

STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

ROBERT "BOB" BURNS
CHAIRMAN 2003
TIMOTHY S. BEE
JACK A. BROWN
ROBERT CANNELL, M.D.
SLADE MEAD
VICTOR SOLTERO
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PHOENIX, ARIZONA 85007

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HOUSE OF
REPRESENTATIVES

RUSSELL K. PEARCE
CHAIRMAN 2004
ANDY BIGGS
TOM BOONE
EDDIE FARNSWORTH
PHIL LOPES
LINDA J. LOPEZ
JOHN LOREDO

JOINT COMMITTEE ON CAPITAL REVIEW

Friday, March 26, 2004

9:30 a.m.

House Hearing Room 4

MEETING NOTICE

- Call to Order
- [Approval of Minutes of December 18, 2003.](#)
- DIRECTOR'S REPORT (if necessary).
- 1. [ARIZONA DEPARTMENT OF ADMINISTRATION/DEPARTMENT OF CORRECTIONS – Consider Approval of Lease-Purchase Prison Expansion Projects.](#)
- 2. [ARIZONA DEPARTMENT OF ADMINISTRATION – Consider Approval of Refinancing of 1993B Certificates of Participation.](#)
- 3. [GOVERNMENT INFORMATION TECHNOLOGY AGENCY/ARIZONA DEPARTMENT OF ADMINISTRATION – Review of Telecommunications Privatization Request for Proposals. PRESENTATION – Telecommunications RFP Overview](#)
- 4. [ARIZONA STATE UNIVERSITY –](#)
 - A. [Review of Information Technology/Telecommunications Infrastructure Upgrade Bond Project.](#)
 - B. [Review of University Research Infrastructure Lease-Purchase Projects.](#)
 - C. [Review of Phase 3 of Infrastructure Improvements and Revised Scope and Estimated Cost of Phase 1 of the Arizona Biodesign Institute Bond Projects.](#)
- 5. [UNIVERSITY OF ARIZONA – Review of Parking Garage and Residence Life Lease-Purchase Projects.](#)
- 6. [SCHOOL FACILITIES BOARD –](#)
 - A. [Review of Revised Lease-to-Own Project List.](#)
 - B. [Review on New School Construction Report.](#)

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

3/22/04

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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MINUTES OF THE MEETING JOINT COMMITTEE ON CAPITAL REVIEW

Thursday, December 18, 2003

The Chairman called the meeting to order at 1:40 p.m. Thursday, December 18, 2003 in Senate Appropriations Room 109 and attendance was as follows:

| | | |
|----------|---|--|
| Members: | Representative Pearce, Vice Chairman Representative Biggs Representative Lopez | Senator Burns, Chairman Senator Bee Senator Brown Senator Cannell Senator Mead Senator Waring |
| Absent: | Representative Farnsworth Representative Boone Representative Lopes Representative Lored | Senator Soltero (Excused) |
| Staff: | Richard Stavneak Lorenzo Martinez | Jan Belisle, Secretary Jake Corey Bob Hull |
| Others: | Mark Swenson Carolyn Atwater Nicki Amberg Steve Miller Mernoy Harrison Terry Trost John Arnold Bill Bell Candice Cooley | Senate Senate Senate ASU ASU ADOT SFB SFB SFB |

Senator Burns moved the Committee approve the minutes of September 25 and November 6, 2003 as presented.
The motion carried.

ARIZONA STATE UNIVERSITY –

Review of Revised Parking Structure Bond Project and Packard Stadium Lease-Purchase Project.

Lorenzo Martinez, JLBC Staff, presented the Arizona State University request that the Committee review the revised parking structure bond project and the Packard Stadium lease-purchase project. Parking structure costs increased by \$1.3 million to provide additional parking spaces in the structure. The total number of spaces will be 1,635. The additional costs will be covered with existing parking reserve funds.

The Packard Stadium renovations increased by \$200,000 and this will add a canopy for the batting facility, athletic flooring and office space. The additional cost of \$200,000 will be funded from gift donations.

In response to Senator Cannell, Mr. Martinez stated that ASU has indicated the amounts have been bid and are final.

Representative Pearce moved the Committee give a favorable review of the change in scope and estimated costs for a Parking Structure bond project and the Packard Stadium Clubhouse and Field Renovation lease-purchase project. The motion carried.

Review of University Research Infrastructure Lease-Purchase and Renovation and Campus Infrastructure Bond Projects.

Lorenzo Martinez, JLBC Staff, presented the ASU request that the Committee review Phase 2 of the Arizona Biodesign Institute university research infrastructure project to be financed with an issuance of \$73,000,000 in Certificates of Participation (COPs). Debt service will be funded from the General Fund beginning in FY 2008. In the meantime, interest only payments paid from the COP proceeds will be made on the issuance.

The second project includes renovations to classrooms and laboratory space on the main campus. ASU plans to issue \$10,000,000 in revenue bonds to finance the projects. Repayment of the bonds will be paid 50% from tuition collections and 50% from indirect costs recovery monies.

The third project involves infrastructure upgrades at the East and West campuses. ASU plans to issue \$7,000,000 in revenue bonds and the repayment will come from tuition collections.

There was no discussion on this item.

Representative Pearce moved the Committee give a favorable review to the Phase 2 of the Arizona Biodesign Institute university research infrastructure project, as well as the Instruction and Research related renovations on the Main Campus and the infrastructure upgrades at the East and West Campuses with the following stipulations:

- *ASU report to the Committee before expenditure of any allocations that exceed the greater of \$100,000 or 10% of the reported contingency amount total for add alternates that do not expand the scope of the project.*
- *ASU submit for Committee review any allocations that exceed the greater of \$100,000 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. The JLBC Staff will inform the university if they do not agree with the change of scope as an emergency.*
- *ASU report to the Committee on the scope of work and estimated cost for each building prior to starting any construction on the Instruction and Research Space Renovations.*
- *ASU report to the Committee on the scope of work and estimated cost for each project prior to starting any construction on the East and West campus infrastructure upgrades.*
- *A favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any tuition collections that may be required for debt service. The motion carried.*

(Continued)

SCHOOL FACILITIES BOARD – Review of New School Construction Report and New School Facilities Fund Litigation Account.

Jake Corey, JLBC Staff presented the School Facilities Board (SFB) request that the Committee review its demographic assumptions, proposed construction schedule, and the new school construction cost estimates for FY 2005. In addition, the Committee is required to conduct an annual review of the New School Fund Litigation Account. There has been no activity related to the account. SFB is reviewing potential projects that may be eligible for litigation and will report back to the Committee once projects are identified.

The JLBC Staff did not make a recommendation on the New School Construction Report because SFB had not provided information on cost estimates. Additional information was received from SFB on December 17, 2003. SFB plans to spend approximately \$150,000,000 on projects that have already been approved. It also plans to spend \$100,000,000 on projects it plans to approve in the current fiscal year, which equates to about 40% of the total cost of the projects.

Mr. Corey referred to the handout requested by the Chairman, which contained a chart that detailed the SFB 20-Year Estimated Debt Service commitment.

Representative Pearce moved the Committee give a favorable review of the board report on the New School Facilities Fund Litigation Account.

Representative Biggs made a substitute motion to table the item until the department identifies projects that are eligible for litigation.

John Arnold, Deputy Director for Finance, School Facilities Board said SFB would not have a problem with the substitute motion. SFB is still trying to finalize the construction of the ongoing deficiencies corrections projects.

The substitute motion carried. No action was taken on the New School Construction Report.

Report on FY 2005 Instructions to the Treasurer

Jake Corey, JLBC Staff, presented the School Facilities Board report on FY 2005 instructions to the Treasurer. SFB is required to report to the Committee the estimated amounts necessary in FY 2005 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 2006. SFB will instruct the Treasurer for FY 2005 to transfer approximately \$135 million. This represents building renewal monies based on the current statutory formula. The board will not instruct the Treasurer to transfer monies to the new School Facilities Fund in FY 2005. The board plans to enter into \$250 million in lease-purchase agreements to finance new school construction costs. The board will not instruct the Treasurer to transfer monies to the Deficiencies Correction Fund in FY 2005, there is an existing \$100 million advance appropriation to that fund for FY 2005. This will provide a total of \$1.3 billion to the Deficiencies Correction Program and complete that program. The Emergency Deficiencies Correction Fund provides monies to school districts for emergencies that threaten the functioning of the school or public health or safety. SFB has authority to transfer monies to the fund from the New School Construction Fund or the Deficiencies Correction Fund and the board plans to transfer \$4 million in FY 2004 and \$5 million FY 2005 to the Emergency Deficiencies Correction Fund. For FY 2006, SFB estimates a requirement of \$390 million, including \$140 million for building renewal and \$250 million for new school construction.

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

(Continued)

Review of Lease-Purchase New School Construction Projects.

Jake Corey, JLBC Staff, presented the School Facilities Board request that the Committee review its list of \$57.2 million in potential new school construction projects to be financed with lease-purchase agreements. Of the \$57.2 million list, final list of projects totaling \$50 million will be selected to match the SFB authority to lease-purchase \$50 million. The SFB is also reporting its finalized list of projects to be included in its \$200 million lease-purchase agreement. At the August 2003 Committee meeting SFB submitted for review \$215 million in potential lease-purchase projects for Committee review. The board received a favorable review contingent upon returning to the Committee to report the actual projects included in the final \$200 million agreement. The report on the finalized list of \$200 million in projects is for information only and no Committee action is required.

The SFB is requesting the Committee review the 7 projects in 6 school districts on the list of \$57.2 million in projects. The term of the lease-purchase agreement for selected projects totaling \$50 million will be 15 years.

Representative Pearce moved the Committee give a favorable review to the list of \$57.2 million in potential new school construction projects to be financed with lease-purchase agreements with the stipulation that the School Facilities Board subsequently submit a list of actual projects to be funded. The motion carried.

ARIZONA DEPARTMENT OF TRANSPORTATION – Report on FY 2004 Construction Budget Traffic Congestion Performance Measures and Unit Cost Measures.

Bob Hull, JLBC Staff, presented the report on the Arizona Department of Transportation (ADOT) traffic congestion performance measures and the department's comment on their ability to develop unit cost measures. ADOT has decided not to propose new traffic congestion performance measures and has added one congested highway segment for the Tucson area. Mr. Hull proceeded to review some of the tables submitted.

In response to Chairman Burns, Terry Trost, Director of Strategic Planning and Budgeting, ADOT stated that there is data available to calculate unit cost measures for the items listed.

Chairman Burns requested that the department calculate the measures and coordinate with the JLBC Staff to resolve any questions related to the calculations.

Representative Pearce mentioned that some of that calculated data is available and was done on a monthly basis in the past. Mr. Trost said he would be willing to provide any of the data that is already compiled and calculate the data that is not available at this time.

No Committee action was required.

The meeting adjourned at 2:05 p.m.

Jan Belisle, Secretary

Lorenzo Martinez, Assistant Director

Senator Robert "Bob" Burns, Chairman

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

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DATE: March 22, 2004

TO: Representative Russell Pearce, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Tony Vidale, Senior Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF ADMINISTRATION/DEPARTMENT OF
CORRECTIONS – CONSIDER APPROVAL OF LEASE-PURCHASE PRISON
EXPANSION PROJECTS

Request

A.R.S. § 41-791.02 requires the Committee to review and approve lease purchase agreements relating to capital projects before the agreement takes effect.

The Arizona Department of Administration (ADOA) and Department of Corrections (ADC) requests Committee approval of the 1,000-bed prison expansion projects and issuance of \$33.3 million in Certificates of Participation (COPs) to finance the projects.

Recommendation

The Committee has at least 2 options:

1. Approve the 1,000-bed prison expansion projects and COP issuance in the amount of \$33,275,000.
2. Approve the 1,000-bed prison expansion projects and COP issuance in the amount of \$33,275,000 with the following stipulation:
 - ADOA and ADC report to the Committee by June 1, 2004 on the construction schedule to determine if the proposed completion date of November 2004 is achievable. The report should also contain a timeline for the finalization of contracts to add 1,000 new private prison beds and projected opening dates.

The COP issuance will be repaid over a 15-year period at an estimated interest rate of 4.2% and will equate to approximately \$11,727,900 in total interest payments. Total payment over the 15-year period will be \$45,002,900. The annual debt service is estimated to be \$3,126,000. The annual on-going operating costs for the 1,000 prison beds are estimated to be \$11,979,300.

(Continued)

Analysis

Laws 2003, Chapter 5, 2nd Special Session authorized ADOA to issue COPs for the expansion of facilities that will provide 1,000 beds in the prison system. The issuance for the projects cannot exceed \$37,496,000. ADOA will construct 200 beds at ASPC – Douglas, 500 beds at ASPC – Perryville, and 300 beds at ASPC – Tucson. Total project costs are estimated to be \$31,867,800, or \$31,868 per bed. All of the beds constructed will house Level 1 (minimum-security) inmates. Although ADOA has never constructed this type of minimum-security bed, the cost per bed appears reasonable when compared to construction costs of \$33,600 per bed for community security (community-based residential beds for low-security level offenders), as reported in the most recent Corrections Yearbook.

ADOA estimates construction will begin in May 2004, be complete by November 2004, and ready for occupancy in December 2004. ADOA has selected a contractor and is currently negotiating the project scope, details, and guaranteed maximum price. Constructing these beds at the three locations simultaneously and meeting the project schedule appears feasible considering the building type will be metal pre-engineered structures, which will allow for faster construction. The following table summarizes the location, number of beds, security level, and estimated cost of each project.

| ADC 1,000-Bed Expansion Lease-Purchase Projects | | | | |
|--|----------------------------|-------------------------------|---------------------------|---------------------|
| | <u>ASPC-Douglas</u> | <u>ASPC-Perryville</u> | <u>ASPC-Tucson</u> | <u>Total</u> |
| Number of Beds | 200 | 500 | 300 | 1,000 |
| Security Level | 1 | 1 | 1 | 1 |
| <u>Project Cost</u> | | | | |
| Preliminary Site Work | \$ 14,000 | \$ 66,600 | \$ 14,000 | \$ 94,600 |
| Professional Services | 420,000 | 1,050,000 | 630,000 | 2,100,000 |
| Construction | 5,835,200 | 11,341,300 | 6,291,000 | 23,467,500 |
| Facility Expenditures | 827,300 | 1,034,100 | 768,900 | 2,630,300 |
| Project Management | 171,300 | 342,100 | 173,500 | 686,900 |
| Contingency Allowance | <u>725,400</u> | <u>1,376,700</u> | <u>786,300</u> | <u>2,888,500</u> |
| Total Project Cost | \$ 7,993,100 | \$ 15,210,900 | \$ 8,663,800 | \$ 31,867,800 |
| Cost per Bed | \$39,966 | \$30,422 | \$28,879 | \$31,868 |

The bed expansion project will be financed through the issuance of COPs in the amount of \$33,275,000. The annual debt service is estimated to be approximately \$3,126,000 over a 15-year term, with the exception of the 1st year payment, which is estimated to be about \$1,228,000 (interest only). Chapter 5, did not provide a specific FY 2005 appropriation for the bed expansion project, however, the FY 2005 interest payment will be made using COP proceeds. In FY 2006, an appropriation will be required to cover the debt service payment. At an estimated average interest rate of 4.2%, repayment of the principle and interest will total \$45,002,900 over the 15-year period.

The total amount required for the project and transaction costs is \$33,746,300. This amount will be generated by issuing COPs in a principal amount of \$33,275,000 and offered at a higher interest rate than current market yields in order to generate an additional \$413,500 (referred to as Reoffering Premium). Combined with estimated interest earnings of \$47,800, the total amount generated is \$33,746,300. The higher interest rate is structured to make the COPs more attractive in the current market. The net effect is equivalent to issuing \$33,746,300 in COPs and offering a lower interest rate. (See table below for revenues and expenditures.)

(Continued)

Proceeds from the COP issuance will cover the estimated expenditures for project construction costs of \$31,867,800, the FY 2005 interest payment of \$1,228,000, and COP issuance costs of \$640,500 and are displayed in the following table.

| Revenues and Expenditures for Prison Bed Expansion Project | |
|---|---------------|
| <u>Revenues</u> | |
| COP Par Issuance | \$ 33,275,000 |
| Reoffering Premium | 413,500 |
| Accrued Interest | 47,800 |
| Total Revenues | \$ 33,736,300 |
| <u>Estimated Expenditures</u> | |
| Project Construction | \$ 31,867,800 |
| FY 2005 Interest Payment | 1,228,000 |
| COP Issuance Costs | 640,500 |
| Total Expenditures | \$ 33,736,300 |

In addition, ASPC – Lewis units will serve as collateral for the COP issuances. This could have implications for any asset sale/lease-back options considered by the Legislature in developing a budget proposal for FY 2005.

The financing plan for the prison bed expansion project is consistent with the intent of authorizing legislation. The JLBC Staff recommends the Committee approve the prison bed expansion projects and issuance of \$33,275,000 in COPs for the project.

Chapter 5 also directed ADC to contract for 1,000 new private prison beds. As of March 8, the department issued a proposed contract to prospective vendors to build 1,000 Level 3 (medium-security) beds in Pinal County to house male sex offenders and received responses from 2 private prison companies. The department did not utilize the normal Request for Proposal (RFP) process, which requires JLBC review, due to a procurement code exemption the department received in FY 2004 to speed the process of procuring private beds. ADC is reviewing and evaluating the proposals through a formal evaluation process and expects to sign a contract by late May or June 2004. The department also sent out a notice of public hearings on the potential sites, in accordance with A.R.S. § 41-1609.02, and anticipates completion of the beds and occupancy by February 2005.

RS/TV:jb



JANET NAPOLITANO
GOVERNOR

BETSEY BAYLESS
DIRECTOR

ARIZONA DEPARTMENT OF ADMINISTRATION
FINANCIAL SERVICES DIVISION • GENERAL ACCOUNTING OFFICE
100 NORTH 15TH AVENUE • SUITE 302
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Phone: (602) 542-5601 • Fax: (602) 542-5749

March 9, 2004

Representative Russell Pearce, Chairman
Joint Committee on Capital Review
1716 West Adams
Phoenix, AZ 85007



Dear Representative Pearce:

We request placement on the upcoming Joint Committee on Capital Review (JCCR) agenda to review the project plan and issuance of Certificates of Participation (COP) for a 1,000 bed expansion to prison facilities pursuant to Laws 2003, Second Special Session, Chapter 5, Section 16.

We also request placement on the agenda the refinancing of the 1993B COP issue. The State now has the opportunity to refinance this issue to take advantage of low interest rates, thereby achieving debt service savings. Based on current interest rates, the State would be able to realize debt service savings of approximately \$990 thousand. Almost all of the savings are planned to be realized in the current fiscal year (FY04). The final maturity for repaying the COPs will remain the same.

If you have any questions or need any additional information, please call me at 542-5405.

Sincerely,

A handwritten signature in cursive script, appearing to read "D. Clark Partridge".

D. Clark Partridge
State Comptroller

cc: Senator Robert Burns
David Jankofsky
William Greeney
Richard Stavneak
Lorenzo Martinez
Doris Schriro

Betsey Bayless
Alex Turner
Alan Ecker
Warren Whitney
Bruce Ringwald
Mike Smarik

Background:

Laws 2003, 2nd Special Session, Chapter 5, signed by Governor Napolitano December 15, 2003 authorized ADOA to issue Certificates of Participation ("Certificates") in association with lease-purchase financing of the design and construction of a 1,000-Bed expansion to the Department of Corrections'. The Certificates are planned to be repaid over a fifteen-year period.

The sites selected for expansion – ASPCs Perryville, Tucson and Douglas – are leased, and therefore not suitable for use as collateral. ADOA and ADC agreed to use some existing ASPC Lewis unit(s) which is/are owned free and clear as collateral for the Certificates. The funds will be designated for use in expanding existing prisons.

Existing prisons were reviewed and ASPC Perryville, Tucson and Douglas are identified for the 1,000-bed level 1 expansion.

Status:

ADOA issued the Request for Proposal for architectural services as well as construction manager at risk. The evaluation committee developed a list of the 3 most qualified firms for each of the disciplines. The most qualified firm for architectural services is Arrington Watkins Architects, and McCarthy Construction was selected as most qualified construction manager at risk.

Design and pre-construction services have begun. Attached find the proposed expenditure plan, schedule and schematic drawings of prototypical plans for each of three correctional facilities: Perryville, Tucson, and Douglas.

Financing Plan:

The lease-purchase financing of the 1,000-bed expansion project will be accomplished through the issuance of Certificates of Participation as set forth in Laws 2003, Chapter 5, which authorized this project. The lease-purchase agreement will be for a term of fifteen years and will require annual payments on November 1 of each year. The lease payments will be subject to annual appropriation by the Legislature and the ASPC Lewis unit(s) will serve as collateral securing the lease payments. At the end of the financing term, title to the building will automatically revert to the State. All of the terms and covenants of the lease-purchase agreement will be in substantially similar form to previous Certificate of participation lease-purchase financing undertaken by the Department of Administration, and are subject to review by the Office of the Attorney General.

ARIZONA DEPARTMENT of ADMINISTRATION

GENERAL SERVICES/CONSTRUCTION SERVICES

PROJECT:

FY 2004 1000 Bed Level 1 Summary

PROJECT NUMBER:

Virginia Pierce

DATE

9/5/03

PROJECT MANAGER:

Mike Rank

Revised Date

3/8/04

SENIOR PROJECT MANAGER:

Bruce Ringwald

GENERAL MANAGER:

| | | | PERRYVILLE MEN'S 300 bed FY 2004 | PERRYVILLE WOMEN'S 200 Bed FY 2004 | TUCSON 300 bed FY 2004 | DOUGLAS 200 Bed FY 2004 | |
|--|--------|----------|--|--|------------------------------|-------------------------------|---------------|
| PROJECT COST: | No. | SF | Estimated Cost | Estimated Cost | Estimated Cost | Estimated Cost | TOTAL |
| <u>Preliminary Site investigations</u> | | | | | | | |
| 1 Lewis COP work | | | 38,635 | | | | 38,635 |
| 2 Site environmental & Archeology | | | 14,000 | 14,000 | 14,000 | 14,000 | 56,000 |
| Subtotal | | | \$ 52,635 | \$ 14,000 | \$ 14,000 | \$ 14,000 | \$ 94,635 |
| <u>Professional Services:</u> | | | | | | | |
| 1 A/E Fees | | | 630,000 | 420,000 | 630,000 | 420,000 | 2,100,000 |
| 2 Reim (EST) | | Included | - | - | - | - | - |
| Subtotal | | | \$ 630,000 | \$ 420,000 | \$ 630,000 | \$ 420,000 | \$ 2,100,000 |
| <u>Construction Services (GC)</u> | | | | | | | |
| 1 KITCHEN & DINING | | 12,000 | 1,144,773 | 1,106,234 | 1,144,773 | 1,276,751 | 4,672,531 |
| 3 LEVEL 1 DORM 300 Bed | | 34,200 | 2,607,416 | | 2,607,416 | | 5,214,832 |
| 4 LEVEL 1 DORM 200 Bed | | 22,800 | | 1,768,786 | | 1,910,777 | 3,679,563 |
| 6 Site Work | LS | | 724,089 | 665,351 | 684,507 | 1,003,971 | 3,077,918 |
| 7 General Conditions | LS | | 358,102 | 272,189 | 354,936 | 335,320 | 1,320,547 |
| 8 Insurance | LS | | 55,339 | 43,643 | 54,779 | 51,920 | 205,682 |
| 9 Bonds | LS | | 39,919 | 31,482 | 39,515 | 37,452 | 148,369 |
| 10 Fee | LS | | 258,806 | 204,104 | 256,511 | 242,350 | 961,771 |
| 11 Tax | LS | | 279,917 | 220,752 | 270,576 | 271,898 | 1,043,142 |
| 12 CM@R Contingency | LS | | 543,723 | 467,325 | 538,188 | 509,389 | 2,058,624 |
| 13 Preconstruction Services | LS | | 41,725 | 18,082 | 41,725 | 37,552 | 139,084 |
| 14 Folding Partition | LS | | 18,900 | 18,900 | 18,900 | 20,790 | 77,490 |
| 15 Medical/Dental Equipment | LS | | 75,000 | 75,000 | 75,000 | 75,000 | 300,000 |
| 16 Offsite Utilities | | | - | - | - | - | - |
| 17 Sewer and Manholes | LS | | 108,675 | 31,725 | 22,275 | 5,198 | 167,873 |
| 18 Water | LS | | 28,350 | 6,750 | 101,250 | 3,713 | 140,063 |
| 19 Communications Conduit | LS | | 10,125 | 16,875 | 27,000 | 7,425 | 61,425 |
| 22 Gas | LS | | 12,150 | 10,125 | 20,250 | 8,910 | 51,435 |
| 23 Electrical | LS | | 44,550 | 32,425 | 33,425 | 36,754 | 147,154 |
| Subtotal | | | \$ 6,351,559 | \$ 4,989,748 | \$ 6,291,026 | \$ 5,835,170 | \$ 23,467,502 |
| <u>Separate Contracts</u> | | | | | | | |
| 1. ACI Furniture & Millwork | LS | | 156,965 | 124,982 | 156,965 | 124,982 | 563,893 |
| 2. Testing | LS | | 20,000 | 20,000 | 20,000 | 20,000 | 80,000 |
| 3. Voice and Data infrastructure cable | LS | | 26,300 | 7,600 | 64,800 | 18,248 | 116,948 |
| 4. Signs by ACI | | | 15,000 | 15,000 | 15,000 | 15,000 | 60,000 |
| 5. Power Company charges | | | - | - | 10,000 | 10,000 | 20,000 |
| 6. Recreation/courts Area | | | 85,955 | 85,955 | 85,955 | 94,550 | 352,415 |
| 7. Decomposed Granite in unit | | | 82,570 | 84,540 | 73,770 | 84,500 | 325,380 |
| 8. Perimeter lights | | | 66,150 | 66,150 | 66,150 | 72,765 | 271,215 |
| 9. Phones & Equipment | | | 17,345 | 17,346 | 193,690 | 137,595 | 365,976 |
| 10. FF & E | | | - | - | - | - | - |
| 11. Site Demolition | By ADC | Excluded | - | - | - | - | - |
| 12. ConX search box | By ADC | Excluded | 4,000 | 4,000 | 4,000 | 4,000 | 16,000 |
| 13. Central kitchen upgrades | | | - | - | - | 30,000 | 30,000 |
| 14. Move TV Dish | | | - | - | - | 10,000 | 10,000 |
| 15. Fibrillators | | | 3,000 | 3,000 | 3,000 | 3,000 | 12,000 |
| 16. Gutters and Downspouts | | | 18,900 | 14,850 | 18,900 | 14,850 | 67,500 |
| 17. Conduits for Specialties | | | 56,700 | 37,800 | 56,700 | 37,800 | 189,000 |
| 18. TV Cabling | | Excluded | - | - | - | - | - |
| 19. Dental Chair at Mohave | | | - | - | - | 150,000 | 150,000 |
| Subtotal | | | \$ 552,885 | \$ 481,223 | \$ 768,930 | \$ 827,290 | \$ 2,630,327 |
| <u>Project Support</u> | | | | | | | |
| 1 ADOA Salaries& Expenses | | | 150,000 | 150,000 | 150,000 | 150,000 | 600,000 |
| 2 Risk Management .34% | | | 23,737 | 18,393 | 23,531 | 21,268 | 86,930 |
| Subtotal | | | \$ 173,737 | \$ 168,393 | \$ 173,531 | \$ 171,268 | \$ 686,930 |
| <u>Contingency Allowance</u> | | | | | | | |
| | | | \$ 770,818 | \$ 605,936 | \$ 786,349 | \$ 725,373 | \$ 2,888,476 |
| TOTAL LEVEL 1 COST | | | \$ 8,531,634 | \$ 6,679,300 | \$ 8,663,836 | \$ 7,993,100 | \$ 31,867,869 |
| TOTAL COST PER BED L1 FACILITY | | | 28,439 | 33,396 | 28,879 | 39,965 | 31,868 |

March 5, 2004

1000 Bed Level 1 Schedule Summary:

| | |
|--|-------------------|
| Complete preliminary schematics | March 5, 2004 |
| Submit to JCCR | By March 9, 2004 |
| JCCR review | By March 31, 2004 |
| Bid Pre-Engineered Buildings And release shop drawings | March 31, 2004 |
| Complete Construction Drawings | April 22, 2004 |
| Mobilize and start construction | May 5, 2004 |
| Approve shop drawings and Release fabrication of Building | May 18, 2004 |
| COP Funding | By May 31, 2004 |
| Delivery and start erection of buildings | July 13, 2004 |
| Substantial Completion | November 2004 |
| ADC Occupancy | December 2004 |

Preliminary (03.09.04) - 15 Years

\$33,275,000.00

State of Arizona, Department of Administration

Certificates of Participation

Prison Project - Series 2004B

Sources & Uses

Dated 05/01/2004 | Delivered 05/15/2004

Sources Of Funds

| | |
|--|-----------------|
| Par Amount of Bonds | \$33,275,000.00 |
| Reoffering Premium | 413,537.00 |
| Accrued Interest from 05/01/2004 to 05/15/2004 | 47,756.28 |

| | |
|----------------------|------------------------|
| Total Sources | \$33,736,293.28 |
|----------------------|------------------------|

Uses Of Funds

| | |
|--|---------------|
| Deposit to Project Construction Fund | 31,867,869.00 |
| Deposit to Capitalized Interest (CIF) Fund | 1,180,262.48 |
| Gross Bond Insurance Premium (60.0 bp) | 270,017.16 |
| Costs of Issuance | 200,000.00 |
| Total Underwriter's Discount (0.500%) | 166,375.00 |
| Deposit to Debt Service Fund | 47,756.28 |
| Rounding Amount | 4,013.36 |

| | |
|-------------------|------------------------|
| Total Uses | \$33,736,293.28 |
|-------------------|------------------------|

SERIES 2004B (03.09.04) W | SINGLE PURPOSE | 3/ 9/2004 | 11:51 AM

Preliminary (03.09.04) - 15 Years

\$33,275,000.00

State of Arizona, Department of Administration

Certificates of Participation

Prison Project - Series 2004B

Debt Service Schedule

Part 1 of 2

| Date | Principal | Coupon | Interest | Total P+I | Fiscal Total |
|------------|--------------|--------|------------|--------------|--------------|
| 05/15/2004 | - | - | - | - | - |
| 06/30/2004 | - | - | - | - | - |
| 11/01/2004 | - | - | 614,009.38 | 614,009.38 | - |
| 05/01/2005 | - | - | 614,009.38 | 614,009.38 | - |
| 06/30/2005 | - | - | - | - | 1,228,018.76 |
| 11/01/2005 | 1,920,000.00 | 2.000% | 614,009.38 | 2,534,009.38 | - |
| 05/01/2006 | - | - | 594,809.38 | 594,809.38 | - |
| 06/30/2006 | - | - | - | - | 3,128,818.76 |
| 11/01/2006 | 1,960,000.00 | 2.250% | 594,809.38 | 2,554,809.38 | - |
| 05/01/2007 | - | - | 572,759.38 | 572,759.38 | - |
| 06/30/2007 | - | - | - | - | 3,127,568.76 |
| 11/01/2007 | 2,005,000.00 | 2.500% | 572,759.38 | 2,577,759.38 | - |
| 05/01/2008 | - | - | 547,696.88 | 547,696.88 | - |
| 06/30/2008 | - | - | - | - | 3,125,456.26 |
| 11/01/2008 | 2,060,000.00 | 2.750% | 547,696.88 | 2,607,696.88 | - |
| 05/01/2009 | - | - | 519,371.88 | 519,371.88 | - |
| 06/30/2009 | - | - | - | - | 3,127,068.76 |
| 11/01/2009 | 2,120,000.00 | 3.000% | 519,371.88 | 2,639,371.88 | - |
| 05/01/2010 | - | - | 487,571.88 | 487,571.88 | - |
| 06/30/2010 | - | - | - | - | 3,126,943.76 |
| 11/01/2010 | 2,185,000.00 | 3.250% | 487,571.88 | 2,672,571.88 | - |
| 05/01/2011 | - | - | 452,065.63 | 452,065.63 | - |
| 06/30/2011 | - | - | - | - | 3,124,637.51 |
| 11/01/2011 | 2,265,000.00 | 3.750% | 452,065.63 | 2,717,065.63 | - |
| 05/01/2012 | - | - | 409,596.88 | 409,596.88 | - |
| 06/30/2012 | - | - | - | - | 3,126,662.51 |
| 11/01/2012 | 2,355,000.00 | 4.000% | 409,596.88 | 2,764,596.88 | - |
| 05/01/2013 | - | - | 362,496.88 | 362,496.88 | - |
| 06/30/2013 | - | - | - | - | 3,127,093.76 |
| 11/01/2013 | 2,450,000.00 | 4.000% | 362,496.88 | 2,812,496.88 | - |
| 05/01/2014 | - | - | 313,496.88 | 313,496.88 | - |
| 06/30/2014 | - | - | - | - | 3,125,993.76 |
| 11/01/2014 | 2,555,000.00 | 4.125% | 313,496.88 | 2,868,496.88 | - |
| 05/01/2015 | - | - | 260,800.00 | 260,800.00 | - |
| 06/30/2015 | - | - | - | - | 3,129,296.88 |
| 11/01/2015 | 2,660,000.00 | 4.250% | 260,800.00 | 2,920,800.00 | - |
| 05/01/2016 | - | - | 204,275.00 | 204,275.00 | - |
| 06/30/2016 | - | - | - | - | 3,125,075.00 |
| 11/01/2016 | 2,780,000.00 | 4.500% | 204,275.00 | 2,984,275.00 | - |
| 05/01/2017 | - | - | 141,725.00 | 141,725.00 | - |
| 06/30/2017 | - | - | - | - | 3,126,000.00 |
| 11/01/2017 | 2,910,000.00 | 4.500% | 141,725.00 | 3,051,725.00 | - |
| 05/01/2018 | - | - | 76,250.00 | 76,250.00 | - |
| 06/30/2018 | - | - | - | - | 3,127,975.00 |

SERIES 2004B (03.09.04) W | SINGLE PURPOSE | 3/9/2004 | 11:51 AM

Preliminary (03.09.04) - 15 Years

\$33,275,000.00

State of Arizona, Department of Administration

Certificates of Participation

Prison Project - Series 2004B

Debt Service Schedule

Part 2 of 2

| Date | Principal | Coupon | Interest | Total P+I | Fiscal Total |
|--------------|------------------------|----------|------------------------|------------------------|--------------|
| 11/01/2018 | 3,050,000.00 | 5.000% | 76,250.00 | 3,126,250.00 | - |
| 05/01/2019 | - | - | - | - | - |
| 06/30/2019 | - | - | - | - | 3,126,250.00 |
| Total | \$33,275,000.00 | - | \$11,727,859.48 | \$45,002,859.48 | - |

Yield Statistics

| | |
|--|--------------|
| Accrued Interest from 05/01/2004 to 05/15/2004 | 47,756.28 |
| Bond Year Dollars | \$285,887.50 |
| Average Life | 8.592 Years |
| Average Coupon | 4.1022638% |
| Net Interest Cost (NIC) | 4.0158095% |
| True Interest Cost (TIC) | 3.9541676% |
| Bond Yield for Arbitrage Purposes | 3.9609883% |
| All Inclusive Cost (AIC) | 4.1557164% |

IRS Form 8038

| | |
|---------------------------|-------------|
| Net Interest Cost | 3.8996381% |
| Weighted Average Maturity | 8.576 Years |

SERIES 2004B (03.09.04) W | SINGLE PURPOSE | 3/9/2004 | 11:51 AM

Preliminary (03.09.04) - 15 Years

\$33,275,000.00

State of Arizona, Department of Administration

Certificates of Participation

Prison Project - Series 2004B

Net Debt Service Schedule

Part 1 of 2

| Date | Principal | Coupon | Interest | Total P+I | CIF | Net New D/S | Fiscal Total |
|------------|--------------|--------|------------|--------------|--------------|--------------|--------------|
| 05/15/2004 | - | - | - | - | - | - | - |
| 06/30/2004 | - | - | - | - | - | - | - |
| 11/01/2004 | - | - | 614,009.38 | 614,009.38 | (614,009.38) | - | - |
| 05/01/2005 | - | - | 614,009.38 | 614,009.38 | (614,009.38) | - | - |
| 06/30/2005 | - | - | - | - | - | - | - |
| 11/01/2005 | 1,920,000.00 | 2.000% | 614,009.38 | 2,534,009.38 | - | 2,534,009.38 | - |
| 05/01/2006 | - | - | 594,809.38 | 594,809.38 | - | 594,809.38 | - |
| 06/30/2006 | - | - | - | - | - | - | 3,128,818.76 |
| 11/01/2006 | 1,960,000.00 | 2.250% | 594,809.38 | 2,554,809.38 | - | 2,554,809.38 | - |
| 05/01/2007 | - | - | 572,759.38 | 572,759.38 | - | 572,759.38 | - |
| 06/30/2007 | - | - | - | - | - | - | 3,127,568.76 |
| 11/01/2007 | 2,005,000.00 | 2.500% | 572,759.38 | 2,577,759.38 | - | 2,577,759.38 | - |
| 05/01/2008 | - | - | 547,696.88 | 547,696.88 | - | 547,696.88 | - |
| 06/30/2008 | - | - | - | - | - | - | 3,125,456.26 |
| 11/01/2008 | 2,060,000.00 | 2.750% | 547,696.88 | 2,607,696.88 | - | 2,607,696.88 | - |
| 05/01/2009 | - | - | 519,371.88 | 519,371.88 | - | 519,371.88 | - |
| 06/30/2009 | - | - | - | - | - | - | 3,127,068.76 |
| 11/01/2009 | 2,120,000.00 | 3.000% | 519,371.88 | 2,639,371.88 | - | 2,639,371.88 | - |
| 05/01/2010 | - | - | 487,571.88 | 487,571.88 | - | 487,571.88 | - |
| 06/30/2010 | - | - | - | - | - | - | 3,126,943.76 |
| 11/01/2010 | 2,185,000.00 | 3.250% | 487,571.88 | 2,672,571.88 | - | 2,672,571.88 | - |
| 05/01/2011 | - | - | 452,065.63 | 452,065.63 | - | 452,065.63 | - |
| 06/30/2011 | - | - | - | - | - | - | 3,124,637.51 |
| 11/01/2011 | 2,265,000.00 | 3.750% | 452,065.63 | 2,717,065.63 | - | 2,717,065.63 | - |
| 05/01/2012 | - | - | 409,596.88 | 409,596.88 | - | 409,596.88 | - |
| 06/30/2012 | - | - | - | - | - | - | 3,126,662.51 |
| 11/01/2012 | 2,355,000.00 | 4.000% | 409,596.88 | 2,764,596.88 | - | 2,764,596.88 | - |
| 05/01/2013 | - | - | 362,496.88 | 362,496.88 | - | 362,496.88 | - |
| 06/30/2013 | - | - | - | - | - | - | 3,127,093.76 |
| 11/01/2013 | 2,450,000.00 | 4.000% | 362,496.88 | 2,812,496.88 | - | 2,812,496.88 | - |
| 05/01/2014 | - | - | 313,496.88 | 313,496.88 | - | 313,496.88 | - |
| 06/30/2014 | - | - | - | - | - | - | 3,125,993.76 |
| 11/01/2014 | 2,555,000.00 | 4.125% | 313,496.88 | 2,868,496.88 | - | 2,868,496.88 | - |
| 05/01/2015 | - | - | 260,800.00 | 260,800.00 | - | 260,800.00 | - |
| 06/30/2015 | - | - | - | - | - | - | 3,129,296.88 |
| 11/01/2015 | 2,660,000.00 | 4.250% | 260,800.00 | 2,920,800.00 | - | 2,920,800.00 | - |
| 05/01/2016 | - | - | 204,275.00 | 204,275.00 | - | 204,275.00 | - |
| 06/30/2016 | - | - | - | - | - | - | 3,125,075.00 |
| 11/01/2016 | 2,780,000.00 | 4.500% | 204,275.00 | 2,984,275.00 | - | 2,984,275.00 | - |
| 05/01/2017 | - | - | 141,725.00 | 141,725.00 | - | 141,725.00 | - |
| 06/30/2017 | - | - | - | - | - | - | 3,126,000.00 |
| 11/01/2017 | 2,910,000.00 | 4.500% | 141,725.00 | 3,051,725.00 | - | 3,051,725.00 | - |
| 05/01/2018 | - | - | 76,250.00 | 76,250.00 | - | 76,250.00 | - |
| 06/30/2018 | - | - | - | - | - | - | 3,127,975.00 |

SERIES 2004B (03.09.04) W | SINGLE PURPOSE | 3/9/2004 | 11:51 AM

Preliminary (03.09.04) - 15 Years

\$33,275,000.00

State of Arizona, Department of Administration

Certificates of Participation

Prison Project - Series 2004B

Net Debt Service Schedule

Part 2 of 2

| Date | Principal | Coupon | Interest | Total P+I | CIF | Net New D/S | Fiscal Total |
|--------------|------------------------|----------|------------------------|------------------------|-----------------------|------------------------|--------------|
| 11/01/2018 | 3,050,000.00 | 5.000% | 76,250.00 | 3,126,250.00 | - | 3,126,250.00 | - |
| 05/01/2019 | - | - | - | - | - | - | - |
| 06/30/2019 | - | - | - | - | - | - | 3,126,250.00 |
| Total | \$33,275,000.00 | - | \$11,727,859.48 | \$45,002,859.48 | (1,228,018.76) | \$43,774,840.72 | - |

Preliminary (03.09.04) - 15 Years

\$33,275,000.00

State of Arizona, Department of Administration

Certificates of Participation

Prison Project - Series 2004B

Pricing Summary

| Maturity | Type of Bond | Coupon | Yield | Maturity Value | Price | Dollar Price |
|--------------|---------------|--------|--------|------------------------|------------|------------------------|
| 11/01/2005 | Serial Coupon | 2.000% | 1.650% | 1,920,000.00 | 100.502% | 1,929,638.40 |
| 11/01/2006 | Serial Coupon | 2.250% | 1.990% | 1,960,000.00 | 100.621% | 1,972,171.60 |
| 11/01/2007 | Serial Coupon | 2.500% | 2.290% | 2,005,000.00 | 100.694% | 2,018,914.70 |
| 11/01/2008 | Serial Coupon | 2.750% | 2.650% | 2,060,000.00 | 100.417% | 2,068,590.20 |
| 11/01/2009 | Serial Coupon | 3.000% | 2.950% | 2,120,000.00 | 100.249% | 2,125,278.80 |
| 11/01/2010 | Serial Coupon | 3.250% | 3.190% | 2,185,000.00 | 100.346% | 2,192,560.10 |
| 11/01/2011 | Serial Coupon | 3.750% | 3.430% | 2,265,000.00 | 102.089% | 2,312,315.85 |
| 11/01/2012 | Serial Coupon | 4.000% | 3.670% | 2,355,000.00 | 102.380% | 2,411,049.00 |
| 11/01/2013 | Serial Coupon | 4.000% | 3.870% | 2,450,000.00 | 101.020% | 2,474,990.00 |
| 11/01/2014 | Serial Coupon | 4.125% | 4.040% | 2,555,000.00 | 100.689% c | 2,572,603.95 |
| 11/01/2015 | Serial Coupon | 4.250% | 4.160% | 2,660,000.00 | 100.726% c | 2,679,311.60 |
| 11/01/2016 | Serial Coupon | 4.500% | 4.280% | 2,780,000.00 | 101.767% c | 2,829,122.60 |
| 11/01/2017 | Serial Coupon | 4.500% | 4.400% | 2,910,000.00 | 100.797% c | 2,933,192.70 |
| 11/01/2018 | Serial Coupon | 5.000% | 4.510% | 3,050,000.00 | 103.895% c | 3,168,797.50 |
| Total | - | - | - | \$33,275,000.00 | - | \$33,688,537.00 |

Bid Information

| | |
|--|-----------------|
| Par Amount of Bonds | \$33,275,000.00 |
| Reoffering Premium or (Discount) | 413,537.00 |
| Gross Production | \$33,688,537.00 |
| Total Underwriter's Discount (0.500%) | \$(166,375.00) |
| Bid (100.743%) | 33,522,162.00 |
| Accrued Interest from 05/01/2004 to 05/15/2004 | 47,756.28 |
| Total Purchase Price | \$33,569,918.28 |
| Bond Year Dollars | \$285,887.50 |
| Average Life | 8.592 Years |
| Average Coupon | 4.1022638% |
| Net Interest Cost (NIC) | 4.0158095% |
| True Interest Cost (TIC) | 3.9541676% |

SERIES 2004B (03.09.04) W | SINGLE PURPOSE | 3/9/2004 | 11:51 AM

STATE OF ARIZONA

Joint Committee on Capital Review

STATE
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1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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HOUSE OF
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JOHN LOREDO

DATE: March 18, 2004

TO: Representative Russell Pearce, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Jake Corey, Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF ADMINISTRATION – CONSIDER APPROVAL OF
REFINANCING OF 1993B CERTIFICATES OF PARTICIPATION

Request

The Arizona Department of Administration (ADOA) requests that the Committee approve the refinancing of Certificates of Participation (COP) that were issued in 1993.

Recommendation

The JLBC Staff recommends that the Committee favorably review and approve the refinancing of the 1993 COP issuance with the stipulation that ADOA report back to the Committee on the interest rate, debt service schedule, costs and estimated savings of the refinanced COPs after the issuance.

The refinancing will involve the refunding of \$19,896,800 in outstanding COPs. One-time savings are estimated to be \$991,400, almost all of which will be realized in FY 2005.

Under the refinancing, the FY 2005 \$2.7 million debt service payment will be reduced to \$1.8 million. Similar to the existing financing agreement, the debt service payment under the refinancing would return to \$2.7 million in FY 2006 and would continue at approximately that level until FY 2011, when the final payment would be \$4.0 million.

Analysis

A.R.S. § 41-791.02(E) requires ADOA COP issuances, also known as lease-purchase agreements, to be reviewed and approved by the Committee before the agreement takes affect.

In order to take advantage of the lower interest rates that currently exist, ADOA is requesting Committee approval to refinance a 1993 COP issuance. The following projects were financed with the original issuance: Arizona State Schools for the Deaf and the Blind high school and auditorium, Public Records Office additions, Library for the Blind, 1616 W. Adams, and the Tonto Natural Bridge. ADOA anticipates savings of \$991,400 in reduced debt service costs from the refinancing of the issuance.

The anticipated interest rate on the issuance is 2.76%. While the outstanding par amount on the existing issuance is \$19,896,800, the principal amount of the new issuance will be \$18,885,000. The lower

amount is the result of the availability of \$1,366,100 from a debt service reserve (DSR) fund that was required when the original COPs were issued. The availability of the DSR fund monies will be used to defray refinancing costs, estimated at \$305,400, and reduce the new COP issuance amount.

Annual debt service payments under the proposed refinancing would be similar to payments under the existing agreement, except in FY 2005. In FY 2005 the refinancing would reduce the \$2.7 million payment in the existing agreement to \$1.8 million. Thereafter, annual debt service payments are about equal in both the existing and proposed refinanced agreements. Both agreements have annual payments of \$2.7 million from FY 2006 through FY 2010, and a final payment of \$4.0 million in FY 2011. The repayment period, therefore, would be the same under the proposed refinancing as in the existing agreement.

RS/JC:jb



JANET NAPOLITANO
GOVERNOR

BETSEY BAYLESS
DIRECTOR

ARIZONA DEPARTMENT OF ADMINISTRATION

FINANCIAL SERVICES DIVISION • GENERAL ACCOUNTING OFFICE

100 NORTH 15TH AVENUE • SUITE 302

PHOENIX, ARIZONA 85007

Phone: (602) 542-5601 • Fax: (602) 542-5749

March 9, 2004

Representative Russell Pearce, Chairman
Joint Committee on Capital Review
1716 West Adams
Phoenix, AZ 85007



Dear Representative Pearce:

We request placement on the upcoming Joint Committee on Capital Review (JCCR) agenda to review the project plan and issuance of Certificates of Participation (COP) for a 1,000 bed expansion to prison facilities pursuant to Laws 2003, Second Special Session, Chapter 5, Section 16.

We also request placement on the agenda the refinancing of the 1993B COP issue. The State now has the opportunity to refinance this issue to take advantage of low interest rates, thereby achieving debt service savings. Based on current interest rates, the State would be able to realize debt service savings of approximately \$990 thousand. Almost all of the savings are planned to be realized in the current fiscal year (FY04). The final maturity for repaying the COPs will remain the same.

If you have any questions or need any additional information, please call me at 542-5405.

Sincerely,

D. Clark Partridge
State Comptroller

cc: Senator Robert Burns
David Jankofsky
William Greeney
Richard Stavneak
Lorenzo Martinez
Doris Schriro

Betsey Bayless
Alex Turner
Alan Ecker
Warren Whitney
Bruce Ringwald
Mike Smarik

Preliminary (03.08.04)

\$18,885,000.00

State of Arizona

Refunding Certificates of Participation

Series 2004A

Refunding Summary

Part 1 of 2

Dated 04/01/2004 | Delivered 04/15/2004

SOURCES OF FUNDS

| | |
|--|-----------------|
| Par Amount of Bonds | \$18,885,000.00 |
| Transfer from Debt Service Fund | 1,366,055.00 |
| Accrued Interest from 04/01/2004 to 04/15/2004 | 17,473.09 |

| | |
|----------------------|------------------------|
| TOTAL SOURCES | \$20,268,528.09 |
|----------------------|------------------------|

USES OF FUNDS

| | |
|---|---------------|
| Deposit to Current Refunding Fund | 19,896,846.06 |
| Costs of Issuance | 150,000.00 |
| Gross Bond Insurance Premium (50.0 bp) | 105,971.04 |
| Total Underwriter's Discount (0.500%) | 94,425.00 |
| Deposit to Debt Service Fund | 17,473.09 |
| Rounding Amount | 3,812.90 |

| | |
|-------------------|------------------------|
| TOTAL USES | \$20,268,528.09 |
|-------------------|------------------------|

Flow of Funds Detail

| | |
|--|-----------|
| State and Local Government Series (SLGS) rates for | 3/08/2004 |
| Date of OMP Candidates | |

| | |
|--|-----------------|
| Current Refunding Escrow Solution Method | Net Funded |
| Total Cost of Investments | \$19,896,846.06 |
| Interest Earnings @ 0.886% | 21,475.40 |
| Total Draws | \$19,918,321.46 |

Issues Refunded And Call Dates

| | |
|--------------|-----------|
| Series 1993B | 6/01/2004 |
|--------------|-----------|

PV Analysis Summary (Net to Net)

| | |
|--|----------------|
| Net PV Cashflow Savings @ 2.770%(Bond Yield) | 2,318,793.30 |
| Total Cash contribution | (1,366,055.00) |
| Accrued Interest Credit to Debt Service Fund | 17,473.09 |
| Contingency or Rounding Amount | 3,812.90 |
| Net Present Value Benefit | \$974,024.29 |

| | |
|---|--------|
| Net PV Benefit / \$19,010,000 Refunded Principal | 5.124% |
| Net PV Benefit / \$18,885,000 Refunding Principal | 5.158% |

Series 2004 RFD (93) 03.0 | SINGLE PURPOSE | 3/8/2004 | 11:10 AM

Preliminary (03.08.04)

\$18,885,000.00

State of Arizona

Refunding Certificates of Participation

Series 2004A

Refunding Summary

Part 2 of 2

Dated 04/01/2004 | Delivered 04/15/2004

Bond Statistics

| | |
|-----------------------------------|-------------|
| Average Life | 4.620 Years |
| Average Coupon | 2.6467709% |
| Net Interest Cost (NIC) | 2.7549990% |
| Bond Yield for Arbitrage Purposes | 2.7696773% |
| True Interest Cost (TIC) | 2.7552040% |
| All Inclusive Cost (AIC) | 3.0789511% |

Series 2004 RFD (93) 03.0 | SINGLE PURPOSE | 3/8/2004 | 11:10 AM

Preliminary (03.08.04)

\$18,885,000.00

State of Arizona

Refunding Certificates of Participation

Series 2004A

Debt Service Schedule

| Date | Principal | Coupon | Interest | Total P+I |
|--------------|------------------------|----------|-----------------------|------------------------|
| 11/01/2004 | 160,000.00 | 1.000% | 262,096.33 | 422,096.33 |
| 11/01/2005 | 2,305,000.00 | 1.480% | 439,235.00 | 2,744,235.00 |
| 11/01/2006 | 2,345,000.00 | 1.700% | 403,649.00 | 2,748,649.00 |
| 11/01/2007 | 2,395,000.00 | 2.000% | 361,929.00 | 2,756,929.00 |
| 11/01/2008 | 2,460,000.00 | 2.350% | 311,494.00 | 2,771,494.00 |
| 11/01/2009 | 2,775,000.00 | 2.640% | 251,519.00 | 3,026,519.00 |
| 11/01/2010 | 2,530,000.00 | 2.870% | 172,660.00 | 2,702,660.00 |
| 11/01/2011 | 3,915,000.00 | 3.120% | 106,626.00 | 4,021,626.00 |
| Total | \$18,885,000.00 | - | \$2,309,208.33 | \$21,194,208.33 |

Yield Statistics

| | |
|--|-------------|
| Accrued Interest from 04/01/2004 to 04/15/2004 | 17,473.09 |
| Bond Year Dollars | \$87,246.25 |
| Average Life | 4.620 Years |
| Average Coupon | 2.6467709% |
| Net Interest Cost (NIC) | 2.7549990% |
| True Interest Cost (TIC) | 2.7552040% |
| Bond Yield for Arbitrage Purposes | 2.7696773% |
| All Inclusive Cost (AIC) | 3.0789511% |

IRS Form 8038

| | |
|---------------------------|-------------|
| Net Interest Cost | 2.6490425% |
| Weighted Average Maturity | 4.581 Years |

Preliminary (03.08.04)

\$18,885,000.00

State of Arizona

Refunding Certificates of Participation

Series 2004A

Debt Service Comparison

| Date | Total P+I | Net New D/S | Old Net D/S | Savings |
|--------------|------------------------|------------------------|------------------------|---------------------|
| 11/01/2004 | 422,096.33 | 1,766,865.34 | 2,740,853.75 | 973,988.41 |
| 11/01/2005 | 2,744,235.00 | 2,744,235.00 | 2,752,980.00 | 8,745.00 |
| 11/01/2006 | 2,748,649.00 | 2,748,649.00 | 2,748,625.00 | (24.00) |
| 11/01/2007 | 2,756,929.00 | 2,756,929.00 | 2,757,000.00 | 71.00 |
| 11/01/2008 | 2,771,494.00 | 2,771,494.00 | 2,774,250.00 | 2,756.00 |
| 11/01/2009 | 3,026,519.00 | 3,026,519.00 | 3,025,625.00 | (894.00) |
| 11/01/2010 | 2,702,660.00 | 2,702,660.00 | 2,702,125.00 | (535.00) |
| 11/01/2011 | 4,021,626.00 | 4,021,626.00 | 4,028,875.00 | 7,249.00 |
| Total | \$21,194,208.33 | \$22,538,977.34 | \$23,530,333.75 | \$991,356.41 |

PV Analysis Summary (Net to Net)

| | |
|---|----------------|
| Gross PV Debt Service Savings | 2,318,793.30 |
| Net PV Cashflow Savings @ 2.770%(Bond Yield) | 2,318,793.30 |
| Total Cash contribution | (1,366,055.00) |
| Accrued Interest Credit to Debt Service Fund | 17,473.09 |
| Contingency or Rounding Amount | 3,812.90 |
| Net Present Value Benefit | \$974,024.29 |
| Net PV Benefit / \$19,010,000 Refunded Principal | 5.124% |
| Net PV Benefit / \$18,885,000 Refunding Principal | 5.158% |

Refunding Bond Information

| | |
|-------------------------|-----------|
| Refunding Dated Date | 4/01/2004 |
| Refunding Delivery Date | 4/15/2004 |

Series 2004 RFD (93) 03.0 | SINGLE PURPOSE | 3/ 8/2004 | 11:10 AM

Preliminary (03.08.04)

\$18,885,000.00

State of Arizona

Refunding Certificates of Participation

Series 2004A

Pricing Summary

| Maturity | Type of Bond | Coupon | Yield | Maturity Value | Price | Dollar Price |
|--------------|---------------|--------|--------|------------------------|----------|------------------------|
| 11/01/2004 | Serial Coupon | 1.000% | 1.000% | 160,000.00 | 100.000% | 160,000.00 |
| 05/01/2005 | Serial Coupon | 1.480% | 1.480% | 1,145,000.00 | 100.000% | 1,145,000.00 |
| 11/01/2005 | Serial Coupon | 1.480% | 1.480% | 1,160,000.00 | 100.000% | 1,160,000.00 |
| 05/01/2006 | Serial Coupon | 1.700% | 1.700% | 1,170,000.00 | 100.000% | 1,170,000.00 |
| 11/01/2006 | Serial Coupon | 1.700% | 1.700% | 1,175,000.00 | 100.000% | 1,175,000.00 |
| 05/01/2007 | Serial Coupon | 2.000% | 2.000% | 1,180,000.00 | 100.000% | 1,180,000.00 |
| 11/01/2007 | Serial Coupon | 2.000% | 2.000% | 1,215,000.00 | 100.000% | 1,215,000.00 |
| 05/01/2008 | Serial Coupon | 2.350% | 2.350% | 1,220,000.00 | 100.000% | 1,220,000.00 |
| 11/01/2008 | Serial Coupon | 2.350% | 2.350% | 1,240,000.00 | 100.000% | 1,240,000.00 |
| 05/01/2009 | Serial Coupon | 2.640% | 2.640% | 1,250,000.00 | 100.000% | 1,250,000.00 |
| 11/01/2009 | Serial Coupon | 2.640% | 2.640% | 1,525,000.00 | 100.000% | 1,525,000.00 |
| 05/01/2010 | Serial Coupon | 2.870% | 2.870% | 1,540,000.00 | 100.000% | 1,540,000.00 |
| 11/01/2010 | Serial Coupon | 2.870% | 2.870% | 990,000.00 | 100.000% | 990,000.00 |
| 05/01/2011 | Serial Coupon | 3.120% | 3.120% | 995,000.00 | 100.000% | 995,000.00 |
| 11/01/2011 | Serial Coupon | 3.120% | 3.120% | 2,920,000.00 | 100.000% | 2,920,000.00 |
| Total | - | - | - | \$18,885,000.00 | - | \$18,885,000.00 |

Bid Information

| | |
|--|-----------------|
| Par Amount of Bonds | \$18,885,000.00 |
| Gross Production | \$18,885,000.00 |
| Total Underwriter's Discount (0.500%) | \$(94,425.00) |
| Bid (99.500%) | 18,790,575.00 |
| Accrued Interest from 04/01/2004 to 04/15/2004 | 17,473.09 |
| Total Purchase Price | \$18,808,048.09 |
| Bond Year Dollars | \$87,246.25 |
| Average Life | 4.620 Years |
| Average Coupon | 2.6467709% |
| Net Interest Cost (NIC) | 2.7549990% |
| True Interest Cost (TIC) | 2.7552040% |

Series 2004 RFD (93) 03.0 | SINGLE PURPOSE | 3/ 8/2004 | 11:10 AM

STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

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CHAIRMAN 2003
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ROBERT CANNELL, M.D.
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DATE: March 22, 2003

TO: Representative Russell Pearce, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Shelli Carol, Fiscal Analyst
Steve Schimpp, Assistant Director

SUBJECT: GOVERNMENT INFORMATION TECHNOLOGY AGENCY – REVIEW OF REQUEST FOR
PROPOSALS FOR TELECOMMUNICATIONS PRIVATIZATION

Request

Laws 2003, Chapter 263, Section 101 requires the Government Information Technology Agency (GITA), in consultation with the Arizona Department of Administration (ADOA), to prepare and submit to the Joint Committee on Capital Review (JCCR) an actionable request for proposals (RFP) to privatize the state's telecommunication services. The statute further requires that ADOA issue the RFP within ten business days after JCCR review. GITA, with conditional approval from the Information Technology Authorization Committee (ITAC), issued the final draft of its RFP on October 30, 2003. GITA seeks a favorable review of the proposal.

Recommendation

The Committee has, at least, the following options:

- 1) A favorable review of the GITA RFP with no conditions.
- 2) A favorable review with the following stipulations:
 - a) Delay the effective date of the favorable review until April 9. ADOA has ten business days from the date of the Committee's review to issue the RFP. By delaying the effective date of the review, ADOA will have until April 23rd to publish the RFP. This will give ADOA time to modify the RFP based on Committee input and for ITAC to approve the modified RFP.
 - b) Require ADOA to submit information on funding for the non-privatized portion of the Arizona Telecommunications System (ATS) as part of its cost analysis report, which is due to JCCR before finalizing the telecommunications contract.
- 3) An unfavorable review. However, given that Laws 2003, Chapter 263 provides JCCR authority for only review, ADOA can still release the RFP.

We understand that various stakeholders may suggest additional stipulations for the Committee's consideration.

(Continued)

We have the following main observations about the proposed RFP.

- The proposed RFP provides a clear implementation for the first step of the telecommunications initiative, which is privatization of ADOA's Arizona Telecommunications System (ATS). The two remaining stages of the initiative are consolidation of the state's other telecommunications systems and convergence of voice, video, and data through a single transmission line. Both stages, however, require cooperation and further action from the various state agencies, which is beyond the scope of this RFP. As a result, the RFP requests the new private management contractor to plan, but does not require, those two components.
- We cannot currently determine the magnitude of either the short run or long run savings of this proposal. In the short term, the RFP requires the new private management contractor's rates not to exceed current ATS charges. ATS, however, would retain some of its current oversight responsibilities, which would represent approximately \$2.8 million of its current \$14 million budget. If the new management contractor's rates are not much lower than existing ATS rates, the new system's short-term costs could exceed those of the current system, due to the continuing ATS oversight expenses.
- In the long run, this telecommunications initiative intends to generate savings through consolidation of the state's different telecommunications systems and the convergence of voice and data lines. However, the RFP does not require bidders to provide an estimate of the long-term costs of the telecommunications system. GITA believes that a cost study of the necessary size and complexity to provide that information could not be completed in any useful timeframe, considering the rapidly evolving nature of technology. In addition, since there is no set schedule for consolidation or convergence, bidders may not be able to develop long-run cost estimates.

ADOA feels that an understanding of the total project cost would be useful. In addition, Chapter 263 requires ADOA and the chosen management contractor to submit long-term cost information to JCCR before the contract award.

- ADOA believes that, in the name of further cost savings, all non-core capital equipment for all state agencies should be privatized under the management contractor. Meanwhile, GITA believes this proposal would limit agency flexibility and generate undue costs.

Background

The Arizona Telecommunication System (ATS) in ADOA currently provides some level of voice and data service, including telecommunication lines for approximately 30% of state's 42,000 non-university employees. The agencies compensate ATS through line and service fees, which are the sole funding source for ATS. ATS has approximately 60 FTE employees and annual expenditures of about \$14 million. Agencies that do not use ATS currently provide their own telecommunication services, either in-house or through private contracts.

As noted above, Laws 2003, Chapter 263 requires GITA to prepare and submit to JCCR an actionable request for proposals (RFP) to privatize the state's telecommunication services. The proposed RFP would contract out telecommunication services for state agencies, except higher education. It would eventually place all state agencies under the same phone system. A single, private-sector-managed telecommunications system intends to eliminate duplication of services, improve service quality, and reduce costs. While GITA is primarily responsible for developing the RFP, ADOA is responsible for publishing it and for selecting the management contractor.

Chapter 263 outlines required criteria for the telecommunications privatization RFP. It must:

- meet the telecommunications requirements of all state agency office locations, excluding higher education;
- leverage network equipment already owned by state agencies; and
- provide a scalable, centralized, statewide, voice, video, and data converged solution to streamline agency communications and associated services.

As detailed below, the RFP would meet all these criteria upon full implementation.

(Continued)

Implementation Phases

The contract, as outlined in the RFP, runs three years, with an option to renew for up to two additional years, although contractors would be allowed to propose a longer term in their bids. The proposed RFP defines three components for the state's telecommunications initiative.

Privatization

The first step in implementing the proposed RFP would be privatization. A facilities management or telecommunications services management contractor would immediately replace ATS in administering the state's telecommunications system. (The state would retain ownership of all core telecommunications infrastructure.) The management contractor would be allowed to subcontract any of its responsibilities. The management contractor would be compensated solely through state agency usage fees, which must not exceed current ATS charges.

Meanwhile, ATS would no longer provide direct telecommunications services to state agencies, but would be responsible for program oversight, procurement, and disaster recovery. It also would continue to run the state switchboard. Since agencies would pay line fees directly to the management contractor, the Legislature would have to identify a new funding mechanism for the ATS program. Those functions and ADOA's FY 2005 estimates are summarized below.

| <u>Expense Category</u> | <u>FY 2005 Estimate</u> |
|--------------------------------------|--------------------------------|
| Rent – Physical Space | \$ 298,400 |
| Switchboard | 526,200 |
| Director's Office / Program Office | 385,800 |
| State Procurement Office | 236,700 |
| Statewide Disaster Recovery/Security | <u>336,900</u> |
| Total | \$2,783,900 |

The management contractor would handle all interactions with telecommunications carriers and would be precluded from offering its own carrier services. The management contractor would be responsible only for hardware, software, and maintenance related to the state's core telecommunications infrastructure. However, it would not be responsible for any agency-specific hardware, software, or maintenance. It could provide recommendations, especially for alternative financing options, such as leasing and trade-ins, and it could bid for these agency contracts itself. Approval authority for those procurements would flow through GITA's Project Investment Justification (PIJ) process. Under all circumstances, the management contractor would be required to use current state contracts until their expiration. As contracts expire, the management contractor would be expected to help the state negotiate fewer, larger volume contracts at lower prices. The management contractor, should it choose to submit such bids itself, would have an obvious advantage.

Consolidation

The second phase of the state's telecommunications initiative would be consolidation, with all agencies moving to one centralized voice network and one centralized data network, including the elimination of redundant telecommunications administration and management and improvements to agency inter-communication. According to a letter from the Governor dated September 24, 2003, all Executive agencies are to participate in GITA's telecommunications privatization plan. The proposed RFP anticipates that all Executive agencies would transition to services under the management contractor within two years. GITA envisions all non-executive agencies joining the program as well, but cannot require consolidation to that extent. The program would eventually be open to any of the other 419 political subdivisions of the state that wish to participate. (GITA anticipates that, through the state's relationship with its management contractor, local governments would be able to secure more favorable pricing to bring high-speed Internet access to rural areas.)

The management contractor's bid must include a rate schedule, specifying rate reductions as participation increases. As the project progresses, the RFP encourages the management contractor to recommend improvements for infrastructure, configuration, or the technology procurement process. The state would share a portion of any cost savings with the management contractor.

(Continued)

Convergence

The third stage of the state's telecommunications initiative would be convergence, which involves the transmission of voice, video, and data through a single line. All bidders would be required to include a high-level plan for convergence in their RFP response. The chosen management contractor would have 180 days from the award of the contract to submit a detailed convergence plan, including cost estimates. GITA anticipates that, between infrastructure upgrades by the management contractor and individual agency equipment upgrades, all state hardware and software should be compatible and secure enough to support convergence after two years. Since convergence technology is relatively new and rapidly evolving, its compatibility and prices should also be more favorable two years from now.

Because convergence is expensive and may not make good business sense for every agency, GITA does not envision a mandate to convergence any time in the foreseeable future. As the third year of the project begins, if the management contractor has met all its obligations to that point, it would begin managing convergence for agencies that are ready, on a case-by-case basis. Agencies would be responsible for their own equipment, although the management contractor would assist them in securing competitive pricing or alternative financing arrangements. GITA anticipates starting the process with a large agency on the Capitol Mall, to maximize economies of scale and project experience.

Points of Concern

GITA and ADOA do not agree on all aspects of the RFP. Major differences between the two agencies are described below. Please see additional information regarding these concerns in Attachments 1 (GITA) and 2 (ADOA).

Cost Controls

The total cost of the proposed contract would be the rate offered by the chosen management contractor, multiplied by the length of the contract and the number of lines provided. If the management contractor believes the state is requesting a substantive change to services provided, it can request a change order.

The limited scope of this RFP does not address the total cost of the state's entire telecommunications initiative, which would include many complementary hardware, software, and network upgrades by individual agencies through their own RFPs. GITA feels that the size and complexity of state government and the rapidly changing nature of the telecommunications industry and related technology make it unfeasible to identify all costs for all agencies in all three stages prior to releasing an RFP. GITA advises that an all-inclusive cost and convergence study would take so long to complete that it would be obsolete by the time it was finished. Since the management contractor would provide only centralized services and would have information on the exact nature of those services in advance, GITA anticipates that the RFP will limit change orders. Usage rates would be the sole compensation for the management contractor and those rates would be comparable to current ATS rates. GITA believes it can control costs through its PIJ review process, in which it evaluates all automation projects with costs above \$25,000. For projects above \$1 million, the 13-member Information Technology Authorization Committee also conducts an evaluation.

ADOA believes that the RFP should identify the grand total, long-term costs for all Executive Branch agencies and all three phases of the telecommunications initiative. ADOA is concerned that, if bidders do not study all agencies in advance, the chosen management contractor would have the ability to submit change orders whenever an agency joined the system.

Capital Equipment

The RFP stipulates that the state continue to own all core infrastructure. It encourages the management contractor to propose alternative funding arrangements, such as leasing, for all other agency-specific capital equipment.

ADOA believes that the RFP should require the management contractor to provide all non-core capital equipment for all state agencies and build those costs into its service rates.

(Continued)

GITA believes that privatization of equipment is not the best option for all agencies. It contends that agencies with newer equipment should not subsidize agencies with very outdated equipment through universal rates. GITA also maintains that the PIJ process would allow each agency to pursue, and bear the costs of, its own telecommunications needs. Furthermore, GITA warns that privatizing all equipment under one contractor would put the state in a weak negotiating position.

Next Steps

Laws 2003, Chapter 263, Section 101 specifies how this initiative will proceed:

- 1) ADOA is to issue the telecommunications RFP within ten business days after its review by JCCR.
- 2) Contingent on approval by ITAC, ADOA must award a contract or contracts within 120 days after the issuance of the RFP.
- 3) At least ten days before it enters into a contract or contracts resulting from the RFP, ADOA must submit to JCCR in Executive Session the following information: 1) an analysis of the short-term and long-term annual capital and operating costs that would result from the contracts and 2) a comparison of the structure and funding of ATS to that of the new system proposed by the contract or contracts.
- 4) ADOA must supervise the implementation of any contracts that result from the RFP.
- 5) As each agency requests funding for its individual telecommunications initiative related projects, the Legislature would evaluate those budget impacts.

RS/SC:ss

Attachments

EXHIBIT 2
GITA Memorandum to JCCR
October 30, 2003
Cost Issues

The Government Information Technology Agency (GITA) believes a phased approach to telecommunication outsourcing with extensive price controls of the kind included in the Request for Proposal (RFP) submitted to JCCR is in the State's best interest. This phased approach:

- reduces the State's risk;
- is consistent with the State's current decentralized IT funding;
- will enable the State to move more rapidly to convergence; and
- has a far greater chance of success.

The Department of Administration (ADOA) has expressed the view that the State should not proceed with the outsourcing RFP without identifying all of the State's future costs. However, there are many examples of project failures among states that have issued large scale RFPs to address all issues and costs (i.e., centralization, convergence, IP enablement, cost savings, rural build-out, etc.), without a phased approach. Examples include: Alaska, Georgia and Texas. ADOA also offers that the RFP does not sufficiently leverage investment by the private sector to move the State to convergence.

The price controls, convergence plans, leveraging of private sector investment and other cost protections built into the RFP are described below:

Contract Prices

- The respondents to the RFP are required to offer contract prices that can readily be compared to current service rates from the Arizona Telecommunication System (ATS) division of ADOA. The State will be able to use past usage to project aggregate reduced State costs.
- All future pricing for voice and data services will be established in the contract. The RFP respondents will bid reduced rates based on increases in volume (as state agencies are added to the outsourced environment), enabling the State to benefit from increasing economies of scale.
- An analysis of the current ATS cost model, including personnel, maintenance costs, etc., is included in the RFP. The service provider will be required to propose service rates that cover all appropriate costs, including regular maintenance of the shared data network to enable it to meet State service levels.
- Detailed hardware or circuit inventories from all agencies are not required to enable the vendor to bid contract rates because agencies will only pay the outsourcer for management services, not the underlying commodities.

Carrier Services & Product Rates

- The State will maintain ownership of all current telecommunication assets since most of the existing assets are fully depreciated and the State does not want to re-pay for these assets in its service rates.
- The statewide telecommunication contracts (i.e., carrier services, LAN/WAN equipment, etc.) will not be eliminated and will allow continuous competition on future commodity purchases.

- The Statewide Telecommunication Roadmap (Roadmap), an exhibit to the RFP, calls for the State to consider re-bidding and further strengthening the State's commodity contracts over the next 2 years.

Costs for Additional Agencies

- The additional work process for adding additional agencies and locations to outsourced management also has price protections. It includes an agency requirements and cost analysis, Project Investment Justification (PIJ) submittal and review, negotiation between the State and the service provider and oversight by a State program office.
- Since each agency is appropriated its own budget and manages its own personnel and services, the analysis by the impacted agency and a transition plan between the impacted agency and service provider are essential to avoid unforeseen costs, interruptions in service, termination charges, personnel issues, etc.
- GITA believes that infrastructure changes and upgrades should be driven by State agency business needs and that individual agencies should be responsible for costs that impact their agency only. For example, if the State attempted to include the costs of major upgrades of arcane systems in a statewide RFP (such as connecting and upgrading the networks in the prisons run by the Department of Corrections), the rates for all state agencies would dramatically increase. GITA believes that proposals for solving these types of problems will have to be debated and considered on their own merits.
- The Additional Work Process is modeled after processes used successfully by the federal government for decades. The Department of Revenue is currently deploying a similar process on the BRITS project with reported success.
- If the State and the service provider can not agree on implementation of an additional work process, the State can consider other outsourcing avenues.

Costs of Convergence

- GITA believes that moving the entire State to convergence should be a phased process with swift scalability. As the State moves to a converged network, increased savings will be realized from decreases in overhead and duplication, such as the elimination of redundant networks and circuits and reductions in moves, adds and changes.
- The respondents to the RFP will be evaluated, in part, on their convergence plan and on their plan for implementing the State's Roadmap.
- The selected contractor must submit a detailed convergence plan (consistent with their initial plan but including more detail and costing) within 180 days of contract award. The convergence plan must take into account the State's budget constraints, must be phased and must leverage existing investments to the extent possible.
- There may not be a good business case for convergence for some agencies in the near future. Any statewide convergence plan will have to take account of the State's widely varying needs and avoid increasing rates to all agencies to pay for upgrades for a few.

Leveraging Private Sector Investments

- The RFP encourages vendors to propose financing, benefit sharing and cost saving proposals in response to the RFP and during the term of the resulting contract.
- The service provider may recommend changes to the State's technology in its proposal and during the term of its contract but decisions on asset replacement will be made by the State.
- The State can pursue leasing or other financing arrangements for new technology as it migrates to that technology.
- The vendor community will invest in the State but only if the State is willing to pay for the investment over a period of time. The vendors may propose a longer term contract to recoup any investment in new technology.
- The State will not be able to use private sector investment without eventually being responsible for the related costs. The State will either pay for technology upgrades directly or indirectly through contract rates and through costs at contract termination/expiration.
- If upgrade costs are proposed to be included in contract service rates, the RFP requires the contractor to enable the State to:
 - avoid an expensive payout for assets at contract termination or expiration; and
 - retain control over the vital components of its infrastructure at the end of the contract.

Oversight

- The State will have the right to audit the service provider's bills and billing practices at any time.
- Compliance by the service provider and the agencies with the State's enterprise architecture and related technical standards will allow the State to avoid inflated costs from the purchase of obsolete or unproven technologies.
- Each agency will continue to be responsible for Project Investment Justification (PIJ) submittal for their individual telecommunication projects, as mandated by statute. Review and approval/disapproval of these PIJs will enable GITA and ITAC to provide oversight to the contractor's performance and pricing and to the project's overall effectiveness.

ET NAPOLITANO
GOVERNOR



BETSEY BAYLESS
DIRECTOR

ARIZONA DEPARTMENT OF ADMINISTRATION
100 N. 15TH AVENUE, SUITE 401
PHOENIX, ARIZONA 85007

MEMORANDUM

TO: The Honorable Russell K. Pearce, Chairman, House Appropriations Committee
The Honorable Robert Burns, Chairman, Senate Appropriations Committee
Richard Stavneak, Director, Joint Legislative Budget Committee (JLBC)

FROM: Betsey Bayless, Director, Arizona Department of Administration

DATE: October 31, 2003

SUBJECT: Arizona Department of Administration Telecommunications Privatization Monthly Report (HB 2533)

Background: Laws 2003, Chapter 263, Section 101 requires the Government Information Technology Agency (GITA), in consultation with the Arizona Department of Administration, to prepare and submit to the JCCR an honorable request for proposals (RFP) to privatize the state's telecommunication services. Both agencies are required to submit monthly reports on the status of activities and expenditures related to the act.

ADOA Telecommunications Vision: Communication is at the core of State business. The State's telecommunications infrastructure is a key tool for unlocking the potential for efficient and effective government. The convergence of separate voice, video, and data telecommunications systems is approaching mainstream. At present, agencies are increasingly identifying IP telephone systems to replace their older, less capable telephone systems. The timing to initiate a large-scale telecommunications convergence project could not be better. Most of the separate telecommunications systems utilized by agencies are at the end of their useful life.

ADOA envisions a converged telecommunications system capable of seamlessly and securely integrating voice, video, and data applications throughout State Government. A converged telecommunications system will:

1. Reduce the State's total cost for telecommunication services.
2. Leverage the State's existing assets/investments when and where possible.
3. Introduce service features enabling the State to accomplish more work with fewer resources.
4. Ensure the State can continue to function in the event of major service outages.
5. Provide agency stakeholders the ability to self-administer telecommunications services for their respective organizations, if desired.

Activities:

1. ADOA has participated in meetings with GITA and provided feedback on the drafts of the RFP: Statement of Work, Pricing Schedule, Attachments and Roadmap.

2. ADOA's Information Services Division (ISD) provided financial and operational information to GITA as requested. Additionally, ADOA's State Procurement Office (SPO) has participated in meetings with GITA and their consultants (Burton Group) to provide guidance in complying with procurement law.
3. ADOA identified four key areas of concern and provided comments to GITA. Those areas are still not completely addressed. The current RFP structure:
 - a. Commits the State to convergence and privatization without identifying the funding cost for implementation.
 - I. GITA has added a solicitation of a high level convergence plan. This plan will not have the costs for implementation until after the RFP is awarded. Even if the respondent provided high level cost data, they will not have the information they need in order to provide accurate cost data for future phases.
 - II. The RFP only contains detail cost and inventory for ATS and AHCCCS. Although the scope of the first phase of the privatization is limited to ATS customers on the capitol mall and AHCCCS, respondents may lack sufficient information to provide for future phases.
 - b. The RFP does not leverage the private sector to ease the financial burden associated with moving to convergence. The current structure of the RFP may place the State at a disadvantage in that the "service provider" specifies the technology and the State funds the build-out. This could place the risk of rapidly changing technology on the State and does not provide an alternative funding source for a statewide solution. GITA has added an option to the RFP for respondents to propose ownership of the assets. This should be a requirement, not an option.
 - c. The proposed responsibilities and structure of the Program Office may not sufficiently leverage the competencies of the service provider, as the responsibility for designing projects still rests with the State Program Office and agencies. A key goal is to partner with a "service provider" to leverage core competencies and share the risks of convergence.
 - d. Does not provide funding mechanisms for many of the indirect costs and enterprise functions which have been placed on ATS over the years. Currently these functions, including the switchboard and security, are recovered through the ATS rates. The RFP should address these functional requirements, or at minimum, provide a funding solution.

We have listed specific risk issues needing to be addressed prior to RFP release. The privatization of Statewide Telecommunications is an ambitious endeavor requiring a strategy to minimize risk. To ensure success of telecommunications transformation, the policy issues of governance and stakeholder buy-in must be addressed. An uncoordinated effort without a statewide vision will result in maintaining the status-quo and reinforcing agency silos.

ADOA recommended to GITA consideration of a public/private partnership through a design-build RFP in which contractor(s) propose:

- a. A technology plan to meet the State's business needs
- b. An implementation plan including a timeline, and
- c. Creative financing strategies to ease the financial burden of capital expenditures.

All of these should be evaluated prior to final award. This approach allows the State's business needs to drive the telecommunication solution and provides a mechanism for the short-list respondents to obtain the current inventory. This is similar to the "solution seeking" process used for the BRITS and PLTO projects. Due to the very limited time allocated by statute for development of the RFP, GITA staff responded to ADOA that time constraints precluded a change to the structure of the RFP.

It is important to note many states have tried unsuccessfully to accomplish this even without time constraints. States pursuing telecommunications privatization are in the national spotlight. Arizona must not become yet another lesson learned. As the RFP currently is structured, the State is committing to a venture allowing for unplanned results.

Funding Report:

No expenditures were processed since the last report. A recap of the payments through October 31, 2003 is shown below.

| Vendor | Service Description | P.O. Amount | Payments |
|-------------------------------------|---|----------------|-------------|
| Burton Group, Inc. | Consultant Services to develop RFP for Telecommunications Privatization | \$211,000 | \$35,435.07 |
| Arizona State University-Purchasing | Professional services of procurement section to assist in development of RFP for Telecommunications Privatization | up to \$12,000 | \$0.00 |
| Kelly Temporary Services | Clerical Support related to RFP for Telecommunications Privatization | up to \$7,000 | \$1,885.00 |

- c: David Jankofsky, Director, OSPB
Chris Cummisky, Director, GITA



JANET NAPOLITANO
GOVERNOR

CHRIS CUMMISKEY
DIRECTOR

STATE OF ARIZONA
GOVERNMENT INFORMATION TECHNOLOGY AGENCY
100 North. 15th Ave., Suite 440
Phoenix AZ 85007



To: The Honorable Russell K. Pearce, Chairman
House Appropriations Committee
Joint Committee on Capital Review
The Honorable Robert Burns, Chairman
Senate Appropriations Committee
Joint Committee on Capital Review

From: Chris Cummiskey, Director and State CIO

Date: October 30, 2003

Subject: Request for Proposal to Privatize the State's Telecommunication Services

In accordance with HB 2533, the Government Information Technology Agency (GITA) is pleased to deliver the attached actionable Request for Proposal (RFP) to privatize the State's telecommunication services. The RFP was developed in consultation with the Department of Administration (ADOA) and with extensive input from the Information Technology Authorization Committee (ITAC), the Telecommunication Executive Governance Committee (TEGC), the CIO Council, major agencies, and assistance of the Burton Group, a consulting firm specializing in networks and telecommunication. GITA spent less than \$230,000 (of an available \$500,000) on consulting, procurement and clerical support for this project.

Phased Approach

GITA has crafted the RFP employing a phased approach to privatize and modernize the State's telecommunication services. The State will begin with a manageable, definable core and expand quickly as the State gains experience. The phased approach is designed to avoid a large telecommunication outsourcing project failure such as those experienced by Alaska, Georgia and Texas. The State will also deploy appropriate cost and performance controls to reduce risk. The RFP approach is summarized below:

Who

- The Governor's letter of September 24, 2003 directs all executive branch agencies to participate.
- In Phase 1: - 107 agencies who receive some voice or data services from ADOA's ATS division.
 - AHCCCS who runs their own voice system that needs replacement.
- Additional agencies and locations to be added within 2 years through an Additional Work Process, subject, in each case, to analysis with defined price and performance controls.

What

- Outsourced management of telecommunication services, including Capitol Mall fiber ring.
- Laying the foundation for a single, converged and statewide voice, video and data network to support VOIP, IP telephony and other advanced technologies.

When

- Service provider to be selected in Spring 2004 with agencies to be migrated within 2 years.
- Roadmap implementation plan for a converged network within 3 to 5 years.

Where

- In Phase 1: Capitol Malls in Phoenix and Tucson, AHCCCS in downtown Phoenix and 267 locations statewide for a total of 16,000+ lines.

Why

- Advance a more cost effective, efficient statewide telecommunication network.
- Overcome the inefficiencies of disparate systems in agency silos.
- Increase inter-agency communications and improve government services.
- Support cross-agency initiatives, such as social services reform, criminal justice integration, etc.

Increased Efficiencies; Cost Savings

The RFP will advance the efficiency of State government as follows:

- There are over 50 telephone switches (PBXs) and 400 telephone key systems in the executive branch. The outsourcer will eliminate redundant systems and manage those that remain.
- The outsourcer will develop a convergence plan to move the state from separate voice and data networks to one network for both, resulting in cost savings and efficiencies.
- The State will retain a portfolio of commodity contracts to insure continuous competition and to keep commodity costs as low as possible.
- To pursue additional State cost savings, the outsourcer must:
 - Eliminate redundant telephone circuits.
 - Move agencies to IP telephony technology, as their business needs require.
 - Upgrade the State's network, subject to State technology and security standards.
 - Submit benefit sharing and cost reduction proposals during the contract term.

ITAC

As required by HB2533, the RFP received conditional approval from ITAC on October 10, 2003. At the October 22nd ITAC meeting, some ITAC members expressed concerns that they want conveyed to JCCR.

Exhibit 1 to this letter describes each concern, how it is addressed in the RFP or statute and GITA's recommendations regarding each concern.

ADOA

As required by HB2533, GITA has consulted extensively with ADOA on the outsourcing project. While we have incorporated many of ADOA's suggestions in the RFP, ADOA remains concerned that the State will not know all of its costs up-front and that the State is not sufficiently leveraging private sector investments. These concerns are addressed in detail in **Exhibit 2**.

General

In summary, we believe the submitted RFP will privatize the State's telecommunication services at the lowest possible cost while maintaining high levels of service and mitigating risks to the State. My staff and I would be happy to meet with you to discuss all areas of the RFP, either of the attached exhibits and any other specific questions or concerns.

Thank you for the opportunity to advance this important statewide initiative.

Attachments: Exhibit 1
Exhibit 2

Distribution: Members, Joint Committee on Capital Review (JCCR)

1.1 Executive Summary

Overview

HB 2533 requires the Government Information Technology Agency (GITA), in consultation with the Arizona Department of Administration (ADOA), to develop an actionable Request for Proposal (RFP) for the privatization of the State of Arizona's telecommunication services. The telecommunications outsourcing project is supported by Governor Napolitano, who is requiring participation by all executive branch agencies.

The telecommunications outsourcing RFP must receive approval from the Information Technology Authorization Committee (ITAC) prior to submission, on October 31, 2003, to the Joint Committee on Capital Review (JCCR). To facilitate ITAC review, the RFP and related 5-year telecommunications roadmap (Roadmap) are described in this Executive Summary.

Goals

As contemplated by HB 2533, the goal of the telecommunications outsourcing RFP and Roadmap is the creation of a cost-effective, secure telecommunications system that lays the foundation for a statewide converged voice, video, and data network. The State wishes to overcome the inefficiencies of disparate systems in agency silos, increase communication between agencies, and improve government services. Outsourced management of telecommunications will also provide a foundation for important initiatives such as social services reform and criminal justice integration. Additionally, the project will positively impact delivery of broadband services to rural Arizona.

Roadmap

The statewide telecommunications Roadmap (an exhibit to the RFP) provides a five-year vision for the State's telecommunication system and for the creation of a converged statewide network. The Roadmap reflects a phased approach to outsourcing recommended by industry experts. This phased approach allows the State to quickly build on successful implementation but significantly lowers the risk to the State. The Roadmap schedules migration of all executive branch agencies into the outsourced environment during the first 2 years, with procedures described in the RFP.

The Roadmap also contemplates possible addition of other Arizona governmental organizations to enable additional economies of scale and increased intergovernmental communications. In addition to other RFP criteria, RFP respondents will be evaluated based on their proposal for Roadmap

implementation as well as their experience implementing networks and working with organizations of similar size and complexity to the State of Arizona.

Scope of RFP

The successful respondent to the RFP (referred to as the "Service Provider" or the "Contractor") will manage, within a short period of time, all voice and shared data networks for the State. The Arizona Telecommunication System (ATS) portion of ADOA currently provides some voice and data services to 107 state agencies at over 267 locations throughout Arizona. All of these ATS customers will receive services from the Service Provider on contract award.

Additional agencies will be folded into the outsourced environment as called for in the Roadmap (within the first 2 years) or as they have a need for new or improved telecommunication services, whichever occurs first. For the State to continue to migrate additional agencies/locations to the outsourced environment, the Service Provider must continue to meet its performance obligations under the Contract.

Services

Data Services

The Service Provider will assume management and operation of the shared data network called MAGNET (Multi-Agency Network). MAGNET is a Fiber Distributed Data Interface (FDDI) and gigabit Ethernet network connecting 29 buildings on the Capitol Mall and 2 buildings in the Tucson complex.

The network provides customers with high-speed data connectivity as well as Internet access. The Service Provider will also manage the multi-protocol backbone WAN connecting geographically dispersed agency sites around the State, including over 172 sites connected via Frame Relay (120 to Phoenix, 52 to Tucson) and 5 sites connected via ATM. The Phoenix and Tucson telecommunication hubs are connected by 4 OC-3/DS3 links.

The RFP requires the Service Provider to maintain current services by either using current infrastructure or proposing new technologies. The Service Provider must provide 24 x 7 x 365 monitoring of the data network with provisions for quality-of-service features. The following is a summary of Data Services to be provided, as detailed in the RFP:

| | |
|----------------------------------|---|
| • Statewide Connectivity | • Network Performance |
| • Multimedia Transport | • Moves, Adds and Changes (MACs) |
| • Virtual Private Networks (VPN) | • Configuration Change and Fault Management |

Voice Services

The Service Provider will initially provide voice services to approximately 14,000 telephone subscriber lines located in the Capitol Mall Complex in Phoenix and on the Tucson Complex, thereby providing services to approximately 30 percent of the State's 42,000 employees.

In order to leverage the State's existing investment and ease the transition to an outsourced environment, the Service Provider will have the option of managing the Nortel MSL-100 in Phoenix and 2 Option 81C telephone systems in Phoenix and Tucson. In addition, the Service Provider will have the option of managing 3 Octel voicemail systems, 2 Octel 350s in Phoenix and 1 Octel 250 in Tucson. The Call Center using Nortel's Symposium product currently have 850 users programmed into the system with 350 to 400 concurrent users. The Service Provider can also assume operation of a Periphonics Interactive Voice Response system as well as a Melita Predictive Dialer system (currently used by the Department of Revenue). The Service Provider will have the option of proposing other solutions as well. In any case, the Service Provider will have opportunities to recommend changes in infrastructure, particularly using new technologies, during the life of the Contract.

Additional telephone services of other major agencies will be folded into the outsourced environment in the first 2 years. The Service Provider will propose whether to manage all voice traffic from a single switch (including or excluding VOIP services), retain one or more additional switches, or proposed new technology, all subject to oversight by the State.

The following voice services (detailed in the RFP) will be managed by the Service Provider:

| | |
|--|---|
| • Integrated Voice Switching System | • Call Center(s) |
| • Telephone Sets with Calling Features | • Calling Cards |
| • Local and Long Distance Services | • Configuration Change and Fault Management |
| • Interactive Voice Response | • Moves, Adds and Changes (MACs) |
| • Integrated Voice Mail | • Network Performance |

Help Desk Services (Improved)

Help Desk Services to be provided by the Service Provider as detailed in the RFP are:

| | |
|------------------------------|---------------------------------------|
| • 24 x 7 x 365 Support | • Life-Cycle Management of Help Calls |
| • Single Point-of-Contact | • End-User Satisfaction Surveys |
| • Real-Time Updates re: MACs | • Problem Resolution |

The RFP improves services to State customers by extending the help desk to a 24 x 7 x 365 operation. At the present time, after-hour calls are routed to a mainframe support center whose staff has little or no experience in voice/data problem resolution.

Statewide IP Address Management (New)

Currently, each agency manages its own internal IP address assignments, thereby permitting duplication that could impede movement to IP telephony. The Service Provider will be required to review all existing IP address assignments, provide recommendations for common addressing to enable seamless statewide communications and manage the resulting statewide IP address assignments.

Financial

An analysis of the current ATS cost model will be included in the RFP. All future pricing for voice and data services will be established in the Contract. The Service Provider will bill agencies directly based on contract prices. The initial contract will contain pricing schedules that contemplate reduced pricing based on the addition of agencies or locations and resulting economies of scale. The State will have the right to audit the Service Provider's bills and billing practices at any time.

The Service Provider may submit benefit sharing and cost reduction proposals to the State for its consideration, both in response to the RFP and during the term of the resulting contract.

Convergence Plan

In addition to the convergence plan (included in the proposal for Roadmap implementation) submitted and evaluated with its RFP response, the Service Provider must submit to the State a more detailed convergence plan within 180 days of contract commencement. As the State moves to a converged network, increased savings will be realized from decreases in overhead and duplication, such as the elimination of redundant networks and circuits and reductions in moves, adds and changes.

New Technology

The Service Provider may recommend changes to the State's technology in its proposal and/or during the term of its Contract. Decisions on asset replacement

will be made by the State. The State can pursue leasing or other financing arrangements for new technology as it migrates to that technology.

Additional Work Process

Major changes in the Contract will be handled by a formal "Additional Work Order - Requirements Contract" as described in the Contract Special Terms and Conditions. This process will involve a formal assessment by the Service Provider and the agency involved of the costs and proper approach to implementation of the major change. If the State and the Service Provider can't agree on implementation of the additional work process, the State can consider other outsourcing avenues.

Asset Ownership

The State will maintain ownership of all current telecommunication assets because:

- most of the existing assets are paid for and fully depreciated;
- some assets were purchased with federal funds, impacting the State's ability to sell them; and,
- the State does not want to pay for the current assets again in its service rates.

However, the State is willing to look at vendor proposals for alternative for future assets under the following conditions:

- the State wants to avoid an expensive payout for assets (without available appropriations) at contract termination or expiration; and
- the State wants to retain control over the vital components of its infrastructure at the end of the contract.

The Service Provider will not be charged for the use of any State owned assets in fulfillment of providing services in this RFP.

Data Network Infrastructure Upgrades

It is important that the State maintain a robust data network to continue to provide quality telecommunication services to State agencies. The Service Provider will be responsible for maintenance and upgrades to the State's data infrastructure. The vendor community will be provided with sufficient information in the RFP to estimate the cost of such upgrades and bid their contract rates accordingly. The Service Provider will provide the State, at least annually, with an itemized list of infrastructure purchases. The Contract will provide that all data network infrastructure upgrades shall be incorporated into (and become part of) the State's network and shall be State assets.

Commodities

The State will maintain and continue to update a portfolio of statewide telecommunication "commodity" contracts to insure continuous competition and reduced prices on carrier services and telecommunication hardware, software and other commodities. In addition to supporting all state agencies, these contracts support and aggregate the buying power of the rural communities, cities, counties, schools and other governmental organizations in the State.

The relationship of the Service Provider to the commodity contractors will be as follows:

Carrier Services - The Service Provider will handle all interactions with the carrier services contractors (except contract interpretation/modifications) on behalf of the State. Managing payments and services under these contracts will allow the Service Provider to identify opportunities for consolidation and cost savings across all agencies. The Service Provider will bill the agencies and maintain a payment system for payments to the carriers.

Hardware and Software - The Service Provider will recommend and approve purchases of agency-specific telecommunication hardware and software, subject to signing of purchase orders by individual agencies. The affected agency will be billed by the commodity vendor (not the Service Provider) and will own the underlying commodities. The Service Provider will manage installation and operation of the commodities.

Maintenance of Statewide Assets - The existing maintenance contracts for statewide assets will be utilized by the Service Provider.

If the Service Provider can provide equivalent products or services to those otherwise available to the State, at reduced prices, it may seek approval from the State to provide such products or services.

Enterprise Architecture and Security

All activities of the Service Provider must comply with the State's Enterprise Architecture, which will continue to be updated in support of convergence. The Service Provider must also meet the State's security requirements, which are being updated as part of the State's Homeland Security efforts.

Administration

Oversight of contract operation will be handled by a State Telecommunications Program Office. The office will likely have 2 or 3 employees. Proposals from the Service Provider will be reviewed and commented on by the Program Office. Only proposals that affect statewide infrastructure or statewide pricing will

require approval of the Program Office. Proposals that change contract pricing or scope will be negotiated by the State Procurement Office (SPO).

Protective Provisions

The RFP will provide minimum acceptable levels of performance and will have detailed termination provisions. The Service Provider will be required to meet the State's insurance requirements. Liquidated damages and a performance bond may also be required.

Evaluation

The RFP responses will be evaluated based on criteria set forth in the RFP.

The PIJ Process

Each agency will continue to be responsible for Project Investment Justifications (PIJs) for their individual telecommunications projects, as mandated by statute. These PIJs will enable GITA and ITAC to provide oversight to Service Provider's performance during the contract term and Roadmap implementation.

This Executive Summary is provided as an overview for convenient reference. It does not summarize all provisions of the RFP and it does not limit the meaning of any provisions in the RFP. In the case of any conflict between this summary and the provisions of the RFP, the detailed provisions control.

STATE OF ARIZONA

Joint Committee on Capital Review

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JOHN LOREDO

DATE: March 22, 2004

TO: Representative Russell Pearce, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Lorenzo Martinez, Assistant Director

SUBJECT: ARIZONA STATE UNIVERSITY – REVIEW OF INFORMATION
TECHNOLOGY/TELECOMMUNICATIONS INFRASTRUCTURE UPGRADE BOND
PROJECT.

Request

A.R.S. § 15-1683 requires Committee review of any university bond projects. Arizona State University (ASU) on behalf of the Arizona Board of Regents (ABOR) requests Committee review of Phase 1 of Information Technology/Telecommunications Infrastructure Upgrades bond project.

Recommendation

The Committee has at least 2 options:

- 1) A favorable review.
- 2) Defer action until additional information is provided on the scope and cost estimates of components of the project. ASU did not provide detail on the scope or the development of cost estimates for each component. JLBC Staff cannot comment on the reasonableness of the cost estimates.

The project will upgrade and enhance the ASU computer networks and voice, data and video distribution systems. The estimated cost of \$22,000,000 will be financed with a system revenue bond issuance. The weighted average useful life of the project is approximately 14 years. The bonds will be repaid over a 10-year period at an estimated interest rate of 5%. The total interest costs are projected to be \$6,500,000. The annual debt service of \$2,850,000 would be paid from tuition collections and indirect cost recovery funds. Some of the tuition collections would have otherwise been available for operating costs such as enrollment growth.

The project would increase the university's debt ratio (debt services as a percent of total expenditures) from 4.8% to 5.1%. All ASU items on the agenda would increase the debt ratio from 4.8% to 5.8%. The statutory cap is 8%.

(Continued)

Analysis

ASU plans to issue \$22,000,000 in system revenue bonds to finance upgrades and enhancements to the university information technology/telecommunication systems. The last major upgrade related to the infrastructure for these systems occurred in 1985. The following table shows the components of the project and the estimated cost for each component. JLBC Staff has requested additional detail on scope and cost estimates of each component.

| <u>Project Component</u> | <u>Cost</u> | <u>Useful Life (Yrs.)</u> | <u>Weighted Avg. Life</u> |
|--------------------------------------|------------------|---------------------------|---------------------------|
| Wireless Network | \$ 2,000,000 | 6.0 | 0.6 |
| Upgrade Building Wiring (horizontal) | 3,900,000 | 17.5 | 3.1 |
| Upgrade Building Wiring (vertical) | 1,650,000 | 17.5 | 1.3 |
| Upgrade Connections | 3,850,000 | 7.0 | 1.2 |
| Reliability Upgrades/UPS | 6,700,000 | 7.0 | 2.1 |
| Voice/Data/Video Infrastructure | <u>3,900,000</u> | 30.0 | <u>5.3</u> |
| TOTAL | \$22,000,000 | | 13.6 |

Wireless Network

ASU plans to supplement the existing data network with the addition of a wireless network. Estimated cost of this component is \$2,000,000. The project will install various connection points throughout the campus to expand availability of the networks. This component will also require enhancements to existing local area networks (LANs) which will include security and wireless compatibility upgrades. JLBC Staff has requested additional information on the number and per unit costs for new connection points and LAN upgrades.

Upgrade Building Wiring

ASU plans to upgrade building wiring to meet the latest data standards. Current wiring infrastructure is not sufficient to meet existing demand for bandwidth, and upgrading is necessary to implement the other components of the project and improve the speed of data connections. Estimated cost of this component is \$5,550,000 for both horizontal wiring (wall connections to central locations on each floor) and vertical wiring (floor-to-floor connections). JLBC Staff has requested additional information on the number of buildings to be upgraded and the average cost per building.

Upgrade Connections

ASU plans to upgrade the network connections to the data networks to improve the speed of communications. This will require upgrading LANs to Switched Ethernet technology to allow each user to have a dedicated connection rather than a shared connection. Estimated cost of this component is \$3,850,000. JLBC Staff has requested additional information on the number and per unit costs for connection and LAN upgrades.

Reliability Upgrades/UPS

ASU plans to add redundant systems to the existing networks to improve reliability of the systems. The project will involve upgrading core switches and uninterruptible power supplies (UPS) within the network. Estimated cost of this component is \$6,700,000. JLBC Staff has requested additional information on the number and per unit costs for new switches and UPS systems.

Voice/Data/Video Infrastructure

ASU plans to upgrade the in-ground distribution system. Similar to the building wiring upgrades, the connections between buildings need to be upgraded to allow systems within different buildings to communicate. Estimated cost of this component is \$3,900,000. JLBC Staff has requested additional information on how the cost estimate was developed.

ASU
ARIZONA STATE UNIVERSITY

January 28, 2004



The Honorable Russell K. Pearce, Chair
Joint Committee on Capital Review
1700 W. Washington
Phoenix, AZ 85007

Dear Representative Pearce:

In accordance with ARS 15-1683, the Arizona Board of Regents (ABOR) requests that the following bond financed project for ASU be placed on the next JCCR agenda for review:

IT/Telecom Infrastructure Upgrades – Phase I

Enclosed is pertinent information relating to this project.

We appreciate your consideration of our request. If you have any questions or desire any clarification on the enclosed material, please contact me at (480) 965-3201.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mervyn Harrison'.

Mervyn Harrison
Executive Vice President for
Administration and Finance

Enclosure

c: Lorenzo Martinez, Assistant Director, JCCR
Linda Blessing, Executive Director, Arizona Board of Regents
Kathy Bedard, Assistant for Business and Finance, Arizona Board of Regents
Milton Glick, Executive Vice President and Provost
Virgil Renzulli, Vice President for Public Affairs
William Lewis, Chief Information Officer/Vice Provost
Scott Cole, Deputy Executive Vice President, University Services
Steve Miller, Deputy Vice President, Public Affairs
Alan Carroll, Associate Vice President, Budget Planning and Management
Gerald Snyder, Associate Vice President for Finance and Treasurer

EXECUTIVE VICE PRESIDENT FOR ADMINISTRATION AND FINANCE

PO Box 872303, TEMPE, AZ 85287-2303
(480) 965-3201 FAX: (480) 965-8388

ARIZONA STATE UNIVERSITY
ASU DEBT FINANCING

| | Project Costs | | | | Debt Service | | | | Operating Costs (Presently Estimated) | | | |
|--|---------------|------------|-----------------|------------|--------------|-----------|-----------------|---------------|---------------------------------------|---------|-----------------|-------|
| | General Fund | Tuition | Auxiliary/Other | Total | General Fund | Tuition | Auxiliary/Other | Total | General Fund | Tuition | Auxiliary/Other | Total |
| Bonds: | | | | | | | | | | | | |
| IT/Telecom Infrastructure Upgrades-Phase I | - | 11,000,000 | 11,000,000 | 22,000,000 | - | 1,425,000 | 1,425,000 | 2,850,000 (1) | - | - | - | - |
| Total Bonds | - | 11,000,000 | 11,000,000 | 22,000,000 | - | 1,425,000 | 1,425,000 | 2,850,000 (2) | - | - | - | - |

(1) The debt service calculation is based on financing over 10 years at a 5.0% interest rate, in view of this project having an overall estimated useful life of 14 years, with the individual components having useful lives ranging from 5 to 30 years.

(2) ASU's debt service percentage in accordance with ARS 15-1683 will increase from 4.8% to 5.1% for the new financings (based on current expenditure estimates in most recent debt capacity study).

Arizona State University

IT/Telecomm Infrastructure Upgrades Phase I Project

Useful Life of the Project Components

| <u>Project Components</u> | <u>Useful Life</u> |
|---|--------------------|
| • Implement a wireless data network as a supplement to the switched data network - \$2 million | 5 to 7 years |
| • Upgrading building wiring to the latest data standards - \$3.9 million | 15 to 20 years |
| • Upgrading building fiber riser for high-speed data transport - \$1.65 million | 15 to 20 years |
| • Upgrading all remaining shared data connections to high-speed switched connections - \$3.85 million | 7 years |
| • Enhancing network reliability with core switch upgrades and UPS power – \$6.7 million | 7 years |
| • Providing new project infrastructure for voice, data, and video - \$3.9 million | 30 years |

Based on the above useful lives, the overall average useful life of this project is 13.64 years.

EXECUTIVE SUMMARY

ACTION ITEM: Approval of the IT/Telecomm Infrastructure Upgrade Phase I project, Arizona State University.

ISSUE: ASU seeks approval for the \$22 million IT/Telecomm Infrastructure Upgrade Phase I project, which is to upgrade the University Telecommunications Infrastructure for all campuses of the University.

PROJECT DESCRIPTION:

Previous Board Action:

- Revised 2004-2006 Capital Improvement Plan November 2002
- ARU/IT Subcommittee of the Board of Regents August 2003

This upgrade to the University Telecommunication Infrastructure will include the following major components:

- **Implement a wireless data network as a supplement to the switched data network - \$2 million**
Over the past several years, "islands" of wireless Ethernet connectivity have been established at ASU. These islands currently represent only about 15% coverage of the main campus. One of the major issues with wireless technology is security. Recent upgrades to the core network infrastructure combined with upgrades proposed in this request will give the university the capability of deploying wireless over VLANs (Virtual Local Area Networks) to enhance security for the wireless users. The costs associated with this portion of the project are predicated upon the completion of several other components on this Board item.
- **Upgrading building wiring to the latest data standards - \$3.9 million**
There was a major upgrade to the campus building wiring infrastructure in 1985. At that time the standard was CAT-3 cabling. This outdated wiring standard will not support current demands for network bandwidth. While some upgrades have been done to meet demands and newer buildings have been built with the cabling standards in existence at the time of construction, the upgrade of the infrastructure to CAT-6 standards needs to be completed to meet the research and instructional needs of the university. The cabling infrastructure in this component is referred to as horizontal distribution cabling (connecting wall jacks in rooms to resources in the Telecommunications Equipment Closets on each floor of a building). The next item is to upgrade the connections between these equipment closets from floor-to-floor within a building (vertical distribution infrastructure). These upgrades are interdependent.
- **Upgrading building fiber riser for high-speed data transport - \$1.65 million**
See previous item – this is the vertical distribution system.
- **Upgrading all remaining shared data connections to high-speed switched connections - \$3.85 million**
When Ethernet was originally installed at the university "Shared Segment Ethernet," where many users share the same 10mbps connection, was deployed. This technology has been replaced with "Switched Ethernet," where every user has a dedicated connection instead of a shared connection.

Contact: William Lewis, University Chief Information Officer and Vice Provost, 480/965-9059,
william.lewis@asu.edu

Mernoy Harrison, Executive Vice President for Administration and Finance, (480) 965-3201,
Mernoy.harrison@asu.edu

EXECUTIVE SUMMARY

This newer technology not only improves performance but also is much more secure. All newer buildings have had Switched Ethernet installed and several years ago a small allocation of year-end funding allowed the university to start replacing some of the existing shared segment equipment. This request is to complete the upgrade to Switched Ethernet within ASU.

- **Enhancing network reliability with core switch upgrades and UPS power - \$6.7 million**

The user of the ASU data network observes two things when interacting with it: speed and availability/reliability. The previous three items primarily relate to the speed issue. With the increased dependence upon the data network for the performance of daily tasks, there is a need to move the network towards the 5X9's (99.999% availability) goal that has been the reality with other infrastructure items such as the telephone and electricity. This component of the plan will be to add critical redundant infrastructure components and UPS (Uninterruptible Power Supplies) to the university data network. The attached diagram includes these key elements of redundancy.

- **Providing new project infrastructure for voice, data, and video - \$3.9 million**

As new buildings have been built within the university, demand has exceeded the capacity of the existing in-ground distribution system. As new buildings are constructed in previously open space and backfill into existing space, the in-ground distribution system must be extended to support them. These costs are not typically associated with a single building project and therefore not considered a part of their costs. This portion of the IT/Telecomm Infrastructure Upgrade project request will enable us to anticipate and begin work on some of these projects.

All of these major component upgrades are interdependent. Any single component cannot be completed independently.

PROPOSED SCHEDULE:

- | | |
|----------------------|----------------|
| • Board Approval | September 2003 |
| • Project start | October 2003 |
| • Project Completion | October 2006 |

PROJECT JUSTIFICATION:

The IT/Telecomm University Infrastructure Upgrade is proposed to facilitate expanded research and educational needs on all campuses of the University by enhancing the existing network to a state-of-the-art voice, data, and video telecommunication service. This proposal will allow faculty, staff, and students to have reliable high-speed communication and connectivity access to each other and to all electronic information provided by the University, other Internet2 universities, and the Internet in general. Existing telecommunication facilities were installed in 1985 and have been upgraded on a piece-meal, as-needed basis and as funding has become available since then. These facilities are inadequate to address the growing instructional and research requirements of the university, and consequently placing more and more constraints on the service level provided.

The traditional approach of funding infrastructure additions based on the budget associated with new buildings results in less than optimal infrastructure architecture because only the current building is considered, not the good of the university overall or future construction in the area. Existing duct banks are not capable of meeting the growth needs of the university. The process of reviewing the needs based upon current and future technology trends, and the projected growth plans in research and academic facilities is being conducted. This study has identified shortcomings of our existing infrastructure and enhancements

EXECUTIVE SUMMARY

needed. Many of the enhancements are the result of the fact that internal building wiring is not capable of meeting current and future technology demands.

Upon completion of all aspects of this proposed upgrade, the University telecommunication network will be capable of providing ongoing service and new technology growth with incremental annual expenditures. It must be remembered that demands for technology in support of the Academic and Research mission are constantly changing as the available technology matures and new technologies are introduced. This means that periodically, major infrastructure upgrades are going to be needed within the university.

FISCAL IMPACT AND FINANCIAL PLAN:

This project is proposed to be financed through System Revenue Bonds. The September 2003 CDP debt ratios show that ASU's debt service on all outstanding debt, including the debt for this project, would be 5.7% of ASU's total projected expenditures (State Law basis, max 8%) and 7.1% of ASU's projected unrestricted expenditures (ABOR Policy basis, max 10%). Since the overall average useful life of the upgrades is approximately 14 years, the financing for this project will be done over 10 years. The debt service for this project is .02% (2/100th of 1%) of ASU's total projected expenditures (State Law basis) and .03% (3/100th of 1%) of ASU's projected unrestricted expenditures (ABOR Policy basis). The funding source for the debt service will be Tuition and Other Local Funds.

RECOMMENDATION:

That the Board grant approval to Arizona State University for the IT/Telecomm Infrastructure Upgrade Phase I project.

EXECUTIVE SUMMARY

Capital Project Information Summary

University: Arizona State University

Project Name: IT/Telecom Infrastructure Upgrade Phase I

Project Description/Location:

This upgrade to the University Telecommunication Infrastructure will include the following major components:

- Implement a wireless data network as a supplement to the switched data network - \$2 million
- Upgrading building wiring to the latest data standards - \$3.9 million
- Upgrading building fiber riser for high-speed data transport - \$1.65 million
- Upgrading all remaining shared data connections to high-speed switched connections - \$3.85 million
- Enhancing network reliability with core switch upgrades and UPS power - \$6.7 million
- Providing new project infrastructure for voice, data, and video - \$3.9 million

Project Schedule (Beginning Month/Year):

| | |
|--------------------|----------------|
| Planning | September 2003 |
| Design | September 2003 |
| Construction | October 2003 |
| Project Completion | October 2006 |

Project Budget:

| | |
|------------------------------------|---------------|
| Total Project Cost | \$ 22,000,000 |
| Direct Construction Cost | \$ 8,590,910 |
| Total Project Cost per GSF | \$ N/A |
| Construction Cost per GSF | \$ N/A |
| Change in Annual Oper. /Main. Cost | \$ N/A |
| Utilities | \$ N/A |
| Personnel | \$ N/A |
| All Other Operating | \$ N/A |

Funding Sources:

Capital

| | |
|---|--------------|
| A. System Revenue Bonds | \$22,000,000 |
| (Funding source for debt service will be Tuition and Other Local Funds) | |

Operation/Maintenance

| | |
|-----------------|-----|
| A. General Fund | \$0 |
|-----------------|-----|

Board of Regents Meeting
September 25-26, 2003
Item # 9
Arizona State University
Page 5 of 5



DataCommunications
965-5911
DataComm@asu.edu
<http://nc2.inrr.asu.edu/datacomm>
NE Corner 3rd Floor, Computing Commons
Arizona State University
Tempe, Arizona 85287-0201
FAX: (602) 965-0963



STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

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CHAIRMAN 2003
TIMOTHY S. BEE
JACK A. BROWN
ROBERT CANNELL, M.D.
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HOUSE OF
REPRESENTATIVES

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JOHN LOREDO

DATE: March 19, 2004

TO: Representative Russell Pearce, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Lorenzo Martinez, Assistant Director

SUBJECT: ARIZONA STATE UNIVERSITY – REVIEW OF UNIVERSITY RESEARCH
INFRASTRUCTURE LEASE-PURCHASE PROJECTS

Request

A.R.S. § 15-1682.01 requires Committee review of any university projects financed with Certificates of Participation (also known as COPs or lease-purchase). Arizona State University (ASU) on behalf of the Arizona Board of Regents (ABOR) requests Committee review of the Interdisciplinary Science and Technology Buildings (ISTB) 1 and 2. These projects will be financed with a COP issuance totaling \$92,000,000.

Recommendation

The JLBC Staff recommends a favorable review of the request with the following stipulations:

- ASU report to the Committee before expenditure of any allocations that exceed the greater of \$100,000 or 10% of the reported contingency amount total for add alternates that do not expand the scope of the project.
- ASU submit for Committee review any allocations that exceed the greater of \$100,000 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. The JLBC Staff will inform the university if they do not agree with the change of scope as an emergency.

The 2 ISTB projects have a total capital cost of \$92,000,000, which would be financed with a COP issuance. The COPs would be repaid over a 25-year period at an estimated interest rate of 6%. The total interest costs above the financed amounts are projected to be \$87,917,500. ASU will make interest only annual payments of approximately \$1,100,000 until the General Fund appropriation from Chapter 267 becomes available for debt service in FY 2008. By FY 2008, the annual debt service payment will be \$7,196,700.

The per square foot costs for the buildings are about average relative to other university research infrastructure projects. *(See table in Analysis section for per square foot cost comparisons with other projects.)*

These projects would increase the university's debt ratio (debt services as a percent of total expenditures) from 4.8% to 5.4%. All ASU items on the agenda would increase the debt ratio from 4.8% to 5.8%. The statutory cap is 8%.

(Continued)

The estimated requirement for operating and maintenance costs when the ISTB projects are complete totals \$2,467,000. ASU plans to fund these operating costs from the Indirect Cost Recovery Fund.

Analysis

ASU has submitted the ISTB projects as “research infrastructure” projects. Laws 2003, Chapter 267 amended A.R.S. § 42-5075 to allow the exemption of the proceeds and income from construction contracts related to research infrastructure projects from being taxed. A.R.S. § 15-1670 defines research infrastructure as “installations and facilities for continuance and growth of scientific and technological research activities at the university.” The intent of the tax exemptions provided by Chapter 267 is to lower the cost of the projects and help finance debt service payments until General Fund appropriations from Chapter 267 become available in FY 2008. Chapter 267 makes an annual General Fund appropriation of \$14,472,000 to ASU for debt service payments from FY 2008 through FY 2031. To date, \$5,711,000 of the \$14,472,000 has been favorably reviewed by the Committee for Phase 2 of the Arizona Biodesign Institute. The ISTB projects will use another \$7,196,700 or the \$14,472,000. This will leave \$1,564,300 available for debt service on other ASU research infrastructure projects (equates to \$20,000,000 in COP capacity at 6% over 25 years).

The following table lists the capital project costs and financing related costs for each project.

| ASU Research Infrastructure Lease-Purchase Projects | | | | |
|--|------------------------|----------------------------|----------------------------|------------------------|
| <u>Project</u> | <u>Issuance Amount</u> | <u>Annual Debt Service</u> | <u>Total Debt Payments</u> | <u>Operating Costs</u> |
| ISTB 1 | \$74,000,000 | \$5,788,700 | \$144,717,500 | \$1,837,000 |
| ISTB 2 | 18,000,000 | 1,408,000 | 35,200,000 | 630,000 |
| TOTAL | \$92,000,000 | \$7,196,700 | \$179,917,500 | \$2,467,000 |

Interdisciplinary Science and Technology Building 1

ASU will construct 180,000 square feet to provide space to support the bioscience initiatives at ASU-Main Campus. The facility will provide laboratory, research and office space, and include a small animal vivarium (enclosure for housing animals/plants in natural conditions), Nuclear Magnetic Resonance facility and information technology center (supercomputer facilities).

ASU will issue \$74,000,000 in COPs to fund construction and interest only payments through FY 2007. The COPs will be repaid over a 25-year period at an estimated interest rate of 6%. The estimated annual debt service will be \$5,788,700 by FY 2008. ASU will use COP proceeds to make interest only payments on the debt service through FY 2007, after which General Fund appropriations from Chapter 267 will be used to make the payments. Beginning in FY 2008, Chapter 267 appropriates \$14,472,000 from the General Fund annually to ASU for debt service payments on research infrastructure projects. The appropriations are made through FY 2031.

The project is estimated to take 21 months from the start of construction to completion. Annual on-going operating and maintenance costs when the project is complete are estimated to be \$1,837,000 and will be funded with indirect cost recovery funds.

The cost per square foot for ISTB 1 is \$412 and the direct construction cost per square foot is \$285. The following table shows cost comparisons for various university research infrastructure projects.

| University Research Infrastructure Projects Per Square Foot Costs | | | |
|--|---------------------------------------|---------------------------------------|---|
| <u>Project</u> | <u>Total Project Finance Cost</u> | <u>Total Cost Per Square Foot</u> | <u>Direct Construction Cost Per Square Foot</u> |
| ASU-Biodesign Institute 2 | \$73,000,000 | \$425 | \$307 |
| ASU-Interdisciplinary Science and Technology Building 1 | 74,000,000 | 412 | 285 |
| ASU-Interdisciplinary Science and Technology Building 2 | 18,000,000 | 300 | 217 |
| UA-Institute for Biomedical Science and Biotechnology Building | 70,241,700 | 389 | 285 |
| UA-Medical Research Building | 63,568,800 | 392 | 287 |
| UA-Chemistry Building Expansion | 53,848,200 | 475 | 324 |
| Average | | \$399 | \$284 |

(Continued)

Interdisciplinary Science and Technology Building 2

ASU will construct 60,000 square feet to provide high bay (extended ceiling) laboratories, and research office and light laboratory space as a separate building on the main campus. The facility will primarily support the advanced pavement materials and environmental fluid dynamics programs.

ASU will issue \$18,000,000 in COPs to fund construction and interest only payments through FY 2007. The COPs will be repaid over a 25-year period at an estimated interest rate of 6%. The estimated annual debt service will be \$1,408,000 by FY 2008. ASU will use COP proceeds to make interest only payments on the debt service through FY 2007, after which General Fund appropriations from Chapter 267 will be used to make the payments. Beginning in FY 2008, Chapter 267 appropriates \$14,472,000 from the General Fund annually to ASU for debt service payments on research infrastructure projects. The appropriations are made through FY 2031.

The project is estimated to take 16 months from the start of construction to completion. Annual on-going operating and maintenance costs when the project is complete are estimated to be \$630,000 and will be funded with indirect cost recovery funds.

The cost per square foot for ISTB 2 is \$300 and the direct construction cost per square foot is \$217. The following table shows cost comparisons for various university research infrastructure projects.

RS/LMa:jb

ASU
ARIZONA STATE UNIVERSITY

March 11, 2004



The Honorable Russell K. Pearce, Chair
Joint Committee on Capital Review
1700 W. Washington
Phoenix, AZ 85007

Dear Representative Pearce:

In accordance with House Bill 2529 and ARS 15-1682.01, the Arizona Board of Regents (ABOR) requests that the following Arizona State University (ASU) projects for Certificate of Participation lease purchase financing be placed on the next Joint Committee on Capital Review (JCCR) agenda for review:

Interdisciplinary Science and Technology Building I
Interdisciplinary Science and Technology Building II

In accordance with ARS 15-1683, ABOR requests that the following bond financed projects for ASU be placed on the next JCCR agenda for review:

Infrastructure Improvements – Phase III
AZ Biodesign Institute Phase I (Revised Project: Scope and Budget Increase)

Enclosed is pertinent information relating to this project.

We appreciate your consideration of our requests. If you have any questions or desire any clarification on the enclosed material, please contact me at (480) 965-3201.

Sincerely,

Mernoy Harrison
Executive Vice President for
Administration and Finance

Enclosure

c: Lorenzo Martinez, Assistant Director, JCCR
Linda Blessing, Executive Director, Arizona Board of Regents
Ted Gates, Assistant Executive Director for Capital Resources, Arizona Board of Regents
Milton Glick, Executive Vice President and Provost
Virgil Renzulli, Vice President for Public Affairs
Scott Cole, Deputy Executive Vice President, University Services
Steve Miller, Deputy Vice President, Public Affairs
Alan Carroll, Associate Vice President, Budget Planning and Management
Gerald Snyder, Associate Vice President for Finance and Treasurer

EXECUTIVE VICE PRESIDENT FOR ADMINISTRATION AND FINANCE

PO BOX 872303, TEMPE, AZ 85287-2303
(480) 965-3201 FAX: (480) 965-8388

ARIZONA STATE UNIVERSITY
ASU DEBT FINANCING

| | Project Costs | | | | Debt Service | | | | Operating Costs (Presently Estimated) | | | |
|--|---------------|-----------|------------------|-------------|--------------|---------|------------------|---------------|---------------------------------------|---------|------------------|-----------|
| | General Fund | Tuition | Auxiliary/ Other | Total | General Fund | Tuition | Auxiliary/ Other | Total | General Fund | Tuition | Auxiliary/ Other | Total |
| <u>COPs Lease Purchase:</u> | | | | | | | | | | | | |
| Interdisciplinary Science and Technology Building I | 74,000,000 | - | - | 74,000,000 | 5,788,700 | - | - | 5,788,700 (1) | - | - | 1,837,000 | 1,837,000 |
| Interdisciplinary Science and Technology Building II | 18,000,000 | - | - | 18,000,000 | 1,408,000 | - | - | 1,408,000 (1) | - | - | 630,000 | 630,000 |
| Total COPS | 92,000,000 | - | - | 92,000,000 | 7,196,700 | - | - | 7,196,700 | - | - | 2,467,000 | 2,467,000 |
| <u>Bonds:</u> | | | | | | | | | | | | |
| Infrastructure Improvements Phase III | - | 7,400,000 | - | 7,400,000 | - | 537,600 | - | 537,600 (2) | - | - | - | - |
| Arizona Biodesign Institute Phase I (Revised Scope and Budget Increase) | - | - | 3,800,000 (3) | 3,800,000 | - | - | 276,100 | 276,100 (2) | - | - | - | - |
| Total Bonds | - | 7,400,000 | 3,800,000 | 11,200,000 | - | 537,600 | 276,100 | 813,700 | - | - | - | - |
| TOTAL | 92,000,000 | 7,400,000 | 3,800,000 | 103,200,000 | 7,196,700 | 537,600 | 276,100 | 8,010,400 (4) | - | - | 2,467,000 | 2,467,000 |

(1) The debt service calculation for the COP financed projects is based on an assumed 6.0% interest rate over 25 years. ASU plans to capitalize interest until July 1, 2007 when the annual state appropriation begins. The remaining ASU research infrastructure project is anticipated to be presented to JCCR later on in Spring or Summer, 2004 at which time more specifics on the consolidated financing plan for all of the research infrastructure projects will be presented. The reason for presenting these research infrastructure projects at this time for review is that construction is about ready to begin for these two projects.

(2) The debt service calculation for the bond financed projects is based on an assumed 6.0% interest rate over 30 years.

(3) Represents the increased budget arising from the increased scope of the project. This project was originally reviewed by JCCR on December 19, 2002. The original project cost was \$69,000,000.

(4) ASU's debt service percentage in accordance with ARS 15-1683 will increase from 5.1% to 5.8% for the new financings (based on current expenditure estimates in most recent debt capacity study).

EXECUTIVE SUMMARY

ACTION ITEM:

Interdisciplinary Science and Technology Building I (formerly Interdisciplinary Life Sciences and Technology Building), Project Implementation, Arizona State University Main (ASUM).

ISSUE:

The University requests Project Implementation for Interdisciplinary Science and Technology Building I project at ASU Main.

PROJECT DESCRIPTION:

- Previous Board Action:
 - 2004 Capital Development Plan Approval September 2003
- The new building will provide space for the planned development and expansion of the School of Life Sciences, Bioengineering and related life sciences. The 180,000 square feet of new space will house research laboratories and biosciences and biotechnology core facilities to support the research. An NMR (Nuclear Magnetic Resonance), a small animal vivarium, and a computational research cluster supported by Information Technology will be included to further support the research elements. Necessary office and collaborative areas are planned to encourage inter- and multi-disciplinary research and learning.
- The flexibility and adaptability of this laboratory facility is essential to meet the diverse possibilities for research that can or may be accommodated. This flexibility will bring a broader spectrum of prospective researchers to the University as they are marketed.
- Arizona State University is using Construction Manager at Risk (CMAR) for the construction delivery method. A Fast Track delivery will guide the design and construction of this project to substantially deliver the project by December of 2005.
- Total project cost for the Interdisciplinary Science and Technology Building I facility is \$74,000,000.
- The facility will be situated on Lot 26 of Arizona State University (see attached site diagram).

PROPOSED SCHEDULE:

- | | |
|-----------------------------------|----------------|
| • 2004 Capital Development Plan | September 2003 |
| • Project Implementation Approval | March 2004 |
| • Project Approval | April 2004 |
| • Construction Start | May 2004 |
| • Occupancy | January 2006 |

EXECUTIVE SUMMARY

PROJECT JUSTIFICATION:

This request is aligned with ASU's strategic investment in faculty, students, and facilities in the areas of life sciences, biotechnology, and bioengineering. The request is likewise aligned with the growing research opportunities in the biosciences and biotechnology field. This interdisciplinary facility will provide the core state-of-the-art infrastructure in three of the institution's high priority areas: (1) Life Sciences and related technologies, (2) Bioengineering and Biotechnology, and (3) Sustainability and Sustainable Systems with an emphasis on Environment Quality. The first two areas are slated for substantial expansion and investment in the next five-years. The third area represents one of ASU's substantial interdisciplinary research strengths. In January 2004, sustainable environment research will be accelerated by the addition of a National Academy of Engineering faculty member. Co-location of these three thematic areas is anticipated to create substantial new synergies and catalyze new intellectual disciplinary fusion, thereby fostering new advances in both science and technology.

This project is essential to meet the current and anticipated need for quality interdisciplinary research space and the core joint-user facilities in these areas. Much of the currently occupied space is incapable of meeting the technical, safety and health, and campus security requirements of modern molecular, biological and biomedical research. The new space will enable us to:

- Recruit the best faculty, students, and professional staff.
- Compete in the global marketplace of ideas for federal and other research funding.
- Implement advances in education and training for our graduate and undergraduate students.
- Engage the outside community.

Because a large fraction of the space (over half) is designed for faculty to be recruited, the space will be designed with substantial flexibility. Space will be designed to include the following:

- Life-science and biotechnology oriented laboratories.
- Supporting joint-user facilities; including, for example, cell culture and protein analysis laboratories.
- A state-of-the-art, joint-use solid state and protein materials characterization Nuclear Magnetic Resonance (NMR) facility. This signature facility will support a broad range of projects in both life sciences and solid state materials. The laboratory will be designed to meet existing and future anticipated needs over a 15-year period.
- Supporting basic infrastructure including:
 - A small animal Vivarium. We anticipate up to 60% of building users will need access to small animals in their research.
 - A high performance computational "dark node," dedicated to research support will be included. Central University IT is currently at its capacity limit as advanced computational needs in nearly all disciplines on campus are rapidly expanding. Space will be provided for a high density supercomputer cluster that will be conveniently serviced from the nearby IT offices in Engineering Center A and B wings.

EXECUTIVE SUMMARY

FISCAL IMPACT AND FINANCING PLAN:

This project was included in ASU's Revised 2004 Capital Development Plan, submitted in January 2004, which shows that ASU's debt service on all outstanding debt would be 5.8% of ASU's total projected expenditures (State Law basis, max 8%) and 7.2% of ASU's projected unrestricted expenditures (ABOR Policy basis, max 10%). The debt service for this project is .5% (5/10th of 1%) of ASU's total projected expenditures (State Law basis) and .6% (6/10th of 1%) of ASU's projected unrestricted expenditures (ABOR Policy basis).

The debt service for this project will be funded from state appropriations starting on July 1, 2007. Until that time, there will be financing assistance through the state sales tax exemption for the contractor of this project, which will be captured by ASU, and the capitalization of interest payments. The objective of the capitalization of interest approach is the matching of debt service costs when paid to the available appropriations starting on July 1, 2007.

RECOMMENDATION:

That the Board grant Project Implementation Approval to Arizona State University Main for the Interdisciplinary Science & Technology Building I Project .

EXECUTIVE SUMMARY

Capital Project Information Summary

University: Arizona State University Main

Project Name: Interdisciplinary Science & Technology
Building I

Project Description/Location:

Interdisciplinary Science and Technology Building I is an approximately 180,000 SF research laboratory facility situated on Lot 26 of the Arizona State University campus (see attached site diagram).

Project Schedule (Beginning Month/Year):

| | |
|--------------|---------------|
| Planning | November 2003 |
| Design | December 2003 |
| Construction | May 2004 |
| Occupancy | January 2006 |

Project Budget:

| | | |
|----------------------------|----|------------|
| Total Project Cost | \$ | 74,000,000 |
| Direct Construction Cost | \$ | 51,264,108 |
| Total Project Cost per GSF | \$ | 412 |
| Construction Cost per GSF | \$ | 285 |

Change in Annual Oper. /Main. Cost:

| | | |
|---------------------|----|-----------|
| Utilities | \$ | 1,117,000 |
| Personnel | \$ | 363,600 |
| All Other Operating | \$ | 356,400 |
| Subtotal | \$ | 1,837,000 |

Funding Sources:

Capital

A. Certificates of Participation \$ 74,000,000

(Funding Source of Debt Service: State appropriations starting on July 1, 2007. Until that time, there will be financing assistance through the state sales tax exemption for the contractor of this project, which will be captured by ASU, and the capitalization of interest payments.)

Operation/Maintenance

A. Indirect Cost Recovery \$ 1,837,000

EXECUTIVE SUMMARY

Capital Project Information Summary

University: Arizona State University Main

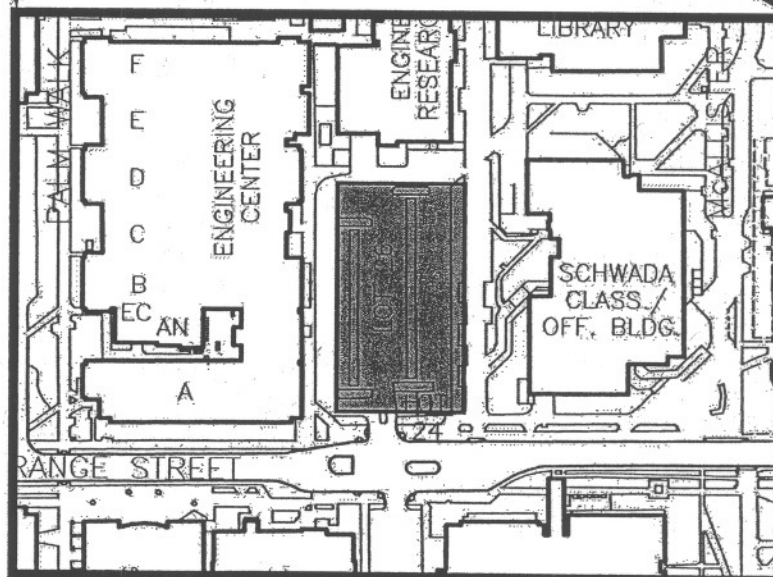
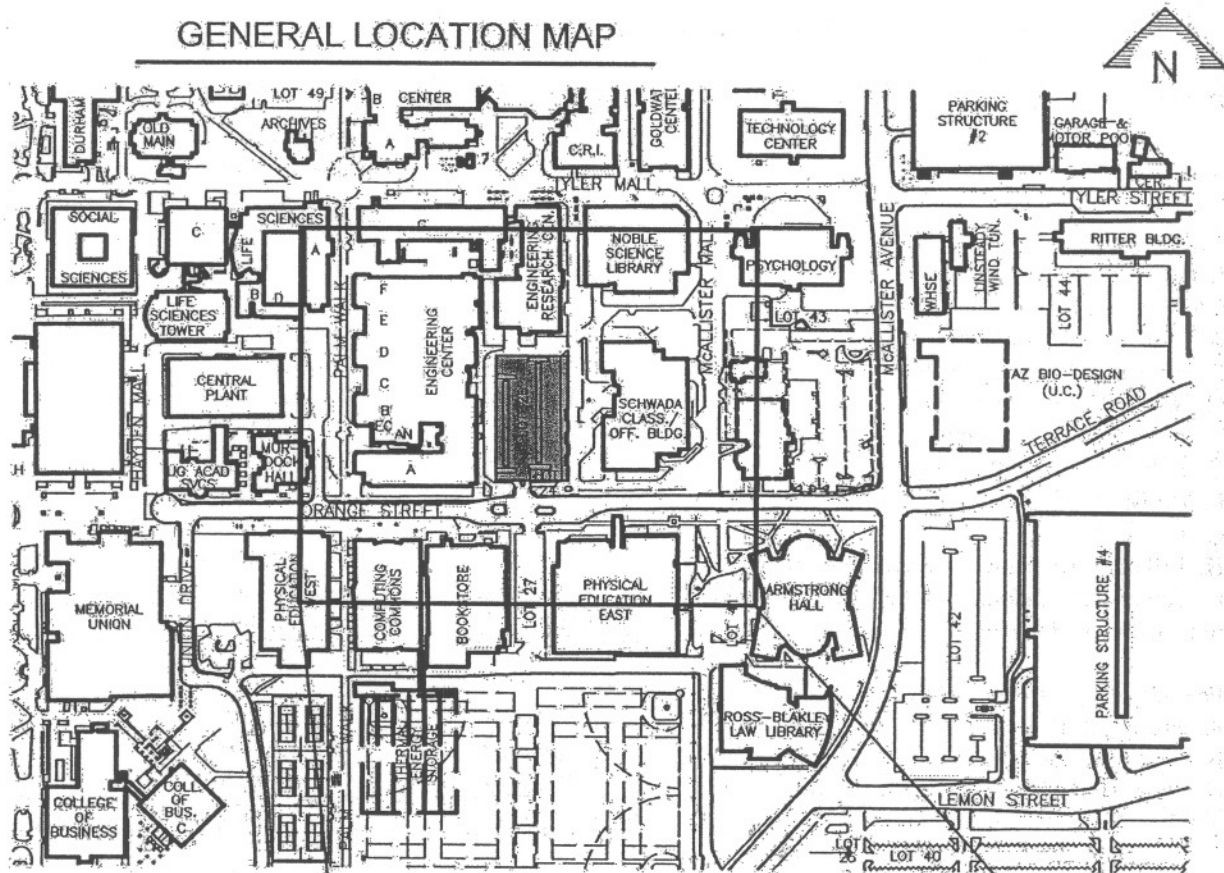
Project Name: Interdisciplinary Science & Technology Bldg I

| | <u>CDP Estimate</u> | <u>Project Implementation Approval</u> | <u>Project Approval</u> |
|---|--------------------------------|---|------------------------------------|
| Capital Costs | | | |
| 1. Land Acquisition | | | |
| 2. Construction Cost | | | |
| A. New Construction Shell / Core | \$ 38,000,000 | \$ 41,220,655 | - |
| B. New Construction Tenant Improvements | 6,000,000 | 4,782,571 | - |
| C. Special Fixed Equipment | 1,050,000 | 952,660 | - |
| D. Site Development (excl. 2.E.) | - | 716,282 | - |
| E. Parking and Landscaping | - | 150,000 | - |
| F. Utilities Extensions | 500,000 | 80,000 | - |
| G. Other* (1) | - | - | - |
| H. Inflation Adjustment Construction Midpoint) | 500,000 | 804,823 | - |
| I. State Sales Tax Research Exemption (6.3%) | 1,950,000 | 2,557,117 | - |
| Subtotal Construction Cost | <u>\$ 48,000,000</u> | <u>\$ 51,264,108</u> | <u>-</u> |
| 3. Fees (% of Construction Cost) | | | |
| A. Pre-construction Services | 720,000 | 500,000 | - |
| B. Architect/Engineer | 5,600,000 | 5,600,000 | - |
| C. Other (Interior Design, Special Consultant) | 640,000 | 425,000 | - |
| Subtotal Consultant Fees | <u>\$ 6,960,000</u> | <u>\$ 6,525,000</u> | <u>-</u> |
| 4. FF&E Movable | \$ 3,000,000 | \$ 2,000,000 | - |
| 5. Contingency, Design Phase | 1,920,000 | 1,920,000 | - |
| 6. Contingency, Constr. Phase | 3,120,000 | 3,120,000 | - |
| 7. Parking Replacement/Reserve | 810,000 | 967,500 | - |
| 8. Telecommunications Equipment | 6,900,000 | 5,513,392 | - |
| Subtotal Items 4-8 | <u>\$ 15,750,000</u> | <u>\$ 13,520,892</u> | <u>-</u> |
| 9. Additional University Costs | | | |
| A. Surveys and Tests | \$ 250,000 | \$ 200,000 | - |
| B. Move-in Costs | 950,000 | 450,000 | - |
| C. Printing Advertisement | 250,000 | 200,000 | - |
| D. Project Management Cost (1.5%) | 1,110,000 | 1,110,000 | - |
| E. Other (1) (Demo, Haz Mat Abatement, Signage) | 350,000 | 350,000 | - |
| F. Other (Facilities Support) (1) | 193,136 | 193,136 | - |
| G. State Risk Mgt. Ins. (.0034) (2) | 186,864 | 186,864 | - |
| Subtotal Addl. Univ. Costs | <u>\$ 3,290,000</u> | <u>\$ 2,690,000</u> | <u>-</u> |
| TOTAL CAPITAL COST | <u>\$ 74,000,000</u> | <u>\$ 74,000,000</u> | <u>-</u> |

(1) Universities shall identify items included in this category: Line item 9G "Other" includes: demolition, hazardous material assessment and abatement, signage, alarm and detection systems, Campus Entry).

EXECUTIVE SUMMARY

GENERAL LOCATION MAP



INTERDISCIPLINARY SCIENCE & TECHNOLOGY BLDG. 1

ARIZONA STATE UNIVERSITY

INTERDISCIPLINARY SCIENCE & TECHNOLOGY BUILDING 1-JCCR REVIEW

The following is more detailed information for specific items in the Capital Project Information Summary for the Interdisciplinary Science & Technology Building 1 project:

**Items 2B – New Construction Tenant Improvement and
2C – Special Fixed Equipment:** See Attachment A

Item 4 - FF&E Movable: See Attachment B

Item 7 - Parking Replacement Reserve: Includes University costs associated with replacement of permanently lost surface parking spaces, both vehicle and motorcycle spaces, with structured parking at \$9000 and \$4,500 per space respectively. Interdisciplinary Science & Technology Building 1 will displace 39 motorcycle, 64 standard vehicle, and 24 accessible parking spaces in Lot 26, a total of 107.5 vehicular spaces from the site.

Item 8 - Telecommunications Equipment: Includes equipment and distribution inside the building from the IDC. This line also includes monies to facilitate the installation of a dedicated “research support” dark node for this building. The “dark node” means that it is essentially unmanned machine room space for clusters of research machines. Access for University IT will be required. See Attachment C

Item 9G - Other (Facilities Support): Includes potential costs associated with elevated surveillance, security and entry that will be associated with this research project. Costs include anticipated planning, design and construction.

Interdisciplinary Science and Technology Building 1

Attachment A

Date: 3/8/04

| Special Fixed Equipment Budget | Offices | Open Office | Lab Work Stations | Conference Rooms |
|--------------------------------|---------|-------------|-------------------|------------------|
| Ground Level | | | ** | 0 |
| Mezzanine Level | | | | |
| First Floor Level | | | 204.8 | |
| Second Floor Level | | | 153.6 | |
| Third Floor Level | | | 256 | |
| Fourth Floor Level | | | 181.6 | |
| Total | | | 796 | |

Average Cost per Space

| | | |
|---------------------------------|--------------------|-------------------|
| Lab Equipment Budget *** | \$4,235,231 | \$5,320.64 |
|---------------------------------|--------------------|-------------------|

** See Animal Equipment Budget below

*** Lab Equipment Budget shown does not include the Animal Equipment Budget - shown below

| Animal Equipment Budget | Animal Housing | Procedure Spaces (with Cabinets and Hoods) | System Spaces |
|-------------------------|----------------|--|---------------|
| Ground Level | 55 | 6 | 10 |

| Animal Facility Budget Estimate * | Average Cost per Rack and System |
|-----------------------------------|----------------------------------|
| 1,500,000 | 27,273 |

* Budget is established just to populate the Vivarium with Animal Housing/Cages. Fit-out of the Animal Housing, Procedure and Necropsy spaces is included in the current Laboratory Equipment budget - within the Tenant Improvement (2B) and Special Fixed Equipment (2C) budgets.

Interdisciplinary Science and Technology Building 1

Attachment B

Date: 3/8/04

| FF&E Budget | Lab Offices | Assigned Work Stations | Lab Work Stations | Conference Rooms |
|------------------------|--------------------|-------------------------------|--------------------------|-------------------------|
| Ground Level | 2 | 0 | 20 | 0 |
| Mezzanine Level | 6 | 0 | 0 | 0 |
| First Floor Level | 7 | 6 | 192 | 15 |
| Second Floor Level | 15 | 10 | 144 | 15 |
| Third Floor Level | 25 | 24 | 240 | 25 |
| Fourth Floor Level | 25 | 24 | 172 | 0 |
| Subtotal | 80 | 64 | 768 | 55 |

**Average Cost per
Occupant**

| | | |
|---|--------------------|-------------------|
| Office / Workstation FF&E Budget | \$2,000,000 | \$2,068.25 |
|---|--------------------|-------------------|

Interdisciplinary Science and Technology Building 1

Attachment C

Date: 3/8/04

| Floor | Data | | | | Lab | |
|--------------------|-------|-------|--------|-----------------|--------------------|-----------|
| | Phone | Cat 6 | Cat 5E | Active Ethernet | Assigned Occupants | Occupants |
| Ground Level | 8 | 22 | | 22 | 8 | 8 |
| Mezzanine Level | 6 | 12 | | 8 | 12 | |
| First Floor Level | 29 | 58 | | 58 | 69 | 56 |
| Second Floor Level | 37 | 74 | | 74 | 67 | 42 |
| Third Floor Level | 69 | 138 | | 138 | 119 | 70 |
| Fourth Floor Level | 77 | 114 | | 114 | 147 | 98 |
| Total | 226 | 418 | 0 | 414 | 422 | 274 |

| | Cost per Connect | Average Cost per Occupant |
|----------------------------------|------------------|---------------------------|
| Telephone Budget Estimate | \$663,000 | \$952.59 |
| Ethernet Budget Estimate | \$1,000,000 | \$1,201.92 |
| Computer Room Estimate * | \$3,100,392 | \$577.57 |
| | | \$1,436.78 |

* Computer Room - "Dark Node" - will require a fiber link to the current university Main Frame. Monies for additional Infrastructure have been included
 - UPS back-up, cooling and power are significant if current design parameters from IT are upheld - Additional structural is also being considered for the density

EXECUTIVE SUMMARY

ACTION ITEM:

Interdisciplinary Science and Technology Building II, Project Implementation and Project Approval, Arizona State University Main (ASUM).

ISSUE:

The University requests Project Implementation and Project Approval for Interdisciplinary Science and Technology Building II at ASU Main, previously the "Geosciences & Materials Building / Interdisciplinary High Bay Building - N3" project.

PROJECT DESCRIPTION:

- Previous Board Action:
 - 2004 CDP Approval September 2003
- The building is to be situated north of the Technology Center Building and South of the Facility Management Building complex and will require the demolition of three buildings (Aeronautics Building, Technology Center Annex A and B).
- The total project cost is estimated to be \$18,000,000.
- The program had been initially defined as the Interdisciplinary High Bay Research Building of approximately 60,000 square feet.

The facility will have a flexible, open plan with the ability to accept a variety of lab spaces and should easily adapt to differing research needs.

The first floor of the structure will house high bay lab spaces with 20' clear ceilings and internal mezzanines. These spaces will flank a central covered outdoor utility spine containing all the building infrastructure systems distribution. Large overhead doors allow the easy movement of materials and equipment from loading areas into the lab spaces.

The second floor will house research offices and light laboratories and conventional height spaces. A basement will house building services as well as ancillary laboratory equipment, with direct access into the ground level laboratories.

The use of outdoor circulation minimizes the requirement for conditioning of air circulation in and around support spaces, and allows for easy public access. The resulting spaces are ideal for intercommunicating stairs and research enclaves, encouraging and fostering interdisciplinary communication and interaction between divergent research programs. The space will be shaded by a continuous overhead trellis and cooled by large, low velocity fans and evaporative cooling equipment.

ASU is also seeking Project Approval at this time. In order to complete the project prior to the Fall Semester 2005 construction would need to begin in May 2004.

A Guaranteed Maximum Price (GMP) has been established and the project is within the scope and budget.

EXECUTIVE SUMMARY

PROPOSED SCHEDULE:

- | | |
|-----------------------------------|----------------|
| • Capital Development Plan | September 2003 |
| • Project Implementation Approval | March 2004 |
| • Project Approval | March 2004 |
| • Construction Start | May 2004 |
| • Occupancy | August 2005 |

PROJECT JUSTIFICATION

In October of 2003 the team of Richard & Bauer Architecture and Wespac Construction was retained for the design and construction of the Interdisciplinary High Bay Research Building, now the Interdisciplinary Science and Technology Building II. The project fills a fundamental need in the University's cadre of research facilities. The building will house research groups that require unique, open, high bay laboratory spaces, which cannot be accommodated by other buildings on the campus.

Overall project goals include:

- Develop a state of the art high bay research facility to support growth in high profile programs.
- Achieve a basic LEEDs certification. (Leadership in Environmental Efficient Design).
- House and support rapidly expanding programs in Advanced Pavement Materials, Soils, Hydraulics and Fluid Dynamics, Structures and Materials testing.
- Create signature research and national "center of excellence" level facilities for two highly visible interdisciplinary research programs: (1) Advanced Pavement Materials, and (2) Environmental Fluid Dynamics (EFD).
- House and support rapidly expanding programs in Geotechnical Materials and Hydraulics and Fluid Dynamics.
- Creating a location for several programs currently in the space slated for demolition; specifically those, which require the unique high bay space: the Supersonic Wind Tunnel, and Structures Labs.
- Provide for unassigned flex space for overall campus research needs and expansion space for the most successful programs.
- Create a long-term flexible and adaptable building which will accommodate changing research needs over the life of the structure.

FISCAL IMPACT AND FINANCING PLAN:

This project was included in ASU's Revised 2004 Revised Capital Development Plan, submitted in January 2004, which shows that ASU's debt service on all outstanding debt would be 5.8% of ASU's total projected expenditures (State Law basis, max 8%) and 7.2% of ASU's projected unrestricted expenditures (ABOR Policy basis, max 10%). The debt service for this project is .1% (1/10th of 1%) of ASU's total projected expenditures (State Law basis) and .2% (2/10th of 1%) of ASU's projected unrestricted expenditures (ABOR Policy basis).

EXECUTIVE SUMMARY

The debt service for this project will be funded from state appropriations starting on July 1, 2007. Until that time, there will be financing assistance through the state sales tax exemption for the contractor of this project, which will be captured by ASU, and the capitalization of interest payments. The objective of the capitalization of interest approach is the matching of debt service costs when paid to the available appropriations starting on July 1, 2007.

RECOMMENDATION:

That the Board grant Project Implementation and Project Approval to Arizona State University Main for Interdisciplinary Science and Technology Building II.

EXECUTIVE SUMMARY

Capital Project Information Summary

University: Arizona State University Main

Project Name: Interdisciplinary Science and Technology
Building II

Project Description/Location:

Interdisciplinary Science and Technology Building II is an approximately 60,000 square foot, \$18,000,000 facility situated north of the Technology Center Building and South of the Facility Management Building complex on the Arizona State University campus (see attached site diagram).

Project Schedule (Beginning Month/Year):

| | |
|--------------|----------------|
| Planning | September 2003 |
| Design | November 2003 |
| Construction | May 2004 |
| Occupancy | August 2005 |

Project Budget:

| | |
|----------------------------|---------------|
| Total Project Cost | \$ 18,000,000 |
| Direct Construction Cost | \$ 13,000,000 |
| Total Project cost per GSF | \$ 300 |
| Construction Cost per GSF | \$ 217 |

Change in Annual Oper. /Main. Cost:

| | |
|---------------------|------------|
| Utilities | \$ 390,000 |
| Personnel | \$ 121,200 |
| All Other Operating | \$ 118,800 |
| Subtotal | \$ 630,000 |

Funding Sources:

Capital

A. Certificates of Participation \$ 18,000,000

(Funding Source of Debt Service: State appropriations starting on July 1, 2007. Until that time, there will be financing assistance through the state sales tax exemption for the contractor of this project, which will be captured by ASU, and the capitalization of interest payments.)

Operation/Maintenance

A. Indirect Cost Recovery \$ 630,000

EXECUTIVE SUMMARY

Capital Project Information Summary

University: Arizona State University Main

Project Name: Interdisciplinary Science and Technology Building II

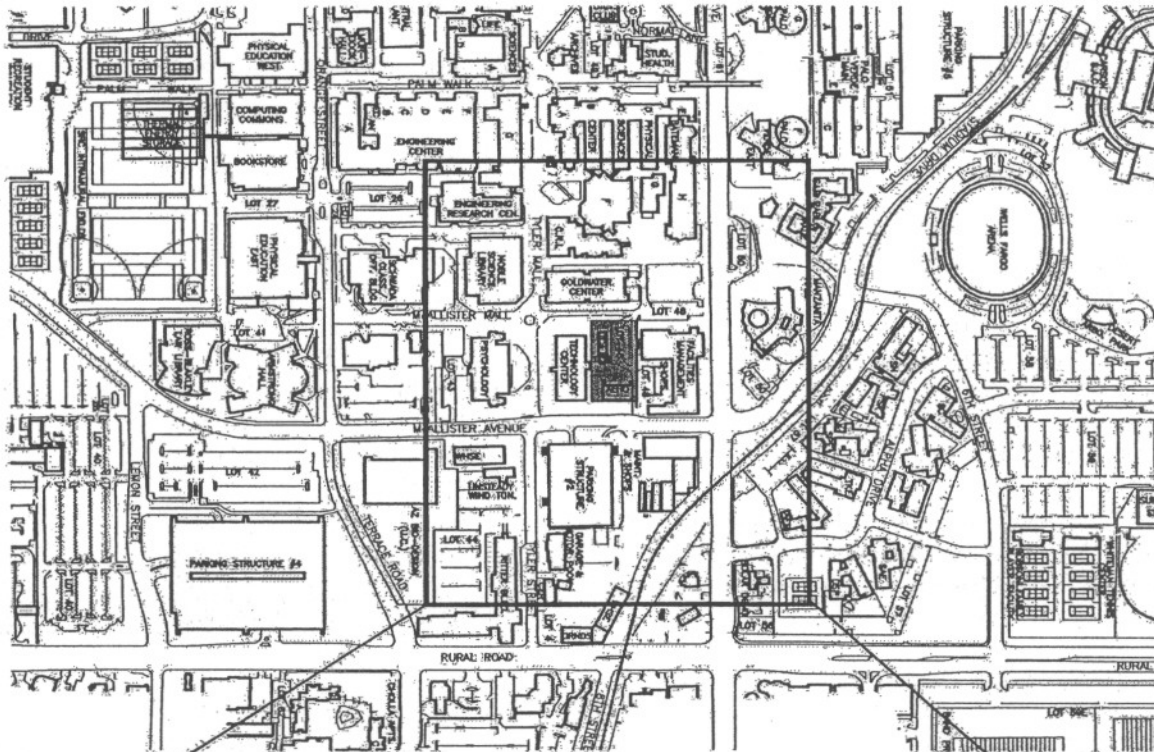
| | CDP Estimate | Project Implementation Approval | Project Approval |
|--|-----------------------------|---------------------------------------|-----------------------------|
| Capital Costs | | | |
| 1. Land Acquisition | | | |
| 2. Construction Cost | | | |
| A. New Construction Shell / Core | \$ 10,494,400 | \$ 10,869,876 | \$ 10,869,876 |
| B. New Construction Tenant Improvements | - | - | - |
| C. Special Fixed Equipment | 500,000 | 500,000 | 500,000 |
| D. Site Development (excl. 2.E.) | 300,000 | 296,009 | 296,009 |
| E. Parking and Landscaping | 100,000 | 147,621 | 147,621 |
| F. Utilities Extensions | 200,000 | 28,648 | 28,648 |
| G. Other* (1) (Demolition, Haz Mat Abatement, Signage) | 350,000 | 77,000 | 77,000 |
| H. Inflation Adjustment Construction Midpoint | 350,000 | 350,000 | 350,000 |
| I. State Sales Tax Research Exemption (6.3%) | 705,600 | 730,846 | 730,846 |
| Subtotal Construction Cost | <u>\$ 13,000,000</u> | <u>\$ 13,000,000</u> | <u>\$ 13,000,000</u> |
| 3. Fees (% of Construction Cost) | | | |
| A. Pre-construction Services (1%) | \$ 130,000 | \$ 17,534 | \$ 17,534 |
| B. Architect/Engineer (7.5%) | 1,118,000 | 1,267,430 | 1,267,430 |
| C. Other (Interior Design, Special Consultant) | 200,000 | 200,000 | 200,000 |
| Subtotal Consultant Fees | <u>\$ 1,448,000</u> | <u>\$ 1,484,964</u> | <u>\$ 1,484,964</u> |
| 4. FF&E Movable | \$ 650,000 | \$ 650,000 | \$ 650,000 |
| 5. Contingency, Design Phase (3%) | 336,000 | 348,022 | 348,022 |
| 6. Contingency, Constr. Phase (3.2%) | 650,000 | 650,000 | 650,000 |
| 7. Parking Replacement Reserve | 375,000 | 375,000 | 375,000 |
| 8. Telecommunications Equipment | 300,000 | 350,000 | 350,000 |
| Subtotal Items 4-8 | <u>\$ 2,311,000</u> | <u>\$ 2,373,022</u> | <u>\$ 2,373,022</u> |
| 9. Additional University Costs | | | |
| A. Surveys and Tests | \$ 55,000 | \$ 55,000 | \$ 55,000 |
| B. Move-in Costs | 120,000 | 120,000 | 120,000 |
| C. Printing Advertisement | 40,000 | 40,000 | 40,000 |
| D. Project Management Cost (1.5%) | 270,000 | 270,000 | 270,000 |
| E. Other (Demolition) | 130,500 | 130,500 | 130,500 |
| F. Other (Facilities Support) (1) | 581,300 | 482,314 | 482,314 |
| G. State Risk Mgt. Ins. (.0034) (2) | 44,200 | 44,200 | 44,200 |
| Subtotal Addl. Univ. Costs | <u>\$ 1,241,000</u> | <u>\$ 1,142,014</u> | <u>\$ 1,142,014</u> |
| TOTAL CAPITAL COST | <u><u>\$ 18,000,000</u></u> | <u><u>\$ 18,000,000</u></u> | <u><u>\$ 18,000,000</u></u> |

(1) Universities shall identify items included in this category: Line item 9F "Other" includes:

demolition, hazardous material assessment and abatement, signage, alarm and detection systems, Campus Entry).

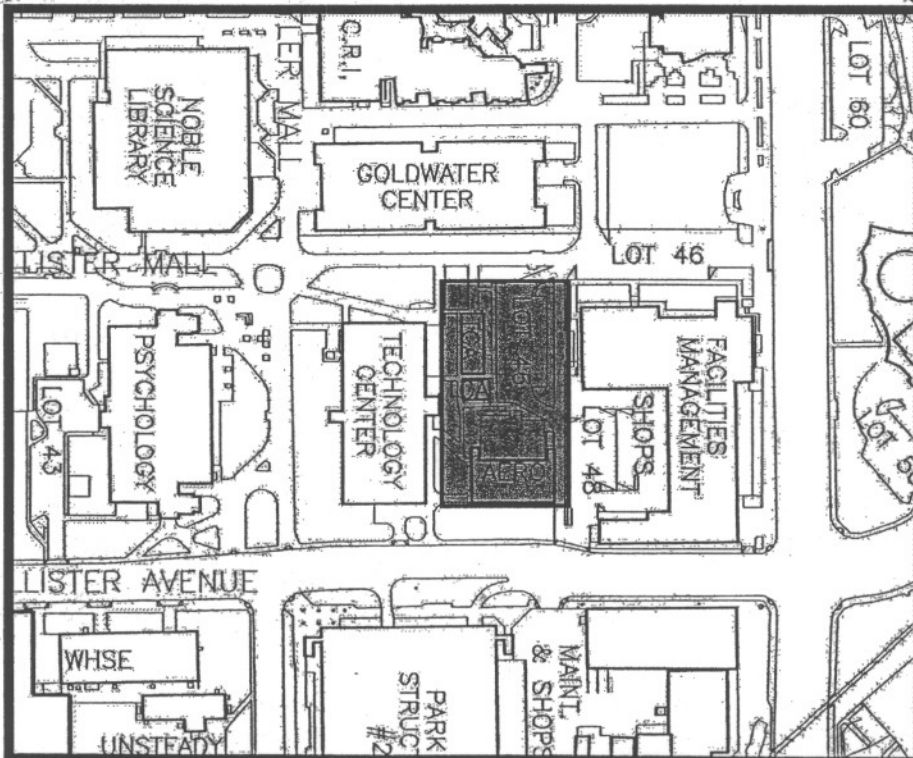
(2) State Risk Management Insurance factor is calculated on construction contract and architect/engineer fees if applicable.

EXECUTIVE SUMMARY



GENERAL LOCATION MAP

AREA IN DETAIL



INTERDISCIPLINARY SCIENCE & TECHNOLOGY BLDG. II



ARIZONA STATE UNIVERSITY

Interdisciplinary Science and Technology Building II - JCCR REVIEW

The following is more detailed information for specific items in the Capital Project Information Summary for the Interdisciplinary Science and Technology Building II project:

Item 2C-Special Fixed Equipment: See Attachment A

Item 2E-Parking and Landscaping: This represents 0.7% of the New Construction Shell/Core (item 2A). This includes all work pertaining to development and replacement of asphalt areas with xeriscape desert landscape treatment and plaza areas.

Item 4-FF&E Movable: See Attachment B

Item 7-Parking Replacement Reserve: Includes University costs associated with replacement of permanently lost surface parking spaces with structured parking at \$9000 per space. Interdisciplinary Science and Technology Building II will displace 30 vehicular spaces from the site.

Item 8-Telecommunications Equipment: Includes equipment and distribution inside the building from the IDC. See Attachment C

Item 9G-Other (Facilities Support): Includes costs associated with relocated programs housed in existing structures on site that will be demolished. Costs include anticipated planning, construction and moving costs. These costs are approximately \$345,000 to backfill Military Science to the Social Sciences building and Environmental Fluid Dynamics to Goldwater Research Center.

Interdisciplinary Science and Technology Building 2

Attachment A

Date: 3/8/04

| Special Fixed Equipment Budget | Lab Offices | Assigned Workstations | Lab Work Stations | Conference Rooms |
|---------------------------------------|--------------------|------------------------------|--------------------------|-------------------------|
| Mezzanine Level | | | | |
| First Floor Level | | | 108 | |
| Second Floor Level | | | 24 | |
| Total | | | 132 | |

| Average Cost per Space | | |
|-------------------------------|------------------|-------------------|
| Lab Equipment Budget | \$500,000 | \$3,787.88 |

Interdisciplinary Science and Technology Building 2

Attachment B
Date: 3/8/04

| FF&E Budget | Lab Offices | Assigned Work Stations | Lab Work Stations | Conference Room |
|---|-------------|------------------------|-------------------|-----------------|
| Mezzanine Level | 10 | 24 | 0 | 0 |
| First Floor Level | | 0 | 108 | 0 |
| Second Floor Level | 5 | 17 | 72 | 3 |
| Subtotal | 15 | 41 | 180 | 3 |
| Average Cost per Occupant | | | | |
| Office / Workstation FF&E Budget | | \$650,000 | \$2,719.67 | |

Interdisciplinary Science and Technology Building 2

Attachment C
Date: 3/8/04

| Floor | Phone | Data | | Assigned Occupants | Lab Occupants |
|--------------------|-------|------------|-----------------|--------------------|---------------|
| | | Cat 6/Cat3 | Active Ethernet | | |
| Mezzanine Level | 45 | 90 | 45 | 24 | 0 |
| First Floor Level | 55 | 110 | 55 | 0 | 108 |
| Second Floor Level | 80 | 160 | 80 | 17 | 72 |
| Total | 180 | 360 | 180 | 41 | 180 |

| | Cost per Connect | | Average Cost per Occupant | |
|---------------------------|------------------|----------|---------------------------|--|
| Telephone Budget Estimate | \$275,000 | \$763.89 | \$141.72 | |
| Ethernet Budget Estimate | \$225,000 | \$416.67 | \$1,018.10 | |

STATE OF ARIZONA

Joint Committee on Capital Review

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SENATE

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JOHN LOREDO

DATE: March 19, 2004

TO: Representative Russell Pearce, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Lorenzo Martinez, Assistant Director

SUBJECT: ARIZONA STATE UNIVERSITY/ARIZONA BOARD OF REGENTS – REVIEW OF
PHASE 3 OF INFRASTRUCTURE IMPROVEMENTS AND REVISED SCOPE AND
ESTIMATED COST OF PHASE 1 OF THE ARIZONA BIODESIGN INSTITUTE BOND
PROJECTS

Request

A.R.S. § 15-1683 requires Committee review of any university bond projects. Arizona State University (ASU) on behalf of the Arizona Board of Regents (ABOR) requests Committee review of Phase 3 of Infrastructure Improvements and the revised scope and estimated cost of Phase 1 of the Arizona Biodesign Institute bond projects.

Recommendation

The JLBC Staff recommends a favorable review of the request.

The projects will be financed with an \$11,200,000 system revenue bond issuance, which will be repaid over a 30-year period at an estimated interest rate of 6%. Of the total, \$7,400,000 will be used for infrastructure improvements and \$3,800,000 will be used to expand the scope of the Arizona Biodesign Institute. Annual debt service of \$537,600 for the infrastructure projects will be paid from tuition collections and \$276,100 for the Biodesign Institute revisions will be paid from Indirect Cost Recovery Funds.

The revised amount for the Arizona Biodesign Institute increases the cost of the project from \$406 to \$419 per square foot. No supporting information was submitted on cost comparisons for infrastructure improvements.

The issuance would increase the university's debt ratio (debt services as a percent of total expenditures) from 4.8% to 4.9%. All ASU items on the agenda would increase the debt ratio from 4.8% to 5.8%. The statutory cap is 8%.

Analysis

ASU plans to have one bond issuance totaling \$11,200,000, including \$7,400,000 for infrastructure improvements and \$3,800,000 for the revised scope of the Biodesign Institute.

(Continued)

Infrastructure Improvements

ASU plans to undertake 6 infrastructure improvement projects, as well as others if sufficient funding is available, as part of an ongoing program to upgrade utility systems, repair existing facilities and provide infrastructure support for new building projects. Cost of the improvements is estimated to be \$7,400,000 and will be financed with the issuance of revenue bonds. The projects will upgrade the existing infrastructure and expand utility capacity to accommodate new and planned construction projects. These infrastructure improvements represent Phase 3 of continued improvements and will take 14 months to complete after construction begins. The Committee favorably reviewed the issuance of \$22,800,000 in bonds for Phase 1 (14 projects) at its March 2002 meeting, and the issuance of \$10,000,000 in bonds for Phase 2 (11 projects) at its August 2003 meeting. The following table lists the projects and allocation for each Phase 3 project.

| ASU Phase 3 Infrastructure Improvement Projects | |
|--|--------------------|
| <u>Project</u> | <u>Allocation</u> |
| Utility Delivery Systems - McAllister Corridor | \$4,500,000 |
| Utility Delivery Systems - Interdisciplinary Science & Tech Bldg | 950,000 |
| Campus Sewer Systems - Evaluation and Design | 100,000 |
| Campus Sewer Systems – Remediation | 950,000 |
| Main/East/West Campus Storm Water Control Plan | 200,000 |
| Electrical System Upgrades | 700,000 |
| TOTAL | \$7,400,000 |

The estimated annual debt service of \$537,600 would be funded from university tuition collections. Tuition collections not set aside for debt service could be available to offset General Fund appropriations for university operating budgets. Therefore, any increases in debt service requiring tuition collections for payment could impact the amount of tuition available to offset General Fund appropriations for operating costs in future years.

Arizona Biodesign Institute - Phase 1

The Committee gave a favorable review to the original scope and estimated cost of Phase 1 of the Arizona Biodesign Institute at its December 2002 meeting. The original scope is being financed with a \$69,000,000 bond issuance (already issued) and included 140,000 square feet of research space and 30,000 square feet of office space. The revised scope will convert 10,000 square feet already under construction into specialized animal facilities and add 3,800 square feet of modular space to accommodate the needs of a recently recruited program.

The original cost of \$69,000,000 will increase by \$3,800,000. The additional \$3,800,000 will be combined with the infrastructure improvements issuance. The bonds will be repaid over a 30-year period at an estimated interest rate of 6%. The additional annual debt service of \$276,100 for the Biodesign Institute will be paid from Indirect Cost Recovery Funds. Indirect Cost Recovery Funds come from overhead charges to programs throughout the university. The following table shows the original and revised debt service costs.

| Arizona Biodesign Institute - Phase 1 | | |
|--|------------------------------|-----------------------------|
| <u>Fund Source</u> | <u>Original Debt Service</u> | <u>Revised Debt Service</u> |
| Tuition | \$ 462,200 | \$ 462,200 |
| Proposition 301 Funding | 462,200 | 462,200 |
| Indirect Cost Recovery Fund | 2,475,200 | 2,751,300 |
| ASU Research Park | 924,400 | 924,400 |
| Federal Grant | 820,000 | 820,000 |
| TOTAL | \$5,144,000 | \$5,420,100 |

The original total project cost per square foot was \$406 and the direct construction cost per square foot was \$311. The revised total project cost per square foot is \$419 and the direct construction cost per square foot is \$332. As a comparison, Phase 2 of the Biodesign Institute has a total project cost per square foot of \$425 and a direct construction cost per square foot of \$307. Phase 2 was favorably reviewed by the Committee at its December 2003 meeting.

The project is estimated to be completed by October 2004.

ASU
ARIZONA STATE UNIVERSITY

March 11, 2004



The Honorable Russell K. Pearce, Chair
Joint Committee on Capital Review
1700 W. Washington
Phoenix, AZ 85007

Dear Representative Pearce:

In accordance with House Bill 2529 and ARS 15-1682.01, the Arizona Board of Regents (ABOR) requests that the following Arizona State University (ASU) projects for Certificate of Participation lease purchase financing be placed on the next Joint Committee on Capital Review (JCCR) agenda for review:

Interdisciplinary Science and Technology Building I
Interdisciplinary Science and Technology Building II

In accordance with ARS 15-1683, ABOR requests that the following bond financed projects for ASU be placed on the next JCCR agenda for review:

Infrastructure Improvements – Phase III
AZ Biodesign Institute Phase I (Revised Project: Scope and Budget Increase)

Enclosed is pertinent information relating to this project.

We appreciate your consideration of our requests. If you have any questions or desire any clarification on the enclosed material, please contact me at (480) 965-3201.

Sincerely,

Mernoy Harrison
Executive Vice President for
Administration and Finance

Enclosure

c: Lorenzo Martinez, Assistant Director, JCCR
Linda Blessing, Executive Director, Arizona Board of Regents
Ted Gates, Assistant Executive Director for Capital Resources, Arizona Board of Regents
Milton Glick, Executive Vice President and Provost
Virgil Renzulli, Vice President for Public Affairs
Scott Cole, Deputy Executive Vice President, University Services
Steve Miller, Deputy Vice President, Public Affairs
Alan Carroll, Associate Vice President, Budget Planning and Management
Gerald Snyder, Associate Vice President for Finance and Treasurer

EXECUTIVE VICE PRESIDENT FOR ADMINISTRATION AND FINANCE

PO BOX 872303, TEMPE, AZ 85287-2303
(480) 965-3201 FAX: (480) 965-8388

ARIZONA STATE UNIVERSITY
ASU DEBT FINANCING

| | Project Costs | | | | Debt Service | | | | Operating Costs (Presently Estimated) | | | |
|---|---------------|-----------|-----------------|-------------|--------------|---------|-----------------|---------------|---------------------------------------|---------|-----------------|-----------|
| | General Fund | Tuition | Auxiliary/Other | Total | General Fund | Tuition | Auxiliary/Other | Total | General Fund | Tuition | Auxiliary/Other | Total |
| <u>COPs Lease Purchase:</u> | | | | | | | | | | | | |
| Interdisciplinary Science and Technology Building I | 74,000,000 | - | - | 74,000,000 | 5,788,700 | - | - | 5,788,700 (1) | - | - | 1,837,000 | 1,837,000 |
| Interdisciplinary Science and Technology Building II | 18,000,000 | - | - | 18,000,000 | 1,408,000 | - | - | 1,408,000 (1) | - | - | 630,000 | 630,000 |
| Total COPS | 92,000,000 | - | - | 92,000,000 | 7,196,700 | - | - | 7,196,700 | - | - | 2,467,000 | 2,467,000 |
| <u>Bonds:</u> | | | | | | | | | | | | |
| Infrastructure Improvements Phase III | - | 7,400,000 | - | 7,400,000 | - | 537,600 | - | 537,600 (2) | - | - | - | - |
| Arizona Biodesign Institute Phase I (Revised Scope and Budget Increase) | - | - | 3,800,000 (3) | 3,800,000 | - | - | 276,100 | 276,100 (2) | - | - | - | - |
| Total Bonds | - | 7,400,000 | 3,800,000 | 11,200,000 | - | 537,600 | 276,100 | 813,700 | - | - | - | - |
| TOTAL | 92,000,000 | 7,400,000 | 3,800,000 | 103,200,000 | 7,196,700 | 537,600 | 276,100 | 8,010,400 (4) | - | - | 2,467,000 | 2,467,000 |

(1) The debt service calculation for the COP financed projects is based on an assumed 6.0% interest rate over 25 years. ASU plans to capitalize interest until July 1, 2007 when the annual state appropriation begins. The remaining ASU research infrastructure project is anticipated to be presented to JCCR later on in Spring or Summer, 2004 at which time more specifics on the consolidated financing plan for all of the research infrastructure projects will be presented. The reason for presenting these research infrastructure projects at this time for review is that construction is about ready to begin for these two projects.

(2) The debt service calculation for the bond financed projects is based on an assumed 6.0% interest rate over 30 years.

(3) Represents the increased budget arising from the increased scope of the project. This project was originally reviewed by JCCR on December 19, 2002. The original project cost was \$69,000,000.

(4) ASU's debt service percentage in accordance with ARS 15-1683 will increase from 5.1% to 5.8% for the new financings (based on current expenditure estimates in most recent debt capacity study).

EXECUTIVE SUMMARY

ACTION ITEM:

Infrastructure Improvements Phase III, Project Implementation Approval, Arizona State University Main (ASUM).

ISSUE:

ASU Main requests Project Implementation for Phase III of an extensive infrastructure upgrade project to upgrade current utilities, repair deterioration of existing facilities and to support new building projects currently in design or in planning.

PROJECT DESCRIPTION:

Previous Board Action:

- Capital Development Plan

January 2004

This project encompasses campus wide infrastructure upgrades including sewer, water, steam, chilled water, electrical, utility tunnels and other miscellaneous upgrades; including, but not limited to the following projects:

- | | |
|---|--------------------|
| • South Portion of McAllister Corridor Utility Delivery Systems (piping & conduits) | \$4,500,000 |
| New utility delivery systems, 36" diameter chilled water supply & return, 8" diameter steam, 4" diameter condensate to AZ Bio Institute, Lot 44, south to Tyler Street interface to South Loop, Lot 42 and Lot 40. Electrical primary and emergency power circuits. | |
| • Utility Delivery Systems-Interdisciplinary Science & Technology Bldg I (ISTB 1) | \$950,000 |
| New electrical work to release electrical capacity to the ILST, chilled water and steam utilities. | |
| • Campus Sewer Systems Evaluation & Design | \$100,000 |
| Includes camera evaluation of all campus sewers, mandated by EPA. | |
| • Campus Sewer System Remediation | \$950,000 |
| Repair of deteriorated sewer lines. | |
| • ASU (East, West, Main) Storm Water Control Plan | \$200,000 |
| To comply with EPA permit and to evaluate and design campus storm water plan. | |
| • Electrical Upgrades for New Campus Primary & Emergency Power Capacity | \$700,000 |
| Upgrade campus electrical distribution, which is currently at maximum capacity, by switching power to new north and south substations. | |

The total project cost is estimated at \$7,400,000.

EXECUTIVE SUMMARY

PROPOSED SCHEDULE:

- | | |
|---|------------|
| • Project Implementation – Phase III | March 2004 |
| • Project Approval – Phase III (McAllister) | March 2004 |
| • Construction start – Phase III | May 2004 |
| • Completion-Phase III | June 2006 |

PROJECT JUSTIFICATION:

ASU must complete these infrastructure improvements to allow the opening and operation of new campus facilities. Many projects have been part of both the ASU Capital Improvement Plan and the Capital Development Plan; while others were recently identified as additional infrastructure requirements for new building projects still in the planning stages. Many of these infrastructure projects will enhance utility distribution efficiencies that will assist in meeting the energy reduction goals established by the university, as well as meeting Environmental Protection Agency mandates.

FISCAL IMPACT AND FINANCING PLAN:

This project was included in ASU's Revised 2004 Capital Development Plan, submitted in January 2004, which shows that ASU's debt service on all outstanding debt would be 5.8% of ASU's total projected expenditure (State law basis, max 8%) and 7.2% of ASU's projected unrestricted expenditures (ABOR Policy basis, max 10%). The debt service for this project is .05% (5/100th of 1%) of ASU's total projected expenditures (State Law basis) and .06% (6/100th of 1%) of ASU's total projected unrestricted expenditures (ABOR Policy basis)

RECOMMENDATION:

That the Board grant Project Implementation to Arizona State University for the Infrastructure Phase III Project.

EXECUTIVE SUMMARY

Capital Project Information Summary

University: Arizona State University Main

Project Name: Infrastructure Improvements
Phase III

Project Description/Location:

Campus wide infrastructure upgrades including sewer, water, steam, chilled water, electrical, utility tunnels and miscellaneous.

Project Schedule (Beginning Month/Year):

| | |
|--------------|---------------|
| Planning | January 2004 |
| Design | February 2004 |
| Construction | May 2004 |
| Occupancy | June 2006 |

Project Budget:

| | |
|------------------------------------|--------------|
| Total Project Cost | \$ 7,400,000 |
| Direct Construction Cost | \$ 6,000,000 |
| Total Project Cost per GSF | N/A |
| Construction Cost per GSF | N/A |
| Change in Annual Oper. /Main. Cost | N/A |
| Utilities | N/A |
| Personnel | N/A |
| All Other Operating | N/A |

Funding Sources:

Capital

A. System Revenue Bonds \$ 7,400,000
(Funding source for Debt service: Tuition)

Operation/Maintenance

A. General Fund \$ 0

EXECUTIVE SUMMARY

Capital Project Budget Summary

University: Arizona State University Main

Project Name: Infrastructure Improvements Phase III

| | Capital Development Plan Approval | Project Implementation Approval-Phase III | Project Approval Phase III |
|------------------------------------|--|--|---|
| Capital Costs | | | |
| 1. Land Acquisition | | | |
| 2. Construction Cost | | | |
| A. New Construction | | | |
| B. Renovation | | | |
| C. Special Fixed Equipment | | | |
| D. Site Development (excl. 2.E.) | | | |
| E. Parking and Landscaping | | | |
| F. Utilities Extensions | \$ 6,000,000 | \$ 6,000,000 | |
| G. Other* (Environmental control) | | | |
| H. Inflation Adjustment | | | |
| Subtotal Construction Cost | <u>\$ 6,000,000</u> | <u>\$ 6,000,000</u> | <u>-</u> |
| 3. Fees (% of Construction Cost) | | | |
| A. Construction Mgr | \$ 100,000 | \$ 100,000 | |
| B. Architect/Engineer | 274,000 | 274,000 | |
| C. Other | | | |
| Subtotal Consultant Fees | <u>\$ 374,000</u> | <u>\$ 374,000</u> | <u>-</u> |
| 4. FF&E Movable | | | |
| 5. Contingency, Design Phase | \$ 300,000 | \$ 300,000 | - |
| 6. Contingency, Constr. Phase | 593,328 | 593,328 | |
| 7. Parking Reserve | | | |
| 8. Telecommunications Equipment | | | |
| Subtotal Items 4-8 | <u>\$ 893,328</u> | <u>\$ 893,328</u> | <u>-</u> |
| 9. Additional University Costs | | | |
| A. Surveys and Tests | | | - |
| B. Move-in Costs | | | |
| C. Printing Advertisement | | | |
| D. Keying, signage | | | |
| E. Project Management Cost (1.5%) | \$ 111,000 | \$ 111,000 | |
| F. State Risk Mgt. Ins. (.0034) ** | 21,672 | 21,672 | |
| Subtotal Addl. Univ. Costs | <u>\$ 132,672</u> | <u>\$ 132,672</u> | <u>-</u> |
| TOTAL CAPITAL COST | <u><u>\$ 7,400,000</u></u> | <u><u>\$ 7,400,000</u></u> | <u><u>-</u></u> |

* Universities shall identify items included in this category

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

EXECUTIVE SUMMARY

ACTION ITEM:

AZ Biodesign Institute Phase I, Revised Project Approval, Budget and Scope Increase, Arizona State University.

ISSUE:

The University requests Revised Project Approval for a budget and scope increase for construction of Phase One of the AZ Biodesign Institute project at ASU Main.

PROJECT DESCRIPTION:

- Previous Board Action
 - CDP Approval, June 2001.
 - Project Implementation Approval, November 2002.
 - Project Approval, January 2003
- The Arizona Biodesign Institute is the target for the University's single largest Proposition 301 investment thus far. The goals of the project are well documented: providing the core infrastructure from which faculty can compete in the global marketplace of ideas, stimulating not only advances in science and human health needs, but also to strengthening and stimulating the regional economy.
- Recruitment of world-class faculty for the Institute is vital to the program's success. As key researchers join with the Institute, many tangible and intangible benefits are directly reaped: the depth and breadth of research is broadened by the influx of the researcher's knowledge; and the respect and status of AZ Bio increases – making the program all the more attractive to other researchers and other interested entities.
- The scope and budget increase is requested to accommodate an internationally recognized microbiologist and member of the National Academy of Science. This recruitment will immediately enhance the prestige of AZ Bio and ASU and facilitate the recruitment of additional renowned scientists. The research program of this scientist also strengthens a core competency in infectious diseases and vaccine development and is synergistic with the activities of other AZ Bio researchers.
- The scientist's research program requires an estimated 10,000 square feet of specialized animal facilities with heightened bio-containment capabilities or Animal BioSafety Level 3. The scope change includes readying AZ Bio Phase I for the researcher's needs: a non-recirculating ventilation system, HEPA filtered exhaust air, an autoclave for decontaminating wastes, self-closing animal room doors, water-resistant walls and ceilings, double doors or airlock, and other requirements. Microbiological research also requires other special containment facilities and incubator rooms.

CONTACT: Mernoy Harrison, Executive Vice President for Administration and Finance
(480) 965-3201 mernoy.harrison@asu.edu

EXECUTIVE SUMMARY

- The budget and scope increase will also provide 3800 square feet of modular animal care and animal lab facilities in support of the research scientist until such time as AZ Bio II is completed. The modular facilities must be located in a secured area in close proximity to AZ Bio Phase I for the researcher to easily travel between the labs and the animal facility. The anticipated arrival date of the researcher is September of 2004. Additionally, the modular labs will be flexible in use in order to be responsive to the needs of future additional hires planned for the program.
- The Arizona Biodesign Institute-Phase I is a facility, approximately 170,000 square feet, to be situated at the southwest corner of Lot 44 on the Arizona State University campus (see attached site diagram). This will comprise approximately 140,000 square feet of bioengineering, biotechnology, and integrative biomedicine laboratories and 30,000 square feet of faculty/research and administrative offices.
- The program areas identified for Phase I consist of eight centers including: Center for Production of Vaccines from Applied Crop Science (ProVacs); Protein and Peptide Pharmaceuticals (P3); Rehabilitation Engineering (RE); Neural Interfaces and Control; Evolutionary Functional Genomics (EFG); Single Molecule Biophysics (SMB); Nanoscale Bio-Optical Technologies (NANOBOT) and Center for Nano-Bio Systems Applications (NBSA). The building is being built to create an environment that promotes and encourages interdisciplinary interaction among various research programs and individual researchers. This project is the first phase of a multi-phased Biodesign Corridor to be developed along the east side of the ASU Campus.
- The Institute will articulate a collaborative research agenda conducted by Arizona State University Main researchers along with allied faculty from member clinical institutions in the greater Phoenix area.
- Based upon the increased scope of work, the total project cost needs to be increased from the approved \$69,000,000 to \$72,800,000.

PROPOSED SCHEDULE:

- | | |
|-----------------------------------|---------------|
| • Capital Development Plan | June 2001 |
| • Project Implementation Approval | November 2002 |
| • Project Approval | January 2003 |
| • Construction start | March 2003 |
| • Revised Project Approval | March 2004 |
| • Occupancy | October 2004 |

FISCAL IMPACT AND FINANCING:

\$69,000,000 of this project was included in ASU's October 2003 Variable Rate Bond Issue. The increase in project costs \$3,800,000 will be financed as part of another ASU bond issue presently anticipated for May or June 2004. The debt service for \$69,000,000 of this project was included in the debt service percentages presented in the Revised 2004 Capital Development Plan submitted in January 2004, which shows that debt service on all outstanding debt would be 5.8 percent of total projected expenditures (State Law sets a maximum of 8%) and 7.2 percent of projected unrestricted expenditures (ABOR Policy sets a maximum of 10%). The debt service for the additional project costs of \$3,800,000

EXECUTIVE SUMMARY

will increase the debt service percentage by .02% (2/100th of 1%) of total projected expenditures (State Law) and .03% (3/100th of 1%) of total unrestricted expenditures (ABOR policy).

RECOMMENDATION:

That Revised Project Approval with a Scope and Budget Increase is granted to Arizona State University Main Campus for the AZ Biodesign Institute-Phase I Project.

EXECUTIVE SUMMARY

Capital Project Information Summary

University: Arizona State University Main

Project Name: AZ Biodesign Institute-Phase I

Project Description/Location:

Phase 1 of the Arizona Biodesign Institute is an approximately 170,000 square foot, \$72,800,000 facility to be situated at the southwest corner of Lot 44 on the Arizona State University campus (see attached site diagram).

Project Schedule (Beginning Month/Year):

| | |
|--------------|----------------|
| Planning | August 2002 |
| Design | September 2002 |
| Construction | March 2003 |
| Occupancy | October 2004 |

Project Budget:

| | | |
|-------------------------------------|----|------------|
| Total Project Cost | \$ | 72,800,000 |
| Direct Construction Cost | \$ | 57,741,589 |
| Total Project Cost per GSF | \$ | 428 |
| Construction Cost per GSF | \$ | 340 |
| Change in Annual Oper. /Main. Cost: | | |
| Utilities | \$ | 644,000 |
| Personnel | \$ | 667,200 |
| All Other Operating | \$ | 308,700 |
| Subtotal | \$ | 1,619,900 |

Funding Sources:

Capital

A. System Revenue Bonds \$ 72,800,000
 (Funding Source of Debt Service of \$69,000,000: TRIF (Prop. 301), Indirect Cost Recovery, Other
 Local Funds, Federal Grant, Other
 Funding Source of Debt Service for \$3,800,000: Indirect Cost Recovery)

Operation/Maintenance

A. General Fund \$ 1,619,900

EXECUTIVE SUMMARY

Capital Project Information Summary

University: Arizona State University Main

Project Name: AZ Biodesign Institute-Phase I

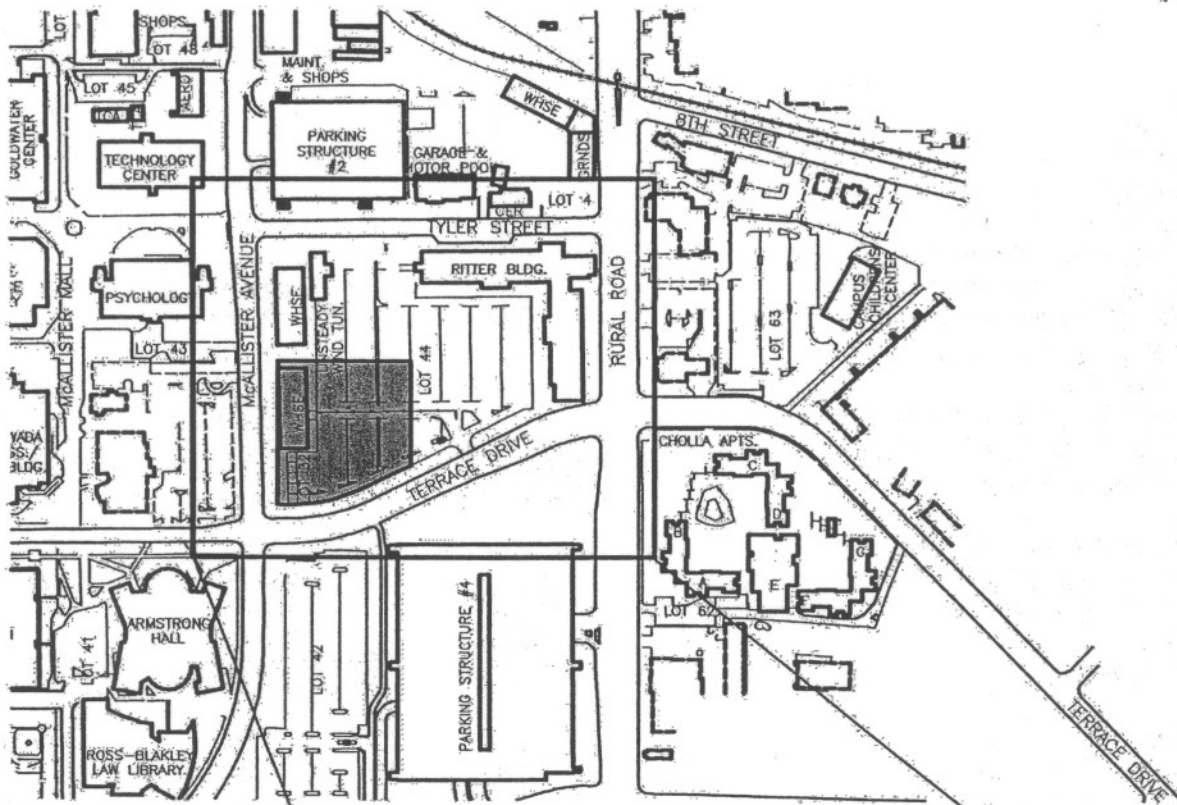
| | <u>Project Implementation Approval</u> | <u>Project Approval</u> | <u>Revised Project Approval</u> |
|--|---|------------------------------------|--|
| Capital Costs | | | |
| 1. Land Acquisition | | | |
| 2. Construction Cost | | | |
| A. New Construction Shell / Core | \$ 44,400,744 | \$ 44,400,744 | \$ 48,143,744 |
| B. New Construction Tenant Improvements | | | |
| C. Special Fixed Equipment | 2,466,708 | 2,466,708 | 2,466,708 |
| D. Site Development (excl. 2.E.) | 1,480,025 | 1,480,025 | 1,480,025 |
| E. Parking and Landscaping | 986,683 | 986,683 | 986,683 |
| F. Utilities Extensions | 250,000 | 1,337,338 | 1,337,338 |
| G. Other* (Demolition, Haz Mat Abatement) | 1,299,455 | 1,299,455 | 1,299,455 |
| H. Inflation Adjustment Construction Midpoint) | 2,027,636 | 2,027,636 | 2,027,636 |
| Subtotal Construction Cost | <u>\$ 52,911,251</u> | <u>\$ 53,998,589</u> | <u>\$ 57,741,589</u> |
| 3. Fees (% of Construction Cost) | | | |
| A. Construction Mgr (1%) | 264,556 | 264,556 | 264,556 |
| B. Architect/Engineer (10%) | 5,460,000 | 5,460,000 | 5,460,000 |
| C. Other | 1,560,000 | 1,560,000 | 1,560,000 |
| Subtotal Consultant Fees | <u>\$ 7,284,556</u> | <u>\$ 7,284,556</u> | <u>\$ 7,284,556</u> |
| 4. FF&E Movable | \$ 1,187,648 | \$ 1,187,648 | \$ 1,187,648 |
| 5. Contingency, Design Phase (3%) | 1,587,338 | 500,000 | 500,000 |
| 6. Contingency, Constr. Phase (4%) | 1,587,338 | 2,169,362 | 2,169,362 |
| 7. Parking Replacement Reserve | 1,530,000 | 1,530,000 | 1,530,000 |
| 8. Telecommunications Equipment | 450,987 | 450,987 | 450,987 |
| Subtotal Items 4-8 | <u>\$ 6,343,311</u> | <u>\$ 5,837,997</u> | <u>\$ 5,837,997</u> |
| 9. Additional University Costs | | | |
| A. Surveys and Tests | \$ 264,556 | \$ 264,556 | \$ 264,556 |
| B. Move-in Costs | 132,278 | 132,278 | 132,278 |
| C. Public Art (0.005xsubtotal const) | 264,556 | | |
| D. Printing Advertisement | 26,456 | 26,456 | 26,456 |
| E. Project Management Cost (1.5%) | 1,035,000 | 1,035,000 | 1,092,000 |
| F. Other (Facilities Support) | 163,529 | 163,529 | 163,529 |
| G. Other (1) | 257,039 | 257,039 | 257,039 |
| H. State Risk Mgt. Ins. (.006) (2) | 317,468 | - | - |
| Subtotal Addl. Univ. Costs | <u>\$ 2,460,882</u> | <u>\$ 1,878,858</u> | <u>\$ 1,935,858</u> |
| TOTAL CAPITAL COST | <u>\$ 69,000,000</u> | <u>\$ 69,000,000</u> | <u>\$ 72,800,000</u> |

(1) Universities shall identify items included in this category: Line item 9G "Other" includes: signage, alarm and detection systems, Campus Entry).

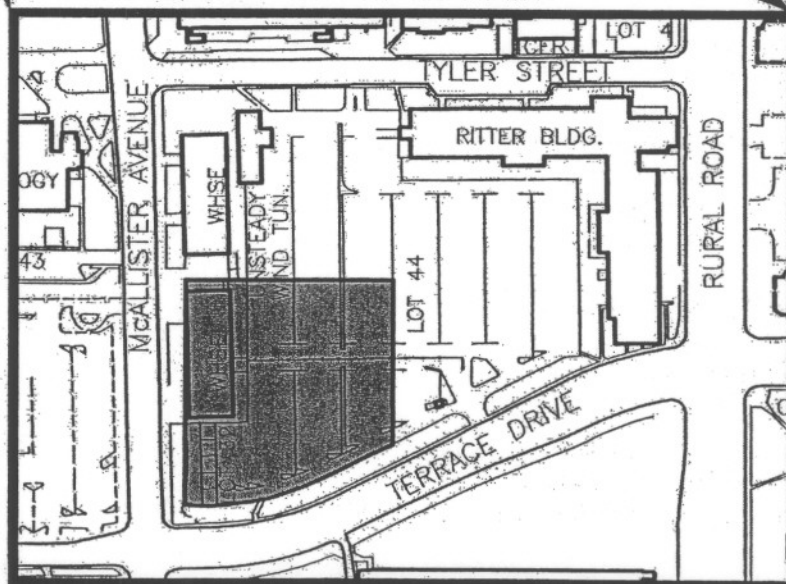
(2) State Risk Management Insurance factor is calculated on construction contract and architect/engineer fees if applicable.

EXECUTIVE SUMMARY

GENERAL LOCATION MAP



AZ BIODESIGN INSTITUTE LOCATION



AREA IN DETAIL

ARIZONA STATE UNIVERSITY
JCCR REVIEW

**Additional Information for Arizona Biodesign Institute Phase I (Revised Project: Budget
& Scope Increase)**

Original project budget was \$69,000,000. Revised project budget is \$72,800,000. The \$3,800,000 increase will be used to modify 10,000 square feet of AZ Bio Phase I (currently in construction) for incoming faculty. The increase will also be used to purchase adjacent, modular animal care laboratories of 3,800 square feet.

STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

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CHAIRMAN 2003
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JACK A. BROWN
ROBERT CANNELL, M.D.
SLADE MEAD
VICTOR SOLTERO
JIM WARING

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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HOUSE OF
REPRESENTATIVES

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DATE: March 22, 2004

TO: Representative Russell Pearce, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Lorenzo Martinez, Assistant Director

SUBJECT: UNIVERSITY OF ARIZONA/ARIZONA BOARD OF REGENTS – REVIEW OF
PARKING AND RESIDENTIAL LIFE LEASE-PURCHASE PROJECTS

Request

A.R.S. § 15-1682.01 requires Committee review of any university projects financed with Certificates of Participation (also known as COPs or lease-purchase).

The University of Arizona (UofA) on behalf of the Arizona Board of Regents (ABOR) requests Committee review of the Highland Avenue Parking Structure and Phase 1 of Residence Life Building Renewal lease-purchase projects.

Recommendation

The Committee has at least 3 options:

- 1) A favorable review.
- 2) A favorable review with the following stipulations:
 - UofA report to the Committee before expenditure of any allocations that exceed the greater of \$100,000 or 10% of the reported contingency amount total for add alternates that do not expand the scope of the project.
 - UofA submit for Committee review any allocations that exceed the greater of \$100,000 or 10% of the reported contingency amount total for add alternates that expand the scope of the project. In case of an emergency, UofA may immediately report on the scope and estimated cost of the emergency rather than submit the item for review. The JLBC Staff will inform the university if they do not agree with the change of scope as an emergency.
- 3) Defer action until additional information is provided on the scope and costs of components of the Residence Life Building Renewal lease-purchase project.

(Continued)

The 2 projects have a total capital construction cost of \$26,600,000. Of the total, \$21,600,000 will be financed with COPs and the remaining \$5,000,000 will come from a Parking Replacement Reserve. The COPs will be repaid over a 25-year period at an estimated interest rate of 6%. The total interest costs are projected to be \$20,642,500

Of the annual debt service of \$1,689,700, \$1,016,900 will be paid from auxiliary revenues generated from parking fees and \$672,800 will be paid from auxiliary revenues generated from dorm fees. Auxiliary funds are generated from self-supporting activities. See *Table 1* for financial detail on each project.

These projects would increase the university's debt ratio (debt services as a percent of total expenditures) from 4.6% to 4.7%. The statutory cap is 8%.

The Highland Avenue Parking Structure is the only project with new on-going operational costs of \$185,000. These costs will be paid from auxiliary funds.

Analysis

Table 1 lists the capital project costs and annual debt service for each project.

| Project | Total Capital Cost | Financed Amount | Annual Debt Service | Operating Costs |
|-----------------------------------|-----------------------|--------------------|------------------------|--------------------|
| Highland Avenue Parking Structure | \$18,000,000 | \$13,000,000 | \$1,016,900 | \$185,000 |
| Residential Life Building Renewal | 8,600,000 | 8,600,000 | 672,800 | 0 |
| TOTAL | \$26,600,000 | \$21,600,000 | \$1,689,700 | \$185,000 |

Highland Avenue Parking Structure

UofA plans to construct a 1,516 space multi-level parking garage in the northeast portion of the campus. The facility will provide parking for building development related to university research infrastructure (bioscience) projects. Cost of the garage is estimated to be \$18,000,000 and will be financed with the issuance of \$13,000,000 in COPs and \$5,000,000 from existing Parking Replacement Reserves. Parking Replacement Reserves are funded from other capital projects that result in the permanent loss of existing parking spaces. The estimated cost of \$11,800 per space is within the range of costs typical for multi-level parking facilities. This amount includes \$2,500,000 allocated for land acquisition. The cost without land acquisition is \$10,200 per space. As a comparison, a recent parking project at the Arizona State University campus had a cost of \$10,000 per space (no land acquisition costs).

The COP issuance will be repaid over a 25-year period at an estimated interest rate of 6%. The estimated annual debt service of \$1,016,900 will be funded from university auxiliary funds. Auxiliary fund revenues are generated from self-supporting activities such as parking facilities. The project is estimated to take 1 year from beginning of construction to completion.

Residential Life Building Renewal – Phase 1

UofA plans to replace plumbing systems in the Gila, Yuma and Arizona residential halls and convert common areas in the Gila and Yuma residential halls to provide capacity for 80 additional beds. The estimated cost is \$8,600,000, which will be funded with a COP issuance. JLBC Staff has requested additional information on the components of this project. As a reference point, the combined annual building renewal requirements for these facilities is \$766,800. Studies conducted in 1999 and 2000 estimated deferred maintenance costs to be approximately \$503,800, however, the residence halls have not received any major renovations since originally built. Gila and Yuma halls were constructed in 1937 and Arizona hall was constructed in 1963. Dorm facilities constructed by Arizona State University in 2001 had an estimated cost of \$28,000 per bed.

(Continued)

The COP issuance will be repaid over a 25-year period at an estimated interest rate of 6%. The estimated annual debt service of \$672,800 will be funded from university auxiliary funds. Auxiliary fund revenues are generated from self-supporting activities. The project is planned to occur during the summer of 2004.

The UofA plans to have future submissions for additional residential life building renewal projects with estimated costs of \$27.6 million over the next 4 years.

The residence halls have not received any major renovations since originally built. Gila and Yuma halls were constructed in 1937 and Arizona hall was constructed in 1963. The residence life program will include 22 facilities and 6,020 beds by fall 2004. The number of students on waiting lists has averaged 500 over the last 2 years.

RS/LM:jb

Senior Vice President
for Business Affairs

THE UNIVERSITY OF
ARIZONA
TUCSON ARIZONA

Administration Building
Tucson, Arizona 85721
(520) 621-5977
FAX: (520) 621-7714

February 20, 2004

The Honorable Robert Burns
Chair; Joint Committee on Capital Review
Arizona State Senate
1700 W. Washington
Phoenix, AZ 85007



Dear Mr. Burns:

Subject: Agenda Items- Joint Committee on Capital Review

On behalf of the Arizona Board of Regents, I respectfully request that the University of Arizona be placed on the next available Joint Committee on Capital Review agenda for the following Arizona Board of Regents approved projects:

1. Highland Avenue Parking Structure

The Arizona Board of Regents granted Project Implementation Approval for the Highland Parking Structure at the January 2004 meeting. The Highland Avenue Parking Structure is an approximately 1500 space parking structure to service the northeast campus district and the Arizona Health Sciences Center (AHSC). New building development in this district, such as the Medical Research Building, the Roy P. Drachman Hall and the Thomas W. Keating Bioresearch Building will create additional parking demand.

The Highland Avenue Parking Structure would serve many University constituencies. The facility would be used by students, faculty and staff and replace parking anticipated to be lost as a result of future University development. The project conforms with the long-term development strategies to replace existing surface parking lots with parking structures in critical locations to better use limited campus land resources. The project budget is \$18,000,000 and will be funded by \$13,000,000 in Certificates of Participation and \$5,000,000 in Parking Replacement Reserves. The details are explained in the attached Executive Summary.



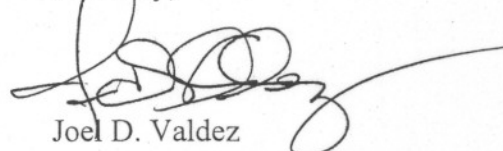
2. Residence Life Building Renewal-Phase I

The Arizona Board of Regents granted Project Implementation Approval and Project Approval for the Residence Life Building Renewal, Phase I at the January 2004 meeting. Residence Life Building Renewal, Phase I will extend the useful life of aging residential facilities, and reduce the risk of potentially disruptive system failures that would affect both the health and safety of the occupants. Phase I will replace plumbing systems in Gila, Yuma, and Arizona Halls and renovate underutilized lounge space in Gila and Yuma Halls to provide up to 80 additional beds to meet increasing demand. Residence Life Building Renewal, Phase I is the initial phase of a four-phased project that is intended to be completed by the summer of 2007.

Phase I project budget is \$8,600,000 and will be funded by Certificates of Participation. Details of the project are explained in the attached Executive Summary.

If you require any more information please call me at (520) 621-5977. Thank you for your assistance.

Sincerely,



Joel D. Valdez
Sr. VP for Business Affairs

JDV:fg

Attachments: 2

cc: President Likins
Linda Blessing
Greg Fahey
Lorenzo Martinez
Dick Roberts

EXECUTIVE SUMMARY

ACTION ITEM: Highland Avenue Parking Structure: Project Approval

ISSUE: The University of Arizona seeks Project Approval to construct the \$18 million Highland Avenue Parking Structure.

| | | |
|--------------------------------|----------------------------------|--------------|
| PREVIOUS BOARD ACTIONS: | Capital Development Plan (CDP): | June 2001 |
| | Capital Development Plan Update: | January 2003 |
| | Project Implementation Approval: | January 2004 |

PROJECT STATUS:

- The Highland Avenue Parking Structure is an approximately 1500 space parking structure to service the northeast campus district and the Arizona Health Sciences Center (AHSC). New building development in this district, such as the Medical Research Building, the Roy P. Drachman Hall and the Thomas W. Keating Bioresearch Building will create additional parking demand.
- The Highland Avenue Parking Structure would serve many University constituencies. The facility would be used by students, faculty and staff and replace parking anticipated to be lost as a result of future University development. The project conforms to the University's long-term development strategies to replace existing surface parking lots with parking structures in critical locations to better utilize limited land resources.
- The total project budget is estimated at \$18 million with \$13 million funded by Certificates of Participation and \$5 million in Parking Replacement Reserves. Operations and maintenance costs will be funded from the Auxiliary Enterprise. There are no material or significant changes to the project since receiving Project Implementation Approval.
- The estimated incremental debt ratio associated with this project is 0.07% for State (ARS) and 0.10% for ABOR. This would bring the total debt ratio for State to 4.65% and ABOR to 7.24%. These debt ratios are derived from the audited FY 2002-03 financial data that included all final adjustments.
- The project is utilizing a Design-Build building delivery process. The Design-Build Team was chosen by a two stage Request for Qualifications/Request for Proposals qualifications based competitive selection process and will be collaborating with the University in the design, scheduling, costing and constructability review of the project.

RECOMMENDATION:

That the Board grant Project Approval to the University of Arizona for the Highland Avenue Parking Structure.

Contact: Joel D. Valdez (520) 621-5977
Sr. Vice President for Business Affairs
jvaldez@u.arizona.edu

EXECUTIVE SUMMARY

Capital Project Information Summary

University: The University of Arizona

Project Name: Highland Avenue Parking Structure

Project Description/Location: The Highland Avenue Parking Structure is an approximately 1500 space parking structure to be located on the northwest corner of the intersection of Vine and Helen Streets.

| | Project Implementation <u>Approval</u> January 2004 | <u>Project</u> <u>Approval</u> March 2004 |
|--|--|---|
| <u>Date of Board Action:</u> | | |
| <u>Project Scope:</u> | | |
| Parking Spaces | 1,500 | 1,516 |
| <u>Project Schedule (Beginning Month/Year):</u> | | |
| Planning | 6/03 | 6/03 |
| Design | 10/03 | 10/03 |
| Construction | 6/04 | 6/04 |
| Occupancy | 7/05 | 7/05 |
| <u>Project Budget:</u> | | |
| Total Project Cost | \$18,000,000 | \$18,000,000 |
| Direct Construction Cost | \$12,247,000 | \$12,483,000 |
| Total Project Cost per parking space | \$12,000 | \$12,000 |
| Construction Cost per parking space | \$8,165 | \$8,234 |
| Change in Annual Oper./Main. Cost | \$185,000 | \$185,000 |
| <u>Funding Sources:</u> | | |
| Capital: | | |
| A.Certificates of Participation | \$13,000,000 | \$13,000,000 |
| Debt Service: Auxiliary Enterprise | | |
| B.Local Funds—Parking Reserve Replacement | <u>\$5,000,000</u> | <u>\$5,000,000</u> |
| Total | \$18,000,000 | \$18,000,000 |
| Operation/Maintenance: | | |
| Auxiliary Enterprise | \$185,000 | \$185,000 |

EXECUTIVE SUMMARY

Capital Project Budget Summary

University: The University of Arizona

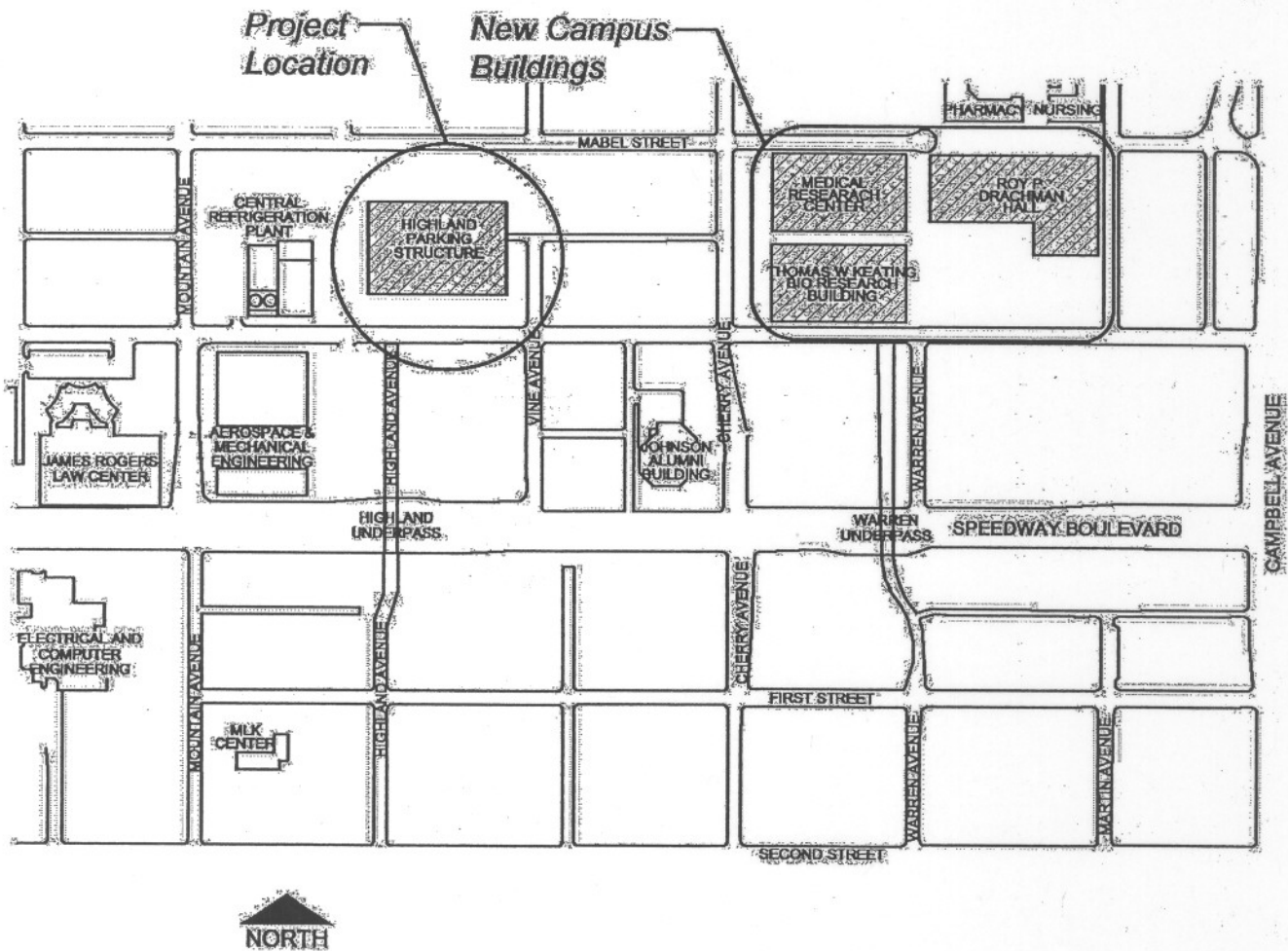
Project Name: Highland Avenue Parking Structure

| | Project Implementation Approval <u>Estimate</u> 12/03 | Project Approval <u>Estimate</u> 2/04 |
|--------------------------------------|---|--|
| Date of Budget Estimate: | | |
| 1. Land Acquisition | 2,500,000 | 2,500,000 |
| 2. Construction Cost | | |
| A. New Construction | 11,612,000 | 11,923,000 |
| B. Renovation | 0 | 0 |
| C. Fixed Equipment | 230,000 | 310,000 |
| D. Site Development (exclude 2.E.) | incl | incl |
| E. Parking & Landscaping | incl | incl |
| F. Utilities Extensions | 0 | 150,000 |
| G. Other (Demolition) | 45,000 | 100,000 |
| H. Inflation Adjustment | 360,000 | 0 |
| Subtotal Construction Cost | \$ 12,247,000 | \$ 12,483,000 |
| 3. Consultant Fees | | |
| A. Construction Manager | 0 | 0 |
| B. Architect/Engineering | 827,000 | 827,000 |
| C. Other (Parking Consultant) | 138,000 | 138,000 |
| Subtotal Consultant Fees | \$ 965,000 | \$ 965,000 |
| 4. FF& E Movable | 0 | 0 |
| 5. Contingency, Design Phase | 625,000 | 625,000 |
| 6. Contingency, Construction Phase | 1,280,000 | 1,044,000 |
| 7. Parking Reserve | 0 | 0 |
| 8. Telecommunications Equipment | 50,000 | 50,000 |
| Subtotal Items 4-8 | \$ 1,955,000 | \$ 1,719,000 |
| 9. Additional University Costs | | |
| A. Surveys and Tests | 50,000 | 50,000 |
| B. Move-in Costs | 0 | 0 |
| C. Public Art | 0 | 0 |
| D. Printing/Advertisement | 15,000 | 15,000 |
| E. Other ¹ | 184,000 | 184,000 |
| F. State Risk Mgt. Ins. | 84,000 | 84,000 |
| Subtotal Additional University Costs | \$ 333,000 | \$ 333,000 |
| TOTAL CAPITAL COST | \$ 18,000,000 | \$ 18,000,000 |

¹ Line 9E includes Project Management and Facilities Management costs

EXECUTIVE SUMMARY

SITE PLAN



EXECUTIVE SUMMARY

ACTION ITEM: Residence Life Building Renewal, Phase 1: Combined Project Implementation Approval and Project Approval

ISSUE: The University of Arizona requests combined Project Implementation Approval and Project Approval for Phase 1 of the Residence Life Building Renewal Project which includes renovation of Gila Hall, Yuma Hall, and Arizona Hall.

PREVIOUS BOARD ACTION: FY 2004 Capital Development Plan Amendment - August 2003

PROJECT STATUS:

- Residence Life Building Renewal, Phase 1 will extend the useful life of aging residential facilities, and reduce the risk of potentially disruptive system failures that would affect both the health and safety of the occupants. Phase 1 will replace plumbing systems in Gila, Yuma, and Arizona Halls and renovate, underutilized lounge space in Gila and Yuma Halls to provide up to 80 additional beds to meet increasing demand. No additional gross square footage (gsf) will be added.
- Schedule: The University of Arizona intends to complete Phase 1 during the summer of 2004. The University will issue a Notice To Proceed (NTP) in early March 2004 to the selected contractor who will begin ordering long-lead equipment so actual construction within the buildings can start immediately at the end of the spring semester. In order to issue the NTP, the University is requesting Project Approval along with Project Implementation Approval at this time. Residence Life Building Renewal, Phase 1 is the initial phase of a four-phased project that is intended to be completed by the summer of 2007. It is essential that Phase 1 work be completed during the summer of 2004 so all of the phases can be completed within the four-year period as planned.
- Residence Life Building Renewal, Phase 1 estimated project cost is \$8.6 million. For all four phases, the total estimated cost is \$36.2 million and will be funded by Certificates of Participation with debt service from Residence Life Auxiliary Enterprise proceeds. No change in operations and maintenance costs is anticipated.
- Debt Ratio Impact: The estimated incremental debt ratio associated with this project is 0.05% for State (ARS) and 0.07% for ABOR. This would bring the total debt ratio for State to 4.70% and ABOR to 7.31%. These debt ratios are derived from the audited FY 2002-03 financial data that included all final adjustments.
- This project will utilize a Construction Manager at Risk delivery process. It is anticipated that a Guaranteed Maximum Price (GMP) contract for Phase 1 will be executed during March 2004.

Contact:

Joel D. Valdez (520) 621-5977
Senior Vice President for Business Affairs
jdvaldez@u.arizona.edu

EXECUTIVE SUMMARY

PROJECT JUSTIFICATION:

- The Department of Residence Life is committed to providing housing that promotes student success through interactive living and learning communities where students can thrive in a safe and supportive environment. Over 75% of the University's freshmen class is housed in residence halls. Residence Life is particularly concerned with helping students successfully transition from a home to a university environment. Consequently, Residence Life provides an extensive array of programs and services that intentionally focus on first-year learning communities. A primary part of its mission is to provide clean, comfortable, and memorable living spaces while promoting safety and security.
- Residence Life has implemented a plan to incrementally manage deferred maintenance and building renewal activities during the past sixteen years. The Long Development Plan (LDP) for its facilities is a five-year projection of deferred maintenance, building renewal, life/safety improvements and building enhancements that are necessary to maintain the high standards for buildings required for a residential program. During the past sixteen years, Residence Life has expended over \$20.0 million on LDP projects. Priorities are based upon the urgency, availability of funding and the ability of staff and/or contractors to complete the work within allotted timeframes. Most projects are completed during summer periods in order to maintain bed inventory during the academic year.

RECOMMENDATION:

That the Board grant Project Implementation Approval and Project Approval to the University of Arizona for Phase 1 of the Residence Life Building Renewal Project.

EXECUTIVE SUMMARY

Capital Project Information Summary

University: The University of Arizona

Project Name: Residence Life Building Renewal, Phase 1

Project Description/Location:

Phase 1 of this multi-phased project includes renovation of Gila Hall, Yuma Hall, and Arizona Hall. This phase focuses on the replacement of plumbing systems in Gila, Yuma, and Arizona Halls. It also includes the renovation of underutilized lounge space in Gila and Yuma Halls to provide up to 80 additional beds to meet increasing demand.

Project
Implementation
& Project Approval

Date of Board Action:

January 2004

Project Scope:

Gross Square Feet

N/A

Project Schedule (Beginning Month/Year):

Planning

04/03

Design

11/03

Construction start

05/04

Construction completion

08/04

Project Budget:

Total Project Cost

\$8,600,000

Direct Construction Cost

\$6,460,000

Total Project Cost per GSF

N/A

Construction Cost per GSF

N/A

Change in annual Operating/Maintenance Cost

N/A

Funding Source:

Capital:

Certificates of Participation

\$8,600,000

Debt Service: Auxiliary Enterprise

Operations & Maintenance:

N/A

EXECUTIVE SUMMARY

Capital Project Budget Summary

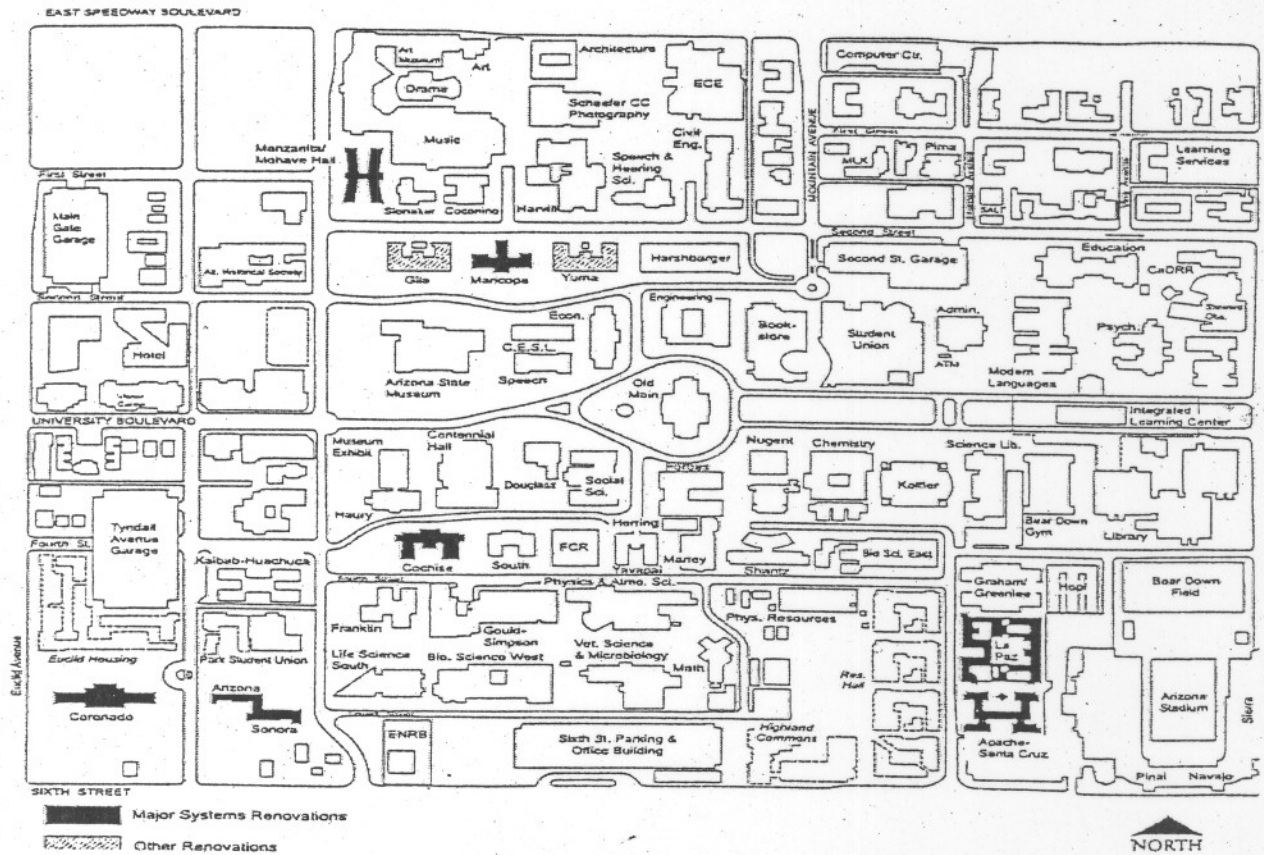
University: The University of Arizona

Project Name: Residence Life Building Renewal, Phase 1

| | Project Implementation & Project Approval Estimate 12/03 |
|--|--|
| Date of Budget Estimate | |
| 1. Land Acquisition | \$ 0 |
| 2. Construction Cost | |
| A. New Construction | 0 |
| B. Renovation | 6,134,000 |
| C. Fixed Equipment | 0 |
| D. Site Development (exclude 2.E.) | 0 |
| E. Parking & Landscaping | 0 |
| F. Utilities Extensions | 0 |
| G. Other (Asbestos Abatement) | 127,000 |
| H. Inflation Adjustment | 199,000 |
| Subtotal Construction Cost | \$ 6,460,000 |
| 3. Consultant Fees | |
| A. Construction Manager | 116,000 |
| B. Architect/Engineering | 583,000 |
| C. Other (Asbestos Survey) | 30,000 |
| Subtotal Consultant Fees | \$ 729,000 |
| 4. FF& E Movable | 150,000 |
| 5. Contingency, Design Phase | 323,000 |
| 6. Contingency, Construction Phase | 646,000 |
| 7. Parking Reserve | 0 |
| 8. Telecommunications Equipment | 50,000 |
| Subtotal Items 4-8 | \$ 1,169,000 |
| 9. Additional University Costs | |
| A. Surveys and Tests | 23,000 |
| B. Move-in Costs | 21,000 |
| C. Public Art | 0 |
| D. Printing/Advertisement | 6,000 |
| E. Other (Project & Facilities Management) | 157,000 |
| F. State Risk Management Insurance | 35,000 |
| Subtotal Additional University Costs | \$ 242,000 |
| TOTAL CAPITAL COST | \$ 8,600,000 |

EXECUTIVE SUMMARY

Residence Life Building Renewal Project Locations:



EXECUTIVE SUMMARY

ACTION ITEM: The University of Arizona (UA) requests authority to sell (i) Certificates of Participation (COPs) to produce sufficient proceeds to finance not exceeding \$66.6 million for the acquisition and construction of the Chemistry Building Expansion Project and, contingent upon favorable review by the Joint Committee on Capital Resources (JCCR), the Highland Avenue Parking Garage Project and the Residence Life Building Renewal Phase I Project, plus costs of issuance and capitalized interest on a portion of the COPs until fiscal year 2007-08, and (ii) System Revenue Bonds (SRBs) to produce sufficient proceeds to finance not exceeding \$17.5 million for the acquisition and construction of the Drachman Hall Project, plus costs of issuance; to take related actions; to enter into necessary agreements; and to execute documents.

ISSUE

The UA seeks Board authorization to sell one or more series of (i) COPs to produce sufficient proceeds to finance not exceeding \$66.6 million for the acquisition and construction of the Chemistry Building Expansion Project and, contingent upon favorable review by JCCR, the Highland Avenue Parking Garage Project and the Residence Life Building Renewal Phase I Project, plus costs of issuance and capitalized interest on a portion of the COPs until fiscal year 2007-08, and (ii) SRBs to produce sufficient proceeds to finance not exceeding \$17.5 million for the acquisition and construction of the Drachman Hall Project plus costs of issuance. The UA also seeks authorization to take related actions, to enter into necessary agreements, and to execute related documents, including municipal bond insurance, reserve fund surety bonds and bond or certificate purchase, liquidity, interest rate swap, and continuing disclosure agreements.

BACKGROUND

Chemistry Building Expansion Project. This project involves the relocation of the Campus Insectary and Greenhouse Complex to allow for construction of a new addition to the existing Chemistry Building. The addition will provide 87,730 gross square feet of space for research labs and faculty offices to the Department of Chemistry. The UA is seeking authorization to finance the entire \$45 million project budget from COPs authorized under the research infrastructure legislation.

Contact: Joel D. Valdez (520) 621-5977
Sr. Vice President for Business Affairs
jvaldez@u.arizona.edu

EXECUTIVE SUMMARY

The UA anticipates funding debt service from the State General Fund Appropriations for FY 2007-08 through FY 2030-31. The UA will use capitalized interest from proceeds of the COPs to pay a portion of the debt services from FY 2004-05 through FY 2007-08. Operations and Maintenance costs will be funded through Indirect Cost Recovery (ICR) funds.

Previous Board Actions:

| | |
|--|--------------|
| Request to exceed advance planning and programming | |
| Funding limitations identified in Board policy: | January 2000 |
| Project Initiation Approval: | March 2001 |
| Increased spending authority: | March 2003 |
| Project Implementation Approval: | April 2003 |
| Project Approval: | August 2003 |

The UA has received a favorable review from JCCR for this project.

Highland Avenue Parking Garage Project. This project will provide 1,516 parking spaces to service the northeast campus district and the Arizona Health Sciences Center (AHSC). This new parking garage is essential to meet the increased demand from the new research facilities such as the Institute for Biomedical Science and Biotechnology, and the Medical Research Building. The UA is seeking authorization to finance \$13.0 million of the total project budget of \$18.0 million from COPs.

The remaining \$5.0 million project cost will be funded from auxiliary funds. The UA anticipates funding debt service from revenues generated through the sale of parking permits on the facility. Operations and Maintenance costs will be funded from auxiliary funds.

Previous Board Actions:

| | |
|--|----------------------|
| Capital Development Plan (CDP): | June 2001 |
| Revised FY 2004-06 Capital Improvement Plan (CIP): | January 2003 |
| Project Implementation Approval | January 2004 |
| Project Approval | On March 2004 agenda |

The UA will submit this project to JCCR for their review.

EXECUTIVE SUMMARY

Residence Life Building Renewal Phase I Project. This project, the first phase of a four phase program, consists of renovating bathrooms, replacing mechanical, electrical, plumbing, heating, ventilation, and air conditioning (HVAC), and fire sprinkler and fire alarm systems for certain residence dormitories, including Apache-Santa Cruz, Arizona, Sonora, Cochise, Coronado, Colonia de la Paz, Manzanita-Mohave, Maricopa, Gila and Yuma. The project also includes modification to the underutilized lounge areas in Gila and Yuma Halls to obtain additional space for up to 80 beds. The UA is seeking authorization to finance \$8.6 million of the total project cost of \$36.2 million from COPs at this time and will seek authority to finance the remaining project cost in the future for additional phases. The UA anticipates funding debt service and Operation and Maintenance costs from auxiliary funds.

Previous Board Actions:

FY 2003-04 Capital Development Plan (CDP):
Project Implementation & Project Approval

August 2003
January 2004

The UA will submit this project to JCCR for their review.

Drachman Hall Project. This project is a new interdisciplinary academic building consisting of 118,000 gross square feet, which co-locates in one facility the College of Public Health, and instructional space for the College of Pharmacy and the College of Nursing. The UA is seeking authorization to finance \$17.5 million of the \$30.0 million project budget from SRBs. The remaining \$12.5 million is expected to be funded by gifts received from donors and other sources. The UA anticipates funding debt service from tuition revenues. Operation and Maintenance costs will be funded from the General Fund of the UA.

Previous Board Actions:

Capital Development Plan (CDP):
Project Implementation Approval
Project Approval

June 2001
April 2002
August 2003

The UA has received a favorable review from JCCR for this project.

FINANCING PLAN

The UA intends to finance the projects described above by selling (i) COPs to produce sufficient proceeds to finance not exceeding \$66.6 million for the acquisition and

EXECUTIVE SUMMARY

construction of the Chemistry Building Expansion Project and, contingent upon a favorable review by JCCR, the Highland Avenue Parking Garage Project and the Residence Life Building Renewal Phase I Project, plus costs of issuance and capitalized interest on a portion of the COPs until fiscal year 2007-08, and (ii) SRBs to produce sufficient proceeds to finance not exceeding \$17.5 million for the acquisition and construction of the Drachman Hall Project, plus costs of issuance. The UA expects that the COPs and SRBs would mature over a period ending not later than June 1, 2031.

Depending upon market conditions at the time of sale, UA may issue the entire financing, or some or all of the portion of the COPs allocable to the Chemistry Building Expansion Project, as variable rate or adjustable rate obligations. Although UA has benefited in recent years from low fixed interest rates on its borrowings, it has also had favorable experience with the variable rate obligations issued for various projects. Issuing the COPs as variable rate instruments could lessen UA's debt service commitments on the COPs allocable to the Chemistry Building Expansion Project from FY 2004-05 until FY 2007-08, when State General Fund Appropriations for research infrastructure are expected to commence. The UA may also consider entering into interest rate exchange (swap) agreements simultaneously with the issuance of variable rate obligations or at a later date, producing a "synthetic fixed rate" obligation for the UA at a debt service cost that may be lower than directly issuing fixed-rate COPs or SRBs to the market. Any COPs and SRBs not issued as variable rates would be issued as fixed rate obligation instruments.

In addition to using variable rate COPs, UA also needs the ability to take other steps to address debt service related to the Chemistry Building Expansion Project until FY 2007-08, such as capitalizing interest from COPs proceeds and/or using capital appreciation COPs which would have no scheduled interest payments until FY 2007-08. No capitalized interest is expected to be funded for the Highland Avenue Parking Garage Project, the Residence Life Building Renewal Phase I Project or the Drachman Building Project.

The UA will be called upon to enter into various agreements in connection with the COPs and SRBs, such as municipal bond insurance, reserve fund surety bonds and bond and certificate purchase agreements, and if UA decides to issue variable rate obligations, liquidity and possibly interest rate swap agreements.

Debt Ratio Impact. The COPs and SRBs, when issued, would bring the UA's debt ratios to 4.66% under the State's statutory debt ratio limit (leaving 3.34% or \$57.6 million of debt service capacity), and 7.52% under the Board's debt ratio (leaving 2.48% or \$32.8 million of debt service capacity)

EXECUTIVE SUMMARY

Marketing of COPs and SRBs; Timing. All COPs and SRBs would be sold at current market rates at the time of pricing. Fixed rate COPs and SRBs would not exceed a yield of 7.5% per annum and initial rates on variable rate COPs and SRBs would not exceed 6.0% per annum. The UA expects that the COPs and SRBs will be marketed and sold during the second quarter of calendar year 2004 in order to meet the construction and acquisition schedules.

The UA intends to utilize its current bond counsel, Snell & Wilmer, and its current financial advisor, RBC Dain Rauscher, Inc., in conjunction with the proposed financings. The COPs and SRBs would be marketed and sold on a negotiated basis to one or more of the investment banking firms that have been selected by the UA through a competitive process.

The action being requested would authorize the UA to execute these financings within the parameters set by the Board.

RECOMMENDATION/CONCLUSION:

RESOLVED: That the University of Arizona be, and hereby is, authorized to sell one or more series of COPs to produce sufficient proceeds to finance not exceeding \$66.6 million for the acquisition and construction of the Chemistry Building Expansion Project and, contingent upon a favorable review by JCCR, the Highland Avenue Parking Garage Project and the Residence Life Building Renewal Phase I Project, plus costs of issuance and capitalized interest on a portion of the COPs until fiscal year 2007-08, to take related actions, to enter into necessary agreements, and to execute documents, as provided in a resolution approved by Board counsel and staff.

FURTHER RESOLVED: That the University of Arizona be, and hereby is, authorized to sell one or more series of SRBs to produce sufficient proceeds to finance not exceeding \$17.5 million for the acquisition and construction of the Drachman Hall Project, plus costs of issuance, to take related actions, to enter into necessary agreements, and to execute documents, as provided in a resolution approved by Board counsel and staff.

STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

ROBERT "BOB" BURNS
CHAIRMAN 2003
TIMOTHY S. BEE
JACK A. BROWN
ROBERT CANNELL, M.D.
SLADE MEAD
VICTOR SOLTERO
JIM WARING

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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JOHN LOREDO

DATE: March 15, 2004

TO: Representative Russell Pearce, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Jake Corey, Fiscal Analyst

SUBJECT: SCHOOL FACILITIES BOARD – REVIEW OF REVISED LEASE-TO-OWN
PROJECT LIST

Request

Pursuant to A.R.S. § 15-2004, the School Facilities Board (SFB) requests the Committee review its list of \$49.2 million in new school construction projects to be financed with lease-purchase agreements.

Recommendation

The JLBC Staff recommends a favorable review of the request.

At the December 2003 Committee meeting SFB submitted for review \$57.2 million in *potential* lease-purchase projects for Committee review. The board received a favorable review contingent upon their returning to the Committee to report the *actual* projects to be included in the \$50 million agreement.

Analysis

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.

The attachment identifies the actual projects to be included in the lease-purchase agreement. When SFB submitted its list of potential projects in December, the list did not include the two projects in Chandler Unified School District. At that time SFB believed that Chandler would not be ready to begin construction on these projects until fall 2004. Since then Chandler has indicated the district would like to begin construction now. The board, therefore, has elected to include these projects in its current lease-purchase agreement.

RS/JC:jb
Attachment



Governor of Arizona
Janet Napolitano

STATE OF ARIZONA
SCHOOL FACILITIES BOARD

Executive Director
William Bell

March 18, 2004

The Honorable Russell K. Pearce
Chairman
Joint Committee on Capital Review
State House
1700 W. Washington Office #114

The Honorable Robert "Bob" Burns
Vice-Chairman
Joint Committee on Capital Review
State Senate
1700 W. Washington Office #110



Dear Mr. Pearce and Mr. Burns:

Attached please find the final list of projects for the most recent lease-to-own transaction. This transaction closed on March 18, 2004. There are seven projects with a total project value of \$49,165,654.

If there are any questions regarding this transaction or the list of projects, please contact me at 602-542-6147.

Thank you,

John Arnold
Deputy Director Finance
School Facilities Board

C.c. Dawn Nazary OSPB

**Lease To Own III Projects
March 11, 2004**

| District/Project Number | Description | Status | Project Total | District Share | SFB Contribution | Land | Percent Complete | Total Lease Purchase |
|---|--------------|--------------|---------------------|----------------|---------------------|------------------|---------------------|-------------------------|
| <u>Agua Fria Union High School</u> | | | | | | | | |
| 070516000-9999-001 | HS Buildout | Design | 8,697,480 | | 8,697,480 | - | 0% | 8,697,480 |
| | | | | | | | | - |
| <u>Buckeye Union</u> | | | | | | | | |
| 070501000-9999-001 | HS Buildout | Design | 7,461,743 | - | 7,461,743 | - | 0% | 7,461,743 |
| | | | | | | | | - |
| <u>Chandler Unified</u> | | | | | | | | |
| 070280000-9999-004 | K-6 Buildout | Construction | 3,318,204 | - | 3,318,204 | - | 0% | 3,318,204 |
| 070280000-9999-012 | K-6 Buildout | Construction | 3,318,204 | - | 3,318,204 | - | 0% | 3,318,204 |
| | | | | | | | | - |
| <u>Dysart</u> | | | | | | | | |
| 070289000-9999-007 | K-8 | Construction | 9,175,320 | - | 9,175,320 | 231,000 | 15% | 9,406,320 |
| 070289000-9999-008 | K-8 | Construction | 9,175,320 | - | 9,175,320 | 255,000 | 15% | 9,430,320 |
| | | | | | | | | - |
| <u>Yuma Union</u> | | | | | | | | |
| 140570000-9999-001 | HS Buildout | Design | 7,533,383 | | 7,533,383 | | | 7,533,383 |
| | | | | | | | | - |
| Totals | | | \$48,679,654 | \$0 | \$48,679,654 | \$486,000 | | \$49,165,654 |

STATE OF ARIZONA

Joint Committee on Capital Review

STATE
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HOUSE OF
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CHAIRMAN 2004
ANDY BIGGS
TOM BOONE
EDDIE FARNSWORTH
PHIL LOPES
LINDA J. LOPEZ
JOHN LOREDO

DATE: March 19, 2004

TO: Representative Russell Pearce, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Jake Corey, Fiscal Analyst

SUBJECT: SCHOOL FACILITIES BOARD – REVIEW OF NEW SCHOOL CONSTRUCTION
REPORT

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 2005. The Committee previously heard this item at its December 18, 2003 meeting, but did not take action on the item as SFB had not provided cost estimate information at that time.

Recommendation

The JLBC Staff recommends a favorable review of the request. The board estimates that it will oversee 64 new school construction projects in FY 2005 and that it will spend \$319.7 million in that year.

Analysis

Demographic Assumptions

The SFB bases its demographic assumptions on its analysis of the school district forecasts of Average Daily Membership (ADM), included in the Capital Plans submitted by districts to the board. To conduct the analysis, SFB uses state 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, SFB expects enrollment to grow at a higher rate in FY 2004 and FY 2005 than in FY 2003. The board expects enrollment growth to be 6.3% in FY 2004 and 7.5% in FY 2005. Actual enrollment growth for the same districts in FY 2003 was 5.6%.

For FY 2005, within Maricopa County SFB expects growth of approximately 9.0% in the southeastern portion of the county, including the cities of Chandler and Gilbert. In the northern part of the county, including Peoria, Deer Valley, and Cave Creek, the board expects growth of about 6.2%. In the western and southern districts of Phoenix, including Tolleson, the board expects growth of 5.7%. In the districts outlying the western edge of Phoenix, including Dysart, Litchfield, Avondale, Agua Fria, Buckeye, and Saddle Mountain, SFB expects growth of 18.3%.

In the other areas of the state, the board expects growth of 9.8% in Pinal County, 4.0% in Yuma County, 7.9% in the southern edges of Tucson, and 2.3% in various northern regions, including the Prescott and Lake Havasu areas.

Construction Schedule

The board estimates that it will oversee 64 new school construction projects in FY 2005. Of the total, SFB estimates that 27 projects will be ongoing from a previous year and will be completed in FY 2005, and that 37 projects will begin construction in FY 2005.

Cost Estimates

The table below provides detail on the board's estimated FY 2005 expenditures.

| <u>Source of Financing</u> | <u>FY 05 Spending</u> | <u>FY 05 Balance</u> |
|--|-----------------------|----------------------|
| FY 03 Lease-Purchase (\$400 M) ^{1/} | \$ 8.9 M | \$ 0.0 |
| FY 04 Lease-Purchase (\$250 M) ^{1/} | 87.3 M | 0.0 |
| FY 05 Lease-Purchase (\$250 M) ^{1/} | 165.0 M | 85.0 M ^{2/} |
| New School Facilities Fund | <u>58.4 M</u> | <u>1.9 M</u> |
| TOTAL | \$319.7 M | \$86.9 M |

^{1/} Amount in parentheses equals original issuance.
^{2/} Required to complete projects started in FY 2005.

The board estimates spending a total of \$319.7 million in FY 2005, including \$261.2 million from prior and future lease-purchase proceeds and \$58.4 million in cash financing that has been recouped by replacing prior cash expenditures with lease-purchase proceeds.

Of the total spent from lease-purchase proceeds, \$96.2 million is for on-going projects that will be completed in FY 2005 and \$165.0 million is for projects that will begin construction in FY 2005. The \$165.0 million in FY 2005 expenditures would be included as part of the FY 2005 \$250.0 million lease-purchase agreement. This would leave the board with a balance of \$85.0 million in lease-purchase proceeds at the end of FY 2005; however, the \$85.0 million would be required in FY 2006 (and beyond) to complete the projects. It is necessary for the board to enter into a \$250.0 million agreement in FY 2005, rather than a \$165.0 million agreement, as a lease-purchase agreement requires the board to include the full value of the lease-purchased projects in the agreement.

The \$58.4 million in cash financing from the New School Facilities Fund is for expenditures that the board can not initially incorporate into a lease-purchase agreement, including land, design fees, and transfers to the Emergency Deficiencies Correction Fund. The funding is derived from previous cash expenditures that the board has been able to recoup by making those prior cash expenditures a part of a lease-purchase agreement. The SFB can do this because the Internal Revenue Service (IRS) allows the board, as a public issuer of Certificates of Participation, to recoup any construction expenses made 60 days prior to issuing an Intent to Issue letter. The board has issued these letters each time it has entered into a lease-purchase agreement, beginning with the FY 2003 agreement. Any cash payments made to districts for construction expenses, then, are eligible to become part of a future lease-purchase financing agreement.

RS/JC:jb



STATE OF ARIZONA
SCHOOL FACILITIES BOARD

Governor of Arizona
Janet Napolitano

Executive Director
William Bell

October 31, 2003

Senator Robert Burns, Chairman
Joint Committee on Capital Review
1716 West Adams
Phoenix, Arizona 85007

Dear Senator Burns:

As required by §15-2002, subsection A, paragraph 13, Arizona Revised Statutes, attached is the School Facilities Board (SFB) report to the Joint Committee on Capital Review regarding demographic assumptions, construction schedules, and cost estimates for the new construction program.

Beginning in November 2003, SFB staff intends to take new construction recommendations to the Board based on the 2004 Capital Plan cycle. This is the second Capital Plan cycle in which the submittal deadline was September 1st. In past years, districts have submitted their Capital Plans in mid-late November. As a result, SFB staff has had difficulty receiving all of the Capital Plans on time, and there are still a few outstanding. Many other districts submitted their Capital Plans or other annual reports late. This report, to be presented to the School Facilities Board at its November 6, 2003 meeting, is based on information available as of October 24, 2003. The report is divided into four sections:

Demographic Assumptions by Region

These demographic assumptions were used as the basis for the evaluation of the 2004 Capital Plan cycle, and apply only to those districts that submitted Capital Plans based on anticipated growth. These assumptions should not be used to make assumptions about state-wide growth.

Projected Schedules of Projects that are Under Construction or Board Approved

Schedules are provided for all new construction projects that have already been approved by SFB staff that are not yet completed.

Projected New Construction Funding by Fiscal Year

This is a projected funding schedule by fiscal year for FY 2004 through FY 2006. It includes projects that have already been approved or are expected to be approved in the 2004 Capital

Plan cycle. It also includes the projects that were recently completed and received funding in FY 2004.

Backup Information used in 2004 Capital Plan Cycle

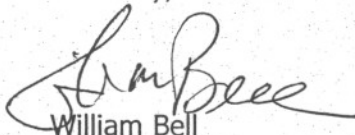
SFB staff has reviewed all of the 2004 Capital Plans that have been submitted, and has developed Average Daily Membership (ADM) projections for the districts that applied to the SFB for new construction in this cycle. This section contains the ADM projections done by SFB staff vs. the ADM projections provided by the districts. This section also includes other information that was used in the analyses (residential development information, grade progression ratio analyses, and other backup information provided by the districts). The information is divided into the following geographic regions:

Maricopa County – East Valley
Maricopa County – North Valley
Maricopa County – West/South Valley
Pinal County
Yuma County
Southern Arizona
Northern Arizona

As part of finalizing the 2004 Capital Plan cycle, SFB staff will continue to update and revise the data used in the analyses. Before any recommendations for new construction are presented to the Board, each district will receive a copy of our analysis and recommendation. Districts will then have an opportunity to meet with SFB staff and provide additional or updated information which may change SFB staff's recommendations. As a consequence, we expect some changes between the preliminary and final analyses that will determine our new construction approvals for the 2004 Capital Plan cycle.

Please feel free to contact me if you have questions or would like to discuss the report.

Sincerely,



William Bell
Executive Director

Cc: Members of the School Facilities Board
Janet Napolitano, Governor
David Jankofsky, OSPB Director
Representative Pearce, JLBC Chairman
Richard Stavneak, JLBC Director
SFB Senior Staff

New Construction Cash Flows

| | FY 2004 | FY 2005 | Ending Balance |
|------------------------------------|----------------|----------------|-----------------------|
| LTO 1 | \$93,856,664 | \$8,912,948 | \$0 |
| LTO 2 | \$152,909,799 | \$51,465,475 | \$0 |
| LTO 3 | \$13,312,161 | \$35,853,493 | \$0 |
| LTO 4 ¹ | | \$165,000,000 | \$85,000,000 |
| New School Facilities ² | \$129,140,264 | \$58,425,867 | \$1,929,606 |
| Total | \$389,218,888 | \$319,657,784 | \$86,929,606 |

¹ LTO 4 assumes the same pattern of expenditures as LTO 2 and LTO 3

² \$99 million of the FY 2004 expenditure is a transfer to the Deficiency Correction Program

New School Facility Fund Balance 3/1/04

| | FY 99-2000 Actual | FY 2001 Actual | FY 2002 Actual | FY 2003 Actual | FY 2004 (Estimate) | FY 2005 (Estimate) |
|--|----------------------|----------------------|----------------------|---------------------|-----------------------|-----------------------|
| Carryforward | | \$268,269,417 | \$234,798,946 | \$68,696,301 | \$82,995,737 | \$2,522,694 |
| Revenues | | | | | | |
| Transfers In | \$385,000,000 | \$200,000,000 | \$166,750,000 | \$0 | \$49,000,000 | \$50,000,000 |
| Lease-To-Own Reimburse | | | | \$86,381,781 | | \$6,332,779 |
| Lease Revenues | \$455,576 | \$11,682,909 | \$7,250 | \$1,647,700 | \$2,000,000 | \$1,500,000 |
| Other Revenues | \$2,065,276 | \$0 | \$0 | \$2,902,700 | | |
| Total Available | \$387,520,852 | \$479,952,326 | \$401,556,196 | \$159,628,482 | \$131,995,737 | \$60,355,473 |
| Expenses | | | | | | |
| Project Expenditures | \$117,974,934 | \$242,376,405 | \$332,859,895 | \$76,632,745 | \$26,288,043 | \$23,404,865 |
| CapFac Projects | \$1,276,500 | \$2,776,975 | \$0 | \$0 | \$0 | \$0 |
| Transfers to Deficiency | | | | \$0 | \$99,000,000 | \$0 |
| 5% Funding For FY 2005 | | | | | | \$12,500,000 |
| Balance of LTO 1 ¹ | | | | | | \$7,290,915 |
| Transfers to E. D. Fund ² | \$0 | \$0 | \$0 | \$0 | \$4,185,000 | \$8,230,087 |
| Start-Up Funds for FY 06 LTO ³ | | | | | | \$7,000,000 |
| Total Expenses | <u>\$119,251,434</u> | <u>\$245,153,380</u> | <u>\$332,859,895</u> | <u>\$76,632,745</u> | <u>\$129,473,043</u> | <u>\$58,425,867</u> |
| Balance | <u>\$268,269,417</u> | <u>\$234,798,946</u> | <u>\$68,696,301</u> | <u>\$82,995,737</u> | <u>\$2,522,694</u> | <u>\$1,929,606</u> |

¹ Project balances not covered by LTO 1

² Assumes an Additional \$5 million in ED awards

³ Based on FY 2004 cost of of LTO FY 05 start-up of \$6.3 million