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

JOINT COMMITTEE ON CAPITAL REVIEW
Wednesday, February 9, 2005
and
Thursday, February 10, 2005 (if necessary)
8:00 a.m.
Senate Approps Room 109

MEETING NOTICE

- Call to Order
- Approval of Minutes of December 20, 2004.
- DIRECTOR'S REPORT (if necessary).

1. Adoption of Committee Rules and Regulations.
2. Maricopa Community College – Review of General Obligation Bond Issuance.
3. School Facilities Board
   A. Review of Lease-Purchase Refinancing.
   B. Report on FY 2006 Instructions to the Treasurer.
4. Arizona Department of Administration – Review of State Treasurer's Office Tenant Improvements.
5. Department of Game and Fish – Review of FY 2005 Building Renewal Allocation Plan.
6. Arizona Department of Administration /Department of Juvenile Corrections – Review of Operating Monies for Department of Juvenile Corrections Space Conversions.
7. City of Phoenix – Report on Civic Plaza Expansion.
8. FY 2006 Capital Outlay Budget Presentation.

The Chairman reserves the right to set the order of the agenda.
2/4/04

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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Joint Committee on Capital Review

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CHAIRMAN 2005
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MINUTES OF THE MEETING
JOINT COMMITTEE ON CAPITAL REVIEW

Monday, December 20, 2004

The Chairman called the meeting to order at 9:20 a.m. Monday, December 20, 2004 in House Hearing Room 4 and attendance was as follows:

Members:	Representative Pearce, Chairman	Senator Burns, Vice Chairman
	Representative Boone	Senator Bee
	Representative Loredo	Senator Brown
		Senator Cannell
		Senator Soltero
		Senator Waring
Absent:	Representative Biggs	Senator Mead
	Representative Farnsworth	
	Representative Lopez	
	Representative Lopes	

<u>Representative Pearce moved</u> *the Committee approve the minutes of October 14, 2004 as presented.* The motion carried.

EXECUTIVE SESSION

<u>Senator Burns moved</u> *that the Committee go into Executive Session.* The motion carried.

At 9:20 a.m., the Joint Committee on Capital Review went into Executive Session.

<u>Senator Burns moved</u> *that the Committee reconvene into open session.* The motion carried.

At 10:30 a.m. the Committee reconvened into open session.

EXECUTIVE SESSION – ARIZONA DEPARTMENT OF ADMINISTRATION – Review of Telecommunications Privatization Contract. (Pursuant to Laws 2003, Chapter 263, Section 101)

<u>Senator Burns moved</u> *that the Committee give a favorable review to the Telecommunications Privatization Contract, with the following provisions:*

- *ADOA and GITA shall submit separate quarterly Statewide Telecommunications Management Contract progress reports to JLBC. ADOA, GITA and JLBC Staff shall collectively determine the contents of the reports.*
- *A favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any additional telecommunications or capital expenditures at any agencies resulting from this telecommunication functions and staff remaining with the state.*

The motion carried.

SCHOOL FACILITIES BOARD/ARIZONA SCHOOL FOR THE DEAF AND THE BLIND – Review ASDB Building Renewal and New Construction Estimates for FY 2006 and FY 2007.

Mr. Eric Jorgensen, JLBC Staff, presented the School Facilities Board request that the Committee review of the Arizona School for the Deaf and the Blind (ASDB) Building Renewal and New Construction Estimates for FY 2006 and FY 2007. The School Facilities Board (SFB) estimates the total cost for new construction and building renewal at both campuses to be $28,151,800 in FY 2006 and $2,107,900 in FY 2007. The FY 2007 estimate assumes that the FY 2006 estimate is funded. The SFB indicates that the minimum space per student at ASDB should be 875 square feet. A.R.S. § 15-2041 sets the minimum area per student in school districts at 90 to 134 square feet depending on grade and student count.

The SFB also calculated the cost of building renewal based on the age and value of the buildings, past renovations and capacity. Under the guidelines in A.R.S. § 15-2031, ASDB would be eligible for building renewal on both campuses totaling $799,800 in FY 2006 ($346,500 for Phoenix and $453,300 for Tucson) and $838,200 in FY 2007 ($361,500 for Phoenix and $476,700 for Tucson).

There was no discussion on this item and no Committee action was required.

SCHOOL FACILITIES BOARD – Review of FY 2006 New School Construction Report.

Mr. Jake Corey presented the School Facilities Board (SFB) request for the Committee to review the demographic assumptions, proposed construction schedule, and new school construction cost estimates for FY 2006. The board had requested extending the deadline for submittal of the entire report to May 1, 2005. A.R.S. § 15-2002, however, requires the board to submit the report to the Committee by October 15 of each year.

The board has provided JLBC Staff with detail on its requested FY 2006 lease-purchase amount, which the board estimates to be $357.6 million, and the potential effect of slowed statewide enrollment growth on construction costs. Since its initial projection, the board has revised its estimate downward to $300 million.

The JLBC Staff does not have a recommendation as the report did not include all the required information.

In response to Senator Burns, William Bell, Director, School Facilities Board stated they requested an extension of the deadline date to be able to provide the Committee with more accurate information. Mr. Bell also requested that the due date be changed to allow more time.

John Arnold, Deputy Director, School Facilities Board stated that SFB is leaning towards lease-to-own authority to finance new construction requirements.

Senator Burns asked SFB to prepare their best guess as to what issues would roll over into next year. Mr. Arnold stated they would provide the JLBC Staff with that information.

Senator Cannell mentioned that there is very fast growth in the state and the later that SFB could report, the better the information that would be reported.

Senator Soltero complimented Mr. Bell on doing an excellent job.

The Committee requested that SFB include the statutorily required items related to demographic assumptions, projected construction schedules and cost estimates when the board submits the entire report to the Committee. The Committee also requested the construction schedules include outstanding projects as well as cash flow estimates.

ARIZONA STATE UNIVERSITY (ASU) – Review of Land Acquisition with Bond Financing for Housing Project.

Shelli Carol, JLBC Staff presented the Arizona State University request that the Committee review $5.7 million in system revenue bonds for the acquisition of 2.74 acres for a student housing project. The university has not selected a developer or finalized a construction plan.

ASU plans to issue system revenue bonds to be repaid over a 30-year period at an estimated interest rate of 6.0%. A private developer would finance construction and operate the student housing in exchange for a portion of revenues. Ms. Carol explained the Committee has no statutory responsibility to review the agreement between ASU and the developer, although it could have a fiscal impact on the university. The review is only for the land acquisition.

In response to Chairman Pearce, Mernoy Harrison, Chief Financial Officer, ASU stated the report that indicated ASU's crime rate was high was inaccurate as it only uses gross amount of crime as opposed to crime rate. This year, ASU has allocated a $900,000 increase to the university's public safety budget in recognition and anticipation of having more students on the Tempe campus. ASU is in the process of finding qualified police officers to staff the department.

Mr. Harrison stated that until this year they had not been able to increase the public safety budget. Mr. Harrison also mentioned that only first year students are required to live on campus. No public funding will be used for the project. Students living in the housing pay rent to the developer. There are two projects that are funded in this manner at the present time. There are no university obligations in the structures that are built; there is the opportunity to allow the developer to rent or lease the property to non-students if not fully occupied.

Senator Burns moved that the Committee give a favorable review to the acquisition of 2.7 acres of property with a $5.7 million system revenue bond issuance with the following provisions:

- *Arizona State University shall submit for Committee review any increases that exceed 5% of the current land purchase price.*
- *A favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any lease payments or student-housing revenues that may be required for debt service, nor any operations, maintenance, or improvement costs.*
- *Upon awarding a contract resulting from the student housing development request for proposals, Arizona State University shall report to the Committee the final development plans outlined in that contract, including all associated financing devices and cash flow effects. Of particular interest are any liabilities or credit exposures that the university might face should the project encounter difficulties.*

The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION –

A. Review of Revised FY 2005 Building Renewal Allocation Plan.

Mr. Jeremy Olsen, JLBC Staff presented the Arizona Department of Administration Revised FY 2005 Building Renewal Allocation Plan. The department was appropriated $3.5 million in FY 2005 for building renewal. The Committee has previously favorably reviewed $2.7 million and the request today would allocate $100,000 of the remaining $834,000 for design costs associated with replacing roofs for eight Department of Corrections buildings. The JLBC Staff recommends a favorable review with the stipulation the department submit an allocation plan for the remaining $734,000.

Senator Burns moved the Committee give a favorable review of the revised FY 2005 Building Renewal Allocation Plan with the provision that the department submit for review an allocation plan for the remaining $734,000 Capital Outlay Stabilization Fund appropriation. The motion carried.

B. Report on Private Office Leases.

Mr. Jeremy Olsen, JLBC Staff presented the Arizona Department of Administration report of private office leases. The ADOA submits a report of office leases which exceeded the Lease Cost Review Board's (LCRB) private lease estimates for FY 2003 of $17.25 per square foot and FY 2004 of $18.25 per square foot.

For FY 2003, ADOA reported that 10 leases exceeded the estimated average square foot cost. In FY 2004, the department reported 3 leases that were above the estimated average cost per square foot.

In response to Senator Soltero, Mr. Olsen referenced the information submitted by ADOA with the information regarding the three leases that were above the estimated $18.25 average cost per square foot.

In response to Senator Burns, Mr. John Webster, Building and Planning Services, ADOA said the leases that dropped off the list have probably discontinued renting and have gone somewhere else.

Diane Kearn, ADOA stated that some of the leases that have dropped off could be one of two reasons, one, it could be it is no longer exceeding the rate or they could have leased somewhere else at a different lease rate.

No Committee action was required, however, the Committee requested that the department report back on why leases that appeared in FY 2003 did not appear in FY 2004 even though the lease terms went beyond FY 2004 and exceeded the LCRB rate for FY 2004. In addition, future reports should include similar explanations for prior year leases as well as the total number of leases, total square footage, total lease costs, and average cost per square foot for private leases in each year.

UNIVERSITY OF ARIZONA – Report on Infrastructure Phase VI Contingency Allocation

Ms. Shelli Carol, JLBC Staff, presented the University of Arizona report on Infrastructure Phase VI Contingency Allocation. The Committee stipulated that UofA report before expenditure of any project contingency allocations exceeding 10% of the reported contingency amount for non-scope related changes. It is the first reported reallocation for this project and is caused by rising raw materials cost. Direct construction costs will rise 1.5%, from $20.5 million to $20.8 million.

There was no discussion on this item and no Committee action was required.

Without objection the Committee meeting adjourned at 11:10 p.m.

Respectfully submitted:

Jan Belisle, Secretary

Lorenzo Martinez, Assistant Director

Representative Russell Pearce

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

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DATE: February 3, 2005

TO: Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Lorenzo Martinez, Assistant Director

SUBJECT: ADOPTION OF COMMITTEE RULES AND REGULATIONS

The Committee will consider the attached rules and regulations for adoption at its February 9th meeting. The rules and regulations are the same as the Committee used in the last biennium.

RS/LM:jb
Attachment

JOINT COMMITTEE ON CAPITAL REVIEW
RULES AND REGULATIONS

RULE 1

NAME OF COMMITTEE AND METHOD OF APPOINTMENT

The name of the Committee is the Joint Committee on Capital Review, hereinafter referred to as the Committee, consisting of fourteen members designated or appointed as follows:

1. The Chairman of the Senate and.

2. The Majority and Minority Leaders of the Senate and House of Representatives.

3. Four members of the Senate and four members of the House of Representatives who are members of their Appropriations Committees and who are appointed to the Committee by the President of the Senate and the Speaker of the House of Representatives, respectively.

RULE 2

CHAIRMAN OF THE COMMITTEE

The Chairman of the Senate Appropriations Committee shall have a term as Chairman of the Joint Committee on Capital Review from the first day of the First Regular Session to the first day of the Second Regular Session of each legislature and the Chairman of the House of Representatives Appropriations Committee shall have a term as Chairman from the first day of the Second Regular Session to the first day of the next legislature's First Regular Session.

RULE 3

QUORUM

A majority of the members of the Committee shall constitute a quorum for the transaction of business.

RULE 4

MEETINGS OF THE COMMITTEE

The Committee shall meet as often as the members deem necessary.

RULE 5

COMMITTEE PROCEEDINGS

The Committee proceedings shall be conducted in accordance with Mason's Manual of Legislative Procedure, except as otherwise provided by these rules.

RULE 6

STATUTORY POWER AND DUTIES OF THE COMMITTEE

The Committee shall:

1. Develop and approve a uniform formula for computing annual building renewal funding needs and a uniform format for the collection of data for the formula.

2. Approve building systems for the purposes of computing and funding building renewal and for preparing capital improvement plans.

3. Review the state capital improvement plan and make recommendations to the Legislature concerning funding for land acquisition, capital projects and building renewal. The recommendations should give priority to funding fire and life safety projects.

4. Review the expenditure of all monies appropriated for land acquisition, capital projects and building renewal.

5. Review the scope, purpose and estimated cost of the project prior to the release of monies for construction of new capital projects.

6. Approve transfers within a budget unit of monies appropriated for land acquisition, capital projects or building renewal.

7. Review and approve the acquisition of real property or buildings by the Arizona Department of Administration and Arizona Department of Transportation.

8. Review the acquisition of real property or buildings by the Department of Economic Security.

9. Determine the rental fee charged to state agencies for using space in a building leased to the state.

10. Approve expenditures from the Corrections Fund by the Director of the Department of Administration for major maintenance, construction, lease, purchase, renovation or conversion of Corrections facilities.

11. Review Arizona Board of Regents, Community College and Game and Fish bond projects.

12. Review School Facilities Board building renewal calculations and distributions.

13. Review School Facilities Board and school district lease-to-own projects.

14. The Committee shall have other duties and responsibilities as outlined in statute or determined by the Chairman, consistent with law.

RULE 7

STAFF

The Joint Legislative Budget Committee Staff shall provide staff assistance to the Committee as directed by the Committee.

RULE 8

AGENDA FOR MEETINGS

An agenda for each Committee Meeting shall be prepared by the Director, and, whenever possible, mailed or delivered to members of the Committee, not less than one week prior to the meeting. The Director must have at least three weeks prior notice for any state agency-requested items that appear on the agenda, unless the Chairman of the Committee approves of a later submission.

RULE 9

ORDER OF BUSINESS

The Order of Business at a committee meeting shall be determined by the Chairman of the Committee. It shall normally be as follows:

- Call to order and roll call
- Approval of minutes
- Director's Remarks (if any)
- Review of capital projects
- Other Business - For information only
- Adjournment

RULE 10

ADOPTION AND AMENDMENT OF THE RULES AND REGULATIONS

These rules and regulations shall be adopted and may be amended by a majority vote of the Committee members.

E:\JCCR\JCCRRULE.R7-2004

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DATE: February 4, 2004

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

THRU: Richard Stavneak, Director

FROM: Jake Corey, Senior Fiscal Analyst

SUBJECT: Maricopa Community College District - Review of General Obligation Bond Issuance

Request

Maricopa Community College District (MCCD) requests the Committee review its proposed $190.3 million General Obligation (GO) bond issuance. The board was authorized by a November 2, 2004 bond election to issue a total of $951.4 million in bonds. The board plans to issue five equal installments of $190.3 million every two years, with the first issuance in February 2005. At its June 22, 2004 meeting, the Committee gave a favorable review to the entire $951.4 million bond proposal, with the stipulation that MCCD return for Committee review prior to each actual $190.3 million issuance.

Recommendation

The Committee has the following options:

1) A favorable review with no provisions.

2) A favorable review, with the provision that MCCD report to the Committee on actual project costs of the first bond issuance when the district returns to review its second issuance. At this time, the district has not fully defined some of the projects that the district will fund with proceeds from the first bond issuance

3) An unfavorable review.

The district plans to issue a total of $190.3 million in bonds in FY 2005. Of the total, $130.3 million would be allocated for capital projects and $60.0 million would be used to purchase and upgrade technology and equipment. Over a 14-year period, and with an estimated interest rate of 4.2%, total interest payments would equal $73.3 million. Total debt service would be approximately $263.6 million.

(Continued)

The first payment of $15.3 million would be in FY 2006. The amount would progressively increase each year, with a final payment of $20.8 million in FY 2019. As the district issues additional $190.3 million installments, the district's total debt service obligation would be further increased.

Analysis

<u>Projects</u>

Attachment #1 provides a summary of the projects MCCD expects to begin in 2005 and 2006. The total amount of projects listed, $316.6 million, is greater than the amount the board is currently issuing, $190.3 million. The district has indicated that some of the projects listed on *Attachment #*1 will be fully funded by the initial $190.3 million bond issuance, while others will be funded with proceeds from more than one bond issuance.

Approximately 800,000 square feet would be involved in the projects, including 682,200 square feet to add new space and 120,500 square feet to renovate existing space. The estimated average cost per square foot is $297, including $332 for new space and $100 for renovated space is $100. As a point of comparison, recent university projects to add new space have averaged $395 per square foot, with a cost range of between $300 and $507 per square foot, depending on the scope of the project. Two of the district projects fall outside of this range.

At Estrella Mountain the district plans to add 21,700 square feet of occupational program space for a total cost of $12,080,000. The cost per square foot, therefore, would be $557. The district has indicated that the high total cost per square foot for the project is the result of $3.5 million in occupational and vocational equipment that is included in the total project cost. The direct construction cost per square foot is $182.

The district also plans to add 5,000 square feet for an educational center at South Mountain. The total cost of the project is $4,000,000, for a cost per square foot of $800. Of the total cost of the project, the district estimates that $1.5 million would be used to purchase land to provide a site for the building. The direct construction cost per square foot of the project would be $174.

In addition to individual college projects, the district also plans to allocate monies for district-wide initiatives, including $19 million for major maintenance and security, $6 million for regulatory compliance and energy and water conservation, $17 million for technology, and $17 million for occupational programs. At this time the district has not defined specific projects for these funds.

To complete its projects, MCCD plans to use a design-bid-build procurement process for some projects and to employ a construction manager at risk for others. The district will determine which method to use on a project by project basis.

Further detail on all the MCCD projects is provided in the district's "2004 Capital Development Program Summary." *(See Attachment #2)*

<u>Financing</u>

Of the total $190.3 million issuance, bonds issued for $130.3 million in capital projects would have a 14-year payment term and bonds issued for $60.0 million in technology and equipment would have a 7-year payment term. The FY 2006 payment would equal $15.3 million. In future years the debt service amount would progressively increase, with a final payment of $20.8 million in FY 2019.

(Continued)

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 2015. Including amounts for prior GO issuances and the new $190.3 million issuance, the total district FY 2006 debt service payment is estimated to be $45.4 million. This amount would increase in future years as the district issues additional $190.3 million installments.

To make the debt service payments associated with the new $190.3 million issuance, the district estimates increasing the secondary property tax rate by 5¢ beginning in FY 2006. This would annually result in approximately $5 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 NAV growth of between 3% to 5% over the next five years, and 1.6% 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 Maricopa has grown by an average of 7.6%. The district, therefore, is likely underestimating 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 $263.4 million, including $234.4 million in principal from GO bonds and $29.0 million from revenue bonds. The Constitution limits the amount of outstanding GO debt the district the district may incur to 15% of the district’s total Secondary Net Assessed Valuation (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 $190.3 million would increase that amount to approximately 1.5%.

RS/JC:jb

Attachment #1

BOND PROJECTS

Project	Total Project Cost		Sq Feet	Cost Per Sq Foot
Chandler-Gilbert				
New classroom complex	$ 18,250,000		51,000	$358
Expand Sun Lakes Education Center	2,000,000		6,000	333
Estrella Mountain				
Remodel existing space & add class and admin space	2,975,000		31,000	96
Add modular class space	2,000,000		30,000	67
New occupational program space	12,080,000		21,700	557
Gateway				
Add downtown education center	15,000,000		40,000	375
Glendale				
New building for Life Sci, Biotech, Nursing, & Psych programs	24,000,000		73,000	329
Renovate student union	3,340,000		23,000	145
Expand Glendale CC North	23,000,000		87,000	264
Mesa				
New Math/Science building	12,430,000		31,000	401
Remodel Physical Science building	3,190,000		22,000	145
Expand Mesa CC at Red Mountain	20,000,000		55,000	364
Paradise Valley				
New classroom building	15,150,000		45,000	337
New classroom and Life Sci lab building	11,700,000		29,000	403
New campus	10,000,000		25,000	400
Phoenix				
New Fine Arts building	9,540,000		33,000	289
New maintenance services building	2,220,000		10,000	222
Rio Salado				
Remodel or construct admin space	26,600,000		115,000	231
Replace or upgrade equipment	N/A		--	--
Expand and remodel Sun Cities Center	3,120,000		14,000	223
Scottsdale				
New Physical & Life Sci building	16,470,000		50,000	329
South Mountain				
Expand learning center	1,580,000		6,000	263
Add new education center	4,000,000		5,000	800
District-Wide				
Major maintenance & security	19,000,000		--	--
Regulatory compliance & energy & water conservation	6,000,000		--	--
Technology	17,000,000		--	--
Occupational programs	17,000,000		--	--
Land	19,000,000		--	--
TOTAL	**$ 316,645,000**	1/	**802,700**	**$297**
New Space	226,579,000		682,200	332
Renovated/Remodeled Space	12,066,000		120,500	100

1/ Projects will be funded with proceeds from both the first and second $190.3 million issuances.

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HOUSE OF REPRESENTATIVES

DATE: February 3, 2004

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

THRU: Richard Stavneak, Director

FROM: Jake Corey, Senior Fiscal Analyst

SUBJECT: School Facilities Board - Review of Lease-Purchase Refinancing

Request

The School Facilities Board (SFB) plans to revise its existing new school construction lease-purchase agreements to restructure its debt obligations. The restructuring essentially 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.

A.R.S. § 15-2004 grants SFB the authority to enter into lease-purchase agreements to pay for the costs of new school construction. Before any agreement takes effect, the statute requires the board to submit for Committee review the projects related to the agreement. According to Legislative Council, a revised lease-purchase agreement requires Committee review.

Recommendation

The Committee has at least three options:

1) A favorable review with no provisions.

2) An unfavorable review with no provisions.

3) An unfavorable review of the proposed plan with a recommendation that the board pursue an alternative plan. The board could restructure its existing debt such that it would result in a total estimated savings of $7.2 million over the life of the payment term.

Under the board proposal, there would be an estimated one-time nominal savings of $22.2 million in FY 2006. Given the one-time nature of the savings, the board proposal would require adding $22.2 million back to the FY 2007 budget for debt service. There would be no long-term nominal savings under the SFB proposal as the annual debt service payments would increase by $1.6 million in FY 2007 to FY 2020. Under an alternative refinancing, the board could achieve an estimated net nominal savings of $7.2 million over the payment term. On an annual basis, this would be equal to an average savings of $482,000.

(Continued)

Analysis

Financing

Beginning in FY 2003, the board has annually entered into lease-purchase agreements to finance the costs of new school construction. For each agreement the board has issued Certificates of Participation (COP's) that are to be repaid over a period of 15 years.

The board plans to restructure its existing debt to take advantage of lower interest rates on some of its outstanding COP's that were issued as part of its FY 2003 $400 million and FY 2004 $250 million lease-purchase agreements. In total the board would refund $331.3 million in COP's. *(See Attachment #1.)*

To achieve the one-time savings of $22.2 million in FY 2006, the board would essentially defer payment on some of the COP's with a maturity date of September 1, 2005, a technique referred to as a "payment holiday." The maturity date of these COP's would now be spread over the 15-year payment term, resulting in the annual $1.6 million increase in debt service from FY 2007 to FY 2020.

As an alternative to the SFB proposal, the board could enter into a more typical refinancing agreement which produces savings on an annual basis. Under this plan the board would also refinance its existing COP's at a lower interest rate to achieve savings, but would continue to make the principal payments as currently scheduled. *Attachment #2* compares the debt service payments under the following three scenarios:

1) No change to the existing payment schedule
2) A payment schedule incorporating the payment holiday (SFB proposal)
3) An alternative refinancing resulting in annual savings

As indicated on *Attachment #*2, the board proposal would not result in any long-term net nominal savings. Adjusted for inflation, the SFB proposal would produce a real dollar savings of $3.6 million over the payment term. Adjusting for inflation results in a real dollar savings because future cost increases are discounted to make them comparable to present values.

The alternative refinancing structure would result in a nominal savings of $7.2 million over the life of the payment period, which would equal an average annual savings of $482,000. Adjusted for inflation, the alternative refinancing plan would achieve a total real savings of $6.1 million.

To restructure the existing debt service schedule, the board will incur transaction costs. The estimated costs are detailed in the table below.

Underwriter Fee	$ 499,700
Insurance	940,900
Other	300,000
Total Transaction Costs	$1,740,600

The transaction costs are rolled into the overall restructuring payment schedule, and therefore would not affect the overall cost changes indicated above.

Projects

The projects associated with the restructured COP's are included on *Attachment #3*. The total value of the projects is $703.8 million, including $454.2 million in projects from FY 2003 and $249.6 million in projects from FY 2004. (The total value of the FY 2003 projects is greater than the value of the lease-purchase agreement as some of those costs were paid for with cash.) The construction schedule of the projects would not be affected by any changes to the debt structure.

RS/JC:jb

SUMMARY OF BONDS REFUNDED

Arizona School Facilities Board
Series 2005 Restructuring COPs
Refunding of Series 2003A&B and 2004B
Maximium Upfront Savings
PRELIMINARY - Subject to Change
See Sources and Uses for all Footnotes

Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
CERTIFICATES OF PARTICIPATION, SERIES 2003A:					
NCSER1	09/01/2005	4.500%	9,505,000.00		
CSER	09/01/2014	5.250%	44,495,000.00	03/01/2013	100.000
	09/01/2015	5.250%	46,670,000.00	03/01/2013	100.000
	09/01/2016	5.250%	48,955,000.00	03/01/2013	100.000
	09/01/2017	5.250%	51,355,000.00	03/01/2013	100.000
			200,980,000.00		
CERTIFICATES OF PARTICIPATION, SERIES 2003B:					
NCSER1	09/01/2005	6.000%	10,125,000.00		
CSER1	09/01/2015	5.250%	15,990,000.00	09/01/2013	100.000
	09/01/2016	5.250%	16,850,000.00	09/01/2013	100.000
	09/01/2017	5.250%	17,760,000.00	09/01/2013	100.000
	09/01/2018	5.250%	18,715,000.00	09/01/2013	100.000
			79,440,000.00		
CERTIFICATES OF PARTICIPATION, SERIES 2004B:					
NCSER1	09/01/2005	6.000%	530,000.00		
CSER	09/01/2017	5.250%	15,930,000.00	09/01/2014	100.000
	09/01/2018	5.250%	16,765,000.00	09/01/2014	100.000
	09/01/2019	5.250%	17,645,000.00	09/01/2014	100.000
			50,870,000.00		
			331,290,000.00		

Attachment #2

DEBT SERVICE STRUCTURE - NOMINAL COMPARISON

Year	Existing Payment Schedule	SFB Proposal	Net Change to Existing	Alternative Refinancing	Net Change to Existing
FY 2006	72,945,200	50,755,000	(22,190,200)	72,393,600	(551,600)
FY 2007	74,074,800	75,660,000	1,585,200	73,525,400	(549,400)
FY 2008	70,308,200	71,891,100	1,582,900	69,763,000	(545,200)
FY 2009	77,610,300	79,195,800	1,585,500	77,062,600	(547,700)
FY 2010	76,667,000	78,251,400	1,584,400	76,121,100	(545,900)
FY 2011	63,212,200	64,796,600	1,584,400	62,662,600	(549,600)
FY 2012	89,674,600	91,259,900	1,585,300	89,125,600	(549,000)
FY 2013	95,485,400	97,072,200	1,586,800	94,936,400	(549,000)
FY 2014	100,219,500	101,803,300	1,583,800	99,669,600	(549,900)
FY 2015	100,011,000	101,595,400	1,584,400	99,462,600	(548,400)
FY 2016	99,794,300	101,381,800	1,587,500	99,249,100	(545,200)
FY 2017	99,568,000	101,152,700	1,584,700	99,019,500	(548,500)
FY 2018	99,331,400	100,914,100	1,582,700	98,785,000	(546,400)
FY 2019	46,627,100	48,211,000	1,583,900	46,519,400	(107,700)
FY 2020	22,930,000	24,517,200	1,587,200	22,933,600	3,600
TOTAL	1,188,459,000	1,188,457,500	(1,500)	1,181,229,100	(7,229,900)

DEBT SERVICE STRUCTURE - INFLATION ADJUSTED COMPARISON

Year	Existing Payment Schedule	SFB Proposal	Net Change to Existing	Alternative Refinancing	Net Change to Existing
FY 2006	71,166,000	49,517,100	(21,648,900)	70,627,900	(538,100)
FY 2007	70,505,500	72,014,300	1,508,800	69,982,500	(523,000)
FY 2008	65,288,100	66,758,000	1,469,900	64,781,900	(506,200)
FY 2009	70,311,100	71,747,500	1,436,400	69,814,900	(496,200)
FY 2010	67,762,400	69,162,800	1,400,400	67,280,000	(482,400)
FY 2011	54,507,700	55,873,900	1,366,200	54,033,800	(473,900)
FY 2012	75,440,100	76,773,800	1,333,700	74,978,300	(461,800)
FY 2013	78,369,300	79,671,700	1,302,400	77,918,700	(450,600)
FY 2014	80,248,600	81,516,800	1,268,200	79,808,200	(440,400)
FY 2015	78,128,400	79,366,100	1,237,700	77,700,000	(428,400)
FY 2016	76,057,700	77,267,600	1,209,900	75,642,200	(415,500)
FY 2017	74,034,400	75,212,700	1,178,300	73,626,600	(407,800)
FY 2018	72,057,000	73,205,200	1,148,200	71,660,700	(396,300)
FY 2019	32,999,300	34,120,200	1,120,900	32,923,000	(76,300)
FY 2020	15,832,400	16,928,300	1,095,900	15,834,900	2,500
TOTAL	982,708,000	979,136,000	(3,572,000)	976,613,600	(6,094,400)

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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

HOUSE OF REPRESENTATIVES

DATE: February 2, 2004

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

THRU: Richard Stavneak, Director

FROM: Jake Corey, Senior Fiscal Analyst

SUBJECT: School Facilities Board - Report on FY 2006 Instructions to the Treasurer

Request

Pursuant to A.R.S. § 15-2002, the School Facilities Board (SFB) is reporting to the Committee 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 is also reporting the estimated amounts necessary for these funds for FY 2007.

Recommendation

This item is for information only and no Committee action is required. The board has instructed the Treasurer to transfer a total of $150.1 million in FY 2005. Of the total, $20 million represents monies to be transferred to the Deficiencies Correction Fund for additional program costs and $130.1 million represents monies to be transferred to the Building Renewal Fund based on a formula calculation.

The board did not instruct the Treasurer to transfer any amount to the New School Facilities Fund in FY 2006 as the board plans to enter into $300 million in lease-purchase agreements to finance new school construction costs.

The board plans to transfer $6.4 million from the New School Facilities Fund to the Emergency Deficiencies Correction Fund in FY 2006.

For FY 2007, the board estimates it will instruct the Treasurer to transfer a total of $179 million. This amount includes $139 million for the Building Renewal Fund and $40 million for the New School Facilities Fund. In addition to instructing the Treasurer to transfer $40 million to the New School Facilities Fund, SFB estimates it will enter into $350 million in lease-purchase agreements for new school construction. No monies will be required for the Deficiencies Correction Fund as the board expects to complete the program in FY 2006.

(Continued

Analysis

A.R.S. § 15-2002 requires SFB to instruct the State Treasurer by January 1 of each year the amounts from the Transaction Privilege Tax (TPT) to be credited to the Deficiencies Correction Fund, Building Renewal Fund, and New School Facilities Fund in the following fiscal year. Prior to reporting its transfer instructions to the Treasurer, the statute requires the board to report these amounts. The transfers are done without appropriation. The amounts credited to the funds are budgeted as General Fund expenditures because TPT revenues would otherwise be deposited into the General Fund.

In addition, though the board does not have authorization to instruct the Treasurer to transfer monies to the Emergency Deficiencies Correction Fund, statute requires the board to report to the Committee the amount required by the fund.

The following paragraphs discuss the required amounts for each of the funds:

Building Renewal Fund
The Building Renewal Fund provides funding to school districts to maintain the condition of existing schools. Building renewal monies are used for major renovations and repairs, upgrades to extend the life of the building, infrastructure, and relocation and placement of portable buildings. The amount distributed to each school district is based on a statutory formula. The formula components are building age, prior renovations, square footage, and cost per square foot. Monies are distributed in equal installments in November and May of each fiscal year.

The SFB instructed the Treasurer to transfer $130.1 million to the Building Renewal Fund in FY 2006. For FY 2007, the board reports it expects to instruct the Treasurer to transfer $139.0 million to the fund. The board will report its final FY 2007 estimate to the Committee in December 2005 and will instruct the Treasurer regarding this final amount by January 1, 2006.

The SFB estimates for the Building Renewal Fund are based on the existing statutory formula. The FY 2006 JLBC baseline budget continues the FY 2005 level of funding of $70 million. The Executive budget eliminates all funding for the Building Renewal Program, but it would dedicate $70 million for this purpose if there are surplus revenues. The Executive budget also replaces the current Building Renewal formula.

New School Facilities Fund
The New School Facilities Fund provides monies to school districts for new school construction. Monies in the fund are distributed to school districts based on enrollment projections, square footage requirements, and construction costs. Monies are only distributed upon invoice of work completed. The board reports that it will not instruct the Treasurer to transfer any monies to the fund in FY 2006. The board, however, estimates it will require approximately $300 million to pay for construction costs in FY 2006. Rather than pay cash for new school construction, SFB plans to enter into lease-purchase agreements to finance those costs. A.R.S. 15-2006 allows SFB to enter into a maximum of $200 million in lease-purchase agreements in any fiscal year. The board, therefore, plans to request an additional $100 million in lease-purchase authority. The FY 2006 JLBC budget provides $300 million in cash to pay for FY 2006 new school construction costs. The Executive budget provides no cash funding, but authorizes SFB to enter into $300 million of lease-purchase agreements.

For FY 2007, the board reports it will require a total of $390 million in funding. Currently the board plans instruct the Treasurer to transfer $40 million and fund the remaining $350 million with lease-purchase proceeds. The board will report its final FY 2007 estimate to the Committee in December 2005 and will instruct the Treasurer regarding this final amount by January 1, 2006.

(Continued)

Deficiencies Correction Fund

The Deficiencies Correction Fund is established to correct existing facility and equipment deficiencies at all state public schools. To date the board has been given $1.3 billion in total funding. Due to its revised estimate to complete the program, the board has instructed the Treasurer to provide an additional $20 million. The Deficiencies Correction Fund, however, is currently set to expire at the end of FY 2005. The fund, therefore, may need to be extended to FY 2006.

The board does not plan to instruct the Treasurer to transfer any monies to the Deficiencies Correction Fund in FY 2007 as the program is expected to be completed in FY 2006.

Emergency Deficiencies Correction Fund

The Emergency Deficiencies Correction Fund is established to provide funding for school districts emergencies that threaten the functioning of the school district, the preservation or protection of property, or public health, welfare, or safety. The fund consists of monies transferred from the Deficiencies Correction Fund or the New School Facilities Fund. The board plans to transfer $6.4 million to the Emergency Deficiencies Correction Fund from the New School Facilities Fund in FY 2006 and $4 million in FY 2007.

For FY 2006, of the total $6.4 million projected transfer, $4.7 million will be used to replace classroom and vocational space in Tuba City Unified School District. The replacement of space in Tuba City was necessitated by the deteriorating condition of the roof and the building structure. The board determined that it would be more cost effective to replace the existing space than repair the roof and building structure. The remaining FY 2006 fund balance of $1.8 million, plus the projected FY 2007 transfer of $4 million, will be used for future emergency situations.

RS/JC:jb

DATE: February 2, 2005

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

THRU: Richard Stavneak, Director

FROM: Nick Klingerman, Assistant Fiscal Analyst

SUBJECT: Arizona Department of Administration – Review of the State Treasurer's Office Tenant Improvements.

Request

The Arizona Department of Administration (ADOA) requests that the Committee review the State Treasurer's Office Tenant Improvements project.

Recommendation

The JLBC Staff recommends a favorable review of the request. Total project costs are estimated to be $371,800.

Analysis

Laws 2004, Chapter 276 required ADOA to allocate $170,000 from the Capital Outlay Stabilization Fund (COSF) building renewal appropriation to renovate portions of the Treasurer's office. The heating, ventilation, and air conditioning (HVAC) system is being replaced including rerouting air ducts. A new ceiling grid will be installed, and the area will be rewired.

Laws 2004, Chapter 275 also appropriated $150,000 from COSF to the Treasurer for the renovations. The Treasurer received a $40,000 rent exemption from the Joint Committee on Capital Review in September 2004 to allow leasing of temporary space while the renovations were in progress. During the design process ADOA was informed the adjoining bathrooms were not complaint with A.R.S § 41-1492.01 and with the Americans with Disabilities Act. The unanticipated improvements resulted in a low bid of $371,800, $51,800 above the appropriated amounts for the renovation. ADOA proposes allocating an additional $51,800 from the FY 2005 building renewal appropriation to fully fund the project.

The renovation includes 8,604 square feet of the Treasurer's office. The total construction costs are $43.21 per square foot, and direct construction costs are $37.40 per square foot. Given the scope of the project the costs appear reasonable.

RS:NK: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: February 3, 2005

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

THRU: Richard Stavneak, Director

FROM: Jeremy Olsen, Fiscal Analyst

SUBJECT: Arizona Game and Fish Department – Review of FY 2005 Building Renewal Allocation Plan

Request

The Arizona Game and Fish Department (AGFD) requests Committee review of its FY 2005 Building Renewal allocation plan of $350,500 from the Game and Fish Fund.

Recommendation

The Committee has at least the following options:

1. A favorable review.
2. A favorable review with the provision that no monies be expended for projects at the Deer Valley headquarters, unless monies are required for an unplanned emergency. In the case of an emergency at these facilities, the department may report immediately on the scope and estimated cost of the emergency rather than submit the item for review. JLBC Staff will inform the department if they do not concur with emergency nature of the item.

The $350,500 plan includes the following expenditures:

- $31,500 for Major Building Systems including air conditioning and evaporative cooler replacement.
- $57,500 for Preservations of Assets including roofing replacement and exterior painting projects.
- $107,000 for Interior Building Finishes including carpeting and flooring replacement, interior painting, and restroom renovation.
- $129,500 for Infrastructure including paving maintenance.
- $25,000 for Alterations to Occupied Space including office and workspace modifications.

Analysis

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

(Continued)

plan for Building Renewal monies. Laws 2004, Chapter 276 appropriated a total of $343,000 in FY 2005 from the Game and Fish Fund to the AGFD for building renewal activities. In addition, the department has requested $7,500 of unused FY 2004 building renewal expenditure authority for FY 2005.

The AGFD has more than 270 structures within its building and infrastructure system across the state totaling over 542,000 square feet, with an estimated replacement cost of $26 million. Facilities include the Deer Valley central headquarters in Phoenix, six regional offices, fish hatcheries, and multiple residences and storage buildings. The FY 2005 proposed Building Renewal expenditure plan is illustrated in the following table:

Category	**FY 2004 Allocation**
Major Building Systems	
Air Conditioning & Evaporative Cooler Replacement	$31,500
Preservation of Assets	
Exterior Painting	15,000
Roofing	42,500
Interior Building Finishes	
Carpeting/Flooring	36,000
Interior Painting	45,000
Restroom Renovation	26,000
Infrastructure	
Paving Maintenance	30,000
Wells/Water Systems	4,500
Wastewater Systems	15,000
Electrical System Upgrades	80,000
Alterations to Occupied Space*	
Office/Workspace Modifications	25,000
Total	**$350,500**

* Unspent monies in this category will be applied to other categories as needed.

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, which is also the location of the Ben Avery shooting range. 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.

The department has released a request for proposals, soliciting submittals for Privatized Lease-to-Own options (PLTO). Under a PLTO arrangement, a private entity finances and constructs a building and leases it to the state. At the end of the lease term, the state takes possession of the building. A.R.S. § 17-246 requires JLBC approval of the acquisition of Game and Fish facilities. The department would request JLBC approval after receiving approval from the Game and Fish Commission, which is expected review the proposal in September, 2005.

The submitted material provides additional detail for each project. The projects are consistent with building renewal guidelines and appropriations.

RS/JO:jb

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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: February 4, 2005

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

THRU: Richard Stavneak, Director

FROM: Jeremy Olsen, Fiscal Analyst
Kimberly Chelberg, Fiscal Analyst

SUBJECT: Arizona Department of Administration / Department of Juvenile Corrections – Review of Operating Monies for Department of Juvenile Corrections Space Conversions.

Request

Due to a lower than projected juvenile population, the Department of Juvenile Corrections (DJC) has identified $1,213,000 in FY 2005 operating savings. The Arizona Department of Administration requests Committee review of two DJC proposals to spend these savings on capital projects not included in the FY 2005 budget. 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.

Recommendation

The Committee has at least the following options:
1. A favorable review.
2. Refer the request to the full Legislature. As part of its FY 2006 budget request, DJC has requested $6.4 million (including $1.1 million for capital projects) of additional funding to address an agreement with the U.S. Department of Justice that relate to a federal audit and lawsuit. The Legislature may want to consider applying the savings in the FY 2005 operating budget to the FY 2006 budget. In general, operating budgets are not intended for capital purposes.

Analysis

<u>Health Unit</u>
The DJC proposes remodeling an existing building on the Adobe Mountain Campus for use as a health facility, which is currently housed in a mobile trailer. The building which is proposed for remodeling is presently used for housing, and has 46 beds.

(Continued)

Expanded Educational Space
The DJC has also proposed remodeling a building at the Black Canyon Girls School to house an expanded educational program, which will offer instruction in computer training and repair, cosmetology, and culinary arts. The building is currently closed, but contains space for 24 beds

Estimated costs for each project are listed in Table 1.

Table 1

Category	**Health Unit**	**Educational Space**
Professional Fees	$ 61,000	$ 75,000
Construction Services	488,000	325,000
Separate Contracts	15,000	85,000
Project Support	27,000	27,000
Contingency	55,000	55,000
Total	**$646,000**	**$567,000**

Other Issues for Committee Consideration
The DJC population as of January 28, 2005 was 617, and the current total housing capacity is 1,298. If favorably reviewed, the loss of beds due to the health unit remodel, along with the vocational education remodel, would leave the department with a total of 1,228 beds.

In FY 2004, the DJC was investigated by the U.S. Department of Justice for violations of the Civil Rights of Institutionalized Persons Act (CRIPA), and signed a Memorandum of Agreement on September 15, 2004. This agreement requires the DJC to improve certain programs and facilities, including suicide prevention, special education, medical care, and mental health care. The DJC requested an additional $1,053,700 in General Fund monies in FY 2006 to address capital issues related to suicide prevention measures identified in the CRIPA investigation.

Given that these issues have short and long term budget implications, the Committee may want to refer these items to the full Legislature and have them addressed as part of the budget process.

RS/JO:jb

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DATE: February 3, 2004

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

THRU: Richard Stavneak, Director

FROM: Tim Everill, Revenue Section Chief

SUBJECT: City of Phoenix – Report on Civic Plaza Expansion

Request

Laws 2003, Chapter 266 established the Arizona Convention Center Development Fund, and authorized the state to participate financially in projects that qualify under the terms of the legislation. Based on this legislation, the City of Phoenix (City) began a project in late 2003 to expand and renovate the Phoenix Civic Plaza. 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. The City has issued its second progress report.

Recommendation

This item is for information only and no Committee action is required. Among the highlights, the report noted that:

- Construction on the Civic Plaza continues to be on schedule, with an anticipated Certification of Completion date of 2009.
- The first bond issue for the project is tentatively scheduled for the first quarter of calendar 2005, and will be on the order of $150-$200 million. The state's debt service obligation is scheduled to begin in FY 2010.
- Construction on a new downtown hotel is anticipated to begin in early 2006, with completion scheduled for the end of 2008. The hotel is expected to cost approximately $220 million, and is considered to be an essential component of the expanded Civic Plaza's financial viability.

Analysis

The City is in the second year of the $600 million project to expand and renovate the Phoenix Civic Plaza. As noted in the first report to the Committee in August 2004, the project will more than triple the rentable

(Continued)

space to over 900,000 square feet. The financing plan for the project provides that the state will pay debt service on $300 million of construction bonds, and city funds will be used to retire the remaining $300 million of indebtedness. The state's obligation will begin at $5 million the first year after construction is completed, increase to $10 million the second year, $15 million the third year, $20 million the fourth year, then increase by an additional $500,000 per year up to a maximum of $30 million. The financing plan assumed a 5-year construction period, with construction due to be completed in 2009. The plan is currently on schedule.

As noted above, the state's obligation for this project is to pay the debt service and related costs on $300 million of construction bonds. The total state funded amount will ultimately depend on when bonds are issued and the interest rates on the bonds. In June 2003 during the discussion of this legislation, the City's consultant indicated that there may be a total state payment amount of approximately $625 million, including principal and interest.

A.R.S. § 9-626 requires the eligible jurisdiction to report twice annually on the project, but does not indicate specifically what is to be reported to the Committee. However, at the August 17, 2004 Committee meeting, it was recommended that the next report to the Committee include: 1) updated financing cost estimates for the Civic Plaza project; 2) updated financing cost estimates for the downtown hotel project; and 3) any revisions to the construction timelines for both projects. The City's response to the requested information is attached, and is summarized as follows:

Civic Plaza Project Financial Status

In December 2003, the Phoenix City Council authorized the issuance of up to $600 million in bonds to finance the project. The City will fund up to $300 million, and the state will fund up to $300 million. The City has completed a cash flow analysis, and based on projected cash demand requirements, estimates that the first sale of authorized bonds will occur in the first quarter of calendar 2005. It is estimated that this first sale will be on the order of $150-$200 million. Future bond sales will be determined based on updated cash demand projections.

Hotel Project Financial Status

The initial proposed financing plan for the Civic Plaza project assumed the addition of 1,000 hotel rooms to the downtown Phoenix area by the completion of the project. The additional hotel rooms were viewed as an integral part of the financial viability of the project.

The City established a nonprofit corporation to oversee the financing and development of the new hotel. Revised cost estimates for the hotel's design and construction total $220 million. The city will finance the project through a bond issue not to exceed $350 million, and an additional $10 million contribution from the hotel operator and existing City debt reserves. In addition to the $220 million hotel development costs, this funding would provide for capitalized interest during the construction period, debt service and operating reserves, bond insurance, and other related costs. The bonds will be secured by net revenues of the hotel project and non-General Fund city excise taxes.

The City's report also provides an updated cost per room analysis for the new hotel. The estimated $220,000 cost per room of the new downtown hotel is comparable to other publicly financed hotels in Denver, Houston, St. Louis, and Chicago. The cost per room of these hotels ranges from $183,900 in Chicago to $235,250 in Houston. These costs represent construction costs, and exclude debt service reserve funds, capitalized interest, operating reserves, and costs of debt issuance.

Construction Timelines

Construction timelines for both the Civic Plaza project and the hotel project are currently on schedule. As noted above, the Civic Plaza project is scheduled to be completed in 2009, and the hotel is expected to open in late 2008.

RS/TE:jb

City of Phoenix Submission

The City of Phoenix submission for this Agenda Item is a separate bound document and has been included with the other materials provided to the Committee members. If anyone else would like a copy of the City's submission, please contact our office.

STATE OF ARIZONA

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STATE
SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

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

HOUSE OF
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DATE: February 3, 2005

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

THRU: Richard Stavneak, Director

FROM: Lorenzo Martinez, Assistant Director

SUBJECT: FY 2006 Capital Outlay Budgets

The attached materials on the FY 2006 Capital Outlay Budgets will be presented to the Committee. The materials include the Capital Outlay Budget sections from both the FY 2006 Budget JLBC Book II and the FY 2006 JLBC Budget Book.

RS/LM:jb