

STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

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VICE-CHAIRMAN
LELA ALSTON
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HOUSE OF
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BEN TOMA

JOINT COMMITTEE ON CAPITAL REVIEW

Thursday, February 10, 2022

8:30 A.M.

House Hearing Room 1

MEETING NOTICE

- Call to Order
 - Approval of Minutes of December 14, 2021
 - DIRECTOR'S REPORT (if necessary).
1. [ARIZONA STATE UNIVERSITY - Review of Mill Avenue Parking Structure Project.](#)

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

02/04/2022

kp

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.



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DATE: February 7, 2022

TO: Members of the Joint Committee on Capital Review

FROM: Morgan Dorcheus, Principal Fiscal Analyst

SUBJECT: Arizona State University - Review of Mill Avenue Parking Structure Project

Request

A.R.S. § 15-1683 requires Committee review of any university projects financed with system revenue bonds. Arizona State University (ASU) requests Committee review of \$42,000,000 in system revenue bond issuances for construction of a Mill Avenue parking structure. ASU will fund the debt service payments with parking fees and revenue associated with the structure.

Committee Options

The Committee has at least the following 2 options:

1. A favorable review of the request.
2. An unfavorable review of the request.

Under either option, the Committee may also consider the following standard university financing provisions:

Standard University Financing Provisions

- A. 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.
- B. ASU shall provide the final debt service schedule and interest rate for the project as soon as they are available.

(Continued)

- C. On or before October 15 of each year until completion of the project, ASU shall report to the JLBC Staff on the status and expenditures of the Mill Avenue Parking Structure project. The report shall include the project expenditures to date, any changes to the planned construction timeline, the expected completion date, and any change to the scope of the project.

Key Points

- 1) ASU will issue \$42.0 million of system revenue bonds for construction of a parking structure on Mill Avenue and Tenth Street.
- 2) The parking structure will support ASU campus activities and planned retail spaces, including the Omni Hotel and Conference Center.
- 3) Annual debt service payments of \$2.3 million will be funded by parking fees and other revenues associated with the structure, including a portion of Omni's annual ground lease payments to ASU.

Analysis

This memo was previously published as part of the December JCCR meeting agenda. This analysis has not changed except to update the status of the lawsuit relating to the Omni Hotel development.

ASU intends to construct a 401,874 square foot parking structure on the corner of Mill Avenue and 10th Street. The structure will include approximately 1,200 parking spaces to support neighboring academic and retail facilities and will include infrastructure to support hybrid and electrical vehicles and future installation of solar panels on the roof. In addition, ASU plans to install infrastructure for a future thermal energy storage system beneath the parking structure. ASU reports that the system will integrate with other future utility projects to provide utility services to campus academic facilities and planned retail spaces.

At the December 2017 meeting, the Committee heard testimony on an agreement to lease 1.6 acres of university-owned land to the Omni Hotels Corporation for construction of a privately-operated hotel and conference center on Mill Avenue and University Drive. Omni made a one-time ground lease payment of \$6.1 million and will pay approximately \$1.1 million in annual ground lease payments in lieu of property taxes, increasing annually by an average of 2.5%. Omni began construction in September 2021 and the ASU website estimates the hotel will be completed in April 2023. As part of the 60-year lease agreement, ASU will reserve 275 of the 1,200 parking spaces for Omni. A portion of the annual ground lease payments received by ASU will be allocated to the parking structure debt service costs.

In January 2019, the Attorney General filed a lawsuit against the Arizona Board of Regents (ABOR) challenging the tax-exempt status for the Omni property and the financial terms of the agreement between ABOR and Omni. In that lawsuit, the Attorney General alleged that the lease agreement represents a misuse of the university's tax-exempt lands, exceeded ABOR's statutory authority for leases and violates the Arizona Constitution's gift clause. Decisions in the state's Tax Court and Court of Appeals so far have rejected a number of the Attorney General's claims. In September 2021, the Arizona Supreme Court agreed to review the case, which may result in the case being sent back to lower courts for additional proceedings. Oral arguments were heard on December 16 and the Supreme Court has taken the case under advisement.

(Continued)

Financing

ASU intends to issue \$42.0 million of system revenue bonds in April 2023 with an anticipated rating of Aa2 (Moody's)/AA (S&P) and an estimated interest rate of 3.43% over a 30-year term. In addition to project costs, issuance costs are projected to be \$370,000. ASU will begin construction prior to bond issuance and will use their operating balances to cover costs until the bond proceeds are received.

The annual debt service will be approximately \$2.3 million from FY 2024 to FY 2053. ASU will fund the debt service with parking fees and revenue associated with the structure. These revenues include student parking fees, non-student parking fees related to nearby amenities, and a portion of annual payments received by ASU as part of the Omni ground lease agreement. *(See Table 2 for a summary of the bond financing terms.)*

The debt service on this project will increase ASU's current debt ratio by 0.06% from 5.04% to 5.1%.

Construction Costs

Of the total \$42.0 million project cost, \$35.4 million are direct construction costs. Total project costs per square foot are \$105, while direct construction costs per square foot are \$88 (see Table 1).

The most recent ASU parking structure project was completed in 2020 and included an expansion of an existing structure located on University Drive near Rural Road. The project added approximately 524 parking spaces and 179,770 square feet of space at a cost of \$16.2 million, or \$90 per square foot. The differences in costs compared to the proposed Mill Avenue parking structure are likely due to construction of an entirely new structure and the installation of additional utility infrastructure.

The university reports that the project will be completed through the Design-Build delivery method. Construction is estimated to begin in July 2022 and is scheduled for completion in August 2023.

Operations and Maintenance Costs

ASU expects the project to increase operations and maintenance costs by approximately \$72,900 annually, which will be funded by auxiliary revenues.

Table 1		
Mill Avenue Parking Structure Construction Costs		
Total Square Footage	401,874	
<u>Funding</u>		
System Revenue Bonds	\$42,000,000	
<u>Building Construction Costs</u>		
Direct Construction Costs	\$35,360,000	(\$88 per sq. ft.)
Other Costs ^{1/}	<u>6,640,000</u>	<u>(\$17 per sq. ft.)</u>
Total	\$42,000,000	(\$105 per sq. ft.)
Operations & Maintenance	\$72,900	
^{1/} Includes equipment, project design and management fees, and other costs.		

(Continued)

Table 2

Mill Avenue Parking Structure Financing Terms

Construction Timeframe	July 2022 – August 2023
Issuance Amount	\$42.0 million
Issuance Date	April 2023
Issuance Transaction Fees	\$370,000
Rating	Aa2 (Moody's)/AA (S&P)
Interest Rate	3.43%
Term	30 years
Total Debt Costs	\$69.1 million
Debt Service Payments	\$2.3 million
Payment Source	Auxiliary Revenue
Debt Ratio Increase	0.06%

MD:kp



September 14, 2021

The Honorable David M. Gowan, Chairman
Joint Committee on Capital Review
Arizona State Senate
1700 West Washington Street
Phoenix, AZ 85007

Dear Senator Gowan:

In accordance with ARS 15-1683, the Arizona Board of Regents requests that the following Arizona State University bond-financed projects be placed on the next Joint Committee on Capital Review agenda:

- Classroom Office Building
- Mill Avenue Parking Structure
- Building and Infrastructure Enhancements and Modifications
- Classroom and Academic Renovations
- Research Laboratory Renovations
- IT Infrastructure Improvements

Enclosed is pertinent information relating to these items. If you have any questions or desire any clarification on the enclosed material, please contact me at (480) 727-9920.

Sincerely,

Morgan R. Olsen
Executive Vice President, Treasurer and CFO

Enclosures

c: Richard Stavneak, Director, JLBC
John Arnold, Executive Director, Arizona Board of Regents, ABOR
Lorenzo Martinez, Vice President, Finance and Administration, ABOR
Adam C. Deguire, Associate Vice President, Federal and State Relations, ASU
Kendra Burton, Sr. Director, State Relations, ASU
Alex Kohnen, Interim Vice President, Facilities Development and Management, ASU
Joanne Wamsley, Vice President for Finance and Deputy Treasurer, ASU
Morgan Dorcheus, Senior Fiscal Analyst, JLBC

OFFICE OF THE EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

BUSINESS AND FINANCE

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**Joint Committee on Capital Review
Arizona State University
September 2021 JCCR Meeting**

2. Mill Avenue Parking Structure

Project Description

This project will construct a multi-level parking structure on a mixed-use development site at the northeast corner of Mill Avenue and Tenth Street in Tempe. This parking structure will replace an existing surface lot located at this site.

This ASU-owned parking structure will include one grade level and five above-grade levels with approximately 1,200 parking spaces and two passenger elevators. The parking structure will provide the essential capacity required to support the academic, cultural and social activities on the Tempe campus, replacing the capacity of the surface parking at this location and allowing for projected growth in activity.

The project also will include the installation of the required infrastructure to support the future addition of a thermal energy storage system under the parking structure. This infrastructure will support and integrate with the planned construction of an adjacent district utility plant to provide essential utility services to campus facilities and an adjacent wrap structure to provide needed space for university academic programs and retail space. The addition of the academic and retail components will enhance the student experience and the university's impact and social embeddedness in the community it serves.

The \$42.0 million project will be debt-financed with system revenue bonds. The annual debt service will be funded by auxiliary revenue. Annual operations and maintenance costs associated with this project are estimated at \$72,937 and will be funded by auxiliary revenue.

An Arizona Board of Regents executive summary for this project is attached, which outlines the project description and other relevant information. The Finance, Capital and Resources Committee recommended approval of this project as part of the Amended Capital Development Plan (CDP) at its September 9, 2021, meeting. The Amended CDP is scheduled to receive final approval at the September 30, 2021, Arizona Board of Regents meeting.

Project Costs

Total Project Cost	\$ 42,000,000
Total Project Construction Cost	\$ 35,360,000
Total Project Cost per GSF	\$ 105
Construction Cost per GSF	\$ 88

EXECUTIVE SUMMARY

**Arizona State University
Amended Capital Development Plan—Project Justification Report
Mill Avenue Parking Structure**

Previous Board Action

- FY 2022–2024 Capital Improvement Plan October 2020

Project Justification/Description/Scope

- The proposed project will construct an approximately 401,874 gross-square-foot, multi-level parking structure on a mixed-use development site at the northeast corner of Mill Avenue and Tenth Street in Tempe. This parking structure will replace an existing surface lot located at this site, as depicted on the attached map as Exhibit C.
- This ASU-owned parking structure will include one grade level and five above-grade levels with approximately 1,200 parking spaces and two passenger elevators. The parking structure will provide the essential capacity required to support the academic, cultural and social activities on the Tempe campus; a new on-site hotel and conference center; and future site development.
- The parking structure will be constructed of high-quality, durable materials and building systems to minimize operational, repair and replacement costs. The structure will have an anticipated useful life of at least fifty years.
- ASU will pursue Parksmart Gold certification for this project through Green Business Certification, Inc. Energy-efficient and sustainable components will be integrated into the structure design, including the infrastructure required to support the expected growth in low-emission, hybrid and electric vehicle usage and the future installation of rooftop photovoltaic panels to further the university's commitment to climate neutrality.
- The project also will include the installation of the required infrastructure to support the future addition of a thermal energy storage system under the parking structure. This infrastructure will support and integrate with the future construction of an adjacent district utility plant to provide essential utility services to campus facilities and an adjacent wrap structure to provide needed space for university academic programs and retail space. The addition of the academic and retail components will enhance the student experience and the university's impact and social embeddedness in the community it serves.

EXECUTIVE SUMMARY

Project Delivery Method and Process

- The project will be constructed through the Design-Build delivery method. This approach was selected to streamline project delivery and to alleviate potentially adversarial project environments. This parking structure is suited to the DB delivery method due to its limited program requirements.
- The engineering firm of Kimley-Horn was hired to study the parking structure configuration options and compile the program requirements. The result of that effort is the Performance and Design Criteria document that was included in the Design-Build Request for Qualifications. This will be used as a basis for design by the DB team.
- ASU has selected McCarthy Building Companies with DFDG Architecture as the DB team for this project. The selection process included eight responses and five teams were interviewed.

Project Status and Schedule

- Project construction is scheduled to start in July 2022 and completion is targeted for August 2023.

Project Cost

- The budget for this approximately 401,874 gross-square-foot project is \$42.0 million. The budget represents an estimated construction cost of \$88 per gross square foot. The estimated total project cost is \$105 per gross square foot.
- The DB contractor will be at risk to provide the completed project within the agreed-upon GMP.

Fiscal Impact and Financing Plan

- The \$42.0 million project will be funded with system revenue bonds and amortized over an approximate thirty-year term. The annual debt service will be funded by auxiliary revenue.
- The estimated annual O&M cost associated with this project of \$72,937 will be funded by auxiliary revenue.

EXECUTIVE SUMMARY

- **Debt Ratio Impact:** The projected incremental debt ratio impact for this project is 0.06 percent.

Occupancy Plan

- No backfill plan is associated with this project.

Statutory and Policy Requirements

- ABOR Policy 7-102 (B) requires committee review and board approval of all capital projects with an estimated total project cost of \$10 million or more, including information technology and third-party projects.
- ABOR Policy 7-107 (E) requires Amended CDP approval for new projects added outside of the regular CDP.

EXECUTIVE SUMMARY

Capital Project Information Summary

University: Arizona State University **Project Name:** Mill Avenue Parking Structure

Project Description and Location: This project will construct an approximately 401,874 gross-square-foot, multi-level parking structure on the northeast corner of Mill Avenue and Tenth Street in Tempe, as depicted on Exhibit C. The project also will include the installation of the required infrastructure to support the future addition of a thermal energy storage system under the parking structure, an adjacent district utility plant and an adjacent structure to provide needed academic and retail space.

Project Schedule:

Planning	June	2019
Design Start	July	2021
Construction Start	July	2022
Construction Completion	August	2023

Project Budget:

Total Project Cost	\$	42,000,000
Total Project Construction Cost	\$	35,360,000
Total Project Cost per GSF	\$	105
Construction Cost per GSF	\$	88

Estimated Annual O&M Cost:

Utilities	\$	31,152
Personnel		28,606
All Other Operations		13,179
Subtotal	\$	72,937

Funding Sources:

Capital

A. System Revenue Bonds	\$	42,000,000
Debt Service Funding Source:	Auxiliary Revenue	

Operation/Maintenance	\$	72,937
Funding Source:	Auxiliary Revenue	

EXECUTIVE SUMMARY

Capital Project Budget Summary

University: Arizona State University
Mill Avenue Parking Structure

**Amended Capital
Development Plan**

Capital Costs

1. Land Acquisition

2. Construction Cost

A. New Construction	\$ 33,720,000
B. Tenant Improvements	-
C. Special Fixed Equipment	1,110,000
D. Site Development (excl. 2.E.)	100,000
E. Parking and Landscaping	200,000
F. Utilities Extensions	200,000
G. Other* (Demolition/abatement)	30,000

Subtotal Construction Cost \$ 35,360,000

3. Fees

A. CMAR Pre-Construction	\$ -
B. Architect/Engineer	1,401,707
C. Other	200,000

Subtotal Consultant Fees \$ 1,601,707

4. FF&E Movable \$ 50,000

5. Contingency, Design Phase 130,000

6. Contingency, Constr. Phase 3,204,992

7. Parking Reserve 100,000

8. Telecommunications Equipment 100,000

Subtotal Items 4-8 \$ 3,584,992

9. Additional University Costs

A. Surveys, Tests, Haz. Mat. Abatement	\$ 150,000
B. Move-in Costs	15,000
C. Printing Advertisement	25,000
D. Keying, signage, facilities support	40,000
E. Project Management Cost	1,084,660
F. State Risk Mgt. Ins. (.0034 **)	138,641

Subtotal Addl. Univ. Costs \$ 1,453,301

Total Capital Cost \$ 42,000,000

* Universities shall identify items included in this category

** State Risk Management Insurance factor is calculated on construction costs and consultant fees.

EXECUTIVE SUMMARY

Exhibit C
Mill Avenue Parking Structure
Site Location Map

