

STATE OF ARIZONA

Joint Committee on Capital Review

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JUSTIN OLSON
ANNA TOVAR

**** REVISED ****

JOINT COMMITTEE ON CAPITAL REVIEW

Tuesday, March 27, 2012

8:00 A.M.

House Hearing Room 4

MEETING NOTICE

- Call to Order
- [Approval of Minutes of February 7, 2012.](#)
- DIRECTOR'S REPORT (if necessary).
- 1. [STATE DEPARTMENT OF CORRECTIONS - Review of Revised FY 2012 Building Renewal Allocation Plan.](#)
- 2. [NORTHERN ARIZONA UNIVERSITY- Review of Energy Services and Performance Contract.](#)

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

~~3/16/12~~

3/23/12

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People with disabilities may request accommodations such as interpreters, alternative formats, or assistance with physical accessibility. Requests for accommodations must be made with 72 hours prior notice. If you require accommodations, please contact the JLBC Office at (602) 926-5491.

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MINUTES OF THE MEETING

JOINT COMMITTEE ON CAPITAL REVIEW

February 7, 2012

The Chairman called the meeting to order at 8:06 a.m., Tuesday, February 7, 2012, in House Hearing Room 4. The following were present:

Members:	Representative Kavanagh, Chairman	Senator Shooter, Vice-Chairman
	Representative Alston	Senator Biggs
	Representative Campbell	Senator Crandall
	Representative Court	Senator Klein
	Representative McLain	Senator Schapira
	Representative Olson	
	Representative Tovar	

Absent:	Senator Aboud
	Senator Murphy

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of November 17, 2011, Chairman John Kavanagh stated the minutes would stand approved.

ARIZONA STATE UNIVERSITY

A. Review of Recreation Facilities Bond Projects.

Ms. Leatta McLaughlin, JLBC Staff, presented Arizona State University's (ASU) request for review of recreation facilities bond projects at both the Tempe and Downtown Phoenix campuses. ASU is requesting a \$56.9 million revenue bond to expand the recreation facility space at the Tempe campus, and to also fund a new recreation facility at the Downtown Phoenix campus. Of the \$56.9 million bond, \$32.5 million is for the Tempe campus and the remaining \$24.4 million would fund a new 4-story, 74,000 square foot facility at the Downtown Phoenix campus.

The JLBC Staff presented options to the Committee.

Ms. McLaughlin responded to member questions

Mr. Morgan Olson, Chief Financial Officer, Arizona State University, responded to member questions.

(Continued)

Senator Crandall moved that the Committee give a favorable review to ASU's Recreation Facilities Bond Projects, along with the following Standard University Financing Provisions.

Standard University Financing Provisions

- A favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any revenues that may be required for debt service, or any operations and maintenance costs when the project is complete.
- ASU shall provide the final debt service schedule for the projects as soon as it is available.

The motion carried by a roll call vote of 9-0-0-4 (*Attachment 1*).

B. Review of Athletic Facilities Renovations Bond Projects.

Ms. Marge Zylla, JLBC Staff, presented ASU's requests for review of a \$4.7 million revenue bond that would fund renovations, deferred maintenance and infrastructure updates to 9 athletic facilities on the Tempe campus.

The JLBC Staff presented options to the Committee.

Mr. Morgan Olson, Chief Financial Officer, Arizona State University responded to member questions.

Senator Shooter moved that the Committee give a favorable review to ASU's Athletic Facilities Renovations Bond Projects, along with the following Standard University Financing Provisions.

Standard University Financing Provisions

- A favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any revenues that may be required for debt service, or any operations and maintenance costs when the project is complete.
- ASU shall provide the final debt service schedule for the projects as soon as it is available.

Representative Kavanagh requested a roll call vote.

The motion carried by a roll call vote of 10-0-0-4 (*Attachment 1*).

C. Review of Student Housing Bond Refund.

Ms. Marge Zylla, JLBC Staff, presented ASU's request for review of a \$17.1 million revenue bond to refinance an existing student housing bond. In 2001, a third party financing entity was created by ASU to issue a \$21.1 million bond to renovate housing at ASU-East

The JLBC Staff presented options to the Committee.

Senator Shooter moved that the Committee give a favorable review to ASU's Student Housing Bond Refund, along with the provision that the projects are ultimately approved by the Arizona Board of Regents and the following Standard University Financing Provisions.

(Continued)

Standard University Financing Provisions

- *A favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any revenues that may be required for debt service, or any operations and maintenance costs when the project is complete.*
- *ASU shall provide the final debt service schedule for the projects as soon as it is available.*

The motion carried by a roll call vote of 10-0-0-4 (*Attachment 2*).

ARIZONA DEPARTMENT OF ADMINISTRATION - Consider Recommending FY 2012 Rent Exemptions.

Mr. Brett Searle, JLBC Staff, presented ADOA's requests for an increased rent payment for the Department of Insurance, which will be offset by a partial rent exemption for the Department of Real Estate. Both are for \$4,100. In addition, JLBC Staff presented ADOA's request for a \$44,400 partial rent exemption for the Arizona Historical Society.

The JLBC Staff presented options to the Committee.

Mr. Searle responded to member questions.

Senator Shooter moved that the Committee recommend ADOA's FY 2012 Rent Exemptions. The motion carried by a roll call vote of 12-0-0-2 (*Attachment 2*).

Without objection, the meeting adjourned at 8:29 a.m.

Respectfully submitted:

Mya Trivison, Secretary

Leatta McLaughlin, Assistant Director

Representative John Kavanagh, Chairman

NOTE: A full audio recording of this meeting is available at the JLBC Staff Office, 1716 W. Adams. A full video recording of this meeting is available at <http://www.azleg.gov/jlbc/meeting.htm>.

JOINT COMMITTEE ON CAPITAL REVIEW

Meeting Date: 2-7-12

ITEM # 1A

Rec. Facilities Bond Projects

	PRESENT	ABSENT	PASS	AYE	NAY	PRESENT	ABSENT
SEN. ABOUD	<u> </u>	<u> X </u>					<u> X </u>
REP. ALSTON	<u> X </u>	<u> </u>		<u> X </u>			
SEN. BIGGS	<u> X </u>	<u> </u>	<u> X </u>	<u> X </u>			
REP. CAMPBELL	<u> X </u>	<u> </u>		<u> X </u>			
REP. COURT	<u> X </u>	<u> </u>		<u> X </u>			
SEN. CRANDALL	<u> X </u>	<u> </u>		<u> X </u>			
SEN. KLEIN	<u> X </u>	<u> </u>					
REP. MCLAIN	<u> X </u>	<u> </u>		<u> X </u>			
SEN. MURPHY	<u> </u>	<u> X </u>					<u> X </u>
REP. OLSON	<u> X </u>	<u> </u>					<u> X </u>
SEN. SCHAPIRA	<u> X </u>	<u> </u>		<u> X </u>			
REP. TOVAR	<u> X </u>	<u> </u>					<u> X </u>
SEN. SHOOTER	<u> X </u>	<u> </u>		<u> X </u>			
REP. KAVANAGH	<u> X </u>	<u> </u>		<u> X </u>			
TOTALS	<u> 12 </u>	<u> 2 </u>	<u> 0 </u>	<u> 9 </u>	<u> 0 </u>	<u> 0 </u>	<u> 4 </u>

ITEM # 1B

Athletic Facilities Renovations

	PASS	AYE	NAY	PRESENT	ABSENT
SEN. ABOUD					<u> X </u>
REP. ALSTON		<u> X </u>			
SEN. BIGGS		<u> X </u>			
REP. CAMPBELL		<u> X </u>			
REP. COURT		<u> X </u>			
SEN. CRANDALL		<u> X </u>			
SEN. KLEIN		<u> X </u>			
REP. MCLAIN		<u> X </u>			
SEN. MURPHY					<u> X </u>
REP. OLSON					<u> X </u>
SEN. SCHAPIRA		<u> X </u>			
REP. TOVAR					<u> X </u>
SEN. SHOOTER		<u> X </u>			
REP. KAVANAGH		<u> X </u>			
TOTALS	<u> 0 </u>	<u> 10 </u>	<u> 0 </u>	<u> 0 </u>	<u> 4 </u>

JOINT COMMITTEE ON CAPITAL REVIEW

Meeting Date: 2-7-12

ITEM # 1C Student Housing Bond Refund

	<u>PRESENT</u>	<u>ABSENT</u>	PASS	AYE	NAY	PRESENT	ABSENT
SEN. ABOUD	<u> </u>	<u>X</u>					<u>X</u>
REP. ALSTON	<u>X</u>	<u> </u>		<u>X</u>			
SEN. BIGGS	<u>X</u>	<u> </u>		<u>X</u>			
REP. CAMPBELL	<u>X</u>	<u> </u>		<u>X</u>			
REP. COURT	<u>X</u>	<u> </u>		<u>X</u>			
SEN. CRANDALL	<u>X</u>	<u> </u>		<u>X</u>			
SEN. KLEIN	<u>X</u>	<u> </u>		<u>X</u>			
REP. MCLAIN	<u>X</u>	<u> </u>		<u>X</u>			
SEN. MURPHY	<u> </u>	<u>X</u>					<u>X</u>
REP. OLSON	<u>X</u>	<u> </u>					<u>X</u>
SEN. SCHAPIRA	<u>X</u>	<u> </u>		<u>X</u>			
REP. TOVAR	<u>X</u>	<u> </u>					<u>X</u>
SEN. SHOOTER	<u>X</u>	<u> </u>		<u>X</u>			
REP. KAVANAGH	<u>X</u>	<u> </u>		<u>X</u>			
TOTALS	<u>12</u>	<u>2</u>	<u>0</u>	<u>10</u>	<u>0</u>	<u>0</u>	<u>4</u>

ITEM # 2 Rent Exemptions

	PASS	AYE	NAY	PRESENT	ABSENT
SEN. ABOUD					<u>X</u>
REP. ALSTON		<u>X</u>			
SEN. BIGGS		<u>X</u>			
REP. CAMPBELL		<u>X</u>			
REP. COURT		<u>X</u>			
SEN. CRANDALL		<u>X</u>			
SEN. KLEIN		<u>X</u>			
REP. MCLAIN		<u>X</u>			
SEN. MURPHY					<u>X</u>
REP. OLSON		<u>X</u>			
SEN. SCHAPIRA		<u>X</u>			
REP. TOVAR		<u>X</u>			
SEN. SHOOTER		<u>X</u>			
REP. KAVANAGH		<u>X</u>			
TOTALS	<u>0</u>	<u>12</u>	<u>0</u>	<u>0</u>	<u>2</u>

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DATE: March 20, 2012

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

THRU: Richard Stavneak, Director

FROM: James Alcantar, Fiscal Analyst

SUBJECT: State Department of Corrections - Review of Revised FY 2012 Building Renewal Allocation Plan

Request

A.R.S. § 41-1252 requires Committee review of expenditure plans for building renewal monies. At its September 2011 meeting, the Committee gave a favorable review for the Arizona Department of Corrections (ADC) to expend its FY 2012 \$4,630,500 building renewal appropriation.

On behalf of the Arizona Department of Administration (ADOA), ADC is now requesting review of its revised FY 2012 Building Renewal Allocation Plan. The revision would reallocate resources, including allocating \$847,000 to modify 4 housing units at the Cibola Prison Unit in Yuma. The project includes adding a secure control room and enhancing the unit's camera system.

Recommendation

The Committee has at least the following 2 options:

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

The proposed expenditure plan is consistent with building renewal guidelines and appropriations.

Under either option, the JLBC Staff recommends the provision that ADC shall report any further changes in the spending plan to the JLBC Staff, including reallocations between projects and allocations from the contingency plan.

Analysis

Building renewal appropriations provide for the major maintenance and repair of state-owned buildings. A total of \$4,630,500 was appropriated from the Department of Corrections Building Renewal Fund in FY 2012 to ADOA for ADC use. *Table 1* outlines the original proposal that was approved by the

(Continued)

Committee in September 2011 and the proposal as revised. The total revised plan has been reduced by \$48,700 from the original plan.

Table 1		
FY 2012 Building Renewal Allocation Plan		
<u>Renewal Projects</u>	<u>Original Plan</u>	<u>Revised Plan</u>
Locking Systems	\$1,659,200	\$1,368,000
Perimeter Electronic Security	2,252,800	2,167,200
Well and Water Systems	320,000	120,000
Cibola Housing Unit	0	847,000 ^{1/}
<i>Subtotal</i>	\$4,232,000	\$4,502,200
<u>Other</u>		
Preventative Maintenance	\$ 226,100	\$ 32,000
Emergency & Imminent		
Failure Contingency	169,300	47,600
Risk Management Insurance		
Premium	3,100	0
<i>Subtotal</i>	\$ 398,500	\$ 79,600
Total	\$4,630,500	\$4,581,800
^{1/} In addition to this amount, the project would include \$117,000 from ADC's Operating Budget. Including this allocation, the entire project would cost \$964,000.		

The primary revision reallocates \$847,000 to modify 4 housing units at the Cibola Prison Unit: \$786,300 for building construction, \$39,300 for contractor fees, and \$21,400 for contingency. The majority of the reduction comes from a well system being delayed until FY 2013, locking systems that will now be funded with ADC's Operating Budget, and reduced preventative maintenance spending. ADC will fund the Cibola project from the Department of Corrections Building Renewal Fund, and \$117,000 in design fees from ADC's Operating Budget. The entire project, including the design fees, totals \$964,000, allocated as shown in *Table 2*.

Table 2	
Cibola Prison Unit Costs	
<u>Construction</u>	
Installation of new control room	\$505,200
Installation of electrical, fire alarm, and data wiring	76,000
Installation of security cameras and monitors	58,100
Modification of existing restroom walls	46,100
Demolition and relocation of electrical equipment	42,200
Demolition of existing structures	35,500
Installation of security pass through windows in control rooms	23,200
<i>Subtotal</i>	\$786,300
<u>Other</u>	
Contractor Fees	\$39,300
Contingency	21,400
<i>Subtotal</i>	\$60,700
Total from Building Renewal	\$847,000
Design Fees (Operating Budget)	\$117,000
TOTAL	\$964,000

(Continued)

The following provides an overview of the amounts allocated to different categories of the revised project. The attached materials submitted by ADC provide more detail on the project.

Construction

A total of \$786,300 would be allocated for construction costs. The addition of a secure control room for staff would allow for increased visibility of inmate activities and provide a safer location for staff. The enhanced camera system would provide visibility and additional inmate tracking abilities.

Other

A total of \$177,700 would be allocated to construction-related fees and contingency. Of this amount, \$117,000 for design fees would come from ADC's Operating Budget. The \$39,300 contractor's fee covers the contractor's review of the work, validation of the contractors' bids, and contract administration. A total of \$21,400 would be allocated for contingency.

RS/JA:mt

Arizona Department of Corrections



JANICE K. BREWER
GOVERNOR

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CHARLES L. RYAN
DIRECTOR

February 21, 2012

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



Dear Senator Shooter:

The Arizona Department of Corrections (ADC) requests to be placed on the next JCCR meeting agenda for review of modifications to the housing units at the ASPC-Yuma Cibola unit.

The ASPC-Yuma Cibola unit is part of the 4,000 State Beds completed in June 2010. The original bid called for Yuma to house 2,000 of the 4,000 beds; 1,000 medium (Cibola) and 1,000 minimum custody (La Paz) inmates. Unlike other medium custody ADC housing units, the medium custody unit incorporated minimum standards for the dormitories and a medium standard perimeter. The dormitory-style buildings were designed to allow uncontrolled inmate movement within the building and do not provide a secure control room for staff. The current design of the medium custody dormitory buildings is inadequate and the modifications are necessary to reduce the risk to inmates and staff.

ADC is seeking approval to modify the four housing units at the Cibola prison unit by adding a secure control room for staff to allow better visibility of inmate activities and provide a safe location from which staff can manage the inmates. In addition, ADC proposes enhancing the unit's camera system to provide better visibility and tracking of inmate movement. Lastly, for the Committee's information, ADC is installing security doors between the inmate living areas using inmate labor and operating monies to control inmate movement within the buildings. The modifications and design fees have an estimated cost of \$964,000.

The Department proposes to fund the project modifications from the Building Renewal Fund and the design fees from the Department's operating lump sum budget. Since the Department already submitted a plan that was approved by JCCR in September 2011 for the current fiscal year for the Building Renewal Fund, we are submitting a revised schedule due to this critical project.

The Honorable Don Shooter, Chairman
Joint Committee on Capital Review
February 21, 2012
Page 2

If you have any questions regarding this issue, please contact Michael Kearns, Division Director, Administrative Services Division at (602) 542-1160, or me directly (602) 542-5225.

Sincerely,

A handwritten signature in black ink, appearing to read 'C. Ryan', with a long horizontal line extending to the right.

Charles L. Ryan
Director

Enclosures

cc: The Honorable John Kavanagh, Vice-Chairman, JCCR
Richard Stavneak, Director, JLBC Staff
Leatta McLaughlin, Fiscal Analyst, JLBC Staff
Stefan Shepherd, Fiscal Analyst, JLBC Staff
James Alcantar, Fiscal Analyst, JLBC Staff
John Arnold, Director, OSPB
Jennifer Uharriet, Budget Analyst, OSPB
Brandon Nee, Budget Analyst, OSPB

ARIZONA DEPARTMENT OF CORRECTIONS
FY 2012 Building Renewal Fund
ONE YEAR CAPITAL RENEWAL PROJECTS



FY12 BUILDING RENEWAL FUNDED PROJECTS

Institution	Project Name	Project Description	Budget
YUMA / CIBOLA	HOUSING UNIT SECURITY REWORK	INSTALL CONTROLS ROOMS, POD DOORS AND CAMERA SYSTEMS	\$825,682
EYMAN / RYNNING	LOCKING SYSTEM	COMPLETE LOCKING SYSTEM INSTALLATION FROM ARRA PROJECT	\$619,653
PERRYVILLE / LUMLEY	LOCKING SYSTEMS LUMLEY	REPLACE SHOWER DOORS	\$315,376
TUCSON / CIMARRON	LOCKING SYSTEMS CIMARRON	REPLACE LOCKS THROUGHOUT THE UNIT AND SHOWER DOORS AND LOCKS	\$160,785
WINSLOW / KAIBAB	LOCKING SYSTEMS KAIBAB	REPLACE LOCKING SYSTEMS IN CLOSE CUSTODY AREAS	\$225,262
FLORENCE / SOUTH	LOCKING SYSTEMS SOUTH UNIT	REPLACEMENT OF FAILING SECURITY DOORS AND LOCKS	\$46,850
LEWIS	WELL PUMP UPGRADE	UPGRADE INTERNAL PUMP AND BOWLS TO STAINLESS STEEL	\$120,000

\$2,313,608

WINSLOW KAIBAB	WINSLOW KAIBAB ELECTRONIC PERIMETER	REPLACE 5230 LINEAR FEET OF ELECTRONIC PERIMETER	\$350,000
PERRYVILLE LUMLEY	PERRYVILLE LUMLEY ELECTRONIC PERIMETER	REPLACE 4500 LINEAR FEET OF ELECTRONIC PERIMETER	\$479,462
TUCSON COMPLEX	TUCSON COMPLEX ELECTRONIC PERIMETER	REPLACE 18,000 LINEAR FEET OF ELECTRONIC PERIMETER SYSTEM	\$1,337,686

TOTAL \$2,167,148

GRAND TOTAL FY12 REVISED BUILDING RENEWAL FUND

\$4,480,756

CONTINGENCY

\$69,000

PM SOFTWARE

\$32,000

\$4,581,756

ITEMS TO BE FUNDED BY FY12 LUMP SUM APPROPRIATION

EYMAN / SMU I	LOCKING SYSTEMS SMU I	REPLACEMENT OF RUSTING DOORS / SHOWER DOORS	\$77,435
PERRYVILLE / CDU	LOCKING SYSTEMS COMPLEX	REPLACE CDU DOORS AND CONTROL PANELS	\$33,861
PHOENIX / ALHAMBRA	LOCKING SYSTEMS ALHAMBRA	REPLACE SALLYPORT DOORS	\$32,989
LEWIS / BUCKLEY	LOCKING SYSTEMS BUCKLEY	REPLACE SOFTWARE	\$121,375
LEWIS / MOREY	LOCKING SYSTEMS MOREY	REPLACE SOFTWARE	\$123,725
LEWIS / RAST	LOCKING SYSTEMS RAST	REPLACE SOFTWARE	\$60,688
LEWIS / STINER	LOCKING SYSTEMS STINER	REPLACE SOFTWARE	\$2,350
LEWIS / BACHMAN	LOCKING SYSTEMS BACHMAN	REPLACE CDU SOFTWARE	\$2,350
WINSLOW / APACHE	LOCKING SYSTEMS APACHE	REPLACE LOCKS AND DOORS THROUGHOUT VARIOUS AREAS OF THE UNIT	\$6,199
Items Moved from Original Building Renewal Fund Approved List			\$460,972

YUMA	DESIGN FEES FOR CIBOLA PROJECT	DESIGN FEES FOR CIBOLA SECURITY UPGRADES	\$117,000
TOTAL			\$577,972

Projects Carried Over To FY 13

LEWIS	WELL MOTOR CONVERSIONS	UPGRADE WELL MOTORS ON WELLS 3 AND 4	\$200,000
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ARIZONA DEPARTMENT OF CORRECTIONS

Yuma Cibola Security Upgrades

Scope of Work

- Demolition of existing officer stations and day rooms
\$35,503
- Demolition and relocation of all existing underground electrical, fire alarm and data feeds from officer station \$42,155
- Installation of new control room including lighting, ventilation and sallyport with an emergency exit to yard
\$505,216
- Installation of security cameras and monitors
\$58,134
- Modification to existing restroom walls to enhance visibility
\$46,123
- Installation of security pass through windows in each control room
\$23,233
- Installation of all electrical, fire alarm and data wiring to new control room
\$76,000

Total \$786,364

Gordian JOC fee @ 5%: \$39,318

Construction Total: \$825,682

Design fees: \$117,000

Total Project Costs: \$942,682

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DATE: March 23, 2012

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

THRU: Richard Stavneak, Director

FROM: Marge Zylla, Senior Fiscal Analyst

SUBJECT: Northern Arizona University - Review of Energy Services and Performance Contract

Request

A.R.S. § 15-1682.02 requires Committee review of any university projects using indirect debt financing. Northern Arizona University (NAU) requests Committee review of their proposal to enter into an Energy Services and Performance Contract with NORESCO and into a capital lease or a bonding agreement with a third party financing entity. NAU will pay approximately \$6.3 million up front and the third party entity will provide \$11.7 million in financing in order for NAU to purchase \$18 million worth of energy conservation equipment from NORESCO.

Recommendation

The Committee has at least the following 2 options:

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

The merits of using a third party entity to provide the projects' financing have not yet been determined.

Under either option, the JLBC Staff recommends the provision that the project is ultimately approved by the Arizona Board of Regents along with the following standard university financing provisions:

Standard University Financing Provisions

- A favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any revenues that may be required for debt service, or any operations and maintenance costs when the project is complete.
- NAU shall provide the final debt service schedule for the projects as soon as it is available.

(Continued)

Analysis

NORESCO, an energy service company that was selected by NAU through a Request for Qualifications (RFQ) process, audited and proposed improvements to NAU's utility systems in 2011. The RFQ process included both the audit and any and all contracted energy services. NAU is now requesting to implement the energy conservation measures (ECMs) outlined in the audit. According to NAU, the ECMs will reduce water and energy usage on the Flagstaff campus by 18.2% and provide utility savings in the first year of \$1.6 million. NAU plans to transfer annual energy savings to the third party entity to fund the bond or capital lease payments for the length of the 15 to 20-year term.

Construction Costs

NAU plans on a total construction cost of \$18 million for energy conservation projects, equipment and technological improvements performed by NORESCO. The following projects are included in the \$16 million direct construction cost:

- Interior Lighting - Retrofit existing 4-foot ceiling lamps with 25-watt supersaver T8 lamps; specify power levels to fulfill lighting needs in different spaces with the least amount of energy usage, decrease use of multiple lamps by replacing some bulbs with reflectors. To be implemented in 20 residence halls and 32 academic buildings.
- Plumbing - Replace existing toilets with ultra low flush toilets, retrofit bathroom faucets and showerheads with lower water usage units, retrofit commercial kitchen and lab spaces with pre-rinse sprayers and garbage disposal restrictors. To be implemented in 22 residence halls and 51 academic buildings.
- Reconfigure Existing Direct Digital Temperature Controls - Reschedule controls more efficiently based on building occupancy schedules. To be implemented in 4 academic buildings.
- Install Direct Digital Temperature Controls - Upgrade pneumatic and existing digital controls. To be implemented in 17 residence halls and 17 academic buildings.
- HVAC Projects - Install new chillers and air conditioners; upgrade air handling units with new motors and variable frequency drives. To be implemented in 8 academic buildings.
- Utility Meters - Add utility meters to measure and manage energy use. To be implemented in 20 residence halls and 32 academic buildings.
- Behavioral Change Program - Implement campus-wide behavioral change program to educate on energy usage.
- Insulation - Add insulation to steam traps, valves, and expansion joints in the North Central plant and the tunnel system. Add insulation to 10 residence hall attics.
- Ice Makers - Update ice maker condenser units in 2 dining facilities.

Financing

NAU will supply approximately \$6.3 million up front to avoid paying debt service payments with interest to fund projects that have a return on investment of 5 or fewer years. This amount would be paid for with respective local revenues for projects in residence halls, dining facilities and academic buildings. The third party financing entity, which will be selected through a Request for Proposal (RFP) process, will either 1) issue a maximum of \$11.7 million in revenue bonds on behalf of NAU in May or June 2012, with an expected rating of A2 (Moody's)/A (S&P) at a maximum annual interest rate of 4.5% for a term of 15 to 20 years, or 2) will enter into a capital lease agreement that will loan NAU \$11.7 million at interest rate of 3% to 5% for a term of 15 to 20 years.

NAU states that financing through a third party entity will result in lower financing costs than if NAU issued the \$11.7 million bond independently. The relative costs of the financing mechanism cannot be determined until the RFP process is complete.

(Continued)

If the interest rate is 4.5% for a term of 15 years, NAU estimates interest-only debt service payments of \$482,600 and \$526,500 in FY 2013 and FY 2014, respectively, followed by annual payments of about \$1.2 million over the remaining years of the term of the bond or capital lease. The total expected cost over the 15-year term is \$16.7 million.

NAU anticipates that their budgeted utility costs will be \$1.6 million lower during the first year of EMC implementation and will eventually increase to \$2.6 million. NAU anticipates that their utility costs in future years will increase at a lower rate than if the EMCs were not implemented. NAU would transfer these annual utility savings to the third party entity, which would use these funds to make the debt service payments.

NORESCO has guaranteed the utility savings will be met through the length of the financing term. If the savings amounts are not met, NORESCO will pay any shortfall in savings. The contract also requires insurance that will cover any savings shortfalls in the event NORESCO goes out of business.

This financing does not count against the university's debt ratio since the debt would not be incurred by the university. Once the bonds are repaid, NAU will own the equipment and upgrades.

RS/MZ:mt



**NORTHERN
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UNIVERSITY**

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March 15, 2012

The Honorable John Kavanagh, Chairman
Joint Committee on Capital Review
Arizona State Senate
1700 W. Washington
Phoenix, AZ 85007



Subject: Northern Arizona University (NAU) Capital Project for Review

Dear Representative Kavanagh:

I request the following NAU Project be placed on the next available agenda for the Joint Committee on Capital Review (JCCR):

- Northern Arizona University's Energy Services and Performance Contract with third-party financing.
- The Arizona Board of Regents Capital and Finance Committee is expected to recommend approval to the full Board at its meeting scheduled March 15, 2012. The full Board of Regents will consider this project at its meeting scheduled April 5, 2012. Subject to the full Board's approval, we request that the JCCR review the project at your next scheduled meeting. Attachments include the Capital Committee project approval submittal (Attachment A), Project Cash Flow Projections (Attachment B), the Project Financial plan (Attachment C) and the JLBC project template (Attachment D).

If you require additional information, please do not hesitate to contact me at (928) 523-8871.
Thank you for your consideration of this request.

Sincerely,

Jennus L. Burton *by CA*
Vice President for Finance and Administration

Attachments

cc: Richard Stavneak, JLBC Director
Leatta McLaughlin, JLBC Analyst
Tom Anderes
Lorenzo Martinez
Christy Farley
John Haeger
MJ McMahon
David Bousquet
Robert Norton

EXECUTIVE SUMMARY

ITEM NAME: Approval of Energy Services and Performance Contract with NORESKO and approval to finance the Energy Services and Performance Contract with a tax-exempt capital lease purchase agreement. (NAU)

☒ Action Item

☐ Discussion Item

☐ Information Item

Issue: Northern Arizona University requests authorization to enter into an Energy Services and Performance Contract with NORESKO and authorization enter into a tax-exempt capital lease purchase agreement with the University's Master Lease Agreement vendors, or another Third Party Financing Company selected through an RFP process to finance a not to exceed \$11.7 million Capital Lease. In February 2011, NORESKO was selected to perform the energy audit through a Request for Qualifications (RFQ) process. As a result of the audit, NORESKO will provide approximately \$16 million in energy conservation projects, equipment, and technological improvements over an approximate two year period. These improvements will be financed on a tax-exempt basis through a capital lease purchase agreement and will be paid back over an approximate 15-20 year period from energy savings. The total project cost including capitalized interest during construction and initial start-up, and capital lease costs if applicable, will not exceed \$18 million.

Previous Board Actions

- This project was listed in the FY2013 - FY2015 Capital Improvement Plan as Campus Energy Improvements.

Statutory/Policy Requirements

- Board Policy 7-102D.1 requires Capital and Project Finance Committee review and Board approval of all bond, certificates of participation (COPs), and lease purchase financings, or any debt instrument.

Projects to be Financed

- The proceeds of the financing will be used to finance the Energy Conservation Measures (ECMs) on the Northern Arizona University Flagstaff campus as defined below. Proceeds of the financing will also be used to pay the costs of issuing the debt. The project is expected to be reviewed at the next JCCR meeting and will not be financed until JCCR review is complete.
 - **Interior Lighting** – The existing fixtures with 4-foot lamps will be retrofitted with 25-watt supersaver T8 lamps and the latest generation of high efficiency electronic ballasts. Normal, low and high power ballasts will be specified to meet specific lighting requirements of each space. Fixtures containing three or four lamps will be de-lamped where possible and reflectors will be installed as required to improve the efficiency of the fixtures and maximize the light output. ECM will be implemented in 20 residence halls and 32 academic buildings.

EXECUTIVE SUMMARY

- **Domestic Plumbing** – Existing toilets will be replaced with ultra low flush toilets that are designed to operate at 1.28 gallons per flush. Bathroom faucets will be equipped with 0.5 gallon per minute spray faucet ends. Showers will be retrofitted with pressure compensating showerheads that consume 1.5 gallons per minute. Pre-rinse sprayers and garbage disposal restrictors will be retrofitted in all commercial kitchen and lab applications across campus. ECM will be implemented in 22 residence halls and 51 academic buildings.
- **Retro-Commissioning of existing Direct Digital Controls (DDC)** – Control sequences and occupancy schedules will be analyzed and modified to ensure optimum building performance. ECM will be implemented in 4 academic buildings.
- **Replace Existing Controls with Alerton DDC** – The replacement of the existing pneumatic with digital controls. ECM will be implemented in 17 residence halls and 17 academic buildings.
- **Heating, Ventilation and Air Conditioning (HVAC) projects** – Install new chillers and air conditioners, and upgrade air handling units. Projects will include new premium efficiency motors, and variable frequency drives to increase efficiency of air handler supply and return fans. ECM will be implemented in 8 academic buildings.
- **Utility Sub-meters** - Utility meters will be added at the building level to allow for measurement and management of energy use at the building level. ECM will be implemented in 20 residence halls and 32 academic buildings.
- **Behavioral Change Program** – Ongoing educational and behavioral change program implementation. ECM will be implemented campus wide.
- **Insulation** – Insulation will be added to steam traps, valves, and expansion joints in the tunnel system. ECM will be implemented in the North Central plant and the tunnel distribution system.
- **Attic Insulation** – Insulation will be added to existing, or replaced to increase R-value in Residence Hall attics. ECM will be implemented in 10 residence halls.
- **Ice Makers** – Replace aging ice maker condenser units. ECM will be implemented in 2 dining facilities.

Background/Strategic Implications

- Due to the rising cost of energy NAU entered into an agreement with NORESO to perform an energy audit to identify ways to lower energy usage across campus. Performance of an Investment Grade Audit was the first step in that process. This audit encompasses approximately 3.7 million square feet.
- The project is completely self funding. One hundred percent of all energy conservation measures are paid for by project generated savings. The energy conservation measures (ECMs) will increase resource efficiency and building performance while reducing energy and water usage by 18.2%. This equates to a first year utility savings of \$1,559,083. The annual recurring savings stream will support the entire project for the full term of financing.
- Utility cost avoidance is realized through the improved efficiency of the University's energy and water systems. The total savings (expressed as a percentage of historical energy and water consumption) for all buildings included is summarized in the table below.

EXECUTIVE SUMMARY

Utility	% Reduction
Electricity (kWh)	7.5%
Demand (kW)	7.9%
Natural Gas (Therms)	23.2%
Water/Sewer (kGal)	32%
Total %	18.2%

- Operations and maintenance problems and deferred maintenance issues are addressed through the replacement of aging and problematic equipment with more energy efficient equipment.
- The project augments the University's sustainability goals and aligns with the University's Climate Action Plan. The University's Climate Action Plan includes detailed goals of reducing the carbon footprint to year 2000 levels by 2014 and the reduction to 1990 levels by 2018. The projects facilitate the achievement of reaching 1990 levels by 2014, four years early. The total emissions offset generated by this project are 16,020,000 pounds (Lbs) of Carbon Dioxide (CO₂) per year, 9,000 Lbs of Oxides of Sulphur (Sox) per year, and 18,000 Lbs of Oxides of Nitrogen (NO_x) per year.
- Classroom lighting plays a critical role in ensuring student performance. Visual performance in the classroom will be enhanced through lighting system improvements including correct lighting quantity for classroom applications.
- Indoor air quality will improve through the installation of new Direct Digital Controls, replacing the current pneumatic controls. The expanded control system will effectively maintain temperatures and ventilation requirements.
- The project will incorporate Energy Conservation Through Behavioral Change (ECTBC), involving students, faculty, and staff in the creation of a Culture of Sustainability.
- Based on the Arizona Economic Stimulus calculator, this project size equates to over 300 jobs that will be created or retained by the project during construction.

Financing Approach and Structure

- NAU will pay approximately \$6.3 million cash upfront for projects that have a ROI of 5 year or less to avoid paying interest on financing over the 15-20 year term of the capital lease purchase agreement. These funds will come from Residence Life, Dining Services, and Central Funds.
- NAU will solicit a third party financing company for a capital lease purchase agreement with an interest rate not to exceed 4.5% for the remaining project costs, approximately \$11.7 million. The financing will be completed if approved by the Board of Regents and if a favorable review from JCCR is received.
- The maturity of the lease term will be from 15-20 years depending on the lease structure. The annual payment will be \$1.1 million annually assuming a 15 year repayment and an interest rate of 4.5% maximum.

EXECUTIVE SUMMARY

- The debt service funding sources of this project include utility savings from reduced utility billings, and local revenues from residence life for all projects in residence hall buildings, dining services for projects located in dining facilities and central funds for projects in academic buildings.

Recommendation:

Resolved: That Northern Arizona University be, and hereby is, authorized to enter into an Energy Services and Performance contract with NORESKO in an amount not to exceed \$18,000,000 for the purposes described in this executive summary.

Resolved: That Northern Arizona University be, and hereby is, authorized to enter into a capital lease purchase agreement to finance the above stated contract with either the University Master Lease agreement, or another 3rd party financing company, to pay all cost associated with the capital lease, and to take related actions, to enter into necessary agreements and to execute documents contingent on favorable review by JCCR.

- 1) Not to exceed \$11,700,000 for the lease.
- 2) Not to exceed 4.5% interest rate for the capital lease.
- 3) The Capital lease will be a lease purchase and ownership will transfer to the university at the end of the lease.

Northern Arizona University - Phase 1
Project Cash Flow

(ATTACHMENT B)

A	B	C	D	E	F	G	H	I
Fiscal Year (Note 1)	Utility Savings (Note 2)	Utility Incentive (Note 3)	Total Estimated Savings	Finance Payments (Note 4)	ECTBC Service	M&V Service	Total Payment (E+G)	Net Cash Flow
Constr Period	\$509,776	\$99,790	\$609,565					\$609,565
FY15	\$1,559,083	\$432,466	\$1,991,549	\$1,676,000		\$47,234	\$1,723,234	\$268,315
FY16	\$1,621,768		\$1,621,768	\$1,676,000		\$37,787	\$1,713,787	-\$92,019
FY17	\$1,671,979		\$1,671,979	\$1,676,000		\$39,015	\$1,715,015	-\$43,036
FY18	\$1,717,357		\$1,717,357	\$1,676,000			\$1,676,000	\$41,357
FY19	\$1,763,971		\$1,763,971	\$1,676,000			\$1,676,000	\$87,971
FY20	\$1,811,858		\$1,811,858	\$1,676,000			\$1,676,000	\$135,858
FY21	\$1,861,051		\$1,861,051	\$1,676,000			\$1,676,000	\$185,051
FY22	\$1,911,584		\$1,911,584	\$1,676,000			\$1,676,000	\$235,584
FY23	\$1,963,496		\$1,963,496	\$1,676,000			\$1,676,000	\$287,496
FY24	\$2,016,824		\$2,016,824	\$1,676,000			\$1,676,000	\$340,824
FY25	\$2,071,608		\$2,071,608	\$1,676,000			\$1,676,000	\$395,608
FY26	\$2,127,887		\$2,127,887	\$1,676,000			\$1,676,000	\$451,887
FY27	\$2,185,701		\$2,185,701	\$1,676,000			\$1,676,000	\$509,701
FY28	\$2,245,094		\$2,245,094	\$1,676,000			\$1,676,000	\$569,094
FY29	\$2,306,108		\$2,306,108	\$1,676,000			\$1,676,000	\$630,108
FY30	\$2,368,787		\$2,368,787	\$1,676,000			\$1,676,000	\$692,787
FY31	\$2,433,179		\$2,433,179					\$2,433,179
FY32	\$2,499,328		\$2,499,328					\$2,499,328
FY33	\$2,567,284		\$2,567,284					\$2,567,284
FY34	\$2,637,096		\$2,637,096					\$2,637,096
TOTAL	\$41,850,819	\$532,256	\$42,383,074	\$26,816,000		\$124,036	\$26,940,036	\$15,443,038

Note 1: Construction period will be 22 months in duration, June 2012 through April 2014.

Note 2: Energy savings are estimated during the construction period, and provide the University realized savings well in advance of the project close-out.

Note 3: Construction period incentive includes the APS Technical Assistance rebate. Year 1 incentive includes the applicable APS custom and retrofit incentives.

Note: 4 Finance payments listed are based on the full project amount of \$18,000,000, but NAU will only be financing \$11,700,00 million and using cash on hand to pay for \$6,300,000. Actual finance payments on the \$11,700,000 will be \$1.2 million.

(Attachment C)

NORTHERN ARIZONA UNIVERSITY
Energy Performance Contract

Lease Purchase Financing 15 Year Level Payment (no costs)

Date	Principal	Coupon	Interest	Debt Service
5/1/2013			\$482,625	\$482,625
5/1/2014			526,500	526,500
5/1/2015	\$680,000	4.50%	526,500	1,206,500
5/1/2016	710,000	4.50%	495,900	1,205,900
5/1/2017	745,000	4.50%	463,950	1,208,950
5/1/2018	780,000	4.50%	430,425	1,210,425
5/1/2019	815,000	4.50%	395,325	1,210,325
5/1/2020	850,000	4.50%	358,650	1,208,650
5/1/2021	890,000	4.50%	320,400	1,210,400
5/1/2022	925,000	4.50%	280,350	1,205,350
5/1/2023	970,000	4.50%	238,725	1,208,725
5/1/2024	1,015,000	4.50%	195,075	1,210,075
5/1/2025	1,060,000	4.50%	149,400	1,209,400
5/1/2026	1,105,000	4.50%	101,700	1,206,700
5/1/2027	1,155,000	4.50%	51,975	1,206,975
TOTAL	\$11,700,000		\$5,017,500	\$16,717,500

JCCR Capital Review**(ATTACHMENT D)****JCCR Meeting Date**

3/27/2012

JCCR Deadline**Project Name****Energy Services and Performance Contract****Scope of the project****Project Description**

In February 2011, NORESO was selected to perform the energy audit through a Request for Proposal (RFP) process. As a result of the audit, NORESO will provide approximately \$16 million in energy conservation projects, equipment, and technological improvements over an approximate two-year period. The energy conservation projects will involve interior lighting upgrades, domestic plumbing upgrades, and HVAC and HVAC controls updates. A list of projects, including the total number of buildings impacted by a specific scope, is as follows:

Energy Conservation Measures	Simple Payback
Interior Lighting (Admin/Academic) 32 Buildings	8.4 Yrs
Interior Lighting (Residence Halls) 20 Buildings	8.2 Yrs
Domestic Plumbing (Admin/Academic) 50 Buildings	4.3 Yrs
Domestic Plumbing (Residence Halls) 22 Buildings	3.4 Yrs
Ice Maker Upgrades 2 Buildings	8.3 Yrs
Pre-Rinse Sprayers 7 Buildings	2.3 Yrs
Garbage Disposal Restrictors 5 Buildings	1.0 Yrs
Replace Existing Controls with New Alerton DDC 5 Buildings	14.7 Yrs
Replace Pneumatic or Stand Alone Controls with DDC 12 Buildings	8.8 Yrs
Control Heating Equipment with Alerton DDC (Residence Halls) 17 Buildings	11.6 Yrs
Implement Energy Savings Strategies on Existing EMCS 4 Buildings	2.8 Yrs
HVAC/CAPITAL UPGRADE PROJECTS 8 Buildings	9.1 Yrs
Steam Distribution Tunnel - Valves, Guides and Pipe Insulation	4.8 Yrs
Attic Insulation (Residence Halls) 10 Buildings	2.9 Yrs
SUSTAINABILITY Education - Intern Program Campus Wide	3.3 Yrs
Submetering Program (Admin/Academic Bldgs) 31 Buildings	
Submetering Program (Residence Halls) 18 Buildings	

Date of last renovation/maintenance

n/a

Total Square Feet of Existing Space

n/a

Total Square Feet of Renovation/Construction

3.7 million

Project Costs

Total Construction Cost	\$18,000,000
Direct Construction Cost	\$16,000,000
Gross square feet	3,700,000
Total Cost per Square Foot	\$5
Direct Cost per Square Foot	\$4

Annual Operating Costs
Fund source for Operating Costs

There will be no additional operating costs associated with this project. The University will save on energy costs.

n/a

Explanation of Cost Development for Project

NORESCO performed an Investment Grade Audit and supplied project cost and guaranteed associated energy savings. All numbers were validated by a third party.

Debt Issuance*

Issuance amount	\$11,700,000
University Funding	\$6,300,000
Interest rate	<4.5%
Payment term	15-20 years
Fund source for debt payment	Energy Savings Dollars

Annual debt service (by fund source)
Total debt service (by fund source)
Date of Issuance
Bond Rating

The University is currently soliciting ABOR approved financial institutions and will enter into a tax-exempt capital lease purchase agreement.

* Please submit a debt service schedule

Gifts

Total Gift Amount
Current Pledged Gift Amount
Current Gift In-Hand Amount

NA

Debt Ratio

Current Debt Ratio
Ratio After Project
Total Debt Ratio (for all projects
submitted for this meeting's review)

NA

Comparative Projects (List most recent comparable university project(s))

Project Name & Date
Project Description
Total Cost Per Square Foot

Northern Arizona University completed small scale internally funded energy retrofit projects in the past. Arizona State University and the University of Arizona have utilized the performance contract method extensively. In June 2008, ASU bonded an Energy and Performance contract for \$46 million.