

JOINT COMMITTEE ON CAPITAL REVIEW

Wednesday, April 5, 2017

9:00 a.m.

Senate Appropriations Room 109

JLBC

STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

DEBBIE LESKO
CHAIRMAN 2017

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JOINT COMMITTEE ON CAPITAL REVIEW

Wednesday, April 5, 2017

9:00 A.M.

Senate Appropriations, Room 109

MEETING NOTICE

- Call to Order
- [Approval of Minutes of December 14, 2016.](#)
- DIRECTOR'S REPORT (if necessary).
- 1. [ADOPTION OF COMMITTEE RULES AND REGULATIONS.](#)
- 2. [NORTHERN ARIZONA UNIVERSITY - Review of Student Housing Indirect Financing Project.](#)
- 3. [ARIZONA GAME AND FISH DEPARTMENT - Review of FY 2017 Building Renewal Allocation Plan.](#)
- 4. [DEPARTMENT OF JUVENILE CORRECTIONS - Review of FY 2017 Building Renewal Allocation Plan.](#)
- 5. [ARIZONA DEPARTMENT OF ADMINISTRATION - Consider Recommending FY 2017 Partial Rent Exemption.](#)

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

3/29/17

kp

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



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STEVE MONTENEGRO

MINUTES OF THE MEETING

JOINT COMMITTEE ON CAPITAL REVIEW

December 14, 2016

Chairman Olson called the meeting to order at 3:48 p.m., Wednesday, December 14, 2016 in Senate Appropriations Room 109. The following were present:

Members:	Senator Shooter, Vice-Chairman	Representative Olson, Chairman
	Senator Farley	Representative Alston
	Senator Griffin	Representative Gray
	Senator Hobbs	Representative Leach
	Senator Yarbrough	Representative Meyer
		Representative Montenegro
Absent:	Senator Cajero Bedford	
	Senator Kavanagh	

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of September 21, 2016, Chairman Justin Olson stated that the minutes would stand approved.

ARIZONA STATE PARKS (ASP) BOARD - Review of City of Cottonwood Easement Agreement.

Mr. Ben Murphy, JLBC Staff, stated ASP requested the Joint Committee on Capital Review (JCCR) review ASP's proposed easement agreement with the City of Cottonwood (City) at Dead Horse Ranch State Park. Under this agreement, ASP will provide to the City a no cost easement to one of the Park's sewer lift stations in exchange for the City assuming ownership of the lift station and providing for all of its future operating and maintenance costs. The JLBC Staff presented options to the Committee.

Representative Leach moved that the Committee give a favorable review to the easement agreement. The motion carried.

(Continued)

ARIZONA STATE UNIVERSITY (ASU) - Review of Armstrong Hall/Ross-Blakley Library Renovation Project Financing.

Mr. Matt Beienburg, JLBC Staff, stated the Committee is required to review any university projects financed with system revenue bonds. The JLBC Staff presented options to the Committee.

Ms. Joanne Wamsley, Vice President for Finance and Deputy Treasurer, ASU, responded to member questions.

Representative Leach moved that the Committee give a favorable review to ASU's issuance of \$26,000,000 in system revenue bonds for the renovation of the Armstrong Hall and Ross-Blakley Library buildings with the following standard university financing provisions:

Standard University Financing Provisions

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

The motion carried.

ARIZONA STATE UNIVERSITY (ASU) - Review of Student Housing Indirect Financing Project.

Mr. Matt Beienburg, JLBC Staff, stated the Committee is required to review any university projects financed using indirect debt financing. The JLBC Staff presented options to the Committee.

Representative Leach moved that the Committee give a favorable review to ASU's third-party financing proposal for the development of the \$72,000,000 Greek Leadership Village with the following standard university financing provision:

Standard University Financing Provision

- A. *A favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any revenues that may be required for debt service, or any operations and maintenance costs when the project is complete.*

The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA) - Review of 1740 West Adams Renovation Plan.

Ms. Rebecca Perrera, JLBC Staff, stated that the Committee is required to review expenditure plans for building renewal monies prior to expenditure. The FY 2017 Capital Outlay Bill (Laws 2016, Chapter 126) allocated \$4,200,000 in FY 2017 from the ADOA building renewal appropriation to renovate the state building located at 1740 West Adams. A footnote requires ADOA to submit its tenant relocation plan to the JCCR prior to expenditure of the building renewal funds. At its June 2016 meeting, the Committee favorably reviewed \$500,000 of the 1740 West Adams allocation for demolition and major building systems design. The Committee's review included a provision deferring the review of the remaining \$3,700,000 until ADOA received review from the JCCR on the tenant relocation plan. The JLBC Staff presented options to the Committee.

Ms. Nola Barnes, Assistant Director, General Services Division, ADOA, responded to member questions.

(Continued)

Mr. Craig Brown, Director, ADOA, responded to member questions.

Representative Leach moved that the Committee give a favorable review to the tenant relocation plan and the remaining \$3,700,000 expenditure plan. As part of its review, the Committee included the following provisions:

- A. ADOA shall report to the JLBC Staff on the agency space allocations and project timeline by February 28, 2017.
- B. A favorable review by the Committee does not constitute an endorsement of additional funding to reconfigure 1740 W. Adams if the health boards are consolidated.

The motion carried.

ARIZONA STATE LOTTERY COMMISSION - Review of FY 2017 Building Renewal Allocation Plan.

Mr. Jeremy Gunderson, JLBC Staff, stated that the Arizona State Lottery Commission requested Committee review of its FY 2017 Building Renewal Allocation Plan. The FY 2017 Capital Outlay Bill (Laws 2016, Chapter 126) appropriated \$118,100 from the State Lottery Fund to the State Lottery Commission for building renewal in FY 2017. The JLBC Staff presented options to the Committee.

Representative Leach moved that the Committee give a favorable review to the Lottery Commission's FY 2017 Building Renewal Allocation Plans with the following provisions:

- A. The Commission shall report any change in the building renewal spending plan to the JLBC Staff, including non-emergency reallocations between projects. If there is significant change of scope in the reallocation reported by the Commission, the JLBC Staff shall recommend the Commission to request Committee review of the reallocation.
- B. The reallocation of monies for emergency projects shall be addressed as follows:
 - 1. The Commission shall notify the Chairman and the JLBC Staff that they plan to reallocate less than \$15,000 to spend on an emergency project. The Commission can proceed without Committee review.
 - 2. If the emergency project is \$15,000 or greater, the Commission will request JCCR review.
 - 3. The Chairman can allow the Commission to move forward with an emergency project of greater than \$15,000 without Committee review.
 - 4. The Chairman will notify the Commission if he does not agree that a project is an emergency and that the project will require full Committee review.

An "emergency" project is defined as unforeseen, critical in nature, and of immediate time sensitivity.

- C. If the Commission adds a new non-emergency project not listed in this request, the agency must submit the proposed project and expenditure plan for Committee review.

The motion carried.

(Continued)

PINAL COUNTY COMMUNITY COLLEGE DISTRICT - Review of Student Union and Science Building.

Mr. Steve Schimpp, JLBC Staff, stated the Committee is required to review any community college projects financed with revenue bonds that do not require voter approval. The JLBC Staff presented options to the Committee.

Ms. Jackie Elliott, President, Central Arizona College, responded to member questions.

Mr. Chris Wodka, Chief Financial Officer, Central Arizona College, responded to member questions.

Representative Leach moved that the Committee give an unfavorable review to the Pinal County Community College District's proposed \$30,550,000 revenue bond issuance.

Senator Farley moved a substitute motion that the Committee give a favorable review to the Pinal County Community College District's proposed \$30,550,000 revenue bond issuance. Division was called on the substitute motion and by show of hands of 3 ayes and 6 nays, the substitute motion failed.

Representative Leach's original motion carried.

ARIZONA DEPARTMENT OF TRANSPORTATION (ADOT) - Review of Vehicle Wash Systems Project.

Mr. Ben Murphy, JLBC Staff, stated the Committee is required to review expenditure plans for capital projects with costs greater than \$250,000. The FY 2016 Capital Outlay Bill (Laws 2015, Chapter 9) appropriated \$2,910,000 from the State Highway Fund to ADOT for 6 new vehicle wash systems. The JLBC Staff presented options to the Committee.

Representative Leach moved that the Committee give a favorable review to the expenditure plan of \$2,523,700 for the construction of 6 vehicle wash systems with the following provisions:

- A. ADOT shall report any project reallocations above \$100,000.
- B. ADOT shall submit to the JLBC Staff by March 1, 2017 a cost-benefit analysis of building and operating the 10 additional vehicle wash systems authorized by the department's FY 2017 capital appropriation. The analysis shall compare the expense of building and maintaining the vehicle wash systems to any potential cost savings from the additional wash systems, including reductions in transportation costs such as fuel, vehicle depreciation and driver salaries that would result from having additional vehicle wash sites.

The motion carried.

DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS (DEMA) - Review of Proposed Flagstaff Military Installation Fund Grant.

Mr. Josh Hope, JLBC Staff, stated the Committee is required to review the expenditure of all monies appropriated for land acquisition, capital projects and building renewal. The JLBC Staff presented options to the Committee.

(Continued)

Representative Leach moved that the Committee give a favorable review to DEMA's plan to expend \$250,000 from the Military Installation Fund for a grant to the City of Flagstaff in order to fund a light mitigation system for the City's Public Works Core Services Facility, which is located approximately 2.5 miles from the U.S. Naval Observatory – Flagstaff Station. The motion carried.

UNIVERSITY OF ARIZONA (UA) - Review of FY 2017 Capital Improvement Plan for One-time Appropriation.

Ms. Micaela Larkin, JLBC Staff, stated that the Committee is required to review the scope, purpose and estimated cost for capital improvements. Laws 2016, Chapter 117 appropriated \$8,000,000 to the University of Arizona (UA) for operating expenditures or capital improvement projects, and UA sought review of their plans to renovate the Oro Valley Research Facility. The JLBC Staff presented options to the Committee.

Ms. Sabrina Vazquez, Director of State Relations, UA, responded to member questions.

Representative Leach moved that the Committee give a favorable review to UA's \$8,000,000 capital expenditure plan for the renovation of the Oro Valley research facility for use by the proposed veterinary school and Master's of Science program for Animal and Biomedical Industries with the following provision:

- A. *UA shall report to the Committee if results of the current accreditation appeals process affects the planned expenditures for renovation and capital equipment.*

In addition, the favorable review included the following standard university financing provision shown below:

Standard University Financing Provisions

- B. *A favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any operations and maintenance costs when the project is complete.*

The motion carried.

Without objection, the meeting adjourned at 4:57 p.m.

Respectfully submitted:



Kristy Paddack, Secretary



Jack Brown, Assistant Director



Representative Justin Olson, Chairman

NOTE: A full video recording of this meeting is available at <http://www.azleg.gov/jlbc/meeting.htm>.



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DATE: March 29, 2017

TO: Senator Debbie Lesko, 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 5 meeting. The following changes are proposed in the existing Committee rules:

Rule 6:

- Technical change to #10 to conform to A.R.S. § 41-792.01D, which requires the Committee to determine the state-owned building rent rate, not private lease rates.
- Technical change to #11 to conform to A.R.S. § 41-1641B1, which requires both the Legislature and the Committee to approve Arizona Department of Administration expenditures from the Corrections Fund.

RS:lm
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. Approve the acquisition of real property or buildings by the Department of Child Safety.
10. Determine the rental fee charged to state agencies for using space in a building ~~leased to~~ OWNED BY the state.
11. ALONG WITH THE LEGISLATURE, 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 OR STATE OPERATED JUVENILE facilities.
12. Review Arizona Board of Regents, Community College and Game and Fish bond projects.
13. Review of Arizona Board of Regents indirect debt financing projects.
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.



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DATE: March 29, 2017

TO: Senator Debbie Lesko, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director *RS*

FROM: Matt Beienburg, Fiscal Analyst *MB*

SUBJECT: Northern Arizona University - Review of Student Housing Indirect Financing Project

Request

A.R.S. § 15-1682.02 and A.R.S. § 15-1683 require Committee review of any university projects using indirect debt financing (also known as third-party financing) and any university project financed with revenue bonds, respectively. Northern Arizona University (NAU) requests Committee review of a \$58,790,000 project for Honors College student housing and academic and administrative spaces and utilities infrastructure at the Flagstaff campus.

The third-party developer would initially fund the entire \$58,790,000 project. NAU would then reimburse the developer for the \$9,902,000 cost of the academic buildings and the \$4,910,000 cost of the utilities infrastructure by issuing \$14,800,000 of system revenue bonds.

The remaining \$43,978,000 costs of the project are associated with the student housing facilities, from which the developer would generate revenues via student dorm fees.

The facilities constructed as part of the project would provide approximately 630 beds to first-year students and 22,300 square feet of space for classrooms, study areas, and faculty offices associated with NAU's new Honors College.

The utilities infrastructure component of the project completes electrical, sewage, flood safety, and other improvements that were begun in 2016, which NAU reports will benefit the Honors community and other university facilities.

(Continued)

Recommendation

The Committee has at least the following 2 options:

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

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

Standard University Financing Provision

- 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 project as soon as they are available.

Analysis

American Campus Communities (ACC) was originally selected through a Request for Proposals (RFP) in 2009 to construct and operate third-party student housing facilities at the NAU Flagstaff campus. The Committee favorably reviewed the construction of 2 such ACC residence halls, the "Hilltop Townhomes" and "The Suites," in April 2011 as well as subsequent enlargements of the facilities in August 2013 and the "Skyview" residences in June 2015.

In November 2016, NAU received approval from the Arizona Board of Regents (ABOR) to establish an Honors College beginning in 2017. Among its objectives, the new Honors College is intended to expand upon NAU's previously existing Honors Program by integrating residential and academic spaces for Honors students.

Under the current proposal, NAU would enter into a ground lease with ACC for the construction of new Honors community facilities. The project would provide 175,000 square feet and 630 beds in suite-style residence halls for first-year Honors students as well as 22,300 square feet for classrooms and other academic and administrative spaces.

NAU's Honors population currently totals 1,055 students, approximately 550 of whom are freshmen housed throughout various dormitories at the Flagstaff campus. NAU expects its Honors program to increase to 1,500 students by FY 2021.

NAU reports that overall demand for on-campus housing exceeds the current capacity and that 165 students began this academic year in temporary housing. The university also reports that 7,548 of the beds on campus are located in aging facilities. Of these, 5,275 beds are reserved for first-year students.

The university has initiated several utilities infrastructure projects on the proposed Honors community site including the relocation of water, sewer, electrical and fiber optic lines.

(Continued)

Financing

ACC would provide approximately \$58.8 million to fully fund the facilities' construction, covering 25% of the amount with cash and 75% with debt. This is the same financing arrangement ACC used in the 2011, 2013, and 2015 NAU housing projects.

Of the \$58.8 million total, the residential portion would cost \$44.0 million, while the academic and administrative spaces would cost \$9.9 million and the utilities infrastructure would cost \$4.9 million. The costs of the academic spaces and utilities infrastructure would be repaid by NAU, as described below.

Honors College Residence Halls

The \$44.0 million cost of the residential facilities translates to approximately \$69,800 per bed. For comparison, the other ACC NAU housing projects ranged from \$59,000 - \$81,000 per bed.

The dorm rates for the new residence halls have not yet been determined, but NAU estimates that they will be slightly above other ACC residence rates, which are currently advertised as starting between \$640 - \$700 per monthly installment (for a 12-month lease).

ACC would be responsible for all costs associated with the operations of the residential portions of the facilities.

The ground lease between the university and ACC would be for a period of 40 years, with four 10-year extension options.

During the lease period, ACC would operate and maintain the residential portions of the facilities through an on-site general manager. NAU would provide programming and staffing for the facility and would establish—with ACC—a Joint Advisory Committee to review operations, policies, and budgets for the facilities.

ACC would retain ultimate decision-making authority on matters of "material economic consequence." NAU would have no obligation to pay any future debt service associated with refinancing of the facilities nor to guarantee their occupancy.

NAU would receive annual ground rent payments of approximately \$163,000 from ACC. In addition, ACC would provide NAU a portion of revenues generated beyond a 96% occupancy threshold.

Academic and Administrative Spaces and Utilities Infrastructure

ACC would initially pay the \$9.9 million of construction costs associated with the academic buildings and the \$4.9 million of utilities infrastructure initiatives.

ACC would initially sublease the academic and administrative spaces to NAU. NAU intends to subsequently buy out the lease with funds raised via the issuance of system revenue bonds prior to June 2018.

To buy out the lease and reimburse ACC for the academic and administrative spaces and the utilities infrastructure, NAU intends to issue \$14.8 million of 20-year, fixed rate system revenue bonds with a rating of A1 (Moody's)/A+ (S&P) by June 2018 at an estimated interest rate of 4.25%. NAU will not

(Continued)

proceed with financing if the interest rate exceeds 6.0%. In addition to project costs, issuance costs are projected to not exceed \$500,000. In addition to a \$162,000 interest only payment in FY 2018, annual debt service payments will be approximately \$1.1 million based on the estimated 4.25% rate. The 20-year total of debt service payments is estimated to be \$23.1 million. (See *Table 2* for a summary of the bond's financing terms). NAU will fund the debt service using tuition and fee and auxiliary revenues.

A.R.S. § 15-1683 limits each university's annual debt service payments to 8.0% of its total projected expenditures in any year shown in its capital improvement plan. Financing this project will increase NAU's debt ratio by an estimated 0.24% from 5.32% to 5.56%. The current 5.32% debt ratio is based on NAU's projected FY 2019 debt service payments of \$31.6 million as a percentage of total FY 2019 expenditures, or \$593.7 million.

Under the proposal, ACC would also maintain the academic and administrative spaces, but would charge NAU an estimated \$95,000 per year to do so. NAU would fund this amount with auxiliary revenues.

Construction Costs

Total project costs are projected to be \$58.8 million, which does not include the \$500,000 of issuance costs on NAU's system revenue bonds. Of the total, NAU will ultimately reimburse ACC for the \$14.8 million of construction costs for the academic and administrative facilities and utilities infrastructure components.

As shown in *Table 1* below, total project costs per square foot for the academic and administrative spaces are \$444, while direct construction costs per square foot are \$400.

The utilities infrastructure improvements are scheduled for completion in March 2017. The remainder of project construction is expected to begin in April 2017 and be completed in August 2018.

Table 1				
NAU Honors Community Project				
	<u>Residence Halls</u>	<u>Academic/ Administrative</u>	<u>Utilities Infrastructure</u>	<u>Total</u>
Direct Construction Costs	\$33,392,000	\$8,908,000	\$4,100,000	\$46,400,000
Other Costs	<u>10,586,000</u>	<u>994,000</u>	<u>810,000</u>	<u>12,390,000</u>
Total	\$43,978,000	\$9,902,000	\$4,910,000	\$58,790,000
 Total Square Footage	 175,700	 22,300	 N/A	
Direct Construction Cost / Sq. Ft.	\$190	\$400	N/A	
Total Cost / Sq. Ft.	\$250	\$444	N/A	
 System Revenue Bonds	 \$0	 \$9,900,000	 \$4,900,000	 \$14,800,000
 Operating Costs	 N/A	 \$95,000	 \$0	

(Continued)

Table 2

**NAU Honors Community Academic/Administrative & Utilities Infrastructure
Financing Terms**

Issuance Amount	\$14.8 million
Issuance Date	By June 2018
Issuance Transaction Fees	\$500,000
Rating	A1 (Moody's)/A+ (S&P)
Interest Rate	4.25%
Term	20 years
Total Debt Costs	\$23.1 million
Debt Service Payments	\$162,000 (FY 2018); \$1.1 million (FY 2019 – FY 2038)
Payment Source	Tuition and fees, auxiliary revenues
Debt Ratio Increase	0.24% (from 5.32% to 5.56%)

RS/MB:kp

Northern Arizona University
Office of the Vice President of Finance, Institutional Planning and Analysis
PO Box 4132, Flagstaff, AZ 86011
Tel 928-523-4240 Fax 928-523-0332
www.nau.edu



March 15th, 2017

The Honorable Debbie Lesko, Chairman
Joint Committee on Capital Review
Arizona State Senate
1700 W. Washington
Phoenix, AZ 85007-2890



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

Dear Senator Lesko:

In accordance with A.R.S. 15-1682.02, the Arizona Board of Regents and Northern Arizona University request that the following project for NAU be placed on the next Joint Committee on Capital Review agenda for review:

- Ground Lease with American Campus Communities for the development of a third-party honors community project on the Flagstaff campus, and a sublease for academic and office space for which NAU will issue System Revenue Bonds.

Enclosed is the pertinent information relating to this item. This project is contingent on approval by the Arizona Board of Regents at the April 5-7, 2017 meeting. If you have any questions or need additional clarifications regarding the enclosed information, please contact me at (928) 523-4240.

Sincerely,

A handwritten signature in black ink, appearing to read "Bjorn Flugstad".

Bjorn Flugstad
Vice President of Finance, Institutional Planning and Analysis
Chief Financial Officer

Attachment

cc: Richard Stavneak, Director, JLBC
Matt Beienberg, JLBC Fiscal Analyst
Eileen Klein, ABOR, President
John Arnold, ABOR, Vice President for Business Management & Financial Affairs
Lorenzo Martinez, ABOR, Associate Vice President for Finance & Administration
Rita Cheng, NAU, President
Christy Farley, NAU, Vice President of External Affairs & Partnerships
Jane Kuhn, NAU, Vice President, Enrollment Management & Student Affairs

JCCR Capital Review

JCCR Meeting Date
JCCR Deadline

4/5/2017
3/15/2017

Project Name **Ground lease with ACC for Privatized Honors Residential Hall & Academic Space**
Honors Community/Residence/Academic

Scope of the project

Project Description	Through its agreement with NAU, ACC will construct new suite style housing on the Flagstaff campus. The project is proposed to be 630 beds and serve first-year Honors College residents. In addition, 22,294 sq.ft. of academic space will be constructed by ACC as part of this project. The project will include a landscaped courtyard and amenity spaces throughout the site.	Through its agreement with NAU, ACC will construct new suite style housing on the Flagstaff campus which will include; 22,294 sq. ft. of academic space constructed by ACC as part of this project.	Through its agreement with NAU, ACC will complete a utility relocation and improvement project.
Date of last renovation/maintenance	N/A - New Construction	N/A - New Construction	N/A - New Construction
Total Square Feet of Existing Space	N/A - New Construction	N/A - New Construction	N/A - New Construction
Total Square Feet of Renovation/Construction	175,695	22,294	N/A

Project Costs

Total Construction Cost	\$	43,978,136	9,901,876	4,909,649
Direct Construction Cost	\$	33,391,807	8,907,876	4,100,000
Gross square feet		175,695	22,294	N/A
Total Cost per Square Foot (bed, etc)	\$	250	444	0
Direct Cost per Square Foot (bed, etc)	\$	190	400	0
Annual Operating Costs		N/A - to be paid by ACC	95,000	0
Fund source for Operating Costs		N/A - to be paid by ACC	Tuition and Fees	Auxiliary Revenue
Explanation of Cost Development for Project		ACC developed	ACC developed	ACC developed

Debt Issuance*

Issuance amount	N/A	9,902,000	4,910,000
Interest rate using not to exceed 6%	N/A	6.00%	6.00%
Payment term	N/A	20	20
Fund source for debt payment	N/A	Tuition and Fees	Auxiliary Revenue
Annual debt service (by fund source)	N/A	893,000	443,000
Total debt service (by fund source)	N/A	17,953,200	8,886,500
Date of Issuance	N/A	prior to June 2018	prior to June 2018
Bond Rating	N/A	A1 (Moody's) / A+ (S&P)	A1 (Moody's) / A+ (S&P)

* Please submit a debt service schedule

Gifts

Total Gift Amount	N/A	N/A	N/A
Current Pledged Gift Amount	N/A	N/A	N/A
Current Gift In-Hand Amount	N/A	N/A	N/A

Debt Ratio

Current Debt Ratio	N/A	5.32%	5.32%
Ratio After Project	N/A	5.48%	5.40%
Total Debt Ratio (for all projects submitted for this meeting's review)	N/A	5.56%	5.56%

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

Project Name & Date	Project 1 Hilltop Townhomes	Project 2 Student & Academic Services Building	Project 1
Project Description		Design and construction of a roughly 112,000 gross square feet building adjacent to the San Francisco Parking Structure. This building is 4 stories with a 5th floor mechanical space. The first floor is dedicated to a one-stop shop for comprehensive student services, the second floor is the Lumberjack Mathematics Center, and the 3rd and 4th floor are faculty offices.	
Total Cost Per Square Foot		\$320	
Direct Construction Cost Per Square Foot*		\$286	

*Construction Cost/SF are adjusted by the ABOR approved inflation/deflation factors.

	Academic and Student Space	Utilities and Infrastructure	Total
Debt Ratio on Existing Debt	5.32%	5.32%	5.32%
Incremental Debt Ratio	0.14%	0.07%	0.21%
Projected Debt Ratio	5.46%	5.39%	5.53%

NORTHERN ARIZONA UNIVERSITY
System Revenue Bonds, Series 2018
4.25% Coupon

Fiscal Year	Principal	Interest	Debt Service
2018	-	\$162,191	\$162,191
2019	\$500,000	648,763	1,148,763
2020	525,000	627,513	1,152,513
2021	545,000	605,200	1,150,200
2022	570,000	582,038	1,152,038
2023	590,000	557,813	1,147,813
2024	615,000	532,738	1,147,738
2025	645,000	506,600	1,151,600
2026	665,000	479,188	1,144,188
2027	695,000	450,925	1,145,925
2028	725,000	421,388	1,146,388
2029	755,000	390,575	1,145,575
2030	790,000	358,488	1,148,488
2031	820,000	324,913	1,144,913
2032	860,000	290,063	1,150,063
2033	895,000	253,513	1,148,513
2034	935,000	215,475	1,150,475
2035	970,000	175,738	1,145,738
2036	1,010,000	134,513	1,144,513
2037	1,055,000	91,588	1,146,588
2038	1,100,000	46,750	1,146,750
	\$15,265,000	\$7,855,973	\$23,120,973

EXECUTIVE SUMMARY**Item Name: FY 2017 Revised Capital Development Plan (NAU)**

- ☒ Action Item
- ☒ Committee Recommendation to Full Board
- ☐ First Read of Proposed Policy Change
- ☐ Information or Discussion Item

Issue: Northern Arizona University requests approval of its FY 2017 Revised Capital Development Plan (CDP), which includes one new project, a privatized residence hall with academic and core student support space for the Honors Community. The CDP financial impact totals \$9.9 million.

NAU outlined plans for this project in the CIP and began presenting information at the September ABOR meeting as part of the Operational and Financial Review. This revision moves the timeline of the project up into this fiscal year to target having the project open for the 2018-19 academic year.

Previous Board Action

- FY 2018 – 2020 Capital Improvement Plan
- FY 2017 Capital Development Plan

September 2016
June 2016

Enterprise or University Strategic Plan

- ☒ Empower Student Success and Learning
- ☒ Advance Educational Attainment within Arizona
- ☐ Create New Knowledge
- ☐ Impact Arizona
- ☐ Compliance
- ☐ Real property purchase/sale/lease
- ☐ Other:

Statutory/Policy Requirements

- Pursuant to Arizona Board of Regents Policy Chapter 7-107, each university shall submit an annual Capital Development Plan for the upcoming fiscal year in accordance with the calendar approved by the President of the Board. The CDP may also be considered for revisions and include the addition of new projects, project budget adjustments, and deletion of projects.

EXECUTIVE SUMMARY

- Capital Development Plans are reviewed by the Business and Finance Committee and approved by the Board.
- Approval of the CDP allows universities to complete design and planning in preparation for submitting individual projects for final approval by the Business and Finance Committee, with a final report to the full Board.

Project Justification/Description/Scope

- Northern Arizona University's FY 2017 Revised CDP includes one new project for a third-party privatized residence hall with academic and core student support space for the Honors College Community. This project will have a negotiated ground lease between American Campus Communities (ACC) and Northern Arizona University in which ACC will construct the Honors Community. NAU will seek project approval and approval to enter into a ground lease in a separate Board Action Item, as well as seek favorable JCCR review prior to beginning construction in accordance with ABOR policy.
- Through its agreement with NAU, ACC will construct new suite style Honors housing on the Flagstaff campus. The proposed project is 630 beds and will serve first-year Honors students. In addition, approximately 22,294 square feet will be constructed within the facility to serve core student support and academic needs of the Honors College. This space will consist of classrooms, study spaces, academic learning spaces and Honors faculty and administrative offices. Additional project information is detailed in the attached Project Justification Report.
- NAU continues to align capital projects with the approved university campus master plan and the system enterprise and university strategic goals and objectives. These projects support NAU's strategic goals including:
 - Meeting the 2025 Enterprise metrics targets for undergraduate enrollment by providing the necessary student housing component enabling NAU to continue as a premier residential campus while serving a growing student population.
 - Increasing student retention by providing on-campus housing options with academic and other support programs shown to improve student success.
 - Supporting the university mission to provide an outstanding undergraduate residential education. This past fall semester, NAU had over 600 triple-occupancy rooms and over 100 students in temporary spaces at the

EXECUTIVE SUMMARY

beginning of the semester. As the entering class continues to grow, more upperclassmen are being displaced from NAU housing.

- Aligning university facilities with the campus master plan approved by the Board in September 2010 and contributing to creating an expanded workable, livable and sustainable campus.
 - In November 2016 NAU received approval to create an Honors College, to enhance efforts to meet ABOR goals 1 & 2 (educate and achieve), by promoting the highest levels of academic quality and curricular innovation. NAU currently has 1,055 students in its Honors program with an anticipated growth of 125 per year as a College. These students are currently disbursed throughout residence spaces on campus, with many of the new incoming freshman residing in Calderon Learning Community. The incoming class this past fall was approximately 550, exceeding the capacity in Calderon by approximately 75 students. Development of an Honors community is critical to continued success and expansion of the Honors College.
 - NAU's Operational and Finance Review noted that expanding its high achieving student recruitment strategy through the development of an Honors College in combination with exceptional curricular experiences will help attract and retain honors students at NAU.
- In addition, the following primary institutional priorities for capital projects at NAU include:
 - **Student Support Requirements:** New facilities and student success programs must be provided to assure successful student recruitment, housing, socialization, retention and graduation. The model of a residential campus is successful in increasing and maintaining student retention rates as well as enhancing the student experience. As the entering freshman class size at NAU continues to grow, upperclassmen are being displaced from NAU housing. This project will build approximately 630 new beds to meet the increasing demand, as well as provide dedicated academic and student support space for the Honors program.
 - **Funding Sources & Financing Options:** Project funding and financing are carefully considered for every individual project, to take advantage of opportunities, to maximize the resources available with minimal impacts on tuition rates and to responsibly manage the assets of the University.

EXECUTIVE SUMMARY

Impacts to tuition are avoided when possible. Financial resources are judiciously utilized to meet the highest institutional priorities and the University's financial strength and standing must be preserved. Constructing a privatized residence hall enables the University to preserve its debt ratio and bonding capacity for academic and other facility needs.

Fiscal Impact and Financing Plan:

- Northern Arizona University is working with a third-party developer to minimize the capital outlay by the University. ACC will fund the entire project total construction cost, estimated at \$58.8 million with 25% equity and 75% debt funding provided by the developer. The University will enter into a Master Sublease to manage and provide programming in the residential facility with NAU Residence Life staff.
- The University will sublease the Honors Community Academic space including classrooms and core student support space through a long term lease agreement. The University plans to issue system revenue bonds prior to June 2018 to finance this \$9.9 million project reimbursement. Debt service will be paid from tuition and program fee revenue.
- ACC is responsible for all costs and expenses of maintaining the residence portions of the project, including reasonable reserve deposits.
- ACC is responsible for maintaining the academic and core student support space, expected to be approximately \$95,000 a year. ACC will bill NAU for this maintenance with NAU using auxiliary revenue to pay this expense.

Debt Ratio Impact:

- The projected incremental debt ratio impact from this proposed CDP project for the Honors Community Academic Space on system revenue bond debt service is .16 percent from 5.32% to 5.48% utilizing the not to exceed 6% rate.
- The tables in Exhibits 1 and 2 provide details on project financing, funding sources and debt ratio impact.

Requested Action

Northern Arizona University requests that the Board approve the FY 2017 Revised Capital Development Plan, as presented in this Executive Summary.

EXECUTIVE SUMMARY**EXHIBIT 1****Project Summary**

Project	Board Approval Status	Gross Square Footage	Project Cost	Amount Financed	Funding Method	Annual Debt Service ¹	Debt Ratio
Academic/Support Projects							
No new projects							
New Academic/Support Projects Total		-	\$ -	\$ -		\$ -	0.00%
New Auxiliary Projects							
No new projects							
New Auxiliary Total		-	\$ -	\$ -		\$ -	0.00%
Third-Party Projects							
Honors Community	CIP 9/2016	22,294	\$ 9,902,000	\$ 9,902,000	SRB	\$ 893,000	5.5%
Third-Party Total		22,294					
Resubmitted Projects							
NA							
Resubmitted Total							
TOTAL		22,294	\$ 9,902,000	\$ 9,902,000		\$893,000	5.5%

assumes 6% not to exceed rate

EXECUTIVE SUMMARY**EXHIBIT 2****Annual Debt Service and Operation and Maintenance Costs
By Funding Source**

CAPITAL DEVELOPMENT PLAN - ANNUAL DEBT SERVICE BY FUNDING SOURCE											
Project	Amount Financed	301	TUI *	AUX *	ICR	OLF	SLP	FGT	DFG	OTH	TOTAL ANNUAL DEBT SERVICE
New Academic/Support Projects											
No new projects											
Academic/Support Projects Total	\$ -	\$ -	\$ -	\$ -							\$ -
New Third Party Projects											
Honors Community	\$ 9,902,000		\$ 893,000								\$ 893,000
Third Party Projects Total	\$ 9,902,000	\$ -	\$ 893,000	-	-		\$ -				\$ 893,000
Resubmitted											
N/A											
Resubmitted Total	\$ -	\$ -	-	-	-		\$ -				\$ -
Total	\$ 9,902,000	\$ -	\$ 893,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 893,000

CAPITAL DEVELOPMENT PLAN - OPERATION AND MAINTENANCE BY FUNDING SOURCE											
Project	TOTAL ANNUAL O&M	301	TUI	AUX	ICR	OLF	GFA	FGT	DFG	OTH	
New Academic/Support Projects											
No new projects											
Academic/Support Projects Total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
New Third Party Projects											
Honors Community	\$ 95,000			\$ 95,000							
Third Party Projects Total	\$ 95,000		\$ -	\$ 95,000		\$ -					
Resubmitted											
N/A											
Resubmitted Total	\$ -										
Total	\$ 95,000	\$ -	\$ -	\$ 95,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Debt Service Funding Source

Codes:

(301) 301 Fund/Other (ICR) Indirect Cost Recovery

(GFA) General F (OTH) Other

(TUI) Tuition

(OLF) Other Local Funds

(FGT) Federal Grant

(AUX) Auxiliary

(SLP) State Lottery Allocation Proceeds

(DFG) Debt Financed by Gifts

EXECUTIVE SUMMARY

**Arizona Board of Regents
Northern Arizona University
Capital Development Plan Project Justification Report
Privatized Residence Hall – Honors Community
(NAU Project Number: #09.999.171)**

1. Previous Board Action:

- Capital Improvement Plan FY18 – FY20 September 2016

2. Statutory / Policy Requirements:

- Board Policy 7-107 B.1. requires Capital Committee review and Board approval of the annual Capital Development Plan.
- Capital projects where the Board and the University share with other entities (public/private ventures) the control, financing, or ownership (current or future) of the project and/or its delivery process and that are subject to review under Board policy 7-207, shall be included in the Capital Development Plan and reviewed by the Business and Finance Committee and approved by the Board.

3. Project Justification/Description/Scope

- The mission of Northern Arizona University is to provide an outstanding undergraduate residential education strengthened by research, graduate and professional programs, and sophisticated methods of distance delivery. This project directly supports that mission by seeking to provide residential options for students within a vibrant community setting.
- Residence Life data indicates students who live on campus have a higher success rate than those who do not. Retention and graduation rates are considerably higher for those students residing in campus housing. Campus housing provides a safe, supportive learning environment. Even with the recent addition of new residence complexes and housing, much of the existing campus housing is aging and will require major mechanical renovation or replacement. In addition, these units will require modifications to meet student technology needs in order to remain competitive as a desired housing option on a residential campus.
- University housing exists to provide safe, clean, affordable housing that encourages student success, connection, engagement and involvement

EXECUTIVE SUMMARY

through student programming opportunities. Student success and retention rates improve significantly when students reside on campus, particularly among first-time freshmen. Purposeful student programming and the relationship development that occurs through having staff living in and interacting directly with students has been proven to increase student satisfaction, involvement and retention across the nation.

- Demand for on-campus, University-managed housing, continues to grow. This academic year NAU stopped accepting housing applications in May 2016 and opened the Fall 2016 semester with over 100 students in temporary housing.
- The NAU Flagstaff campus currently contains 7,548 (excluding family housing) NAU-owned housing units (available beds) that are in aging facilities. A large portion of the existing inventory, approximately 5,275 beds, is reserved for first-year students. Remaining inventory is reserved for sophomores wishing to remain on campus. Beginning in Fall 2016 for the 2016-2017 academic year, the private residence halls were first reserved and leased to continuing students, juniors and seniors, wishing to remain on campus.
- Through its agreement with NAU, ACC will construct new suite style Honors housing on the Flagstaff campus. The project is proposed to be 630 beds and serve first-year Honors students.
- In addition, approximately 22,294 square feet will be constructed within the facility to serve core student support and academic needs of the Honors College. This space will consist of classrooms, study spaces, academic learning spaces and Honors faculty and administrative offices.
- The project will be constructed to standards comparable to the most recent NAU residence halls, and will be maintained throughout the lease term in Class A condition. Construction documents are subject to NAU approval with input from a third-party group for Fire Life Safety.
- The project will include a landscaped courtyard and amenity spaces throughout the site. Amenity spaces include a Community Center space which includes: lobby, residence staffing offices, game room, study and social spaces throughout, computer lab, mail area and fitness center.

4. Project Delivery Method and Process:

- American Campus Communities was selected as the developer through an RFP process. It was the University's intent to select a qualified developer that demonstrated superior knowledge, experience, organization, and financial ability to implement large, complex, and innovative projects. The method of selection was a two-phase process consisting of a submittal of qualifications followed by price proposals.
- Phase I Qualifications were based on an Executive Summary, Developer Profile/Information, Development Team Profile, Previous Development Experience and any additional information that may have assisted in the University's evaluation.
- A list of qualified developers was created from the submitted qualifications. Developers on the qualified list were requested to submit additional detailed information on Financials, Development Proposals, and other critical criteria. ACC was selected as the student housing developer from this procurement process.
- American Campus Communities currently has three ground leases and residence halls with the University from this RFP (The Suites I & II, Hilltop Townhomes, and SkyView). The Honors Community will be a new ground lease between ACC and NAU, similar in form and function to the previous leases.

5. Project Status and Schedule:

- Pending ABOR approval and favorable review from JCCR, NAU will enter into a Ground Lease, Master Sublease and Sublease with the project to begin construction in April 2017 with an anticipated completion date of August 2018.

6. Project Cost:

- Northern Arizona University is working with a third-party developer to minimize the capital outlay by the University. ACC will fund the entire project total construction cost, estimated at \$58.8 million with 25% equity and 75% debt funding provided by the developer. The University will enter into a Master Sublease to manage and provide programming in the residential facility with NAU Residence Life staff.

EXECUTIVE SUMMARY

- There will be no legal recourse to NAU in the event of a default by ACC on any financing and, except for the obligations noted above, the University has no obligation to support the facilities financially or to guarantee occupancy.
- The University will sublease the Honors Academic space including classrooms and core student support space through a long-term lease agreement. The University intends to issue system revenue bonds prior to June 2018 to finance this \$9.9 million project reimbursement. Debt service will be paid from tuition and program fee revenue.

7. Fiscal Impact and Financing Plan:

- **Operating Expenses** – ACC is responsible for all costs and expenses of maintaining the residence portions of the project, including reasonable reserve deposits. NAU is responsible for maintaining the academic and core student support space. Minimum Standards of Operation (both maintenance and staffing) are defined as equal to “Class A” privatized student housing.
- **Master Lease Agreement (Ground Lease)** – The project is to be administered by a Ground Lease Agreement between the University and ACC. The Ground Lease is for a period of 40 years with four 10-year options to renew.
- **Lease Payments**– NAU will receive rental payments in the form of annual base rent (i.e. Ground Rent) plus out performance rent should the project yield revenue in excess of the required return threshold.
- **Master Sublease** – NAU enter into a Master Sublease to manage and provide the residential life programming and staffing for the residential space as well as enforce the NAU student code of conduct and refer violators to the NAU student judicial system at a level consistent with other on-campus freshman housing. ACC will employ a site manager and maintenance staff. ACC and NAU will establish a Joint Advisory Committee responsible for the day-to-day operations of the housing facility, including review and approval of the annual operating budget, capital budget, staffing plan and any proposed changes in programs, policies and procedures. ACC retains ultimate control of those decisions that result in a material economic consequence to ACC, provided that minimum standards of operation have been satisfied.

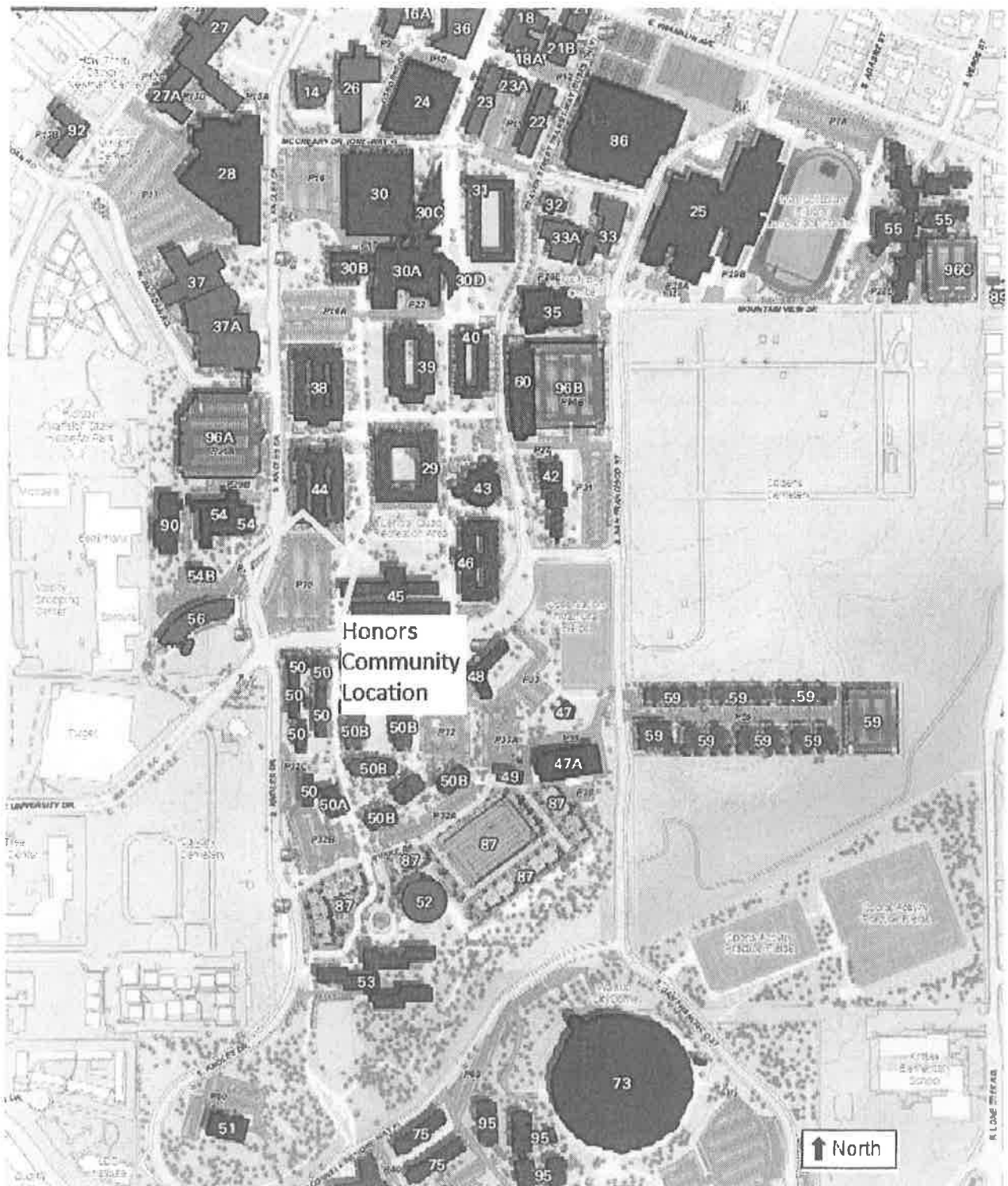
- **Sublease** - NAU will enter into a sublease with ACC for the Honors Community academic and core student support space that will be initially financed by ACC pursuant to the long term lease of this space by the University. NAU may buy out the lease at any anniversary date of the lease for the remaining unamortized portion of the sublease and the University intends to subsequently refinance and pay off the lease for the Honors Community academic and student support space through the issuance of the System Revenue bonds pending project and financing approval.

8. Occupancy Plan:

- The Honors Community will be a residence for first-year Honors students. Additionally, Honors program faculty offices and honors classrooms will be located in the academic space of the Honors Community. Current faculty offices are in the Student and Academic Services building. These offices will be relocated to Honors Community, and the offices will be backfilled by other academic faculty. The classroom space is new dedicated space.

EXECUTIVE SUMMARY

9. Project location map:



EXECUTIVE SUMMARY

Item Name: Ground Lease with American Campus Communities for Development of Privatized Honors Community (NAU)

- ☒ Action Item
- ☒ Committee Recommendation to Full Board
- ☐ First Read of Proposed Policy Change
- ☐ Information or Discussion Item

Issue: Northern Arizona University (NAU) requests approval to execute a ground lease with American Campus Communities (ACC) for the development of a privatized residence hall and Honors academic community project on the Flagstaff Campus.

Previous Board Action:

FY 2018 – 2020 Capital Improvement Plan
FY 2017 Revised Capital Development Plan

September 2016
April 2017

Enterprise or University Strategic Plan

- ☒ Empower Student Success and Learning
- ☒ Advance Educational Attainment within Arizona
- ☐ Create New Knowledge
- ☐ Impact Arizona
- ☐ Compliance
- ☒ Real property purchase/sale/lease
- ☐ Other:

Statutory/Policy Requirements:

- Board Policy 7-102.B.3 requires Committee review and Board approval of projects shared with outside entities such as third parties.
- Board Policy 7-207 requires Committee review and Board approval for the lease of real property.
- ABOR Policy 7-102 requires approval of the issuance of bonds, lease-purchase agreements, certificates of participation issuance, or any debt instrument.

EXECUTIVE SUMMARY

- ABOR Policy 3-501 requires matters relating to revenue bonds, including matter 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 to be presented for Board action.

Project:

American Campus Communities development and construction of a new privatized residence hall and combined academic and core student support space on the Northern Arizona University Flagstaff campus (to be called Honors Community).

Project Justification

University Housing exists to provide safe, clean, affordable housing that encourages student success, connection, engagement and involvement through student programming opportunities. Student success and retention rates improve significantly when students reside on campus, particularly among first-time freshmen. Purposeful student programming and the relationship development that occurs through having staff living in and interacting directly with students has been proven to increase student satisfaction, involvement and retention across the nation.

Demand for on-campus, University –managed housing continues to grow. This academic year NAU stopped accepting housing applications in May and opened with 165 students in temporary housing. The NAU Flagstaff campus currently contains 7,548 (excluding family housing) NAU owned housing units (available beds) that are in aging facilities. A large portion of the existing inventory, approximately 5,275 beds, is reserved for first-year students. Remaining inventory is reserved for sophomores wishing to remain on campus. Beginning in 2016 for the 2016-2017 academic year the private projects were first reserved and leased to continuing students, juniors and seniors, wishing to remain on campus.

These projects support NAU's strategic goals including:

- Meeting the 2025 Enterprise metrics targets for undergraduate enrollment by providing the necessary student housing component enabling NAU to continue as a premier residential campus while serving a growing student population.
- Increasing student retention by providing on-campus housing options with academic and other support programs shown to improve student success.
- Supporting the university mission to provide an outstanding undergraduate residential education. This past fall semester, NAU had over 600 triple-occupancy rooms and over 100 students in temporary spaces at the beginning of the semester. As the entering class continues to grow, more upperclassmen are

EXECUTIVE SUMMARY

being displaced from NAU housing.

- Aligning university facilities with the campus master plan approved by the Board in September 2010 and contributing to creating an expanded workable, livable and sustainable campus.
- In November 2016 NAU received approval to create an Honors College, to enhance efforts to meet ABOR goals 1 & 2 (educate and achieve), by promoting the highest levels of academic quality and curricular innovation. NAU currently has 1,055 students in its Honors program with an anticipated growth of 125 per year as a College. These students are currently disbursed throughout residence spaces on campus, with many of the new incoming freshman residing in Calderon Learning Community. The incoming class this past fall was approximately 550, exceeding the capacity in Calderon by approximately 75 students. Development of an Honors community is critical to continued success and expansion of the Honors College.
- NAU's Operational and Finance Review noted that expanding its high achieving student recruitment strategy through the development of an Honors College in combination with exceptional curricular experiences will help attract and retain honors students at NAU.

Project Description and Scope:

Through its agreement with NAU, ACC will construct new suite style Honors housing on the Flagstaff campus. The proposed project is 630 beds and will serve first-year Honors students.

In addition, approximately 22,294 square feet will be constructed within the facility to serve core student support and academic needs of the Honors College. This space will consist of classrooms, study spaces, academic learning spaces and Honors faculty and administrative offices. The classrooms will also serve the need for academic space on the Flagstaff campus.

The project will be constructed to standards comparable to the most recent NAU residence halls, and will be maintained throughout the lease term in Class A condition. Construction documents are subject to NAU approval with input from a third-party group for Fire Life Safety.

The project will include a landscaped courtyard and amenity spaces throughout the site. Amenity spaces include a Community Center, lobby, residence staffing offices, game room, study and social spaces throughout, computer lab, mail area and fitness center.

EXECUTIVE SUMMARY

Pending ABOR approval and favorable review from JCCR, NAU will enter into a Ground Lease and Master Sublease, and the project will begin construction in April 2017 with an anticipated completion date of August 2018.

Project Cost/Financial Structure:

- **Operating Expenses** – ACC is responsible for all costs and expenses of maintaining the residence portions of the project, including reasonable reserve deposits. NAU is responsible for maintaining the academic and core student support space. Minimum Standards of Operation (both maintenance and staffing) are defined as equal to “Class A” privatized student housing.
- **Management** – NAU will manage and provide the residential life programming and staffing, as well as enforce the NAU student code of conduct and refer violators to the NAU student judicial system at a level consistent with other on-campus freshman housing, under a Master Sublease. ACC will employ a site manager and maintenance staff. ACC and NAU will establish a Joint Advisory Committee responsible for the day-to-day operations of the housing facility, including review and approval of the annual operating budget, capital budget, staffing plan and any proposed changes in programs, policies and procedures. ACC retains ultimate control of those decisions that result in a material economic consequence to ACC, provided that minimum standards of operation have been satisfied.
- **Master Lease Agreement (Ground Lease)** – The project is to be administered by a Ground Lease Agreement between the University and ACC. The Ground Lease is for a period of 40 years with four 10-year options to renew.
- **Lease Payments**– NAU will receive rental payments in the form of annual base rent (i.e. Ground Rent) plus out performance rent should the project yield revenue in excess of the required return threshold.
- **Sublease** – NAU will enter into a sublease with ACC for the Honors Community academic and core student support space that will be initially financed by ACC pursuant to the long term lease of this space by the University. NAU may buy out the lease at any anniversary date of the lease for the remaining unamortized portion of the sublease and the University intends to subsequently refinance and pay off the lease for the Honors Community academic and student support space through the issuance of the System Revenue bonds pending project and financing approval.

EXECUTIVE SUMMARY

Fiscal Impact and Financing Plan:

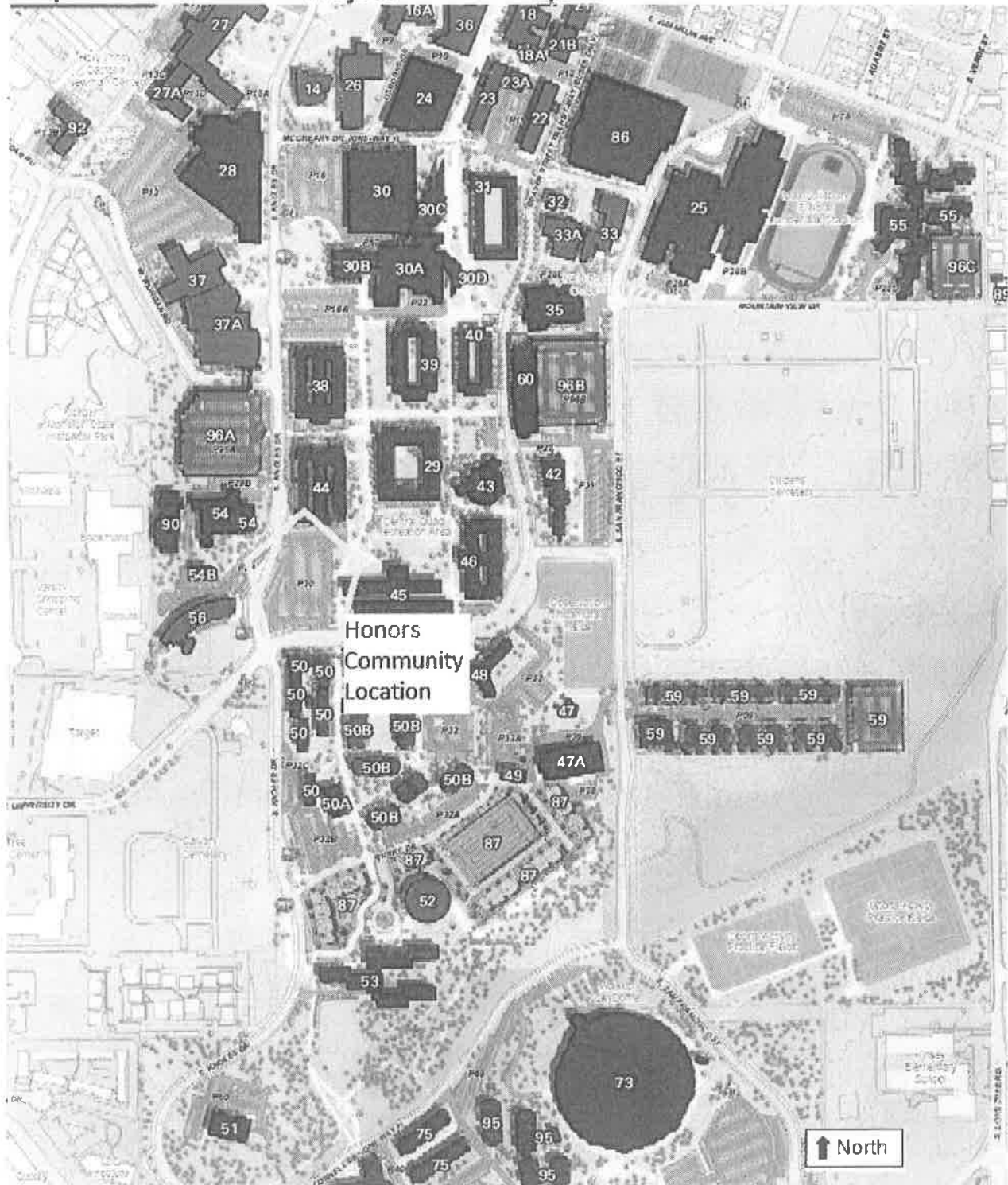
ACC will fund the entire project total construction cost, estimated at \$58.8 million with 25% equity and 75% debt funding by the developer. The University will enter into a Master Sublease to manage and provide programming in the facility with NAU Residence Life staff.

Recommendation:

It is recommended that the Committee forward to the full Board for approval Northern Arizona University's request to enter into a Ground Lease with American Campus Communities for the development of third-party student housing and core student support space on the Flagstaff campus in accordance with the terms and conditions outlined above, and that Committee recommend that the President and Chief Financial Officer each be separately authorized in the name of and on behalf of the Board to take all appropriate actions necessary to finalize negotiations and to facilitate and execute the Ground Lease and all related documents with American Campus Communities for the development of student housing and core student support space on the Flagstaff campus.

EXECUTIVE SUMMARY

Proposed Site Plan and Project Location Map:



EXECUTIVE SUMMARY**Item Name: Honors Community Academic and Student Support Space Project
Approval and Utility Infrastructure Financing Issuance Approval
(NAU)**

- ☒ Action Item
- ☒ Committee Recommendation to Full Board
- ☐ First Read of Proposed Policy Change
- ☐ Information or Discussion Item

Issue: Northern Arizona University (NAU) requests project approval and financing approval of the Honors Community academic and core student support space project. The approximately 22,294 square feet of space will be constructed on the first floor within the Honors Community facility and financed with System Revenue Bonds to be issued prior to June 2018. The par amount of the System Revenue Bonds will be in an amount not to exceed the \$9.9 million project costs plus an amount not to exceed \$325,000 to pay costs of issuance, plus an amount necessary to pay for any bond issuance or credit enhancement of the bonds provided that such issuance or credit enhancement provides a net benefit to the University. The debt service based on current interest rates for the Bonds is estimated at \$760,000 per year and will be paid over approximately 20 years from tuition and fee revenue.

NAU also requests financing approval to incorporate a System Revenue Bonds issuance for a previously initiated utility infrastructure project currently underway on this site. The cost of this project is under the ABOR limit for review and approval and was necessary for safety and efficiency purposes. The par amount of the System Revenue Bonds will be an amount not to exceed the \$4.9 million project costs plus an amount not to exceed \$175,000 to pay costs of issuance, plus an amount necessary to pay any bond insurance or credit enhancement of the bonds provided that such insurance or credit enhancement provides a net benefit to the University. The debt service for the Bonds based on current interest rates is estimated at \$380,000 per year to be paid from auxiliary funds over a period of 20 years.

Previous Board Action

FY 2018 – 2020 Capital Improvement Plan

September 2016

Enterprise or University Strategic Plan

- ☒ Education excellence, access and degree production
- ☐ Research excellence
- ☒ Workforce and community
- ☐ Productivity
- ☐ Compliance

EXECUTIVE SUMMARY

- ☐ Real property purchase/sale/lease
☐ Other:

Statutory/Policy Requirements

- ABOR Policy 7-109 requires approval of new construction projects with a total project cost over \$10 million before contracts can be executed and construction can begin.
- ABOR Policy 7-109 requires approval of renovation or infrastructure projects with a total project cost over \$5 million before contracts can be executed and construction can begin.
- ABOR Policy 7-102 requires approval of the issuance of bonds, lease-purchase agreements, certificates of participation issuance, or any debt instrument.
- ABOR Policy 3-501 requires 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 to be presented for Board action.

Project Justification/Description/Scope

- Northern Arizona University's FY 2017 Revised CDP includes one new project for a third-party privatized residence hall with academic and core student support space for the Honors College Community. This project will have a negotiated ground lease between American Campus Communities (ACC) and Northern Arizona University in which ACC will construct the entire Honors Community. NAU is currently seeking project approval and approval to enter into a ground lease in a separate Board Action Item, as well as seek favorable JCCR review prior to beginning construction in accordance with ABOR policy.
- Through its agreement with NAU, ACC will construct new suite style Honors housing on the Flagstaff campus. The proposed project is 630 beds and will serve first-year Honors students. In addition, approximately 22,294 square feet will be constructed within the facility to serve core academic and student support for the Honors College. This space will consist of classrooms, study spaces, academic learning spaces and Honors faculty and administrative offices.
- NAU continues to align capital projects with the approved university campus master plan and the system enterprise and university strategic goals and objectives. These projects support NAU's strategic goals including:

EXECUTIVE SUMMARY

- Meeting the 2025 Enterprise metrics targets for undergraduate enrollment by providing the necessary student housing component enabling NAU to continue as a premier residential campus while serving a growing student population.
 - Increasing student retention by providing on-campus housing options with academic and other support programs shown to improve student success.
 - Supporting the university mission to provide an outstanding undergraduate residential education. This past fall semester, NAU had over 600 triple-occupancy rooms and over 100 students in temporary spaces at the beginning of the semester. As the entering class continues to grow, more upperclassmen are being displaced from NAU housing.
 - Aligning university facilities with the campus master plan approved by the Board in September 2010 and contributing to creating an expanded workable, livable and sustainable campus.
 - In November 2016 NAU received approval to create an Honors College, to enhance efforts to meet ABOR goals 1 & 2 (educate and achieve), by promoting the highest levels of academic quality and curricular innovation. NAU currently has 1,055 students in its Honors program with an anticipated growth of 125 per year as a College. These students are currently disbursed throughout residence spaces on campus, with many of the new incoming freshman residing in Calderon Learning Community. The incoming class this past fall was approximately 550, exceeding the capacity in Calderon by approximately 75 students. Development of an Honors community is critical to continued success and expansion of the Honors College.
 - NAU's Operational and Finance Review noted that expanding its high achieving student recruitment strategy through the development of an Honors College in combination with exceptional curricular experiences will help attract and retain honors students at NAU.
- In addition, the following primary institutional priorities for capital projects at NAU include:
 - **Student Support Requirements:** New facilities and student success programs must be provided to assure successful student recruitment, housing, socialization, retention and graduation. The model of a residential campus is successful in increasing and maintaining student retention rates as well as enhancing the student experience. As the entering freshman class size at NAU continues to grow, upperclassmen are being displaced from NAU housing. This project will build approximately 630 new beds to

EXECUTIVE SUMMARY

meet the increasing demand, as well as provide dedicated academic and student support space for the Honors program.

- **Funding Sources & Financing Options:** Project funding and financing are carefully considered for every individual project, to take advantage of opportunities, to maximize the resources available with minimal impacts on tuition rates and to responsibly manage the assets of the University. Impacts to tuition are avoided when possible. Financial resources are judiciously utilized to meet the highest institutional priorities and the University's financial strength and standing must be preserved. Constructing a privatized residence hall enables the University to preserve its debt ratio and bonding capacity for academic and other facility needs.

Project Delivery Method and Process

- The Honors Community project will be delivered through a third party long term lease agreement with ACC.

Project Status and Schedule

- Pending ABOR approval and favorable review from JCCR, NAU will enter into the Ground Lease and Master Sublease with ACC. Construction will begin in April 2017 with an anticipated completed date of August 2018.
- Utility Infrastructure project is a previously initiated utility infrastructure project, which was necessary for the University to engage in for safety and efficiency purposes. These improvements, scheduled to be completed March 26, 2017, will benefit this project as well as other university facilities, and fall under the ABOR project threshold requiring prior review and approval. The utility relocation includes, but is not limited to: relocation of a city sewer line, water line, electrical lines, fire hydrants, manholes and fiber optics. The site also is in a flood zone and will be over excavated and backfilled to bring it above the flood plain. The project also upgrades this infrastructure improving the overall life cycle and efficiency of the system.

Project Cost

- The portion of the Honors Community academic and student support space project is budgeted at \$9.9 million, which will be funded from System Revenue Bonds. The overall project budget for this space represents direct construction cost of \$400 per gross square foot. The estimated total project cost is \$444 per gross square foot. NAU's construction of the Student and Academic Services building in 2016 at \$320 per gross square foot, the total construction costs of \$400 per gross square foot is considered reasonable given the increased classroom technology, the podium deck construction and campus focal point this building will serve.

- **Site Agreement** - The total cost of this utility infrastructure project is \$4.9 million and will be financed with a combined debt issuance with the Honors Community academic and student support space project. Debt service for this will be paid from auxiliary funds.

Fiscal Impact and Financing Plan:

- The Honors Community academic and student support space project will be initially financed by ACC pursuant to a long-term lease of this space by the University. The University will subsequently refinance and pay off the lease for the Honors Community academic and student support space through the issuance of the System Revenue bonds authorized in this Executive Summary for the Honors Community academic and student support space project (project cost \$9.9 million). The Utility Infrastructure Project (project cost \$4.9 million) is anticipated to be financed at the same time through the issuance of System Revenue Bonds to save on issuance costs. The debt service on the bonds issued for both projects will be funded from tuition and fee revenue and auxiliary revenue.
- NAU intends to issue the bonds as long-term fixed rate bonds with a final mature of approximately 20 years. NAU's financial advisor estimates the overall true interest rate on the bonds as of March 13, 2017 would be approximately 4.25%; the actual interest rate conditions on the bonds may be higher or lower depending on the market interest rate conditions as of the date the bonds are issued. NAU will proceed with the System Revenue Bond financing if the overall true interest cost of the bonds is not more than 6% per annum.
- The debt service associated with financing these projects will increase the debt ratio by 0.24%, from 5.32% to 5.56% using the not to exceed 6% rate. These numbers are stated for FY18 as they represent the future maximum projected debt service which is below the 8% statutory limit.
- NAU will evaluate bond insurance from viable bond insurers available in the market at the time of the sale. The decision as to whether bond insurance will be used will be a function of market conditions and the bond insurer's ratings at the time of bond pricing. Bond insurance will be used only if it provides a demonstrated economic benefit to NAU.

EXECUTIVE SUMMARY

The table below shows the anticipated pricing parameters for the financing

		Comments
Not-to-Exceed Project Costs	\$14,800,000	Total project financing
Issuance Costs (not to exceed)	\$500,000	Not to exceed \$325,000 for Honors Community project and \$175,000 for Utility project
Credit Enhancement/Insurance Cost	TBD	Only executed if economically beneficial
Interest Rate (current market as of March 13 th , 2017 / not to exceed)	4.25% / 6.00%	
Maturity Range	2018-2038	Approximately 20 years
Average Instrument Life	12.3 years	
Estimated Annual Debt Service for FY 2018 – 2038, based on 6.00% not to exceed rate	\$1,336,000	Funded from Tuition and Fees and Auxiliary Revenue

Occupancy Plan

The Honors Community will be a residence for first-year Honors students. Additionally, Honors program faculty offices and honors classrooms will be located in the academic space of the Honors Community. Current faculty offices are in the Student and Academic Services building. These offices will be relocated to Honors Community, and the offices will be backfilled by other academic faculty. The classroom space is new dedicated space.

Committee Review and Recommendation

NAU requests the committee to review and forward to the full board for Project and Financing Approval the Honors Community academic and student support space project, Financing Approval for the utility infrastructure project and authorization to issue System Revenue Bonds to finance these projects as presented in this Executive Summary.

Requested Action

NAU requests the Board provide Project and Financing Approval of the Honors Community academic and student support space project Financing Approval for the utility infrastructure project and authorization to issue System Revenue Bonds to finance these projects as presented in this Executive Summary, with the terms and legal provisions of the bonds set forth in a resolution or other legal document to be prepared by bond legal counsel, including authorizing the Vice President for Finance and

EXECUTIVE SUMMARY

Administration and the Associate Vice President for Financial Services and Comptroller to execute any necessary documents to build and finance this project as described herein.

EXECUTIVE SUMMARY**Capital Project Information Summary****University:** Northern Arizona University**Project Name:** Honors Community
Academic and Core Student Support
Space**Project Description and Location:**

The new suite style Honors Community housing project on the Flagstaff campus will include 22,284 gross square feet within the facility to serve core academic and student service needs.

Project Schedule:

Planning	November 2016
Design Start	November 2016
Construction Start	April 2017
Occupancy	August 2018

Project Budget:

Total Project Cost	\$	9,902,000
Total Project Cost per sq. ft.	\$	444
Direct Construction Cost	\$	8,908,000
Construction Cost per sq. ft.	\$	400

Change in Annual**Operating/Maintenance Costs:**

Utilities	\$	41,000
Personnel	\$	54,000
All Other Operating	\$	0
	\$	95,000

Funding Sources:**Capital:**

• Gifts	\$	0
• System Revenue Bonds	\$	9,902,000
• Auxiliary Funds	\$	0
	\$	9,902,000

Operation/Maintenance:

• Auxiliary Funds	\$	95,000
	\$	95,000

EXECUTIVE SUMMARY**Capital Project Information Summary****University:** Northern Arizona University**Project Name:** Utility Site Work Project**Project Description and Location:**

This project incorporates a previously initiated utility infrastructure project, which was necessary for the University to engage in for safety and efficiency purposes. These improvements, scheduled to be completed March 26, 2017, will benefit the Honors Community project as well as other university facilities.

Project Schedule:

Planning	November 2016
Design Start	November 2016
Construction Start	December 2016
Occupancy	March 2017

Project Budget:

Total Project Cost	\$	4,910,000
Total Project Cost per sq. ft.	\$	NA
Direct Construction Cost	\$	4,100,000
Construction Cost per sq. ft.	\$	NA

Change in Annual**Operating/Maintenance Costs:**

Utilities	\$	0
Personnel	\$	0
All Other Operating	\$	0
	\$	0

Funding Sources:**Capital:**

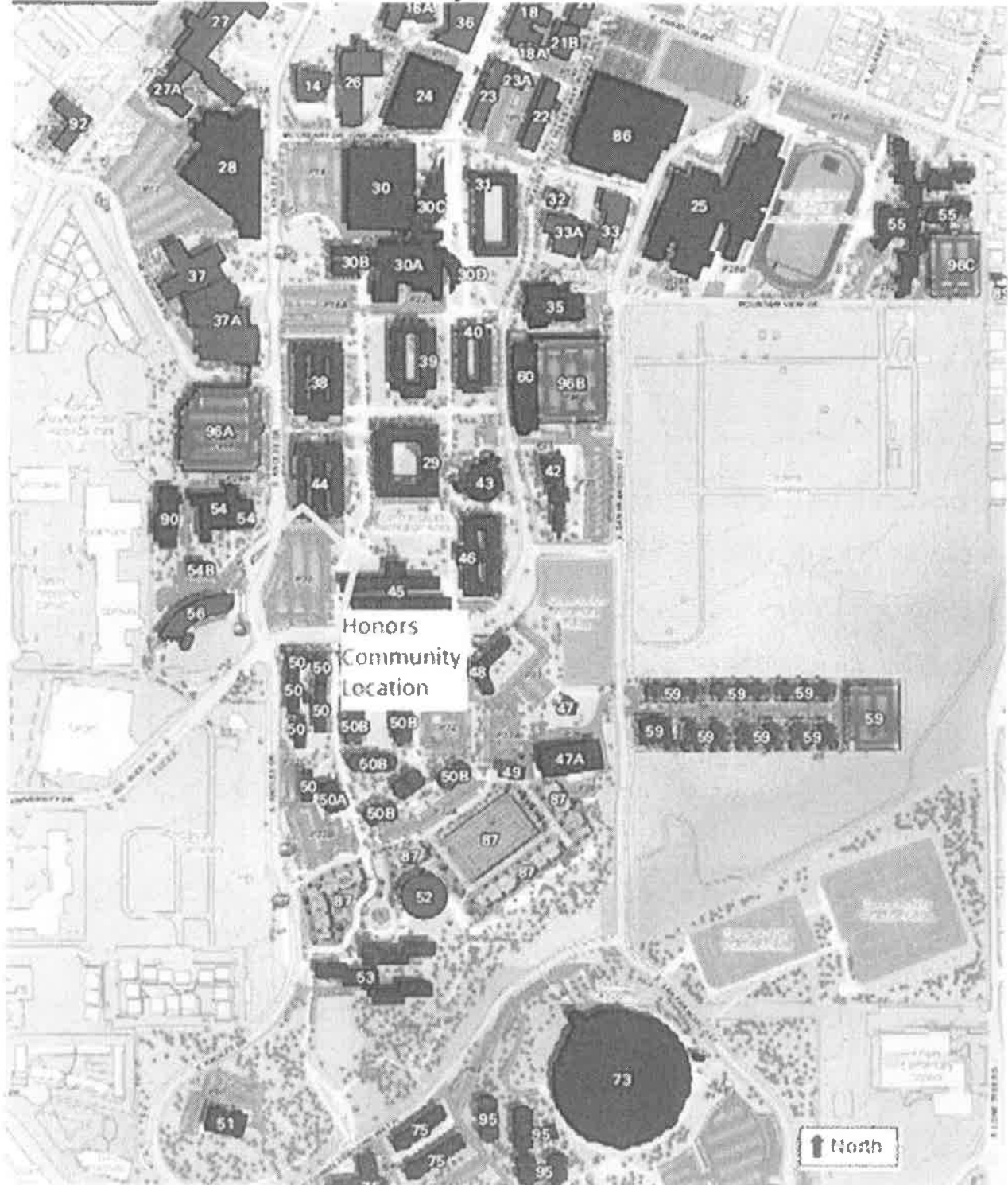
• Gifts	\$	0
• System Revenue Bonds	\$	4,910,000
• Auxiliary Funds	\$	0
	\$	4,910,000

Operation/Maintenance:

• Auxiliary Funds	\$	0
	\$	0

EXECUTIVE SUMMARY

Project Location: Honors Community Location





STATE OF ARIZONA

Joint Committee on Capital Review

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DATE: March 29, 2017

TO: Senator Debbie Lesko, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director *RS*

FROM: Ben Murphy, Assistant Fiscal Analyst *BM*

SUBJECT: Arizona Game and Fish Department - Review of FY 2017 Building Renewal Allocation Plan

Request

A.R.S. § 41-1252 requires Committee review of expenditure plans for building renewal monies. The Arizona Game and Fish Department (AGFD) requests the Committee review its FY 2017 Building Renewal Allocation Plan for \$104,100. The FY 2017 Capital Outlay Bill (Laws 2016, Chapter 126) appropriated a total of \$530,000 from the Game and Fish Fund for building renewal. The department is requesting Committee review of a Tucson Regional Office roofing replacement project with a total cost of \$104,100. The Committee has already reviewed the remaining \$425,900 of the building renewal appropriation at prior meetings.

Recommendation

The Committee has at least the following 2 options:

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

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

(Continued)

Under either option, the Committee may consider the following provisions:

A. The distribution of the emergency allocation of \$75,000 favorably reviewed at the September 21, 2016 JCCR meeting shall continue to be addressed as follows:

1. AGFD shall notify the Chairman and JLBC Staff that they plan to spend monies on an emergency project. The Chairman can allow AGFD to move forward with an emergency project without Committee review.
2. The Chairman will notify AGFD if she does not agree that a project is an emergency and that the project will require full Committee review.

An "emergency" project is defined as unforeseen, critical in nature, and of immediate time sensitivity.

B. In accordance with A.R.S. § 41-1252, if AGFD adds a new non-emergency project not listed in this request, the department must submit the proposed project and expenditure plan for Committee review.

Analysis

AGFD Regional Offices provide hunting and fishing license sales and boating registration services. The project would replace the shingle roofing of the Tucson Regional Office with standing seam metal roofing. Standing seam metal roofing is a more expensive alternative to shingle roofing, however, AGFD finds the material to provide a positive cost benefit due to its durability and expected life. The department reports having spent \$2,000 on temporary roofing repairs for the office in the past year.

The roofing replacement total project cost is \$104,100 based on a contractor quote. Of that amount \$103,100 would go towards the following:

- Removal and disposal of existing shingle roofing
- Replacement of damaged wood decking (base for roof panels to be nailed to)
- Furnishing and installation of standing seam metal roof panels
- 2-year warranty on contractor services
- 20-year limited warranty on roofing materials

The remaining \$1,000 is a contingency for the possibility that AGFD must replace roof sheeting or repair other structural damage.

The Tucson Regional Office completed major renovations in FY 2015 and FY 2016, including front office remodeling, new interior flooring, interior and exterior painting, lighting upgrades, ADA improvements and restroom renovations. The roofing replacement project would complete all planned major renovations for the office.

(Continued)

Please see *Table 1* for a summary of AGFD expenditures from its FY 2017 building renewal appropriation.

Table 1	
FY 2017 Building Renewal Projects	
<u>June 2016 JCCR</u>	<u>Cost</u>
Pinetop Regional Office Project	\$ 148,500
State Headquarters Major Maintenance Fund Deposit	52,200
Preventative Maintenance	42,400
<u>September 2016 JCCR</u>	
Hatchery Residential Roofing Replacement Project	68,700
Tucson Regional Office Restroom Project	39,100
AGFD Emergency Allocation	75,000
<u>April 2017 JCCR</u>	
Tucson Regional Office Roofing Replacement Project	<u>104,100</u>
FY 17 Building Renewal Appropriation Total	\$ 530,000

RS/BM:kp



THE STATE OF ARIZONA
GAME AND FISH DEPARTMENT

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March 13, 2017

Senator Debbie Lesko, Chairman
Joint Committee on Capital Review
Arizona House of Representatives
Capitol Complex
1700 W. Washington
Phoenix, AZ 85007-2890



Re: Request for Placement on Joint Committee on Capital Review Agenda

Honorable Senator Lesko:

The Arizona Game and Fish Department respectfully requests to be on the next scheduled agenda of the Joint Committee on Capital Review to review the Arizona Game and Fish Building Renewal Expenditure Plan (Remaining FY17 Appropriated Funds). Note that a total of \$425,900 of the \$530,000 appropriation was approved for expenditure at the June 16, 2016 and September 21, 2016 meetings. In accordance with A.R.S. § 41-1252 A(4), the Arizona Game and Fish Department is requesting Committee review and approval to expend the remaining \$104,100 from the FY 2017 Building Renewal appropriation.

The following information for this review is attached:

1. Arizona Game and Fish Final Building Renewal Expenditure Plan –FY17 Appropriation

Sincerely,

Larry D. Voyles
Director

cc: Representative Don Shooter, Vice Chairman, JCCR
Richard Stavneak, Staff Director, JLBC
Lorenzo Romero, Director, OSPB
Kevin Hodgkins
Anthony Guiles
Ed Sanchez
David Fernandez
Fred Bloom

Arizona Game and Fish Final Building Renewal Expenditure Plan – FY17

Project: Tucson Regional Office Re-roof

Project Category: Preservation of Assets; Building Shell

Need: The Arizona Game and Fish Department (AGFD) owns and operates six Regional Offices around the state (Pinetop, Flagstaff, Kingman, Yuma, Tucson and Mesa). These offices are typically occupied by 25 to 35 permanent staff and act as a base station for law enforcement officers and other field personnel. They are also AGFD's primary customer service locations throughout the state, providing hunting and fishing license sales, boating registration and a variety of information resources regarding Arizona's wildlife. Major renovations to the Tucson Regional Office were completed in FY15 and FY16 which included a lobby/front office remodel, new interior flooring, interior and exterior painting, lighting upgrades, ADA improvements and restroom renovations. AGFD strives to maintain these facilities in good condition as part of its on-going facility cyclic maintenance plan. Additionally, roofing at these facilities is being upgraded from shingle type or tile to a standing seam metal roof, which has proven to be a positive cost benefit. Currently, the Tucson Regional Office is in priority need for new roofing. Over the past year AGFD has spent over \$2,000 on temporary fixes to broken tiles and damaged sub roofing. This will complete all planned major renovations for this location.

Cost Estimate based AGFD General Services Contractor Quote which includes:

- Removal and proper disposal of existing two-piece mission tile, underlayment and drip edge metal
- Replacement of any damaged wood decking upon owner approval at an additional cost of \$82.00 per sheet of ½" plywood
- Furnish and install of new self-adhered underlayment
- Furnish and install of new 24 gauge pre-finished standing seam metal roof panels
- Furnish and install of new 24 gauge metal flashing
- Cleaning and removal of all work related debris and refuse
- Contractor 2 year warranty; 20 year limited warranty on roofing materials

Total: \$103,123

In case the need arises to replace roof sheeting or repair other structural damage, AGFD is asking for the remaining appropriation balance as a contingency which would only be expended if needed, on this project.

Total Contingency: \$977

Total Roofing Replacement Estimate: \$104,100 (if the total cost exceeds this amount the balance will be made up from other eligible operational funds)

Impact of Not Approving this Request: AGFD is committed to providing a safe, quality work environment to its regional employees. Deferral of this work will result in continued costly repairs and in some cases, health and safety implications.

AGFD BUILDING RENEWAL FY2017 EXPENDITURE SUMMARY

TOTAL APPROPRIATION	\$530,000
PRIOR APPROVED EXPENDITURE REQUESTS	\$425,900
CURRENT EXPENDITURE REQUEST	\$104,100
TOTAL REMAINING APPROPRIATION BALANCE:	\$0



STATE OF ARIZONA

Joint Committee on Capital Review

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DATE: March 29, 2017

TO: Senator Debbie Lesko, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director *RS*

FROM: Chris Gustafson, Senior Fiscal Analyst *CG*

SUBJECT: Department of Juvenile Corrections - Review of FY 2017 Building Renewal Allocation Plan

Request

A.R.S. § 41-1252 requires Committee review of expenditure plans for building renewal monies. The Department of Juvenile Corrections (DJC) requests the Committee review its FY 2017 Building Renewal Allocation Plan. The FY 2017 Capital Outlay Bill (Laws 2016, Chapter 126) appropriated a total of \$1,100,000 for building renewal from the Criminal Justice Enhancement Fund.

DJC is requesting a review of the remaining \$776,300 of the department's appropriation for building renewal projects in FY 2017 for Roof Repair, Floor Covering Systems, HVAC Replacement and Shower Door Replacement at the Adobe Mountain Juvenile Facility. At its September 2016 meeting, the Committee favorably reviewed \$350,000.

Recommendation

The Committee has at least the following 3 options:

1. A favorable review
2. A favorable review of projects repairing roofs and shower doors for a total cost of \$270,500.
3. An unfavorable review.

(Continued)

Under any option, the Committee may consider the following provisions:

- A. DJC shall not use any building renewal monies for projects located in Department of Corrections occupied buildings or in currently vacant buildings.
- B. If DJC adds a new project not listed in this request, the department must submit the proposed project and expenditure plan for Committee review.
- C. DJC shall report any project reallocations above \$50,000.
- D. If an emergency arises that is not addressed by the existing expenditure plan:
 - 1. DJC shall notify the Chairman and the JLBC Staff that they plan to spend less than \$50,000 on an emergency project. DJC can proceed without Committee review.
 - 2. The Chairman can allow DJC to move forward with an emergency project of greater than \$50,000 without Committee review.
 - 3. The Chairman will notify DJC if she does not agree that the project is an emergency and that the project will require full Committee review.

An "emergency" project is defined as unforeseen, critical in nature, and of immediate time sensitivity.

Analysis

DJC requests Committee review for the following projects:

Repair Roofs

The Adobe Mountain Juvenile Facility is in need of roof repairs in various buildings on the facility. Problems include physical deterioration, exposure to the elements, structural defects and stained interior ceilings. Replacing the roof in some cases may be cheaper than repair. At the beginning of FY 2017, DJC has identified 7 roofs in need of repair or replacement. DJC has expended \$323,700 from the September 2016 review on either replacing or repairing 3 roofs and is requesting an additional \$138,000 to partially replace roofs on 4 residence halls. In total, DJC plans to use \$461,700 from the building renewal appropriation along with an additional \$48,800 in operating funds.

Replace Floor Covering

The Adobe Mountain Juvenile Facility is in need of new floor coverings, such as carpet and tile. Many floors have worn out their useful life and replacement has been deferred. The department estimates 72,000 gross square feet of floor will be replaced. The cost is \$243,500, or \$3.38 per square foot.

Replace HVAC

DJC will identify the most critical HVAC problems and repair them so as to mitigate further repairs and emergency replacement. DJC has identified 36 HVAC units that are beyond their useful life. This cost is \$262,300, or \$7,300 per unit.

(Continued)

Replace Shower Doors

The shower doors are 20 years old and humidity has caused rust and deterioration. Serrated edges pose a danger to the staff and youth. The department will replace 44 shower doors at a cost of over \$3,000 a door for a total project cost of \$132,500. The higher-than-average cost is due to federal rules on prison shower facilities which require doors of solid metal, many are built into the foundation of the building.

Below is a chart of the requested expenditures, including monies already reviewed:

<u>Repair or Replacement</u>	<u>September Review</u>	<u>April Request</u>	<u>Total</u>
Roof	\$ 323,700	\$ 138,000	\$ 461,700
Floor Covering	0	243,500	243,500
HVAC	0	262,300	262,300
Shower Doors	0	132,500	132,500
Total	\$ 323,700	\$ 776,300	\$ 1,100,000

Department Long Term Plan Submittal

At its September 2016 meeting, the Committee favorably reviewed \$350,000 of building renewal funding for DJC. At that time the Committee required that before any requests for additional funding be reviewed, DJC must submit a report to the Committee on the long-term facilities plan for the Adobe Mountain School. The report was required to include:

- 1) Projected resident population of the school for the next 3 years.
- 2) A list of the age, square footage and current status of each building on campus, including vacant buildings and the length of the vacancy.
- 3) Options for disposition of the facility, if the Adobe Mountain Facility were to close.
- 4) Given current population projections, any projected change in status or usage of buildings over the next 3 years.
- 5) Significant deferred maintenance and future building renewal projects not included in the proposed FY 2017 allocation plan.

DJC submitted a 3-page report which stated that they project that the population of DJC would most likely be 180 individuals per month for the foreseeable future. The population as of February 2017 was 177 individuals. When the Adobe Mountain Facility was constructed, it was intended to hold approximately 600 juveniles.

DJC did not include any information in their report addressing different options to dispose of the facility. Currently, a portion of the Adobe Mountain Campus is being used by the Department of Corrections for offenders under community supervision in need of additional treatment and services.

Additionally, DJC reported that 2 buildings, totaling a capacity of 88 inmates were completely vacant. The department did not specify the actual population in each of the occupied buildings. Finally, the department reported that they plan on using all available buildings in the future and identified 11 projects that required attention, but were not included in the FY 2017 building renewal allocation plan.

RS/CG:kp



ARIZONA DEPARTMENT OF JUVENILE CORRECTIONS

SAFER COMMUNITIES THROUGH SUCCESSFUL YOUTH

Douglas A. Ducey
Governor

Jeff Hood
Interim Director

March 10, 2017

The Honorable Debbie Lesko, Chairman
Joint Committee on Capital Review
1716 W. Adams St.
Phoenix, AZ 85007



Re: Review of FY 2017 Building Renewal Allocation Plan for the Arizona Department of Juvenile Corrections

Dear Senator Lesko:

The Arizona Department of Juvenile Corrections (ADJC) requests Committee review of the department's FY 2017 building renewal expenditure plan pursuant to A.R.S. § 41-1252. The FY 2017 Capital Outlay Bill (Laws 2016, 2nd Regular Session, Chapter 126) appropriated a total of \$1,100,000 for building renewal from the Criminal Justice Enhancement Fund.

At its September 2016 meeting, the Committee gave a favorable review to \$350,000 of the \$1,100,000 appropriations. Of the favorably reviewed amount, ADJC has spent \$323,700 to replace the roofs of three buildings at the Adobe Mountain School facility.

The remaining \$776,300 of the capital appropriation will replace four additional roofs, twenty HVAC systems, floors throughout the facility and all shower doors. In addition to the balance of the capital appropriation, ADJC intends to spend \$48,800 in operating monies to complete these projects.

If you have any questions regarding ADJC's building renewal plan, please call Art Smith, Budget Manager, ADJC Business and Finance Administration, at 602-542-0461.

Sincerely,

Jeff Hood

Attachments (1)

Cc: Richard Stavneak, Director, JLBC
Chris Gustafson, Senior Fiscal Analyst, JLBC
Lorenzo Romero, Director, OSPB
Taylor Pair, Budget Analyst, OSPB
Denel Pickering, Business and Finance Administrator, ADJC

**Arizona Department of Juvenile Corrections
FY 2017 Building Renewal Allocation Plan
Laws 2016, 2nd Regular Session, Chapter 126
\$1,100,000**

Shell

\$510,500: Repair or Replace Failing Roofs, Adobe Mountain

The Adobe Mountain Juvenile Facility requires replacement and/or repairs to several building roofs. Physical deterioration through the combination of wear and tear, exposure to the elements, structural defects, and deferred maintenance have contributed to evidence of leakage, punctures, tears, blistered coatings, stained interior ceilings, sagging or decaying roof structures, and more. Some types of deterioration may be very apparent, while others may require a more thorough examination by a qualified source. Neglect of exterior roofs, walls, windows and doors facilitates deterioration of building structural systems, which leads to potential mold growth, and increases risk of damage to interior contents. Further, the costs of structure damage and mold abatement can often exceed the cost of replacing a roof membrane alone. The proposed allocation will address critical needs within the campus.

Of the proposed allocation, ADJC has spent \$323,700 of monies favorably reviewed by the Committee in September 2016 to replace the roofs of the Administration building, Health building and Nova residence hall. The remaining \$186,800 will be utilized to partially replace roofs on four residence halls that have leaks in identical areas.

Interior

\$243,500: Replace Floor Covering Systems, Adobe Mountain

Floor covering replacements have been in a “deferred indefinitely” status for many years because limited building renewal monies are directed at keeping failing roofs, HVAC, electrical and plumbing systems, fire alarms, sewer and water systems operational. Many floor coverings - some as old as 20-years - have exhausted a deferred status and are in such poor condition they require immediate attention to avert or eliminate safety hazards. The expected useful life of most carpet in a typical building is five to ten-years. Conditions include floor coverings completely worn through to the floor, trapped dirt accumulation, patch maintenance, stains, unraveling seams and tears, unsuccessful duct tape repairs, and extensive rippling. Tiles are continually broken by those in custody, resulting in health and safety risks to the youth and staff. This allocation will address the most critical flooring needs throughout the campus.

**Arizona Department of Juvenile Corrections
FY 2017 Building Renewal Allocation Plan
Laws 2016, 2nd Regular Session, Chapter 126
\$1,100,000**

Major Building Service

\$262,300: Replace Failing HVAC, Adobe Mountain

An increasing number of HVAC units reach and/or exceed their life expectancy on an annual basis. These units serve various institutional housing, classroom and recreational facilities. Failure to address these systems will lead to costly repairs and pose serious health safety risks for the youth and staff housed in these buildings. This allocation will be used to address the most critical HVAC issues on campus in an effort to prevent costly repairs and emergency replacements.

Fire and Life Safety

\$132,500: Replace Shower Doors, Adobe Mountain

The Adobe Mountain Juvenile Facility requires replacement of shower doors in several units. The doors are over 20-years old and have exceeded their life expectancy. The age of the doors combined with several years of use and humidity has caused large rust spots and deterioration of the door frames. The rust presents several life safety hazards such as infection to staff or youth and cuts from serrated edges. Additionally, broken pieces of rust could be used as a weapon to harm staff, harm other youth or self-harm. This allocation will address critical life safety needs throughout the campus.



STATE OF ARIZONA

Joint Committee on Capital Review

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DATE: March 29, 2017

TO: Senator Debbie Lesko, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director *RS*

FROM: Geoffrey Paulsen, Fiscal Analyst *GP*

SUBJECT: Arizona Department of Administration - Consider Recommending FY 2017 Partial Rent Exemption

Request

A.R.S. § 41-792.01D authorizes the Director of the Arizona Department of Administration (ADOA), on recommendation from the Joint Committee on Capital Review, to grant a full or partial exemption from the payment of state-owned rental fees if the agency has vacated its space. ADOA requests the Committee recommend a partial rent exemption to the Department of Revenue (DOR) of \$(28,275), and a corresponding rent payment of \$28,275 for the Attorney General.

Recommendation

The JLBC Staff recommends that the Committee recommend a partial exemption of \$(28,275) in FY 2017 for DOR and a corresponding rent increase of \$28,275 for the Attorney General.

Analysis

DOR currently occupies 8,650 Rentable Square Feet (RSF) of state-owned space at 416 West Congress in Tucson. DOR has consolidated its operations in Tucson and beginning April 1, 2017 the Attorney General will take over the space. ADOA will bill the prorated FY 2017 rent of \$28,275 to the Attorney General.

RS/GP:kp

Douglas A. Ducey
Governor



Craig C. Brown
Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

100 NORTH FIFTEENTH AVENUE • SUITE 401
PHOENIX, ARIZONA 85007
(602) 542-1500

March 14, 2017

The Honorable Debbie Lesko, Chairman
Joint Committee on Capital Review (JCCR)
Arizona State Senate
1700 West Washington Street
Phoenix, Arizona 85007

The Honorable Don Shooter, Vice-Chairman
Joint Committee on Capital Review (JCCR)
Arizona House of Representatives
1700 West Washington Street
Phoenix, Arizona 85007

Re: Rent Exemption; Arizona Department of Revenue; 416 West Congress, Tucson

Dear Senator Lesko and Representative Shooter:

The Arizona Department of Administration (ADOA) requests the JCCR favorably review a Capital Outlay Stabilization Fund (COSF) rent exemption for the Arizona Department of Revenue (ADOR) of \$28,275. The A.R.S. § 41-792.01 (D) provides that the ADOA Director, on recommendation of the JCCR, may authorize a whole or partial exemption of COSF rent if the agency does not occupy or vacates space after the beginning of the fiscal year. Agencies that occupy State-owned buildings shall pay the higher of the amount reported by Joint Legislative Budget Committee (JLBC) Staff or the pro rata share based on actual occupancy, whichever is greater.

Beginning April 1, 2017, ADOA reallocated 8,650 Rentable Square Feet (RSF) of office space at 416 West Congress, Tucson, Arizona from the ADOR to the Arizona Office of the Attorney General (OAG). The ADOR consolidated its operations in Tucson to reduce its footprint and ADOA subsequently backfilled the space with the OAG.

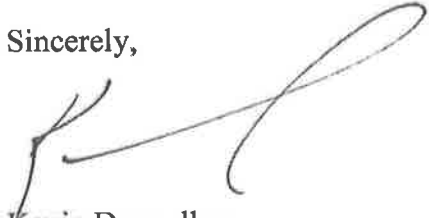


The Honorable Debbie Lesko
The Honorable Don Shooter
March 14, 2017
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For FY 2017 COSF rent, ADOA will invoice the OAG \$28,275. Beginning FY 2018, pursuant to A.R.S. § 41-792.01, ADOA will annually bill the OAG for the amount of space allocated or the amount of the appropriation, whichever is greater.

If you have any questions regarding the proposed COSF rent exemption, please contact Nola Barnes, Assistant Director, ADOA General Services Division (GSD), at 602-542-1954.

Sincerely,

A handwritten signature in black ink, appearing to read 'Kevin Donnellan', with a large, stylized loop at the end.

Kevin Donnellan
Deputy Director

cc: Richard Stavneak, Director, JLBC Staff
Rebecca Perrera, Fiscal Analyst, JLBC Staff
Lorenzo Romero, Director, OSPB
Ashley Olson, Fiscal Analyst, OSPB
The Honorable Mark Brnovich, Arizona Attorney General
Leslie Welch, Director of Operations, OAG
David Briant, Director, ADOR
Tom MacConnell, Chief Financial Officer, ADOR
Craig Brown, Director, ADOA
Derik Leavitt, Assistant Director, ADOA
Nola Barnes, Assistant Director, ADOA/GSD