STATE OF ARIZONA

Joint Committee on Capital Review

STATE SENATE	1716 WEST ADAMS PHOENIX, ARIZONA 85007	HOUSE OF REPRESENTATIVES
ROBERT L. BURNS CHAIRMAN 2007 PAULA ABOUD AMANDA AGUIRRE MARSHA ARZBERGER KAREN S. JOHNSON THAYER VERSCHOOR JIM WARING	PHONE (602) 926-5491 FAX (602) 926-5416 http://www.azleg.gov/jlbc.htm	RUSSELL K. PEARCE CHAIRMAN 2008 TOM BOONE TRISH L. GROE JOHN KAVANAGH PHIL LOPES DAVID LUJAN DAVID SCHAPIRA

JOINT COMMITTEE ON CAPITAL REVIEW
Wednesday, May 16, 2007
8:00 a.m.
Senate Appropriations Room 109

MEETING NOTICE

- Call to Order

- Approval of Minutes of April 5, 2007.

- DIRECTOR'S REPORT (if necessary).

1. ARIZONA STATE UNIVERSITY - Reconsider Review of Indirect Financing for Downtown Campus Student Housing Project.

2. ARIZONA DEPARTMENT OF ADMINISTRATION - Consider Approval of FY 2008 and FY 2009 Rental Rates for State-Owned Space.

3. ARIZONA DEPARTMENT OF ADMINISTRATION/DEPARTMENT OF JUVENILE CORRECTIONS - Review of DJC Well Renovation Project and ADOA Building Renewal Allocations.

4. SCHOOL FACILITIES BOARD - Consider Approval of Refinancing Deficiencies Correction Bonds.

5. ARIZONA EXPOSITION AND STATE FAIR BOARD - Review of FY 2007 Building Renewal Allocation Plan.

6. ARIZONA STATE PARKS BOARD - Review of State Lake Improvement Fund Projects.

The Chairman reserves the right to set the order of the agenda.
5/11/07

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.

Joint Committee on Capital Review

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MINUTES OF THE MEETING
JOINT COMMITTEE ON CAPITAL REVIEW

Thursday, April 05, 2007

The Chairman called the meeting to order at 8:10 a.m., Thursday, April 05, 2007 in Senate Appropriations Room 109 and attendance was as follows:

Members:	Senator Burns, Chairman	Representative Pearce, Vice-Chairman
	Senator Aboud	Representative Kavanagh
	Senator Aguirre	Representative Lopes
	Senator Arzberger	Representative Lujan
	Senator Johnson	Representative Schapira
	Senator Verschoor	
	Senator Waring	
Absent:		Representative Boone
		Representative Groe

Hearing no objections from the members of the Committee, Chairman Robert Burns stated the minutes of January 23, 2007 would stand approved.

ARIZONA STATE UNIVERSITY – Review of Polytechnic Central Plant Facility.

Ms. Leah Ruggieri, JLBC Staff, presented the Arizona State University (ASU) request for Committee review of the proposal to enter into a ground lease agreement with the Polytechnic Campus Energy, LLC to construct a Central Plant Facility at the ASU Polytechnic Campus. The Central Plant Facility would provide chilled water and emergency power to both the Polytechnic Academic Complex and Auditorium. The LLC would issue up to $18.5 million in bonds to finance the project. The bond issuances would not count toward the university's debt ratio and would be tax exempt. ASU would own the facility once the bonds are repaid. The actual design, construction, and operation of the facility would be managed by Arizona Public Services Energy Services. The JLBC Staff recommends a favorable review of the request.

Discussion ensued on this item.

Ms. Carol Campbell, Executive Vice President and Chief Financial Officer, ASU, and Mr. Gerald Snyder, Associate Vice President for Finance and Treasurer, ASU, addressed questions from the Committee.

Representative Pearce moved the JLBC recommendation that the Committee give a favorable review to the proposal to enter into indirect financing agreements to construct the Polytechnic Central Plant Facility at the ASU Polytechnic Campus with the provision that this does not constitute endorsement of any level of General Fund appropriations for the Central Plant Facility. The motion carried.

NORTHERN ARIZONA UNIVERSITY

A. Review of New Residence Hall Bond Project.

Ms. Amy Strauss, JLBC Staff, presented the Northern Arizona University (NAU) review of the New Residence Hall Bonding Project. Projects funded by system revenue bonds require Committee review. The project cost is approximately $30.4 million, of which $30 million would be funded by system revenue bonds issued in the spring with at AAA rating interest rate at 5% and $400,000 funded from NAU auxiliary funds. The 372-bed residence hall would be located on the main campus near other residence halls. The JLBC Staff recommends a favorable review with the standard provisions.

The last time NAU built a residence hall, it was done through third-party financing. This time NAU has decided to use issuances of revenue bonds as the financing method for the new residence hall.

Discussion ensued on this item.

Ms. Christy Farley, Director of Government Affairs, NAU and Ms. Kathe Shinham, Vice President for Administration and Finance, NAU, addressed questions from the Committee.

Representative Pearce *moved the JLBC Staff recommendation that the Committee give a favorable review to the New Residence Hall project to be financed with a $30 million system revenue issuance and $400,000 from auxiliary funds with the following standard university financing provisions:*

- *NAU shall report to the Committee before expenditure of any allocations that exceed the greater of $500,000 or 10% of the reported contingency amount total for add-alternates that do not expand the scope of the project. NAU shall also report to the Committee before any reallocation exceeding $500,000 among the individual planned renovations, renewals, or extensions.*
- *NAU shall submit for Committee review any allocations that exceed the greater of $500,000 or 10% of the reported contingency amount total for add-alternates that expand the scope of the project. In case of an emergency, NAU may immediately report on the scope and estimated cost of the emergency rather than submit the item for review. JLBC Staff will inform the university if they do not concur with the emergency nature of the change in scope.*
- *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.

NORTHERN ARIZONA UNIVERSITY

B. Review of FY 2007 Building Renewal Allocation Plan.

Ms. Amy Strauss, JLBC Staff, presented the review of FY 2007 Building Renewal Allocation Plan for NAU. The Arizona Board of Regents (ABOR) received approximately $20 million for Building Renewal, of that amount NAU received $2.6 million. A list of the projects is located on page 2 of the JLBC recommendation memo. The JLBC Staff recommends a favorable review.

Discussion ensued on this item.

Ms. Christy Farley, Director of Government Affairs, NAU, addressed questions from the Committee.

Representative Pearce *moved the JLBC Staff recommendation that the Committee give a favorable review to the FY 2007 Building Renewal Allocation Plan with the provision that NAU report on any reallocation above $500,000 between the individual projects in the plan.* The motion carried.

UNIVERSITY OF ARIZONA – Review of FY 2007 Building Renewal Allocation Plan.

Ms. Leah Ruggieri, JLBC Staff, presented the University of Arizona (UA) request for review of the FY 2007 Building Renewal Allocation Plan. Of the FY 2007 Building Renewal monies in the university system, UA's portion is $10.9 million. A list of the 10 projects to be funded is located on page 2 of the JLBC recommendation memo. The JLBC Staff recommends a favorable review.

Discussion ensued on this item.

Mr. Greg Fahey, Associate Vice President of Government Affairs, UA, addressed questions from the Committee.

Representative Pearce moved the JLBC Staff recommendation that the Committee give a favorable review to the FY 2007 Building Renewal Allocation Plan with the provision that UA report on any reallocation above $500,000 between the individual projects in the plan. The motion carried.

ARIZONA GAME AND FISH DEPARTMENT – Review of FY 2007 Building Renewal Allocation Plan.

Mr. Jeremy Olsen, JLBC Staff, presented the review of the Game and Fish Department's FY 2007 Building Renewal Allocation Plan. There are approximately $430,000 in Game and Fish funds for 10 projects listed on page 2 of the JLBC recommendation memo. The JLBC Staff recommends a favorable review of the request.

Discussion ensued on this item.

Mr. Fred Bloom Engineering and Construction Manager, Game and Fish Department, addressed questions from the Committee.

Representative Pearce moved the JLBC Staff recommendation that the Committee give a favorable review to the FY 2007 Building Renewal allocation plan. The motion carried.

ARIZONA STATE SCHOOLS FOR THE DEAF AND THE BLIND – Review Scope, Purpose, and Estimated Cost of Capital Projects.

Mr. Nick Klingerman, JLBC Staff, presented the review of the Capital Projects at the Arizona State Schools for the Deaf and the Blind (ASDB). ASDB received 2 different capital appropriations in FY 2007. One appropriation was $19 million, which was not for a specific project. The second was an additional $300,000 appropriated to replace air conditioners at the Tucson campus dormitories. The projects are listed on page 2 of the JLBC recommendation memo. Last July, the Committee reviewed the procurement method for the projects and approved using the Construction Manager at Risk procurement method. The Committee also had interest in ASDB receiving third-party assistance when selecting the Construction Manager and when negotiating the Guaranteed Maximum Price (GMP) for the projects, which ASDB has done.

The largest single project on the list is the new middle school and high school building at the Phoenix campus, which cost approximately $12.7 million and would be 50,000 square feet. The actual construction cost would be $185 per square foot. The square foot cost is higher than the School Facilities Board funding for new school construction for middle school and high school, which ranges between $138 and $162 per square foot. ASDB incorporates unique infrastructure items to meet the needs of the ASDB student population.

The JLBC Staff recommends a favorable review of the projects with the provision that ASDB report the final GMP for the projects.

There was no discussion on this item.

Representative Pearce moved the JLBC Staff recommendation that the Committee give a favorable review to the capital projects to be funded with the $19 million FY 2007 capital appropriation with the provision that ASDB report the final Guaranteed Maximum Price (GMP) for the projects.

PRESENTATION ON CAPITAL MALL PLANS

Mr. Kevin DeMenna, President, DeMenna & Associates, gave a presentation and issued a handout *(Attachment A)* on Capital Mall Plans.

Discussion ensued on this item.

Without objection the Committee meeting adjourned at 8:50 a.m.

Respectfully submitted:

____
Yvette Medina, Secretary

____
Lorenzo Martinez, Assistant Director

____
Senator Robert Burns, Chairman

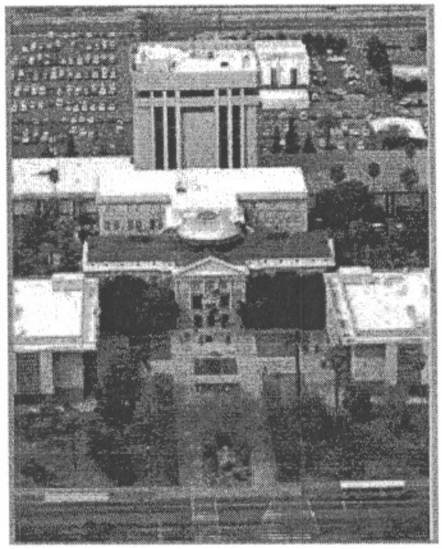
NOTE: A full tape recording of this meeting is available at the JLBC Staff Office, 1716 W. Adams.

LET'S REBUILD IT

Attachment A

NEW HOME IS NEEDED FOR HOUSE AND SENATE WITHOUT TOTAL PROJECT BECOMING GRANDIOSE

By: Kevin DeMenna,
The Arizona Republic
February 25, 2007



I have been to our nation's Capitol on three occasions in my adult life. Without fail, I set aside time to play tourist and to walk the Capitol Mall. On each occasion, the experience was an enthralling, almost spiritual one. In the world of democracy, you know that this is hallowed ground. The monuments and the buildings exude a sort of structural charisma, and the sense of pride and inspiration that comes from the dignity of the place create a unique desire to be a part of this extraordinary thing: our government. Is the American system of government perfect? Well, of course not. But that isn't the issue. Liberal or conservative, Republican or Democrat -- it doesn't matter. What does matter is that these mere structures provoke pride and, most importantly, a motivation to participate.

The Million Man March was held in the Capitol Mall. Martin Luther King Jr. delivered his seminal "I Have a Dream" speech on the steps of the Lincoln Memorial. In these two instances, and in others too numerous to describe, the venue played a significant role in powering the effort and punctuating the meaning behind the message.

The same cannot be said of Arizona. Our Capitol complex is an architectural wasteland. The only remarkable feature is the original Capitol building itself, a beautiful structure built in 1900, now a museum. This is an extraordinary edifice, sitting under a dome of 15 tons of copper donated by the mining industry in the good ol' days and topped by the statuesque weathervane known as Winged Victory.

But it is now surrounded on three sides by buildings that are, at best, dull and ordinary, more pedestrian than inspirational. The western face consists of three adjoining additions built in 1919, 1938 and 1974. Combined, they are an architectural snapshot of government gone wrong, structural fashion-victims spanning a 55-year period.

But the most pitiful feature of the entire complex (and "complex" is a generous description) is the legislative wing, the House and the Senate office buildings. First occupied in 1960, they literally surround the original Capitol structure, with the Arizona Senate on the south and the House of Representatives on the north. Together, they form the Mall that tourists, Cub Scouts, schoolchildren, legislators and every citizen must pass through to reach the center of Arizona government. Awe-inspiring, it is not.

The two buildings that are the House and the Senate nicely capture that oh-so-special ambience of 1960s government architecture. Their most noteworthy feature is the unsightly latticework that fronts each building, a pattern of alternating inverted and upright A's for Arizona, (get it?) originally intended to provide shade but that now primarily serve as the daytime home for a legion of pigeons. To stand beneath the facade that fronts either building is to risk a well-placed shot from one of these rats with wings.

The plumbing is failing in both chambers, and pipes are bursting at almost regular intervals. The regulars know better than to drink from the water fountains.

The ceiling of the secret tunnel that connects the two buildings under the Mall not only leaks but is destined to cave in completely before too long. The grounds of the Mall itself have become a motley collection of weedy grass and a few dozen long-suffering rosebushes. Energy-efficient? Forget about it. Secure from even the most basic threats? Not even. And the largest hearing room in the entire Capitol barely accommodates 150 people, fewer than most junior high school auditoriums.

With the 100th anniversary of Arizona statehood fast approaching, the time is right for a transformation. Well-intentioned business groups and community organizations, aided by Arizona State University and the ubiquitous Arizona Public Service Co., are already promoting the idea. But these plans are mostly too grandiose in their scope, much too far-reaching to be politically practical. Although it makes sense to consolidate the functions of state government into a centralized and accessible location, redesigning an area from Seventh to 19th avenue is simply too much. Let's start the dialogue, but let's focus on the Capitol itself, the heart of Arizona government, and the House and the Senate in particular.

The next steps are simple. It comes down to money. The Joint Committee on Capital Review, consisting of legislative leaders, is charged with identifying and funding the state's capital needs. In the past decade, this committee has developed innovative ways to fund a new health laboratory and new offices for the Department of Environmental Quality and the Department of Administration.

Building a new House and Senate shouldn't be much different, and this committee is the ideal place to start. The challenge, of course, is that the 90 members of the Legislature will be the eventual occupants of the new buildings. Each will have an opinion and, just as importantly, a vote on what ultimately occurs.

So, let's get started. The sooner the full Legislature becomes actively engaged, along with community and business leaders, the closer we will be to swapping the architectural wasteland at 1700 W. Washington St. for the dignified buildings worthy to be called the Arizona Capitol.

Kevin DeMenna is the president of DeMenna & Associates, an Arizona lobbying and public affairs firm. He has served as a legislative intern, staff economist, chief of staff, and has been directly involved in the past 26 legislative sessions.

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Joint Committee on Capital Review

STATE SENATE

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HOUSE OF REPRESENTATIVES

DATE: May 10, 2007

TO: Senator Bob Burns, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Leah Ruggieri, Fiscal Analyst

SUBJECT: Arizona State University – Reconsider Review of Indirect Financing for Downtown Campus Student Housing Project

Request

The Higher Education Budget Reconciliation Bill (Laws 2006, Chapter 352) approved during the last legislative session includes a provision that requires the Arizona Board of Regents (ABOR) to receive Committee review for any projects using indirect debt financing. In January 2007, Arizona State University (ASU), on behalf of ABOR, requested Committee review of their proposal to enter into a lease or sub-lease agreement with Capstone Development to develop student housing for the ASU Downtown Phoenix Campus (DPC). At their January 23, 2007 meeting, the Committee gave an unfavorable review to the downtown campus student housing project, given that the campus was not established by the Legislature. As a result, ASU has chosen to delay project construction until a favorable review is granted by the Committee.

Recommendation

The Committee has at least the following options:

1. A favorable review. Capstone Development would construct student housing at the DPC at no additional cost to the state, provided that 99% occupancy is achieved in the first 4 years of the project.

2. An unfavorable review. The Downtown Phoenix Campus facilities have not been approved by the full Legislature.

Under either option, the JLBC Staff additionally recommends that ASU submit for Committee review any subsequent phases beyond Phase II of the proposed development.

(Continued)

Analysis

The JLBC Staff memo dated January 18, 2007 detailing the ASU lease or sub-lease agreement with Capstone Development is included in this submission as *Attachment A*.

Since the January 2007 JCCR review of this agreement, Senator Burns has worked with the state universities to enhance future legislative oversight of capital projects. The universities are in agreement with Senator Burns' current proposal to require JCCR review of capital projects that utilize indirect or third party financing and of university campuses that are established at new locations. This proposal has been incorporated into the Senate Appropriations Committee's version of the Higher Education Budget Reconciliation Bill (SB 1095). Although this has not been enacted, Senator Burns has asked the Committee to reconsider its action on the ASU agreement with Capstone Development so as to not impede progress in the construction of student housing at the DPC.

RS/LR:ym
Attachment

Attachment A

STATE OF ARIZONA

Joint Committee on Capital Review

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

DATE: January 18, 2007

TO: Senator Bob Burns, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director RS

FROM: Leah Ruggieri, Fiscal Analyst LR

SUBJECT: Arizona State University – Review of Indirect Financing for Downtown Campus Student Housing Project

Request

The Higher Education Budget Reconciliation Bill (Laws 2006, Chapter 352) approved during the last legislative session includes a provision that requires the Arizona Board of Regents (ABOR) to receive Committee review for any projects using indirect debt financing. Arizona State University (ASU), on behalf of ABOR, requests Committee review of their proposal to enter into a lease or sub-lease agreement with Capstone Development to develop student housing for the ASU Downtown Phoenix Campus (DPC).

Summary

The highlights of the agreement with Capstone Development are as follows:

- Phases I and II of the student housing development would accommodate between 1,200 and 1,300 students. The project would have a total cost of $106 million and per-square-foot cost of $217.

- Capstone Development will construct subsequent phases of the development if they meet performance requirements specified in their agreement with ASU.

- Capstone Development will pay for the project. They will lease the land for the proposed site from the City of Phoenix for 30 years. Additionally, Capstone Development will issue $116.6 million in tax-exempt bonds to finance development construction costs, estimated to be paid off in 23 years with student housing fees. At the end of the lease or the period of bond indebtedness, whichever is sooner, ASU will become the owner of the land and the facilities.

- If Capstone Development does not obtain an occupancy rate of 99% in the first 4 years of the project, ASU would pay Capstone not more than $1.2 million in any year. ASU would receive reimbursement from Capstone for these payments from the project's future year profits.

- ASU requires a maximum rental price for student accommodations, though Capstone may raise the rent above this amount if significant cost increases occur.

(Continued)

Recommendation

The Committee has at least the following options:

1) A favorable review. Capstone Development would construct student housing at the DPC at no additional cost to the state, provided that 99% occupancy is achieved in the first 4 years of the project.

2) An unfavorable review. The Downtown Phoenix Campus facilities have not been approved by the full Legislature.

Under either option, the JLBC Staff additionally recommends that ASU submit for Committee review any subsequent phases beyond Phase II of the proposed development.

Analysis

Project Description and Justification
The DPC opened in FY 2007 and currently houses the College of Nursing and Healthcare Innovation, the College of Public Programs, and the University College. As of the fall 2006, approximately 2,800 (headcount) students were enrolled in one or more classes at the DPC. ASU projects by FY 2009, the headcount will increase to 7,500 with the addition of the Cronkite School of Journalism to the campus. Eventually, ASU will expand to a headcount 15,000 students.

To accommodate student housing needs in FY 2007 and FY 2008, ASU entered into an agreement with City Center, LLC, to lease the former Ramada Inn property (now named the Residential Commons) as a housing development for a maximum of 260 students. The investor group that owns the property has not committed this property to ASU beyond 2008. As the Residential Commons serves as a temporary housing development and does not offer sufficient space for future on-campus housing needs, ASU would enter into a lease or sub-lease with Capstone Development to construct permanent student housing at the DPC on a phased basis. Capstone Development is a private corporation that has developed 25,000 beds on colleges and university campuses across the country since 1994. In addition to meeting student demand, ASU is providing student housing to improve retention and graduation rates since students who live on-campus typically stay in college and graduate at a higher rate than students who live off-campus.

By FY 2009, ASU anticipates student demand for housing at the DPC will be somewhere between 750 to 800 students, or 10% of the anticipated enrollment and 50% of anticipated freshman and first-time student enrollment. These figures reflect current housing usage rates at the Tempe campus. When the College of Public Programs, the College of Nursing, University College and the Cronkite School of Journalism were located at the Tempe campus in FY 2006, 1,310 of students enrolled in the programs lived in on-campus housing. By FY 2009, most of the University College and all of the College of Public Programs and School of Journalism will be located downtown. ASU expects a particularly strong demand for student housing due to limited existing housing opportunities in the area and projected student demographics.

The proposed development is located on Taylor Street between First Street and Second Street. In the first phase, Capstone Development would construct a 193,000 square-foot student development with 700 to 750 beds that would target freshmen students. This development would be available for occupancy in August 2008. The second phase would include a 168,000 square-foot student development with an additional 500 to 550 beds oriented toward upperclassmen and planned for occupancy in August 2009. Both the first and second phase would provide housing for students only. Subsequent phases have not been definitively planned, but would accommodate freshmen through upperclassmen. If Capstone Development meets performance requirements specified in their agreement with ASU, they will finance and construct these subsequent phases. ASU plans to submit these phases to ABOR for review before they are implemented.

Lease or Sub-lease Agreement with Capstone Development
To meet housing demand at the DPC, ASU conducted a Request for Qualifications (RFQ) process to select a private developer to construct the student housing project. In a RFQ process, all entities interested in

(Continued)

contracting for a proposed project submit their qualifications for the contract award. An entity is then chosen based upon their relative qualifications, after which they develop a project cost estimate. This process is different from a Request for Proposal (RFP) process, in which entities submit project cost estimates up front and are selected based primarily upon price. ASU received 3 responses to their initial RFQ, of which they chose A&L Investments for the contract award. A&L Investments currently owns a portion of the site proposed for the student housing development. Because A&L Investments does not specialize in student housing development, they partnered with Capstone Development to construct the project.

Capstone Development is the lead partner in the development and the sole point of contact for ASU. According to their agreement with ASU, Capstone Development is responsible for the construction, financing, operation of the housing development, and any building renewal needs. ASU's role in turn is to 1) commit to not develop competing housing developments, 2) provide land for future phases of the project, 3) provide compensation to Capstone Development at pre-determined levels if the project fails to obtain 99% occupancy in the first 4 years, and 4) supply any needed academic support services in the housing development.

While A&L Investments owns a section of the site proposed for the housing development, the City of Phoenix owns the remaining portion of the site. As of the most current agreement among Capstone Development, the City of Phoenix and ASU, the A&L portion of the site would be gifted to the City, thereby consolidating the site and placing it completely under the City's ownership. Capstone Development would then establish a not-for-profit entity that would lease the site from the City at a nominal cost ($1 per year) for 30 years. Capstone Development is able to create this non-for-profit entity because the purpose of the housing project is to rent to university students. ASU expects that this arrangement with the City and Capstone will be finalized by late February.

To finance Phases I and II of the project, the not-for-profit entity would issue $106.3 million in tax exempt bonds. The interest paid would total $10.3 million, bringing the total cost of the bond issuance to $116.6 million. Capstone Development would finance their debt payments with revenue generated from student housing fees. If the housing development generates revenue above the bond debt payments, Capstone Development and A&L Investments would keep a portion of the revenue equivalent to a calculated fair market value return on their investment. Of this amount, Capstone Development would receive 80% and A&L Investments would receive 20%. Revenue received above the calculated return would be used to make additional payments above the required debt payments. ASU estimates that enough revenue will be generated from student housing fees to pay off the bonds in 23 years. At the end of the 30-year lease or Capstone Development's period of indebtedness, whichever is sooner, ASU would become the owner of both the land and the improvements.

The average total cost per-square-foot for Phases I and II would be $294 and the average total cost-per-bed would be $85,000. This project as a whole has a higher average cost-per-square foot and average cost-per-bed than the American Campus Communities (ACC) student housing project at the Tempe campus, favorably reviewed by the Committee in November 2006. For the ACC proposed housing project, the average total cost per-square-foot was $217 and the average total cost-per-bed was $64,800. These lower costs are likely due to economies of scale, as the ACC project would accommodate 3,500 students, whereas the Capstone Development would accommodate between 1,200 and 1,300 students.

If Capstone Development fails to obtain an occupancy rate of 99% during the 4 year period from fall 2008 to spring 2012, ASU would agree to directly lease from Capstone Development varying percentages of the student beds. The proposed schedule is:

- The last 15% of beds up to 99% in the first year of Phase I and Phase II;
- The last 10% of the beds up to 99% in the second and third year of Phase I and the second year of Phase II;
- The last 5% of the beds up to 99% in the fourth year of Phase I and the third year of Phase II;

(Continued)

ASU's maximum potential for required direct leasing in this arrangement is $775,000 in the first year, $1.2 million in the second year, $975,000 in the third year and $500,000 in the fourth year. ASU would finance these amounts with local non-appropriated funds. Capstone Development has indicated a need for these guarantees to mitigate the risk associated with opening housing at a new campus with no track record and the need to make debt payments for the project. In exchange for these guarantees, ASU would receive:

- Immediate ownership of land valued at $5.1 million;
- Ownership of the improvements of the land at the end of the project indebtedness;
- Naming rights to the facility;
- Reimbursement from Capstone of the amount expended by ASU for direct leasing if at one point housing revenue exceeds the amount necessary to make bond payments.

In their agreement, ASU requires a maximum rental price for student accommodations that is consistent with other new university housing. If Capstone Development exceeds this maximum price, ASU would not be required to directly lease from Capstone Development for vacant beds in the first 4 years of the project. Current discussions are for a maximum rate of $695 per month for a shared accommodation unit with a 10 month lease. Rent would escalate at a rate of 4% annually or a rate similar to Tempe housing rates, whichever is greater. The rent can be raised above these terms, however, if significant cost increases occur. The student's financial relationship will be strictly with Capstone Development.

A.R.S. § 15-1683 allows each state university to incur a projected annual debt service for bonds and certificates of participation of up to 8.00% of each institution's total projected annual expenditures. This calculation is known as the debt ratio. If ASU were to issue system revenue bonds to finance Phases I and II of the DPC housing development that Capstone Development has agreed to bond finance, the ASU debt ratio would increase from 5.4% to 6.0%.

<u>Indirect Debt Financing</u>

Laws 2006, Chapter 352 specifies that indirect debt financing occurs when ABOR or a state university enters into an agreement with a tax-exempt non-profit organization or a private developer in which the non-profit organization or private developer executes bonds or enters into lease or lease-purchase agreement for capital projects that meet at least one of the following 3 criteria: 1) are located on the property of a state university, 2) are intended to house university activity, or 3) are capital projects in which ABOR or a state university guarantee revenue to the developer or debt service payments on behalf of the non-profit or developer. ASU's proposed arrangement with Capstone Development qualifies as an indirect debt financing agreement as it grants Capstone Development a lease for a capital project that is intended to house university activity.

When a university enters into an indirect debt finance agreement for a capital project, the project does not appear in their balance sheets as an asset or a liability. Instead, the university would report these arrangements in their annual financial statements as "component units", which are defined as independent not-for-profit corporations that support the university in some capacity and to which the university has some financial responsibility.

RS/LR:ym

ARIZONA STATE UNIVERSITY

PM 1 2 3 4 5 6 7 8 9 10 11 12 AM 1 2 3 4 5 6 7 8 9 10 11 12 PM
RECEIVED
DEC 0 8 2006
JOINT BUDGET COMMITTEE

December 7, 2006

The Honorable Tom Boone, Chair
Joint Committee on Capital Review
1700 W. Washington
Phoenix, AZ 85007

Dear Representative Boone:

In accordance with ARS 15-1682.02, the Arizona Board of Regents requests that the following indirect debt financed project for ASU be placed on the next Joint Committee on Capital Review Agenda for review:

Lease or sublease agreement with Capstone Developments, as a master developer
for student housing for the ASU Downtown Phoenix campus

Enclosed is pertinent information relating to this project.

If you have any questions or desire any clarification on the enclosed material, please contact me at (480) 727-8307.

Sincerely,

Richard Stanley
Senior Vice President and University Planner

Enclosures

c: Lorenzo Martinez, Assistant Director, JCCR
Joel Sideman, Executive Director, Arizona Board of Regents
David Harris, Acting Assistant Executive Director for Capital Resources, Arizona Board of Regents
Kathy Bedard, Assistant Executive Director for Business and Finance, Arizona Board of Regents
Carol Campbell, Executive Vice President and CFO
Virgil Renzulli, Vice President for Public Affairs
Scott Cole, Deputy Executive Vice President, University Services
Steve Miller, Deputy Vice President, Public Affairs
Lisa Frace, Associate Vice President for Budget and Planning
Gerald Snyder, Associate Vice President for Finance and Treasurer
James Sliwicki, Director, Budget Planning and Management
Scott Smith, Director, State Relations
Anne Gazzaniga, Director, Planning Studies

OFFICE OF THE PRESIDENT
PO Box 877705, Tempe, AZ 85287-7705
(480) 965-8972 Fax: (480) 965-0865

ACTION ITEM:

Request for Authority to Enter into a Lease or Sub Lease agreement with Capstone Developments, as a Master Developer for Student Housing for the ASU Downtown Phoenix campus.

ISSUE:

Pursuant to ABOR Policy 7-207, Arizona State University (ASU) requests Board approval to negotiate and enter into a Lease or Sub Lease Agreement with Capstone Developments, for the development of student housing for the ASU Downtown Phoenix campus.

BACKGROUND:

Arizona State University at the Downtown Phoenix campus opened its inaugural year this Fall 2006. Phase I of the campus brought the Colleges of Nursing and Public Programs and University College to the Downtown campus. Projected enrollment for the first year is 2,500 to 3,000 students. By Fall semester 2008, and with the addition of the Cronkite School, the projected number increases to 7,500, and by the year 2014, it is expected that nearly 12,000 students will enroll. Over a longer time, the campus is expected to grow to its capacity of 15,000 students.

Following approval at the April 2006 ABOR meeting, the University entered into an agreement with City Center, LLC, to lease the Ramada Inn property for use as student housing in the 2006-07 and 2007-08 academic years. The Ramada Inn property has been renamed the Residential Commons and has the capacity to house up to 260 students. This provides the Downtown Phoenix campus with a temporary start-up program for student housing. However, Residential Commons is not intended or desirable as a permanent facility and will not be sufficient to meet the needs of the campus after the School of Journalism relocates from Tempe and as the enrollment in University College grows. Providing appropriately designed and managed student housing, particularly for freshmen, is an important component of ASU's efforts to improve retention and graduation rates since students who live on campus and are supported in their transition to college and its demands have substantially improved retention rates.

By Fall 2008, the University anticipates the need to accommodate 750 to 800 students at the Downtown Phoenix campus. This would represent about 10% of the anticipated overall enrollment at that time, and roughly 50% of the anticipated freshman and first-time student

CONTACT: Richard H. Stanley, Senior Vice President and University Planner
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EXECUTIVE SUMMARY

enrollment. This is generally in line with current usage rates of housing on the Tempe campus. Over time, ASU expects that the Downtown Phoenix campus will require 3000 to 4000 beds. On the Tempe campus, more than 1310 students from the College of Public Programs, the College of Nursing, University College, and the Cronkite School of Journalism lived in housing last year. With the move of these programs in Fall 2006 and the Cronkite School in Fall 2008 to the Downtown Phoenix campus, there is an anticipated enrollment of 7500 students including nearly 1200 freshmen. With the increase in student enrollment, limited appropriate market housing opportunities in Downtown Phoenix, and current student demographics (approximately 70% of the students enrolled at the Downtown Phoenix Campus are female) the University anticipates a strong demand for beds at the new student housing facility.

ASU has determined that, given its existing debt capacity, the priority of other academic facility needs, and the existence of a private market industry for student housing, it can best meet the housing needs of the Downtown Phoenix campus through a relationship with a private developer. ASU conducted an RFQ process to select a private developer who will be able to meet the phased needs of the planned growth of the residential student population in downtown Phoenix. After the selection process, one developer was chosen with which to negotiate, A&L Investments. A&L Investments brought forward a competitive team to meet the university's demands, including Capstone Development, a nationally recognized and respected company in the field of student housing. Since the time of the selection process, Capstone and A&L Investments have completed arrangements for Capstone Development ("the Developer") to become the lead partner and the sole point of ASU contact. A&L has assigned its rights under the selection RFP to Capstone. They have also taken on the options that A&L had on the required parcels of land and are working to assure that they are available for the project. A&L Investments retains a 20% share in the profits from the project.

The proposed development is on a site on Taylor Street between First Street and Second Street. See attached aerial graphic of the site. The site includes parcels controlled by the Developer (the unnumbered parcels) and City owned parcels (#10, #11, and #12 and small portions of parcels #4 and #9).

The University and the Developer intend to approach student housing on the Downtown Phoenix Campus on a phased basis The phased growth of student housing will allow the Developer and the University to work together to plan for appropriate student housing as the need materializes. The first phase is expected to be 700-750 beds oriented toward freshman and planned for occupancy in August, 2008. The second phase is expected to be 500-550 beds oriented towards upperclassmen and planned for occupancy in August 2009. Subsequent phases will include additional housing that will satisfy the spectrum of the student body from the freshmen through upperclassmen. Approval is not being sought for any subsequent phases and ASU will review later phases with ABOR before proceeding.

EXECUTIVE SUMMARY

The housing will be constructed, financed, and operated entirely by the Developer. The University's involvement will be limited to providing assurances of not competing, land for future phases, and a limited financial exposure during the early stages of the project's life. The student's financial relationship will be with the Developer. The University will work with the Developer in providing certain academic support services in the project.

Land acquired by the Developer and land owned by the City of Phoenix are required for the first two phases. The Developer's land will be given to the University and the City's land will be leased to the University at nominal cost. The University proposes to lease the combined parcel to Capstone for a period of 30 years at nominal cost. At the end of the 30 years (or the period of indebtedness by Capstone if it is sooner), the land will revert to the University and the City, respectively. While it is the University lease to Capstone that requires ABOR approval, the entire relationship is being outlined as important context for that real estate transaction.

SUMMARY OF COSTS AND BUSINESS TERMS PROPOSED FOR THE LEASE:

Major Deal Points:

1. **Development and Disposition Agreement** – The project is to be administered by a Development and Disposition Agreement between the University and Capstone Development.

2. **Land Gift** –Capstone will "gift" to ASU three (3) lots owned on Taylor Street, between 1st and 2nd Streets.

3. **Land Lease** –The land required for the project will come from a combination of City land and land acquired by Capstone.

4. **Financing** – The financing structure proposed by Capstone would bond the entire cost of the project (phases I and II), including the land (which when A&L had been the owner of the option had previously been shown as an equity contribution in the pro-forma).

   The owner of the leasehold improvements is proposed as a not-for-profit (501c3) entity such as Collegiate Housing Foundation or a qualified 6320 entity. The total project cost, including financing, is currently anticipated in the finance model at $116,624,000, with $106,265,000 to bond for the total development cost for constructing Phases I and II (after interest earnings and a re-offering premium are deducted). This is structured as $68.7 million in Series A senior bonds and $37.6 million in subordinate Series B bonds. They would be issued as tax-exempt bonds.

The pro forma also shows a Series C bond issue. These are subordinate, cash flow bonds that would be privately placed with Capstone and its partners (such as A&L and potentially the City of Phoenix as compensation for city land). They are sized to provide a calculated fair market value return to Capstone. Surplus generated beyond that required for Series C payments would be held by a Trustee and invested to be used to repay the bonds in order of seniority in advance of the maturity dates. Rough calculation shows that if the pro forma results were achieved and the surplus funds are applied in that fashion, all three series would be fully paid during the 23rd year.

5. **Improvements** – Capstone will construct the residence hall without financial involvement of ASU. At the end of the lease term, all or a portion of the Improvements will be gifted to ASU for value received.

6. **Management** – Capstone will be responsible for the day-to-day operations of all aspects of the Project. ASU and Capstone will negotiate provisions for Student Life Activities.

7. **Maximum Exposure** – To the extent that an occupancy rate of 99% is not achieved during the academic year, in the four year period from Fall 2008 to Spring 2012 (or until the third phase project is open sooner than 2012), the University will agree to directly lease from Capstone a varying percentage of the last of the student beds during a 10 month rental period up to the projected occupancy rate of 99%. The schedule proposed are exposures limited to:

    - the last 15% of the beds up to 99% in the first year of Phase I and Phase II,
    - the last 10% of the beds up to 99% in the second and third year of Phase I and the second year of Phase II,
    - the last 5% of the beds up to 99% in the fourth year of Phase I and the third year of Phase II,
    - no further exposure after the fourth year of Phase I and the third year of Phase II.

    ASU's maximum potential of required direct leasing in this arrangement is approximately: $775,000 in year 1; $1,150,000 in year 2; $975,000 in year 3, $500,000 in year 4; and zero thereafter.

    The levels of exposure are a balance between the university's desire to avoid any exposure and the need for Capstone to obtain favorable financing terms. Capstone's issues leading to the need for guarantees are: (1) the need to mitigate the risk factors associated with opening housing on a new campus with no track record of housing or student enrollment; and (2) the need to achieve on the pro forma debt coverage ratios at the rental rates required by ASU. ASU would gain from Capstone the following financial benefits in exchange for the four years of guarantees (limited to about $3.4 million over four years):

- Immediate ownership of land valued at $5.1 million under the option price (the Woodward and Palandri parcels).

- Ownership of the improvements on the land at the end of the period of the projects indebtedness (about the 23rd year if the pro forma is met; 30th year at worst).

- Naming rights to the facility (granted by the not-for-profit to ASU) which provides a fund raising opportunity.

- Reimbursement by Capstone of any expended guarantee monies from project surplus as it becomes available.

With appropriate phasing of project size and cooperative efforts at marketing the value of on-campus housing to student success, the risks of the University incurring these additional costs will be low. ASU will assure that planning in the size and use of existing reserves within the overall auxiliary budget for residential life and within general reserves takes into account the need to have the ability to meet any additional costs that may be required. Housing rates in existing University-owned residence halls will not be impacted by this.

8. **Pricing -** The University will require that there be a maximum price set for the student accommodations at the project's opening. Should the maximum rental price not be achieved, the University will not be required to directly lease from Capstone. The maximum price at opening must not be out of line with other new University housing. Current discussions are for a rate not to exceed $695 per month for a shared accommodation unit with a ten month lease. The rental rate is intended to be fully inclusive of utilities including water, sewer, electricity, gas (if required), cable TV, and internet connectivity. Rent will escalate at the rate of 4% annually or equivalent to similar Tempe housing rates, whichever is greater.

9. **Non-compete** – The University will agree that it will not enter into any other student housing development agreements for the Downtown Campus, so long as the Capstone meets certain performance requirements, that will include rent escalations and other criteria associated with safety, amenities, staffing levels, and overall satisfaction.

10. **Continuation of Phasing**: Each subsequent phase, after Phase I and II, is contingent on satisfactory delivery of the previous phase (on-time and with anticipated price level) and a satisfactory operations report (behavior, safety, and price escalation). Subsequent phases require Board review.

11. **Resident Assistants** – The University will receive, at no cost, beds for a pre- determined number of Resident Assistants (RA) to provide academic support.

FISCAL IMPACT:

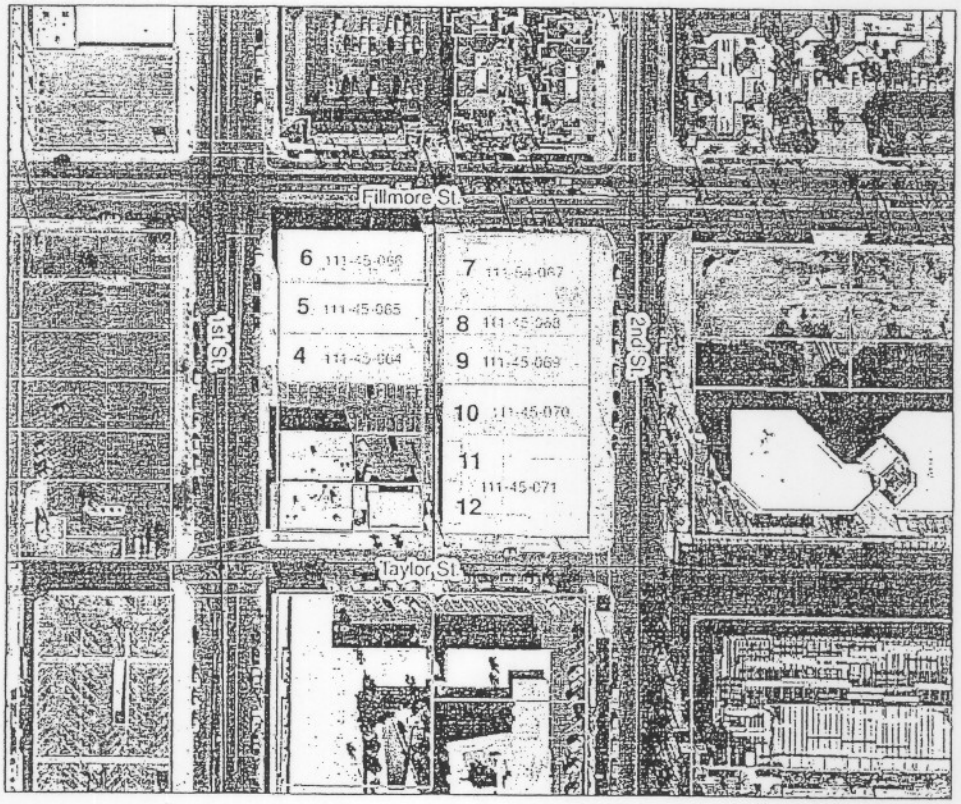
During the period between the agreement with Capstone to move forward (post-Regent approval) and the confirmation of the cost assumptions in the pro forma, Capstone will incur significant costs in land acquisition and design. Capstone has proposed the following protective terms; if the University determines to not move the School of Journalism to the campus, Capstone could claim reimbursement of all design and development costs expended. If there are material increases in the costs of the project beyond the level forecast in the pro forma, Capstone would expect the University to work cooperatively to examine modifications to the project to reduce costs to the planned level and would permit the required rent levels to be achieved, and if such reductions are not possible, to work cooperatively on defining new rent levels that would permit the project to proceed with the same University participation. (It should be noted that significant contingency has been built into the estimates in an effort to avoid such a scenario.) The University agrees that these are reasonable provisions. As last step, they seek assurance that the property they acquired reverts to their ownership and that the University will work with them on provisions regarding the City property such that they could proceed with a student housing project independent of ASU participation. Discussions are not yet complete on this aspect of the arrangement.

RECOMMENDATION:

RESOLVED: Arizona State University is hereby authorized to enter into a Lease or Sub-Lease with Capstone Developments concerning the development of Student Housing on the Downtown Phoenix campus according to the terms and conditions set forth in this executive summary, subject to approval by the ABOR Capital Committee and Board, and subject to review by Board counsel and University counsel of the final document.

RESOLVED FURTHER: That the President of the University or the Senior Vice President and University Planner shall take such actions as may be necessary and proper to negotiate and execute the Master Lease on behalf of ASU.

Attachment


Fillmore St.
1st St.
2nd St.
Taylor St.
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STATE OF ARIZONA

Joint Committee on Capital Review

STATE SENATE

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HOUSE OF REPRESENTATIVES

DATE: May 10, 2007

TO: Senator Bob Burns, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Lorenzo Martinez, Assistant Director

SUBJECT: Arizona Department of Administration – Consider Approval of FY 2008 and FY 2009 Rental Rates for State-Owned Space

Request

A.R.S. § 41-792.01(D) authorizes the Committee to determine the rental rates for state-owned office and storage space. The Arizona Department of Administration (ADOA) requests the Committee determine the FY 2008 and FY 2009 rental rates for state-owned space. The Director of ADOA recommends the following FY 2008 and FY 2009 rental rates (per square foot):

	Office	Storage
Current Rates	$15.50	$6.00
FY 2008	$19.50	$7.00
FY 2009	$20.00	$7.00

The Senate and House budget proposals include funding to increase the rates in FY 2008 to the recommended ADOA rates.

Recommendation

The JLBC Staff recommends that the Committee increase the rates in FY 2008 to $19.50 per square foot for office space and $7 per square foot for storage space contingent upon funding being approved in the final FY 2008 budget. The Senate and House budget proposals include $2.8 million from the General Fund and $1 million from Other Funds to fund the increased rates in agency budgets.

The JLBC Staff recommends that action on FY 2009 rates be deferred to the FY 2009 budget.

Analysis

Rent paid for state-owned space is deposited in the Capital Outlay Stabilization Fund (COSF). The monies in COSF are available for appropriation for utility payments on ADOA office buildings, Building

(Continued)

Renewal, operating costs of the Building and Planning Services and Construction Services sections of the ADOA General Services Division, and specific capital projects. Agencies pay their rent from a variety of sources, including federal and other non-appropriated funds.

State-Owned Space Rental Rates

The current rental rate of $15.50 per square foot of state-owned space has not changed since FY 2002. This rate is projected to be 71% of the estimated market rate of $21.95 per square foot for Class B office space in FY 2008. Historically, rental rates for state-owned space have targeted approximately 90% of the projected market rate for Class B office space in order to encourage state building use. In addition, keeping pace with private sector rates lessens the funding requirement if an agency must relocate from state space to private space. The ADOA recommended rates are approximately 89% of the projected market rates in both FY 2008 and FY 2009.

Funding Requirements

Increasing the rental rates requires state agencies in state space to pay the higher rate. If agency budgets are not increased to pay the higher rates, agencies would have to absorb the additional costs. The ADOA recommendation represents a $4.00, or 26% increase in current lease rates for state-owned space. This increase would lead to a corresponding 26%, or $3.7 million increase in COSF funding, of which $2.8 million would be from the General Fund. The Senate and House budget proposals fund an increase sufficient to cover the recommended ADOA rates for FY 2008.

RS/LMa:ym

Janet Napolitano
Governor

William Bell
Director

ARIZONA DEPARTMENT OF ADMINISTRATION
GENERAL SERVICES DIVISION • 100 NORTH 15TH AVENUE, SUITE 202
PHOENIX, ARIZONA 85007

RECEIVED
JUN 30 2006
JOINT BUDGET COMMITTEE

June 30, 2006

The Honorable Tom Boone, Chairman
Joint Committee on Capital Review
Arizona House of Representatives
1700 West Washington
Phoenix, Arizona 85007

Dear Representative Boone:

The Arizona Department of Administration (ADOA) requests that The Joint Committee on Capital Review (JCCR) set FY 2008 and FY 2009 rental rates for state-owned and -leased space as follows:

Table 1 – Recommended Rate for State-Owned Space

Fiscal Year	Useable Square Feet	
	Office	Storage
2008	$19.50	$7.00
2009	$20.00	$7.00

Table 2 – Recommended Target for Private Leases

Fiscal Year	Rentable Square Feet
2008	$19.75 plus tax
2009	$20.35 plus tax

Since FY 2002, the rent for state-owned space deposited into the Capital Outlay Stabilization Fund (COSF) has been $15.50 per square foot for office space and $6.00 for storage space. The rates recommended by ADOA restore the FY 2008 and FY 2009 COSF rates to the approximate level expected if rates had not been frozen for six years while the State of Arizona faced difficult budget years. These recommended rates reflect approximately 88% of projected market rates. These rates are just below the historic practice of setting the COSF rates at approximately 90% of the market rate for Class B office space (excluding taxes). The target rates for private leases have been adjusted over the last several years in accordance with market rate increases. The private lease targets recommended by ADOA reflect 90% of projected market rates. Table 3 on the following page compares these rates.

Restoration of the COSF rate levels is crucial to enable adequate funding of maintenance and operation of state buildings. ADOA estimates that there is currently over $169 million in deferred maintenance needed for the building system. As a result, the State's capital assets are deteriorating. Problems range from the existence of 19-year-old carpet and paint in state buildings to roofs and elevators that are failing and past due for replacement. COSF rate increases are supported by market trends, actual building operating costs, the building renewal formula, and substantial increases to utility rates (projected to be 23% above FY 2005 for FY 2007). The recommended COSF rate would generate sufficient revenue to allow the Legislature to fully fund the COSF portion of the building renewal formula from the Capital Outlay Stabilization Fund. While this would not completely restore the building system, it would allow substantial improvement. The General Fund portion of building renewal would still be needed at substantial levels for buildings that do not pay into COSF. COSF rent is not charged for the majority of space in the ADOA building system (such as COP space, the prison system, and some legislative buildings). ADOA is responsible for operating all COSF, COP, and legislative buildings and performing major capital maintenance (building renewal) for all of them. ADOA relies on General Fund appropriations to fund maintenance and building renewal for these non-COSF buildings.

Table 3 – Comparison of Market Rates to State-Owned and Private Lease ADOA Recommendations

Type of Rate	FY 2008 Rate Per Rentable Square Foot 1/	FY 2008 Rate Per Usable Square Foot 2/	FY 2009 Rate Per Rentable Square Foot 1/	FY 2009 Rate Per Usable Square Foot 2/
Projected Market Rate	$21.95 plus tax	$24.14 plus tax	$22.60 plus tax	$24.86 plus tax
Private Lease Target	**$19.75 plus tax**	$21.73 plus tax	**$20.35 plus tax**	$22.39 plus tax
State-Owned (COSF) Rent – Office	$17.73	**$19.50**	$18.18	**$20.00**
State-Owned (COSF) Rent – Storage	N/A	$7.00	N/A	$7.00
State Lease Purchase (COP) Rent	Lease-purchase obligation passed through to tenant agency	N/A	Lease-purchase obligation passed through to tenant agency	N/A
State Lease Purchase (COP) Operating & Maintenance	Currently no charge is assessed to tenant agencies. This is funded as part of direct General Fund appropriations to ADOA for maintenance and building renewal.			
1/ "Rentable" square footage includes common areas such as lobbies, hallways, and restrooms. It is used for calculating rent for private sector leases. 2/ "Usable" square footage excludes common areas. It is used for calculating rent for state-owned buildings. Adding a load factor of 10% approximates an "apples to apples" comparison to "rentable" private space.				

Statutory Requirements

ARS §41-792 establishes the Lease Cost Review Board and provides that before July 1 of each even-numbered year, the Board shall (1) estimate an average square foot dollar cost for the following two fiscal years for leasing privately owned office space, and (2) recommend to the ADOA Director a rental rate for state agencies using space in buildings owned by or leased to the State.

ARS §41-792.01 provides that the rental rate for agencies occupying state-owned buildings under the jurisdiction of ADOA shall be determined by JCCR after recommendation by the ADOA Director prior to July 1 in each even numbered year.

ARS §41-792.01(H) establishes the Lease-Purchase Building Operating and Maintenance Fund and ARS §41-792.01(E) provides that the rental rate for agencies occupying state-leased buildings *shall* include the amount necessary to pay the lease-purchase obligation and *may* include the amount necessary to pay operating costs associated with the lease-purchase buildings.

Lease Cost Review Board Recommendation to the ADOA Director

ADOA staff presented data to the Lease Cost Review Board supporting an increase in COSF lease rates for FY 2008 and FY 2009. The ADOA recommendation matches the board recommendation except for COSF rent. The board recommended lower COSF rates than those currently proposed by ADOA. Although the board agreed in theory with the need for rates that reflect actual costs, agency representatives were concerned that increasing the rates to "normal" in FY 2008 would adversely impact agency budgets. The ADOA recommended amounts would impact capped fund sources and appropriated agency budgets if FY 2008 and FY 2009 appropriations do not fully fund the rental rates adopted by JCCR. The Board made the following recommendations to the ADOA Director:

1. Target for privately leased office space:
   FY 2008 -- $19.75 per rentable square foot plus tax
   FY 2009 -- $20.35 per rentable square foot plus tax

2. Rental rate for office space within state-owned buildings:
   FY 2008 -- $18.75 per useable square foot
   FY 2008 -- $19.50 per useable square foot

3. Rental rate for storage space within state-owned buildings:
   FY 2008 -- $7.00 per useable square foot
   FY 2009 -- $7.00 per useable square foot

4. The Board recommends that building renewal for buildings that pay into COSF be fully funded.

5. The Board further recommends that Building Renewal for the balance of the ADOA building system should be fully funded by an appropriate fund source such as the General Fund.

Summary

Based on the data and the need to reverse the deterioration of the state buildings system, ADOA requests that JCCR adopt the ADOA recommendation as specified at the beginning of this letter. The ADOA recommended COSF rates are more reflective of the projected private market rates and actual costs of maintaining the buildings managed by ADOA and supported by COSF. These rates would move these facilities closer to being self supporting. They would generate adequate building renewal funding to allow a portion of the estimated $169 million of deferred maintenance to be funded out of COSF.

Sincerely,

William Bell
Director

cc: The Honorable Robert Burns, Arizona State Senate
The Honorable Russell Pearce, Arizona State House of Representatives
Richard Stavneak, Director, Joint Legislative Budget Committee Staff
Lorenzo Martinez, Assistant Director, Joint Legislative Budget Committee Staff
Tyler Palmer, Fiscal Analyst, Joint Legislative Budget Committee Staff
Gary Yaquinto, Director, Office of Strategic Planning and Budgeting
Marcel Benberou, Principal Budget Analyst, Governor's Office of Strategic Planning and Budgeting
Matt Gottheiner, Senior Budget Analyst, Governor's Office of Strategic Planning and Budgeting
Jerry Oliver, Deputy Director, Department of Administration
Paul Shannon, Budget Manager, Department of Administration
Lynne Smith, Assistant Director, Department of Administration

STATE OF ARIZONA

Joint Committee on Capital Review

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

DATE: May 10, 2007

TO: Senator Robert Burns, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Kimberly Cordes-Sween, Fiscal Analyst

SUBJECT: Arizona Department of Administration / Department of Juvenile Corrections – Review of DJC Well Renovation Project and ADOA Building Renewal Allocations.

Request

The Arizona Department of Administration (ADOA) is requesting Committee review of its proposal to re-allocate $200,000 in FY 2007 Building Renewal monies to partially fund the purchase and installation of a new arsenic removal system at the Department of Juvenile Corrections (DJC) Adobe Mountain School juvenile correctional facility.

Laws 2006, Chapter 344 (the General Appropriation Act) appropriated $340,000 from the ADOA Risk Management Fund in FY 2007 to bring a well at Adobe Mountain School into compliance with new federal arsenic regulations. According to ADOA, the original treatment system estimate of $340,000 was developed in FY 2005 and would not have provided the most cost effective long term solution. The total project cost is now estimated at $588,800.

Recommendation

The JLBC Staff recommends a favorable review of the request with the provision that, upon award of a contract, ADOA submit more detailed cost estimates of the arsenic treatment project to the Committee, including separate labor and equipment costs. ADOA has indicated that due to an urgent need to bring the well into compliance, ADOA is pursuing emergency procurement in order to complete this project by June 30, 2007.

Analysis

Beginning January 2006, the U.S. Environmental Protection Agency began requiring that all public water systems further reduce arsenic levels in drinking water from 50 to 10 parts per billion (ppb), or an 80% reduction. The well located at Adobe Mountain School provides potable drinking water to both Adobe Mountain and Black Canyon Schools and currently measures between 14 and 19 ppb of arsenic.

(Continued)

In FY 2007, DJC was appropriated $340,000 from the ADOA Risk Management Fund to bring this well into compliance. According to ADOA, the original project cost of $340,000 would have only treated a portion of the water pumped from the well to reduce overall arsenic levels below the federally required standards. The new infrastructure modifications would allow all water to be treated, and this system is automated with 24-hour remote monitoring, as compared to the original estimate that would not have had these options. The new arsenic removal system will also have annual operating costs of $19,200, which is lower than the original estimate of $40,000.

The ADOA $200,000 requested transfer of appropriation would be reallocated from the $1.5 million HVAC project that was to be used for cooling tower and chiller replacements in DJC buildings. This funding would be restored from the FY 2008 building renewal appropriation and will not negatively impact the HVAC project since that project is currently only in the design stage. At its July 27, 2006 meeting, the Committee gave a favorable review of the ADOA FY 2007 Building Renewal allocation plan with the provision that ADOA submit for review any reallocations among projects. ADOA will also shift $50,000 of FY 2007 unused operating monies from the ADOA Corrections Fund to reach the total arsenic project cost of $588,800.

Estimated costs for the project components are listed in *Table 1*.

Table 1

Arsenic Removal Project Costs

Category	**Arsenic Reduction**
Professional Fees	$ 50,500
Construction Services	445,000
Site Improvements	88,400
Project Support	500
Contingency	4,400
Total	**$588,800**

RS/KC:ym

Janet Napolitano
Governor

William Bell
Director

ARIZONA DEPARTMENT OF ADMINISTRATION

100 North 15th Avenue
PHOENIX, ARIZONA 85007
(602) 542-1776

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MAY 08 2007
JOINT BUDGET COMMITTEE

May 7, 2007

The Honorable Bob Burns, Chairman
Joint Committee on Capital Review
Arizona House of Representatives
1700 West Washington
Phoenix, Arizona 85007

Re: Request for placement on the Joint Committee on Capital Review agenda

Dear Senator Burns:

The Arizona Department of Administration (ADOA) requests to be placed on the agenda for the next Joint Committee on Capital Review (JCCR). ADOA is requesting review of the re-allocation of $200,000 in FY 2007 Building Renewal to partially fund the purchase and installation of an arsenic removal system for two Arizona Department of Juvenile Corrections facilities and review of the entire $588,000 arsenic removal project. Based on the urgent need to bring these facilities into compliance and provide safe drinking water to the juveniles housed there, ADOA is proceeding with the procurement of a package arsenic treatment system that will be completely installed by June 30, 2007.

Additional information on the proposed project is attached. If you have any questions or would like further information, please contact Lynne Smith, Assistant Director, ADOA General Services Division, at (602) 542-1427.

Sincerely,

William Bell, Director
Arizona Department of Administration

Attachment

Background
Chapter 344, 47^{th} Legislature, Second Regular Session, 2006, appropriated $340,000 from the Arizona Department of Administration (ADOA) Risk Management Fund to the Arizona Department of Juvenile Corrections (ADJC) for the reduction of arsenic in the drinking water at the Adobe Mountain School (AMS) and Black Canyon School (BCS) facilities. Both schools are supplied from the same onsite well. Water from the well currently measures between 14 and 19 parts per billion(ppb) for arsenic, exceeding the 2001 U. S. Environmental Protection Agency (EPA) safe drinking water standard of 10 ppb. In October of 2006, Arizona Department of Juvenile Corrections (ADJC) staff requested the assistance of The Arizona Department of Administration (ADOA) in procuring an arsenic treatment system for the well serving the above facilities. Various options were explored including the most advantageous option of connecting to the City of Phoenix Water main at Happy Valley Road (this option was previously unavailable as the City had not extended water service west of I-17). Requirements by the City to extend a 12" main in 29^{th} Avenue in lieu of our proposed 6" private water line on state property, proved to be too costly when the City declined any financial participation (estimated costs were in excess of $1,000,000).

Information
Based on the urgent need to bring this facility into compliance and provide safe drinking water to the juveniles housed there, ADOA is proceeding with the emergency procurement of a package arsenic treatment system that will be completely installed by June 30, 2007. The system chosen will provide the highest quality and most reliable treatment to ADJC at the lowest projected operating cost. Basin Water will supply a 300 to 500 gallon per minute (gpm) capacity "BWiX" treatment system, capable of treating all water supplied to the facility without any blending and guaranteed to maintain an arsenic level at or below 8 parts per billion (ppb), well below the current Federal standard of 10 ppb. This system consists of two self contained modules housed in metal overseas cargo containers (one is the BWiX Processing Unit and the other a Brine Processing Unit), a salt tank and a brine waste storage tank. The system is completely automated and remotely monitored 24 hours a day.

The original treatment system estimate of $340,000 was developed in 2005 and is based on a system that would treat only a portion of the water pumped from the well (200 gallons per minute) to remove the arsenic and then blend back a portion of raw water (100 gallons per minute) such that the maximum allowable arsenic level of 10 ppb would not be exceeded. The system was not automated or remotely monitored. Estimated annual operating costs with a maintenance agreement for such a system are $40,000. This solution is not currently recommended by the consulting engineer for several reasons: 1) more monitoring and testing is required to maintain safe arsenic levels, increasing operating costs for ADJC, 2) weekly or even daily adjustment of the blending would be required, also increasing operating costs and finally, 3) the system may not be able to meet total water capacity needs should arsenic levels rise or well production decline.

The Basin water system proposed by ADOA has a total installed cost of $538,000. Engineering fees are an additional $50,000 for a total project cost of $588,000. Estimated annual operating costs are $19,212; all maintenance will be performed by the vendor and will be based on actual monthly water use at a rate of $187 per acre foot (one acre foot equals approximately 325,853 gallons). Based on the facilities' average daily use of 93,000 gallons, the estimated monthly fee is $1,601. The project funding and budget are as follows: (See attached file)

ADOA is recommending an allocation of $200,000 from the FY 2007 Building Renewal appropriation to fund the necessary infrastructure modifications and partially fund the system purchase. This $200,000 would be re-allocated from the $1.5 million HVAC project for cooling tower and chiller replacements in ADOA buildings; funding will be restored to these projects from the FY 2008 appropriation. This will not negatively impact the HVAC project as the projects are currently only in the design phase and would not be bid or constructed prior to the start of FY 2008; actual construction will not occur until the fall and winter months when cooling loads at their lowest to facilitate removal and replacement of existing cooling equipment.

Request

ADOA requests review of the allocation of $200,000 from the FY 2007 Building Renewal allocation to fund infrastructure modifications and partially fund the purchase of an arsenic removal system and the favorable review of the entire $588,000 arsenic removal project as presented.

ARIZONA DEPARTMENT of ADMINISTRATION		CONSTRUCTION SERVICES	
PROJECT:	BCS/AMS - Dissolved Arsenic Reduction System		
PROJECT NUMBER:	4035	DATE PREPARED:	April 18, 2007
PROJECT MANAGER:	Alvin Spencer	REVISED :	-
SENIOR PROJECT MANAGER:	Mike Rank		

DESCRIPTION		AMOUNT	
FUNDING SOURCES:	INDEX:		
ADJC Appropriation		340,000	
ADOA Corrections Fund	50000	50,000	
ADOA Building Renewal		200,000	
TOTAL FUNDING		$590,000	$590,000

PROJECT COST:		ESTIMATE	PROJECTED COST AT COMPLETION
Professional Services:			
1. A/E Fees		50,000	50,000
2. A/E Reimbursables		500	500
3. Special inspections/permitting		0	0
4. Construction Administration		0	0
5. CA Reimbursables		0	0
Subtotal		$50,500	$50,500
Construction Services (GC):			
1. Base Contract		445,000	445,000
2.		0	0
3.		0	
Subtotal		$445,000	$445,000
Separate Contracts:			
1. Site Improvements (Piping, Electrical, Fencing & Concrete)		88,350	88,350
2.		0	
3.		0	0
4.		0	0
5.		0	0
6.		0	0
7.		0	0
8.		0	0
			0
Subtotal		$88,350	$88,350
Project Support:			
1. ADOA Salaries		0	0
2. ADOA Expenses		0	0
3. Risk Management Insurance	0.0034	472	472
4.			
Subtotal		$472	$472
Contingency Allowance:	5%	$4,418	$4,418
TOTAL PROJECT COST		$ 588,740	$ 588,740
Funds Remaining/ (Additional Funds Required)		1,260	1,260

STATE OF ARIZONA

Joint Committee on Capital Review

STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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

HOUSE OF REPRESENTATIVES

DATE: May 9, 2007

TO: Senator Bob Burns, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Leatta McLaughlin, Fiscal Analyst

SUBJECT: School Facilities Board – Consider Approval of Refinancing Deficiencies Correction Bonds

Request

Laws 2003, Chapter 264 requires the School Facilities Board (SFB), prior to the issuance of State School Trust revenue bonds, to submit the projects, project bids, and the estimated annual principal and interest payments related to the bond agreement to the Committee for approval.

SFB requests Committee approval to refinance $88.6 million of the original $246.6 deficiencies correction State School Trust revenue bond issuance. Since refinancing would change the annual principal and interest payments of the bonds, Committee approval is needed. Only $88.6 million is eligible for refinancing because only that amount is subject to optional redemption according to the terms of the original bond contract.

Recommendation

The JLBC Staff recommends the Committee approve SFB's request to refinance $88.6 million of the State School Trust revenue bonds. According to SFB, a cumulative savings of $6.6 million from FY 2007 to FY 2018 could result from refinancing the $88.6 million as long as SFB is able to get the expected 4.09% interest rate. The current interest rate on the $88.6 million is 5.75%.

Analysis

Laws 2003, Chapter 264 authorized SFB to issue revenue bonds in FY 2004 for up to a maximum of $247.1 million to pay for Deficiencies Correction Program costs. The actual amount of the issuance was $246.6 million. The revenue bonds are repaid with trust land earnings from the Permanent State School Fund.

(Continued)

The legislation required SFB to receive Committee approval prior to issuing the bonds. In August 2003, the Committee gave SFB approval to issue short-term taxable bonds with a variable interest rate with the understanding that the bonds would be converted to long-term fixed rate tax-exempt bonds after resolving issues with the Internal Revenue Service. In June 2004, the Committee approved conversion to long-term fixed rate tax-exempt bonds.

The original issuance of $246.6 million was for a term of 15 years. Refinancing $88.6 million of the original issuance would not change the length of the term, which ends in FY 2018. The reason only $88.6 million is eligible for refinancing is due to the terms of the original contract. Long term debt issuances can have an optional callback feature of 10 years, as does this one. The callback feature allows issuers to repurchase bonds at a specified price on certain dates in the future, which corresponds to the $88.6 million amount. SFB expects to obtain an interest rate of 4.09%, which could result in a savings of $6.6 million. *Table 1* lists the possible savings for the current principal and interest payments compared to the projected new debt service payments in the current fiscal year through FY 2018, when the debt would be retired.

Table 1

Current Debt Service Compared to Projected Debt Service for Refinancing Deficiencies Correction Revenue Bonds

Fiscal Year	Current Debt Service	New Debt Service	Savings
FY 2007	$ 25,433,750	$ 25,036,692	$ 397,058
FY 2008	25,434,450	24,150,587	1,283,863
FY 2009	25,433,450	24,149,588	1,283,862
FY 2010	25,434,250	24,150,388	1,283,862
FY 2011	25,434,475	24,150,613	1,283,862
FY 2012	25,431,388	24,147,525	1,283,863
FY 2013	25,432,888	24,149,025	1,283,863
FY 2014	25,431,350	24,147,488	1,283,862
FY 2015	25,431,225	23,047,362	2,383,863
FY 2016	25,431,963	23,044,876	2,387,087
FY 2017	25,430,425	23,047,750	2,382,675
FY 2018	13,129,126	23,047,501	(9,918,375)
TOTALS:	**$292,888,740**	**$286,269,395**	**$6,619,345**

The expected annual savings would be $1.3 million for 7 years followed by savings of $2.4 million for 3 years and a final payment of $9.9 million more than the current debt service payment. Average annual savings would be about $550,000 since the final FY2018 payment would be almost $10 million higher than the current FY 2018 debt service payment. Transaction fees associated with the refinancing are estimated by SFB to be about $335,000 for underwriter, bond counsel, and financial advisor costs plus $1.2 million for insurance.

The bonds are repaid with revenues from the Permanent State School Fund. Since these monies are used to help pay the costs of K-12 Basic State Aid, the General Fund has to annually backfill the loss of these revenues. The refinancing will reduce the cost of payments, and therefore result in annual General Fund cost savings of about $1.3 million in the near term.

RS/LMc:ss

STATE OF ARIZONA
SCHOOL FACILITIES BOARD

Governor of Arizona
Janet Napolitano

Executive Director
John Arnold

April 5, 2007

The Honorable Robert Burns
Chairman Joint Committee on Capital Review
1700 West Washington
Phoenix, Arizona 85007

Dear Chairman Burns:

The municipal bond market continues to achieve historically low interest rate levels that present fiscal opportunities for the state. One such opportunity can be realized by refunding a portion of the School Facilities Board's outstanding debt. In 2004, the SFB issued $246 million in bonds serviced by the State Land Trust. The SFB is currently in a position to refund $88.6 million of that original issue. The new debt service schedule is the same length as the existing schedule (ending in 2018) and will generate an estimated savings of $6.6 million. Attached is a schedule that compares current debt service with the projected new debt service.

The debt service for these bonds comes from that portion of the Land Trust earnings that offsets general fund payments for basic state aid. Therefore, this refunding will have a direct benefit to the state general fund.

While most analysts project that the bond market will maintain the historically low cost of funds, SFB staff recommends the committee act as soon as possible to take full advantage of the market. To that end, we request a review of this item at your next meeting.

Sincerely,

John Arnold

C.c. Jim Apperson

1700 WEST WASHINGTON, SUITE 230, PHOENIX, ARIZONA 85007
Phone: (602) 542-6501 • Fax: (602) 542-6529 • www.azsfb.gov

Land Trust Refunding (3/28/07)

FY	Current DS	New Debt Service	Savings
FY 2007	$25,433,750	$25,036,692	$397,058
FY 2008	$25,434,450	$24,150,587	$1,283,863
FY 2009	$25,433,450	$24,149,588	$1,283,863
FY 2010	$25,434,250	$24,150,388	$1,283,863
FY 2011	$25,434,475	$24,150,613	$1,283,863
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FY 2015	$25,431,225	$23,047,362	$2,383,863
FY 2016	$25,431,963	$23,044,876	$2,387,087
FY 2017	$25,430,425	$23,047,750	$2,382,675
FY 2018	$13,129,126	$23,047,501	($9,918,375)
	$292,888,738	$286,269,392	$6,619,346

Notes:

Yeild of New Bonds	4.09%
Principal Amount Retired	$88,630,000
New Principal Amount	$83,645,000
Projected Total Savings	$6,619,346
Projected NPV savings	$2,287,178
NPV Percent Savings	2.58%

STATE OF ARIZONA

Joint Committee on Capital Review

STATE SENATE

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HOUSE OF REPRESENTATIVES

DATE: May 10, 2007

TO: Senator Bob Burns, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Dan Hunting, Fiscal Analyst

SUBJECT: Arizona Exposition and State Fair Board – Review of FY 2007 Building Renewal Allocation Plan

Request

The Arizona Exposition and State Fair Board (AESF) requests Committee review of its FY 2007 Building Renewal allocation plan of $510,800 from the Arizona Exposition and State Fair Fund. At its September 2006 meeting, the Committee favorably reviewed $430,600 for 5 projects, leaving $1,077,800 to be reviewed.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of $510,800 for the 6 submitted projects with the provision that AESF submit plans for the remaining $567,000 if monies are to be used for additional projects.

Analysis

Laws 1986, Chapter 85 established the Joint Committee on Capital Review (JCCR) and charged it with developing a Building Renewal Formula to guide the Legislature in appropriating monies for the maintenance and repair of state buildings. A.R.S. § 41-1252 requires JCCR review of the expenditure plan for Building Renewal monies. Laws 2006, Chapter 345 appropriated a total of $1,508,400 in FY 2007 from the Arizona Exposition and State Fair Fund to the AESF for building renewal activities.

The AESF is custodian of the 96-acre State Fairgrounds and Memorial Coliseum properties. The FY 2007 proposed Building Renewal expenditure plan covers six projects at the site:

(Continued)

Electrical Equipment Study
The building renewal plan includes $41,200 for an engineering study to upgrade electric equipment for the south parking lot. The electric system for the south parking lot is currently at capacity. This lot is the site of carnival rides during the Arizona State Fair. Due to inadequate electric supply, many of these rides must augment the power supply with diesel generators which produce noise and exhaust. This study will determine if existing equipment can be upgraded, or if full replacement is needed.

Stage Area Paving
A paving project near the southwest entrance will cost $33,800. This 92' x 100' area is used as a stage during the State Fair, and is currently a mix of dirt and asphalt.

Concrete Foundations
The plan includes $244,896 for concrete projects. Several grass and dirt areas near the Coliseum will be surfaced with concrete.

Parking Lot Striping
Striping of the north parking lot will cost of $48,900. The existing striping in the north parking lot is badly faded and traffic control messages are unreadable.

Energy Conservation
Energy conservation improvements will cost $30,700. West facing windows will be tinted to block heat and high efficiency lighting will be installed in the Coliseum offices. Additionally, new air doors will be installed in the Coliseum's north and south halls.

Roof Repair
Repair and analysis of the Coliseum roof will cost $111,300. A study of the Coliseum roof conducted as part of a previous building renewal project revealed that 2 supporting cables have lost tension. Further investigation is needed to determine how to correct the situation.

Based on submitted project bids and actual historical costs for similar projects, the estimates appear to be reasonable. The projects are consistent with building renewal guidelines and appropriations.

RS/DH:ym

Arizona State Fair

April 26, 2007

RECEIVED
APR 26 2007
JOINT BUDGET COMMITTEE

The Honorable Bob Burns
Joint Committee on Capital Review
Arizona Senate
1700 W. Washington
Phoenix, AZ 85007

Re: Request for Placement on Joint Committee on Capital Review (JCCR) Agenda

Dear Senator Burns:

The Arizona Exposition and State Fair (AESF) respectfully requests a favorable review for the expenditure of monies on the following capital improvements or building renewal projects:

1. Engineering study to upgrade electric equipment in South Parking Lot;	$ 41,196
2. Paving project near southwest entrance;	$ 33,805
3. Concrete projects surrounding Coliseum;	$244,896
4. Striping of the North Parking Lot;	$ 48,859
5. Energy conservation improvements;	$ 30,730
6. Coliseum roof repair	$111,340
Total	$510,826

Project descriptions are as follows:

1. Engineering study

AESF requests an electrical engineering study for its South Parking Lot (lot). AESF last replaced electrical transformers in the lot in the early 1990's. Currently, AESF uses all the electricity generated by the existing equipment. Due to the equipment's age, parts are difficult to find. During the annual Arizona

1826 West McDowell Road • Phoenix, Arizona 85007 • Phone 602-252-6771 • Fax 602-495-1302 • www.azstatefair.com

State Fair, the lot is used by carnival rides. These rides continue to advance technologically and often use diesel generators to increase electrical power. However, diesel generators can be noisy and emit exhaust. The engineering study will allow the agency to determine if it can upgrade its existing equipment to augment electrical output or if a full replacement is needed. The electrical engineering study may be accomplished by use of an existing state contract.

An engineering estimate has been included with this packet.

2. Paving project

AESF requests that a 92' x 100' area near its southwest entrance be paved. During the annual Arizona State Fair, a stage is placed in this area to provide entertainment. The stage is utilized approximately 9 hours each day and attracts thousands of guests. Currently, the area is a mixture of dirt and asphalt. The mixed surface makes it difficult to place staging, chairs and bleachers in the area. Paving will eliminate these issues and provide a smooth surface upon which to walk. Paving may be accomplished by use of an existing state contract.

RS Means pricing for new asphaltic concrete is $26.50 sy. However, in September 2006, AESF paid $29.48 sy for asphaltic concrete. General Services is recommending calculations be based on the $29.48 sy figure as it is closer to current industry costs. Paving project and associated work is 1,022 sy at @ $29.48 sy. This equates to $30,130 and does not include a contingency factor for petroleum price escalation or taxes.

Project is identified as number 2 in attached map and photos.

3. Concrete projects

AESF requests that a 70' x 91' dirt area on the southeast corner of the Coliseum be surfaced with concrete. AESF plans to place bathrooms and other guest amenities in the area. Laying concrete in the area will provide a smooth surface on which to place these improvements.

Additionally, AESF requests that several other grass and dirt areas surrounding the Coliseum be surfaced with concrete. These areas are rented or used on a regular basis for both the Arizona State Fair and for non-fair events. Vehicles, tents and equipment are regularly placed in these areas. Concrete will provide a smooth surface upon which to place these items. Labor and equipment savings will also result as mowing, watering, and fertilizing the areas will no longer be necessary. A map defining the areas has been attached. Concreting of these surfaces may be accomplished by use of an existing state contract.

RS Means pricing for Aggregate Base Course (ABC) is 4,737 sy @ $4.40 sy. This equates to $20,843. RS Means pricing for concrete and associated work is 42,635 sf @ $4.67 sf. This equates to $199,106. Total costs per RS Means pricing is $219,850 and does not include a contingency factor for price escalation or taxes.

Project is identified as number 3 in attached map and photos.

4. Striping of the North Parking Lot

AESF requests that its North Parking Lot (lot) be re-striped. Lot striping has badly faded due to element exposure and utilization. The inability to recognize traffic messages (i.e. fire lane, stop emblems, etc) has caused safety issues with patrons who are parking in fire lanes, and aisles. The project may be accomplished by use of an existing state contract.

RS Means pricing for striping is 132,973 lf @ .33¢ lf. This equates to $43,881 and does not include a contingency factor for escalation or taxes.

Project is identified as number 4 in attached map and photos.

5. Energy conservation improvements

AESF requests approval for several energy conservation projects. The agency's electrical rates have increased 30% over the last year. In an effort to conserve electricity and minimize electrical costs, the agency recently asked Arizona Public Service to conduct an energy audit of the Coliseum. As a result of that discussion, AESF has identified three areas in which building modifications will result in electricity savings.

1. The west wall of the Coliseum, where offices are located, is complete glass. These windows have the original manufacturer's sun tint. The tint is over 20 years old and provides minimal if any heat deflection from the sun. Replacing the sun tint on these windows will block approximately 80% of the sun's heat.

2. Lighting in the Coliseum offices consists of fluorescent T-12 lighting. By changing to T-8 lamps and motion/heat sensors, the agency will decrease its energy use while providing a better quality of light with lower mercury content. Lower mercury content will also reduce disposal costs.

3. AESF's removable air doors are no longer effective at keeping air conditioned air inside the Coliseum. Four doors are used in the Coliseum's north and south halls. New doors will reduce both kilowatt usage and air loss.

Project is identified as number 5 in attached map. Cost and contractor estimates have also been included.

6. Coliseum roof repair

AESF requests funds to continue investigation of the Coliseum roof. Previous inspection of the roof noted a small depression involving some of the concrete roof panels. Forensic examination has revealed two cables which have lost tension. Further investigation is needed to determine where the tension was lost and how the cable will be fixed. This is anticipated to be a time and materials project utilizing existing State contracts.

Project is identified as number 6 in attached map and photos.

AESF utilizes ADOA General Services to identify the most expedient and fiscally responsible process to accomplish these projects, whether through bid or state contracts.

Please see the attached budget worksheet for a detailed description of project costs.

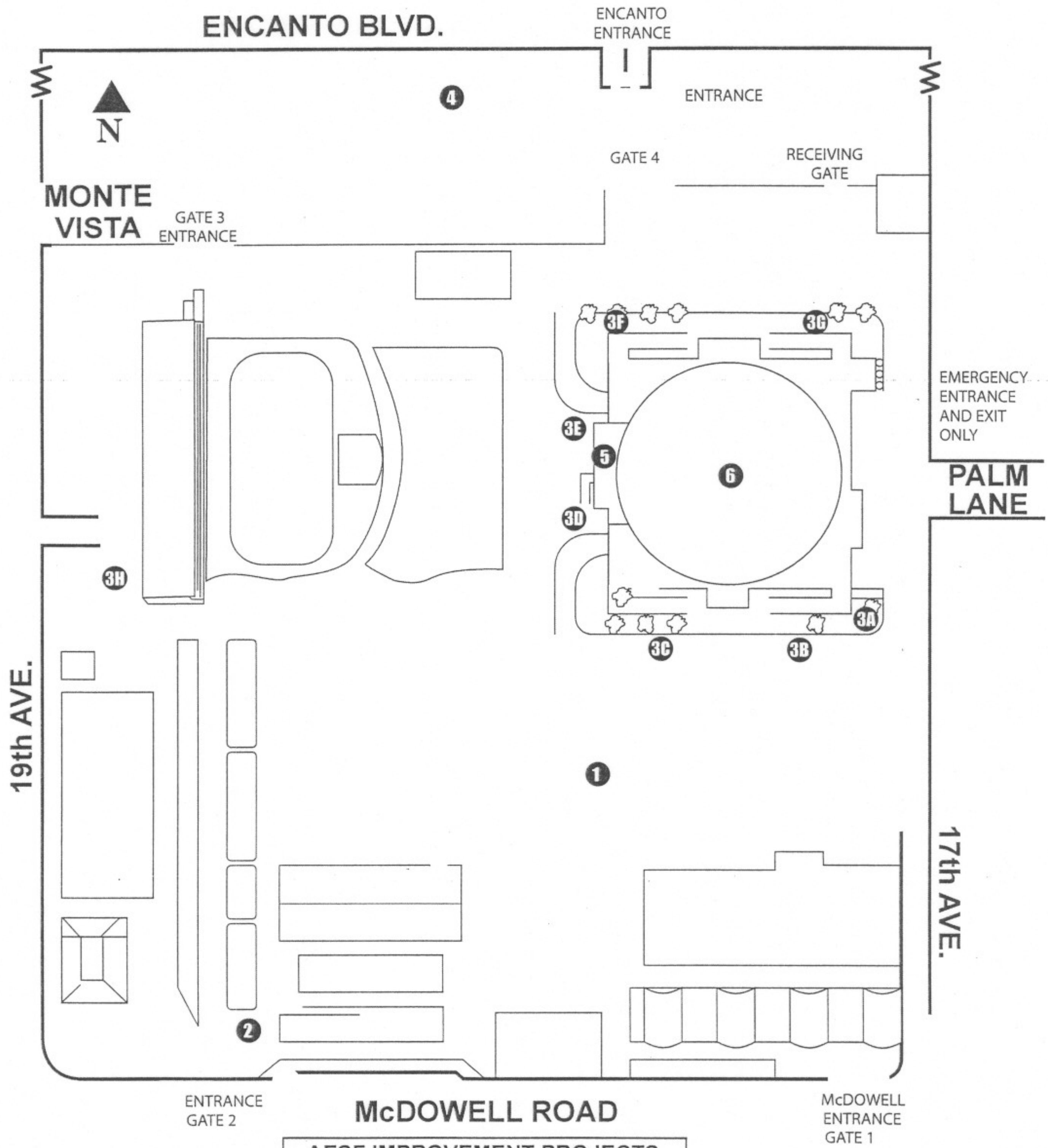
If you have any questions or require additional information concerning the requests, please contact me at 602-257-7120.

Sincerely,

Wanell Costello

Wanell Costello
Deputy Director

CC: The Honorable Russell K. Pearce
Marcel Benberou, OSPB
Lorenzo Martinez, JLBC
Dan Hunting, JLBC



AESF IMPROVEMENT PROJECTS

1. ELECTRICAL SURVEY - SOUTH LOT
2. ASPHALT PAVING - STAGE AREA
3. CONCRETE PAVING
4. PAINT STRIPING - NORTH PARKING LOT
5. ENERGY CONSERVATION IMPROVEMENTS
6. COLISEUM ROOF

STATE OF ARIZONA

Joint Committee on Capital Review

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

DATE: May 11, 2007

TO: Senator Bob Burns, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Matt Busby, Fiscal Analyst

SUBJECT: Arizona State Parks Board – Review of State Lake Improvement Fund Projects

Request

Pursuant to A.R.S. § 5-382, the Arizona State Parks Board requests Committee review of State Lake Improvement Fund (SLIF) capital grants and projects totaling $2,452,100. Of that amount, $1,500,000 would be for planning a new recreation area near the current Lake Havasu State Park. The remaining $952,100 would be used for the replacement of water mains and to provide electricity and potable water to the existing campsites at Lake Havasu State Park. Of this amount, $452,100 is unused portions of previously awarded SLIF grants.

Recommendation

The JLBC Staff recommends a favorable review of the portion of the Parks Board request concerning $942,100 in improvements at Lake Havasu State Park.

The Committee has at least the following 2 options for the $1,500,000 project to plan for a new recreation area to be called Contact Point:

1) A favorable review of the Parks Board request for the planning and design of Contact Point with a stipulation that the favorable review does not constitute an endorsement of General Fund support of the project in the future. The basis for a favorable review would be that the proposal is an allowable use of SLIF monies and there are sufficient SLIF monies available for planning.

2) An unfavorable review. The basis for an unfavorable review is that there is insufficient information regarding the need for, and the financial impact of, the project for the Committee to evaluate the request. The total cost of the project is estimated to be approximately $19 million and the long-term financing implications are unclear.

(Continued)

As an alternative, the Parks Board could report back to the Committee after conducting a smaller-scale study to assess the need for Contact Point. The report would include an analysis of the amount of revenue that would be generated by the new facility, along with a long-term financing plan. Upon reviewing that information, the Committee may be in a better position to assess the merits of the project before committing $1.5 million.

Analysis

Recent SLIF History and the Current Request

SLIF receives its revenue from a portion of watercraft license fees and an allocation of gasoline tax attributable to watercraft use. Monies in the fund are available to state agencies, counties, and local governments for capital improvement projects and acquisitions of real property on waters where gasoline-powered boats are permitted.

The Arizona Outdoor Recreation Coordinating Commission (AORCC), established under A.R.S. § 41-511, reviews eligible projects and presents a list of recommendations to the Arizona State Parks Board. The Parks Board then submits proposed capital projects to the Committee for review, as required by A.R.S. § 5-382.

Current AORCC guidelines establish that no more than 30% of grant/project allocations may go to the Parks Department, and that no other applicant may receive more than 20% of available grant resources in a given grant cycle. Using the evaluation criteria, AORCC and the Parks Board have approved both projects for funding in FY 2007 at a total cost of $2,452,100.

Contact Point Development Planning
The Parks Board requests $1,500,000 to contract for the planning of the development of Contact Point recreation area located approximately 4 miles south of Lake Havasu State Park. Lake Havasu is a man-made lake along the Colorado River. The Contact Point recreation area would be located on undeveloped land owned by the Parks Board. However, part of the roadway that would be used to access the recreation area is located on Bureau of Land Management (BLM) land.

The Parks Board expects to use SLIF dollars in the future to fund part of the construction of the development. However, it is possible that some of the local stakeholders will also contribute to the development costs. The Parks Board estimates the cost for the construction of Contact Point to total $19,380,000. Of that amount, the Parks Board expects to request $17,180,000 in future SLIF grant cycles. However, the project cost would have to be spread out over several years as SLIF monies are available (see below) and because current AORCC guidelines limit the Parks Board to 30% of SLIF allocations each year. It is important to note that the amounts are Parks Board estimates and that the planning and design of the overall project will ultimately determine the cost.

The Parks Board reports that the development at Contact Point is needed because congestion at Lake Havasu State Park forces traffic to back up onto Highway 95 as people are waiting to enter the park. They state that the problem is most severe on holidays in the summer months and to a lesser degree on weekends. On holidays, the park reportedly closes its gates by 9:30 A.M. and opens the gates mid-afternoon as soon as people leave and there are available parking spaces. On a typical summer weekend, they report that the park closes the gates and stops admitting boaters around 12 P.M. This results in a potential loss of revenue to the Parks Board. The Parks Board suggests that the development of Contact Point along with the new road will allow for the excess traffic to wait on the new roadway instead of Highway 95 and additional boat launch ramps would allow for more boaters on the lake.

(Continued)

Listed below are the various projects at Contact Point along with the estimated cost for each:

- Pavement of Dirt Road on BLM land - $2,200,000. Funds will come from the Parks Board's Arizona Department of Transportation account. Currently, the road is unpaved and is used to access BLM's dock on the lake. The road is approximately 1 mile long.
- Site preparation including grading and other earthwork - $1,500,000.
- Marina, Fueling Station, and Boardwalk - $5,430,000. The Parks Board would construct the new Marina using SLIF funds and is considering contracting with a private concession company to operate the Marina. The Parks Board has a similar arrangement at Kartchner Caverns. The Parks Board contracts with a private concessions vendor and retains anywhere between 3% and 27% of the revenues from the Kartchner Caverns gift shop. A similar contractual arrangement could be used at the Contact Point marina and would potentially provide revenue to the Parks Board.
- Marina Parking Lot - $1,750,000.
- Beach Area - $1,000,000. Retaining walls and erosion control is required to maintain the beach.
- Day Use Area - $2,500,000. This area would include amenities similar to other areas in the Lake Havasu State Park, including picnic tables, ramadas, restrooms, etc.
- Potable and Wastewater Services - $2,500,000.
- Boat Launch Area - $2,500,000.

Lake Havasu State Park Improvements
The Parks Board requests $500,000 of new SLIF funds and $452,100 of unused monies from previously awarded grants for capital improvements at Lake Havasu State Park's existing facilities. The monies would be used to install new 8-inch water mains with 9 hydrants and provide electricity and potable water to all 47 campsites throughout the park. Currently the park has 4-inch water mains for fire suppression. The Parks Board was recently notified by the Fire Marshall that these mains were insufficient and need to be upgraded to 8-inch mains to remain in compliance. No current campsites have electricity or potable water.

The total cost of this project is estimated to be $1,020,000. The new monies requested and the unused portions of previous SLIF grants total $952,100. Of the $452,100 of unused monies, $250,000 was reviewed by the Committee last November for the replacement of the water mains, but estimates of the total cost were too low. The remaining $202,100 was reviewed by the Committee in December 2001 for projects at Lake Havasu State Park but was never expended. The Parks Board anticipates using other fund sources for the $67,900 balance of the total projected cost, although it is currently unclear which funds would be used.

Status of the Fund

The Parks Board estimates the uncommitted SLIF will have a FY 2007 ending balance of $13.6 million, prior to consideration of the $2.5 million request. This amount has been adjusted for prior year obligations. *(See Attachment A.)*

This balance would be available for FY 2008 operating and capital expenditures. In FY 2007, new capital expenses were $4.0 million and operating expenses were $3.0 million. If similar amounts are expended again in FY 2008 for these items, approximately $6.6 million would remain for the Parks Board's current $2.5 million request.

Annual fund revenues are currently $9.5 million. At this level, full development of Contact Point would require almost 2 years worth of new revenues. Given current AORCC policy limiting the Parks Board to 30% of project grants, it would require 6 years or more to fund the project through SLIF grants.

RS/MB:ym

"Managing and conserving natural, cultural, and recreational resources"

Arizona State Parks

Senator Robert L. Burns, Chair
Joint Committee on Capital Review
Arizona House of Representatives
1700 West Washington
Phoenix, Arizona 85007

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JOINT BUDGET COMMITTEE

Arizona State Parks
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Phoenix, AZ 85007

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RE: State Lake Improvement Fund Project Review

Dear Senator Burns:

On behalf of the Arizona State Parks (ASP) Board, I submit $2 million of State Lake Improvement Fund projects per A.R.S. §5-382 to the Joint Committee on Capital Review. Funding for these projects comes from a portion of the fuel sales tax attributable to gas-powered boating, and watercraft registration fees.

These monies are in excess of the grant program needs for this year and would allow us to address issues surrounding Lake Havasu. ASP has one of the last developable pieces of land on the lake. Various entities (see enclosure) have requested that ASP develop this property at Contact Point to address traffic congestion, both on land and on the water, safety and law enforcement, as well as economic development. ASP would like to move forward in addressing these issues and to proceed with the planning process. The $1.5 million should address this process and a portion of the future development costs. In addition, approximately $500,000 would be used for improvements at Lake Havasu State Park.

Should you have any questions on these State Lake Improvement Fund projects, please contact Jay Ziemann, Assistant Director, at (602) 542-7104.

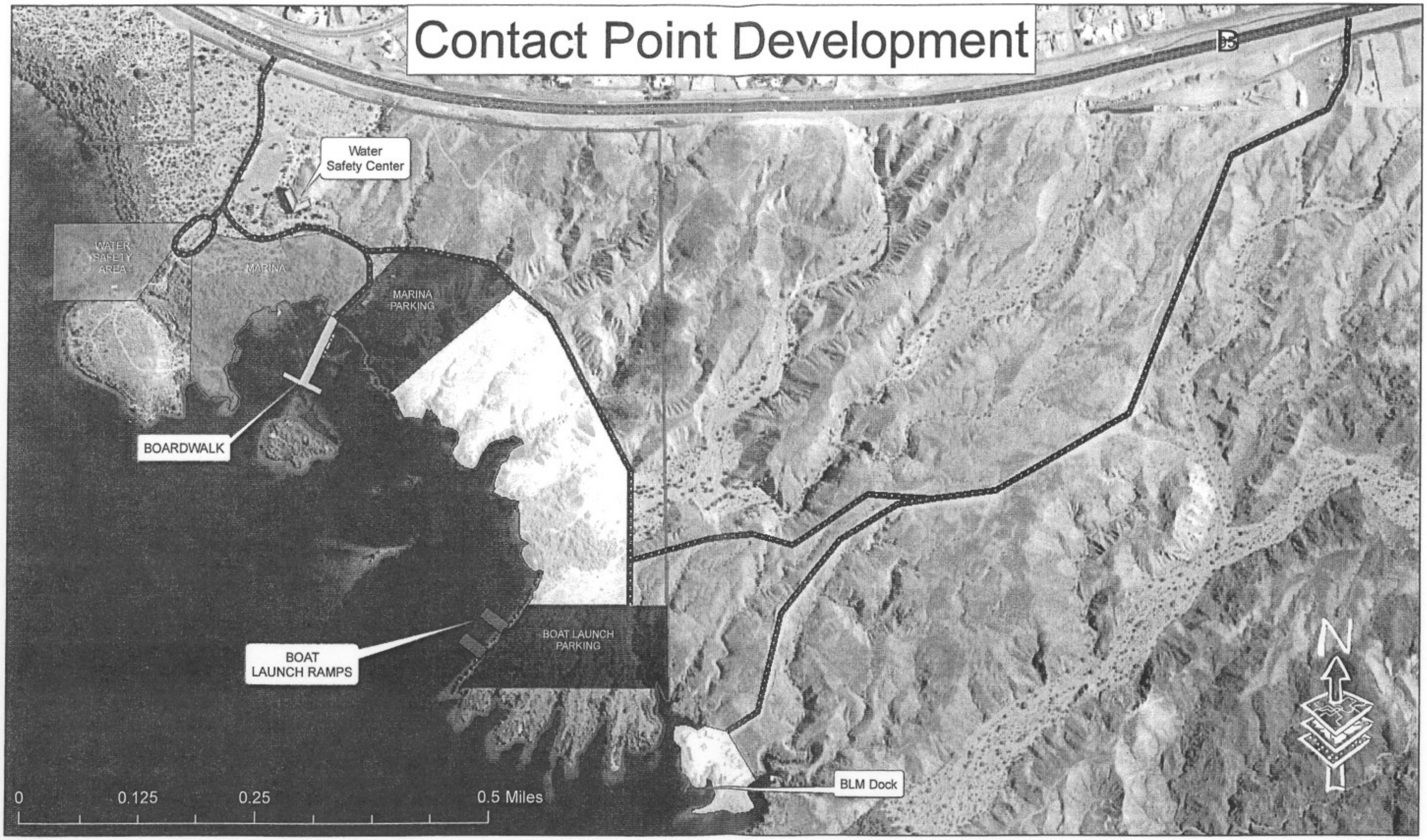
Sincerely,

Kenneth E. Travous
Executive Director

KET/mds

Enclosure

Contact Point Development



Enclosure

List of Interested Parties

Public Entities
City of Lake Havasu
Mohave County Sheriff's Office
Mohave County Community College
Arizona Game and Fish
San Bernardino County Sheriff's Office, California
United States Coast Guard
United States Coast Guard Auxiliary
Bureau of Land Management
US Fish and Wildlife Service
Chemehuevi Tribe

Organizations
Havasu Foundation for Higher Education
Western Arizona Law Enforcement Association (14 Agencies and Departments)
Personal Water Craft Course and Stadium Group

Review of Arizona State Parks State Lake Improvement Fund (SLIF) Capital Projects

Background

The State Lake Improvement Fund (SLIF) is administered by the Arizona State Parks Board for staff support to plan and administer the SLIF and LEBSF (Law Enforcement and Boating Safety Fund) programs, to fund design and engineering for acquisition and development projects that enhance boating opportunities, and to purchase watercraft, in conjunction with other recreation plans of the Board.

Operating budgets are to be based upon 11.8% of the annual revenue, as stated in the Memorandum of Understanding (MOU) between the State Parks Board and the Arizona Outdoor Recreation Coordinating Committee (AORCC). The remaining 88.2% is split according to the MOU with 70% going to competitive grants and 30% to State Parks for qualified projects.

Due to the budget cuts and fund sweeps, Arizona State Parks (ASP) has used its SLIF capital monies for operations since FY 2002. In FY 2004 and FY 2005, grants funds were also used for operations. ASP continues to request restoration of its funding so SLIF can again be used as delineated in the MOU. In FY 2007, ASP reduced its SLIF operating budget from $4 million to $3 million, funded by a combination of cuts and a supplemental appropriation.

The SLIF grant program was fully funded this year with $7,313,100 available for grants. Twelve grants were awarded for a total of $3,765,750, leaving a $3,547,300 grant carry-forward. ASP requests to use $2 million of this grant carry-forward for qualified State Parks capital projects. This leaves over $1.5 million in the grant carry-forward.

Since estimated SLIF grant revenues are over $6 million this year, funding for next year's grant cycle should exceed $7.5 million. The SLIF grant cycle for September 2007 has now closed with 13 applications for a total of $6,119,386. Therefore, the SLIF grant program is fully funded for this year even with using $2 million for qualified State Parks capital projects.

The major impetus for this request is development at Contact Point. Due to numerous interested parties, including the City of Lake Havasu, Mohave County, various Law Enforcement and Federal Agencies, etc, numerous proposals are being received by ASP regarding how to best use one of the last developable parcels of land on Lake Havasu. Before further progress can be made in discussions with the various parties, ASP needs to begin its planning process to move the project forward. It is anticipated that this funding will not only address the planning process but also a portion of ASP's share of any future development cost. Approximately $500,000 will be available for campsite improvements and other amenities at Lake Havasu State Park.

AORCC gave a favorable review to this request.