STATE OF ARIZONA

Joint Committee on Capital Review

STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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

HOUSE OF REPRESENTATIVES

**** R E V I S E D ****

JOINT COMMITTEE ON CAPITAL REVIEW
Tuesday, April 2, 2013
8:00 A.M.
Senate Appropriations, Room 109

MEETING NOTICE

- Call to Order

- Approval of Minutes of December 18, 2012

- DIRECTOR'S REPORT (if necessary).

1. ADOPTION OF COMMITTEE RULES AND REGULATIONS.

2. STATE DEPARTMENT OF CORRECTIONS
   A. Review of Revised FY 2013 Building Renewal Allocation Plan.
   B. Review of Purchase of Marana Private Prison.

3. YAVAPAI COMMUNITY COLLEGE DISTRICT - Review of Revenue Bond Project.

4. **NORTHERN ARIZONA UNIVERSITY AND UNIVERSITY OF ARIZONA - Review of Phoenix Biomedical Campus Health Sciences Education Building Shell Space Projects.**

5. **NORTHERN ARIZONA UNIVERSITY - Review of Science and Health Building Bond Project.**

The Chairman reserves the right to set the order of the agenda.
~~3/20/13~~
3/28/13
tls

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

STATE OF ARIZONA

Joint Committee on Capital Review

STATE SENATE

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JUSTIN OLSON
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MINUTES OF THE MEETING

JOINT COMMITTEE ON CAPITAL REVIEW

December 18, 2012

The Chairman called the meeting to order at 11:25 a.m., Tuesday, December 18, 2012, in Senate Appropriations Room 109. The following were present:

Members:	Representative Kavanagh, Chairman	Senator Shooter, Vice-Chairman
	Representative Alston	Senator Aboud
	Representative Campbell	Senator Biggs
	Representative Court	Senator Crandall
	Representative McLain	Senator Klein
		Senator Murphy
Absent:	Representative Olson	Senator Shapira
	Representative Tovar	

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of October 4, 2012, Chairman John Kavanagh stated the minutes would stand approved.

ARIZONA STATE UNIVERSITY - Review of Building Infrastructure and Renovations Bond Projects.

Ms. Marge Zylla, JLBC Staff, stated that this item is a review of the Arizona State University's (ASU) request of $35 million in Lottery bond issuances to fund 3 projects at all ASU campuses that include infrastructure improvements, classroom renovations and research laboratory renovations.

The JLBC Staff presented options to the Committee

Senator Shooter moved that the Committee give a favorable review to the request for the 3 projects 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 they are available.*

(Continued)

The motion carried.

UNIVERSITY OF ARIZONA - Review of Environment and Natural Resources Building Project.

Ms. Marge Zylla, JLBC Staff, presented University of Arizona's $73.5 million in bond issuances to fund construction of an Environment and Natural Resources classroom and research building.

The JLBC Staff presented options to the Committee.

Mr. Milton Castillo, Chief Financial Officer for the University of Arizona, responded to member questions.

Senator Shooter moved that the Committee give a favorable review for UA's request for the projects 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.*
- *UA shall provide the final debt service schedule for the projects as soon as they are available.*

The motion carried.

UNIVERSITY OF ARIZONA - Review of Cancer Center Project

Ms. Marge Zylla, JLBC Staff, presented the University of Arizona's request of a $73.2 million bond issuance to fund a portion of a $100 million cancer center on the Phoenix Biomedical Campus.

The JLBC Staff presented options to the Committee.

Mr. Milton Castillo, Chief Financial Officer for the University of Arizona, responded to member questions.

Senator Shooter moved that the Committee give a favorable review for UA's request with the following 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.*
- *UA shall provide the final debt service schedules for the projects as soon as they are available.*

The motion carried.

ARIZONA DEPARTMENT OF TRANSPORTATION - Review of FY 2013 Building Renewal Allocation Plan.

Mr. Ben Beutler, JLBC Staff, stated that this item is a review of the Arizona Department of Transportation's FY 2013 Building Renewal Allocation Plan totaling $1,050,000. ADOT has allocated $1,000,000 from the State Highway Fund to fund 46 projects and $50,000 from the State Aviation Fund for 3 projects.

The JLBC Staff presented options to the Committee.

Mr. Tom Heideman, Facilities Projects Manager, Arizona Department of Transportation, responded to member questions.

(Continued)

Senator Shooter moved that the Committee review all ADOT projects exceeding $5 million. He later modified his motion to include the review of in-depth reports from ADOT on prioritization of projects, funding mechanism, and federal spending safeguards already in place.

Senator Shooter withdrew his motion.

Senator Shooter moved that the Committee give a favorable review of the Arizona Department of Transportation's FY 2013 $1,050,000 Building Renewal Allocation Plan. The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION - Consider Recommending FY 2013 Rent Exemptions.

Mr. Andrew Hartsig, JLBC Staff, presented the ADOA's request that the Committee recommend 3 FY 2013 rent exemptions from the payment of state-owned rental fees totaling $24,600. The vacated space will be occupied by other agencies for no net loss of rent. The JLBC Staff recommended that the Committee recommend exemptions of $9,500 for the Arizona Commission for the Deaf and the Hard of Hearing, $9,000 for the Arizona Department of Real Estate, and $6,100 for the Arizona Geological Survey. As a result of these exemptions, there are corresponding rent increases of $15,600 for the Department of Economic Security (DES) and $9,000 for the Arizona Department of Insurance.

Senator Shooter moved that the Committee recommend the rent exemptions for FY 2013 of $9,500 for Arizona Commission for the Deaf and the Hard of Hearing and $9,000 for the Arizona Department of Real Estate and $6,100 for the Arizona Geological Survey. The motion carried.

Without objection, the meeting adjourned at 11:58 a.m.

Respectfully submitted:

Tera Scherer, Secretary

Art Smith, Senior Fiscal Analyst

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.

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Joint Committee on Capital Review

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RICK GRAY
ANDREW C. SHERWOOD

DATE: March 26, 2013

TO: Senator Don Shooter, Chairman
Members, Joint Committee on Capital Review

FROM: Richard Stavneak, Director RS

SUBJECT: Adoption of Committee Rules and Regulations

The Committee will consider the attached rules and regulations for adoption at its April 2 meeting.

RS:ts
Attachment

JOINT COMMITTEE ON CAPITAL REVIEW
RULES AND REGULATIONS

RULE 1

NAME OF COMMITTEE AND METHOD OF APPOINTMENT

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

1. The Chairman of the Senate and House of Representatives Appropriations Committees.

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

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

RULE 2

CHAIRMAN OF THE COMMITTEE

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

RULE 3

QUORUM

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

RULE 4

MEETINGS OF THE COMMITTEE

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

RULE 5

COMMITTEE PROCEEDINGS

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

RULE 6

STATUTORY POWER AND DUTIES OF THE COMMITTEE

The Committee shall:

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

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

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

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

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

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

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

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

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

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

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

12. Review of Arizona Board of Regents indirect debt financing projects.

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

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

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

RULE 7

STAFF

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

RULE 8

AGENDA FOR MEETINGS

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

RULE 9

ORDER OF BUSINESS

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

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

RULE 10

ADOPTION AND AMENDMENT OF THE RULES AND REGULATIONS

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

JLBC Staff
4/19/11
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STATE OF ARIZONA

Joint Committee on Capital Review

STATE SENATE

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DATE: March 26, 2013

TO: Senator Don Shooter, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director RS

FROM: Krista MacGahan, Fiscal Analyst KM

SUBJECT: State Department of Corrections - Review of Revised FY 2013 Building Renewal Allocation Plan - Revision

Request

A.R.S. § 41-1252 requires Committee review of expenditure plans for building renewal monies. Laws 2012, Chapter 295, the FY 2013 Capital Outlay Bill, appropriated $4,630,500 from the Department of Corrections Building Renewal Fund to the State Department of Corrections (ADC) in FY 2013 for building renewal.

ADC originally requested the Committee review its FY 2013 Building Renewal Allocation Plan at its June 26, 2012 meeting, during which the Committee favorably reviewed the perimeter electronic security system project, which totaled $4,406,864. This memo addresses a reallocation between projects.

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 change in the spending plan to the JLBC Staff, including reallocations between projects and non-emergency use of contingency monies. If there is significant change of scope in the reallocation reported by ADC, the JLBC Staff shall recommend ADC request Committee review of the reallocation.

Analysis

Building renewal appropriations provide for the major maintenance and repair of state-owned buildings. A total of $4,630,500 was appropriated to ADC from the Department of Corrections Building Renewal Fund in FY 2013. Of this amount, ADC originally proposed to use $4.4 million for building renewal, $173,636 for contingency, and $50,000 for preventative maintenance. The Committee favorably reviewed this plan at its June 26, 2012 meeting.

(Continued)

Subsequent to that meeting, ADC worked with the vendor to review the scope and cost of each project, which reduced the cost from $4.4 million to $3.5 million. This lower amount includes an additional $210,000 project to upgrade the perimeter security systems at the Perryville-Lumley Unit. This project was reviewed by JCCR in FY 2012 but was not started because the FY 2012 Building Renewal Fund revenue was insufficient.

The reduced cost of the perimeter security systems project allows ADC to expend $915,000 to remodel its Tucson-Rincon unit to add 30 inpatient care (IPC) special use beds. Approximately 3,550 square feet of currently vacant or office space will be remodeled at a cost of $258 per square foot. The IPC is a skilled nursing setting that is less intensive than a hospital but still requires around-the-clock, full care medical presence. A contract with Corizon, its new inmate healthcare provider, requires ADC have 107 IPC beds statewide. ADC currently has 69 IPC beds and the remodel would address most of the 38 IPC bed deficit. The remodel and expansion will provide beds suitable for health care delivery within a secured perimeter. ADC states this will reduce the cost of contracting with community providers and hospitals to provide such care and allows correctional officers to remain at their assigned prison security post, rather than providing medical transportation or hospital security coverage.

ADC plans to competitively bid the IPC remodel project.

The revised FY 2013 Building Renewal Allocation Plan consists of the following projects:

Revised FY 2013 Building Renewal Allocation Plan

	Approved Allocation June 26, 2012	Revised Allocation
Perimeter Electronic Security Systems by Complex/Unit		
Winslow/Kaibab	$ 349,000	$ 355,000
Eyman	1,285,277	1,155,000
Tucson	1,198,527	815,000
Perryville	642,480	235,000
Safford/Tonto	317,701	305,000
Yuma/Dakota	305,460	195,000
Douglas/Mohave	121,200	120,000
Phoenix	187,219	135,000
Perryville/Lumley	-	210,000
Subtotal	*$4,406,864*	*$3,525,000*
Inpatient Care Special Use Beds		
Tucson/Rincon	-	$ 915,000
Subtotal	-	*$ 915,000*
Other		
Emergency Contingency	$ 173,636	$ 126,550
Preventative Maintenance	50,000	64,000
Subtotal	*$ 223,636*	*$ 190,500*
TOTAL	**$4,630,500**	**$4,630,500**

ADC has also allocated $126,550 for emergency contingencies and $64,000 for preventative maintenance, changed from $173,636, and $50,000, respectively, in the original plan.

RS/KM:lm

Arizona Department of Corrections

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JANICE K. BREWER
GOVERNOR

CHARLES L. RYAN
DIRECTOR

RECEIVED
FEB 20 2013
JOINT BUDGET COMMITTEE

February 20, 2013

The Honorable Don Shooter, Chairman
Joint Committee on Capital Review
Arizona House of Representatives
1700 West Washington
Phoenix, AZ 85007

Dear Senator Shooter:

The Arizona Department of Corrections (ADC) requests to be placed on the next meeting agenda of the Joint Committee on Capital Review (JCCR) for its review of the following item:

1. FY 2013 Building Renewal Appropriation ($4,630,500) Allocation Plan - Revision.

ADC requests the Committee's review of a reallocation of the funding plan approved on June 26, 2012. As of the date of this letter, ADC has not expended any monies in FY 2013 from this appropriation. However, ADC recently issued purchase orders totaling $3.5 Million to the perimeter security systems vendor (Norment) to begin work.

ADC has worked with ADOA and the Attorney General's Office to ensure the scope of work is compliant with the original competitively bid contract. ADC has also worked with Norment to review the scope and cost of each project to ensure that only systems that are out of date and no longer supported are being replaced. As a result of this partnership, ADC has reduced the cost from the original $4.4 Million presented to JCCR to $3.5 Million. The reduced cost includes an additional $210,000 project to upgrade the existing perimeter security system at ASPC-Perryville Lumley Unit. The Lumley perimeter project was previously approved by JCCR, however the FY 2012 revenue in the Building Renewal Fund was insufficient to allow the project. Additionally, to further minimize costs ADC ensured Norment will maximize the use of inmate labor.

The reduced cost of the perimeter security systems provides funding for ADC to reallocate $914,000 to remodel and add up to 30 inpatient care (IPC) special use beds to the existing IPC at the ASPC-Tucson Rincon Unit. The IPC is a skilled nursing care setting that is less intensive than a hospital but still requires full care, around-the-clock medical presence. The contract with Corizon requires ADC have 107 IPC beds, 38 more than the existing 69 IPC beds statewide. A large portion of the issue will be solved with the remodel to the IPC addressed in this letter. ADC continues to assess options for the remaining IPC beds.

The remodel and expansion of the IPC will provide critical beds suitable for health care delivery within the secured perimeter. This is superior to having inmates in outside hospitals for at least two reasons. First, it reduces the expense of contracting with community medical providers and hospitals when some inmates are able to be cared for within the complex perimeter by the contracted health care provider. This is one area of focus that will assist in making the new partnership between ADC and Corizon a success. Second, additional IPC beds allow more inmates to receive medical treatment within the secured perimeter which enhances public safety by allowing correctional officers to remain at their assigned prison security post rather than providing medical transportation or hospital security coverage in the community.

ADC is including supporting documentation for the FY 2013 Revised Building Renewal Plan and a detailed breakdown of the IPC project as an attachment to this meeting agenda request.

If you have any questions please contact Michael Kearns, Division Director, ADC Administrative Services Division, at (602) 542-1160.

Sincerely,

Charles L. Ryan
Director

Enclosures

cc: The Honorable John Kavanagh, Vice-Chairman, JCCR
John Arnold, Director, OSPB
Richard Stavneak, Director, JLBC
Stefan Shepherd, Deputy Director, JLBC
Brandon Nee, Budget & Project Manager, OSPB
Ed Boot, Capital Manager, OSPB
Michael Kearns, Division Director, Administrative Services

ARIZONA DEPARTMENT OF CORRECTIONS
FY 2013 BUILDING RENEWAL REALLOCATION

Institution	Project Name	Project Description	Approved Allocation - June 26, 2012	Revised Allocation
ASPC-WINSLOW KAIBAB UNIT	PERIMETER DETECTION SYSTEM UPGRADES	UPGRADE EXISTING PERIMETER DETECTION SYSTEM	$ 349,000	$ 355,000
ASPC-EYMAN	PERIMETER DETECTION SYSTEM UPGRADES	UPGRADE EXISTING PERIMETER DETECTION SYSTEM	$ 1,285,277	$ 1,155,000
ASPC-TUCSON	PERIMETER DETECTION SYSTEM UPGRADES	UPGRADE EXISTING PERIMETER DETECTION SYSTEM	$ 1,198,527	$ 815,000
ASPC-PERRYVILLE	PERIMETER DETECTION SYSTEM UPGRADES	UPGRADE EXISTING PERIMETER DETECTION SYSTEM	$ 642,480	$ 235,000
ASPC-SAFFORD TONTO UNIT	PERIMETER DETECTION SYSTEM UPGRADES	UPGRADE EXISTING PERIMETER DETECTION SYSTEM	$ 317,701	$ 305,000
ASPC-YUMA DAKOTA UNIT	PERIMETER DETECTION SYSTEM UPGRADES	UPGRADE EXISTING PERIMETER DETECTION SYSTEM	$ 305,460	$ 195,000
ASPC-DOUGLAS MOHAVE UNIT	PERIMETER DETECTION SYSTEM UPGRADES	UPGRADE EXISTING PERIMETER DETECTION SYSTEM	$ 121,200	$ 120,000
ASPC-PHOENIX	PERIMETER DETECTION SYSTEM UPGRADES	UPGRADE EXISTING PERIMETER DETECTION SYSTEM	$ 187,219	$ 135,000
ASPC-PERRYVILLE LUMLEY UNIT	PERIMETER DETECTION SYSTEM UPGRADES	UPGRADE EXISTING PERIMETER DETECTION SYSTEM	$ -	$ 210,000 [1]
ASPC-TUCSON RINCON UNIT	INPATIENT CARE (IPC) REMODEL	REMODEL AND ADD UP TO 30 INPATIENT CARE (IPC) BEDS	$ -	$ 915,000
		PROJECT SUBTOTAL	$4,406,864	$4,440,000
		CONTINGENCY	$173,636	$126,500
		PREVENTIVE MAINTENANCE PROGRAM	$50,000	$64,000
		OTHER SUBTOTAL	$223,636	$190,500
		GRAND TOTAL	$4,630,500	$4,630,500

[1] Previously approved by JCCR in FY 2012, however ADC could not proceed due to insufficient revenue.

ARIZONA DEPARTMENT OF CORRECTIONS
INPATIENT CARE UNIT

Institution	AMOUNT	
Architectural & Engineering	$	58,500
Civil Engineering & Grading	$	25,000
Asbestos Testing & Abatement	$	25,000
Construction - General Requirements	$	237,900
Plumbing	$	114,700
Heating, Ventilating, & Air Conditioning (HVAC)	$	120,600
Electrical	$	105,600
Concrete	$	5,300
Finishes (drywall, paint, tile, etc.)	$	71,100
Openings (doors, frames, hardware)	$	21,400
Fire Suppression	$	67,500
Construction - other	$	4,000
Contingency	$	58,400
		$915,000

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DATE: March 26, 2013

TO: Senator Don Shooter, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director RS

FROM: Stefan Shepherd, Deputy Director SS

SUBJECT: Arizona Department of Corrections - Review of Purchase of Marana Private Prison

Request

A.R.S. § 41-1252 requires Committee review of the expenditure of all monies appropriated for land acquisition, capital projects and building renewal. The Arizona Department of Corrections (ADC) requests Committee review of its intended purchase of Arizona State Prison (ASP)-Marana from its current operator.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the proposed purchase.

2. An unfavorable review of the proposed purchase.

Under either option, the JLBC Staff recommends the following provisions:
- ADC would submit a Request for Proposals (RFP) to operate ASP-Marana for review by the Joint Legislative Budget Committee (JLBC) pursuant to A.R.S. § 41-1609.01A.
- The RFP is to require the vendor to maintain ASP-Marana at its current condition.
- Prior to notifying other private vendors of a notice to purchase, ADC is to seek Committee review.

(Continued)

Analysis

ADC maintains and administers a statewide system of prisons consisting of both state-operated facilities and contracted private facilities. Private prison contracts have a generic provision that the state will take ownership of the facility at the end of the term for no cost or a nominal amount. Since private prison per diem typically includes a capital acquisition cost, the state has effectively paid for the facility.

Since 1994, the department has contracted with Management and Training Corporation (MTC) to operate ASP-Marana, a self-standing 500-bed unit providing services to male, minimum-security inmates with DUI and substance-abuse-related convictions. The original contract with MTC was for 3 years with a 2-year renewal, which was followed by an interim 1-year contract while the department pursued a new RFP to operate the facility. After receiving bids from 2 vendors, ADC signed a new, 10-year contract with MTC to operate the facility in 2000, with the option for two 5-year renewals. The first 5-year renewal period started in 2010.

As with all its contracts with private prison operators, the department has the option throughout the contract term to purchase the Marana facility based on a purchase price schedule. The purchase price decreases throughout the term of the contract; in the case of the Marana facility, the contract permits ADC to purchase the facility and the land on which it sits for $150,000 on October 5, 2013.

The department's intent to purchase the Marana facility was outlined in a June 2011 amendment to the MTC contract, which settled a contract dispute regarding a requested rate increase by MTC and renewal of the contract for the first 5-year renewal. The agreement raised the effective per diem rate for the vendor, but gave ADC the right to purchase the facility approximately 20 years after its construction, or 3 years into renewal term.

Based on legal advice, ADC felt it was in the best interest of the state to notify MTC that ADC would purchase the facility in October 2013. The amendment stipulates that if ADC is not able to close the purchase of the private prison, the per diem shall be renegotiated within (60) days or MTC has the right to terminate the contract. Under the current contract, there are no guaranteed annual adjustments, though ADC may consider a request annually from the vendor as outlined in A.R.S. § 41-1609.01D.

Because of the provision permitting MTC to terminate the contract and MTC's previous request for an increased per diem rate, ADC plans to purchase the prison and issue an RFP to solicit bids to operate the Marana facility. The RFP would be open to MTC and other vendors. The current per diem rate paid to MTC is $49.03. The department estimates the amount related facility and land purchasing costs to be $4.64, with the remaining costs at $44.39 per prisoner per day. ADC reports that the responsibilities of the winning vendor regarding building maintenance would be "very similar" to those under the current contract and include maintaining the facility over the full contract term in the same or better condition as received at the onset of the contract.

ADC has stated it would fund the $150,000 purchase of the Marana facility from its base FY 2014 budget. If ADC selects a bidder with a $44.39 per diem, the department would save about $(850,000) on an annual basis.

RS/SSh:lm

Arizona Department of Corrections

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JANICE K. BREWER
GOVERNOR

CHARLES L. RYAN
DIRECTOR

March 4, 2013

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

Dear Senator Shooter:

Pursuant to A.R.S. §41.1252 the Arizona Department of Corrections (ADC) requests to be placed on the next meeting agenda of the Joint Committee on Capital Review (JCCR) for its review of the following item:

- ADC intent to purchase ASP-Marana

Each of the private prison contracts, including ASP-Marana, was awarded for an initial 10-year contract with 2 five-year renewal options. Throughout the contract term ADC has the option to purchase the private prison facility based on a purchase price schedule. The purchase price decreases throughout the term of the contract and ultimately is reduced to zero or some other agreed upon amount. In the case of ASP-Marana, the final cost to transfer ownership of both the land and facility is $150,000.

The first 5-year renewal for ASP-Marana expires October 6, 2015. However, prior to that date, on October 5, 2013, the building and improvements will be fully paid off, and the purchase price for the land is $150,000. The purchase would effectively end the current contract with Management & Training Corporation (MTC). ADC is planning to issue a request for proposal (RFP) during March 2013 for the operation and maintenance of ASP-Marana by a private contractor. The new contract would take effect October 6, 2013.

Relevant to the issue is contract Amendment #14, signed on June 30, 2011, which settled a contract dispute regarding a requested rate increase by MTC and renewal of the contract for the first five-year renewal. Both parties engaged in good faith efforts to settle and resolve the dispute and resolution was reached, with assistance from the Attorney General's Office, by the terms set out in Amendment #14. ADC, with advice from the Attorney General's Office, felt it was in the best interest of the State to notify MTC that the Department would be purchasing the building by October 2013. The amendment includes language that stipulates that if ADC is not able to close the purchase of the private prison, the per diem shall be renegotiated within sixty (60) days or MTC has the right to terminate the contract.

Since the current contract requires the per diem be renegotiated within sixty (60) days of ADC's failure to properly close the purchase, and knowing of MTCs previous request for an increased per diem rate, ADC believes it is in the best interest of the State to issue an RFP. The RFP allows maximum competition for the State by allowing MTC and other vendors the opportunity to offer the most advantageous terms and per diem for the contract period.

ADC is including Amendment #14 between ADC and MTC which was referenced above.

If you have any questions please contact Michael Kearns, Division Director, ADC Administrative Services Division, at (602) 542-1160.

Sincerely,

Charles L. Ryan
Director

Attachments

cc: The Honorable John Kavanagh, Vice-Chairman, JCCR
John Arnold, Director, OSPB
Richard Stavneak, Director, JLBC
Stefan Shepherd, Deputy Director, JLBC
Brandon Nee, Budget & Project Manager, OSPB
Ed Boot, Capital Manager, OSPB

ARIZONA DEPARTMENT OF CORRECTIONS
PROCUREMENT SERVICES

MEMORANDUM

TO: Joe Profiri, Operations Director, Contract Beds Bureau

FROM: Denel Pickering, Chief Procurement Officer, Procurement Services

DATE: July 1, 2011

SUBJECT: Contract No. 6914 - Marana Community Correctional Treatment Facility
Provision, Operation, and Management of a Secure Private Prison
Amendment 14

Attached for your records is a fully executed Amendment 14 between the Arizona Department of Corrections and Management & Training Corporation.

If you have any questions please contact Karen D. Ingram, Contracts Manager or me at (602) 542-1172.

DP/kdi

Attachment

cc: Michael P Kearns, Division Director, Administrative Services
Robert Patton, Division Director, Offender Operations
Lynn Fedina, Business Administrator, Offender Operations
Jacob Gable, Budget Manager, Planning, Budget & Research
Terry Dinardo, Budget Supervisor, Planning, Budget & Research
Sheryl Bodmer, Chief Financial Officer, Financial Services Bureau
Annabelle Sevilla, Financial Services Manager, Financial Services Bureau

CONTRACT AMENDMENT

ARIZONA
DEPARTMENT OF CORRECTIONS
PROCUREMENT SERVICES
1601 W. JEFFERSON, MC 55302
PHOENIX, ARIZONA 85007-3002
(602) 542-1172
(602) 364-3790 FAX

CONTRACT NO. 6914 **AMENDMENT NO. 14** Contract Officer: Karen D. Ingram

A copy of this Amendment must be received by the Arizona Department of Corrections.
This Contract is hereby amended as follows:

Marana Community Correctional Treatment Facility

This amendment shall supersede proposed Amendments Nos. 11 and 12, and 13 which were not signed by the parties and never went into effect.

The purpose of this amendment is to resolve and settle a current dispute between the Arizona Department of Corrections ("ADC") and MTC regarding renewal of this contract for its first five year renewal term. Prior to this amendment, MTC took the position that the contract was not timely renewed, while ADC took the position that the contract had been renewed. The parties engaged in good faith efforts to settle and resolve this dispute and have agreed to resolve the dispute upon the terms memorialized in this amendment. In consideration of the mutual promises and agreements set forth in this amendment, and in consideration of the value to both parties of a cooperative working relationship for the performance of this contract, the parties mutually agree that the contract was properly renewed, that the renewal was in fact timely and that the contract is now in full force and effect in the first renewal term, which will expire on October 6, 2015. The parties further agree that there was no lapse or gap between the initial term and the first renewal term and that the contract has continuously been in full force and effect.

As further part of the consideration for the resolution and settlement, this amendment shall also effectuate a change to consolidate 450 rated beds and 50 emergency beds currently under the contract to a total of 500 rated beds for use at a 100% guaranteed occupancy rate with a per diem amount per inmate, per day of $49.03. This change shall be deemed to be effective retroactively from October 6, 2010 through Saturday, October 5, 2013 at which time the parties agree that the ADC will exercise its option to purchase the private prison in October 2013 under the "Purchase Option" described in this Contract in Sections 3.3.1 through 3.3.4 and Article XII. The parties agree that on October 5, 2013, the ADC will be entitled to purchase the private prison by paying only the sum of $150,000 for the land as described in Contract Section 12.3.1, because all the other items of real and personal property, improvements and fixtures described as the "private prison" in the Contract shall on that date be deemed to have been paid for in full as provided in the Contract. Since October 5, 2013 is a Saturday, the parties agree to cooperate to close the purchase of the private prison as soon as reasonably possible after October 5, 2013.

CONTRACT AMENDMENT

ARIZONA
DEPARTMENT OF CORRECTIONS
PROCUREMENT SERVICES
1601 W. JEFFERSON, MC 55302
PHOENIX, ARIZONA 85007-3002
(602) 542-1172
(602) 364-3790 FAX

CONTRACT NO. 6914 **AMENDMENT NO. 14** Contract Officer: Karen D. Ingram

A copy of this Amendment must be received by the Arizona Department of Corrections.
This Contract is hereby amended as follows:

Should ADC and/or MTC fail to perform the duties necessary to close the purchase of the private prison as aforesaid either party shall have the ability to enforce all the legal and equitable remedies allowed under the Contract.

The parties will cooperate to perform all their duties and obligations as described in Contract Sections 12.2 through 12.5 including all subparts. The parties agree that the effect of this amendment is the same as if the ADC had given its advance notice of exercise of the purchase option under Contract Section 12.2. The time for ADC to perform its obligations under Contract Section 12.2 concerning approvals and funding is hereby changed to permit ADC to complete that performance any time before October 5, 2013. The parties agree that the process described in Contract Section 12.3 pertaining to the Purchase Agreement will be performed during April 2013 and that MTC will perform all its obligations under Contract Section 12.3.3 by August 1, 2013. MTC agrees that, upon signature and return of this amendment, MTC will provide ADC a Purchase Option schedule under Contract Section 12.3.1 that shows that the purchase price for the private prison will be reduced to zero by October 5, 2013, so that the total purchase price at that time will be only $150,000 for the land, as provided in the Contract.

In all other respects other than the express and specific amendments contained in this Amendment No. ~~13~~ 14 the Contract (together with the previous Amendments executed by the parties) remains in full force and effect.

KP

CONTRACT AMENDMENT

ARIZONA
DEPARTMENT OF CORRECTIONS
PROCUREMENT SERVICES
1601 W. JEFFERSON, MC 55302
PHOENIX, ARIZONA 85007-3002
(602) 542-1172
(602) 364-3790 FAX

CONTRACT NO. 6914 **AMENDMENT NO. 14** Contract Officer: Karen D. Ingram

A copy of this Amendment must be received by the Arizona Department of Corrections.
This Contract is hereby amended as follows:

MTC shall have the right to terminate the Contract if the parties are unable to agree upon a per diem within sixty (60) days after ADC's failure to properly close the purchase of the private prison, but only if the failure to close is not related to MTC's lack of compliance with sections 12.3.2 and 12.3.3 of the Contract.

If ADC completes the purchase of the private prison as contemplated herein, MTC shall have no further rights or obligation to operate or manage the prison.

ALL OTHER PROVISIONS OF THE CONTRACT SHALL REMAIN IN THEIR ENTIRETY.

Contractor hereby acknowledges receipt and agrees to carry out the terms of this Amendment.

6/30/11

Signature Date

Lyle J. Parry
Sr. Vice President, CFO, Secretary-Treasurer
Typed Name and Title

Management & Training Corporation
Name of Company

The above referenced Contract Amendment is hereby executed this 30th Day of June, 2011 in Phoenix, Arizona.

Donel Pickering, Chief Procurement Officer

STATE OF ARIZONA

Joint Committee on Capital Review

STATE SENATE

DON SHOOTER CHAIRMAN 2013
GAIL GRIFFIN
LEAH LANDRUM TAYLOR
JOHN McCOMISH
AL MELVIN
LYNNE PANCRAZI
ANNA TOVAR

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

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

HOUSE OF REPRESENTATIVES

JOHN KAVANAGH CHAIRMAN 2014
LELA ALSTON
CHAD CAMPBELL
TOM FORESE
DAVID GOWAN, SR.
RICK GRAY
ANDREW C. SHERWOOD

DATE: March 26, 2013

TO: Senator Don Shooter, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director RS

FROM: Tom Ritland, Fiscal Analyst T.R.

SUBJECT: Yavapai Community College District - Review of Revenue Bond Project

Request

A.R.S. § 15-1483 requires Committee review of any community college projects financed with revenue bonds. The Yavapai County Community College District requests Committee review of their $5.5 million bond project. The project would finance the renovation of 2 residence halls with a $5.0 million revenue bond issuance and $550,000 in district cash reserve funds.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review.

2. An unfavorable review.

Analysis

The $5.0 million in revenue bonds and $550,000 in district cash reserves would fund the renovation of 2 of Yavapai's 3 residence halls: 1) Marapai Hall, which was built in 1968 and has 137 beds, and 2) Kachina Hall, which was built in 1993 and has 96 beds.

The renovations at each dorm would consist of updating HVAC components, automatic fire suppression systems, ADA related improvements, internet service, floor covering, paint, lighting, sound insulation, and furniture, as well as asbestos abatement. The estimated cost per square foot is $105. *Table 1* provides details on the cost per square foot of the revenue bond project. In February 2009, the Committee favorably reviewed residence hall renovations at the University of Arizona with a cost per square foot of $100.

(Continued)

Table 1			
Yavapai Community College Residence Hall Renovations			
Project	**Cost Per Square Foot**	**Square Footage**	**Total Cost**
Marapai Hall	$105	27,091	$2,835,300
Kachina Hall	105	25,936	2,714,500
TOTAL		**53,027**	**$5,549,800**

Financing

Yavapai plans on issuing the $5.0 million bond, which does not include issuance costs of $39,500, in April 2013. Annual debt service payments would be approximately $415,000 and the total cost over the 15-year period will be approximately $6.2 million, $1.2 million of which would be interest payments. The revenue bond debt service will be funded from tuition and fees, bookstore revenue, food service sales, dormitory rentals and other income.

Yavapai is issuing this bond as a bank placement, which means there is single purchaser. Yavapai used a bid process to select a purchaser. Since Yavapai selected a specific bank to purchase the bond through a competitive bid process, the bond does not have a rating. The bid process involved ten different banks, and Yavapai selected the bank that offered the lowest estimated interest rate of 2.39%. This interest rate was offered by JP Morgan Chase in January 2013 on an estimated principal amount of $4.7 million.

JP Morgan Chase will hold the debt throughout the 15-year term of the bond as opposed to selling it on the secondary market, so the transaction is essentially the same as a direct loan. Subsequent to receiving the bid, the Yavapai College District Governing Board increased the amount of the bond to $5 million. JP Morgan agreed to apply the original terms to the increased amount. The actual interest rate will not be locked in until after JCCR approves the bond so Yavapai has provided a higher interest rate of 2.75% as a conservative estimate.

A.R.S. § 15-1484 allows each community college district to incur a projected annual debt service for bonds and certificates of participation of up to 8% of each institution's total projected annual expenditures. This calculation is known as the debt ratio. The annual debt service obligation under the proposed $5.0 million revenue bond issuance would peak at $415,500. Yavapai's total expected expenditures for FY 2013 are $77,609,000, resulting in an estimated debt ratio of approximately 0.5% ($415,500/$77,609,000). After including existing debt, the total annual debt service obligation would peak at $1,858,800 and Yavapai's debt ratio would be approximately 2.4% ($1,858,800/$77,609,000).

RS/TR:ts

March 7, 2013

RECEIVED
MAR 7 2013
JOINT BUDGET COMMITTEE

The Honorable John Kavanagh, Chairman
Joint Committee on Capital Review
House of Representatives
1700 West Washington Street
Phoenix, Arizona 85007

Re: Request for Placement on Joint Committee on Capital Review Agenda in April 2013

Dear Representative Kavanagh,

In accordance with ARS 15-1483, the Yavapai County Community College District requests a review of its 2013 Revenue Bond Project at the April 2013 meeting of the Joint Committee on Capital Review.

The $5.0 million of revenue bond proceeds will fund the renovation of two of the District's aging residence halls which are in need of various repairs and improvements.

Enclosed are several items including a project summary, bond debt service schedules and financing information.

If you have any questions or require any additional information, please contact me at 928-776-2166.

Sincerely,

Clint Ewell, Ed.D.
Vice President, Finance & Administrative Services

Attachments (6 pages)

cc: Mr. Richard Stavneak, JLBC
Mr. Tom Ritlanb, JLBC
Timothy Stratton, Gust Rosenfeld P.L.C.
Nicholas Dodd, RBC Capital Markets

Yavapai COLLEGE

Revenue Bonds, Series 2013
Residence Hall Renovation Project
Project Summary

Project Cost/Funding Sources

Revenue Bond	$5,000,000
District Reserves	550,000
Total Project Cost	$5,550,000

Project Background and Description

The District has three residence halls with a total capacity of 373 beds. The purpose of this project is to completely renovate two of the halls. A description of the two halls is as follows:

Marapai Hall	**Kachina Hall**
Built – 1968	Built – 1993
137 Beds	96 Beds
Square Feet – 27,091	Square Feet – 25,936
Condition – Fair	Condition – Fair

Renovations will include the following:

- Replace and/or add energy efficient HVAC components
- Installation of automatic fire suppression system
- ADA related improvements
- Asbestos abatement
- Internet service upgrade
- New floor coverings, paint, and wiring/lighting upgrades
- Reconfiguration improvements and sound attenuation
- New furniture

Estimated cost per square foot, including furniture - $104.66

Financing

The $5.0 million issuance would have a 15-year payment term and the estimated interest rate is 2.75%. The annual debt service payment would be approximately $415,000 per year. The bonds would be repaid from tuition and fees, bookstore revenues, food service sales, dormitory rentals and other income. Combined with prior revenue debt obligations, the District's annual debt service would range from $411,000 to $1,858,773 between FY 2013-14 and FY 2027-28, peaking at $1,858,773 in FY 2013-14. Total outstanding revenue bond debt supported by pledged revenues would be $18,065,000 at June 30, 2013.

YAVAPAI COUNTY COMMUNITY COLLEGE DISTRICT
Revenue Bonds, Series 2013
Preliminary Debt Schedule

Fiscal Year	Principal	Coupon	Interest	Total Debt Service
2013-14	$ 255,000	2.75%	$ 160,417	$ 415,417
2014-15	285,000	2.75%	130,487	415,487
2015-16	290,000	2.75%	122,650	412,650
2016-17	300,000	2.75%	114,675	414,675
2017-18	305,000	2.75%	106,425	411,425
2018-19	315,000	2.75%	98,038	413,038
2019-20	325,000	2.75%	89,375	414,375
2020-21	335,000	2.75%	80,437	415,437
2021-22	340,000	2.75%	71,225	411,225
2022-23	350,000	2.75%	61,875	411,875
2023-24	360,000	2.75%	52,250	412,250
2024-25	370,000	2.75%	42,350	412,350
2025-26	380,000	2.75%	32,175	412,175
2026-27	390,000	2.75%	21,725	411,725
2027-28	400,000	2.75%	11,000	411,000
Total	$ 5,000,000		$ 1,195,104	$ 6,195,104

Source: Yavapai County Community College District

YAVAPAI COUNTY COMMUNITY COLLEGE DISTRICT
Outstanding Revenue Bond Debt
Including Revenue Bonds, 2013 Series

Fiscal Year	Pledged Revenue Obligations - Series 2011 Principal	Pledged Revenue Obligations - Series 2011 Interest	Revenue Bonds Series 2013 $5,000,000 Principal	Revenue Bonds Series 2013 $5,000,000 Interest	Total
2012-13	$ 880,000	$ 560,406	-	-	$ 1,440,406
2013-14	915,000	528,356	$ 255,000	$ 160,417	1,858,773
2014-15	945,000	491,756	285,000	130,487	1,852,243
2015-16	985,000	453,957	290,000	122,650	1,851,607
2016-17	1,025,000	414,556	300,000	114,675	1,854,231
2017-18	1,070,000	370,306	305,000	106,425	1,851,731
2018-19	1,110,000	327,506	315,000	98,038	1,850,544
2019-20	1,160,000	283,107	325,000	89,375	1,857,482
2020-21	1,200,000	235,256	335,000	80,437	1,850,693
2021-22	1,255,000	184,031	340,000	71,225	1,850,256
2022-23	800,000	122,850	350,000	61,875	1,334,725
2023-24	840,000	83,850	360,000	52,250	1,336,100
2024-25	880,000	42,900	370,000	42,350	1,335,250
2025-26	-	-	380,000	32,175	412,175
2026-27	-	-	390,000	21,725	411,725
2027-28	-	-	400,000	11,000	411,000
Total	$ 13,065,000	$ 4,098,837	$ 5,000,000	$ 1,195,104	$ 23,358,941

Total Principal	$ 18,065,000
Total Interest	5,293,941
	$ 23,358,941

Source: Yavapai County Community College District

YAVAPAI COUNTY COMMUNITY COLLEGE DISTRICT
Projected Revenue Bond Debt
Including Revenue Bonds, Series 2013

Fiscal Year	Pledged Revenues		Revenue Bonds - Series 1993 Principal	Revenue Bonds - Series 1993 Interest	Pledged Revenue Obligations - Series 2011 Principal	Pledged Revenue Obligations - Series 2011 Interest	Revenue Bonds Series 2013 $5,000,000 Principal	Revenue Bonds Series 2013 $5,000,000 Interest	Total Debt Service	Coverage
2011-12	$ 9,644,951		$ 420,000	$ 19,050	$ 845,000	$ 594,206	-	-	$ 1,878,256	5.14
2012-13	9,950,000	*	-	-	880,000	560,406	-	-	1,440,406	6.91
2013-14	10,250,000	*	-	-	915,000	528,356	$ 255,000	$ 160,417	1,858,773	5.51

* - Estimated

Source: Yavapai County Community College District

YAVAPAI COUNTY COMMUNITY COLLEGE DISTRICT
Outstanding General Obligation Bond Debt
As of June 30, 2012

Fiscal Year	2003 Series B Principal	2005 Series C Principal	2011 Refunding Principal	2012 Refunding Principal	Total Principal	2003 Series B Interest	2005 Series C Interest	2011 Refunding Interest	2012 Refunding Interest	Total Interest
2012-13	$ 1,200,000	$ 1,200,000	$ 1,200,000	$ 260,000	$ 3,860,000	$ 57,000	$ 113,500	$ 340,550	$ 817,619	$ 1,328,669
2013-14	-	1,070,000	1,110,000	1,760,000	3,940,000	-	53,500	280,550	775,550	1,109,600
2014-15	-	-	1,105,000	2,965,000	4,070,000	-	-	225,050	740,350	965,400
2015-16	-	-	1,020,000	3,175,000	4,195,000	-	-	169,800	681,050	850,850
2016-17	-	-	1,005,000	3,290,000	4,295,000	-	-	139,200	617,550	756,750
2017-18	-	-	885,000	3,510,000	4,395,000	-	-	109,050	551,750	660,800
2018-19	-	-	870,000	3,675,000	4,545,000	-	-	82,500	418,100	500,600
2019-20	-	-	860,000	3,620,000	4,480,000	-	-	52,050	344,600	396,650
2020-21	-	-	495,000	1,705,000	2,200,000	-	-	19,800	236,000	255,800
2021-22	-	-	-	1,640,000	1,640,000	-	-	-	184,850	184,850
2022-23	-	-	-	1,500,000	1,500,000	-	-	-	119,250	119,250
2023-24	-	-	-	1,350,000	1,350,000	-	-	-	57,375	57,375
Total	$ 1,200,000	$ 2,270,000	$ 8,550,000	$ 28,450,000	$ 40,470,000	$ 57,000	$ 167,000	$ 1,418,550	$ 5,544,044	$ 7,186,594

Source: Yavapai County Community College District

J.P.Morgan

SUMMARY OF TERMS AND CONDITIONS
January 22, 2013

January 22, 2013

Frank D'Angelo, Director of Business Services/Controller
Yavapai College
1100 East Sheldon Street
Prescott, Arizona 86301

Nick Dodd, Director
RBC Capital Markets
2398 East Camelback Road, Suite 700
Phoenix, AZ 85016

Proposal for the Direct Bank Purchase of the Yavapai College Senior Lien Revenue Bonds, Series 2013 in an amount of $4,700,000 (initial estimate), when and if issued (the "Series 2013 Bonds" or "Bonds").

We are pleased to provide this proposal for a Direct Bank Purchase Senior Lien Revenue Bonds, Series 2013 to be issued by the Yavapai College. While this letter is not intended to be all-inclusive, and is provided and intended for the purpose of discussion, the general terms included in this proposal have been approved by the appropriate credit and business authority within JPMorgan Chase Bank, N.A. (the "Purchaser"). **The extension of credit has been fully approved subject to acceptable negotiation of final pricing and terms and the completion of documentation**.

The terms of this proposal, with the exception of the interest rate on the Series 2013 Bonds, which is provided for indicative purposes only, are valid until February 22, 2013 (unless extended by the Purchaser). We propose the above referenced facility (sometimes called "Bonds" or "Facility") under the following terms and conditions:

Issuer:	The Yavapai County Community College District (the "Issuer" or the "District").
Purchaser:	JPMorgan Chase Bank, N.A., its Successors or Assigns ("JPMorgan Chase" or the "Purchaser").
Trustee or Paying Agent:	TBD
Facility:	Direct Bank Purchase of Senior Lien Revenue Bonds, Series 2013 maturing not more than 15-years from their date of issuance. It is anticipated that the Bond will be issued as a single maturity Term Bond subject to annual mandatory sinking fund redemption. The Purchaser will take physical delivery of the Bond – no DTC closing, no CUSIP will be required.
Use of Proceeds:	Proceeds of the Series 2013 Bonds will be used to (i) renovate existing dorms on the College's Prescott Campus or such other projects as deemed appropriate by the College and their Governing Board, and (ii) payment of the cost of issuance.
Funding Limit:	The Purchaser is capable and willing to provide funding in the aggregate principal amount of $4,700,000 (initial estimate).
Anticipated Closing/Funding Date:	JPMorgan Chase Bank, N.A. will be in a position to fund this transaction as early as the week after the District has obtained final authorization for this transaction (i.e. the date of passage of the Final Resolution).

Tax Status:	It is anticipated that the Series 2013 Bonds will be issued as tax-exempt obligations, and that the Bonds will be Bank-Qualified under 265(b) of the I.R.C.
Repayment Obligation and Security:	The District's 2013 Senior Lien Revenue Obligations will be secured by a senior lien on the Gross Pledged Revenues of the District on Parity with existing Pledged Revenue Obligations. Gross Revenues include tuition, fees, rentals and other charges from students and faculty members.
Final Maturity and Call Provisions:	The Bonds shall have a final maturity of not greater than 15-years from the date of issuance.
Indicative Interest Rate:	Interest payments shall be paid on a semi-annual basis on each January 1 and July 1, commencing January 1, 2014. The Bonds shall bear interest at a tax-exempt fixed rate until maturity determined (i) upon the execution of a Commitment Letter, Bond Purchase Agreement or other similar documents (but in no event prior to the adoption by the District of appropriate resolutions/ordinances awarding the transaction to the Purchaser), or (ii) on a date determined by the Issuer (and mutually agreed to by the Purchaser). The rate provided below is provided exclusively for indicative purposes, based on market conditions as of January 22, 2013. The actual rate of interest borne by the Bonds will be set by mutual agreement between JPMorgan Chase Bank, N.A. and the Yavapai County Community College District. JPMorgan determines indicative rates for fixed rate transactions not as a spread over an index but rather as an 'all-in rate', based on (among other factors) prevailing market rates at the time of quotation. While not a direct correlation, the like tenor US Treasury tends to move in a similar manner as the bank's fixed rate quotes.

- **Callable at par without penalty or premium on or after the 10-year anniversary.**
  - Indicative Tax-Exempt Fixed Rate of **2.39%** *

** The rate provided above should be considered as guidance only. The Indicative rate is provided for illustration purposes only and is based on market conditions on January 22, 2013. The Actual rate will be determined when the District is in a position to award the transaction to the Purchaser – but in no event until after the adoption of appropriate resolutions/ordinances by the District and until a Commitment Letter is executed by the District. Additionally, the rate assumes annual principal and semi-annual interest payment based on the amortization schedule provided below. Once awarded the transaction, the Purchaser can forward lock the rate prior to closing. The Issuer hereby agrees to reimburse the Purchaser for any rate lock breakage fees incurred by the Purchaser as a result of terminating its funding arrangements if the financing does not close after the rate is locked. The Purchaser is willing to provide a callable option at the request of the issuer.*

Repayment Schedule:

The Bond will be structured as a single term bond with mandatory annual sinking fund redemptions to occur on July 1, commencing on July 1, 2014 and maturing on July 1, 2028, in accordance with the following preliminary schedule (provided by RBC Capital Markets.):

July 1 2014	$ 231,000
July 1 2015	262,000
July 1 2016	269,000
July 1 2017	278,000
July 1 2018	286,000
July 1 2019	294,000
July 1 2020	303,000
July 1 2021	312,000
July 1 2022	322,000
July 1 2023	331,000
July 1 2024	341,000
July 1 2025	352,000
July 1 2026	362,000
July 1 2027	373,000
July 1 2028	384,000

Conditions Precedent:

1. Receipt of Tax, Validity and Enforceability Opinions from Bond Counsel in a form acceptable to the Purchaser and its Counsel.
2. Adoption of a Final Resolution by the District awarding the transaction to the Purchaser
3. Completion of documentation negotiations satisfactory to the Purchaser and its Counsel and the Issuer and its Counsel as well as receipt of executed original copies of all relevant documents to the transaction, including customary closing certificates and opinions in a form satisfactory to the Purchaser and its Counsel.
4. The purchaser will execute a qualified investor letter.

Terms and Conditions:

To include but shall not be limited to:

1. Additional Bonds Test of 2.00x - MADS basis (consistent with Senior Bond Indenture).
2. Rate Maintenance Covenant of 1.00x (consistent with Senior Bond Indenture).
3. A Debt Service Reserve Fund will not be required for this transaction.

Documentation:

Shall be prepared by the District's Bond Counsel and will be subject to legal review and approval by Snell and Wilmer, LLP, Counsel to the Purchaser.

Fees and Expenses:

No Up-Front Fee or Commitment Fee or Underwriter's Discount shall be charged for this transaction.

The Purchaser expects to be reimbursed for reasonable out of pocket fees and expenses related to the transaction, including but not limited to documentation review by outside counsel, rate-lock breakage fees (if applicable), etc. Legal fees of Purchaser's Counsel are estimated to be $10,000 based upon scope of financing. Upon execution and acceptance of a Commitment Letter, Bond Purchase Agreement or other similar documents the Issuer agrees that any actual fees incurred by the Purchaser (as discussed in the preceding sentence) shall be reimbursed by the Issuer as a current budget expense.

J.P.Morgan

Ratings:	The Purchaser shall not require public ratings for the Series 2013 Bonds.
Official Statement and Continuing Disclosure:	The Purchaser shall not require an Official Statement, Offering Memorandum, Direct Purchase Memorandum or other similar documentation in conjunction with this transaction. Further, no specific Continuing Disclosure shall be required by the Purchaser in conjunction with this transaction other than the receipt of the District's CAFR not more than 180 days from the end of each fiscal year.
Waiver of Jury Trial:	The Issuer, to the extent permitted by law, waives any right to have a jury participate in resolving any dispute arising from this transaction.
Governing Law:	The Resolution and the Bond Purchase Agreement will be governed by the laws of the State of Arizona.
Credit Approval:	The Purchaser has obtained credit approval for this transaction; however, closing is subject to final negotiations and satisfactory review and approval of all pertinent documentation.
Contact Information:	George W. McManus 201 N. Central Ave, 21st Floor Phoenix, AZ 85004 (602) 221-2179 (602) 221-1075 george.w.mcmanus@jpmorgan.com Alec Korenets 201 N. Central Ave, 21st Floor Phoenix, AZ 85004 (602) 221-1164 (602) 221-1075 alec.korenets@jpmorgan.com

Should any part of this proposal conflict with your needs, we would be happy to discuss mutually acceptable alternatives.

If you have any questions regarding this proposal, please don't hesitate to call. We appreciate the opportunity to submit this proposal and look forward to working with you.

THE TERMS AND CONDITIONS ABOVE ARE INTENDED TO BE A SUBSTANTIVE OUTLINE OF THE TRANSACTION RATHER THAN A FULL AND COMPLETE DESCRIPTION OF ALL TERMS OF THE DOCUMENTS, WHICH SHALL CONTAIN SUCH REPRESENTATIONS, WARRANTIES, COVENANTS, EVENTS OF DEFAULT, AND OTHER PROVISIONS AS JPMORGAN CHASE BANK, N.A. DEEMS NECESSARY.

THE TERMS OF THIS PROPOSAL ARE FOR THE YAVAPAI COUNTY COMMUNITY COLLEGE DISTRICT CONFIDENTIAL USE ONLY AND MAY NOT BE DISCLOSED TO ANY OTHER PERSON OTHER THAN THE YAVAPAI COUNTY COMMUNITY COLLEGE DISTRICTAND ITS EMPLOYEES, DISTRICT COUNCIL MEMBERS, ATTORNEYS AND FINANCIAL ADVISORS (BUT NOT OTHER BANK LENDERS OR CAPITAL MARKET PARTICIPANTS), AND THEN ONLY IN CONNECTION WITH THE PROPOSED TRANSACTIONS AND ON A CONFIDENTIAL BASIS, EXCEPT WHERE DISCLOSURE IS REQUIRED BY LAW OR WHERE JPMORGAN CHASE BANK, N.A. CONSENTS TO THE PROPOSED DISCLOSURE, WHICH CONSENT SHALL NOT BE UNREASONABLY WITHHELD.

MOODY'S
INVESTORS SERVICE

7 World Trade Center
250 Greenwich Street
New York, NY 10007
www.moodys.com

January 3, 2011

Mr. Frank Dangelo
Finance Director
Yavapai County Community College District
1100 East Sheldon Street
Prescott, AZ 86301

Dear Mr. Dangelo:

I wish to inform you that Moody's Investors Service has assigned an initial underlying rating of **A2** with a **stable** outlook to Yavapai County Community College District's Pledged Revenue Obligations Series 2011.

In order for us to maintain the currency of our ratings, we request that you provide ongoing disclosure, including annual financial and statistical information.

Moody's will monitor this rating and reserves the right to revise or withdraw it at any time in the future.

This rating, as well as any revisions or withdrawals thereof, will be publicly disseminated by Moody's through normal print and electronic media and in response to verbal requests to Moody's ratings desk.

Should you have any questions regarding the above, please do not hesitate to contact me.

Sincerely,

Amy Tanaka

Amy Tanaka

AT/dr

cc: Mr. Nick Dodd
Vice President
RBC Dain Rauscher, Inc.
2398 East Camelback Road
Suite 700
Phoenix, AZ 85016

STANDARD
&POOR'S

One Market
Steuart Tower, 15th Floor
San Francisco, CA 94105-1000
tel 415 371-5000
reference no.: 1152948

December 3, 2010

Yavapai County Community College District
1100 East Sheldon Street
District Office, Building 32-218
Prescott, AZ 86301
Attention: Mr. Clint Ewell, Ed.D., Vice President of Finance and Administrative Services

Re: ***$10,765,000 Yavapai County Community College District, Arizona, Pledged Revenue Obligation, Series 2011***

Dear Mr. Ewell:

Pursuant to your request for a Standard & Poor's rating on the above-referenced obligations, we have reviewed the information submitted to us and, subject to the enclosed *Terms and Conditions,* have assigned a rating of "A". Standard & Poor's views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer/obligor and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. This rating is based on financial information and documents we received prior to the issuance of this letter. Standard & Poor's assumes that the documents you have provided to us are final. If any subsequent changes were made in the final documents, you must notify us of such changes by sending us the revised final documents with the changes clearly marked.

To maintain the rating, Standard & Poor's must receive all relevant financial information as soon as such information is available. Placing us on a distribution list for this information would facilitate the process. You must promptly notify us of all material changes in the financial information and the documents. Standard & Poor's may change, suspend, withdraw, or place on CreditWatch the rating as a result of changes in, or unavailability of, such information. Standard & Poor's reserves the right to request additional information if necessary to maintain the rating.

Please send all information to:

Standard & Poor's Ratings Services
Public Finance Department
55 Water Street
New York, NY 10041-0003

Standard & Poor's is pleased to be of service to you. For more information on Standard & Poor's, please visit our website at www.standardandpoors.com. If we can be of help in any other way, please call or contact us at nypublicfinance@standardandpoors.com. Thank you for choosing Standard & Poor's and we look forward to working with you again.

Sincerely yours,

Standard & Poor's Ratings Services
a Standard & Poor's Financial Services LLC business

Standard & Poors /sk

sp
enclosures

STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

DON SHOOTER
CHAIRMAN 2013
GAIL GRIFFIN
LEAH LANDRUM TAYLOR
JOHN McCOMISH
AL MELVIN
LYNNE PANCRAZI
ANNA TOVAR

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

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

HOUSE OF
REPRESENTATIVES

JOHN KAVANAGH
CHAIRMAN 2014
LELA ALSTON
CHAD CAMPBELL
TOM FORESE
DAVID GOWAN, SR.
RICK GRAY
ANDREW C. SHERWOOD

DATE: March 26, 2013

TO: Senator Don Shooter, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director RS

FROM: Art Smith, Senior Fiscal Analyst AS

SUBJECT: Northern Arizona University and University of Arizona - Review of Phoenix Biomedical Campus Health Sciences Education Building Shell Space Projects

Request

A.R.S. § 15-1683 requires Committee review of any university projects financed with revenue bonds. Northern Arizona University (NAU) and the University of Arizona (UA) request Committee review of \$17.9 million in bond issuances to fund build out of medical simulation rooms, administrative support space and classrooms at the Phoenix Biomedical Campus Health Sciences Education Building (HSEB). This amount includes a \$14.3 million University Lottery revenue bond and a \$3.6 million system revenue bond.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the HSEB project.

2. An unfavorable review of the HSEB project.

Under either option, the JLBC Staff recommends 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 and UA shall provide the final debt service schedules for the projects as soon as they are available.

(Continued)

Analysis

At its March 2010 meeting, the Committee favorably reviewed the initial construction of the HSEB on the Phoenix Biomedical Campus, which included 45,371 square feet of shell space that NAU and UA planned to build out at a later date. The $17.9 million in bond issuances includes construction of medical simulation rooms, administrative support space and classrooms in the shell space of the HSEB.

A medical simulation room incorporates triage, emergency room and operating room simulations for student training. UA will use the simulation rooms as part of its medical degree training. NAU will use simulation rooms in order to meet increased demand for its physicians assistant and physical therapy programs, in addition to a new occupational therapy program. These 3 programs are not currently offered through the UA College of Medicine.

Of the $17.9 million bond issuance, $8.1 million will be for the construction of medical simulation rooms for NAU, while the remaining $9.8 million will be for expanded simulation space, administrative support space and classrooms for UA. Construction for the build out is scheduled to begin November 2013.

University Lottery Bond Projects
Of the $17.9 million in issuances, $14.3 million of the project will be financed with University Lottery revenue bonds. Permanent law authorizes the Arizona Board of Regents to enter into lease-to-own and bond transactions up to a maximum of $800.0 million to pay for building renewal projects and new facilities. Of this amount the Phoenix Medical Campus has been allocated $376.0 million. At this time, $254 million of the $376 million allocation remains and NAU and UA are now requesting $14.3 million to build out the HSEB shell space.

Under permanent law, the annual Lottery bond service payments are to be paid from up to 80% Lottery revenues and at least 20% state university system revenues. Lottery revenues are projected to be sufficient to cover the full 80% of both these new debt obligations and the NAU Science and Health Building request in the separate agenda item.

Debt Service Ratio
A.R.S. § 15-1683 allows each state university to incur a projected annual debt service for bonds and certificates of participation of up to 8% of each institution's total projected annual expenditures. This calculation is known as the debt ratio. NAU's current debt ratio is 5.8%, while UA's current debt ratio is 5.27%. Laws 2008, Chapter 287 exempts the $800.0 million in University Lottery bonds from a university's debt calculation. If this bond were to be included, it would increase the NAU debt ratio by 0.15%, while the UA debt ratio would increase by .02%. If this bond was included with the other Lottery bonds of NAU and UA, the 2 universities would have overall debt ratios of 7.5% and 5.89%, respectively.

NAU Financing
NAU's $8.1 million bond includes estimated issuance costs of $165,000 and is expected to be issued in June 2013 with a rating of A1 (Moody's)/AA- (S&P) at an estimated 3.65% interest rate for a term of 20 years. The university plans interest-only debt service payments of $345,000 in FY 2015 and $306,000 in FY 2016 and FY 2017. Annual debt service payments, including principal, will increase to $670,000 in FY 2018 for a 20-year total cost of $12.3 million. The debt service will be paid with up to $9.8 million from Lottery revenues and up to $2.5 million from tuition.

(Continued)

NAU Construction Costs
While UA funded the initial cost of the shell, NAU will fund the build out and purchase the space from UA for its medical programs. The build out construction costs are $5.3 million and the cost to purchase the space from UA is $2.9 million. The build out construction cost per square foot for this project is $348. UA's cost is $242 per square foot.

UA Financing
UA's $9.1 million bond includes issuance costs of $200,000 and is expected to be issued in May 2013 with a rating of Aa3 (Moody's)/AA- (S&P) at an estimated 3.20% interest rate for a term of 20 years. The university plans interest-only debt service payments of $490,000 in FY 2015 and $420,000 in FY 2016. Annual debt service payments, including principal, will increase to $720,000 in FY 2017 for a 20-year total cost of $13.8 million. The debt service will be paid with $11.0 million from Lottery revenues and $2.8 million from tuition.

UA Construction Costs
Direct construction costs are $7.3 million, which does not include issuance costs. The direct construction cost per square foot for this project is $242.

RS/AS:ts

NORTHERN ARIZONA UNIVERSITY

Office of the Vice President
for Finance & Administration

Northern Arizona University
PO Box 4088
Flagstaff, AZ 86011-4088

928.523.2708
928.523.4230 fax
www4.nau.edu/vpadmin

PM 1 2 3 4 5 6 7 8 9 10 11 12 AM RECEIVED MAR 18 2013 JOINT BUDGET COMMITTEE AM 1 2 3 4 5 6 7 8 9 10 11 12 PM

March 18, 2013

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

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

Dear Senator Shooter:

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

- Northern Arizona University's Phoenix BioMedical Health and Education Shell Space financing project.

The Arizona Board of Regents Business and Finance Committee is requested to recommend approval to the full Board at its meeting to be held on March 29, 2013. The full Board of Regents will consider this project for approval as well as the financing plan at its meeting on April 4, 2013. We request that the JCCR review this project along with the Science and Health Building project submitted previously at your next scheduled meeting on April 2, 2013. The Business and Finance Committee project summary (Attachment A), debt service schedule (Attachment B) and a funding plan (Attachment C) provides the required information and are attached for your review.

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
Vice President for Finance and Administration

Attachments

.cc Richard Stavneak, JLBC Director
Marge Zylla, JLBC Analyst
Eileen Klein
Lorenzo Martinez, ABOR
Christy Farley, NAU
MJ McMahon, NAU
Laura Huenneke, NAU
Robert Norton, NAU
John Haeger, NAU

EXECUTIVE SUMMARY

Item Name: Health Sciences Education Building (HSEB)-Phoenix- Finish Shell Space Project Approval (UA and NAU)

☒ Action Item ☐ Discussion Item ☐ Information Item

Issue: The University of Arizona and Northern Arizona University requests Project Approval of the Health Sciences Education Building-Phoenix, Finish Shell Space project located at the Phoenix Biomedical Campus. This 47,465 square foot, $17.9 million capital project will be financed with SPEED bonds and System Revenue bonds. The debt service will be paid over 20 years from state lottery and tuition funds.

Previous Board Action:

Revised UA Capital Development Plan FY 2013 (Information Item)	December 2012
Revised NAU Capital Development Plan FY 2013	December 2012
FY 2014-2016 UA Capital Improvement Plan	September 2012
SPEED Reapproval September 2009 – NAU	September 2009
SPEED Projects Allocation - UA and NAU	July 2008

Statutory/Policy Requirements:

- Board Policy 7-102 requires all capital projects with an estimated total project cost of $5 million or more for renovation or infrastructure projects, or $10 million or more for new construction or information technology projects, shall be brought to the Business & Finance Committee for approval regardless of funding source or financing structure.

Project Justification/Strategic Implications/Project Compliance with Mission, Strategic Plan, Master Plan and Community Input Process:

- This project is a University of Arizona and Northern Arizona University collaboration that will provide the build-out of 47,465 square feet of the existing Health Sciences Education Building at The University of Arizona College Of Medicine – Phoenix campus. The built-out space will include an expanded Simulation Center on the 3rd and 4th floor, office and administrative support space on the 5th floor, a Wet Lab, a Lecture Hall, Learning Studio and classroom. The Simulation Centers incorporate triage, emergency room and operating room simulation that are used to identify and commence treatment and stabilization on simulated patients. High fidelity mannequin simulators display the actual physiological signs and symptoms of human patients affected by the actual medical or trauma events. They will react to treatment by duplicating the human characteristics associated with these agents.

- A critical community component of the simulation center is training and certification for

Contact Information:
Jennus Burton, Vice President, (928) 523-8871, jennus.burton@nau.edu
Milton Castillo, Senior VP and CFO, (520) 621-5977, mcastillo@email.arizona.edu

first responders and emergency medical professionals. Through the UA's Emergency Medicine Research Center, the UA is seen as a resource for training, education and the advancement of protocols for excellence in emergency care. Municipalities (through their fire departments and emergency response teams), rescue services, emergency and trauma rooms will benefit greatly by the existence of this resource. This center of excellence will provide additional instructional space to satisfy the demand for this service in the Phoenix area as well as the rest of the state. It will also allow the students of the UA College of Medicine - Phoenix to study with established healthcare professionals.

- This project is part of, and in conformance with the Phoenix Biomedical Campus Master Plan.

- The following institutional priorities and critical capital development related elements of the ***Arizona Higher Education Enterprise Plan Goals*** are supported by this project:

  - **Student Support Requirements, Academic & Research Needs:** This project will support the growing medical degree programs at the College of Medicine-Phoenix and the allied health programs offered by Northern Arizona University. It will provide learners with opportunities to study, practice and master core objectives, and assess achievement of core competencies. In addition, the center will demonstrate a commitment to innovative health care education, cutting edge research and the highest standards of patient care, thus attracting new faculty members, the best and brightest students and a highly professional staff. Development of a research program will also attract funding to the center and institution at large.

  - **Community Engagement & Workforce Impact:** The University of Arizona College of Medicine and Northern Arizona University continues to expand their roles in healthcare education in the Phoenix metropolitan area. Build-out of this educational space will provide for continued expansion of the integrated healthcare education and delivery model established at this site. The simulation center is an essential part of the curriculum taught at the COM and in addition serves the UA colleges of Nursing, Pharmacy and Public Health, as well as Northern Arizona University's programs in Physician Assistant and Physical Therapy programs. The goal of this specialized training for medical students, residents, nurses and first responders is to enhance patient safety and treatment by simulating medical scenarios and providing the opportunity to practice, prepare and analyze every aspect of the chain of patient care and treatment. Simulators are particularly useful for training interdisciplinary teams to provide coordinated care and for developing clinical skills. In addition, simulation experiences are increasingly emphasized by a wide variety of health care regulatory organizations including LCME, RRC's, and JCAHO.

  - **Construction Market Conditions:** The current construction market remains very favorable with good competition and low labor and material prices. Slowly increasing prices of fuel, metals and some other materials across the country make it advisable to expedite the design and construction process to the extent reasonably possible to lock in prices and minimize cost impacts on the University and its students.

- **Funding Sources & Financial Options:** This project is eligible for SPEED funding designated for the Phoenix Biomedical Campus uses associated with the HSEB, which will minimize the project's financial impact on the universities.

Project Description/Scope/Compliance with Space Standards:

- This project will be a build-out of 47,465 square feet of the existing Health Sciences Education Building at the University of Arizona College of Medicine-Phoenix campus. The built-out space will include an expanded Simulation Center on Floors 3 and 4, office and administrative support space on the 5th floor, a Wet lab, a Lecture Hall, Learning Studio and classroom. The Simulation Centers incorporate triage, emergency room and operating room simulation that are used to identify and commence treatment and stabilization on simulated patients. High fidelity mannequin simulators display the actual physiological signs and symptoms of human patients affected by the actual medical or trauma events.

- The simulators will track all actions taken and all pharmacological agents given to the patients. The events will be videotaped for playback and review. Through the utilization of sophisticated simulators that combine "high tech" with "real world" responses, the Center simulates medical conditions and employs interactive activities to repeat these procedures until the desired response becomes second nature.

- This shell space will be in conformance to UA Design & Specification Standards to minimize operations and maintenance costs and to maximize the universities' long-term investment. It will be constructed of high quality, durable, maintainable materials and systems to maximize energy efficiency and minimize operational, repair and replacement costs and will have long lifecycle.

Project Delivery Method and Process:

- This project is being delivered through the Construction Manager at Risk (CMAR) method. This approach was selected for the project because it can save time and cost through fast-track project scheduling, provides contractor design input and coordination throughout the project, improves potentially adversarial project environments and allows for the selection of the most qualified contractor leadership team for this project. With the use of independent cost estimates at each phase and low-bid subcontractor pricing for the actual construction work, this method also provides a high level of cost and quality control.

- The CMAR was selected for the HSEB projects through the capital project selection committee process prescribed by the ABOR Procurement Code. Seven responses to the project Request for Qualifications (RFQ) were received and four of the responding teams were short-listed for interview. A licensed contractor from the community was included on the selection committee as required by Board Policy. The design team was selected through a similar ABOR process, and four teams were interviewed out of fifteen RFQ responses received.

Project Status and Schedule:

- Conceptual design is underway. This project would start the Design Development Phase in June with the start of building construction intended to begin late 2013.
- Project construction would be completed in July 2014 with building occupancy to occur in Fall-2014.

Project Cost:

- The total project budget is $17,900,000 with a construction cost of $13,183,000.
- The total project cost for the University of Arizona is $9.8 million with a construction cost of $7,250,000.
- The total project cost for Northern Arizona University is $8.1 million with a construction cost of $5,933,000.

Fiscal Impact and Financing Plan:

- The project will be financed by each University issuing SPEED revenue bonds for its respective portion of the project costs.

- The UA intends to finance $9.8 million for the HSEB Shell Space project issuing one or more series of SPEED Revenue Bonds. The Bonds will be secured by and payable from monies deposited to the SPEED Fund, which is administered by the Board. The debt service on the Bonds will be funded up to 80% by the State lottery revenue allocations and not less than 20% by University funds. Based on the anticipated interest rate (as of March 2013) of 3.20%, the debt service payments are presently estimated at $420,000 per year for approximately the first two years as interest only payments (of which at least $84,000 will be paid by the University as its 20% share of the annual debt service) and approximately $720,000 per year for the remaining 18 years of full principal and interest payments (of which at least $144,000 is the University's 20% share). The operating and maintenance (O&M) cost associated with the HSEB Shell Space project is estimated to be $306,000. The University plans to use Tuition funds to pay for O&M cost.

- **Debt Ratio Impact UA:** Debt Ratio Impact: Pursuant to ARS 15-1683, debt service relating to SPEED project financing is exempt from the debt ratio calculation. However, if the debt service on the SPEED Revenue Bonds issued by the University was included in the ratio calculation, the University's debt ratio would increase by .02%. The projected highest debt ratio would be 5.89%.

- NAU intends to finance $8.2 million for the HSEB Shell Space project issuing one or more series of SPEED Revenue Bonds. The Bonds will be secured by and payable from monies deposited to the SPEED Fund, which is administered by the Board. The debt service on the Bonds will be funded up to 80% by the State lottery revenue allocations and not less than 20% by University funds. Based on the anticipated interest rate (as of March 2013) of 3.65%, the debt service payments are presently estimated at $397,000 for the first year and approximately $351,400 per year for the next two years as interest only payments (of which at least $79,400 will be paid by the University as its 20% share of the annual debt service for the first year and $70,280 for years 2 and 3) and approximately $656,000 per year for the remaining 16 years of full principal and interest payments (of which at least $131,200 is the University's 20% share). The operating and maintenance (O&M) cost associated with the HSEB Shell Space project is estimated to be $161,800. The University plans to use Tuition and or local funds to pay for O&M cost.

- **Debt Ratio Impact NAU:** Debt Ratio Impact: Pursuant to ARS 15-1683, debt service relating to SPEED project financing is exempt from the debt ratio calculation. However, if the debt service on the SPEED Revenue Bonds issued by the University was included in the ratio calculation, the University's debt ratio would increase by .15%. The projected highest debt ratio would be 7.5%.

Occupancy Plan:

- The University of Arizona and Northern Arizona University have collaborated to open the Health Sciences Education Building. After about 8 months of providing education to the larger COM class, the first NAU Physician Assistant class, and the first NAU Physical Therapy-Phoenix class, it is now necessary to complete the shell spaces to assist in the growth of these programs as well as the introduction of the Occupational Therapy program. The Universities have outlined the build-out of space necessary to meet the academic needs of a growing population of students on this campus and new programs such as the NAU Occupational Therapy program.

- The built-out space will include an expansion of the existing Simulation Center to serve medical students, first responders, and increased class sizes in the Physical Therapy and Physician Assistants programs.

- This project will bring in new and increased resources as training for first responders in the Phoenix metro area will be charged on a fee basis.

Recommendation:

That the Business and Finance Committee grant Project Approval for the Health Sciences Education Building (HSEB)-Phoenix Finish Shell Space project as presented in this Executive Summary.

<u>Capital Project Information Summary</u>

EXECUTIVE SUMMARY

University: The University of Arizona **Project Name:** Health Sciences Education Building-(HSEB)-Phoenix -Finish Shell Space

Project Description and Location:

This project will provide the build-out of 47,465 square feet of the existing Health Sciences Education Building at the University of Arizona College of Medicine-Phoenix campus. The build-out space will include an expanded Simulation Center on the 3rd and 4th floor, office and administrative support space on the 5th floor, a Wet Lab, a Lecture Hall, Learning Studio and classroom.

Project Schedule:

Planning	January 2013
Design	March 2013
Construction	November 2013
Occupancy	August 2013

Project Budget:

Total Project Cost	$17,900,000
Total Project Cost per GSF	$377
Direct Construction Cost – New	$13,183,000
Construction Cost per GSF - New	$278
Change in Annual Operation & Maintenance Cost	
• Utilities	$190,000
• Personnel	$135,000
• Other	$102,000

Funding Sources:

Capital:	
• SPEED Revenue Bonds	
– State Lottery Revenue allocations	$14,320,000
– Tuition	$ 3,580,000
TOTAL	$17,900,000

Operation/Maintenance

• General Fund Appropriation	$427,000

Capital Project Budget Summary

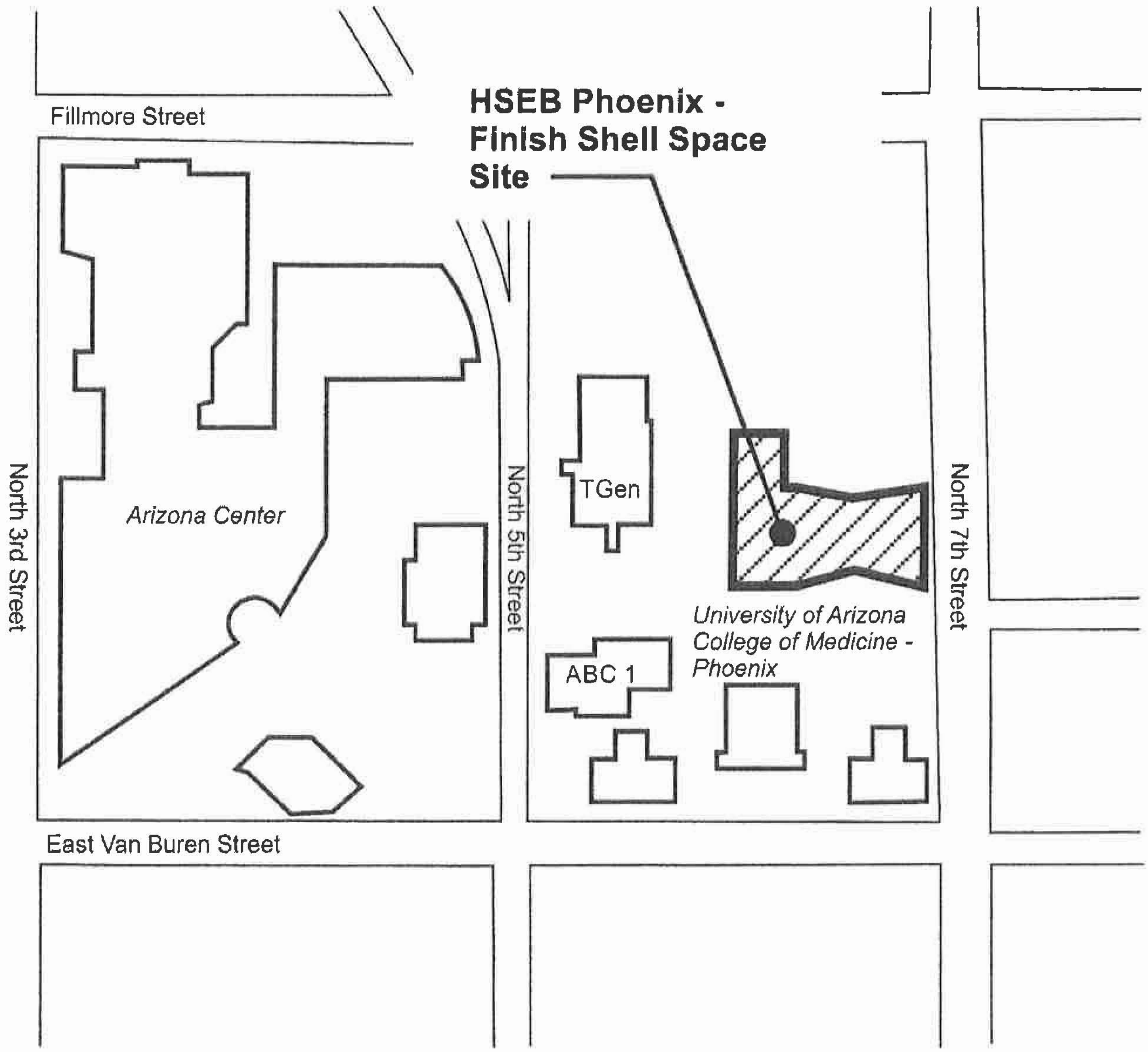
EXECUTIVE SUMMARY

University: The University of Arizona **Project Name:** Health Sciences Education Building-(HSEB)-Phoenix-Finish Shell Space

	Project Approval
Date of Budget Estimate	March 2013
1. Land Acquisition	$
2. Construction Cost	12,783,000
A. New Construction	
B. Renovation	
C. Fixed Equipment (Owner-Furnished)	400,000
D. Site Development (exclude 2.E.)	
E. Parking & Landscaping	
F. Utilities Extensions	
G. Other	
Subtotal Construction Cost	$ 13,183,000
3. Consultant Fees	
A. Construction Manager	91,000
B. Architect/Engineering Fees	1,022,000
C.	
Subtotal Consultant Fees	$ 1,113,000
4. Furniture Fixtures and Equipment	2,000,000
5. Contingency, Design Phase	358,000
6. Contingency, Construction Phase	540,000
7. Parking Reserve	
8. Telecommunications Equipment	400,000
Subtotal Items 4-8	$ 3,298,000
9. Additional University Costs	
A. Surveys and Tests	20,000
B. Move-in Costs	
C. Public Art	
D. Printing/Advertisement	6,000
E. Univ. Facilities & Project Management	200,000
F. State Risk Mgt. Ins	100,000
Subtotal Additional University Costs	$ 306,000
TOTAL CAPITAL COST	$ 17,900,000

Project Site Location Map

EXECUTIVE SUMMARY



BOND DEBT SERVICE

NORTHERN ARIZONA UNIVERSITY
SPEED Revenue Bonds
Series 2013

Preliminary: March 6, 2013

Period Ending	Principal	Coupon	Interest	Debt Service
08/01/2014			345,390.38	345,390.38
08/01/2015			305,505.00	305,505.00
08/01/2016			305,505.00	305,505.00
08/01/2017	365,000	3.650%	305,505.00	670,505.00
08/01/2018	375,000	3.650%	292,182.50	667,182.50
08/01/2019	390,000	3.650%	278,495.00	668,495.00
08/01/2020	405,000	3.650%	264,260.00	669,260.00
08/01/2021	420,000	3.650%	249,477.50	669,477.50
08/01/2022	435,000	3.650%	234,147.50	669,147.50
08/01/2023	450,000	3.650%	218,270.00	668,270.00
08/01/2024	470,000	3.650%	201,845.00	671,845.00
08/01/2025	485,000	3.650%	184,690.00	669,690.00
08/01/2026	505,000	3.650%	166,987.50	671,987.50
08/01/2027	520,000	3.650%	148,555.00	668,555.00
08/01/2028	540,000	3.650%	129,575.00	669,575.00
08/01/2029	560,000	3.650%	109,865.00	669,865.00
08/01/2030	580,000	3.650%	89,425.00	669,425.00
08/01/2031	600,000	3.650%	68,255.00	668,255.00
08/01/2032	625,000	3.650%	46,355.00	671,355.00
08/01/2033	645,000	3.650%	23,542.50	668,542.50
	8,370,000		3,967,832.88	12,337,832.88

Item Name: Authorization for Issuance of SPEED Revenue Bonds to Finance the Health Science Education (HSEB) Shell Space Project (NAU)

☒ Action Item ☐ Discussion Item ☐ Information Item

Issue: Northern Arizona University requests Board authorization (a) to sell one or more series of SPEED Revenue Bonds to finance (1) not to exceed $8.2 million for the cost of constructing the HSEB Shell Space project; (2) not to exceed $165,000 of costs of issuance; and (3) payments to a bond insurer or other credit enhancer provided such payments provide value exceeding the amount of such payments; (b) to sell such Bonds at a price at, above or below par at fixed rates of interest; and (c) to take related actions and enter into necessary agreements and execute all necessary documents including those related to bond insurance or other credit enhancement agreements, contingent on the University receiving JCCR review.

Previous Board Actions:	Revised NAU Capital Development Plan	December 2012
	SPEED Re-approval	September 2009
	SPEED Projects Allocation UA and NAU	July 2008

Statutory/Policy Requirements:

- ABOR Policy 7-102D: Requires Business and Finance Committee review and Board approval of all debt financing, including bonds, lease-purchases, and certificates of participation.

- ABOR Policy 3-501: Requires that matters relating to revenue bonds, including issuance, sale, appointment of bond counsel, appointment of financial consultant, appointment of trustee, and all other incidents connected with revenue bonds shall be presented for Board action.

- Arizona Revised Statutes Section 15-1682.03 establishes the University Capital Improvement and Lease-to-Own and Bond Fund, funded by up to 80% from State Lottery revenues and at least 20% from the universities.

Background:

In conjunction with the Stimulus Package for Economic and Educational Development (SPEED) initiative, Northern Arizona University (NAU) requests authority to sell SPEED Revenue Bonds (SPEED Bonds) in an amount sufficient to finance the HSEB Shell Space project (the "Project") and the related costs of issuance, including any beneficial credit enhancement, and to take all related actions and enter into all necessary agreements related to the SPEED Bonds. The SPEED Bonds will be secured by and payable from the University Capital Improvement Lease-to-Own and Bond Fund (the "SPEED Fund") established by Arizona Revised Statutes Section 15-1682.03, pursuant to which up to 80% of the annual debt service payments for the SPEED

Bonds are to be provided from revenues generated by the State's lottery and not less than 20% from amounts annually budgeted and provided by the Board from NAU's revenues, all of which are deposited into the SPEED Fund. In order to provide additional security and credit support to be able to sell the SPEED Bonds to investors, the SPEED Bonds will be further secured by a subordinate lien on NAU's gross system revenues pledged to its System Revenue Bonds. This financing structure has been used on all prior SPEED Bond financings by each of the universities.

Projects to be Financed:

The original HSEB project was submitted for PA approval at the Arizona Board of Regents Business and Finance meeting in November 2009. The proceeds of the SPEED Bonds will be used to finance the HSEB Shell Space project with an estimated cost of $8.2 million. This project, in conjunction with the University of Arizona, will entail the build-out of 15,211 square feet of the existing Health Sciences Education Building at the University of Arizona College of Medicine-Phoenix campus. The built-out space will include classroom space on the 1st floor, a Simulation Center on the 3rd floor and office and administrative support space on the 5th floor. The University of Arizona has submitted a separate SPEED financing authorization for their portion of the HSEB project.

The project is expected to be reviewed at the next JCCR meeting. This project will not be financed until JCCR review has been completed.

Financing Approach and Structure:

- The SPEED Bond funding mechanism provides monies for 100% of the annual debt service payments on the SPEED Bonds. However, in order to obtain an investment grade rating on the SPEED Bonds, as well as to be able to attract investors willing to purchase the SPEED Bonds, additional security must be provided. To accomplish this, the Bond Resolution provides that the SPEED Bonds are further secured by and payable from a subordinate lien on NAU's gross system revenues in the event funding from the SPEED Fund is insufficient to make debt service payments. The lien on the gross system revenues as security for the SPEED Bonds is subordinate to the lien on the revenues securing NAU's existing and future System Revenue Bonds.

- Given current market conditions, including low long-term interest rates and the cost of credit and liquidity facilities in the short-term variable rate markets, NAU anticipates selling fixed rate Bonds for this issue with interest-only payments through FY 2016 (similar to prior SPEED Bond financings) and approximately level annual debt service thereafter, over an approximately 20-year financing term (final maturity of August 1, 2033).

- NAU will evaluate bond insurance from any viable bond insurer available in the market at the time of sale. The final decision as to whether insurance will be used for the bond issue will be a function of market conditions and the bond insurer's ratings at the time of pricing the SPEED Bonds. Bond insurance will only be used if the insurance provides demonstrated economic benefit to NAU, as required by federal tax law.

- Based on current municipal bond market conditions and the proposed amortization structure for the SPEED Bonds (which reflects an average maturity life of 13.3 years), NAU's financial advisor estimates the SPEED Bonds would sell at an overall true interest cost of approximately 3.65% percent. NAU will proceed with the issuance of the SPEED Bonds and financing of the Project only if the overall true interest cost of the issue is no more than 6.0% per annum. Based on the estimated 3.65% true interest cost, the estimated annual debt service requirement for the SPEED Bonds in fiscal years 2014 through 2016 (interest only period) is in the $350,000 to $400,000 range, and fiscal years 2017 through 2033 (principal and interest payments) are estimated at approximately $655,000 per year.

- Pursuant to Arizona law, the SPEED Bonds are exempt from the statutory debt ratio requirement. NAU's total existing debt service on bond and certificates of participation as a percentage of total expenditures is 5.8%. (FY12 Debt Capacity report). If both the existing and this proposed SPEED Bond debt service is included in the debt ratio, the ratio including SPEED would be 7.50% overall, still below the 8.0% statutory limit. As noted there is no impact on the non-SPEED statutory debt ratio.

- The following financing parameters would apply to the sale of the SPEED Bonds and be set forth in the Bond Resolution:

  The maximum interest rate at which the SPEED Bonds are authorized to be sold is a true interest cost of 6.0 percent.

  The maximum financing period for the SPEED Bonds is August 1, 2033, approximately 20 years from their date of issuance.

- NAU will utilize its current financial advisor, RBC Capital Markets, LLC, its current bond counsel, Ballard Spahr LLP, and a bond trustee previously approved by the Board. The SPEED Bonds will be marketed and sold on a negotiated basis to one or more investment banking firms.

- NAU may enter into various agreements in connection with the Bonds, such as bond insurance or other credit enhancement agreements to lower the net borrowing costs, a reserve fund surety agreement, if needed to market the Bonds, and a liquidity facility or letter of credit agreement in the event any portion of the Bonds are sold on a variable rate basis.

Pricing Parameters		**Comments**
Project Cost	$8,200,000	Not-to-exceed amount
Issuance Costs	$165,000	Not-to-exceed amount
Credit Enhancement Cost beneficial	TBD	Only executed if economically
Interest Rate of 03/06/13/not to exceed)	3.65%/6.00%	Not to exceed based on maximum NAU is (as willing to pay
Maturity Range	2017-2033	Interest only through FY 2015
Average Maturity Length	13.3 years	
Estimated Debt Service, 2014	$400,000	Based on 3.65% estimated rate
Estimated Debt Service, 2015-2016	$352,000	Based on 3.60% estimated rate

Estimated Ave. Debt Service, 2017 -2033	$655,000	Based on 3.60% estimated rate

Recommendation:
That the Committee recommend to ABOR authorizing the issuance of one or more series of SPEED Revenue Bonds for NAU to finance:

1) not-to-exceed $8.2 million of costs associated with the Project (with authorization limited to JCCR reviewed projects without changes in scope or budget that would require additional Board approval);
2) not-to-exceed $165,000 for costs of issuance; and
3) payments to a bond insurer or other credit enhancer if such payments provide a benefit that exceeds the amount of such payments.

The SPEED Bonds are authorized to be secured by and payable from monies deposited to the University Capital Improvement Lease-to-Own and Bond Fund established by Arizona Revised Statutes Section 15-1682.03 and by a subordinate lien on NAU's gross system revenues that are pledged to its system revenue bonds in the event payments from the SPEED Fund are insufficient. NAU would be further authorized to sell the SPEED Bonds at a price at, above or below par, and at fixed or variable rates of interest and at a true interest cost not to exceed 6.00%; to take related actions; and to enter into necessary agreements, including those related to bond insurance or other credit enhancement and liquidity facility or letter of credit agreements, all as more fully provided in a supplemental Bond Resolution reviewed by Board Counsel.

THE UNIVERSITY OF ARIZONA.

Office of the Senior Vice President
for Business Affairs

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March 7, 2013

RECEIVED
MAR 14 2013
JOINT BUDGET COMMITTEE

The Honorable John Kavanagh, Chairman
Joint Committee on Capital Review
House of Representatives
1700 West Washington
Phoenix, AZ 85007

Dear Representative Kavanagh,

In accordance with ARS 15-1683, the Arizona Board of Regents (ABOR) requests that the following bond-financed item for the University of Arizona be placed on the next Joint Committee on Capital Review agenda for review.

The University of Arizona Health Sciences Education Building-Phoenix Finish Shell Space

This project will build-out 34,000 square feet of existing shelled space within the Health Sciences Education Building (HSEB) at the University of Arizona, College of Medicine – Phoenix campus. The project cost is estimated at $9.8M and would be funded by SPEED Revenue Bonds. This critically needed build-out of existing shell space will include an expanded Simulation Center for triage, emergency room and operating room simulation utilizing advanced mannequin simulators which display actual physiological signs & symptoms of human patients affected by actual medical or trauma events.

Bond Summary

Health Sciences Education Building-Phoenix Finish Shell Space SPEED Revenue Bonds $ 9.8M

Enclosed is the detailed ABOR Project Finance submittal, Bond amortization schedule and financing information summary.

If you have any questions or desire any clarification on the enclosed material, please contact me at (520) 621-5977.

Sincerely,

Milton M. Castillo
Senior Vice President and Chief Executive Officer

Attachment: ABOR Project Finance submittal, Bond amortization schedule and financing information summary

xc: Richard Stavneak, Director, JCCR
Eileen Klein, President, Arizona Board of Regents
Lorenzo Martinez, Assistant Executive Director for Capital Resources, ABOR
Dr. Ann Weaver Hart, President, UA
J.C. Mutchler, Executive Director/Vice President, UA
Tim Bee, Associate Vice President for State Relations, UA
Robert Smith, Vice President for Business Affairs, UA
Mark McGurk, Associate Vice President/Comptroller, UA
Marge Zylla, Senior Fiscal Analyst, JCCR

EXECUTIVE SUMMARY

Item Name: Issuance of SPEED Revenue Bonds to finance the Health Science Education Building (HSEB) Shell Space project (UA).

☒ Action Item ☐ Discussion Item ☐ Information Item

Issue:	The University of Arizona seeks Board authorization (a) to sell one or more series of SPEED Revenue Bonds to produce sufficient proceeds to finance (1) not to exceed $9.8 million to fund the HSEB Shell Space project; (2) not to exceed $200,000 to pay costs of issuance; and (3) payments to a bond insurer or other credit enhancer provided that such payments provide a benefit that exceeds the amount of such payments; (b) to pledge System Revenues of the University to the Bonds, such pledge being subordinate to the pledge securing existing System Revenue Bonds; (c) to sell such Bonds at a price at, above or below par; and (d) to take related actions and enter into necessary agreements and execute all necessary documents including those related to bond insurance or other credit enhancement agreements, contingent on the University receiving JCCR review.

Previous Board Actions:

FY 2013 UA Capital Development Plan (Information Item)	Dec. 2012
FY 2014-2016 Capital Improvement Plan	Sept. 2012
SPEED Projects Allocation:	July 2008

The UA will present this project to the JCCR for review prior to the sale of the SPEED Revenue Bonds.

Projects to be Financed:

- The proceeds of the SPEED Revenue Bonds will be used to finance the HSEB Shell Space project with an estimated cost of $9.8 million. This project will entail the build-out of 34,000 square feet of the existing Health Sciences Education Building at the University of Arizona College of Medicine-Phoenix campus. The built-out space will include an expanded Simulation Center on Floors 3 and 4 and office and administrative support space on the 5th floor. The Simulation Center incorporates triage, emergency room and operating room simulation that are used to identify and commence treatment and stabilization on simulated patients. High fidelity mannequin simulators display the actual physiological signs and symptoms of human patients affected by the actual medical or trauma events.

Contact Information:
Milton Castillo, Senior VP and CFO, (520) 621-5977, mcastillo@email.arizona.edu

EXECUTIVE SUMMARY

Statutory/Policy Requirements:

- Board Policy -102D requires Business and Finance Committee review and Board approval of all bond and Certificate of Participation financings.

- A.R.S. 15-1682.03 provides for the University Capital Improvement Lease-to-own and Bond Fund, which provides for the issuance of SPEED bonds for new facilities funded by up to 80% from the State Lottery and at least 20% from the universities.

Project Justification/Strategic Implications:

- The HSEB Shell Space project is necessary to provide additional space for the Simulation Center. A critical community component of the Simulation Center is training and certification for first responders and emergency medical professionals. Through the UA's Emergency Medicine Research Center, the UA is seen as a resource for training, education and the advancement of protocols for excellence in emergency care. Municipalities (through their fire departments and emergency response teams), rescue services, emergency and trauma rooms will benefit greatly by the existence of this resource. This center of excellence will provide additional instructional space to satisfy the demand for this service in the Phoenix area as well as the rest of the state. It will also allow the students of the UA College of Medicine - Phoenix to study with established healthcare professionals.

Background:

- In conjunction with the Stimulus Package for Economic and Educational Development (SPEED) initiative, the UA requests authority to sell SPEED Revenue Bonds in an amount to produce sufficient proceeds to finance the HSEB Shell Space project as outlined herein and the related costs of issuance, and to take all related actions and enter into all necessary agreements related to the bonds. The SPEED Bonds will be secured by and payable from the University Capital Improvement Lease-to-Own and Bond Fund (the "SPEED Fund") established by Arizona Revised Statute (ARS) 15-1682.03. Annually, through revenues generated by the three state universities, the Board of Regents is required to deposit funds to meet at least 20% of the annual debt service payments on each University's SPEED Bonds. Up to 80% of the total debt service payments are to be provided from revenues generated by the State's lottery as defined by ARS 5-522. In order to provide the necessary security and credit support to be able to sell the SPEED Bonds to investors, the UA's SPEED Bonds are further secured by a subordinate lien on the gross system revenues of the University that are pledged to its System Revenue Bonds.

EXECUTIVE SUMMARY

Fiscal and Financing Plan:

- The UA intends to combine the HSEB Shell Space project financing of $9.8 million with the Environment & Natural Resources Phase II project financing by issuing one or more series of SPEED Revenue Bonds. The Bonds will be secured by and payable from monies deposited to the SPEED Fund, which is administered by the Board. The debt service on the Bonds will be funded up to 80% by the State lottery revenue allocations and not less than 20% by University funds. Based on the anticipated interest rate (as of March 2013) of 3.20%, the debt service payments are presently estimated at $420,000 per year for approximately the first two years as interest only payments (of which at least $84,000 will be paid by the University as its 20% share of the annual debt service) and approximately $720,000 per year for the remaining 18 years of full principal and interest payments (of which at least $144,000 is the University's 20% share).

- Debt Ratio Impact: Pursuant to ARS 15-1683, debt service relating to SPEED project financing is exempt from the debt ratio calculation. However, if the debt service on the SPEED Revenue Bonds issued by the University was included in the ratio calculation, the University's debt ratio would increase by .02%. The projected highest debt ratio would be 5.89%. Currently the University's projected highest debt ratio excluding SPEED project is 5.27%. This ratio is well below the 8% ratio limit established by ABOR policy and state statute.

- The SPEED funding mechanism provides monies for not to exceed 100% of the annual debt service payments on the SPEED Revenue Bonds. However, in order to obtain an investment grade rating on the SPEED Revenue Bonds, as well as to be able to obtain investors willing to purchase the SPEED Revenue Bonds, additional security must be provided to create debt service coverage on the SPEED Revenue Bond payments. To accomplish that, the Board on behalf of the University has provided that the University's SPEED Bonds are further secured by and payable from a subordinate lien on the University's gross system revenues. The lien is subordinate to the pledge of these revenues that secures the University's existing and future System Revenue Bonds and on a parity with the subordinate pledge made for the payment of outstanding SPEED Bonds.

- While ratings have not yet been obtained on the SPEED Revenue Bonds to be issued, the expectation is that the SPEED Revenue Bonds will be rated at the same level as UA's existing SPEED Bonds, which is Aa3/AA- from Moody's and Standard & Poor's, respectively. The University will consider the use of bond insurance from any higher rated bond insurer, which would only be used if it would yield an overall lower borrowing cost after taking into consideration the cost of the insurance. The final decision as to whether insurance will be used will be a function of market conditions, and the bond insurer's ratings, at the actual time of pricing any series of the SPEED Revenue Bonds. Bond insurance will only be used in association with the sale of any of the SPEED Revenue Bonds if the insurance provides a demonstrated economic benefit to the University, as required to be certified to by the underwriter pursuant to federal law.

- Depending on market conditions at the time of any sale, the University will consider issuing the entire amount or a portion of the financing as either fixed or variable interest rate bonds. Given current low long-term interest rates and bank liquidity renewal risk associated with enhancing variable rate debt, it is likely the SPEED Revenue Bonds will be sold as fixed rate Bonds with approximately 20-year financing term and a final maturity in Calendar Year 2033. The University currently intends to structure any issue of SPEED Revenue Bonds with interest only payments for approximately the first two years (through FY 2015) to allow continued growth in lottery revenues. In FY 2016 and thereafter, the debt service on the SPEED Revenue Bonds is structured as approximately level annual debt service.

- Based on recent conditions in the municipal bond markets, the University estimates that the SPEED Revenue Bonds would sell in today's market at an overall true interest rate of 3.20%. The actual interest rate at which any series of SPEED Revenue Bonds will sell cannot be determined until any such Bonds are taken to market. The University will proceed with its SPEED Revenue Bond issuance if the overall true interest cost of the issue is no more than 5.00%.

- The University will be called upon to enter into various agreements in conjunction with the SPEED Revenue Bonds. These may include a bond insurance agreement (provided that it lowers the net borrowing cost as noted herein), a continuing disclosure agreement and a bond purchase agreement.

- The University intends to utilize a financial advisor, a bond counsel, and a bond trustee previously approved by the Board or under contract with the State of Arizona. The SPEED Revenue Bonds will be marketed and sold on a negotiated basis to one or more investment banking firms previously approved by the Board or under contract with the State of Arizona.

- The action being requested would authorize the University to execute the financing within the following parameters set by the Board.

Item		Comments
Project Costs	$9,800,000	Bond proceeds for project cost not to exceed
Issuance Costs (not to exceed)	$ 200,000	Not to Exceed

EXECUTIVE SUMMARY

Credit Enhancement/Insurance Cost	$TBD	Only executed if provides benefit that exceeds cost of insurance
Interest Rate (anticipated/not to exceed)	3.20%/ 5.00%	Not to exceed based on maximum Universities are willing to pay
Maturity Range	2016-2033	Different series of the issuance may have different maturity dates
Average Instrument Life	12.96 Years	Approximately 20 year financing period
Estimated Annual Debt Payment (Interest only through FY 2015)	$ 420,000	Interest only payments for approximately the first 2 years
Estimated Annual Debt Payment (Principal and interest beginning in FY 2016)	$ 720,000	Level debt service after approximately the first 2 years

Recommendation/Information to the Board:

Resolved: That The University of Arizona is authorized to sell one or more series of SPEED Revenue Bonds to produce sufficient proceeds to finance (1) not to exceed $9.8 million for paying the costs associated with the HSEB Shell Space project; (2) not to exceed $200,000 to pay costs of issuance; and (3) payments to a bond insurer or other credit enhancer provided that such payments provide an interest rate benefit that exceeds the amount of such payments. The SPEED Bonds issued by the University are authorized to be secured by and payable from monies deposited to the University Capital Improvement Lease-to-Own and Bond Fund established by Arizona Revised Statutes section 15-1682.03 and by a subordinate lien on the University's system revenues that are pledged to its system revenue bonds. The University is further authorized to sell the SPEED Bonds at a price at, above or below par and at a fixed or variable rate of interest; to take related actions; and to enter into necessary agreements and to execute all necessary documents including those related to bond insurance or other credit enhancement and derivative agreements, all as more fully provided in a resolution reviewed by Board Counsel.

Joint Committee on Capital Review
April 2013 JCCR Meeting
University of Arizona Project Submission

FINANCING INFORMATION:

Health Science Education Building (HSEB) Shell Space Project SPEED Revenue Bonds

Issuance amount (anticipated)	$8,385,000	
Bond Premium (anticipated)	$1,607,000	
Estimated Cost of Issuance	$ 200,000	
Assumed interest rate	3.20%	
Payment term:	20 years Approximately	
Fund Source for debt payment	State Lottery	80%
	Tuition	20%
Annual debt service (by fund source):		
Interest only FY2014	State Lottery	$ 392,000
	Tuition	$ 98,000
Interest only FY2015	State Lottery	$ 336,000
	Tuition	$84,000
Principal and interest FY2016-FY2033	State Lottery	$ 576,000
	Tuition	$144,000
Total debt service (by fund source)	State Lottery	$11,055,000
	Tuition	$ 2,764,000
Anticipate date of issuance	May 2013	
Expected bond rating	AA- (S & P) and Aa3 (Moody's)	

DEBT RATIO INFORMATION:

Current projecteddebt ratio	5.87%
Increment debt ratio	0.02%
Projected highest debt ratio	5.89%

Joint Committee on Capital Review
April 2013 JCCR Meeting
University of Arizona Projects Submission

Health Science Education Building (HSEB) Shell Space
SPEED Revenue Bonds
Amortization Schedule

Period Ending	Annual Principal	Annual Interest	Annual Debt Service
8/1/2014		$ 489,125	$489,125
8/1/2015		419,250	419,250
8/1/2016	$ 300,000	419,250	719,250
8/1/2017	315,000	404,250	719,250
8/1/2018	330,000	388,500	718,500
8/1/2019	345,000	372,000	717,000
8/1/2020	360,000	354,750	714,750
8/1/2021	380,000	336,750	716,750
8/1/2022	400,000	317,750	717,750
8/1/2023	420,000	297,750	717,750
8/1/2024	440,000	276,750	716,750
8/1/2025	460,000	254,750	714,750
8/1/2026	485,000	231,750	716,750
8/1/2027	510,000	207,500	717,500
8/1/2028	535,000	182,000	717,000
8/1/2029	560,000	155,250	715,250
8/1/2030	590,000	127,250	717,250
8/1/2031	620,000	97,750	717,750
8/1/2032	650,000	66,750	716,750
8/1/2033	685,000	34,250	719,250
	$8,385,000	**$5,433,375**	**$13,818,375**

STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

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CHAIRMAN 2013
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LEAH LANDRUM TAYLOR
JOHN McCOMISH
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HOUSE OF
REPRESENTATIVES

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CHAIRMAN 2014
LELA ALSTON
CHAD CAMPBELL
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DAVID GOWAN, SR.
RICK GRAY
ANDREW C. SHERWOOD

DATE: March 26, 2013

TO: Senator Don Shooter, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director RS

FROM: Art Smith, Senior Fiscal Analyst AS

SUBJECT: Northern Arizona University - Review of Science and Health Building Bond Project

Request

A.R.S. § 15-1683 requires Committee review of any university projects financed with University Lottery revenue bonds. Northern Arizona University (NAU) requests Committee review of a $72.6 million bond issuance to fund construction of a Science and Health Building that would house classrooms, lecture halls and teaching and research laboratories on the Flagstaff campus.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the Science and Health Building.

2. An unfavorable review of the Science and Health Building.

Under either option, the JLBC Staff recommends 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 schedules for the projects as soon as they are available.

(Continued)

Analysis

The $72.6 million bond issuance would fund new construction of a 120,000 gross square foot building to house classrooms, lecture halls and teaching and research laboratories.

Financing

NAU plans on issuing the $72.6 million bond, which includes estimated issuance costs of $700,000, in spring 2013. The bond rating is expected to be A2 (Moody's)/A (S&P) at a maximum interest rate of 4.5% for a term of 35 years. The university expects interest-only debt service payments of $544,500 in FY 2013 and $3.3 million in FY 2014 through FY 2016 followed by annual payments of about $4.3 million over the remaining 32 years of the bond's term. The total cost over the 35-year term for the issuance is expected to be $148.7 million. Under permanent law, the annual Lottery bond debt service payments are to be paid from up to 80% Lottery revenues and at least 20% state university system revenues. Lottery revenues are projected to be sufficient to cover the full 80% of both these new debt obligations and the University of Arizona (UA) and NAU Phoenix Biomedical Campus bond request in the separate agenda item.

Construction Costs

NAU plans to begin construction in May 2013. Construction of the building would be completed in April 2015 and occupancy would occur in August 2015.

Direct construction costs are $52.3 million, or $436 per square foot. At its December 2012 meeting, the Committee reviewed a UA project for new classroom and laboratory space that had a direct construction cost per square foot of $314. At its November 2009 meeting, the Committee favorably reviewed the Arizona State University Interdisciplinary Science and Technology Building 4, which included lab space, offices and classrooms and had a cost per square foot of $378. NAU states that the cost per square foot for the proposed project is below the College and Planning Management Magazine's 2013 College Construction Report, which showed a median square foot cost for science buildings of $509. NAU has also stated that the cost per square foot of the proposed Science and Health Building is in line with costs of NAU, ASU and UA science buildings constructed in 2004 and 2005.

University Lottery Bond Projects

Permanent law authorizes ABOR to enter into lease-to-own and bond transactions up to a maximum of $800.0 million to pay for building renewal projects and new facilities. NAU has been allocated $136.0 million. At this time, NAU has $71.2 million of its $136.0 million building renewal/new facilities allocation remaining and is now requesting to issue $72.6 million for the project under review. NAU plans to issue to the maximum of the remaining lottery bonding authority. If the final bond project exceeds that bonding limit, NAU will use cash reserves to address the difference.

Debt Ratio

A.R.S. § 15-1683 allows each state university to incur a projected annual debt service for bonds and certificates of participation of up to 8% of each institution's total projected annual expenditures. This calculation is known as the debt ratio. NAU's current debt ratio is 5.8%. Laws 2008, Chapter 287 exempts the $800.0 million in University Lottery bonds from a university's debt calculation. If this bond were to be included, it would increase the NAU debt ratio by 0.96%. If this bond and NAU's other lottery bonds were included, NAU would have a debt ratio of 7.35% overall.

RS:AS:ts

NORTHERN ARIZONA UNIVERSITY

Office of the Vice President
for Finance & Administration

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RECEIVED
FEB 13 2013
JOINT BUDGET COMMITTEE

February 11, 2013

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

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

Dear Senator Shooter:

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

- Northern Arizona University's Science and Health Building financing project.

The Arizona Board of Regents Capital and Finance Committee recommended approval to the full Board at its meeting held on February 6, 2013. The full Board of Regents approved this project at its meeting on February 7, 2013. We request that the JCCR review this project at your next scheduled meeting. The Business and Finance Committee project approval submittal (Attachment A), debt service schedule (Attachment B) and a funding plan (Attachment C) provides the required information and are attached for your review.

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
Vice President for Finance and Administration

Attachments

.cc: Richard Stavneak, JLBC Director
Marge Zylla, JLBC Analyst
Eileen Klein, ABOR President
Lorenzo Martinez, ABOR Associate Vice President,
Christy Farley, NAU Vice President
MJ McMahon, NAU Executive Vice President
Laura Huenneke, NAU Provost
Robert Norton, NAU Associate Vice President
John Haeger, NAU President

EXECUTIVE SUMMARY

Item Name: Sciences and Health Building Project Approval (NAU)

☒ Action Item ☐ Discussion Item ☐ Information Item

Issue: Northern Arizona University requests Project Approval of the new Sciences and Health Building. The 120,000 square foot, $71.9 million capital project will be financed with SPEED revenue bonds and the debt service will be paid over 35 years from State lottery funds and university (TRIF) funds.

Previous Board Actions:

Amended FY 2012 Capital Development Plan	November 2011
FY 2012 Capital Development Plan	June 2011
Amended FY 2011 Capital Development Plan	December 2010
Capital Improvement Plan	September 2010
SPEED Projects Allocation	July 2008

Statutory / Policy Requirements:

- Pursuant to Arizona Board of Regents Policy Chapter 7-102, all capital projects with an estimated total project cost of $5 million or more for renovation or infrastructure projects, or $10 million or more for new construction or information technology projects shall be brought to the Business and Finance Committee for approval regardless of funding source or financing.

Project Justification/Strategic Implications/Project Compliance with Mission, Strategic Plan, Master Plan and Community Input Process:

- This project is consistent with the Arizona Higher Education Enterprise Plan, the University Master Plan, the University Strategic Plan and Mission. As a university committed to its goals of providing excellence in undergraduate education, strengthening graduate education and research, and increasing enrollment and retention of students, this project directly focuses upon providing high-quality environments that facilitate achievement of these goals.

- One of the master plan guiding principles identifies improved quality and functionality of campus facilities. Due to obsolescence and code deficiencies that are prohibitive factors to renovating the existing 45-year-old Chemistry laboratory building, new construction addresses increasing student enrollments and provides critical learning and research environments for science and health programs. Increasing research and educational excellence is a focus of the Arizona Higher Education Enterprise Plan.

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- Research revenues must nearly double for the University to reach its goals and metrics for Research and Educational Excellence in the Enterprise Plan. To facilitate performance and research opportunities at NAU as a High Research institution, functional laboratories and facilities must be available. Students, faculty and research activities are all constrained by poorly functioning facilities. It is not feasible that this goal can be achieved in the existing chemistry facility with its inoperable and obsolete mechanical systems and equipment.

- Increasing enrollments at NAU have led to a shortage in undergraduate laboratory space. As a consequence of the University's overall growth, and the particular concentration of growth in science-intensive curricula, laboratory sections have increased 85% and the number of students majoring in those disciplines has increased 110% over the last few years. Enrollments continue to outpace available laboratory space. This facility will provide quality space to meet the unprecedented demands for science classes.

- The University is focused upon strengthening the first-year and second-year academic experience as a foundation for high achievement and student retention. Learning environments are critical components to that goal. Both the University Master Plan and the University Strategic Plan promote quality student learning environments that facilitate student integration into the campus community. Student retention and recruitment are inherently linked with the quality of facilities.

Project Description/Scope/Compliance with Space Standards:

- This project includes construction of approximately 120,000 square feet of flexible teaching and research laboratories, and classrooms and lecture halls for chemistry. A key component of this project includes a new central chemical distribution facility for improved environmental and safety controls. The new building is planned to be the pivotal scientific center of the scientific quad.

- Space in the Science and Health building will replace obsolete and poorly functioning, or non-functioning, instructional and research laboratories in Building 20, Chemistry. The Chemistry laboratories were constructed in the early 1960's and renovation of these laboratories to meet current building and life safety code requirements for wet lab spaces would be technically prohibitive and not financially feasible. Critical code issues have been identified in the existing wet laboratories in Building 20, resulting in the closure of several teaching laboratories.

- As an infill project on north campus, the project site is a designated location consistent with the approved Master Plan and a unified scientific complex which includes the Science Laboratory Facility. This location will facilitate the transition from the north-south pedway onto the newly improved historic North Quad. The site's existing infrastructure provides ease of connection to existing campus utility systems and will provide opportunities to upgrade some aging tunnels during construction.

- The project will be designed in accordance with university design standards and will be constructed of high quality, maintainable materials and building systems to maximize energy efficiency and minimize operational, repair, and replacement costs. Due to the project's location near the University's historic quad, material selections will be complementary of the unique historical character.

- In an effort to demonstrate the university's commitment to responsible, sustainable design and in response to the Governor's mandate that facilities be designed in a sustainable manner, this project will incorporate sustainable materials and practices wherever possible.

- All applicable spaces within the Science and Health Building will comply with the ABOR space guidelines.

Additional Project Considerations:

- The existing Chemistry Building will be demolished if repurposing cannot be accomplished in a financially responsible manner. The 1960's Chemistry Building is designated a *red* building based upon its facility condition index. Adaptive re-use of the laboratories as classrooms was recently assessed in a complete building audit by an outside consultant. The assessment identified that the existing facility lacks any insulation between the brick and steel structure, and requires a new window system, roofing system and mechanical system. Senior administration continues to review the assessment and potential backfill options.

Project Delivery Method and Process:

- Selection of the Design Professional and Construction Manager at Risk (CMAR) is complete. The CMAR was selected through the capital project selection committee process prescribed by the ABOR Procurement Code. A licensed contractor was included on the selection committee as required by ABOR policy.

- This approach was selected because it can save time through fast-track project scheduling, it provides contractor design input and coordination throughout the project, it improves potentially adversarial project environments, and it allows for the selection of the most qualified contractor team for each individual project. With the use of two independent estimates, qualification selection and low bid subcontractor work for the actual construction, this method also provides a high level of cost and quality control.

Project Status and Schedule:

- Project construction is anticipated to start by May 2013, and after JCCR review.
- Project construction would be completed by April 2015, with building occupancy and student usage to occur August 2015.
- A GMP has been negotiated based upon the most current construction documents. A recent corroborating estimate from a third-party is within 0.4% of the current GMP for construction.

Project Costs:

- The Science and Health construction project has an estimated total budget of $71.9 million. Funding for the construction includes $71.9 million in SPEED bonds. The debt service will be funded by TRIF and lottery proceeds.

Fiscal Impact and Financing Plan:

- The project funding will be lottery backed revenue bonds. The University portion of the debt service would be funded from TRIF.
- Debt Ratio Impact: The incremental debt ratio for this project would be .96%. The projected highest debt ratio is 5.8% excluding SPEED and 7.35% including SPEED. The projected highest debt ratio of 5.8% excluding SPEED remains well below the 8 percent ratio limit established by ABOR policy and state statute.

Recommendation:
That the Business and Finance Committee provide Project Approval for the Northern Arizona University Sciences and Health Building project, as presented in this Executive Summary.

EXECUTIVE SUMMARY

Capital Project Information Summary

University: Northern Arizona University

Project Name: Science and Health Building

Project Description and Location:
The project is new construction of a 120,000 square feet research and teaching laboratory on north campus.

Project Schedule:

Planning	Winter 2010
Design Start	January 2011
Construction Start	May 2013
Occupancy	August 2015

Project Budget:

Facility Useful Life		50-75 years	(approximately)
Total Project Cost	$	71,900,000	
Total Project Cost per sq ft	$	599	
Direct Construction Cost	$	52,300,000	
Construction Cost per sq ft	$	435	

Change in Annual Operating/Maintenance Costs:

Utilities – New Square Footage	$	360,000
Personnel	$	210,000
All Other Operating	$	225,000
Subtotal	$	795,000

Funding Sources:
Capital:

• Gifts	$	
• Lottery Revenue Bonds	$	71,900,000
• Local Funds	$	
Subtotal	$	71,900,000

Operation/Maintenance:
A. Funding Source: General University Funds

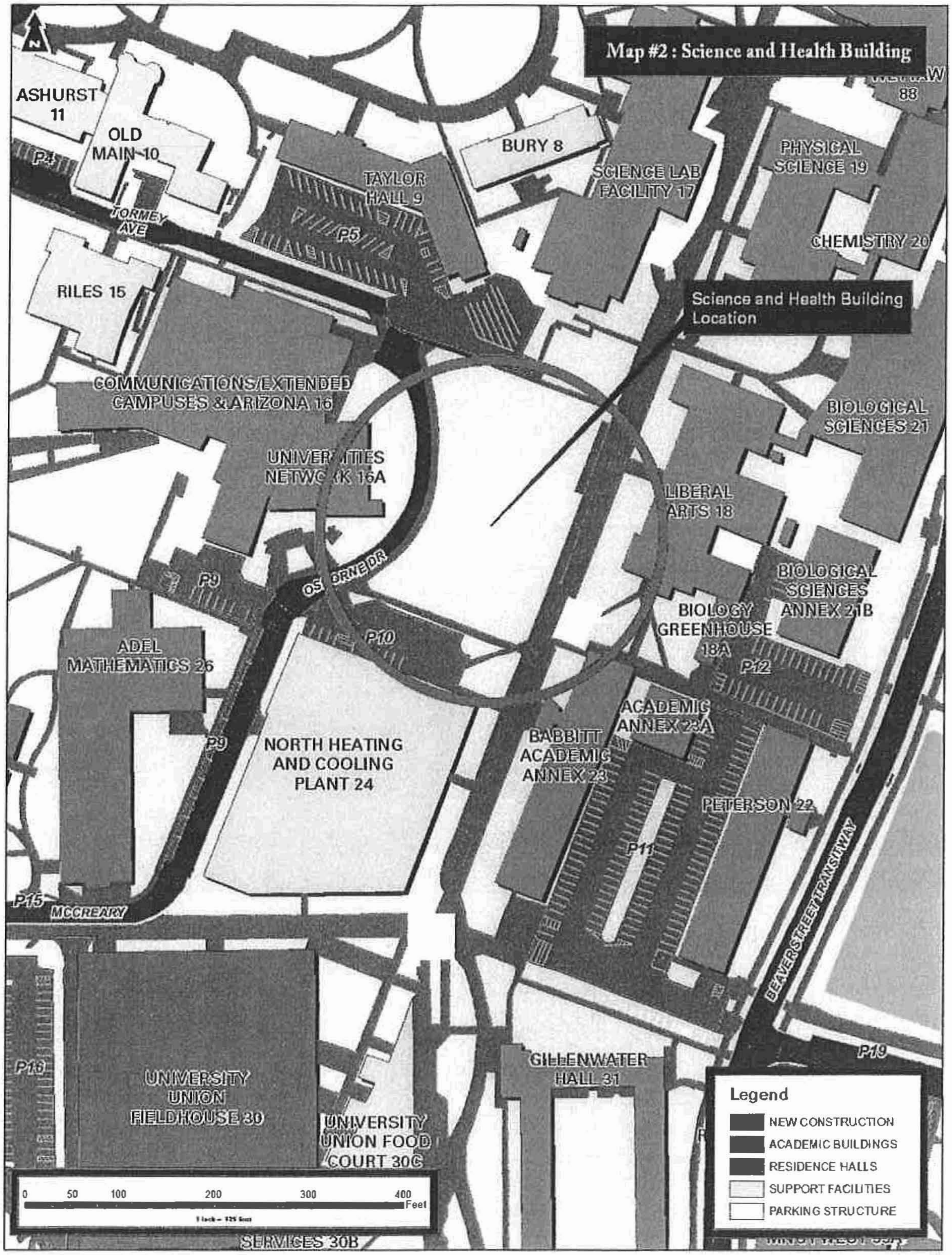
Capital Project Cost Estimate

University: Northern Arizona University **Project:** Science and Health Building

	Project Approval
Capital Costs	
1. Land Acquisition	$ -
2. Construction Cost	52,300,000
A. New Construction	
B. Renovation	-
C. Fixed Equipment (Owner Furnished)	-
D. Site Development (excl. 2.E.)	-
E. Parking and Landscaping	-
F. Utilities Extensions	-
G. Other (Solar Panels)	
G. Inflation and Market Adjustment	-
Subtotal Construction Cost	$ 52,300,000
3. Fees	
A. Construction Mgr	$ 425,000
B. Architect/Engineer	5,500,000
C. Other	400,000
Subtotal Consultant Fees	$ 6,325,000
4. FF&E Movable	$ 5,050,000
5. Contingency, Design Phase	270,000
6. Contingency, Construction Phase	3,900,000
7. Parking Reserve	15,000
8. Telecommunications/Security Equip	294,358
Subtotal Items 4-8	$ 9,529,358
9. Additional University Costs	
A. Surveys, Tests, Inspections, etc.	$ 1,050,000
B. Move-in Costs	150,000
C. Printing Advertisement	150,890
D. 3rd Party Estimate, Audit	88,521
E. Project Management Cost	2,094,175
F. State Risk Mgmt Insurance	212,056
Subtotal Additional University Costs	$ 3,745,642
TOTAL CAPITAL COST	$ 71,900,000

EXECUTIVE SUMMARY

Project Site Location



EXECUTIVE SUMMARY

Item Name: Issuance of SPEED Revenue Bonds to Finance the Sciences and Health Building Project (NAU)

☒ Action Item ☐ Discussion Item ☐ Information Item

Issue: Northern Arizona University requests Board approval to issue up to $72.6 million in SPEED revenue bonds to finance $71.9 million for construction of the Sciences and Health Building, and up to $700,000 for issuance related costs.

Previous Board Actions:

Amended FY 2012 Capital Development Plan	November 2011
FY 2012 Capital Development Plan	June 2011
Amended FY 2011 Capital Development Plan	December 2010
Capital Improvement Plan	September 2010
SPEED Projects Allocation	July 2008

Statutory/Policy Requirements:

- Board Policy 7-102D requires Business and Finance Committee review and Board approval of all debt financings, including bonds, lease-purchases, and certificates of participation.

- Board Policy 3-501 requires that matters relating to revenue bonds, including issuance, sale, appointment of bond counsel, appointment of financial consultant, appointment of trustee, and all other incidents connected with revenue bonds shall be presented for Board action.

- Arizona Revised Statutes Section 15-1682.03 establishes the University Capital Improvement Lease-to-Own and Bond Fund, which provides for the issuance of SPEED bonds for new facilities funded by up to 80% from State Lottery revenues and at least 20% from the universities.

Background:

- In conjunction with the Stimulus Package for Economic and Educational Development (SPEED) initiative, Northern Arizona University (NAU) requests authority to sell SPEED Revenue Bonds in an amount sufficient to finance the Science and Health Project (the "Project") and the related costs of issuance, including any beneficial credit enhancement, and to take all related actions and enter into all necessary agreements related to the SPEED Revenue Bonds. The SPEED Revenue Bonds will be secured by and payable from the

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University Capital Improvement Lease-to-Own and Bond Fund (the "SPEED Fund") established by Arizona Revised Statute (ARS) Section15-1682.03 pursuant to which up to 80% of the annual debt service payments for the SPEED Bonds are to be provided from revenues generated by the State's lottery and not less than 20% from amounts annually budgeted and provided by the Board from NAU's revenues, all of which are deposited into the SPEED Fund. In order to provide additional security and credit support to be able to sell the SPEED Revenue Bonds to investors, the SPEED Revenue Bonds will be further secured by a subordinate lien on NAU's gross system revenues pledged to its System Revenue Bonds. This financing structure has been used on all prior SPEED Revenue Bond financings by each of the universities

Projects to be Financed:

- The project was submitted for PA approval at the Arizona Board of Regents Business and Finance meeting on February 6, 2013.

- The project is expected to be reviewed at the next JCCR meeting. This project will not be financed until JCCR review is complete.

Financing Approach and Structure:

- The SPEED Bond funding mechanism provides monies not to exceed 100% of the annual debt service payments on the SPEED Revenue Bonds. However, in order to obtain an investment grade rating on the SPEED Revenue Bonds, as well as to be able to attract investors willing to purchase the SPEED Revenue Bonds, additional security must be provided to create debt service coverage on the SPEED Revenue Bond payments. To accomplish this, the Board on behalf of the University has provided that the University's SPEED Bonds are further secured by and payable from a subordinate lien on the University's gross system revenues in the event funding from the SPEED Fund is insufficient to make debt service payments. The lien on the gross system revenues as security for the SPEED Bonds is subordinate to the lien on the revenues securing the University's existing and future System Revenue Bonds.

- Given current market conditions, including low long-term interest rates and the cost of credit and liquidity facilities in the short-term variable rate markets, NAU anticipates selling fixed rate Bonds for this issue with interest-only payments through FY 2016 (similar to prior SPEED Bond financings) and approximately level annual debt service thereafter, over an approximately 35-year financing term (final maturity of August 1, 2048).

- The University will evaluate bond insurance from any viable bond insurer available in the market at the time of sale. The final decision as to whether insurance will be used for the bond issue will be a function of market conditions and the bond insurer's ratings at the time of pricing the SPEED Revenue Bonds. Bond insurance will only be used if the insurance provides demonstrated economic benefit to NAU, as required by federal tax law.

- Based on current municipal bond market conditions and the proposed amortization structure for the SPEED Revenue Bonds (which reflects an average maturity life of 23.3 years), NAU's financial advisor estimates the SPEED Revenue Bonds would sell at an overall true interest cost of approximately 4.50% percent. The University will proceed with the Issuance of the SPEED Revenue Bonds and financing of the Project only if the overall true interest cost of the issue is no more than 6.0% per annum. Based on the estimated 4.50% true interest cost, the estimated annual debt service requirement for the SPEED Revenue Bonds in fiscal year 2013 (partial year) would be approximately $545,000, fiscal years 2014 through 2016 (interest only period) would be approximately $3.3 million per year, and fiscal years 2017 through 2048 (principal and interest payments) would be approximately $4.33 million per year.

- Pursuant to Arizona law, the SPEED Revenue Bonds are exempt from the statutory debt ratio calculation. NAU's total existing debt service on bond and certificates of participation as a percentage of total expenditures is 5.8% (FY12 Debt Capacity report). However, if the debt service on the SPEED Revenue Bonds issued by the University was included in the ratio calculation, the University's debt ratio would increase to 7.35% overall. This ratio is well below the 8.0% statutory limit.

- The following financing parameters would apply to the sale of the SPEED Bonds and be set forth in the Bond Resolution:

  The maximum interest rate at which the SPEED Bonds are authorized to be sold is a true interest cost of 6.0 percent.

  The maximum financing period for the SPEED Bonds is August 1, 2048, approximately 35 years from their date of issuance.

- NAU will utilize its current financial advisor, RBC Capital Markets, LLC, its current bond counsel, Ballard Spahr LLP, and a bond trustee previously approved by the Board. The SPEED Bonds will be marketed and sold on a negotiated basis to one or more investment banking firms.

- NAU may enter into various agreements in connection with the Bonds, such as bond insurance or other credit enhancement agreements to lower the net borrowing costs, a reserve fund surety agreement, if needed to market the Bonds, and a liquidity facility or letter of credit agreement in the event any portion of the Bonds are sold on a variable rate basis.

Item		Comments
Project Costs	$71,900,000	Not-to-exceed amount
Issuance Costs	$700,000	Not-to-exceed amount
Credit Enhancement Cost	TBD	Only executed if economically beneficial
Interest Rate	4.5% / 6.0%	Not-to-exceed based on maximum NAU is willing to pay (as of 1/21/13)
Maturity Range	2017 – 2048	Interest only through FY 2016
Average Maturity Length	23.3 Years	Approximately 35 year financing period
Estimated Debt Service, 2013	$545,000 (partial year)	Based on 4.5% estimated rate
Annual Debt Payment (Interest only 2014 – 2016)	$3,270,000	Based on 4.5% estimated rate
Annual Debt Payment (Principal and interest beginning 2017)	$3,600,000	Based on 4.5% estimated rate

Recommendation to the Board:

It is recommended that the Board approve Northern Arizona University's request to sell one or more series of SPEED Revenue Bonds to produce sufficient proceeds to finance 1) not-to-exceed $71.9 million of costs associated with the Project; at a true interest cost not exceeding 6 percent per annum, with authorization limited to JCCR reviewed projects without changes in scope or budget that would require additional Board approval; 2) not-to-exceed $700,000 for costs of issuance; and, 3) payments to a bond insurer or other credit enhancer if such payments provide a benefit that exceeds the amount of such payments.

The SPEED Bonds are authorized to be secured by and payable from monies deposited to the University Capital Improvement Lease-to-Own and Bond Fund established by Arizona Revised Statutes Section 15-1682.03 and by a subordinate lien on the University's gross system revenues that are pledged to its system revenue bonds in the event payments from the SPEED Fund are insufficient. The University is further authorized to sell the SPEED Bonds at a price at, above or below par, and at fixed or variable rate of interest; to take related actions; and to enter into necessary agreements, including those related to bond insurance or other credit enhancement and liquidity facility or letter of credit agreements, all as more fully provided in a supplemental Bond Resolution reviewed by Board Counsel.

BOND DEBT SERVICE

NORTHERN ARIZONA UNIVERSITY
SPEED Revenue Bonds
Series 2013

Preliminary: January 18, 2013

Period Ending	Principal	Coupon	Interest	Debt Service
08/01/2013			544,500	544,500
08/01/2014			3,267,000	3,267,000
08/01/2015			3,267,000	3,267,000
08/01/2016			3,267,000	3,267,000
08/01/2017	1,055,000	4.500%	3,267,000	4,322,000
08/01/2018	1,105,000	4.500%	3,219,525	4,324,525
08/01/2019	1,155,000	4.500%	3,169,800	4,324,800
08/01/2020	1,205,000	4.500%	3,117,825	4,322,825
08/01/2021	1,260,000	4.500%	3,063,600	4,323,600
08/01/2022	1,315,000	4.500%	3,006,900	4,321,900
08/01/2023	1,375,000	4.500%	2,947,725	4,322,725
08/01/2024	1,440,000	4.500%	2,885,850	4,325,850
08/01/2025	1,505,000	4.500%	2,821,050	4,326,050
08/01/2026	1,570,000	4.500%	2,753,325	4,323,325
08/01/2027	1,640,000	4.500%	2,682,675	4,322,675
08/01/2028	1,715,000	4.500%	2,608,875	4,323,875
08/01/2029	1,795,000	4.500%	2,531,700	4,326,700
08/01/2030	1,875,000	4.500%	2,450,925	4,325,925
08/01/2031	1,960,000	4.500%	2,366,550	4,326,550
08/01/2032	2,045,000	4.500%	2,278,350	4,323,350
08/01/2033	2,140,000	4.500%	2,186,325	4,326,325
08/01/2034	2,235,000	4.500%	2,090,025	4,325,025
08/01/2035	2,335,000	4.500%	1,989,450	4,324,450
08/01/2036	2,440,000	4.500%	1,884,375	4,324,375
08/01/2037	2,550,000	4.500%	1,774,575	4,324,575
08/01/2038	2,665,000	4.500%	1,659,825	4,324,825
08/01/2039	2,785,000	4.500%	1,539,900	4,324,900
08/01/2040	2,910,000	4.500%	1,414,575	4,324,575
08/01/2041	3,040,000	4.500%	1,283,625	4,323,625
08/01/2042	3,180,000	4.500%	1,146,825	4,326,825
08/01/2043	3,320,000	4.500%	1,003,725	4,323,725
08/01/2044	3,470,000	4.500%	854,325	4,324,325
08/01/2045	3,625,000	4.500%	698,175	4,323,175
08/01/2046	3,790,000	4.500%	535,050	4,325,050
08/01/2047	3,960,000	4.500%	364,500	4,324,500
08/01/2048	4,140,000	4.500%	186,300	4,326,300
	72,600,000		76,128,750	148,728,750