the Department of Education also further fueled such speculation. The rule change mostly affected how students who concurrently enroll in a high school and a technical institute are accounted for. These students used to be counted at more than one school; now they are counted only once. This rule change, along with some other factors, resulted in the apparent decline of more than 6% in Arizona's K-12 public school enrollment. SFB staff has sometimes been asked to comment on the state's "dramatic decline" in enrollment. Therefore, it is necessary to examine the numbers more closely and separate the myth from fact.

It is true that many school districts experienced enrollment declines in FY 2009. However, many other districts experienced enrollment growth. Statewide ADM at public school districts declined slightly (-0.47%). ADM growth has been decelerating in the past

couple of years before finally turning negative this year. Part of the deceleration could be attributed to the faster growth rate of charter school enrollments (see Table 1).

Table 1: ADM growth in public school districts and charter schools

Fiscal Yr	100 th day ADM (Districts) *	District ADM growth rate	100 th day ADM (Charters) **	Charter ADM growth rate
FY 2001	825,636		52,577	
FY 2002	844,361	2.27%	62,462	18.80%
FY 2003	862,451	2.14%	70,046	12.14%
FY 2004	878,739	1.89%	77,422	10.53%
FY 2005	906,299	3.14%	83,540	7.90%
FY 2006	934,027	3.06%	85,707	2.59%
FY 2007	955,573	2.31%	90,289	5.39%
FY 2008	967,940	1.29%	94,656	4.79%
FY 2009	963,367	-0.47%	100,606	6.29%

* From tables prepared by Arizona Department of Education (ADE) for the SFB.

** From ADE's LEA information request website:

<http://www.ade.az.gov/schoolfinance/forms/LEAQuery/InformationRequest.aspx>.

There are 218 public school districts that enrolled students in FY 2009. Among these districts, 92 experienced enrollment growth and 126 had declining enrollment between FY 2008 and FY 2009 (as measured by 100th day ADM). But this is only part of the story. The other part is that the declining districts tend to be those that have sufficient capacity and the growing districts tend to be those without available capacity. Table 2 lists the ten districts in the state that lost the most ADM and the ten districts that gained the most ADM in FY 2008.

Table 2: Top 10 districts that lost ADM and top 10 districts that gained ADM

District	FY 09 100th ADM	ADM Chang - FY08 to FY09
Top ADM Losers		
Mesa Unified	68,813	-2,058
Tucson Unified	56,410	-1,472
Cartwright Elementary	18,597	-1,292
Roosevelt Elementary	11,609	-828
Tempe Union High	12,291	-661
Maricopa County Regional	308	-648
Washington Elementary	23,212	-606
Amphitheater Unified	15,625	-590
Peoria Unified	37,438	-569
Pendergast Elementary	10,431	-425
Top ADM Gainers		
Chandler Unified	36,998	1,654
Dysart Unified	23,865	830
Maricopa Unified School	6,213	815
J O Combs Unified School	3,910	653
Vail Unified	9,370	551
Litchfield Elementary	9,913	522
Scottsdale Unified	26,505	480
Higley Unified	9,631	438
Florence Unified School	7,323	433
Sahuarita Unified	4,816	391

In summary, Arizona's residential housing market experienced an incredible bubble-bust cycle in the past few years. Few people had expected the extent of the crash. Population growth and student enrollment growth have also slowed significantly. All of these conditions are reflected in the current fiscal year's award for new schools construction, which is the lowest since the Students First program was implemented both in terms of the number of awards and in terms of dollars (even counting the funds that are not available due to the moratorium). There is no doubt that the current slow-down is severe; however, there is still need for new school construction in certain communities, mostly in the suburbs of the Phoenix and Tucson metro areas.

Going forward, SFB staff will continue to closely monitor the condition in the housing market and trends of population growth to best plan for new school construction.

Regional Overviews

In the FY 2009 Capital Plan cycle, as in the previous cycle, SFB staff reviewed capital plans on a regional basis. Every effort was made to review all districts in the same region at the same time. However, it was sometimes not possible to get all the districts in the same region on the same agenda of a particular month's board meeting due to a variety of reasons. For instance, some districts might not have all the required information in place in time for the meeting, or they might disagree with staff's recommendation and request a delay. For each board meeting where capital plans were on the agenda, staff provided an overview for the region or regions under review. The March 5 meeting was an exception. Twenty-three (23) districts from 10 counties were reviewed on that agenda. Since those districts were from such diverse regions, there were no common themes for them except that the current recession affected all of them to different degrees. For that reason, no regional overview was provided on that agenda. As a result, not all counties were discussed in the separate regional overviews provided over the course of this Capital Plan cycle. To make up for this deficiency, staff prepared the following comparisons between the counties.

Table1: Population of Arizona counties – 2000, 2007, 2008 (Source: Arizona Department of Commerce).

County	April 1, 2000 Population	July 1, 2007 Population	July 1, 2008 Population	Growth Rate 2007 to 2008	Annual Growth Rate: 2000 to 2008
Pinal	179,727	327,670	350,558	6.99%	8.43%
Yavapai	167,517	223,934	227,348	1.52%	3.77%
Mohave	155,032	204,122	205,862	0.85%	3.50%
Maricopa	3,072,149	3,907,492	3,987,942	2.06%	3.21%
Yuma	160,026	201,298	203,779	1.23%	2.97%
Santa Cruz	38,381	46,907	47,471	1.20%	2.61%
Pima	843,746	1,003,235	1,014,023	1.08%	2.25%
Cochise	117,755	137,200	139,434	1.63%	2.07%
Navajo	97,470	113,796	114,780	0.86%	2.00%
Coconino	116,320	134,898	135,613	0.53%	1.88%
Graham	33,489	37,338	38,633	3.47%	1.75%
Gila	51,335	56,885	57,361	0.84%	1.35%
Apache	69,423	75,496	76,156	0.87%	1.13%
La Paz	19,715	21,529	21,544	0.07%	1.08%
Greenlee	8,547	8,394	8,950	6.62%	0.56%
Arizona	5,130,632	6,500,194	6,629,454	1.99%	3.16%

Table 1 compares the last two years' population estimates of Arizona counties with their populations enumerated in the 2000 census. The counties are ranked in descending order of annual population growth rates between 2000 and 2008. It is clear that Pinal was by far the fastest growing county in Arizona. The growth rates of Yavapai, Mohave, Maricopa, Yuma, Santa Cruz, Pima counties were within one percentage point of the state's average

annual growth rate. The other counties were significantly behind, but all had positive growth. For the last year of the period, Graham and Greenlee counties experienced faster than usual growth due to the expansion of existing copper mines and the opening of new ones. However, the recession has severely affected the mining industry since; whether the population gain in these two counties can be sustained remains to be seen.

Table 2: ADM of Arizona counties – FY 2001, FY2008 and FY 2009 (Source: Arizona Department of Education).

County	FY 2001 ADM	FY 2008 ADM	FY 2009 ADM	Growth Rate: FY 08 to FY 09	Annual Growth Rate: FY 01 to FY 09
Pinal	26,583	44,994	46,696	3.78%	7.30%
Maricopa	498,650	609,963	606,835	-0.51%	2.48%
Yuma	30,225	35,852	35,760	-0.25%	2.12%
Yavapai	21,511	24,295	23,872	-1.74%	1.31%
Santa Cruz	9,270	10,326	10,167	-1.54%	1.16%
Mohave	21,739	23,530	23,072	-1.95%	0.75%
Pima	124,967	132,403	131,252	-0.87%	0.62%
Graham	5,731	5,761	5,929	2.91%	0.43%
Greenlee	1,928	1,778	1,874	5.35%	-0.35%
Cochise	19,826	18,844	18,640	-1.08%	-0.77%
Navajo	20,393	19,380	19,112	-1.39%	-0.81%
Coconino	18,896	17,606	17,182	-2.40%	-1.18%
Gila	8,711	7,781	7,735	-0.59%	-1.48%
La Paz	2,642	2,453	2,344	-4.47%	-1.49%
Apache	14,564	12,974	12,898	-0.58%	-1.51%
Arizona	825,636	967,940	963,367	-0.47%	1.95%

Table 2 compares the latest two fiscal years' ADM with that of FY 2001. It should be noted that these ADM numbers only include public school districts, not charter schools. The counties are ranked in descending order of annual ADM growth rate between FY 2001 and FY 2009. Consistent with population growth, Pinal County's ADM grew the fastest in the period. Its average annual growth rate was nearly three times that of Maricopa County, the nearest competitor in terms of ADM growth rate. Growth rates for both counties dropped significantly in the current fiscal year. Maricopa County even turned negative, which has never happened in recent history. Eleven other counties also had a net loss for the year. Over the period between FY 2001 and FY 2009, seven of the 15 counties experienced a net decline. Graham and Greenlee counties, which had robust growth this year, were essentially flat for the eight-year period.