JOINT COMMITTEE ON CAPITAL REVIEW

Thursday, June 16, 2016

Immediately Upon Adjournment of the JLBC Meeting

Senate Appropriations Room 109

JLBC

STATE OF ARIZONA

Joint Committee on Capital Review

STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

HOUSE OF REPRESENTATIVES

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

JOINT COMMITTEE ON CAPITAL REVIEW
Thursday, June 16, 2016
Immediately Upon Adjournment of the JLBC Meeting
Senate Appropriations, Room 109

MEETING NOTICE

- Call to Order

- Approval of Minutes of April 5, 2016.

- DIRECTOR'S REPORT (if necessary).

1. ARIZONA DEPARTMENT OF CORRECTIONS - Review of FY 2017 Building Renewal Allocation Plan.

2. ARIZONA DEPARTMENT OF ADMINISTRATION/ARIZONA DEPARTMENT OF CORRECTIONS - Review of Lease-Purchase Refinancing for Kingman.

3. ARIZONA DEPARTMENT OF ADMINISTRATION - Review of FY 2017 Building Renewal Allocation Plan.

4. ARIZONA EXPOSITION AND STATE FAIR BOARD - Review of FY 2016 Capital Improvement Expenditures.

5. ARIZONA GAME AND FISH DEPARTMENT - Review of FY 2016 Building Renewal Allocation Plan.

6. DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS - Review of Proposed Expenditures from the Military Installation Fund.

7. ARIZONA STATE PARKS BOARD - Review of Buckskin Sanitary District Lease and Easement Agreement.

8. ARIZONA DEPARTMENT OF TRANSPORTATION - Review of De-Icer Buildings Project.

9. ARIZONA DEPARTMENT OF TRANSPORTATION - Review of Vehicle Wash Systems Project.

10. ARIZONA STATE UNIVERSITY
    A. Review of Sun Devil Stadium Renovation Phase 3.
    B. Review of Biodesign C Building Financing Project.
    C. Review of Building Renewal and Renovation Projects.

11. UNIVERSITY OF ARIZONA
    A. Review of Health Sciences Innovation Building.
    B. Review of Health Sciences Alvernon Way Project.
    C. Review of Phoenix Medical Campus Lease.

The Chairman reserves the right to set the order of the agenda.
~~6/8/16~~
6/15/16
kp

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

STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

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HOUSE OF
REPRESENTATIVES

MINUTES OF THE MEETING

JOINT COMMITTEE ON CAPITAL REVIEW

April 5, 2016

Vice-Chairman Shooter called the meeting to order at 8:07 a.m., Tuesday, April 5, 2016 in House Hearing Room 1. The following were present:

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

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of December 15, 2015, Vice-Chairman Don Shooter stated that the minutes would stand approved.

NORTHERN ARIZONA UNIVERSITY (NAU) - Review of Dining Renovation Financing Project.

Mr. Matt Beienburg, JLBC Staff, stated NAU is requesting review of $14,000,000 in system revenue bond issuances to fund a $22,000,000 renovation of the South Dining DuBois Center facilities. Auxiliary revenues from NAU's contracted food services operation will pay for the debt service on the $14,000,000. NAU's food service vendor will pay the remaining $8,000,000 of the $22,000,000 renovation cost with an up front cash payment. The JLBC Staff presented options to the Committee.

Mr. Jennus L. Burton, Vice President for Finance and Administration, NAU, responded to member questions.

(Continued)

Senator Kavanagh moved that the Committee give a favorable review of the $14,000,000 bond project. The favorable review includes the following:

Standard University Financing Provisions

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

B. NAU shall provide the final debt service schedules for the projects as soon as it is available.

The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA) - Consider Recommending FY 2016 Partial Rent Exemptions.

Ms. Rebecca Perrera, JLBC Staff, stated that A.R.S. § 41-792.01D authorizes the Director of ADOA, on recommendation from the JCCR, to grant a full or partial exemption from the payment of state-owned rental fees if the agency has vacated its space or if the agency does not have the financial resources to make the payment. The JLBC Staff presented options to the Committee.

Senator Kavanagh moved that the Committee recommend a partial rent exemption of $(3,200) for the Attorney General (AG) and $(5,800) for ADOA to be replaced by a corresponding rent payment of $9,000 for the Department of Emergency and Military Affairs in FY 2016. The motion carried.

Without objection, the meeting adjourned at 8:16 a.m.

Respectfully submitted:

K Paddack

Kristy Paddack, Secretary

Jack Brown, Assistant Director

Justin Olson

Representative Justin Olson, Chairman

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

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STATE OF ARIZONA

Joint Committee on Capital Review

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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azleg.gov

DATE: June 9, 2016

TO: Representative Justin Olson, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director RS

FROM: Micaela Larkin, Senior Fiscal Analyst ML

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

Request

A.R.S. § 41-1252 requires Committee review of expenditure plans for building renewal monies. The FY 2017 Capital Outlay Bill (Laws 2016, Chapter 126) appropriated a total of $5,464,300 from the Department of Corrections Building Renewal Fund to the Arizona Department of Corrections (ADC) for general building renewal. ADC requests the Committee review its FY 2017 Building Renewal Allocation Plan, which primarily funds structural repairs, replacement of obsolete and unreliable locking systems, and the replacement of evaporative cooling at certain medical units. In addition, the plan funds a variety of equipment replacements and upgrades in units across the state.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review.

2. An unfavorable review.

Under either option, the JLBC Staff recommends the following standard provisions:

A. ADC shall report any reallocations between projects to the JLBC Staff. If there is significant change of scope in the reallocation reported by ADC, the JLBC Staff shall recommend ADC request Committee review of the reallocation.

(Continued)

B. If an emergency arises that is not addressed by the existing expenditure plan:

1. ADC shall notify the Chairman and the JLBC Staff that they plan to spend less than $50,000 on an emergency project. ADC can proceed without Committee review.

2. The Chairman can allow ADC to move forward with an emergency project of greater than $50,000 without Committee review.

3. The Chairman will notify ADC if he does not agree that the project is an emergency and that the project will require full Committee review.

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

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

Analysis

A total of $5,464,300 was appropriated to ADC for building renewal in FY 2017 from the Department of Corrections Building Renewal Fund.

The FY 2017 Building Renewal Allocation Plan consists of the following projects:

Table 1

FY 2017 Building Renewal Allocation Plan

Structural Repairs	
Repair Deteriorated Plumbing Chase Walls - Eyman Meadows	$1,441,000
Complex Structural Repairs - Yuma	457,500
Subtotal	*$1,898,500*
Locking & Control Systems	
Locking Systems - Tucson Santa Rita	$725,000
Control Panel Replacement - Lewis (Bachman, Barchey, Buckley)	650,000
Subtotal	*$1,375,000*
Air Conditioning - Select Units	
Air Conditioning - Lewis Stiner Health Unit	$ 575,800
Air Conditioning - Eyman Meadows Health Unit	530,000
Subtotal	*$1,105,800*
Equipment Replacement, Upgrade, and System Improvements	
Propane Tank Upgrade - Florence Globe	$ 385,000
Flood Control Improvements - Perryville	250,000
Utility Tunnel Structural Repairs - Florence	250,000
Maximum Custody Perimeter Fence Upgrade - Perryville Lumley	200,000
Subtotal	*$ 1,085,000*
Building Renewal Subtotal	**$5,464,300**
Contingency	$ 0
TOTAL	**$5,464,300**

(Continued)

The figures represent ADC's best estimates for costs of the projects based on prior work but they have not yet gone out to bid.

Structural Repairs

A total of $1,898,500 in the FY 2017 Building Renewal Allocation Plan would be allocated for structural repairs for damage due to high humidity environment due to the longstanding and widespread use of evaporative coolers. The prolonged exposure to humidity and moisture produced by evaporative cooling has resulted in the deterioration of steel and concrete construction components, as well as equipment. ADC plans to allocate $1,898,500 for structural repairs at 2 units:

- *Eyman Meadows*: The allocation includes $1,441,000 for the repair of steel plumbing chase walls in various maximum custody cells. The walls were installed in the late 1980s and early 1990s. Due to deterioration caused by humidity, inmates have attempted to escape from their cells by manipulating the deteriorated walls.
- *Yuma*: The allocation includes $457,500 for the structural repairs due to the deterioration of the buildings due to humidity. These repairs were identified in the recent survey of structural conditions at ADC facilities.

Locking and Control Systems

The Building Renewal Plan allocates $1,375,000 for locking and control system issues at 2 units. From FY 2012 to FY 2016, $10.4 million has been reviewed for locking and control system issues.

A prison unit is made up of housing units or buildings further subdivided into pods that contain the individual cells. A locking and control system can operate all doors within a pod including cells, showers, program areas and pod unit entry and exit doors. As a result of old control systems and old locks, existing systems experience frequent equipment failures. The costs for a unit depend on the size of the unit and the extent of repair or upgrading needed for the locks and doors. The allocated monies include:

- $725,000 for the locking system at the APSC - Tucson Santa Rita. The system does not function as designed. Installed in 1983, the system is at the end of its service life.
- $650,000 for the replacement of unreliable locking system control panels at several units at ASPC - Lewis. Staff now manually open and close certain doors and this creates additional risk for staff. These panels were installed in 1999.

Air Conditioning

A total of $1,105,800 would be allocated for converting medical units from evaporative cooling to air conditioning. Of this amount, $575,800 is for the conversion of Housing Unit 6 at Stiner Unit at ASPC - Lewis and $530,000 for Housing Unit 7 at the Meadows Unit at ASPC - Eyman.

Equipment Replacement, Upgrade, and System Improvements

A total of $1,085,000 would be allocated for project design and needs assessment:

- $385,000 for the replacement of the propane tank and distribution system at the Globe Unit at ASPC - Florence. There are problems with both pressure distribution and deterioration of the outer shell of the system's underground storage tank. The Corporation Commission has mandated the system be upgraded as soon as possible

(Continued)

- $250,000 to redesign the drainage plan for the ASPC - Perryville complex and to conduct the work to mitigate flooding. At the present time, the complex experiences flooding and the road conditions diminish the ability of emergency responders and workers to reach the facility in a timely fashion.
- $250,000 for the repair of the underground tunnels that serve as utility chases for electrical and plumbing systems at various housing units at ASPC - Florence.
- $200,000 to continue repair of the perimeter fence of the Lumley Unit at ASPC - Perryville. In April 2015, the JCCR favorably reviewed the reallocation of $100,000 of the FY 2014 Building Renewal monies for the start of this project. The current allocation of $200,000 is due to expanding the area of repair and new design features to improve security.

RS/ML:kp

Arizona Department of Corrections

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DOUGLAS A. DUCEY
GOVERNOR

CHARLES L. RYAN
DIRECTOR

May 25, 2016

PM 1 2 3 4 5 6 7 8 9 10 11 12 AM
RECEIVED
MAY 25 2016
JOINT BUDGET COMMITTEE

The Honorable Justin Olson, Chairman
Joint Committee on Capital Review
1716 West Adams
Phoenix, Arizona 85007

Re: Submission for review of FY 2017 Building Renewal Plan and ADOA/ADC Kingman Financing Agreement

Dear Representative Olson:

The Arizona Department of Corrections (ADC) requests placement on the next meeting agenda of the Joint Committee on Capital Review (JCCR) for its review of the ADC FY 2017 Building Renewal Plan and ADOA/ADC Kingman Financing Agreement.

In FY 2017 $5,464,300 is appropriated to ADC for building renewal. Supporting documentation for the plan is enclosed.

Laws 2016, 2nd Regular Session, Chapter 119 (HB2701), Section 24, requires ADC to submit an allocation of savings from the ADOA/ADC Kingman Financing Agreement. ADC is providing the allocation of savings as an addendum to the letter sent by ADOA on Friday, May 20, 2016. ADCs allocation of cost savings funds a per diem adjustment for the operation of ASP-Kingman, the Northern Region Community Corrections Center, and a 4% adjustment for inmate health care. See attached for additional information.

If you have any questions regarding any of the proposed items presented, please contact Michael Kearns, Division Director, ADC Administrative Services Division, at (602) 542-1160.

Sincerely,

Charles L. Ryan
Director

Enclosures

cc: The Honorable Don Shooter, Vice-Chairman, JCCR
Lorenzo Romero, Director, Office of Strategic Planning and Budgeting
Richard Stavneak, Director, Joint Legislative Budget Committee
Scott Selin, Budget & Project Manager, Office of Strategic Planning and Budgeting
Micaela Larkin, Fiscal Analyst, Joint Legislative Budget Committee

ARIZONA DEPARTMENT OF CORRECTIONS
FY 2017 BUILDING RENEWAL PLAN

LOCATION	PROJECT DESCRIPTION	ESTIMATED COST	
ASPC-Lewis Stiner Unit	Health unit air conditioning conversion	$	575,800
ASPC-Eyman Meadows Unit	Health unit air conditioning conversion	$	530,000
ASPC-Florence Globe Unit	Propane tank and system upgrade	$	385,000
ASPC-Perryville Lumley Unit	Maximum custody perimeter fence upgrade	$	200,000
ASPC-Tucson Santa Rita Unit	Locking system upgrade	$	725,000
ASPC-Yuma	Complex structural repairs	$	457,500
ASPC-Perryville	Flood control improvements	$	250,000
ASPC-Eyman Meadows Unit	Repair deteriorated plumbing chase walls	$	1,441,000
ASPC-Florence	Utility tunnel structural repairs	$	250,000
ASPC-Lewis	Control Room Locking Panels Upgrades (Bachman, Barchey, Buckley)	$	650,000
TOTAL		$	5,464,300
FUND SOURCE			
BUILDING RENEWAL FUND		$	5,464,300
TOTAL FUND		$	5,464,300

ASPC-Lewis Stiner Unit Air Conditioning Conversion **$575,800**

Housing unit 6 at the Lewis Stiner unit houses inmates with medical issues and is operated as a health unit. Currently this housing unit is cooled by evaporative cooling which causes higher than normal interior temperatures during the summer months and extremely high humidity. The conversion of this housing unit to air conditioning will allow inmates with serious health issues to be housed in a more comfortable environment.

ASPC-Eyman Meadows Health Unit Air Conditioning Conversion **$530,000**

Housing unit 7 at the Eyman Meadows unit houses inmates with medical issues and is operated as a health unit. Currently this housing unit is cooled by evaporative cooling which causes higher than normal interior temperatures during the summer months and extremely high humidity. The conversion of this housing unit to air conditioning will allow inmates with serious health issues to be housed in a more comfortable environment.

ASPC-Florence Globe Unit Propane Tank and System Upgrade **$385,000**

The propane storage tank and distribution system at the Globe unit has reached the end of its service life. . The original system was installed in 1987 and has developed several issues with pressure distribution and the underground tank is showing signs of deterioration on the outer shell. The Corporation Commission has mandated that the system be upgraded as soon as possible.

ASPC-Perryville Lumley Unit Perimeter Fence Upgrade **$200,000**

The perimeter fence upgrade project was started at the Maximum custody Lumley unit last year. The scope of work has been expanded to include additional areas and levels of security. The previous year's funding has been utilized to purchase materials for the project.

ASPC-Tucson Santa Rita Unit Locking System Upgrade **$725,000**

The locking system at the Santa Rita unit has reached the end of its service life and needs to be upgraded. The system was originally installed in 1983 and is experiencing several issues including outdated control panels that prohibit the system from functioning as designed.

ASPC-Yuma Complex Structural Repairs **$457,500**

Based on engineering reports conducted at the Yuma complex, there are several structural issues that require repairs. Due to the operation of evaporative coolers over the last 20+ years, the high humidity environment has caused several areas constructed with steel and concrete to deteriorate to the point that repairs are required in order to maintain structural integrity.

ASPC-Perryville Complex Flood Control Improvements **$250,000**

The Perryville complex experiences severe flooding whenever there are any significant rain events. This flooding puts building at risk for damage as well as impedes the ability for staff to get to work on time as well as emergency responders from arriving in a timely manner due to flooded road conditions. Engineers would be utilized to re-design a new drainage plan for the complex and work would then be completed to mitigate flooding at the complex.

ASPC-Eyman Repair Deteriorated Plumbing Chase Walls **$1,441,000**

In various maximum custody level cells at the Eyman complex, the steel plumbing chase walls have deteriorated due to a high humidity environment and have reached the point where replacement of the steel wall sections is needed. These walls were originally installed in the late 1980's and early 1990's and have reached the end of their service life. There have been instances where inmates have attempted to escape from their cells by manipulating the deteriorated metal walls. This project will resolve that issue.

ASPC-Florence Utility Tunnel Structural Repairs **$250,000**

The underground tunnels that serve as utility chases for electrical and plumbing for the various housing units have deteriorated to the point of becoming unsafe to enter. Originally installed in 1960, the tunnels have exceeded their useful service life and have to be repaired in order to maintain their structural integrity.

ASPC-Lewis Control Room Locking Panels Upgrades **$650,000**

The control room locking system control panels at various units at the Lewis complex have reached the end of their service life. Originally installed in 1999, the current control panels have become unreliable and require doors to be manually opened and closed by staff which creates additional risk for staff.

2

STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

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HOUSE OF
REPRESENTATIVES

DATE: June 9, 2016

TO: Representative Justin Olson, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director RS

FROM: Micaela Larkin, Senior Analyst ML

SUBJECT: Arizona Department of Administration/Arizona Department of Corrections - Review of Lease-Purchase Refinancing for Kingman

Request

Pursuant to the FY 2017 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 119, Section 24), the Arizona Department of Administration (ADOA), in coordination with the Arizona Department of Corrections (ADC), is requesting review of the refinancing agreement of the Kingman private prison facility. The agreement is to generate cost savings for housing prisoners of at least $25 million from FY 2017 to FY 2025. In addition, the savings may not vary by more than $1 million per year during that time period.

The financing agreement involves a private prison facility at Kingman and is expected to save ADC $8.7 million per year on an ongoing basis or $77.5 million in total. ADC has proposed to allocate those savings annually as follows: 1) $2.5 million for a per diem adjustment at the Kingman facility; 2) $2.7 million to fund a health care inflation adjustment at state-run ADC facilities; 3) $1.6 million to establish a new Northern Regional Community Corrections Center in Maricopa County. A total of $1.9 million in annual savings has been unallocated by ADC at this time.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the refinancing agreement.

2. An unfavorable review of the refinancing agreement.

(Continued)

Under either option, the JLBC Staff recommends the following provisions:

A. ADOA is to submit a final debt service schedule associated with the financing agreement.

B. ADC is to report the use of $2.0 million in unallocated FY 2017 savings to JLBC 30 days prior to expenditure.

Analysis – Financing

The GEO Group operates the private prison at Kingman. GEO assumed operation of the facility from MTC after a disturbance at the prison in July 2015.

In the state's private prison contracts, the state pays a per diem for each prisoner. A majority of this per diem amount represents funding for certain operational costs incurred by the vendor, such as Correctional Officer salaries, food and healthcare. A portion of this per diem is usually dedicated to paying debt service on the financing used to construct the facility.

Since the state pays for all of the debt service payments, the state is typically able to acquire the facility for a minimal fee at the end of the term. This arrangement is typically referred to as a "capital lease," due to the state making payments on financing issued by a third party.

There are also certain intervals during the contract term at which the state can acquire the property at a pre-determined price. Under the proposed financing agreement, ADC would acquire the property from the vendor at the pre-determined price of $137.4 million. The state would generate the cash for this acquisition through lease-purchase financing.

The effect of the financing is to replace the debt-related per diem payments to the vendor with annual debt service on the state-issued lease-purchase agreement. Currently, the debt per diem payments are based on debt issued in 2008 at an interest rate of 8.2%. These payments will instead be replaced with the state-issued debt service payments with an estimated interest rate of 2.1%.

Besides the debt service savings, there are additional savings that will accrue from state ownership of the Kingman facility. Currently, the state makes approximately $1.5 million of per diem payments annually in order to fund property tax payments on the facility. After the state acquires the facility, it will no longer be subject to property tax and per diem payments to the vendor will be reduced accordingly. In addition, other reductions of approximately $(136,000) per year will be made to the Kingman per diem to adjust for items such as insurance as the vendor no longer owns the facility.

Table 1 below outlines the current Kingman debt service as compared to the estimated debt service amounts for the state-issued financing. The state will save $8.0 million in FY 2017 and $8.7 million annually in FY 2018 and beyond.

(Continued)

Table 1

Estimated Changes Due To Financing Agreement 1/2/

Fiscal Year	Current Payment Terms	Estimated Payment Terms	Difference
FY 2017	$25,467,100	$17,469,300	$7,997,800
FY 2018	$26,023,000	$17,337,800	$8,685,100
FY 2019	$26,022,300	$17,337,700	$8,684,700
FY 2020	$26,022,700	$17,336,700	$8,686,100
FY 2021	$26,022,900	$17,339,400	$8,683,600
FY 2022	$26,022,300	$17,336,100	$8,686,200
FY 2023	$26,018,700	$17,334,400	$8,684,300
FY 2024	$26,019,500	$17,334,600	$8,684,900
FY 2025	$28,190,400	$19,475,000	$8,715,400
Total	**$235,809,000**	**$158,300,900**	**$77,508,100**

1/ Current payment includes annual debt service, property taxes, insurance, and other miscellaneous per diem items.
2/ Numbers may not add due to rounding.

Analysis – Allocation of Savings

The department has proposed to allocate the savings as listed in *Table 2*:

Table 2

Proposed Allocation of Savings ($ in Millions)

Allocation	FY 2017	FY 2018
ASP - Kingman Adjustment	$1.7	$2.5
ADC Health Care Adjustment	2.7	2.7
Northern Regional Comm. Corr. Center	1.6	1.6
Unallocated Savings	2.0	1.9
Total	**$8.0**	**$8.7**

The FY 2017 budget had envisioned using the savings for the following 3 purposes:

- Kingman Adjustment – ADC proposes to increase the per diem rate to the vendor on an annual basis by $2.5 million. Of this amount, $2.0 million is intended to allow the vendor to increase starting salaries for Correctional Officers (COs) and improve retention. ADC plans to confirm that the starting salaries of COs and other positions are changed. In addition, ADC indicates $0.3 million would address food price increases, along with $0.2 million for health care inflation.
- ADC Health Care Adjustment – As noted in the corresponding JLBC agenda item, these savings will be transferred to ADC's privately-contracted health care vendor. This transfer will increase the inmate health care per diem at state-run facilities from $11.60 to $12.06 at a net ongoing cost of $2.7 million.
- Northern Regional Community Corrections Center – ADC will transfer $1.6 million of the savings to open the Northern Regional Community Corrections Center. Currently, ADC operates the Southern Regional Community Correction Center, where inmates on community supervision in Pima County can be housed on a short-term basis for technical violations (such as failing a drug test). The proposed allocation would open up a 100-bed facility in Maricopa County to provide the same housing for inmates on community supervision in and around the Phoenix Metropolitan Area.

ADC has left approximately $2.0 million of ongoing savings unallocated in FY 2017. The JLBC Staff recommends that ADC report its use of any of this $2.0 million to JLBC 30 days prior to expenditure.

RS/ML:kp

Arizona Department of Corrections

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DOUGLAS A. DUCEY
GOVERNOR

CHARLES L. RYAN
DIRECTOR

May 25, 2016

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
RECEIVED
MAY 25 2016
JOINT BUDGET COMMITTEE

The Honorable Justin Olson, Chairman
Joint Committee on Capital Review
1716 West Adams
Phoenix, Arizona 85007

Re: Submission for review of FY 2017 Building Renewal Plan and ADOA/ADC Kingman Financing Agreement

Dear Representative Olson:

The Arizona Department of Corrections (ADC) requests placement on the next meeting agenda of the Joint Committee on Capital Review (JCCR) for its review of the ADC FY 2017 Building Renewal Plan and ADOA/ADC Kingman Financing Agreement.

In FY 2017 $5,464,300 is appropriated to ADC for building renewal. Supporting documentation for the plan is enclosed.

Laws 2016, 2nd Regular Session, Chapter 119 (HB2701), Section 24, requires ADC to submit an allocation of savings from the ADOA/ADC Kingman Financing Agreement. ADC is providing the allocation of savings as an addendum to the letter sent by ADOA on Friday, May 20, 2016. ADCs allocation of cost savings funds a per diem adjustment for the operation of ASP-Kingman, the Northern Region Community Corrections Center, and a 4% adjustment for inmate health care. See attached for additional information.

If you have any questions regarding any of the proposed items presented, please contact Michael Kearns, Division Director, ADC Administrative Services Division, at (602) 542-1160.

Sincerely,

Charles L. Ryan
Director

Enclosures

cc: The Honorable Don Shooter, Vice-Chairman, JCCR
Lorenzo Romero, Director, Office of Strategic Planning and Budgeting
Richard Stavneak, Director, Joint Legislative Budget Committee
Scott Selin, Budget & Project Manager, Office of Strategic Planning and Budgeting
Micaela Larkin, Fiscal Analyst, Joint Legislative Budget Committee

DRAFT

Arizona Department of Corrections
DRAFT ASP-Kingman Finance Savings and ADC Allocation
Amounts in millions

	FY 2017	FY 2018
Debt Service		
Debt Service Savings	16.2	24.4
State Certificate of Participation	(9.3)	(17.3)
Net Debt Service Savings	6.9	7.1
Property Taxes, Other	1.1	1.6
Total Savings	8.0	8.7
ADC Allocation of Savings		
ASP-Kingman Adjustment (pay plan, food, health	(1.7)	(2.5)
ADC Health Care Adjustment	(2.7)	(2.7)
Northern Region Community Corrections Center	(1.6)	(1.6)
Total Allocation	(6.0)	(6.8)
Unallocated Savings	2.0	1.9

Douglas A. Ducey
Governor

Kevin Donnellan
Acting Director

ARIZONA DEPARTMENT OF ADMINISTRATION

GENERAL ACCOUNTING OFFICE
100 NORTH FIFTEENTH AVENUE • SUITE 302
PHOENIX, ARIZONA 85007
Phone: (602) 542-5601 • Fax: (602) 542-5749

May 20, 2016

The Honorable Justin Olson, Chairman 2016
Joint Committee on Capital Review
Arizona House of Representatives
1700 West Washington
Phoenix, Arizona 85007

Dear Representative Olson:

We request placement on the next Joint Committee on Capital Review (JCCR) meeting agenda to review the financing opportunity for the acquisition of the Kingman prison. In accordance with Laws 2016, 2nd Regular Session, Chapter 119, Section 24, the Department of Administration (ADOA), in coordination with the Department of Corrections (ADOC), is authorized to enter into a financing agreement in FY17 that will generate a savings on the cost of housing prisoners by a combined total of at least $25 million from FY17 through FY25. Further, the cost reduction may not vary by more than $1 million in FY17 through FY25.

ADOA is closely working with ADOC on this opportunity. ADOA is currently planning on issuing COPs to finance the Kingman prison acquisition. The estimated financing costs, compared to the estimated reduction of the costs of housing prisoners from FY17 through FY25, is currently estimated to result in a savings to the State in excess of $50 million. These estimated cost reductions from FY17 through FY25 are currently projected to vary by less than $200 thousand. As is the case with all financings, the amount of savings is interest rate sensitive and is subject to change depending on market conditions.

Thank you for your attention to this request. If you have any questions or need any additional information, please call me at 542-5405.

Sincerely,

D. Clark Partridge

D. Clark Partridge
State Comptroller

cc: Richard Stavneak, JLBC
Rebecca Perrera, JLBC
Jack Brown, JLBC
Craig Brown, ADOA
Paul Shannon, ADOA
Cherie Stone, ADOA
Lorenzo Romero, OSPB
Christopher Olvey, OSPB
Bill Greeney, OSPB
Charles Ryan, ADOC
Michael Kearns, ADOC
Grant Hamill, Stifel Nicolaus & Company

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STATE OF ARIZONA

Joint Committee on Capital Review

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE: June 9, 2016

TO: Representative Justin Olson, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director RS

FROM: Rebecca Perrera, Fiscal Analyst RP

SUBJECT: Arizona Department of Administration - Review of FY 2017 Building Renewal Allocation Plan

Request

A.R.S. § 41-1252 requires Committee review of expenditure plans for building renewal monies. The Arizona Department of Administration (ADOA) requests the Committee review its FY 2017 Building Renewal Allocation Plan. The FY 2017 Capital Outlay Bill (Laws 2016, Chapter 126) appropriated a total of $27,000,000 for building renewal. This amount consists of $8,000,000 from the General Fund and $19,000,000 from the Capital Outlay Stabilization Fund (COSF).

ADOA is requesting a review of the full $27,000,000 appropriation for building renewal projects in FY 2017. The Capital Outlay Bill requires ADOA to make 2 specific allocations from the appropriation:

1) $4.2 million for the renovation of the Department of Health Services (DHS) building at 1740 West Adams, contingent on JCCR review of ADOA plans to relocate the building tenants.
2) $120,000 to repair the 1938 Works Progress Administration (WPA) Civic Building on the State Fair Grounds contingent on ADOA receiving matching funds from the City of Phoenix and the state maintaining control of the building.

The ADOA submission contains these projects and the JLBC Staff has included the contingent requirements in the recommended provisions.

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

(Continued)

Recommendation

The Committee has at least the following 3 options:

1. A favorable review of the $27,000,000 request.

2. A favorable review with modifications:

A. A review of the $350,000 of the $4.2 million allocation for the 1740 West Adams renovation. The remaining $3,850,000 for the renovation of 1740 West Adams would be deferred until ADOA receives review from the Committee on their tenant relocation report pursuant to Laws 2016, Chapter 126.

B. No review of the $120,000 allocation for the repair of the 1938 Works Progress Administration Civic Building until the provisions pursuant to Laws 2016, Chapter 126 are met. Statute does not permit ADOA to spend the $120,000 until matching funds from the City of Phoenix are received. There is currently no final agreement on the use of the Phoenix monies for the building. When ADOA and the Arizona Exposition and State Fair Board subsequently request review of the 1938 WPA Civic Building Project, they shall include information on how total project funds will be spent and if the repairs will be sufficient to make the building operational.

3. An unfavorable review.

Under either of these options, the JLBC Committee may consider the following provisions:

A. ADOA shall report any reallocations between projects to the JLBC Staff. If there is significant change of scope in the reallocation reported by ADOA, the JLBC Staff shall recommend ADOA request Committee review of the reallocation.

B. The distribution of the emergency contingency allocation of $598,000 be addressed as follows:

   1. ADOA shall notify the Chairman and the JLBC Staff that they plan to spend less than $50,000 on an emergency project. ADOA can proceed without Committee review.

   2. The Chairman can allow ADOA to move forward with an emergency project of greater than $50,000 without Committee review.

   3. The Chairman will notify ADOA if he does not agree that the project is an emergency and that the project will require full Committee review.

   An "emergency" project is defined as unforeseen, critical in nature, and of immediate time sensitivity. Prior reviews also included this provision.

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

(Continued)

Analysis

Building renewal appropriations provide for the major maintenance and repair of state-owned buildings. The building renewal formula takes into account the replacement value, age, and life-cycle of all structures in the ADOA building system. A total of $27.0 million is appropriated to ADOA to fund 66.3% of the building renewal formula in FY 2017. (These amounts exclude Department of Corrections' facilities as they received their own building renewal appropriation.) See *Table 2* for the list of projects included in ADOA's FY 2017 Building Renewal Allocation Plan.

The following provides an overview of the amounts allocated to different categories of projects. Project categories include Fire and Life Safety, Building Shell/Interior, Major Building Services, Infrastructure, Building Interiors and Finishes, and Preventative Maintenance. Additionally, ADOA has allocated funding for project management and contingencies.

Reasonableness of Estimates

The allocation plan represents ADOA's estimated cost of the proposed projects. ADOA estimates these costs based on past projects and project scoping services. ADOA uses state contracts and issues requests for quotes (RFQs) as necessary to procure vendors for each project. As a result, the project costs may change as the procurement process occurs.

The ADOA Building Renewal Allocation Plan lists potential projects within each category. ADOA states that all projects may not be funded. ADOA has indicated that they may need to add new projects not listed. In that circumstance, the JLBC Staff recommends the Committee adopt a provision requiring the department to submit any new non-emergency projects for Committee review.

To track ADOA's actual spending decisions, the FY 2017 Capital Outlay Bill included a footnote requiring ADOA to report to the JLBC Staff on the status of all building renewal projects and building renewal expenditures on or before January 31, 2017 and July 31, 2017.

Arizona Exposition and State Fair Board

The FY 2017 Capital Outlay bill (Laws 2016, Chapter 126) allocated $120,000 to repair the 1938 WPA Civic Building on the State Fair Grounds. The appropriation is contingent on matching funds from the City of Phoenix and the state maintaining control and ownership of the building.

The City of Phoenix has approved $200,000 for the historical preservation and renovation of the 1938 WPA Civic Building. The Arizona Exposition and State Fair Board reports that the City of Phoenix funding is contingent on the state signing a conservation easement. The conservation easement would require the state to agree to preserve the historic, cultural, and architectural aspects of the building for a period of 20 to 30 years. ADOA and the Arizona Exposition and State Fair Board are working with the Attorney General to determine if the state can sign the conservation agreement.

According to the Arizona Exposition and State Fair Board the City of Phoenix estimates the cost to repair the roof is $180,000. Total renovation costs range between $500,000 and $1.8 million.

The JLBC Staff recommends the Committee defer the review of this allocation until the issue of the matching funds is resolved. The Committee may also consider a provision requiring ADOA and the Arizona Exposition and State Fair report on how total project funds will be spent and if the repairs will be sufficient to make the building operational when they request review of $120,000 allocation for the 1938 WPA Civic Building Project. This report would be due when this item is resubmitted at a later time for JCCR review.

(Continued)

1740 West Adams Building Renovation
The FY 2017 Capital Outlay bill allocated $4.2 million from ADOA's building renewal appropriation for the renovation of the Department of Health Services (DHS) 1740 West Adams building. The building consists of approximately 84,900 square feet and includes 4 floors. A majority of the space has been vacant most of FY 2016 because DHS is consolidating its behavioral health staff with AHCCCS.

The total project costs include updating fire and life safety systems, HVAC, plumbing and electrical components. In addition, the project includes reconfiguring the office space. As identified in *Table 1* below, ADOA plans to spend $350,000 on demolition, $420,000 on architectural and engineering design and $3.4 million on construction costs.

Table 1

1740 West Adams Building Renovation
Estimated Cost

Architectural and Engineering Design	$ 420,000
Abatement and Demolition	350,000
Construction	3,430,000
Total	**$ 4,200,000**

ADOA reports that asbestos abatement and demolition are scheduled to begin in August 2016. Construction would begin in November 2016. The renovation would be complete by May 1, 2017 and agencies would move into the building by the end of FY 2017.

The new tenants of the building have not yet been finalized. During the FY 2017 budget process, the Governor's Office proposed selling the state buildings located at the Doubletree Road in Scottsdale. The Medical Board, Osteopathic Examiners Board, and Veterinary Medical Examining Board, which reside at the Doubletree Road location, would relocate to renovated 1740 West Adams building. In addition, the Governor's Office proposed relocating 17 other health regulatory boards from state and privately-leased space (*see Attachment A for a full list of proposed tenants*). This proposal appears to address some components of HB 2501. Although the bill did not pass, it would have consolidated health regulatory boards under the operation and control of DHS. However, under the relocation proposal, the boards would maintain operational independence, for the time being.

Laws 2016, Chapter 126 requires ADOA to submit to JCCR a report for review on tenant relocation, including any planned consolidation of state agencies, the current commitment of new tenants and the timeline and estimated costs for relocation. ADOA is currently requesting review of the entire $4.2 million renovation allocation.

The Committee's review of these design and construction costs would more appropriately occur after the submission of the final tenant plan. At that time, ADOA will be in a better position to delineate their design and construction requirements. Therefore, the Committee has the option of reviewing the $350,000 allocated for demolition and abatement and requiring ADOA to receive JCCR review for the remaining $3,850,000 project appropriation when the Committee reviews the tenant relocation plan.

(Continued)

Fire and Life Safety Projects
A total of $5.0 million will be allocated to fire and life safety system replacements statewide. ADOA has identified 4 priorities including:

- The ADOA Capitol Mall Complex
- The Arizona State Schools for the Deaf and the Blind (ASDB) Tucson campus
- The DHS Arizona State Hospital (ASH)
- The Department of Emergency and Military Affairs (DEMA) Statewide Readiness Centers

Table 2
FY 2017 Building Renewal Allocation Plan

AZ Exposition and State Fair Board	
Repair 1938 WPA Civic Building on State Fair Grounds	$ 120,000
Major Building Renovation	
DHS 1740 West Adams Renovation	$ 4,200,000
Fire & Life Safety Projects	
ADOA Building System Replace Fire and Life Safety Systems Statewide	$ 5,000,000
Building Shell/Interior Projects	
ADOA Roof Replacement	$ 1,000,000
Capitol Mall Repair or Replace Exterior Caulking and Windows	500,000
Subtotal	*$ 1,500,000*
Major Building Services Projects	
ADOA Tucson Complex HVAC Replacement	$ 2,500,000
ADOA Capitol Mall HVAC Replacement	4,000,000
DHS State Hospital HVAC Replacement	4,300,000
ASDB Tucson HVAC Replacement	250,000
ADOA Statewide HVAC Controls, Automation, and Replacement	800,000
Supreme Court Repair/Modernize Elevators	600,000
ADOA Capitol Mall Repair/Modernize Elevators	1,000,000
Subtotal	*$13,450,000*
Infrastructure	
ADOA Statewide Replace/Repair Parking Lots	$ 800,000
ADOA Capitol Mall Repair Storm Water Retention Systems	200,000
Subtotal	*$ 1,000,000*
Building Interiors and Finishes	
Replace Floor Coverings Capitol Mall	$ 250,000
Preventative Maintenance	
ADOA Capitol Mall Preventative Maintenance	$ 300,000
Other	
Personnel Services/ERE Costs	$ 275,000
Building Renewal Project Scoping	300,000
Risk Management Insurance Premium	7,000
Emergency Contingency	598,000
Subtotal	*$ 1,180,000*
TOTAL	**$27,000,000**

(Continued)

Fire alarm replacement has been a major building renewal priority for the past several years. ADOA has allocated approximately $9.1 million in the last 5 years to repair or replace fire alarm systems at 43 state buildings. Fire alarm systems have a life-span of approximately 15 years.

ADOA reports that systems exceeding 15 years often have obsolete or incompatible replacement parts and are no longer serviceable by the manufacturer. In addition, many older systems do not comply with federal, state, and local regulations. For example, some systems do not meet the needs for people with hearing and visual impairments.

At its June 2015 meeting, the Committee favorably reviewed ADOA's FY 2016 building renewal allocation plan with a provision that ADOA submit to JLBC Staff an analysis of the state's fire alarm system including anticipated need, cost, and timeline for the upgrade and/or replacement of systems.

ADOA submitted this report in December 2015. ADOA reported that during its FY 2017 Capital Improvement Plan (CIP) process, state agencies requested fire alarm system replacements for 76 buildings (excluding Department of Corrections). Of this request, 67 buildings had alarm systems older than 15 years and total replacement costs are estimated to be $11.4 million. The FY 2017 expenditure plan would reduce this cost by $5.0 million.

Building Shell/Interior Projects

A total of $1.5 million will be allocated to 2 different projects. Of this amount, $1.0 million will fund the repair or replacement of failing roofs at agencies statewide within the ADOA Building Renewal System. In addition, an amount of $500,000 will fund repair or replacement of exterior caulking and windows for buildings on the Capitol Mall.

Major Building Services Projects

A total of $13.5 million will be allocated to 7 different projects. Of this amount, $11.9 million will be spent on 5 HVAC projects which include replacing chillers, cooling towers, boilers, and air handling units. Specifically, $2.5 million will be spent to repair or replace HVAC systems at ADOA buildings in Tucson and $4.0 million will replace HVAC systems at ADOA buildings on the Capitol Mall. ADOA has identified the Executive Tower, and the Department of Correction's buildings located at 1601/1645 West Jefferson as priorities. In addition, $4.3 million will replace HVAC systems at ASH and $250,000 will replace HVAC systems at ASDB in Tucson. Finally, $800,000 will be spent to modernize HVAC controls and building automation in ADOA buildings statewide.

A sum of $1.6 million will be spent on 2 elevator repair or upgrade projects. Of this amount, $600,000 is allocated to elevators at the Supreme Court building and $1.0 million is allocated to elevators on the Capitol Mall.

Infrastructure

A total of $1.0 million will be allocated to 2 projects. Of this amount, $800,000 is allocated to replace or repair state office parking lots including repairing damage caused by erosion and $200,000 is allocated to repair storm water retention systems on the Capitol Mall.

Building Interiors and Finishes

A total of $250,000 is allocated to replace flooring at the Capitol Mall.

(Continued)

Preventative Maintenance
A total of $300,000 is allocated for planned electrical, mechanical, and generator maintenance at ADOA buildings statewide.

Other
The sum of $275,000 will be allocated to cover project management costs for FY 2017 building renewal projects. Because some of the project costs listed above were based solely on agency estimates, $300,000 will be spent on contractors to better develop detailed scopes of work to implement projects in a cost effective manner. A payment of $7,000 will be paid for a Construction Insurance Premium. A total of $598,000 is allocated for contingency.

Some of the amounts above are based on agency estimated scope and project costs, while some amounts are based on estimates from ADOA engineering studies, audits, and historical costs.

RS/RP:kp

	RSF
1740 W Adams (Backfill RSF)	**77,474**

Backfill Agency	RSF	From:	Space Type	Estimated FTE
Health Services, Department of	8,624	1740 W Adams	State-Owned	10
Medical Examiners	12,131	9535/3545 Doubletree Ranch Road	State-Owned	41
Osteopath	2,821	9535/3545 Doubletree Ranch Road	State-Owned	6
Veterinarian	1,932	9535/3545 Doubletree Ranch Road	State-Owned	5
Psychologists	1,571	1400 West Washington	State-Owned	4
Respiratory	1,515	1400 West Washington	State-Owned	4
Massage Therapy	2,177	1400 West Washington	State-Owned	7
Nursing Care and Asst Living Administrators	1,759	1400 West Washington	State-Owned	5
State Boards & Central Services	3,317	1400 West Washington	State-Owned	10
Podiatry Examiners	340	1400 West Washington	State-Owned	1
Optometry	701	1400 West Washington	State-Owned	2
Funeral Directors	1,162	1400 West Washington	State-Owned	3
Naturopath	619	1400 West Washington	State-Owned	5
Dispensing Opticians	502	1400 West Washington	State-Owned	1
Acupuncture	354	1400 West Washington	State-Owned	1
Homeopathic physicians	385	1400 West Washington	State-Owned	1
Pharmacy Board	9,007	1616 W Adams	State-Owned	16
Behavioral Health Examiners	5,760	3443 N. Central, Suite 1700	Private Lease	12
Chiropractic Examiners	2,844	1951 W. Camelback Rd., Suite 330	Private Lease	5
Dental Examiners	5,128	4205 N 7th Ave., Suites 207 & 300	Private Lease	9
Physical Therapy Examiners	978	4205 N 7th Ave. #208	Private Lease	4
Nursing Board	13,847	4747 N. 7th St.	Private Lease	54
	77,474			206

Douglas A. Ducey
Governor

Craig C. Brown
Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

100 NORTH FIFTEENTH AVENUE • SUITE 401
PHOENIX, ARIZONA 85007

(602) 542-1500

May 26, 2016

The Honorable Justin Olson, Chairman
Joint Committee on Capital Review (JCCR)
Arizona House of Representatives
1700 West Washington Street
Phoenix, Arizona 85007

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

Re: Building Renewal Allocation Plan

Dear Representative Olson and Senator Shooter:

Section 41-1252, Arizona Revised Statutes, provides the Joint Committee on Capital Review (JCCR) shall review the expenditure of all monies appropriated for building renewal. Laws 2016, 2nd Regular Session, Chapter 126 (SB1527) appropriated $27,000,000 to the Arizona Department of Administration (ADOA) to allocate to the ADOA Building System for building renewal projects.

ADOA requests JCCR review ADOA's FY 2017 ADOA Building System building renewal allocation plan for $27,000,000.

To the extent possible, ADOA completes major maintenance and replacements to building systems before failures occur. Given the years of deferred major maintenance of an aging building infrastructure, it is difficult, if not impossible, to anticipate the timing and nature of building component failure. In the event of one or more unexpected critical breakdowns or imminent failures, ADOA may redirect all or some monies from an allocation to address critical priorities.

If you have any questions regarding ADOA's FY 2017 ADOA Building System building renewal allocation plan please contact Nola Barnes, Assistant Director, ADOA General Services Division (GSD), at 602-542-1954.

Sincerely,

Craig C. Brown

Attachments (3)

cc: Richard Stavneak, Director, JLBC Staff
Rebecca Perrera, Fiscal Analyst, JLBC Staff
Lorenzo Romero, Director, OSPB
Chris Olvey, Budget Analyst, OSPB
Kevin Donnellan, Deputy Director, ADOA
Paul Shannon, Assistant Director, ADOA
Nola Barnes, Assistant Director, ADOA/GSD
John Hauptman, General Manager, ADOA/GSD

FY 2017 Building Renewal Allocation Plan ADOA Building System		
Agency	**Fire & Life Safety**	**Allocation**
ADOA Building System - Statewide	Replace Fire & Life Safety Systems - ADOA Building System, Statewide Priorities	$5,000,000
	Subtotal	**$5,000,000**
	Building Shell (Asset Preservation)	
ADOA Building System - Statewide	Repair or Replace Failing Roofs - ADOA Building System, Statewide Priorities	$1,000,000
Exposition & State Fair, Arizona	*Replace 1938 WPA Building Roof	$120,000
Administration, Arizona Department of	Repair or Replace Exterior Caulking and Windows - Capitol Mall Complex	$500,000
	Subtotal	**$1,620,000**
	Major Building Services	
Administration, Arizona Department of	Replace Failing HVAC - Tucson Complex	$2,500,000
Administration, Arizona Department of	Replace Failing HVAC - ADOA Managed Facilities	$4,000,000
Health Services, Department of	Replace Failing HVAC - Arizona State Hospital Campus	$4,300,000
Deaf and the Blind, Arizona State Schools for the	Replace Failing HVAC - ASDB Phoenix/Tucson Campus	$250,000
Administration, Arizona Department of	HVAC Controls, Building Automation & Systems Upgrades	$800,000
Supreme Court, Arizona	Repair/Modernize Elevators - Supreme Court Building	$600,000
Administration, Arizona Department of	Repair/Modernize Elevators - Capitol Mall	$1,000,000
	Subtotal	**$13,450,000**
	Infrastructure	
ADOA Building System - Statewide	Repair/Replace State Office Parking Lots	$800,000
ADOA Building System - Statewide	Repair Storm Water Retention Systems - ADOA Building System	$200,000
	Subtotal	**$1,000,000**
	Building Interiors and Finishes	
ADOA Building System - Statewide	Replace Floor Covering Systems - Capitol Mall	$250,000
	Subtotal	**$250,000**
	Major Building Renovation	
Administration, Arizona Department of	**1740 W. Adams - Office Building Renovation	$4,200,000
	Subtotal	**$4,200,000**
	Preventative Maintenance	
Administration, Arizona Department of	Preventative Maintenance	$300,000
	Subtotal	**$300,000**
	Project Management, Project Scoping, and Insurance Premium	
Project Scoping	FY2017 Building Renewal Project Scoping/Professional Services Allocation	$300,000
Project Management	Construction Services Project Management Costs	$275,000
Risk Mgmt. Insurance	Risk Management Insurance Premium	$7,000
	Subtotal	**$582,000**
	Contingency	
Contingency	FY2017 Building Renewal Emergency & Contingency Allocation	$598,000
	Subtotal	**$598,000**
	Total FY 2017 Building Renewal Appropriation	**$27,000,000**

*Laws 2016, 2nd Regular Session, Chapter 126 (SB1527) notes the following - The Department of Administration shall allocate $120,000 of the appropriation in this subsection to repair the 1938 Works Progress Administration civic building on the state fair grounds. The Department may not spend the monies allocated for this purpose unless the Department receives matching monies from the City of Phoenix to repair the

**Laws 2016, 2nd Regular Session, Chapter 126 (SB1527) notes the following - The Department of Administration shall allocate $4,200,000 of the appropriation in this subsection for the renovation of the Department of Health Services building at 1740 West Adams.

1740 W. ADAMS RENOVATION

PROJECT SUMMARY

The objective of this project is to design, renovate, and commission office space at 1740 W. Adams for backfill with state agencies, boards, and commissions. The project will encompass the majority of the 84,866 SqFt four-story building and will include asbestos abatement, shelling most of the interior components, and replacing them with new finishes, building systems, and other upgrades.

Design criteria includes:

- Fire and Life Safety and ADA code compliance
- New offices; open work areas; conference rooms; board rooms
- Finishes
  - Paint
  - Doors and related hardware
  - Flooring – Carpet, Tile, and Vinyl Composition Tile (VCT)
- Building Systems Upgrades
  - Mechanical
    - HVAC Air Handlers
    - Energy Management System (EMS) controls
    - Duct replacement
  - Electrical
    - Power side Service Entrance Sections (SES)
    - Transformer
    - Branch circuiting, wiring, conduits, disconnects, and breakers
  - Plumbing
    - Replacement of the drain piping network

Approximate Schedule:

1740 Renovation Phase	**Start**	**Finish**
Procure A&E Design	5/15/2016	7/15/2016
Abatement/Testing	5/23/2016	5/26/2016
Procure CMAR	6/1/2016	7/25/2016
Preconstruction/Design	7/15/2016	11/15/2016
Abatement/Demo	8/2/2016	11/15/2016
Construction	11/15/2016	4/30/2017
Backfill		
DHS vacates 1740 W. Adams	5/10/2016	8/1/2016
**Backfill with state agencies, boards*	5/1/2017	6/30/2017

*State agencies, boards, backfill selections undetermined as of 5/24/17

Project Costs –Project Budget $4,200,000:

1740 Costs	**Approximate Costs**
A&E /Design	$420,000
Abatement/Demo	$350,000
Construction	$3,430,000
Total	**$4,200,000**

Arizona Department of Administration (ADOA) Building System
FY 2017 Building Renewal Allocation Plan
Laws 2016, 2nd Regular Session, Chapter 126 (SB1527)
$27,000,000

Fire and Life Safety: improve or eliminate an imminent condition that threatens life or property

The ADOA Building System has a number of fire alarm and suppression systems that have exceeded their life expectancy, are functionally obsolete, and in various stages of failure, if not already failed. When fire alarm systems are out of commission for extended repair times, agencies must employ 24-hour fire watch personnel, usually on an overtime basis, to achieve fire and life safety standards. Upgrades to fire alarm and suppression systems are necessary to bring state facilities into compliance with Federal, State, and Local fire and life safety regulations.

$5,000,000: Administration, Department of (ADOA) – ADOA Building System - Replace Fire & Life Safety Systems, Statewide Priorities

A.R.S. § 49-793.D. requires that ADOA should give priority to fire and life safety projects. This allocation will address critical fire & life safety projects for statewide priorities within the ADOA Building System. Projects include but are not limited to the following:

- Department of Administration (ADOA) – Capitol Complex
- Arizona Schools for the Deaf and the Blind (ASDB) - Tucson Campus
- Department of Health Services (DHS) - Arizona State Hospital Campus
- Department of Emergency and Military Affairs (DEMA) - Statewide Readiness Centers

Building Shell: includes existing exterior closure, walls, windows, doors, and roofs

Neglect of exterior roofs, walls, windows and doors facilitates deterioration of building structural systems, which leads to potential mold growth, and increases risk of damage to interior contents. Further, the costs of structure damage and mold abatement can often exceed the cost of replacing a roof membrane alone. This allocation is dedicated to proactively replacing failing roof systems, exterior expansion joints, doors and windows. This will mitigate the negative impacts of interruption to mission critical functions and expensive "crisis-mode" emergency repairs and replacements.

$1,000,000: Administration, Department of (ADOA) – ADOA Building System – Repair or Replace Failing Roofs, Statewide Priorities

All agencies within the ADOA Building System possess buildings with roofs that have reached and/or exceeded their useful lives. Physical deterioration through the combination of wear and tear, exposure to the elements, structural defects, and deferred maintenance have contributed to evidence of leakage, punctures, tears, blistered coatings, stained interior ceilings, sagging or decaying roof structures, and more. Some types of deterioration may be very apparent, while others may require a more thorough examination by a qualified source. The following list of potential projects is just a small portion of the roofing work that needs to be accomplished throughout the building system:

- ADOA – 416 W. Congress St., Tucson Complex
- ADOA – 1601 W. Jefferson St., Capitol Mall
- ADOA – 1616 W. Adams St., Capitol Mall
- DPS – Statewide Repairs
- PHS – Sharlot Hall Museum – Summit Street House
- DES – Statewide Repairs

$120,000: Exposition & State Fair, Arizona (AESF) – 1938 WPA Building – Replace Roof

The 1938 Works Progress Administration Civic Building roof has exceeded its useful life and is in need of complete replacement. ADOA is allocating $120,000 of the FY 2017 Building Renewal appropriation for complete replacement of the roof. As noted in the FY 2017 Capital Outlay Bill, ADOA will not spend any monies allocated for this purpose unless the Department receives matching monies from the City of Phoenix for the roof replacement.

$500,000: Administration, Department of (ADOA) – Capitol Mall Complex – Repair or Replace Exterior Caulking and Windows

Years of exposure to extreme weather conditions prevalent in the desert, have led to the deterioration of exterior expansion joints and window seals on a number of buildings within the Capitol Mall. In select buildings, rainwater has frequently leaked through windows, causing damage to flooring and furniture. These deteriorated exterior enclosures also lead to a loss of heating and cooling efficiencies, driving up utility costs for the State. The proposed allocation will address critical needs on the Capitol Mall.

Major Building Services: includes existing elevators, plumbing (domestic), HVAC, and electrical

The allocations in this category are projects that reflect the worsening condition of chief building services components, including large central plants, in ADOA Building System structures. Many of the failing chillers and cooling towers are original to building construction, have well surpassed their useful lives, and can no longer meet the cooling demands of the structures they support. Many systems are so weakened that unpredictable and imminent failure conditions threaten mission critical functions of public safety and institutional settings. Replacing aged and inefficient systems with new and more efficient systems will generate energy savings, protect assets, and provide comfortable climate control in Arizona's extreme environment.

Arizona Department of Administration (ADOA) Building System
FY 2017 Building Renewal Allocation Plan
Laws 2016, 2nd Regular Session, Chapter 126 (SB1527)
$27,000,000

$2,500,000: Administration, Department of (ADOA) – Tucson Complex – Replace Failing HVAC

The HVAC systems at the Capitol Complex in Tucson have exceeded their useful life and are in need of immediate replacement. Failure to address these aging systems will result in a shutdown of mission critical services provided in the southern part of the State and increased costs for emergency procurement. The proposed allocation will replace critical systems such as cooling towers, chillers, chilled water pumps, condenser water pumps, boilers, motor control centers, air handling units, control systems and other associated components.

$4,000,000: Administration, Department of (ADOA) – ADOA Managed Facilities – Replace Failing HVAC

Several ADOA-managed buildings in the Capitol Mall are in need of complete HVAC systems replacement. The proposed allocation will address the most critical HVAC needs in the Capitol Mall to mitigate negative impacts of "crisis-mode" emergency repairs and replacements. Potential projects include:

- 1700 W. Washington St. – Senate Chiller Repair/Replacement
- 1601 W. Jefferson St. – Replace Air Handling Units (AHU)
- 1645 W. Jefferson St. – Replace Air Handling Units (AHU)

Given the years of deferred repairs and replacements, unanticipated mechanical failures of HVAC systems may warrant reprioritization of projects

$4,300,000: Health Services, Department of (DHS) – Arizona State Hospital (ASH) – Replace Failing HVAC

The HVAC systems at the Arizona State Hospital have exceeded their useful life and are in need of replacement. Adequate cooling is necessary to sustain cooling demands for the campus without placing the patient's safety and well-being in jeopardy. Failure to address these aging systems will result in a shutdown of mission critical services. The proposed allocation will replace critical mechanical systems such as cooling towers, chillers, and other associated equipment within the central plant.

$250,000: Deaf and the Blind, Arizona Schools for the (ASDB) – Phoenix/Tucson Campus - Replace Failing HVAC

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

$800,000: Administration, Department of (ADOA) – Capitol Mall – HVAC Controls, Building Automation, and Systems Upgrades

Various building HVAC and energy management controls are lacking and/or equipped with disparate "front-ends" requiring multiple computers, workstations, and hardware to control major building systems throughout the Capitol Mall. Current HVAC system components are failing, lack interconnectivity, and are inefficient. Replacing and integrating the multiple systems into a single processing source will provide a centralized control of HVAC and energy management systems, decrease energy consumption, reduce equipment downtimes, and improve allocation of personnel resources.

$600,000: Supreme Court, Arizona – Courts Building – Repair/Modernize Elevators

Vertical passenger conveyance within the Courts Building is provided by five (5) original hydraulic elevators. This includes two (2) for public use and three (3) for secure access to courtroom space by the Judiciary. These elevators are over 25 years old and have exceeded their recommended useful lives. The elevator control systems include original 1980's electronic subsystems which are obsolete and lack the availability of replacement parts. Failure of these elevators would leave the building without passenger or freight elevator services, placing the building out of compliance with ADA guidelines, increasing emergency repair costs as well as having a detrimental effect on daily operations.

$1,000,000: Administration, Department of (ADOA) – Capitol Mall – Repair/Modernize Elevators

Elevator control systems on the Capitol Mall are obsolete and replacement parts are no longer available. Failure of these elevators would leave buildings without passenger or freight elevator services, placing the building out of compliance with ADA guidelines, increasing emergency repair costs as well as having a detrimental effect on daily operations. Potential projects include:

- 1700 W. Washington St., 1938 Addition
- 1200 W. Washington St.
- 1688 W. Adams St.

Infrastructure: includes existing roadways, parking lots, pedestrian paving, site electrical and mechanical utilities, water supply and distribution, sanitary and storm sewers, waste treatment, electrical distribution, site lighting, fencing, communications, and security

$800,000: Administration, Department of (ADOA) – ADOA Building System - Replace or Repair State Office Parking Lots

Many parking lots have been in a "deferred indefinitely" status for many years and in an exhausted state of deterioration because limited building renewal monies are directed at keeping failing roofs, HVAC, electrical and plumbing systems, fire alarms, sewer and water systems operational. The parking lot surfaces have succumbed to long-term erosion, shifting, and settling caused by water penetration of the underlying pavement base and extreme weather conditions further exacerbated by the weight of passing traffic. In most cases, interim measures such as patch repairs and sealants are ineffective and the only option is to remove and replace the asphalt. Potential projects include:

- ADOA - 1601 W. Jefferson St.
- ADOA - 1645 W. Jefferson St.
- ADOA – 1200 W. Adams St., Overflow Lot
- ASDB – Tucson Campus Parking Lots

$200,000: Administration, Department of (ADOA) – ADOA Building System – Repair Storm Water Retention Systems

The existing underground storm water retention system at 1789 W. Jefferson St. is undersized, damaged from years of corrosion, and lacks the ability to de-water after a storm due to an impacted and non-functioning drywell. When storm water is allowed to sit in the storage tank for extended periods of time, the corrugated metal pipe (CMP) begins to corrode and eventually fail. It is necessary to make repairs to the underground retention tank and provide a lift station, thereby allowing water to be pumped into the City storm drain system with a time-delayed pump.

In addition to the required work at 1789 W. Jefferson St., the Courts building at 1501 W. Washington St. requires inspection and replacement of two (2) lift station pumps used to dewater the 85,000 gallon underground storm water retention system. The pumps are over 25 years old and beyond their useful life.

Building Interiors and Finishes: primarily floor coverings, interior doors and door casements, and stairs.

Floor covering replacements have been in a "deferred indefinitely" status for many years because limited building renewal monies are directed at keeping failing roofs, HVAC, electrical and plumbing systems, fire alarms, sewer and water systems operational. Many floor coverings - some as old as 20-years - have exhausted a deferred status and are in such poor condition they require immediate attention to avert or eliminate safety hazards. The expected useful life of most carpet in a typical office building is five to ten-years. Conditions include floor coverings completely worn through to the floor, trapped dirt accumulation, patch maintenance, stains, unraveling seams and tears, unsuccessful duct tape repairs, and extensive rippling. Further, some carpet cannot be cleaned as an interim alternative because it so deteriorated the cleaning process further damages worn or torn fibers, and water penetrates and compresses "wet" dirt onto the floor surface underneath.

$250,000: Administration, Department of (ADOA) - Capitol Mall Complex – Replace Floor Covering Systems

ADOA will use $250,000 to address buildings and areas with the most critical carpet and flooring needs on the Capitol Mall.

Major Building Renovation:

$4,200,000: Administration, Department of (ADOA) – 1740 W. Adams St. – Office Building Renovation

Please see separate attachment for project plan and description.

Preventative Maintenance:

$300,000: Administration, Department of (ADOA) – ADOA Managed Facilities

ADOA plans to spend this allocation on preventative maintenance for planned electrical, mechanical, and plumbing maintenance in the Governmental Mall and other ADOA owned/managed facilities.

Project Scoping/Professional Services:

$300,000: Administration, Department of (ADOA) – ADOA Building System – Building Renewal Project Priorities (FY 17 and Prospective FY 18) Scoping/Professional Services

The $27 million FY 2017 ADOA building renewal appropriation is the second largest percentage of the statutory building renewal formula allocated for *non-dedicated fund source agencies* (66%) in 18 years. This allocation allows ADOA to address a number of project requests, including some with a complex scope of work, that otherwise would not have been fully funded. As a result of State agency attrition, some of the building renewal requests ADOA receives for funding consideration have deficient or very broad scopes of work, no supporting documentation, and insufficient, unreliable, or aged cost estimates. The proposed allocation supports ADOA in the development and implementation of detailed scopes of work that adequately and cost effectively address the requirements of an agency project request.

Personnel Services or Employee Related Expenditures:

$275,000: ADOA Construction Services Project Management Costs

ADOA may allocate up to up $275,000 in Personal Services and Employee Related Expenses for up to 5 FTE Positions for building renewal project management.

Risk Management Insurance Premium:

$7,000: ADOA Risk Management Construction Insurance Premium

The ADOA General Services Division (GSD) pays a .34% Construction Insurance Premium from each fiscal year's building renewal appropriation to ADOA State Risk Management for Errors and Omissions (E & O) insurance premiums associated with Engineering and Architectural (A & E) services contracts. The premium is not paid for direct construction costs or for reimbursable expenses.

Emergency and Contingency:

$598,000: Administration, Department of (ADOA) Building System – ADOA Building System Statewide Priorities – Emergency and Contingency Allocation

ADOA will expend monies from this proposed allocation to repair or replace failed or failing HVAC, plumbing, electrical, and other building systems in mission critical structures as the need arises.

4

STATE OF ARIZONA

Joint Committee on Capital Review

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE: June 9, 2016

TO: Representative Justin Olson, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director RS

FROM: Steve Grunig, Senior Fiscal Analyst SG

SUBJECT: Arizona Exposition and State Fair Board - Review of FY 2016 Capital Improvement Expenditures

Request

Pursuant to A.R.S. § 41-1252 the Arizona Exposition and State Fair Board requests Committee review of the scope, purpose and estimated cost of $291,000 for capital improvements. The FY 2016 Capital Outlay Bill (Laws 2015, Chapter 9) appropriated $1,000,000 from the Arizona Exposition and State Fair Fund to the Arizona Exposition and State Fair Board for capital improvements. The Arizona Exposition and State Fair (AESF) is requesting Committee review of 6 capital projects with a total cost of $291,000 in FY 2016. Together with items reviewed at the June and September 2015 JCCR meetings, the Arizona Exposition and State Fair Board would have $329,000 remaining of the FY 2016 appropriation.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review.

2. An unfavorable review.

Under either option, the JLBC Staff recommends the following provisions:

A. AESF shall report to the JLBC Staff if the actual cost of any project included in the expenditure plan exceeds the estimated cost by more than 20%.

(Continued)

B. If an emergency arises that is not addressed by the existing expenditure plan:

   1. AESF shall notify the Chairman and the JLBC Staff that they plan to spend less than $50,000 on an emergency project. AESF can proceed without Committee review.

   2. The Chairman can allow AESF to move forward with an emergency project of greater than $50,000 without Committee review.

   3. The Chairman will notify AESF if he does not agree that the project is an emergency and that the project will require full Committee review.

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

Analysis

Background

The Arizona Exposition and State Fair requests the Committee review the following 6 projects:

1. Fence Repair along 19th Ave
   The fencing along 19th Avenue behind the Grandstand has begun to deteriorate and needs to be repaired. The fence poses both a security and a safety risk to pedestrians. Estimated project cost is $50,000.

2. Asphalt Repair near the Exhibits Building and the Grandstand Arena
   Significant portions of the asphalt pavement in both areas have deteriorated and need to be repaired. The damaged asphalt has several potholes and poses a serious trip hazard. Estimated project cost is $100,000.

3. Connect Coliseum Sump Pumps to Emergency Power Generator
   During the monsoon season, the Coliseum has occasionally had significant flooding and damage to flooring. Connecting sump pumps to an emergency power generator would decrease the risk of flood damage to the Coliseum during storms. Estimated project cost is $16,000.

4. Parking Entrance and LED Lighting
   Both the 17th Avenue and Monte Vista entrances are used year-round as primary entrances onto the Fairgrounds. Better illumination will increase the safety and utility of the entrances. It can also be used to provide advertising opportunities to public and private partners. Estimated project cost is $75,000.

5. Portable Restroom Foundations and Urinal Replacement
   Three temporary restroom facilities located due east of the Grandstand need to have permanent concrete pads installed. Also, the urinal in the Agriculture Center is outdated and needs to be replaced. Estimated project cost is $20,000.

(Continued)

6. Security Cameras
   Security cameras are needed for the north and south box office and admission ticket boxes. The installation of security cameras would allow AESF to more closely monitor employees and monitor customer and staff interactions. Estimated project cost is $30,000.

Reasonableness of Cost Estimates

The expenditure plan represents AESF's estimated cost of the proposed projects. Costs of the projects are based on contracted services and estimates for in-house construction when possible. AESF has indicated it will use ADOA General Services to identify the most expedient and least costly processes to accomplish these projects, whether through bid, state contracts, or in-house labor.

RS/SG:kp

Arizona Exposition & State Fair

May 26, 2016

The Honorable Justin Olson
Joint Committee on Capital Review
Arizona House of Representatives
1700 W. Washington, Room 200
Phoenix, AZ 85007

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

Dear Senator Shooter:

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

1. Fence Repair along 19th Ave $50,000
2. Asphalt Repair on the NE side of the Exhibits Bldg and South of the Grandstand Arena.. $ 100,000
3. Connect Coliseum Sump Pumps to Emergency Power Generator $16,000
4. Parking Entrance and LED Lighting $75,000
5. Portable Restroom Foundations and Urinal Replacement $20,000
6. Security Cameras $30,000

A brief description follows:

1. **Fence Repair along 19th Ave**

   The fencing along 19th Ave behind the Grandstand is currently constructed of steel siding and has begun to deteriorate and separate from its frame due to age and exposure to use and the elements. In its current state, the fence poses not only a security risk as the foundation is losing integrity and both the posts and fence are leaning and forming spaces between fence sections, but also as a safety risk as panels could fall onto the 19th Ave sidewalk and endanger pedestrians.

   This repair is needed and being sought for the safety of the public.

2. **Asphalt Repair on the NE side of the Exhibits Bldg and South of the Grandstand Arena**

   Significant proportions of the asphalt pavement in both areas have deteriorated due to age and use. The damaged asphalt has several potholes and poses a serious trip hazard. Removal of the damaged asphalt and repair will inhibit further degradation of the pavement and decrease the risk of trip and injury hazards.

   This repair is needed and being sought for safety of the public.

3. **Connect Coliseum Sump Pumps to Emergency Power Generator**

A number of times in the last few years during the monsoon season, the Coliseum has been threatened or suffered significant flooding during torrential rain storms. In instances where flooding occurred, the flooring in the Coliseum was severely damaged and required considerable expense to repair and/or replace. Connecting sump pumps to an emergency power generator would enable sump pumps to continue working despite lacking functioning primary power sources at the Coliseum, and thus decrease the risk of flood damage to the Coliseum lower level structures.

This improvement is being sought to prevent repeated loss or damage of State Assets from flooding.

4. **Parking Entrance and LED Lighting**

Both the 17th Ave and Monte Vista entrances are used year-round as primary entrances onto the Fairgrounds. At present, the entrances have insufficient lighting, and lack distinguishable signage/markings welcoming patrons to the AESF. Making improvements will not only increase the ability of AESF to provide amenities (i.e., signage/advertising opportunities), that attract business and attendance, but will also increase the safety and utility of the entrances by providing increased illumination, a refreshed look, and more effective signage that can be used to direct attendees as well as provide advertising opportunities marketable to public private partners.

Improving the lighting in the designated areas will provide more illumination to the grounds and increase safety of patrons on the grounds during evening and night hours. In addition converting to an LED lighting system is a much needed step towards improving conservation as LED lighting will increase efficiency and decrease cost.

These needed repairs and upgrades are being sought to improve safety and efficiency and to conserve energy.

5. **Portable Restroom foundations and Urinal Replacement**

AESF has three temporary restroom facilities located in the "Back Yard" area due east of the Grandstand arena. These restrooms currently lack a permanent foundation or pad and sit directly on the ground. As a result, the restrooms are experiencing accelerated deterioration and damage which in turn, are reducing life expectancy of the restrooms. Installation of concrete pads will eliminate much of the deterioration as the restrooms can be properly leveled and maintained. In addition to extending the utility life of the restrooms, installing the concrete pads will reduce repair and maintenance costs of the restrooms.

Furthermore, the urinal in the Ag Center is outdated and unsanitary. The urinal design requires constant flow of water even when not in use leading to excessive waste of water.

This project is needed and is being sought to prevent continued deterioration, as well as to conserve natural resources.

6. <u>Security Cameras</u>

Security Cameras - North and South Box Office, Admission Ticket boxes /2 overhead cameras

A significant proportion of the revenue collected at various events is through the sale of tickets. Not having a suitable security camera system in place prevents AESF from monitoring and implementing proper ticket/box office practices. The installation of security cameras would allow AESF to more closely monitor box office/ticket office employees, as well as provide a surveillance system for monitoring customer and AESF staff interactions.

This equipment purchase is being sought to protect State Assets and for the safety of AESF employees and staff.

Costs of the above projects are based on contracted services and estimates for in-house construction as possible. AESF will utilize ADOA General Services to identify the most expedient and fiscally responsible processes to accomplish these projects, whether through bid, state contracts, or in-house labor.

If you have any questions or require additional information concerning the requests, Please contact me at 602-252-6771

Sincerely,

Wanell Costello
Executive Director

CC: The Honorable Don Shooter
Jordan Dale, OSPB
Richard Stavneak, JLBC

5

STATE OF ARIZONA

Joint Committee on Capital Review

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE: June 9, 2016

TO: Representative Justin Olson, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director RS

FROM: Krista MacGahan, Senior Fiscal Analyst KM

SUBJECT: Arizona Game and Fish Department - Review of FY 2016 Building Renewal Allocation Plan

Request

A.R.S. § 41-1252 requires Committee review of expenditure plans for building renewal monies. The Arizona Game and Fish Department (AGFD) requests the Committee review its FY 2016 Building Renewal Allocation Plan for $243,100. The FY 2016 Capital Outlay Bill (Laws 2015, Chapter 9) appropriated a total of $530,000 from the Game and Fish Fund for building renewal. The bill specified the appropriation in FY 2016 is available through the end of FY 2017.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review.

2. An unfavorable review.

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

Analysis

Building renewal appropriations provide for the major maintenance and repair of state-owned buildings. A total of $530,000 is appropriated to AGFD for building renewal in FY 2016. AGFD expects to allocate $243,100 between 3 projects: $148,500 for Pinetop Regional Office remodel, $52,200 for an AGFD State Headquarters Major Maintenance Fund deposit, and $42,400 for preventative maintenance.

(Continued)

Pinetop Regional Office Project

AGFD has identified concerns related to outdated design and layout of the Pinetop Regional Office that affect employee safety, customer service, and compliance with the Americans with Disabilities Act (ADA). The remodel includes building separate public access to the lobby restrooms via a hallway, installing privacy screens on the customer service counter and replacement of countertops, replacing and upgrading light fixtures, and installing new entry doors with an ADA-compliant power door operator. The cost to remodel 1,760 square feet is approximately $84 per square foot.

Major Maintenance Fund Deposit

AGFD committed to depositing a portion of its annual renewal allocation into a sinking fund as part of the lease-purchase agreement for the AGFD Headquarters facility. This deposit is expected to be $52,200 for FY 2016. The fund covers future capital expenses associated with major cyclical maintenance and includes administration building roof maintenance, interior floors and walls replacement and painting, building systems upgrades, HVAC replacement, and asphalt maintenance along a 25-year schedule.

Preventative Maintenance

A.R.S. § 41-793.01 allows AGFD to allocate up to 8% of building renewal appropriations for routine preventative maintenance. The $42,400 allocation includes preventative maintenance and testing of the following systems: HVAC systems, pavement maintenance, back-up power generator systems, fire detection alarm and suppression systems, wastewater pump stations, and potable water system backflow protection.

Table 1

FY 2016 Building Renewal Projects

Pinetop Regional Office Project	$ 148,500
State Headquarters Major Maintenance Fund Deposit	52,200
Preventative Maintenance	42,400
Total	**$ 243,100**

RS/KM:kp

THE STATE OF ARIZONA
GAME AND FISH DEPARTMENT
5000 W. CAREFREE HIGHWAY
PHOENIX, AZ 85086-5000
(602) 942-3000 • WWW.AZGFD.GOV

May 23, 2016

RECEIVED
MAY 24 2016
JOINT BUDGET COMMITTEE

Honorable Representative Justin Olson, Chairman
Joint Committee on Capital Review
Arizona House of Representatives
Capitol Complex
1700 W. Washington
Phoenix, AZ 85007-2890

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

Honorable Representative Olson:

The Arizona Game and Fish Department respectfully requests to be on the next scheduled agenda of the Joint Committee on Capital Review to review the following:

1. The Arizona Game and Fish Building Renewal Expenditure Plan (FY16 Appropriated Funds)

The following information for this review is attached:

- Arizona Game and Fish Building Renewal Expenditure Plan

Sincerely,

Larry D. Voyles
Director

Arizona Game and Fish Building Renewal Expenditure Plan – FY17

Project: Pinetop Regional Office Customer Service Area, Restroom and Lighting Upgrades

Objectives: Improve employee security; improve customer experience and customer service functionality

Need: The Department's Region 1 Office (Pinetop) staff has identified several concerns related to the design and aged condition of their business office, front lobby, restrooms and public conference/training room that affect employee wellbeing and safety, customer service and efficiency, compliance with ADA guidelines and ensuring compliance with appropriate internal controls related to cash handling. The Pinetop office is one of the busiest of the Department's six Regional Offices. The office has had no significant upgrades since 1997. Specific concerns are as follows:

Security

- Current access to restrooms by the public requires a customer enter into the business administration office area through a swing gate, creating a vulnerability to the entire building staff that needs to be remedied.
- The counter between the front lobby and customer service representatives is inadequate to protect employees. The height of the counter is low and could easily be jumped by an assailant. The close proximity to customers creates a situation where a customer can reach across and grab the employee or access the cash drawers
- The swing gate that provides access from the lobby is difficult to keep closed and is lower than the counter; this is an inadequate barrier
- Security of accountable inventory is marginal

Aesthetics and Functionality

- Old florescent lighting in the customer service area and public conference/training room is problematic. Not only does the current lighting make the space seem dreary, there are lighting hot spots and cold spots throughout that are bothersome to customer service staff
- There is only a "makeshift" ADA customer service station that is not fully compliant. The main lobby entry door is problematic in it requires excessive pull pressure.
- Access to regulatory information, Department brochures and interactive opportunity is very limited
- Lobby appearance is dated and unappealing affecting the customers' experience and perception of the Department

Solution: The remodel will focus on improved security by separating public access to the restrooms from the business administration area. A wall will be constructed separating the administration area from the restroom entrances. Passage from the lobby to the restrooms will be through a short hallway via an access controlled door. New millwork privacy screens will be installed along the front counter at a height of +5.0'. Countertop laminates will be replaced throughout the customer service stations and lobby. Lighting upgrades will include photometric designed, energy efficient LED fixtures. Old lighting fixtures will be removed with the ceiling being repaired and painted. The new configuration will include new entry doors with an ADA compliant power door operator.

Cost Estimate*

Activity	Quantity	Unit	Unit Cost	Cost
Mobilization/Temporary Business Services Setup	1	LS	$7,122.00	$7,122.00
Demolition – Light Fixtures, Counter Tops	1	LS	$6,069.00	$6,069.00
New Wall Partition w/One-Way Windows, Framing/Drywall/Texture	1	LS	$3,322.00	$3,322.00
New Reception Area Counters/AV Cabinetry/Millwork	1	LS	$25,760.00	$25,760.00
Framing/Bracing/ Privacy Screens/New Security Shutters	1	LS	$9,623.00	$9,623.00
Restroom Renovations – Demo, Tile, Counter Tops, Fixtures, Lavatories/Toilets/Urinals, Partitions	1	LS	$25,111.00	$25,111.00
Frames/Doors/Hardware/ADA Opener	1	LS	$2,378.00	$2,378.00
Painting – Ceilings and New Partition, Doors, Restrooms	1	LS	$2,814.00	$2,814.00
LED Lighting (Conference/Training Room)	1	LS	$17,323.00	$17,323.00
LED Lighting (Business Administration/Lobby)	1	LS	$22,630.00	$22,630.00
Contractor's Fees (JOC Contract)	1	LS	$26,330.00	$26,330.00
TOTAL ESTIMATE:				**$148,482.00**
***Costs based on AGFD JOC Contractor Bid dated 1/8/2016**				

Impact of Not Approving this Request: AGFD is committed to providing a safe work environment to its employees while presenting a positive image at its Regional facilities, as well as superior customer service. Continued deferred maintenance will result in dilapidated facilities, poor customer experience, and in some cases, health and safety implications.

Arizona Game and Fish State Headquarters – Major Maintenance Fund

Background: As part of the lease purchase agreement for the AGFD Headquarters facility, the Department committed to depositing a portion of its annual building renewal allocation into a sinking fund established through an indenture agreement with Wells Fargo Corporate Trust. This fund will cover future capital expenses associated with major cyclic maintenance items based on the following:

- Administration Building Roof Maintenance – Foam Roof Sealant every 7 years; new roof in year 25
- Interior Floors, Walls – Replace carpet flooring every 7 years; paint interior walls every 5 years; other flooring every 10 – 15 years
- Building Systems - Assumes ongoing upgrades to lighting, HVAC (energy management), telecommunication and information systems; security/access control system; fire detection and alarm system
- HVAC – Anticipated replacement of chiller in year 25; air handler unit replacements in years 20 -25; independent heat pump systems every 12 years
- Asphalt Maintenance – Crack seal every 3 years; seal coat parking lots every 5 years; slurry seal main entry road every 5 years; mill and overlay parking lot and main entry road in year 20

Estimated Annual Sinking Fund Requirement: $52,230

FY 2014 Building Renewal Appropriation Expenditure Summary

Pinetop Regional Office Upgrades	*$148,482*
State Headquarters Major Maintenance Fund	*$ 52,230*
Total:	***$200,712***

Per statutory requirement, for future projects exceeding $25,000, AGFD will submit a detailed Expenditure Plan to the Joint Committee on Capital Review for review and approval. Per statute, AGFD may spend up to 8% ($42,400) of the total appropriation amount on preventive maintenance which can include preventive maintenance contracts for HVAC, backup power generators, pavement maintenance, wastewater pump stations, etc.

STATE OF ARIZONA

Joint Committee on Capital Review

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE: June 9, 2016

TO: Representative Justin Olson, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director RS

FROM: Eric Billings, Principal Fiscal Analyst EB

SUBJECT: Department of Emergency and Military Affairs - Review of Proposed Expenditures from the Military Installation Fund

Request

Pursuant to A.R.S. § 41-1252, the Department of Emergency and Military Affairs (DEMA) is requesting the review of their plan to expend $2,817,350 from the Military Installation Fund for 5 land purchases and 1 easement acquisition near existing military facilities. Under the proposal, these expenditures would be funded with the existing monies in the fund.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review.

2. An unfavorable review.

Under a favorable review, the Committee may also consider the following provisions that:

A. To the extent necessary, DEMA will adjust reviewed purchasing prices lower to comply with the Arizona Administrative Code provision that all purchases from the Military Installation Fund be equal to or less than their appraised value.

B. DEMA shall not increase any reviewed purchasing price by more than 10% without first seeking JCCR review.

(Continued)

Analysis

The Military Installation Fund was created by Laws 2004, Chapter 235 for the purpose of helping to maintain the presence of military facilities in Arizona through the provision of funding to state and local entities to purchase, preserve, or maintain land near military facilities. The purchases are intended to prevent nearby development that is incompatible with military facilities. The Military Installation Fund receives revenue from one-time General Fund appropriations and interest on the fund balance. As of June 1, 2016, the fund had an unreserved balance of $3.4 million. The last General Fund appropriation was made in FY 2015 in the amount of $2.5 million.

A.R.S. § 26-262 requires that 80% of the monies received by the Military Installation Fund be utilized for land purchases, land improvements, and the acquisition of development rights. The remaining 20% is required to be provided to local governments for capital or infrastructure improvements, renovations, the removal of structures, military installation preservation and enhancement projects requested by federal or state agencies, and the management of acquired property.

The Military Installation Fund is administered by DEMA with allocation recommendations made by the Military Affairs Commission. The commission is comprised of 18 individuals appointed by the Governor, Senate President, or Speaker of the House that are either elected officials, appointed officials, individuals with military expertise, or residents with private property interests around the state's major military installations. The commission makes Military Installation Fund allocation recommendations to DEMA based on a number of factors including the proximity of the land to the base, installation needs, and risk to land users. Once the recommendations are made, DEMA makes the final allocation decision, although, the commission's decisions are usually accepted. Of the purchases included in DEMA's proposal, all were recommended by the commission and DEMA did not reject any of the commission's recommendations.

Once purchased, the parcels included in the DEMA proposal will become property of the state and be managed by DEMA.

Proposed Purchases

The current plan would allocate a total of $1.8 million to the following 3 land or easement purchases:

- $425,250 to purchase a 20.25-acre land parcel which is .75 miles west of Luke Air Force Base (AFB) Auxiliary Field near Surprise. The acquisition would allow for the purchase of undeveloped land almost directly in front of the air strip at the Air Field. This land falls within the Accident Potential Zone 1 of the Air Field, which means that the land is within 8,000 feet of the end of the air strip.

- $475,000 to purchase a 9-acre parcel which is within the fence-line of Davis-Monthan AFB and within the required safety buffer zone of the installation's explosive storage area. This undeveloped land is located immediately to the southeast of the main air strip of the base. The acquisition of this property would eliminate an annual $35,000 lease payment that Davis-Monthan AFB currently pays to the landowner and would complement Pima County's intended acquisition of an additional 90 acres bordering the parcel that would eliminate a further $350,000 in annual lease payments.

- $900,000 to acquire easement rights to a 300-acre parcel which is located approximately 1 mile north of Fort Huachuca. The land is currently used by the Babacomari Ranch for cattle, horses, and tourism. These monies would provide a match to $4.5 million in federal grant monies that the non-profit Arizona Land and Water Trust has received as part of the Sentinel Landscape Partnership

(Continued)

program that encourages the protection of natural habitat and working ranches so as to discourage land development that is incompatible with the utilization of military installations. As a result of the $4.5 million federal grant, the Arizona Land and Water Trust will be able to purchase easement rights to an additional 1,500 acres of the Babacomari Ranch, along with the proposed 300-acre DEMA easement.

Reallocating Previously Reviewed Purchase

At the June 2015 meeting of the JCCR, the committee gave a favorable review to DEMA's plan to expend $2.9 million on 3 land purchases or easements. One of the approved purchases was for $843,750 to acquire 33.75 acres owned by Rocking K Holdings LP southeast of Davis-Monthan AFB in Tucson. After receiving approval, DEMA learned of 6 covenants, conditions, and restrictions that were not disclosed in the initial application that could potentially expose DEMA to additional financial assessments if the purchase was completed. As a result, DEMA has decided against pursuing the acquisition and is waiting to see if Rocking K Holdings LP will appeal the decision to the Office of Administrative Hearings. If these monies are released they, along with $173,350 from the fund balance, will allow for the 3 new purchases:

- $848,000 in total to purchase two separate 80-acre parcels (160 acres total) located 2.5 miles northwest of the Gila Bend Auxiliary Field. The acquisition would allow for the purchase of undeveloped land that falls within in the Accident Potential Zone 2 of the Air field, which means that the land is between 8,000 and 15,000 feet from the end of the air strip.

- $169,100 to purchase 52.64 acres 1.5 miles northeast of Gila Bend Auxiliary Field. This undeveloped land parcel falls in both the Accident Potential Zones 1 and 2.

If approved, the expenditure of the $2.8 million needed to fund all of the 6 aforementioned property purchases would result in an estimated ending balance of $546,100 in the Military Installation Fund.

Property Appraisal

Arizona Administrative Code requires that DEMA pay no more than the appraised value for land acquisitions and easement purchases. Currently, DEMA does not have updated appraisal data for any of the proposed parcels. DEMA plans to acquire this information in the coming months and will adjust the purchasing price lower as necessary to comply with this provision.

RS/EB:kp

STATE OF ARIZONA
DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS

5636 East McDowell Road
Phoenix, Arizona 85008-3495
(602) 267-2700 DSN: 853-2700

Douglas A. Ducey
GOVERNOR

Major General Michael T. McGuire
THE ADJUTANT GENERAL

May 27, 2016

The Honorable Justin Olson, Chairman
Joint Committee on Capital Review (JCCR)
Arizona House of Representatives
1700 West Washington Street
Phoenix, Arizona 85007

RECEIVED
MAY 26 2016
JOINT BUDGET COMMITTEE

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

SUBJECT: Military Installation Fund Recommended Acquisitions

Dear Representative Olson and Senator Shooter:

The Arizona Department of Emergency and Military Affairs (DEMA) respectfully requests its placement on the June 2016 Joint Committee on Capital Review (JCCR) meeting agenda for review of the expenditure of monies appropriated for land acquisition pursuant to A.R.S. § 41-1252.

A.R.S. § 26-262(G)(1) provides DEMA the authority, upon recommendation by the Military Affairs Commission, to purchase property for the purpose of preserving or enhancing a military installation. On April 4, 2016, the Military Affairs Commission recommended the following acquisitions using monies appropriated in FY15 to protect and enhance Arizona's military installations and assist property owners impacted by those adjacent military installations:

Proposed Property Acquisition - $425,250 to Cosmo Primiano

- 20.25 acres, Maricopa APN #'s 503-81-016G, 503-81-016H, 503-81-016J, and 503-81-016K.
- Approximately .75 miles west of Luke Air Force Base Auxiliary Field #1, and within the Accident Potential Zone 1 as defined in A.R.S. § 28-8461(1).
- Acquisition of these properties will preserve the training airfield by acting as a buffer to development, preventing encroachment to this training airfield, limiting development within the Accident Potential Zone, and resolving impacts to the property owner caused by the adjacent military installation.

Proposed Property Acquisition - $475,000 to Kolb Road Development

- 9 acres, Pima APN #'s: 141-06-007C and 141-06-0190

- The property is within the fence-line of Davis-Monthan Air Force Base, and within the required safety buffer zone of the installation's explosive storage area.
- Acquisition of these properties would eliminate the requirement for Davis-Monthan AFB to lease the proposed property, reducing the operational expense of the installation by $35,000 per year and improving the viability of the installation. This property borders additional private property that Pima County intends to acquire in order to achieve this same goal. Acquisition will resolve impacts to the property owner caused by the property being within the fence-line of Davis-Monthan AFB.

Proposed Conservation Easement Acquisition - $900,000.00 to Arizona Land & Water Trust

- 300 acres within the Rain Valley area of Cochise County near Fort Huachuca and within the Buffalo Soldier Electronic Testing Range.
- Leverages over $4.5M from the Department of Agriculture
- Proximate to 3,300 acres that have been conserved by Fort Huachuca through the Army Compatible Use Buffer (ACUB) program.
- Approximately one mile north of Fort Huachuca and within the Buffalo Soldier Electronic Test Range as identified by A.R.S. § 37-102(H)(3).
- Proposed conservation easement will protect the mission of Fort Huachuca and the Buffalo Soldier Electronic Testing Range by reducing development in the area that could lead to electronic interference within the Range and endanger the mission.

In addition to these recommended acquisitions, the Commission recommended additional acquisitions based on funding that may become available pending the outcome of an appeal. The Department declined to acquire the Rocking K Holdings LP property previously approved by the JCCR in June 2015 for $843,750 because the Department learned that the property had a number of encumbrances, including CCRs that could potentially expose the Department to financial assessments that the Department could not pay without appropriation authority from the Legislature. Rocking K Holdings LP is appealing that decision, but in the event their appeal is denied the Commission recommended using that remaining funding to acquire the following properties:

Proposed Property Acquisition - $432,000 to Edward Stout

- 80 acres, Maricopa APN # 403-47-001
- Approximately 2.5 miles northwest of Gila Bend Auxiliary Field, and within the Accident Potential Zone II as defined in A.R.S. § 28-8461(2).
- Acquisition of this property will preserve the training airfield by acting as a buffer to development, preventing encroachment to this training airfield, limiting development within the Accident Potential Zone, and resolving impacts to the property owner caused by the adjacent military installation.

Proposed Property Acquisition - $416,000 to Edward Stout

- 80 acres, Maricopa APN # 403-49-001
- Approximately 2.5 miles northwest of Gila Bend Auxiliary Field, and within the Accident Potential Zone II as defined in A.R.S. § 28-8461(2).

- Acquisition of this property will preserve the training airfield by acting as a buffer to development, preventing encroachment to this training airfield, limiting development within the Accident Potential Zone, and resolving impacts to the property owner caused by the adjacent military installation.

Proposed Property Acquisition - $169,100 to Carol Galvez et al

- 52.64 acres, the portion of Maricopa APN # 402-31-003 that resides in accident potential zones #1 and #2.
- Approximately 1.5 miles northeast of Gila Bend Auxiliary Field, and within the Accident Potential Zones I and II as defined in A.R.S. §§ 28-8461(1) and (2).
- Acquisition of this property will preserve the training airfield by acting as a buffer to development, preventing encroachment to this training airfield, limiting development within the Accident Potential Zone, and resolving impacts to the property owner caused by the adjacent military installation.

Pursuant to A.R.S. § 41-791.02(I), acquisition of real property shall not exceed its appraised value. The aforementioned purchase prices negotiated by DEMA will either at or below their appraised value.

DEMA respectfully submits the attached land acquisition agreement for JCCR review.

If you have any questions regarding these proposed purchases, please contact Travis Schulte, DEMA Legislative Policy Administrator and Coordinator for the Military Affairs Commission, at 602.267.2732.

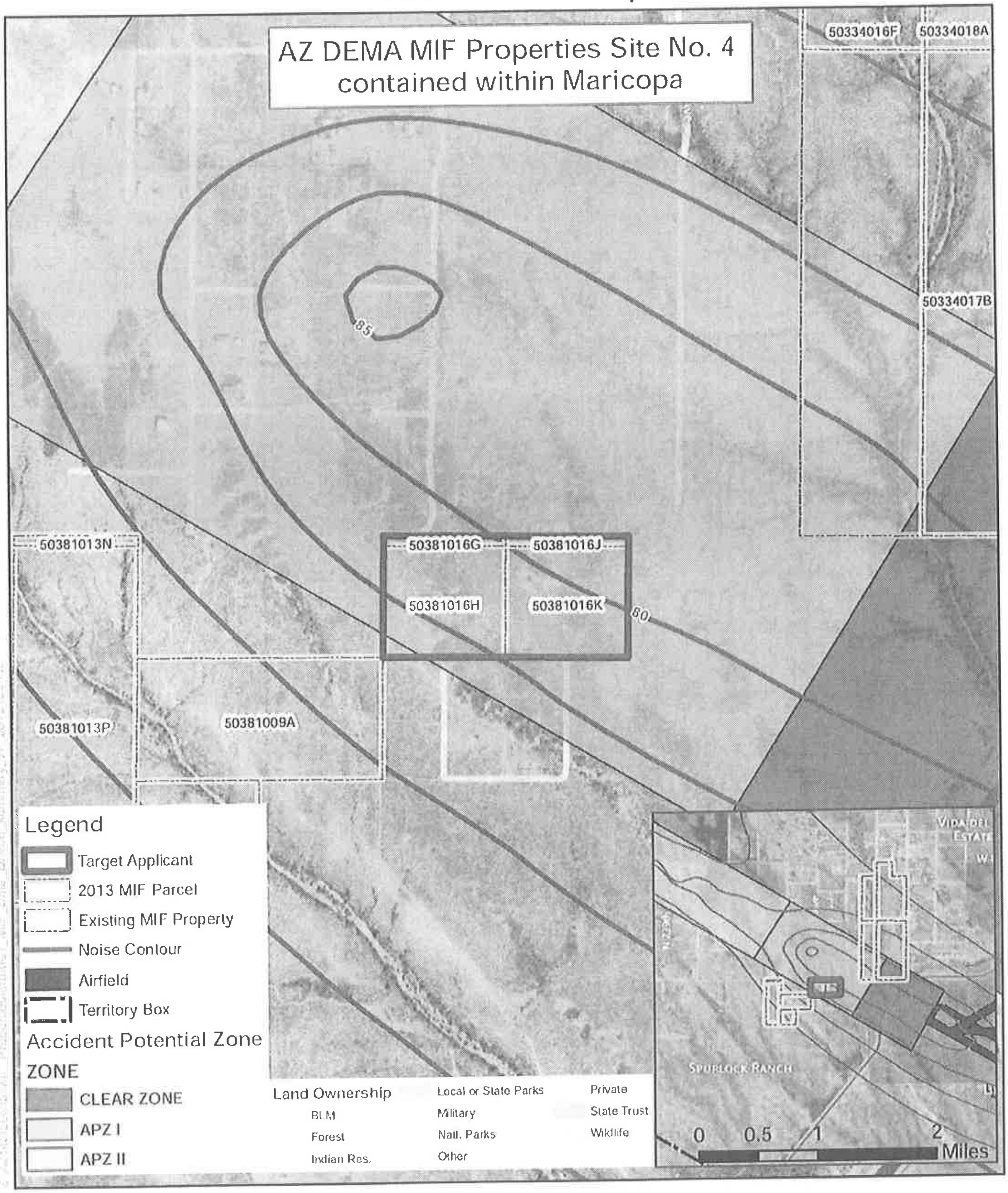
Sincerely,

Michael T. McGuire
Major General, AZ ANG
The Adjutant General

Attachments:
Property Maps

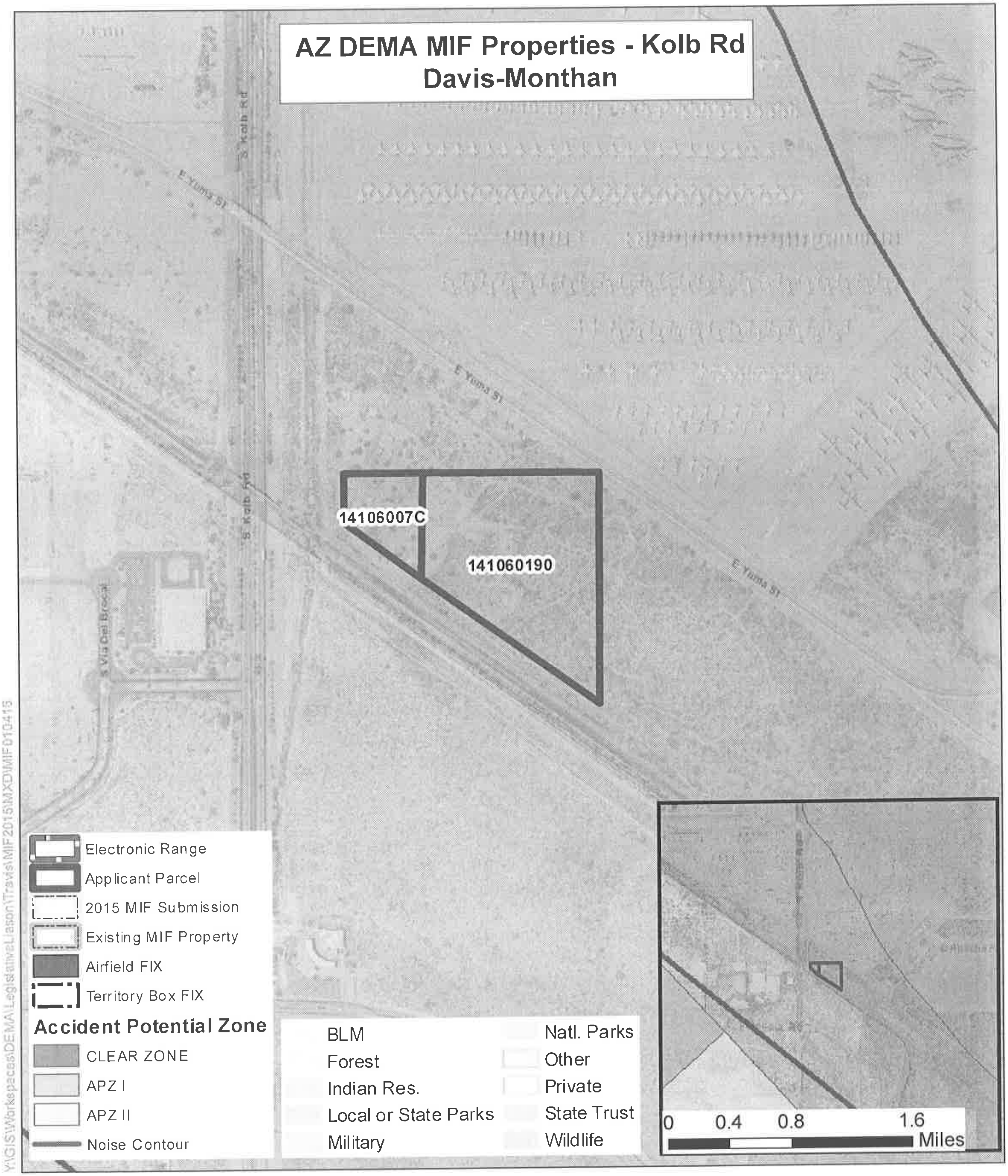
cc: Richard Stavneak, Staff Director JLBC
Eric Billings, DEMA Analyst, JLBC
Lorenzo Romero, Director, OSPB
Laura Johnson, DEMA Budget Analyst, OSPB
Michael Braun, Director, Legislative Council
Correspondence File

Primiano 1 - Luke Auxiliary Field #1



AZ DEMA MIF Properties (Primiano 1)
Ownership Type: TBD (~20 Ac)
Source: Maricopa Assessor Data
Acquired on 11/30/2011; MIF Properties (v2)
Modified: 08/13/13
Coord Sys: WGS84 UTM 12 N

0 0.075 0.15 0.3 Miles



Y:\GIS\Workspaces\DEMA\LegislativeLiason\Travis\MIF2015\MXD\MIF010416

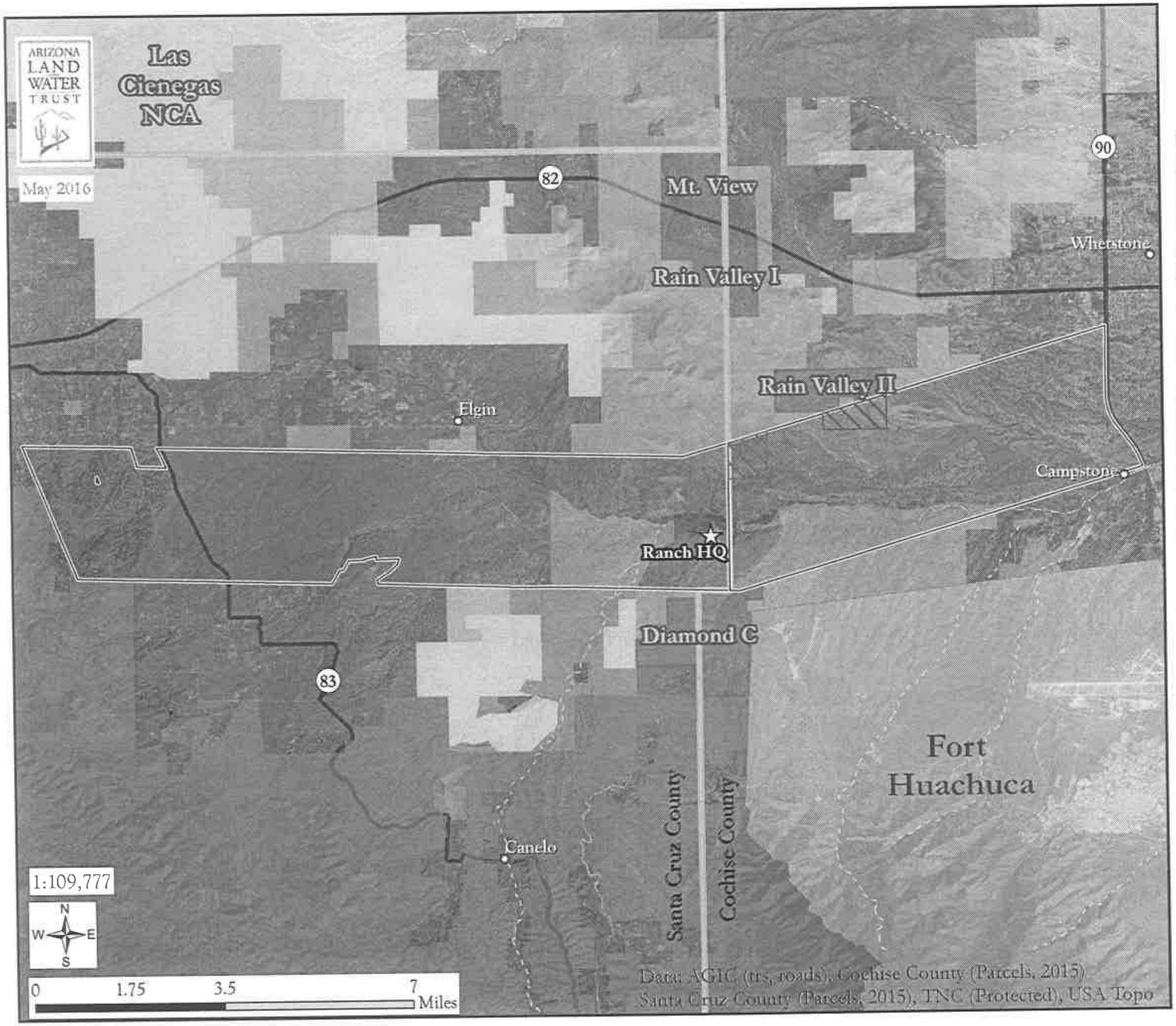
AZ DEMA MIF Properties (Kolb Road Development)
Ownership Type: Fee Simple Purchase (~ 9 Ac)
Source: Pima County Assessor Data
Acquired on 12/31/15; MIF Properties
Modified: 01/10/16
Coord Sys: WGS_1984_UTM_Zone_12N

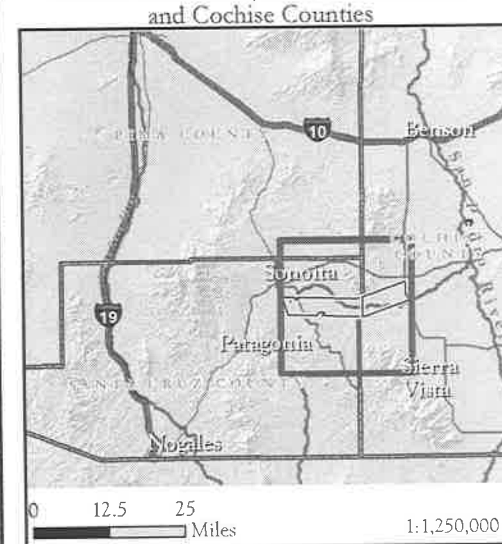
0 0.05 0.1 0.2 Miles

BABACOMARI RANCH

PROPERTY INQUIRY -AERIAL

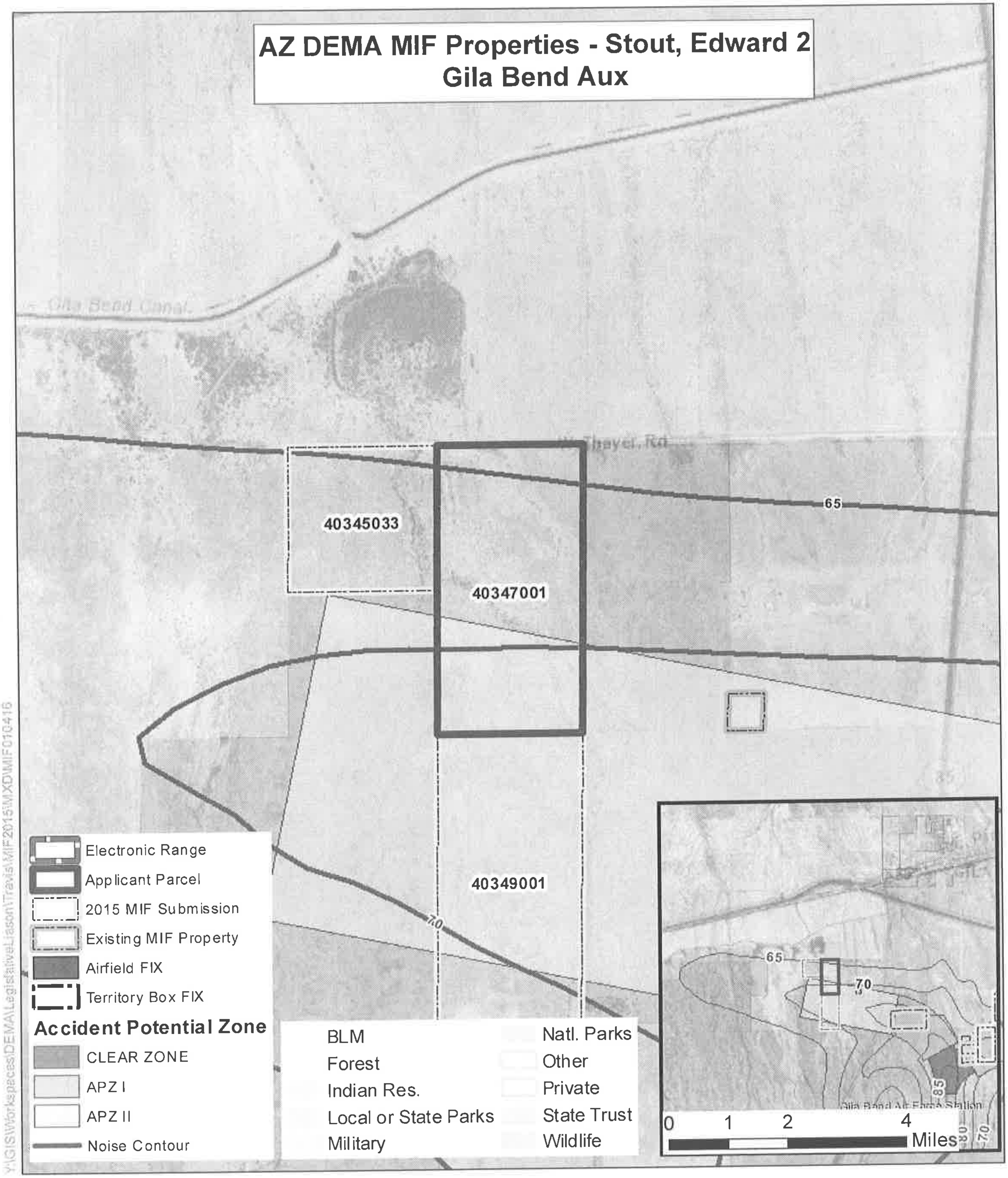
Source: Landowner, APNs - Santa Cruz and Cochise Counties





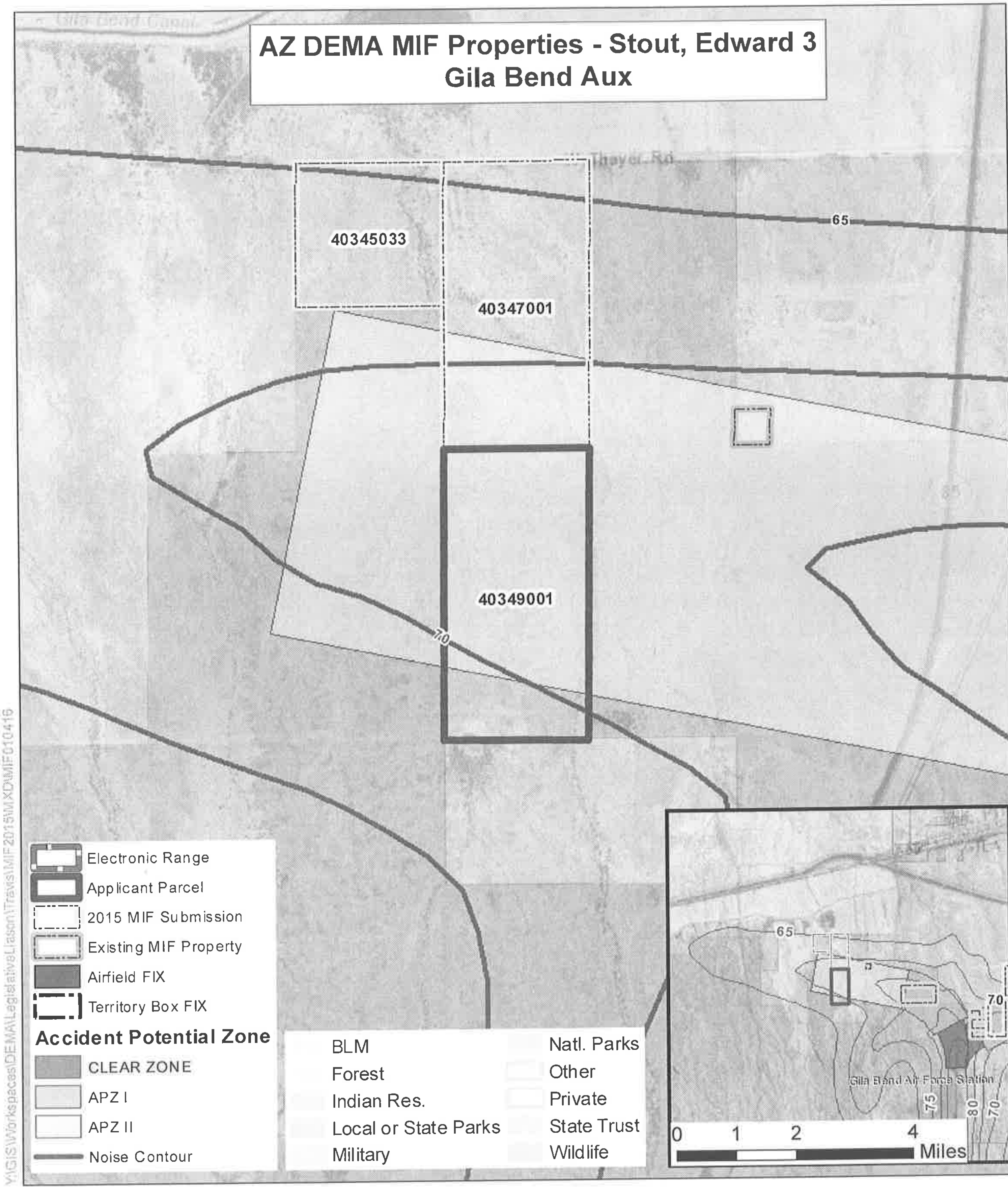
- Babacomari Ranch
- Option A (~300 ac)
- Option B (~300 ac)
- ALWT Conservation Easements
- BLM
- Forest
- Military
- State Trust
- Other Protected Lands

Disclaimer: Arizona Land and Water Trust (ALWT) created this map for internal purposes only. Every reasonable effort has been made to assure the accuracy of the map, however the information displayed is only as accurate as the data sources collected and applied. ALWT does not accept any responsibility for any errors, omissions, or positional accuracy, and therefore, there are no warranties which accompany this map. This product is for informational purposes only and was not prepared for, or is suitable for, legal, engineering or surveying purposes. Users of this information should review or consult the primary data and information sources to ascertain the usability of the information.



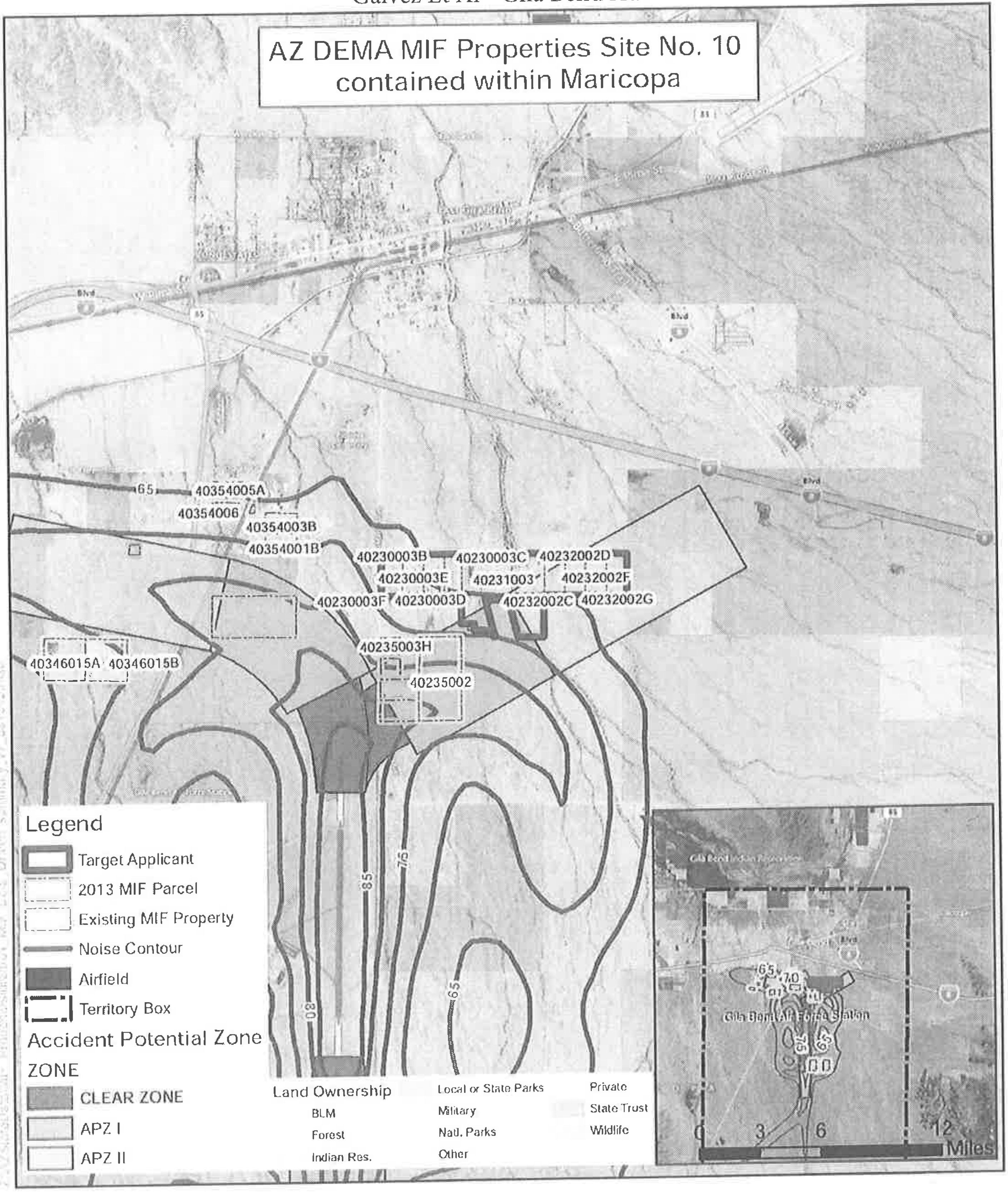
AZ DEMA MIF Properties (Edward Stout 1)
Ownership Type: Fee Simple Purchase (~ 80 Ac)
Source: Maricopa County Assessor Data
Acquired on 12/22/15; MIF Properties
Modified: 01/10/16
Coord Sys: WGS_1984_UTM_Zone_12N

0 0.15 0.3 0.6 Miles



AZ DEMA MIF Properties (Edward Stout 2)
Ownership Type: Fee Simple Purchase (~ 80 Ac)
Source: Maricopa County Assessor Data
Acquired on 12/22/15; MIF Properties
Modified: 01/10/16
Coord Sys: WGS_1984_UTM_Zone_12N

0 0.15 0.3 0.6 Miles



AZ DEMA MIF Properties (Galvez Et Al. Carole Galvez, Jesstine Makings, De*)
Ownership Type: TBD (~289 Ac)
Source: Maricopa Assessor Data
Acquired on 11/30/2011; MIF Properties (v2)
Modified: 08/13/13
Coord Sys: WGS84 UTM 12 N

0 0.45 0.9 1.8 Miles

7

Joint Committee on Capital Review

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE:	June 9, 2016
TO:	Representative Justin Olson, Chairman Members, Joint Committee on Capital Review
THRU:	Richard Stavneak, Director RS
FROM:	Krista MacGahan, Senior Fiscal Analyst KM
SUBJECT:	Arizona State Parks Board - Review of Buckskin Sanitary District Lease and Easement Agreement

Request

Arizona State Parks (ASP) requests the Committee review ASP's proposed lease and easement agreement with the Buckskin Sanitary District (District). ASP will provide a no cost 40-year land lease and easement to the District for construction of the new sanitation facilities that will be used for all District customers, including 2 state parks.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review.

2. An unfavorable review.

Analysis

In 2011, ASP and the District began discussions on the expansion of the District's collection systems and treatment facilities in the northern portion of the District. The District runs along the Colorado River from the Colorado River Reservation to the Parker Dam. Buckskin Mountain State Park and River Island State Park are located in the northern area of the District and operate their own small wastewater treatment facilities, which are between 25 and 30 years old and in need of upgrades or replacement.

(Continued)

The District and ASP have decided on the terms of an agreement for the District to enter into a 40-year no cost land lease on a portion of Buckskin Mountain State Park for the District to design, construct and maintain a new treatment facility for District customers. In exchange, the District will incorporate the Buckskin Mountain and River Island State Parks' sanitary flows into a new 250,000 gallon per day effluent capacity treatment facility. When completed, the new treatment facility will serve the users of Buckskin Mountain and River Island State Parks and other users within the area of the District. This will allow ASP to discontinue the operations of waste treatment facilities in the respective parks. Between now and completion, the District will provide full-time treatment plant operators to run and maintain the ASP treatment facilities until the new treatment facility is completed and will decommission the existing ASP treatment facilities at no cost to ASP.

In 2013, the Bureau of Land Management approved the amendment to the Plan of Development which provides for the wastewater treatment facility to be located on a portion of the Buckskin Mountain State Park property.

ASP would see operating savings from decommissioning its own facilities. The Buckskin Mountain State Park treatment facility currently has a capacity of 5,000 gallons per day and estimated 20-year total operating costs of $1.4 million. The River Island State Park treatment facility currently has a capacity of 2,500 gallons per day and estimated 20-year total operating costs of $1 million. By decommissioning these facilities, combined operating savings for both parks over 20 years would be $2.4 million.

Offsetting these savings would be 2 costs. ASP would pay $607,400 of treatment fees over 20 years to the District for use of the new facility. In addition, the value of the land leased over to the District is $440,000.

Taking into account these net costs, the 20-year savings to ASP is estimated to be $1.3 million. In addition, decommissioning the existing Buckskin Mountain and River Island treatment facilities would free up these existing lands for park development opportunities.

RS/KM:kp

Doug Ducey
Governor

Sue Black
Executive Director

Arizona State Parks

May 25, 2016

The Honorable Justin Olson, Chairman
Joint Committee on Capital Review (JCCR)
Arizona House of Representatives
1700 West Washington Street
Phoenix, Arizona 85007

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

RE: Request for JCCR review of a Lease and Easement Agreement between the Arizona State Parks and the Buckskin Sanitary District

Dear Representative Olson and Senator Shooter:

Arizona State Parks (ASP) requests review by the JCCR of the agency's proposed lease and easement agreement with the Buckskin Sanitary District (District).

In 2011, the District approached ASP to discuss the District's Master Plan for expansion of its collection system and treatment facilities. The District's updated Master Plan showed the need to construct a new Wastewater Treatment Plant in northern portion of the District. The District stretches along the Colorado River from the Indian Reservation on the south end to the Parker Dam on the north end.

During the preliminary discussions, it was determined that a new treatment facility in the northern area of the District could be mutually beneficial to both parties. The District was in need of a site to construct the new treatment facility as well as an effluent disposal facility while Buckskin Mountain State Park and River Island State Park continue to operate small wastewater treatment facilities, which are aging and in need of upgrades or replacement.

The terms of the proposed agreement included that the District would incorporate the State Parks sanitary flows into the new treatment facility which would provide the State Parks with the opportunity to discontinue the operations of waste treatment facilities on State Park Land. This will serve to free up the existing land used for the existing treatment facility and effluent disposal for expanded development opportunities within the Parks.

The terms also stated that the District would provide full-time treatment plant operators to run and maintain our treatment facilities until the new treatment facility comes online. The terms go on to state that the District would be responsible for the decommissioning of our existing facilities.

In 2013, ASP presented an amendment to the Bureau of Land Management (BLM) which outlined the mutual benefits to all parties involved.

On August 1, 2013, the BLM approved an amendment to the Plan of Development which provides for the Wastewater Treatment Facility to be located on a portion of the Buckskin Park property.

To date, the District and ASP have collaborated to create a project where ASP would lease a portion of Buckskin Mountain State Park to the District for the design, construction, maintenance and operation of a new treatment facility (250,000 gal/day effluent capacity). This treatment facility will serve the users of Buckskin Mountain and River Island State Parks as well as other users within the area of the District.

The District will construct the sewer lines, required lift stations and any other necessary sewerage delivery system from Buckskin Mountain and River Island State Parks to the treatment facility. The District will also oversee the proper decommissioning of the Buckskin Mountain and River Island State Parks' wastewater treatment plants.

The District will construct the Parks Facilities at no cost to ASP, in recognition of ASP's contribution of a no-cost 40-year land lease and easement for the facilities needed.

ASP is ready to move forward with our recommended Lease and Easement Agreement with the District, pending favorable review by the JCCR.

If you have any questions regarding the proposed agreement, please contact me at (602) 542-4174, or sblack@azstateparks.gov , or you may contact James Keegan, Deputy Director, at 602-542-6920 or jkeegan@azstateparks.gov.

Sincerely,

Sue Black

Sue Black,
Executive Director

cc: Richard Stavneak, Director, JLBC
Lorenzo Romero, Director, OSPB
Jordan Dale, OSPB, Budget Analyst, OSPB
Krista MacGahan, Fiscal Analyst, JLBC
James Keegan, Deputy Director, Arizona State Parks

Buckskin Sanitary District
State Parks 20 Year Operating Cost Est.

State Park Land Value	$439,960
Infrastructure Improvement Value	$1,100,000

Annual Operationg Cost Breakdown

	Buckskin Mtn	River Island
Employee Costs	$19,000	$15,000
Pumping Costs	$10,000	$8,000
Electrical Costs	$5,000	$3,500
Chemical Costs	$6,000	$3,000
Lab Testing	$10,000	$5,000
Total Costs	**$50,000**	**$34,500**

Buckskin Mtn. State Park ***5000 gpd***

Year	Annual Operating Costs	Annual Major Maintenance Costs	Capital Improvement	Annual Treatment Bills	Net Savings to Parks
1	$50,000			$15,000	$35,000
2	$51,000			$15,300	$35,700
3	$52,020			$15,606	$36,414
4	$53,060			$15,918	$37,142
5	$54,122	$50,000		$16,236	$87,885
6	$55,204			$16,561	$38,643
7	$56,308			$16,892	$39,416
8	$57,434			$17,230	$40,204
9	$58,583			$17,575	$41,008
10	$59,755	$50,000		$17,926	$91,828
11	$60,950			$18,285	$42,665
12	$62,169			$18,651	$43,518
13	$63,412			$19,024	$44,388
14	$64,680			$19,404	$45,276
15	$65,974	$50,000		$19,792	$96,182
16	$67,293			$20,188	$47,105
17	$68,639			$20,592	$48,047
18	$70,012			$21,004	$49,008
19	$71,412			$21,424	$49,989
20	$72,841	$50,000		$21,852	$100,988
Totals	**$1,214,868**	**$200,000**	**$0**	**$364,461**	**$1,050,408**

Total 20 year costs - Buckskin	**$1,414,868**

River Island State Park ***2500 gpd***

Year	Annual Operating Costs	Annual Major Maintenance Costs	Capital Improvement	Annual Treatment Bills	Net Savings to Parks
1	$34,500			$10,000	$24,500
2	$35,190			$10,200	$24,990
3	$35,894			$10,404	$25,490
4	$36,612			$10,612	$26,000
5	$37,344	$50,000		$10,824	$26,520
6	$38,091			$11,041	$27,050
7	$38,853			$11,262	$27,591
8	$39,630			$11,487	$28,143
9	$40,422			$11,717	$28,706
10	$41,231	$50,000		$11,951	$29,280
11	$42,055			$12,190	$29,865
12	$42,896			$12,434	$30,463
13	$43,754			$12,682	$31,072
14	$44,629			$12,936	$31,693
15	$45,522	$50,000		$13,195	$32,327
16	$46,432			$13,459	$32,974
17	$47,361			$13,728	$33,633
18	$48,308			$14,002	$34,306
19	$49,274			$14,282	$34,992
20	$50,260	$50,000		$14,568	$35,692
Totals	**$838,259**	**$200,000**	**$0**	**$242,974**	**$595,286**

Total 20 year costs - River Island	**$1,038,259**

Total 20 Year Operating Costs	**$2,453,128**
Total 20 Treatment Costs	**$607,435**
Total 20 Year Net Savings	**$1,845,693**

All Salary costs will be reallocated to other duties within the Park.

These plants are 25- 30 years old and need to be replaced which will add significant costs.

Major Maintenance Costs Include:

Pump Replacement
Grinder Replacement
Blower Replacement
Tank Repair & Cleaning

8

STATE OF ARIZONA

Joint Committee on Capital Review

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE: June 9, 2015

TO: Representative Justin Olson, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director RS

FROM: Benjamin Beutler, Senior Fiscal Analyst BB

SUBJECT: Arizona Department of Transportation - Review of De-Icer Buildings Project

Request

A.R.S. § 41-1252 requires Committee review of expenditure plans for capital projects with costs greater than $250,000. The Arizona Department of Transportation (ADOT) is requesting Committee review of $2,280,000 from the State Highway Fund for the construction of 4 de-icer buildings. The FY 2016 Capital Outlay Bill appropriated this amount for 5 buildings.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review.

2. An unfavorable review.

The cost projections are consistent with the low bid and are within the proposed budget for the project.

Under either option, the JLBC Staff recommends the provision that ADOT report any project reallocations above $100,000.

(Continued)

Analysis

The FY 2016 Capital Outlay Bill (Laws 2015, Chapter 9) appropriated $2,280,000 from the State Highway Fund in FY 2016 to the department to construct 5 new buildings to house de-icer chemicals and bulk sand used during winter months to de-ice highways. ADOT, however, is using the funds to build only 4 de-icer buildings instead of 5.

The new de-icer buildings will replace existing deteriorated facilities and outside storage, which currently house the chemicals and sand. These new mechanized bulk storage facilities will reduce the loading time for snow plows and help ADOT incorporate environmental enhancements requested by the Arizona Department of Administration's Risk Management Division, minimizing the potential for environmental incidents.

ADOT estimates a total cost of $2,037,300 to construct new de-icer buildings at 4 locations (Ash Fork, Many Farms, Teec Nos Pos and Willcox), as shown in the following table:

ADOT's Estimated Cost for 4 De-Icer Buildings

	Estimated Cost
4 De-Icer Buildings	$ 1,813,800 1/
Engineering/Contingency	223,500
Total	**$ 2,037,300**

1/ Low bid

ADOT's estimated cost for the 4 proposed locations averages $509,300 per location. This is higher than the $456,000 per location favorably reviewed by the Committee in April 2015, the last time the Committee reviewed these types of projects. The $509,300 per location is consistent with the low bid and is within the proposed budget for the project.

Between FY 2014 and FY 2016, a total of $6,840,000 has been appropriated for de-icer buildings at 16 sites, but the funding has only been sufficient for 14 buildings. The enacted FY 2017 budget included no funding for the construction of additional de-icer buildings.

RS/BB:kp

ADOT

Douglas A. Ducey, Governor
John S. Halikowski, Director

May 13, 2016

RECEIVED
MAY 12 2016
JOINT BUDGET COMMITTEE

The Honorable Justin Olson
Chairman
Joint Committee on Capital Review
1716 West Adams St.
Phoenix, AZ 85007

Subject: June JCCR Meeting

Dear Chairman Olson:

We respectfully request to be placed on the agenda of the next JCCR meeting for review of a project related to ADOT's FY2016 capital outlay appropriation.

ADOT was appropriated $2,280,000 for the construction of de-icer materials storage buildings as part of a multi-year program to help meet environmental wastewater regulations protecting surface and groundwater. Funds will be used to build a storage building at each of the following four maintenance yards: Ash Fork, Many Farms, Teec Nos Pos and Willcox.

The total cost of the project is estimated to be $2,037,253 which includes the current bid amount of $1,813,758 plus $223,495 for engineering services and contingency.

Please note that the appropriation was for five de-icer materials storage buildings. Based on the bid amount, the appropriation is only sufficient for four buildings. ADOT anticipates including the fifth building to be located at Oraibi maintenance yard in its FY 2018 capital outlay request.

We appreciate your consideration and approval of this request. If you have any questions or need additional information, please contact Keith Fallstrom, ADOT Budget Director, at 602.712.6594.

Sincerely,

for John Halikowski
ADOT Director

Cc: Richard Stavneak, JLBC Director
Ben Beutler, JLBC Analyst
Charles Martin, OSPB Analyst
John Hetzel, ADOT

Enclosures (1)

9

STATE OF ARIZONA

Joint Committee on Capital Review

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE: June 9, 2016

TO: Representative Justin Olson, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director RS

FROM: Ben Beutler, Senior Fiscal Analyst BB

SUBJECT: Arizona Department of Transportation - Review of Vehicle Wash Systems Project

Request

A.R.S. § 41-1252 requires Committee review of expenditure plans for capital projects with costs greater than $250,000. The FY 2015 Capital Outlay Bill (Laws 2014, Chapter 15) appropriated $3,000,000 from the State Highway Fund to the Arizona Department of Transportation (ADOT) for 6 new vehicle wash systems. ADOT is requesting Committee review of the department's $2,265,300 expenditure plan for the new vehicle wash system buildings.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the $2,265,300 plan.

2. An unfavorable review of the $2,265,300 plan.

The cost projections are consistent with the low bid and are within the proposed budget for the project.

Under either option, the JLBC Staff recommends the provision that ADOT report any project reallocations above $100,000.

(Continued)

Analysis

The FY 2015 Capital Outlay Bill appropriated $3,000,000 from the State Highway Fund in FY 2015 to the department to construct 6 new vehicle wash systems. The accumulation of corrosive substances such as de-icer salts and grime on ADOT highway maintenance vehicles and equipment can cause the premature deterioration of these vehicles. In order to mitigate the impact of these corrosive substances on its vehicles, ADOT washes them on a regular basis. Because the high concentration of deicing salt on ADOT vehicles exceeds the permit conditions of most private vehicle wash companies and due to the remote locations where ADOT operates, ADOT builds and operates its own vehicle wash systems.

Table 1 shows the distances between the proposed vehicle wash sites and existing ADOT vehicle wash locations.

Table 1

6 Proposed Vehicle Wash Locations 1/

Location	Number of Vehicles/Pieces of Equipment to be Washed 2/	Nearest ADOT Wash System (Roundtrip)
Chambers	23	Holbrook (84 miles)
Gila Bend	45	Yuma (232 miles)
North Phoenix	472	Cordes Junction (106 miles)
Safford	44	Globe (177 miles)
Wilcox	37	Globe (248 miles)
Page 3/	15	Fredonia (161 miles)

1/ As reported by ADOT
2/ Number of vehicles owned by ADOT that will use each location. Most light fleet vehicles are washed 2 times per month. Heavy vehicles, such as snow plows, are washed 1 or 2 times per month and after each deployment for snow removal operations.
3/ Does not include vehicles that could be washed from other agencies including the Department of Public Safety, the Arizona Game and Fish Department and other state vehicles.

The new vehicle wash systems would help ADOT comply with an environmental agreement with the Arizona Department of Environmental Quality regarding storm water/waste water.

After having received project bids, ADOT now estimates a total cost of $2,265,300 to construct new vehicle wash systems at 6 locations, as shown in *Table 2*.

Table 2

ADOT's Estimated Cost for 6 Vehicle Wash Systems

	Estimated Cost
6 Vehicle Wash Systems	$ 2,012,300 1/
Engineering Services/Contingency	253,000
Total	**$2,265,300**

1/ Low bid

ADOT's estimated cost for the 6 proposed locations averages $377,600 per location. Most recently, in June 2014, the Committee favorably reviewed ADOT's FY 2014 vehicle wash systems project. ADOT's FY 2014 plan allocated $2,375,000 for 6 vehicle wash systems, at an average cost of $395,800 per location.

(Continued)

Between FY 2014 and FY 2017, a total of $14,440,000 has been appropriated for vehicle wash systems at 28 sites. Capital Outlay Bills included $3,000,000 for vehicle wash system in each of FY 2014 and FY 2015, but project costs came in below the appropriations.

In terms of historical vehicle wash spending, shown in the following summary are actual costs (for FY 2014 and FY 2015) and budgeted costs for FY 2016 and FY 2017:

- $2,375,000 in FY 2014 - Cordes Junction, Fredonia, Ganado, Globe, Kayenta and Springerville
- $2,265,300 in FY 2015 - Chambers, Gila Bend, North Phoenix, Safford, Wilcox and Page (proposed)
- $2,910,000 in FY 2016 - 6 unspecified locations (has not received JCCR review)
- $5,530,000 in FY 2017 - 10 unspecified locations (has not received JCCR review)

ADOT is only requesting review of the FY 2015 appropriation.

RS/BB:kp

ADOT

Director's Office

Douglas A. Ducey, Governor
John S. Halikowski, Director
Scott Omer, Deputy Director for Operations
Kevin Biesty, Deputy Director for Policy
Dallas Hammit, Deputy Director for Transportation

March 21, 2016

The Honorable Justin Olson
Chairman
Joint Committee on Capital Review
1716 West Adams St.
Phoenix, AZ 85007

Dear Representative Olson:

We respectfully request to be placed on the next meeting of the JCCR for review and approval of projects related to ADOT's FY2015 capital outlay appropriation.

ADOT was appropriated $3,000,000 for the construction of vehicle wash systems as part of a multi-year program to help meet environmental wastewater regulations protecting surface and groundwater. Funds will be used to build systems at the following six (6) maintenance yards: Chambers, Gila Bend, North Phoenix - Happy Valley, Safford, Wilcox, and Page.

The total cost of the project is estimated to be $2,265,346 which includes the current bid amount of $2,012,346 plus $253,000 for engineering services and contingency.

We appreciate your consideration and approval of this request. If you have any questions or need additional information, please contact Keith Fallstrom, ADOT Budget Director, at 602.712.6594.

Sincerely,

John S. Halikowski
ADOT Director

Enclosure: Bid Abstract

c: Richard Stavneak, JLBC Director
Benjamin Beutler, JLBC Analyst
Charles Martin, OSPB Analyst
John Hetzel, ADOT

10A

STATE OF ARIZONA

Joint Committee on Capital Review

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE: June 9, 2016

TO: Representative Justin Olson, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director RS

FROM: Matt Beienburg, Fiscal Analyst MB

SUBJECT: Arizona State University - Review of Sun Devil Stadium Renovation Phase 3

Request

A.R.S. § 15-1683 requires Committee review of any university projects financed with system revenue bonds. Arizona State University (ASU) requests Committee review of $75,700,000 in system revenue bond issuances to fund the third and final phase of the renovation of Sun Devil Stadium. The total renovation project cost is $268,700,000, including gift revenue.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the project.

2. An unfavorable review of the project.

Under either option, the JLBC Staff recommends the standard university financing provisions:

Standard University Financing Provisions

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

- ASU shall provide the final debt service schedules for the project as soon as they are available.

(Continued)

Analysis

ASU is currently renovating Sun Devil Stadium, which was constructed in 1958 with 30,500 seats. Since the initial construction, Sun Devil Stadium has been expanded over the years to seat approximately 72,000 patrons. Seating capacity dropped to 66,000 in April 2014 after ASU installed a new video board in the north end zone of the stadium in preparation for more extensive construction. In January 2015, ASU began renovating 850,000 square feet of the stadium at a cost of $268.7 million. This renovation project is divided into 3 phases and will be completed by August 2017. Additional seats will be removed as a result of the renovation, reducing total seating capacity to around 59,000.

At its December 2014 meeting, the Committee favorably reviewed Phase 1 of the stadium renovation project. The first phase cost $65.7 million, consisting of $60.0 million in revenue bonds and $5.7 million in gifts, to construct a new student section in the south end zone of the stadium and add other facility enhancements. Phase 1 was completed in August 2015.

The Committee favorably reviewed Phase 2 of the renovation project in September 2015. The $107.0 million cost of this phase was originally to be financed entirely by revenue bonds. ASU reports that "in order to ensure compliance with updated IRS bond issuance regulations," however, it ultimately shifted $30.0 million of gift revenues from Phase 3 to Phase 2 and decreased the Phase 2 bond issuance by an offsetting $30.0 million to $77.0 million. Phase 2 renovations include the reconstruction of concourses, restrooms, and concessions, as well as seating and infrastructure improvements on the west end of the stadium. This phase also entails the exterior construction of an 84,500 square-foot athlete training facility at the north end of the stadium. Phase 2 construction began after the 2015 football season and is scheduled to be completed by August 2016.

ASU has requested Committee review of the third and final phase. Phase 3 will cost $96.0 million, consisting of $75.7 million of system revenue bonds and $20.3 million in gifts, to rebuild the east side of the stadium, provide upgraded seating amenities, and complete the interior buildout of the athlete training facility constructed in Phase 2. ASU intends to immediately begin the components of Phase 3 construction that will not interrupt the facility's use during the 2016 football season and expects total project completion by August 2017.

Financing

The source of financing for the entire $268.7 million project will be system revenue bonds in the amount of $212.7 million and gift proceeds in the amount of $56.0 million *(See Table 1)*. ASU estimates that the total gift proceeds will be $85.0 million, with $56.0 million of that amount going to finance construction costs directly and the remainder to paying a portion of future debt service payments. To date, ASU has received gift pledges totaling $59.8 million.

ASU is splitting the overall $212.7 million revenue bond issuance into 3 parts to align with the 3 construction phases. The first issuance of $60.0 million, which received a favorable review from the Committee in December 2014, occurred in April 2015 to fund Phase 1 of the renovation. The second bond issuance of $77.0 million occurred in December 2015 to fund Phase 2 of the renovations, and the third issuance of $75.7 million will occur by the end of calendar year 2016 to fund the final phase.

(Continued)

Table 1

ASU Stadium Renovation ($ in M)

Project	Issuance Date	Revenue Bonds 1/ 2/	Gifts	Total	Debt Service 3/
Phase 1	April 2015	$ 60.0	$ 5.7	$ 65.7	$ 4.0
Phase 2	December 2015	77.0	30.0	107.0	5.0
Phase 3	By end of CY 2016	75.7	20.3	96.0	4.8
Total		**212.7**	**56.0**	**268.7**	**13.8**

1/ Phase 2 revenue bonds include $30.0 million reduction from original planned issuance due to offsetting shift of $30.0 million of gift revenues from Phase 3 to Phase 2 for compliance with IRS private use regulations.
2/ Total Phase 3 costs are $12.7 million above original project plan due to in-scope contract modifications.
3/ This represents the annual debt service payment for each issuance once the debt service payments are fully phased in.

ASU initially planned a bond issuance of $33.0 million for Phase 3. This amount was increased $30.0 million to offset the $30.0 million of gift revenues shifted from Phase 3 to Phase 2. The amount has been further increased by $12.7 million to $75.7 million due to in-scope contract modifications not identified in the original project description resulting from "unforeseen site conditions such as a construction landfill discovered in the north end zone." The $12.7 million increase is included in the renovation's $268.7 million total project cost, and ASU reports that the $12.7 million in increased bond funding required "can be accomplished within the originally anticipated debt service payment levels, due to favorable long-term interest rates."

Beyond the $75.7 million Phase 3 project costs, issuance costs are projected to not exceed $806,000. Additionally, ASU intends to capitalize $2.0 million of interest during Phase 3. These are forgone interest payments at the beginning of the financing. This "capitalized interest" is added to the principal amount, rather than being paid off normally, which increases the total interest ASU will pay overall. Part of the revenues required to pay debt service will not be generated until completion of the stadium, so the capitalization of interest will provide time for those revenues to materialize. ASU estimates the resulting Phase 3 principal, including issuance costs and capitalized interest, will be $78.6 million.

The Phase 3 debt service is estimated to be $2.7 million starting in FY 2018 and increasing to an annual level of $4.8 million from FY 2022 through FY 2046. Including Phases 1 and 2, the long term debt service payments will be $13.8 million.

Phase 3 debt service will increase ASU's current debt ratio from 5.2% to 5.39%. The current 5.2% debt ratio is based on ASU's actual FY 2015 debt service payments of $106.3 million as a percentage of total FY 2015 expenditures, or $2.0 billion. This debt ratio does not include the additional debt service costs of other projects pending JCCR review or those for which bonds were issued after FY 2015, nor growth in ASU's total expenditures. ASU estimated in October 2015 that including future projects, its total debt service payments will reach $122.9 million in FY 2019, or 4.9% of its projected $2.5 billion total expenditures in FY 2019.

In terms of the total $212.7 million multi-year issuance, the projected repayment is expected to cost $381.8 million over the 29-year term, but that figure will change based on the actual interest rates for the Phase 3 bond issuances. The interest rates on the Phase 1 and Phase 2 bonds are 3.79% and 3.83%, respectively. ASU estimates a 3.47% interest rate for the Phase 3 bonds based on an anticipated bond

(Continued)

rating of Aa3 (Moody's)/AA (S&P), with total Phase 3 debt service payments of $129.6 million.

Through approximately 2030 (by ASU estimates), some portion of debt service on the revenue bonds would be paid from University Athletic Facilities District (UAFD) revenue and supplemented with a variety of Sun Devil Athletics revenue sources, such as enhanced stadium income from renovations, conference revenue distribution provided by the Pac-12 television contract, revenue sharing from postseason football games, as well as additional Athletic Department gifts.

By about 2030, ASU projects that UAFD revenue in the form of assessments on commercial properties in the district will be sufficient to pay the entire annual debt service on the stadium renovations. *(See below for discussion of the University Athletic Facilities District.)*

The revenue bonds, however, are not backed solely by Athletic Department revenues. The bonds will be pledged against overall ASU "system revenue," which includes tuition monies. Using this broader revenue stream improves issuance marketability and lowers the bond interest cost. While ASU does not intend to use tuition monies for this project, tuition monies may be used to pay debt service, if other sources are not sufficient.

University Athletic Facilities District

Laws 2010, Chapter 140 allows the Maricopa, Pima and Coconino County Board of Supervisors to establish a UAFD to construct or modify sports facilities at a public university. The Maricopa UAFD Board was established in fall 2012 and consists of 7 members: 2 members appointed by Maricopa County, 4 members appointed by ASU, and 1 private citizen selected by the other UAFD Board members themselves. The UAFD has established its boundaries between the southern edge of Tempe Town Lake and University Drive in Tempe, with approximate east/west boundaries of Mill Avenue to McClintock Road. The UAFD incorporates a significant portion of the ASU Karsten Golf Course. *(See Attachment A for a map of the Maricopa UAFD.)*

ASU has developed a preliminary Master Plan for commercial development of the UAFD through the use of ground leases. The first phase of development includes Sun Devil Stadium and the new construction of office, multifamily and retail buildings. This phase is already underway with the stadium renovations, and new construction is anticipated in late 2017. ASU envisions that full development of the UAFD could range from 15 to 20 years.

The UAFD will generate revenue to pay for the stadium renovation debt service by levying an assessment on the property value of the commercial leases. Under current law, property owned by universities is exempt from property taxes. The in-lieu assessment will be based on property values as determined by ASU, which is to be done in the same manner as valuations calculated by the Maricopa County Assessor. By law, the assessment rate for a given property cannot exceed the combined overall regular property tax rate of the jurisdictions in which the property is located. Similar to property taxes, the in-lieu assessment will be updated annually to reflect current property values and the rate levied by the UAFD.

In the long term, the UAFD assessment will be set with the intent to cover the cost of the annual debt service of the revenue bonds associated with the stadium renovation. The assessment will be levied no sooner than FY 2018, when the debt service is scheduled to begin. At full build-out, ASU estimates the assessment could generate $23.0 million (using 2015 values).

(Continued)

Construction Costs/Timeline

Of the renovation's $268.7 million total project cost, direct construction costs (excluding items such as design and project management costs) are $210.4 million. Based on information provided by ASU, there are 7 similar projects ranging in cost from $97.0 million to $182.0 million. This same information was included in the JLBC Staff memos for the Committee's December 2014 Phase 1 and September 2015 Phase 2 reviews.

ASU states that comparable costs per square foot average $392, as displayed in *Table* 2. Based on the 850,000 square-foot size of the project, ASU's cost per square foot is $248. This analysis, however, appears less than comparable due to different methods of calculating square feet between ASU and the other 7 schools. While ASU does not have an appreciably larger stadium, it is listed as being twice as large as the other schools' stadiums in *Table 2*.

All of the renovations are projected to be completed by August 2017 with an annual operations and maintenance cost of $1.6 million that will be paid from athletic department revenue.

Table 2

Comparable Stadium Construction Projects

Project	Year	Project Size	Cost/SF	($ in M) Total
University of Kentucky	2015	229,000	$ 422	$ 97
UC Berkeley	2012	309,000	462	143
University of Michigan	2009	532,000	342	182
University of Illinois	2008	313,500	320	100
University of Iowa	2007	352,400	293	103
Oregon State	2008	400,000	340	136
Oregon	2003	300,000	567	170
Average		**347,986**	**$ 392**	**$ 133**

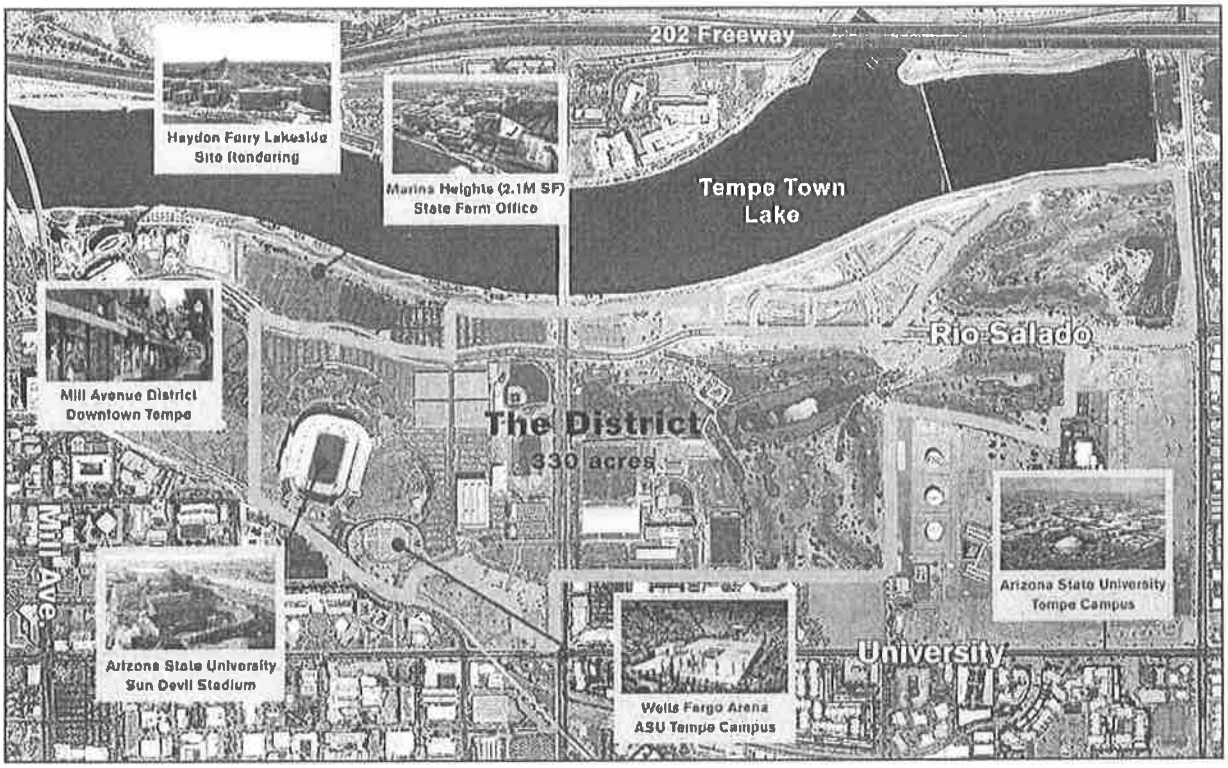
Table 3

ASU Stadium Renovation Phase 3

Issuance Amount	$75.7 million
Issuance Date	By end of calendar year 2016
Issuance Transaction Fees	$806,000
Rating	Aa3 (Moody's) / AA (S&P)
Interest Rate	3.47% (not to exceed 6.0%)
Term	30 years
Total Debt Costs	$129.6 million
Debt Service Payments (at 3.47%)	$2.7 million (FY 2018 – FY 2021); $4.8 million (FY 2022 – FY 2046)
Payment Source	Short term: Athletics revenues, charitable gifts Long term: Athletic Facilities District revenues
Debt Ratio Increase	0.19
Construction Start	June 2016

RS/MB:kp
Attachment

Attachment A



ARIZONA STATE UNIVERSITY

May 26, 2016

RECEIVED
MAY 27 2016
JOINT BUDGET COMMITTEE

The Honorable Justin Olson, Chairman
Joint Committee on Capital Review
Arizona House of Representatives Capital Complex
1700 West Washington, Room 114
Phoenix, AZ 85007-2890

Dear Representative Olson:

In accordance with ARS 15-1683, the Arizona Board of Regents requests that the following Arizona State University bond-financed projects be placed on the next Joint Committee on Capital Review agenda for review:

- Sun Devil Stadium Renovation Phase 3
- Building and Infrastructure Enhancements and Modifications
- Classroom and Academic Renovations
- Research Laboratory/Faculty Startup

Enclosed is pertinent information relating to these items.

If you have any questions or desire any clarification on the enclosed material, please contact me at (480) 727-9920.

Sincerely,

Morgan R. Olsen
Executive Vice President, Treasurer and CFO

Enclosures

c: Richard Stavneak, Director, JLBC
Eileen Klein, President, Arizona Board of Regents, ABOR
John Arnold, Vice President for Business Management and Financial Affairs, ABOR
Lorenzo Martinez, Associate Vice President for Finance & Administration, ABOR
Steve Miller, Deputy Vice President, Public Affairs, ASU
Lisa Frace, Associate Vice President, Planning & Budget, and Chief Budget Officer, ASU
Bruce Nevel, Associate Vice President, Facilities Development and Management, ASU
Joanne Wamsley, Vice President for Finance and Deputy Treasurer, ASU
Matt Beienburg, Fiscal Analyst, JLBC

Joint Committee on Capital Review
Arizona State University
May 2016 JCCR Meeting

1. SUN DEVIL STADIUM RENOVATION PHASE 3

Project Description

The Sun Devil Stadium Renovation project will resolve deferred maintenance and structural issues at Sun Devil Stadium and will bring the stadium amenities up to a level expected by students, fans and players. The project will encompass:

- Demolition and rebuilding of all existing concourse levels, restrooms, concessions, access and egress components and other public amenities
- Infrastructure improvements such as waste lines, domestic water, and electrical and mechanical systems
- Development of new premium seating amenities with access to lounge areas between the upper deck and main concourse level
- Minor interior upgrades to the existing press box
- New scoreboard, technology infrastructure and sound system
- New kitchen, catering and concessions facilities
- New student seating sections and enhanced student concourse experience
- New exterior improvements, such as architectural lighting, landscaping and signage
- New north end zone events plaza
- Entry modifications and amenities for ADA access

The renovation of Sun Devil Stadium will be phased over three years between seasons; the Sun Devils football team will continue competing in the stadium throughout the project period. Renovations began after the fall 2014 season and are scheduled for completion prior to the fall 2017 season.

Phase 3 of the Sun Devil Stadium Renovation project will be funded with $75.7 million in system revenue bond proceeds and $20.3 million of capital gifts totaling $96.0 million. Debt service on the bonds will be funded from Sun Devil Athletics revenues, including enhanced stadium income, conference revenue distributions, charitable gifts, and in the longer term, Athletic Facilities District revenues. An Arizona Board of Regents executive summary is attached for this project, which outlines the project description and other relevant information. Phase 3 of the project is scheduled to receive Project Approval at the June 9, 2016, Arizona Board of Regents meeting.

Project Costs

Total Project Cost	$ 268,700,000
Total Project Construction Cost	$ 210,400,000
Total Phase 1 Cost	$ 65,700,000
Total Phase 2 Cost	$ 107,000,000
Total Phase 3 Cost	$ 96,000,000
Total Project Cost per GSF	$ 316
Total Construction Cost per GSF	$ 248

Joint Committee on Capital Review
Arizona State University
May 2016 JCCR Meeting

Operations and maintenance costs for this project are expected to be $1,600,000 annually.

Joint Committee on Capital Review
Arizona State University
May 2016 JCCR Meeting

PROJECT SUMMARY –Revenue Bonds

Projects:	Funding Sources:	Amount:
Sun Devil Stadium Renovation Phase 3	Auxiliary Revenue, Gifts	$75,700,000
Building Infrastructure Enhancements & Modifications	Tuition	$15,000,000
Classroom & Academic Renovations	Tuition	$10,000,000
Research Laboratory/Faculty Startup	Tuition	$15,000,000

FINANCING INFORMATION

System Revenue Bonds:	
Project Costs	$115,700,000
Capitalized Interest	2,045,000
Estimated Costs of Issuance	$1,205,000
Anticipated Bond Rating	Aa3 (Moody's) and AA (S&P)
Assumed Interest Rate	3.47%
Term	20 - 30 years

Debt Service Information:	
Estimated Annual Debt Service For 2017 (interest only)	$1,051,670
Estimated Annual Debt Service For 2018 – 2021	$5,663,303
Estimated Annual Debt Service For 2022 – 2036	$7,690,494
Estimated Annual Debt Service For 2037 – 2046	$4,749,589
Total Estimated Debt Service Costs	$186,558,179

DEBT RATIO

Debt Ratio on Existing Debt	5.20
Incremental Debt Ratio	0.32
Projected Debt Ratio	5.52

Joint Committee on Capital Review
Arizona State University
May 2016 JCCR Meeting

Arizona State University
System Revenue Bonds
Sun Devil Stadium Renovation Phase 3

Fiscal Year	Principal	Interest	Total
2018		2,725,338	2,725,338
2019		2,725,338	2,725,338
2020		2,725,338	2,725,338
2021		2,725,338	2,725,338
2022	2,025,000	2,725,338	4,750,338
2023	2,095,000	2,655,071	4,750,071
2024	2,165,000	2,582,374	4,747,374
2025	2,245,000	2,507,248	4,752,248
2026	2,320,000	2,429,347	4,749,347
2027	2,400,000	2,348,843	4,748,843
2028	2,485,000	2,265,563	4,750,563
2029	2,570,000	2,179,334	4,749,334
2030	2,660,000	2,090,154	4,750,154
2031	2,750,000	1,997,853	4,747,853
2032	2,850,000	1,902,427	4,752,427
2033	2,945,000	1,803,533	4,748,533
2034	3,050,000	1,701,341	4,751,341
2035	3,155,000	1,595,506	4,750,506
2036	3,265,000	1,486,027	4,751,027
2037	3,375,000	1,372,732	4,747,732
2038	3,495,000	1,255,620	4,750,620
2039	3,615,000	1,134,343	4,749,343
2040	3,740,000	1,008,902	4,748,902
2041	3,870,000	879,125	4,749,125
2042	4,005,000	744,835	4,749,835
2043	4,145,000	605,862	4,750,862
2044	4,290,000	462,031	4,752,031
2045	4,435,000	313,167	4,748,167
2046	4,590,000	159,273	4,749,273
	78,540,000	51,107,201	129,647,201

EXECUTIVE SUMMARY

Item Name: **Sun Devil Stadium Renovation Phase 3 Project and Financing Issuance Approval (ASU)**

☒ Committee Recommendation to Full Board
☐ First Read of Proposed Policy Change

Issue: Arizona State University (ASU) requests committee review and recommendation to the full board for Project Approval of the $96.0 million, 850,000 square foot Sun Devil Stadium Renovation Phase 3 project and Financing Approval to (a) sell one or more series of System Revenue Bonds (Bonds) to finance the Sun Devil Stadium Renovation Phase 3 project, costs of issuance, and payments to a bond insurer or other credit enhancer, provided such payments result in a benefit that exceeds the amount of such payments, (b) to sell such Bonds at a price at, above or below par, on a tax-exempt or taxable basis, in one or more series, at a fixed rate of interest, and (c) to enter into necessary agreements, including those related to bond insurance or other credit enhancement agreements.

Enterprise or University Strategic Plan
(Check the element(s) of the strategic plan that this item supports or advances)

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

Statutory/Policy Requirements

- ABOR Policy 7-109 requires approval of new construction projects with a total project cost over $10 million before contracts can be executed and construction can begin.

- ABOR Policy 7-102 requires approval of the issuance of bonds, lease-purchase agreements, certificates of participation issuance, or any debt instrument.

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

Contact Information:
Morgan R. Olsen, Executive Vice President, Treasurer and CFO • (480) 727-9920 • Morgan.R.Olsen@asu.edu

Project Justification/Description/Scope

- Arizona State University takes pride in its status as an elite institution with a top-ranked intercollegiate athletics program. Sun Devil Stadium, the University's largest public assembly building, has been a landmark in the Valley for the last 58 years. The stadium has operated in recent years with substandard and insufficient access, restrooms, concessions, points of sale, and spectator amenities, and a lack of competitive premium seating amenities.

- The Sun Devil Stadium Renovation Project provides an opportunity to increase ASU's investment in the community and to set the standard for collegiate athletics facilities. ASU is seeking philanthropic support from the Arizona community to provide features that will enhance the game day experience for both fans and student-athletes.

- The project will renovate Sun Devil Stadium, while retaining the stadium in its iconic setting between the Tempe and Hayden Buttes. Sun Devil Athletics will utilize the inherent media interest that surrounds college football to extend ASU's prominence on a national stage and showcase the best the University has to offer. After the 1997 Rose Bowl, applications to Arizona State University increased by nearly fifteen percent from the previous season. More recently, The Arizona Republic called the 2013 PAC-12 Championship football game, held at Sun Devil Stadium, a "...giant commercial for school and state." Sun Devil Athletics hosts an average of 180 events per year at its athletics facilities, for a total economic impact in the Valley of slightly over $209 million annually.

- The Sun Devil Stadium Renovation Project has been planned in three phases while the team continues to play in the stadium. Phase 1 began after the 2014 football season, Phase 2 began after the 2015 season, and this Phase 3 will begin during the 2016 season, with completion of all phases in time for the start of the 2017 season.

- In addition to the benefits identified above, ASU is working to create an environment at Sun Devil Stadium that will support use not only by athletics, but also by the general student population and potentially the public as well. With enhancements to components such as IT and AV, the stadium potentially will accommodate outdoor/indoor classrooms, academic events/functions and public events. The goal is for Sun Devil Stadium to serve as a gathering and social space for students, faculty/staff and the public beyond football.

Project Delivery Method and Process

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

- ASU selected Hunt/Sundt Construction, a joint venture, as the CMAR and HNTB and Gould Evans as the design professionals for this project. During the selection process for the CMAR, there were three responses and three contractors interviewed. The selection process for the design professional included seven responses and four firms were interviewed.

Project Status and Schedule

- Design and construction will be completed in three phases to enable Sun Devil football games to be scheduled in the stadium throughout the construction period without temporary relocation or a significant negative impact on the fan experience. Phase 1, completed for the fall 2015 season, included construction of a new student section in the south end zone that creates a continuous concrete lower seating bowl. The new section includes infrastructure, enhanced concessions and food service, renovated and new restrooms, improved Wi-Fi, ADA enhancements and elevators.

- Phases 2 and 3 include demolition and rebuild of much of the east and west sides of Sun Devil Stadium to resolve deferred maintenance and structural issues, in addition to bringing the stadium up to the level of excellence expected by fans and players. Phase 2 west seating bowl improvements will be complete for the fall 2016 football season and Phase 3 east side improvements and premium seating amenities all will be complete for fall 2017. The lower bowl, the loge level, a portion of the upper deck seating, and both the main and upper deck concourses will be demolished. The reconstructed lower bowl will provide improved seating options, wider treads, and easier seat access. The main concourse will be replaced to connect seamlessly with the new south end zone concourse elevation. A new upper deck concourse will be constructed and new upper bowl seating will augment existing upper bowl seating. New premium seating will be constructed between the upper deck and the main concourse level on the west side, with improved amenities and access to premium seating lounge areas. Stadium patrons will appreciate new concessions, expanded restrooms, enhanced technology, and improved circulation on all levels of the stadium. Exterior construction of the Student Athletic Facility, which will be integrated into the north end zone stadium structure, will be completed during Phase 2 and the interior buildout will be completed in Phase 3. Both phases also will address infrastructure issues, including waste lines, domestic water, and electrical and mechanical systems, and provide complete ADA upgrades.

- Phase 3 design is complete and construction will begin immediately following receipt of ABOR PA and JCCR review. Prior to the end of the fall 2016 football season, work will continue within the Student Athletic Facility and tasks that can be accomplished on the east side without impact to the game day experience will begin, as well as ordering of long-lead materials.

Project Cost

- The total budget for all three phases of this 850,000 gross-square-foot project is $268.7 million and the budget for Phase 3 is $96.0 million. The Sun Devil Stadium Renovation Project also creates the potential to develop additional finished amenity space that will be built out as separate projects as funding is available in the future.

- The total Phase 3 budget is $96.0 million, based on a construction budget of $78.4 million (see page 7 for additional breakdowns). The Phase 3 budget has increased $12.7 million from the initial project forecast to accommodate several in-scope contract modifications not identified in the original project description. Modifications include unforeseen site conditions such as a construction landfill discovered in the north end zone, replacement of the full lower bowl structure, expanded IT/AV infrastructure and components to accommodate increased utilization of the stadium beyond athletic events, and contingency costs associated with schedule acceleration required to avoid impact to the 2016 football schedule.

- For Phase 3 Project Approval, the DP and CMAR teams have provided external cost estimates based upon independent programming and estimating efforts. The estimates are in alignment for both Phase 3 and the overall $268.7 million project budget.

- The CMAR will be at risk to provide the completed project within the agreed-upon Guaranteed Maximum Price (GMP). A final report on project control procedures, including change orders and contingency use, will be provided at project completion.

Fiscal Impact and Financing Plan

- The $96.0 million Sun Devil Stadium Renovation Phase 3 project will be funded with $75.7 million in System Revenue Bond proceeds and $20.3 million of capital gifts. Debt service on the bonds will be funded from Sun Devil Athletics revenues, including enhanced stadium income, conference revenue distributions, charitable gifts, and in the longer term, ASU Athletic Facilities District revenues.

- In earlier project phase approvals, gifts were planned to fund $50.3 million of Phase 3 project costs. However, to ensure compliance with updated IRS private use regulations, $30 million in gifts were shifted from Phase 3 to Phase 2, with an offsetting decrease in Phase 2 System Revenue Bond funding. Over the three project phases, project gift funding remains unchanged at $56 million and System Revenue Bond funding has increased $12.7 million in response to the Phase 3 budget increase. The increased bond funding can be accomplished within the originally anticipated debt service payment levels, due to favorable long-term interest rates.

- During the construction period for the Sun Devil Stadium Renovation Phase 3 project, ASU will capitalize interest, providing time for the revenues that will pay debt service, which are dependent on stadium completion, to be realized.

- Once the project is complete, operations and maintenance costs are estimated to increase by $1.6 million annually. The University will fund operations and maintenance increases through SDA revenues.

- The following table presents the current status of gift-funded capital projects, including Sun Devil Stadium Renovation:

Project Name	ABOR Approval	Intended Occupancy Date	Total Project Cost	Gift Target	Current Gifts (Cash/ Pledges)
College Avenue Commons	PA 12/2012	7/2014	$54.5m	$7.5m	$7.5m
AZ Center for Law and Society	PA 6/2014	7/2016	$129.0m	$3.0m	$10.0m
Sun Devil Stadium Renovation	PA Ph1 11/2014 Ph2 9/2015 Ph3 6/2016	8/2017	$268.7	$56.0m	$56.0m
Gammage Auditorium Rehabilitation	CDP 11/2015		$9.1m	$5.6m	$5.3m

- Debt Ratio Impact: ASU's maximum projected ratio of debt service to total expenditures is 4.9 percent, including the anticipated 0.19 percent impact of this project, well below the 8.0 percent statutory maximum.

EXECUTIVE SUMMARY

- The University plans to issue the long-term financing for these projects by the end of calendar year 2016. The table below shows the anticipated pricing parameters for the long-term financing:

Pricing Parameters:

Overview:		Comments
Total Project Amount, Excluding Issuance Costs and Capitalized Interest (not-to-exceed)	$75.7M	
Total Issuance Costs (not-to-exceed)	$806K	
Credit Enhancement Cost	TBD	Only if economically beneficial
Maturity Range	2018-2046	
Average Maturity	20.7 years	
Interest Rate (not-to-exceed)	6.00%	
Annual Average Debt Service (at 6%)	$0	2017 interest expense to be funded by Capitalized Interest
	$4.8M	2018-2021
	$6.3M	2022-2046

Occupancy Plan

- The project is being completed in three phases between football seasons to allow uninterrupted use of the stadium during renovation. The project's three phases are scheduled to be completed prior to the fall 2017 season.

Committee Review and Recommendation

Arizona State University requests that the Committee forward to the full Board the Sun Devil Stadium Renovation Phase 3 Project Approval and Financing Approval, as described and presented in this Executive Summary.

Requested Action

Arizona State University asks the board to provide Project Approval and Financing Approval for the Sun Devil Stadium Renovation Phase 3, as presented in this Executive Summary.

EXECUTIVE SUMMARY

Capital Project Information Summary

University: Arizona State University

Project Name: Sun Devil Stadium Renovation Phase 3

Project Description and Location:
The project will renovate approximately 850,000 gross square feet of Sun Devil Stadium on the Tempe Campus and construct an integrated Student Athlete Facility. The renovations will be designed and constructed to last fifty years.

Project Schedule:

Planning	January	2012
Design-Start	December	2015
Construction Start	January	2015
Construction Completion, Phase 1	August	2015
Construction Completion, Phase 2	August	2016
Construction Completion, Phase 3/Total Project	August	2017

Project Budget:

Total Project Cost	$	268,700,000
Total Project Construction Cost	$	210,400,000
Total Phase 1 Cost	$	65,700,000
Total Phase 2 Cost	$	107,000,000
Total Phase 3 Cost	$	96,000,000
Total Phase 3 Construction Cost	$	78,400,000
Total Project Cost per GSF	$	316
Total Construction Cost per GSF	$	248

Change in Annual Operations and Maintenance Cost:

Utilities	$	680,000
Personnel		364,000
All Other Operating		556,000
Subtotal	$	1,600,000

Funding Sources:
Capital

A. Gifts	$	20,300,000
B. System Revenue Bonds	$	75,700,000

Debt Service Funding Sources: Auxiliary Revenue

Operation/Maintenance	$	1,600,000

Funding Sources: Auxiliary

EXECUTIVE SUMMARY

Capital Project Budget Summary

University: ASU at the Tempe campus

Project: Sun Devil Stadium Renovation Phase 3

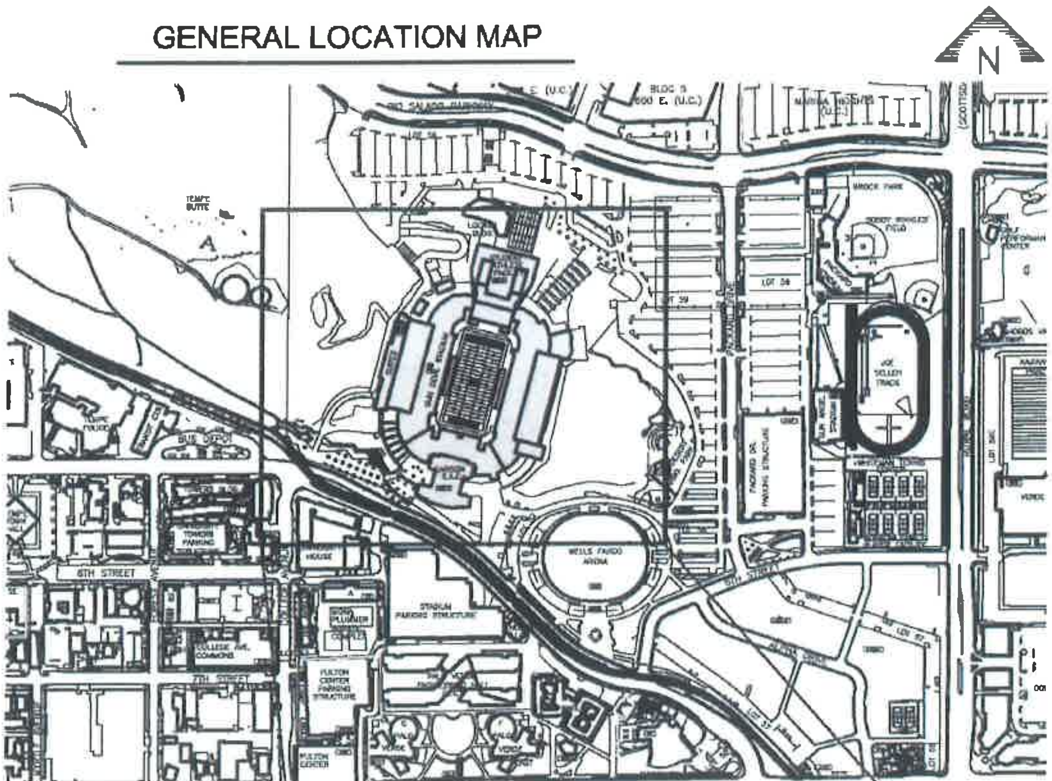
	Phase 1 Project Approval	Phase 2 Project Approval	Phase 3 Project Approval
Capital Costs			
1. Land Acquisition			
2. Construction Cost			
A. New Construction	$ 28,500,000	$ 91,258,000	$ 75,000,000
B. Renovation			
C. Special Fixed Equipment			
D. Site Development (excl. 2.E.)			
E. Parking and Landscaping			
F. Utilities Extensions	7,200,000		
G. Other* (Demolition)	1,000,000	4,042,000	3,400,000
Subtotal Construction Cost	$ 36,700,000	$ 95,300,000	$ 78,400,000
3. Fees			
A. Construction Mgr	$ 2,000,000		
B. Architect/Engineer	16,900,000		
C. Other	1,500,000	450,000	535,000
Subtotal Consultant Fees	$ 20,400,000	$ 450,000	$ 535,000
4. FF&E Movable		$ 1,500,000	$ 5,300,000
5. Contingency, Design Phase	$ 3,000,000		
6. Contingency, Constr. Phase	3,000,000	1,500,000	2,000,000
7. Parking Reserve			
8. Telecommunications Equipment		4,700,000	6,450,000
Subtotal Items 4-8	$ 6,000,000	$ 7,700,000	$ 13,750,000
9. Additional University Costs			
A. Surveys, Tests, Haz. Mat. Abatement	$ 500,000	$ 300,000	$300,000
B. Move-in Costs			
C. Printing Advertisement	1,500		
D. Keying, signage, facilities support	15,000	104,200	44,446
E. Project Management Cost (2.9066%)	1,854,370	2,789,276	2,703,994
F. State Risk Mgt. Ins. (.0034 **)	229,130	356,524	266,560
Subtotal Addl. Univ. Costs	$ 2,600,000	$ 3,550,000	$3,315,000
Total Capital Cost	$ 65,700,000	$ 107,000,000	$96,000,000

* Universities shall identify items included in this category

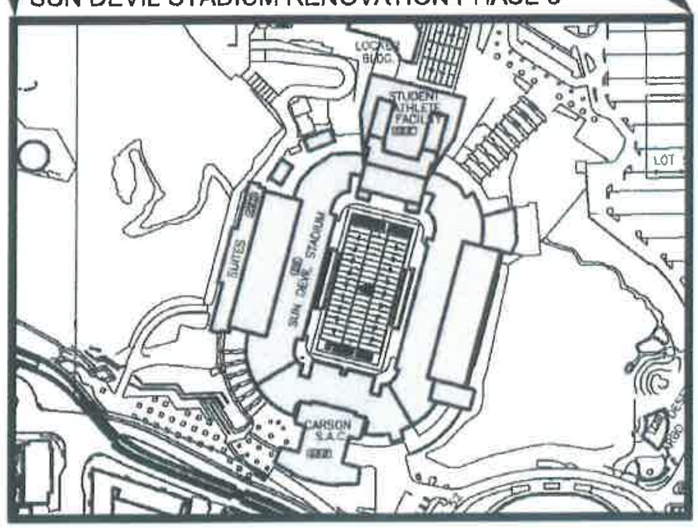
** State Risk Management Insurance factor is calculated on construction costs and consultant fees.

EXECUTIVE SUMMARY

GENERAL LOCATION MAP



SUN DEVIL STADIUM RENOVATION PHASE 3



AREA IN DETAIL

10B

STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

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STEVE MONTENEGRO

DATE:	June 9, 2016
TO:	Representative Justin Olson, Chairman Members, Joint Committee on Capital Review
THRU:	Richard Stavneak, Director RS
FROM:	Matt Beienburg, Fiscal Analyst MB
SUBJECT:	Arizona State University - Review of Biodesign C Building Financing Project

Request

A.R.S. § 15-1683 requires Committee review of any university projects financed with system revenue bonds. Arizona State University (ASU) requests Committee review of $120,000,000 in system revenue bond issuances to fund construction of the Biodesign C building. The debt service payments will be funded by indirect cost recovery and tuition revenues.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the project.

2. An unfavorable review of the project.

Under either option, the JLBC Staff recommends the standard university financing provisions:

Standard University Financing Provisions

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

- ASU shall provide the final debt service schedules for the project as soon as they are available.

(Continued)

Analysis

In accordance with its 3-year capital improvement plan, ASU seeks to expand the facilities of its Biodesign Institute by constructing a third building adjacent to the institute's existing 2 structures.

Per its mission statement, ASU's Biodesign Institute conducts research across the fields of "healthcare, sustainability and security . . . developing solutions inspired from natural systems and translating those solutions into commercially viable products and clinical practices," including vaccine discovery and delivery, cancer detection and treatments, water decontamination techniques, and nanotechnology applications in biomedicine and electronics.

The master plan for ASU's Biodesign Institute includes 4 interconnected buildings, totaling nearly 800,000 square feet. Buildings A and B were completed at the Tempe campus in 2004 and 2006, respectively, together totaling approximately 350,000 square feet. ASU reports that these facilities "reached capacity years ago and have been operating at near capacity ever since." The institute reports the current buildings support approximately 600 faculty, staff, and students, including 65 tenured research faculty, 50 postdoctoral researchers, and 300 undergraduate and graduate students.

Building C will be a 5-story (plus basement) 188,500 square foot facility intended to provide modular laboratory and office spaces that can be reconfigured to suit research project needs for the Biodesign Institute, the College of Liberal Arts and Sciences, and the Fulton Schools of Engineering.

ASU estimates the building's total occupancy at approximately 480 and reports it will support up to 80 research teams (both new and existing). Existing research teams will be "relocated from space that does not meet programming requirements," and the vacated spaces will be "repurposed to meet growing demand for student and research lab space."

The Biodesign Institute reports that it has attracted nearly $485 million in external funding from competitive grant awards and philanthropic and industry support since 2003, including $42 million awarded for research activities in FY 2015. Building C is expected to stimulate further research funding and move the institute closer to its target of $100 million of annual research expenditures.

Financing

ASU intends to issue $120.0 million of 30-year, fixed rate system revenue bonds with a rating of Aa3 (Moody's) / AA (S&P) at an estimated interest rate of 3.73% (ASU reports that the actual rate shall not exceed 6.0%). In addition to project costs, issuance costs are projected to not exceed $1,055,000, for a total financing amount of $121.1 million. Based on the 3.73% interest rate, ASU estimates debt service payments covering principal and interest at $6.8 million per year from FY 2018 to FY 2047, in addition to a $3.0 million interest only payment in FY 2017, for a total debt service cost of $206.2 million. *(Please see Table 2 for a summary of the bond's financing terms.)*

Debt service for Building C will increase ASU's current debt ratio from 5.2% to 5.56%. The current 5.2% debt ratio is based on ASU's actual FY 2015 debt service payments of $106.3 million as a percentage of total FY 2015 expenditures, or $2.0 billion. This debt ratio does not include the additional debt service costs of other projects pending JCCR review or those for which bonds were issued after FY 2015, nor growth in ASU's total expenditures. ASU estimated in October 2015 that including future projects, its total debt service payments will reach $122.9 million in FY 2019, or 4.9% of its projected $2.5 billion total expenditures in FY 2019.

(Continued)

ASU will fund the debt service payments using indirect cost recovery and tuition revenues. The indirect cost recovery monies (also known as facilities and administration costs) are reimbursements for overhead costs associated with sponsored grants. ASU's indirect cost recovery monies are earmarked for research-related investments and split approximately evenly across three categories: 1) debt service and operations and maintenance for research facilities, 2) research administration, and 3) funding for faculty researchers and academic units. The Building C indirect cost recovery revenues will come from newly-generated research projects at the facility as well as the "reprioritization of existing revenue" among ASU's research investments.

The tuition revenues that ASU intends to leverage are monies "available for reallocation due to bond refund savings and retirement of debt" on other projects. Tuition will fund approximately 25% of the Building C debt service, while indirect cost recovery monies will fund the remaining 75%.

Construction Costs

Of the $120.0 million total project cost, direct construction costs (excluding items such as design and project management costs) are $96.0 million. As shown in *Table 1* below, total project costs per square foot are $637, while direct construction costs per square foot are $509. ASU identified 5 out-of-state "comparable projects" with an average cost of $535 per square foot. The project's completion date is March 2018, and the Construction Manager at Risk (CMAR) will complete the project under the guaranteed maximum price arrangement with ASU.

Operations and Maintenance Costs

ASU estimates that annual operations and maintenance costs for the Biodesign C building will total $2.7 million. Utilities and personnel will comprise the majority of this expense, costing $1.5 million and $410,500, respectively. ASU intends to use indirect cost recovery and locally retained (non-appropriated) tuition revenues to cover operations and maintenance.

Table 1

ASU Biodesign C Building

Total Square Footage	188,500	
Funding		
System Revenue Bonds 1/	$120,000,000	
Costs		
Direct Construction Costs	$96,000,000	($509 per sq. ft.)
Other Costs 2/	24,000,000	($128 per sq. ft.)
Total	**$120,000,000**	**($637 per sq. ft.)**
Annual Operations & Maintenance 3/		
Utilities	$1,503,300	
Personnel	410,500	
Other	825,300	
Total	**$2,739,100**	

1/ Annual debt service payments on $120.0 million principal are estimated at $3.0 million in FY 2017 and $6.8 million from FY 2018 – FY 2047 based on 3.73% interest rate for a total debt service cost of $206.2 million

2/ Includes equipment, furniture, project design and management fees, and other costs

3/ Operations and maintenance costs to be funded by indirect cost recovery and other local funds

(Continued)

Table 2

ASU Biodesign C Building Financing Terms

Issuance Amount	$120.0 million
Issuance Date	By end of calendar year 2016
Issuance Transaction Fees	$1,055,000 (not to exceed)
Rating	Aa3 (Moody's) / AA (S&P)
Interest Rate	3.73% (not to exceed 6.0%)
Term	30 years
Total Debt Costs	$206.2 million
Debt Service Payments (at 3.73%)	$6.8 million
Payment Source	Indirect Cost Recovery & Tuition
Debt Ratio Increase	0.36%
Construction Start	Spring 2016

RS/MB:kp

ARIZONA STATE UNIVERSITY

May 3, 2016

RECEIVED
MAY 05 2016
JOINT BUDGET COMMITTEE

The Honorable Justin Olson, Chairman
Joint Committee on Capital Review
Arizona House of Representatives Capital Complex
1700 West Washington, Room 114
Phoenix, AZ 85007-2890

Dear Representative Olson:

In accordance with ARS 15-1683, the Arizona Board of Regents requests that the following Arizona State University bond-financed project be placed on the next Joint Committee on Capital Review agenda for review:

- Biodesign C

Enclosed is pertinent information relating to these items.

If you have any questions or desire any clarification on the enclosed material, please contact me at (480) 727-9920.

Sincerely,

Morgan R. Olsen
Executive Vice President, Treasurer and CFO

Enclosures

c: Richard Stavneak, Director, JLBC
Eileen Klein, President, Arizona Board of Regents, ABOR
John Arnold, Vice President for Business Management and Financial Affairs, ABOR
Lorenzo Martinez, Associate Vice President for Finance & Administration, ABOR
Steve Miller, Deputy Vice President, Public Affairs, ASU
Lisa Frace, Associate Vice President, Planning & Budget, and Chief Budget Officer, ASU
Bruce Nevel, Associate Vice President, Facilities Development and Management, ASU
Joanne Wamsley, Vice President for Finance and Deputy Treasurer, ASU
Matt Beienburg, Fiscal Analyst, JLBC

Joint Committee on Capital Review
Arizona State University
May 2016 JCCR Meeting

1. BIODESIGN C

Project Description

Biodesign will be a multi-functional facility that will meet the growing need for additional laboratory space to secure and perform high-quality research. Biodesign C will include critical lab and research support space designed specifically to promote and enable the creation of cutting-edge, collaborative research clusters that will leverage the University's investment and maximize the opportunities for research growth. The five-story-plus-basement, 188,500 square foot facility will be located on the Tempe campus, east of Biodesign B. The building will include a mix of wet and dry labs, lab casework and office layouts that will be modularized to allow for maximum flexibility, adaptability, planning and expansion based on research and user needs. The modular layout also will allow for reconfiguration of research spaces with minimal impact to the built systems when new research projects are located in Biodesign C.

The Biodesign C project will be funded with system revenue bonds totaling $120.0 million. Debt service will be funded by indirect cost recovery and tuition. An Arizona Board of Regents executive summary is attached for this project, which outlines the project description and other relevant information. Biodesign C received Project Approval at the Arizona Board of Regents April 8, 2016 meeting.

Project Costs

Total Project Cost	$ 120,000,000
Total Project Construction Cost	$ 96,000,000
Total Project Cost per GSF	$637
Total Construction Cost per GSF	$509

Operations and maintenance costs for this project are expected to be $2,739,101 annually. The University will fund operations and maintenance from indirect cost recovery and other local funds.

Joint Committee on Capital Review
Arizona State University
May 2016 JCCR Meeting

PROJECT SUMMARY –Revenue Bonds

Projects:	Funding Sources:	Amount:
Biodesign C	Indirect Cost Recovery, Tuition	$120,000,000

FINANCING INFORMATION

System Revenue Bonds:

Project Costs	$ 120,000,000
Estimated Costs of Issuance	$1,055,000
Anticipated Bond Rating	Aa3 (Moody's) and AA (S&P)
Assumed Interest Rate	3.73%
Term	30 years

Debt Service Information:

Estimated Annual Debt Service For 2017 (interest only)	$3,010,234
Estimated Annual Debt Service For 2018 – 2047	6,772,893
Total Estimated Debt Service Costs	206,197,037

DEBT RATIO

Debt Ratio on Existing Debt	5.20
Incremental Debt Ratio	.36
Projected Debt Ratio	5.56

Joint Committee on Capital Review
Arizona State University
May 2016 JCCR Meeting

Arizona State University
System Revenue Bonds
Biodesign C

Fiscal Year	Principal	Interest	Total
2017	$	$ 3,010,234	$ 3,010,234
2018	2,260,000	4,515,352	6,775,352
2019	2,340,000	4,431,053	6,771,053
2020	2,430,000	4,343,772	6,773,772
2021	2,520,000	4,253,132	6,773,132
2022	2,615,000	4,159,137	6,774,137
2023	2,710,000	4,061,597	6,771,597
2024	2,815,000	3,960,514	6,775,514
2025	2,915,000	3,855,514	6,770,514
2026	3,025,000	3,746,785	6,771,785
2027	3,140,000	3,633,953	6,773,953
2028	3,255,000	3,516,830	6,771,830
2029	3,380,000	3,395,419	6,775,419
2030	3,505,000	3,269,345	6,774,345
2031	3,635,000	3,138,609	6,773,609
2032	3,770,000	3,003,023	6,773,023
2033	3,910,000	2,862,402	6,772,402
2034	4,055,000	2,716,559	6,771,559
2035	4,205,000	2,565,307	6,770,307
2036	4,365,000	2,408,461	6,773,461
2037	4,525,000	2,245,647	6,770,647
2038	4,695,000	2,076,864	6,771,864
2039	4,870,000	1,901,740	6,771,740
2040	5,055,000	1,720,090	6,775,090
2041	5,240,000	1,531,538	6,771,538
2042	5,435,000	1,336,086	6,771,086
2043	5,640,000	1,133,360	6,773,360
2044	5,850,000	922,989	6,772,989
2045	6,070,000	704,783	6,774,783
2046	6,295,000	478,373	6,773,373
2047	6,530,000	243,569	6,773,569
	$ 121,055,000	$ 85,142,037	$ 206,197,037

EXECUTIVE SUMMARY

Item Name: Biodesign C Project and Financing Issuance Approval (ASU)

- ☐ Committee Recommendation to Full Board
- ☒ Full Board Approval

Issue: Arizona State University asks the board to provide Project Approval for the $120 million, 188,500 square foot Biodesign C project and Financing Approval to (a) sell one or more series of System Revenue Bonds (Bonds) to finance the Biodesign C facility, costs of issuance, and payments to a bond insurer or other credit enhancer, provided such payments result in a benefit that exceeds the amount of such payments, (b) to sell such Bonds at a price at, above or below par, on a tax-exempt or taxable basis, in one or more series, at a fixed rate of interest, and (c) to enter into necessary agreements, including those related to bond insurance or other credit enhancement agreements.

Previous Board Action

- FY 2016 Revised Capital Development Plan — November 2015

Enterprise or University Strategic Plan

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

Statutory/Policy Requirements

- ABOR Policy 7-109 requires approval of new construction projects with a total project cost over $10 million before contracts can be executed and construction can begin.
- ABOR Policy 7-102 requires approval of the issuance of bonds, lease-purchase agreements, certificates of participation issuance, or any debt instrument.
- ABOR Policy 3-501 requires matters relating to revenue bonds, including issuance, sale, appointment of bond counsel, appointment of financial consultant, appointment

Contact Information:
Morgan R. Olsen, Executive Vice President, Treasurer and CFO • (480) 727-9920 • Morgan.R.Olsen@asu.edu

of trustee, and all other incidents connected with revenue bonds to be presented for Board action.

Project Justification/Description/Scope

- Biodesign C, located east of Biodesign B on the Tempe campus, will strengthen ASU as a global center for interdisciplinary research and development. The five-story-plus-basement building of approximately 188,500 gross square feet will include laboratories, casework and office layouts that will be modularized to allow for maximum flexibility, adaptability, and expansion based on user needs. The modular layout also will allow for reconfiguration of research spaces with minimal impact to the built systems when new research projects are located in Biodesign C.

- Biodesign C will be a high-functioning, "workhorse" laboratory facility housing research from the College of Liberal Arts and Sciences, Ira A. Fulton Schools of Engineering and the Biodesign Institute. It will provide a mix of wet and dry labs with high-quality wet lab space as the highest priority. The building is designed to meet specifications for LEED Silver at a minimum, with intentions of achieving a higher LEED certification.

- This new, multi-functional research facility will meet the University's growing need for additional laboratory space to secure and perform high-quality research. Biodesign C will include critical lab and research support space designed specifically to promote and enable the creation of cutting-edge, collaborative research clusters. The facility's design will leverage the University's investment to maximize the opportunities for research growth.

- The 2012 campus master plan update identified a need for additional research space totaling 350,000 gross square feet. This new, 188,500 gross-square-foot facility will contribute to meeting this need.

Project Delivery Method and Process

- This project will be delivered through the Construction Manager at Risk (CMAR) delivery method. This approach was selected to provide contractor design input and coordination throughout the project, alleviate potentially adversarial project environments, and allow for the selection of the most qualified contractor team. With the use of two independent cost estimates at each phase, and pre-qualified, low-bid subcontractor work for the actual construction, CMAR project delivery also provides a high level of cost and quality control.

- ASU selected McCarthy Building Companies as the CMAR and ZGF/BWS Architects as the design professionals (DP) for this project. During the selection process for the CMAR, there were 23 responses and 5 contractors interviewed. The selection process for the DP included 11 responses and 5 firms were interviewed.

Project Status and Schedule

- This project is in the design phase, with construction scheduled to begin this spring, once all approvals are in place. Construction will be completed approximately 21 months after CMAR construction contracts are awarded.

Project Cost

- The total project budget for this 188,500 gross-square-foot facility is $120 million.

- The budget represents an estimated construction cost of $509 per gross square foot. The estimated total project cost is $637 per gross square foot. The following table presents projects considered comparable to the Biodesign C project, with costs adjusted to reflect today's dollars:

Comparable Project	Location	Project Size/GSF	Year Completed	Escalated Const. Cost / SF
Silverman Hall	Northwestern University	149,531	Sep-08	$509
UT Dallas BSB	University of Texas	234,000	Dec-13	$516
UCSD CTRI	University of California, San Diego	349,197	Sep-15	$511
Los Angeles BioMed	Los Angeles, CA	84,353	Sep-15	$548
UCSD BioMed 2	University of California, San Diego	195,975	Jan-11	$593
Average Comparable Project		**202,611**		**$535**

Considering these relevant comparable construction costs, the Biodesign C budgeted construction cost of $509 per gross square foot is considered reasonable.

- For this Project Approval Phase, DP and CMAR teams have provided external cost estimates from independent design efforts.

- The CMAR will be at risk to provide the completed project within the agreed-upon Guaranteed Maximum Price (GMP). A final report on project control procedures, such as change orders and contingency use, will be provided at project completion.

EXECUTIVE SUMMARY

Fiscal Impact and Financing Plan:

- The $120.0 million Biodesign C facility will be funded with system revenue bond proceeds. Debt service on the bonds will be funded by indirect cost recovery, both new revenue generated by Biodesign C and reprioritization of existing revenue, and existing tuition revenue that is available for reallocation due to bond refund savings and retirement of debt.
- Operations and maintenance costs for this project are estimated at $2,739,101 annually. The University will fund operations and maintenance through indirect cost recovery and other local funds.
- Debt Ratio Impact: ASU's maximum projected ratio of debt service to total expenditures is 4.9 percent, including the anticipated 0.36 percent impact of this project, well below the 8.0 percent statutory maximum.
- The University plans to issue the long-term financing for the project by the end of calendar year 2016. The table below shows the anticipated pricing parameters for the long-term financing:

Pricing Parameters:

Overview:		Comments
Total Project Amount, Excluding issuance Costs (not-to-exceed)	$120.0M	
Total Issuance Costs (not-to-exceed)	$1.05M	
Credit Enhancement Cost	TBD	Only if economically beneficial
Maturity Range	2018-2047	Approximate 30 year final maturity
Average Maturity	20.3 years	
Interest Rate (not-to-exceed)	6.00%	
Annual Average Debt Service (at 6%)	$8.8M	

Occupancy Plan

- The building is designed to provide research space and will be utilized by researchers from the College of Liberal Arts and Sciences, Ira A. Fulton Schools of Engineering and the Biodesign Institute.

Committee Review and Recommendation

The Business and Finance Committee reviewed this item at its April 6, 2016 meeting and recommended forwarding the item to the full board for approval.

Requested Action

Arizona State University asks the board to provide Project Approval and Financing Approval for Biodesign C, as presented in this Executive Summary.

EXECUTIVE SUMMARY

Capital Project Information Summary

University: Arizona State University **Project Name:** Biodesign C

Project Description and Location:
Biodesign C, located east of Biodesign B on the Tempe campus, will strengthen ASU's position as a global center for interdisciplinary research and development. The five-story-plus-basement building of approximately 188,500 gross square feet will include laboratories, casework and office layouts that will be modularized to allow for maximum flexibility, adaptability, planning and expansion based on research and user needs. The modular layout also will allow for reconfiguration of new research space with minimal required demolition of built systems when new research projects are brought into Biodesign C.

Project Schedule:

Planning	July	2015
Design	October	2015
Construction Start	May	2016
Construction Completion	March	2018

Project Budget:

Total Project Cost	$	120,000,000
Total Project Construction Cost	$	96,000,000
Total Project Cost per GSF	$	637
Construction Cost per GSF	$	509

Change in Annual O & M Cost:

Utilities	$	1,503,288
Personnel		410,552
All Other Operating		825,261
Subtotal	$	2,739,101

Funding Sources:
Capital

A. System Revenue Bonds $ 120,000,000
Debt Service Funding Sources: Indirect Cost Recovery and Tuition

Operation/Maintenance $ 2,739,101
Funding Sources: Indirect Cost Recovery and Other Local Funds

EXECUTIVE SUMMARY

Capital Project Budget Summary

University: ASU at the Tempe Campus **Project:** Biodesign C

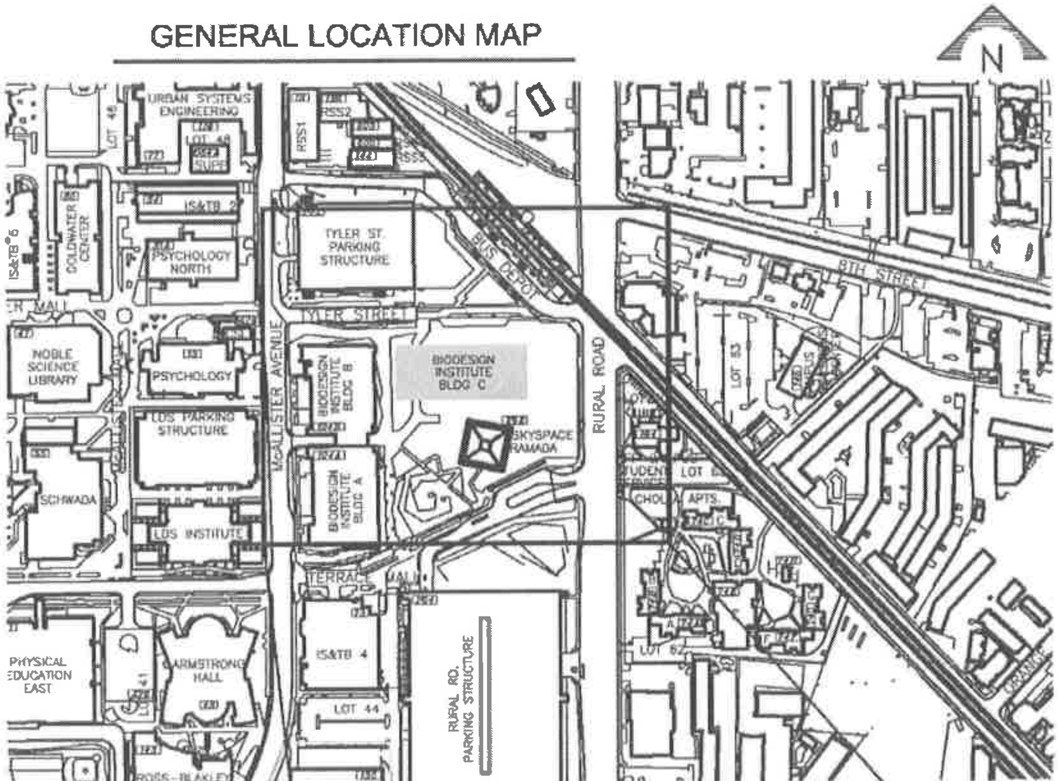
	Capital Development Plan	Project Approval
Capital Costs		
1. Land Acquisition		
2. Construction Cost		
A. New Construction	$ 87,700,000	$ 84,297,139
B. Renovation	4,400,000	3,437,927
C. Special Fixed Equipment	2,000,000	4,810,500
D. Site Development (excl. 2.E.)	625,000	1,218,834
E. Parking and Landscaping	495,000	1,085,600
F. Utilities Extensions	625,000	950,000
G. Other* (Demolition)	155,000	200,000
Subtotal Construction Cost	$ 96,000,000	$ 96,000,000
3. Fees		
A. CMAR Pre-Construction	$ 1,728,000	$ 1,728,000
B. Architect/Engineer	10,752,000	10,752,000
C. Other	1,425,000	1,425,000
Subtotal Consultant Fees	$ 13,905,000	$ 13,905,000
4. FF&E Movable	$ 1,000,000	$ 1,400,000
5. Contingency, Design Phase	$ 1,200,000	$ 1,200,000
6. Contingency, Constr. Phase	1,200,000	1,200,000
7. Parking Reserve		
8. Telecommunications Equipment	1,600,000	1,200,000
Subtotal Items 4-8	$ 5,000,000	$ 5,000,000
9. Additional University Costs		
A. Surveys, Tests, Haz. Mat. Abatement	$ 325,000	$ 325,000
B. Move-in Costs	100,000	100,000
C. Printing Advertisement	1,000	1,000
D. Keying, signage, facilities support	25,000	25,000
E. Project Management Cost (3%)	4,244,000	4,244,000
F. State Risk Mgt. Ins. (.0034 **)	400,000	400,000
Subtotal Addl. Univ. Costs	$ 5,095,000	$ 5,095,000
Total Capital Cost	$ 120,000,000	$ 120,000,000

* Universities shall identify items included in this category

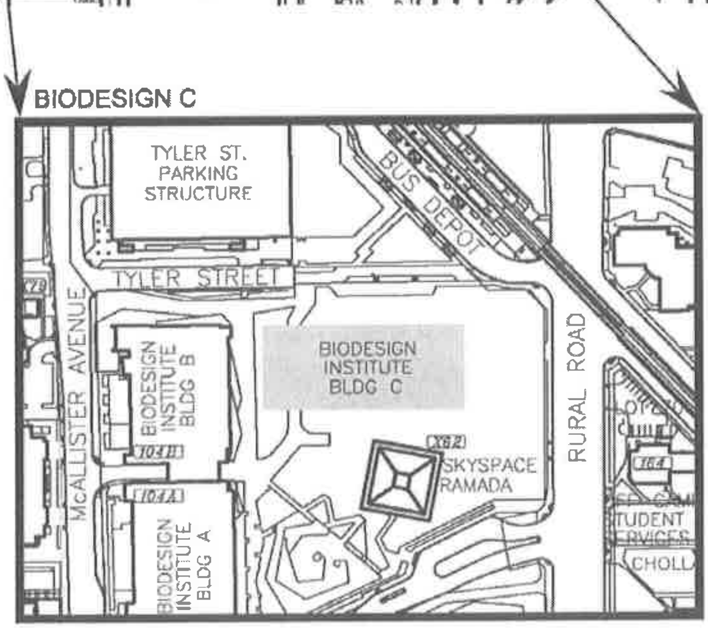
** State Risk Management Insurance factor is calculated on construction costs and consultant fees.

EXECUTIVE SUMMARY

GENERAL LOCATION MAP



BIODESIGN C



AREA IN DETAIL

STATE OF ARIZONA

Joint Committee on Capital Review

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE: June 15, 2016

TO: Representative Justin Olson, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director RS

FROM: Matt Beienburg, Fiscal Analyst MB

SUBJECT: Arizona State University - Review of Building Renewal and Renovation Projects

Request

A.R.S. § 15-1683 requires Committee review of any university projects financed with system revenue bonds. Arizona State University (ASU) requests Committee review of $40,000,000 in system revenue bond issuances to fund 3 building renewal and other renovation projects. The debt service payments will be funded by tuition revenues.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the 3 projects.

2. An unfavorable review of the 3 projects.

Under either option, the JLBC Staff recommends the following provision and the standard university financing provisions:

A. By November 30, 2016, the Arizona Board of Regents (ABOR), shall report to the Committee for a review of their policy of determining the appropriate level of each University's financial liquidity and cash reserves. The report shall include metrics used to measure each University's days cash on hand, current levels of days cash on hand, and benchmarks used to develop the cash reserve policies. In addition, ABOR shall report on the potential future use of cash reserves to finance capital projects in place of using debt financing.

(Continued)

B. *Standard University Financing Provisions*

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

- ASU shall provide the final debt service schedules for the project as soon as they are available.

Analysis

The $40.0 million in bond issuances includes building renewal and academic facility renovations. Of this amount $15.0 million will be for research laboratory renovations, $10.0 million will be for classroom and academic renovations, and $15.0 million will be for building renewal and campus infrastructure.

Financing
ASU intends to issue the $40.0 million for the 3 projects together with bonds for the Sun Devil Stadium renovation by the end of calendar year 2016 with an anticipated rating of Aa3 (Moody's)/AA (S&P) and an estimated interest rate of 3.47% for all the projects. Bonds for the building renovation projects will be issued for a term of 20 years.

In addition to project costs, issuance costs are projected to be $410,000. The FY 2017 debt service payment will cover interest only at a cost of $1.1 million. From FY 2018 to FY 2036, debt service payments, including principal, will be approximately $2.9 annually, for a total debt service obligation of $56.9 million. The debt service will be paid from tuition *(See Table 2 for a summary of the bond financing terms).*

The debt service on these projects increases ASU's current debt ratio from 5.2% to 5.33%. The current 5.2% debt ratio is based on ASU's actual FY 2015 debt service payments of $106.3 million as a percentage of total FY 2015 expenditures, or $2.0 billion. This debt ratio does not include the additional debt service costs of other projects pending JCCR review or those for which bonds were issued after FY 2015, nor growth in ASU's total expenditures. ASU estimated in October 2015 that including future projects, its total debt service payments will reach $122.9 million in FY 2019, or 4.9% of its projected $2.5 billion total expenditures in FY 2019.

Construction Costs
Total project costs are projected to be $40.0 million, which does not include issuance costs. *Table 1* provides a brief description of each project along with the project's total cost, direct construction costs, square footage and direct construction cost per square foot. The direct cost, excluding items such as design and project management costs, is $26.4 million.

Research Laboratory Renovations – All Campuses
ASU is planning to renovate approximately 30,000 gross square feet of laboratories throughout all of its campuses for a cost of $15.0 million (plus estimated issuance costs of $155,000). ASU states that many existing buildings are inadequate to support current and new research requirements. Multiple wet and dry laboratory spaces will be upgraded in order to meet these research needs. Additionally, building system upgrades such as HVAC, mechanical, gas lines, electrical and code-required life safety modernization will be made in research laboratories on all ASU campuses. The direct construction cost per square foot is $325.

(Continued)

Table 1

ASU System Revenue Bond Projects

Project	Total Cost [1/]	Direct Cost	Sq. Ft.	Direct Cost/ Sq. Ft.
Research Laboratory Renovations – All Campuses	$15,000,000	$ 9,760,000	30,000	$325
Classroom Renovations – All Campuses	10,000,000	6,500,000	30,750	211
Building Renewal and Campus Infrastructure – All Campuses	15,000,000	10,100,000	N/A	N/A
Total	**$40,000,000**	**$26,360,000**	**60,750**	--

1/ These amounts do not include issuance costs.

Classroom Renovations – All Campuses
ASU is planning to renovate 30,750 gross square feet of classroom and academic space throughout all of its campuses for a cost of $10.0 million (plus estimated issuance costs of $100,000). This amount will fund building renewal for HVAC, plumbing, electrical systems, interior and exterior paint, roofs, windows, internal walls and partitions, elevators and fire prevention equipment. The direct construction cost per square foot is $211.

Building and Infrastructure Enhancements and Modifications – All Campuses
ASU is planning to update critical building systems within existing facilities and improving infrastructure at all of its campuses for a cost of $15.0 million (plus estimated issuance costs of $155,000).

The project will include upgrading, installing and replacing building systems and infrastructure such as fire sprinklers and alarms, HVAC, electrical systems, roof replacement/coating and elevator modernization. Hazardous materials abatement will be performed where necessary. ASU did not provide a direct construction cost per square foot for this project, since the exact scope of the project has yet to be determined.

Recent ASU Building Renewal Projects
At its June 2015 meeting, the Committee favorably reviewed $37.0 million of bond issuances for 3 projects that are similar to the current ASU request, which were financed with university tuition revenues. The direct costs per square foot for laboratory renovations were $271, compared to the estimated $325 of the current request. The direct costs per square foot for classroom renovations were $136, compared to $211 for the current request. ASU reports that the increases in costs are due to a combination of "more complex projects and general escalation in construction costs."

The state has funded direct General Fund building renewal once since FY 2008 in the form of a $3.0 million lump sum appropriation to ABOR in FY 2015. Of that amount, ABOR allocated $1.1 million to ASU. If funded, the building renewal formula would generate $44.3 million annually for ASU.

(Continued)

Table 2

ASU Building Renewal Financing Terms

Issuance Amount	$40.0 million
Issuance Date	By end of Calendar Year 2016
Issuance Transaction Fees	$410,000
Rating	Aa3 (Moody's)/AA (S&P)
Interest Rate	3.47%
Term	20 years
Total Debt Costs	$56.9 million
Debt Service Payments	$1.1 million (FY 2017); $2.9 million (FY 2018 – FY 2036)
Payment Source	Tuition
Debt Ratio Increase	0.13%

RS/MB:kp

ARIZONA STATE UNIVERSITY

May 26, 2016

RECEIVED
MAY 27 2016
JOINT BUDGET COMMITTEE

The Honorable Justin Olson, Chairman
Joint Committee on Capital Review
Arizona House of Representatives Capital Complex
1700 West Washington, Room 114
Phoenix, AZ 85007-2890

Dear Representative Olson:

In accordance with ARS 15-1683, the Arizona Board of Regents requests that the following Arizona State University bond-financed projects be placed on the next Joint Committee on Capital Review agenda for review:

- Sun Devil Stadium Renovation Phase 3
- Building and Infrastructure Enhancements and Modifications
- Classroom and Academic Renovations
- Research Laboratory/Faculty Startup

Enclosed is pertinent information relating to these items.

If you have any questions or desire any clarification on the enclosed material, please contact me at (480) 727-9920.

Sincerely,

Morgan R. Olsen
Executive Vice President, Treasurer and CFO

Enclosures

c: Richard Stavneak, Director, JLBC
Eileen Klein, President, Arizona Board of Regents, ABOR
John Arnold, Vice President for Business Management and Financial Affairs, ABOR
Lorenzo Martinez, Associate Vice President for Finance & Administration, ABOR
Steve Miller, Deputy Vice President, Public Affairs, ASU
Lisa Frace, Associate Vice President, Planning & Budget, and Chief Budget Officer, ASU
Bruce Nevel, Associate Vice President, Facilities Development and Management, ASU
Joanne Wamsley, Vice President for Finance and Deputy Treasurer, ASU
Matt Beienburg, Fiscal Analyst, JLBC

OFFICE OF THE EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER
BUSINESS AND FINANCE
PO BOX 877505, TEMPE, AZ 85287-7505
(480) 727-9920 FAX: (480) 727-9922

Joint Committee on Capital Review
Arizona State University
May 2016 JCCR Meeting

2. BUILDING AND INFRASTRUCTURE ENHANCEMENTS AND MODIFICATIONS

Project Description

Many components of the ASU built environment are not capable of supporting additional functions required by the University to carry out its mission of research and academic excellence. Building envelope components either must be replaced or brought up to a condition that ensures protection from outside elements. Infrastructure improvement projects preserve University assets and ensure that critical systems supporting academic and research initiatives continue without interruption.

The Building and Infrastructure Enhancements and Modifications project bundle is planned to upgrade, install and replace building systems and infrastructure such as fire sprinklers and alarms; HVAC, and electrical systems (including reliability and redundancy upgrades); exhaust, chilled water and steam systems; exterior brick re-pointing; roof replacement/coating; and re-caulking windows and building joints. Abatement of hazardous materials will be performed as needed. Campus infrastructure enhancements may include site improvements for malls, lighting, street repair and realignment, parking, site drainage and retention. In addition to the above items, this project will start the process to replace the infrastructure between the central plant and campus buildings, distribution of chilled water supply and return, steam and condensate return, domestic water, and sewer systems as needed to bring campus distribution up to current standards.

This debt-financed project bundle will be funded from $15,000,000 in system revenue bonds.

Debt service will be funded with tuition.

An Arizona Board of Regents executive summary is attached for this project bundle, which outlines the project description and other relevant information. This project bundle is scheduled to receive Capital Development Plan approval at the June 9, 2016 Arizona Board of Regents meeting, which is the final required ABOR approval for the project.

Project Costs

Total Project Cost	$ 15,000,000
Total Project Construction Cost	$ 10,100,000
Total Project Cost per GSF	$ N/A
Total Construction Cost per GSF	$ N/A

Operations and maintenance costs for these projects are not expected to change.

Joint Committee on Capital Review
Arizona State University
May 2016 JCCR Meeting

3. CLASSROOM AND ACADEMIC RENOVATIONS

Project Description
The Classroom and Academic Renovations project bundle will renovate existing classrooms, create new classrooms of various sizes and add smaller instructional spaces at all campuses. Plans call for the renovation of approximately 30,750 gross square feet of classrooms and academic space, including faculty and student space.

Building components such as HVAC, plumbing, electrical systems, flooring, ceilings, interior and exterior paint, roofs, windows, doors, internal walls and partitions, elevators, and fire prevention equipment may be upgraded in this project. The Classroom and Academic Renovations project bundle will comprise multiple components at each ASU campus.

This debt-financed project bundle will be funded from $10,000,000 in system revenue bonds.

Debt service will be funded with tuition.

An Arizona Board of Regents executive summary is attached for this project bundle, which outlines the project description and other relevant information. This project bundle is schedule to received Capital Development Plan approval at the June 9, 2016, Arizona Board of Regents meeting, which is the final required ABOR approval for the project.

Project Costs

Total Project Cost	$ 10,000,000
Total Project Construction Cost	$ 6,500,000
Total Project Cost per GSF	$325
Total Construction Cost per GSF	$211

Operations and maintenance costs for this project are not expected to change.

Joint Committee on Capital Review
Arizona State University
May 2016 JCCR Meeting

4. RESEARCH LABORATORY/FACULTY STARTUP

Project Description
The Research Laboratory/Faculty Startup project bundle will involve the renovation of approximately 30,000 gross square feet of laboratories to meet the needs of new and current research requirements within existing facilities.

Many existing University laboratories and building systems are inadequate, due to age and the requirements of emerging technologies. The poor condition of the spaces and age of the building systems constrain the development of these strategically important areas. This project will ensure facility systems can meet research demands and will keep areas within code compliance. It will convert inadequate classroom laboratories, research laboratories and research building systems to state-of-the-art research facilities.

Multiple wet and dry lab spaces will be upgraded, as well as infrastructure and building systems, in order to maximize adaptable and flexible technologies. Renovation activities will involve building systems such as HVAC, mechanical, fume hoods, lab gas lines, electrical, and code-required life safety upgrades.

This debt-financed project bundle will be funded from $15,000,000 in system revenue bonds.

Debt service will be funded with tuition.

An Arizona Board of Regents executive summary is attached for this project bundle, which outlines the project description and other relevant information. This project bundle is schedule to received Capital Development Plan approval at the June 9, 2016, Arizona Board of Regents meeting, which is the final required ABOR approval for the project.

Project Costs

Total Project Cost	$ 15,000,000
Total Project Construction Cost	$ 9,760,000
Total Project Cost per GSF	$500
Total Construction Cost per GSF	$325

Operations and maintenance costs for this project are not expected to change.

Joint Committee on Capital Review
Arizona State University
May 2016 JCCR Meeting

PROJECT SUMMARY –Revenue Bonds

Projects:	Funding Sources:	Amount:
Sun Devil Stadium Renovation Phase 3	Auxiliary Revenue, Gifts	$75,700,000
Building Infrastructure Enhancements & Modifications	Tuition	$15,000,000
Classroom & Academic Renovations	Tuition	$10,000,000
Research Laboratory/Faculty Startup	Tuition	$15,000,000

FINANCING INFORMATION

System Revenue Bonds:	
Project Costs	$115,700,000
Capitalized Interest	2,045,000
Estimated Costs of Issuance	$1,205,000
Anticipated Bond Rating	Aa3 (Moody's) and AA (S&P)
Assumed Interest Rate	3.47%
Term	20 - 30 years

Debt Service Information:	
Estimated Annual Debt Service For 2017 (interest only)	$1,051,670
Estimated Annual Debt Service For 2018 – 2021	$5,663,303
Estimated Annual Debt Service For 2022 – 2036	$7,690,494
Estimated Annual Debt Service For 2037 – 2046	$4,749,589
Total Estimated Debt Service Costs	$186,558,179

DEBT RATIO

Debt Ratio on Existing Debt	5.20
Incremental Debt Ratio	0.32
Projected Debt Ratio	5.52

Joint Committee on Capital Review
Arizona State University
May 2016 JCCR Meeting

Arizona State University
System Revenue Bonds
Building Infrastructure Enhancements and Modifications

Fiscal Year	Principal	Interest	Total
2017		394,409	394,409
2018	575,000	525,879	1,100,879
2019	595,000	505,926	1,100,926
2020	615,000	485,279	1,100,279
2021	640,000	463,939	1,103,939
2022	660,000	441,731	1,101,731
2023	685,000	418,829	1,103,829
2024	710,000	395,060	1,105,060
2025	730,000	370,422	1,100,422
2026	760,000	345,092	1,105,092
2027	785,000	318,719	1,103,719
2028	810,000	291,480	1,101,480
2029	840,000	263,373	1,103,373
2030	870,000	234,225	1,104,225
2031	900,000	204,036	1,104,036
2032	930,000	172,806	1,102,806
2033	960,000	140,535	1,100,535
2034	995,000	107,223	1,102,223
2035	1,030,000	72,697	1,102,697
2036	1,065,000	36,955	1,101,955
	15,155,000	6,188,615	21,343,615

Joint Committee on Capital Review
Arizona State University
May 2016 JCCR Meeting

Arizona State University
System Revenue Bonds
Classroom and Academic Renovations

Fiscal Year	Principal	Interest	Total
2017		262,852	262,852
2018	385,000	350,470	735,470
2019	400,000	337,111	737,111
2020	410,000	323,230	733,230
2021	425,000	309,004	734,004
2022	440,000	294,256	734,256
2023	455,000	278,988	733,988
2024	470,000	263,200	733,200
2025	490,000	246,890	736,890
2026	505,000	229,888	734,888
2027	520,000	212,364	732,364
2028	540,000	194,320	734,320
2029	560,000	175,582	735,582
2030	580,000	156,150	736,150
2031	600,000	136,024	736,024
2032	620,000	115,204	735,204
2033	640,000	93,690	733,690
2034	665,000	71,482	736,482
2035	685,000	48,406	733,406
2036	710,000	24,637	734,637
	10,100,000	4,123,748	14,223,748

Joint Committee on Capital Review
Arizona State University
May 2016 JCCR Meeting

Arizona State University
System Revenue Bonds
Research Laboratory/Faculty Startup

Fiscal Year	Principal	Interest	Total
2017		394,409	394,409
2018	575,000	525,879	1,100,879
2019	595,000	505,926	1,100,926
2020	615,000	485,279	1,100,279
2021	640,000	463,939	1,103,939
2022	660,000	441,731	1,101,731
2023	685,000	418,829	1,103,829
2024	710,000	395,060	1,105,060
2025	730,000	370,422	1,100,422
2026	760,000	345,092	1,105,092
2027	785,000	318,719	1,103,719
2028	810,000	291,480	1,101,480
2029	840,000	263,373	1,103,373
2030	870,000	234,225	1,104,225
2031	900,000	204,036	1,104,036
2032	930,000	172,806	1,102,806
2033	960,000	140,535	1,100,535
2034	995,000	107,223	1,102,223
2035	1,030,000	72,697	1,102,697
2036	1,065,000	36,955	1,101,955
	15,155,000	6,188,615	21,343,615

Arizona Board of Regents
Arizona State University
Capital Development Plan Project Justification Report
Building and Infrastructure Enhancements and Modifications

Previous Board Action:

- FY 2018-2019 Capital Improvement Plan — September 2015

Statutory/Policy Requirements

- ABOR Policy 7-109 requires approval of renovation or infrastructure projects with a total project cost over $5 million before contracts can be executed and construction can begin.

Project Justification/Description/Scope

- This project is planned to upgrade, install and replace building systems and infrastructure such as fire sprinklers and alarms; HVAC and electrical systems (including reliability and redundancy upgrades); exhaust, chilled water and steam systems; exterior brick re-pointing; roof replacement/coating; and re-caulking windows and building joints. Abatement of hazardous materials will be performed as needed. Campus infrastructure enhancements may include site improvements for malls, lighting, street repair and realignment, parking, site drainage and retention. In addition to the above items, this project will start the process to replace the infrastructure between the central plant and campus buildings, distribution of chilled water supply and return, steam and condensate return, domestic water, and sewer systems as needed to bring campus distribution up to current standards.

- Many components of the ASU built environment are not capable of supporting additional functions required by the University to carry out its mission of research and academic excellence. Building envelope components either must be replaced or brought up to a condition that ensures protection from outside elements.

- These projects not only will enhance the quality of campus infrastructure and systems, but also will keep the University in compliance with code requirements for safety, and address ABOR directives to reduce deferred maintenance. Projects essential for life safety/code compliance and University strategic initiatives have been given top priority.

Project Delivery Method and Process:

- Depending on the nature of the work, components of this project may be delivered through the Design Build (DB), CMAR or Job Order Contracting (JOC) methods.
- ASU has not yet selected a DB, CMAR, JOC contractor or design professional firm for any components of this project bundle. Contractors and design professionals will be selected according to ABOR policy and Arizona law.

Project Status and Schedule

- Design Professionals (DPs) will be selected after CDP approval. Design will be complete approximately six to twelve months after the DP contract is awarded for that component of work.
- General construction is scheduled to begin when design is complete and after all approvals are in place. Construction on all project components will be completed by 2019.

Project Cost

- The budget for this set of projects is $15,000,000.
- For this Capital Development Plan phase, no preliminary external cost estimates have been provided by third-party consultants. DP and DB, CMAR or JOC contractor teams have not yet been selected for these project components. Independent cost estimates will be provided by the DP, DB, CMAR or JOC contractor after these selections are complete.
- For projects selected to use the DB or CMAR delivery method, the CMs will be at risk to provide the completed project within the agreed-upon Guaranteed Maximum Price (GMP). A final report on project control procedures, including change orders and contingency use, will be provided at project completion.

Fiscal Impact and Financing Plan:

- The $15.0 million project budget will be funded with system revenue bonds. Debt service will be paid from tuition.
- There are no expected increases in operation and maintenance costs for these projects.

- **Debt Ratio Impact**: The projected incremental debt ratio impact for this project bundle is 0.05 percent.

Occupancy Plan

- These projects will not affect occupancy or programs, but will renew building and campus infrastructure and life safety systems.

EXECUTIVE SUMMARY

Capital Project Information Summary

University: Arizona State University

Project Name: Building and Infrastructure Enhancements and Modifications

Project Description and Location: This project bundle is planned to upgrade, install and replace building systems and infrastructure at all campuses. Abatement of hazardous materials will be performed as needed. Campus infrastructure enhancements may include site improvements for malls, lighting, street repair and realignment, parking, site drainage and retention. In addition to the above items, this project will start to replace the infrastructure between the Tempe campus central plant and the campus buildings, distribution of chilled water supply and return, steam and condensate return, domestic water, and sewer systems as needed to bring campus distribution up to current standards.

Project Schedule:

Planning	February	2016
Design	December	2016
Construction Start	May	2017
Construction Completion	December	2019

Project Budget:

Total Project Cost	$ 15,000,000
Total Project Construction Cost	$ 10,100,000
Total Project Cost per GSF	$ N/A
Construction Cost per GSF	$ N/A

Change in Annual O & M Cost:

Utilities	$
Personnel	
All Other Operating	
Subtotal	$ 0

Funding Sources:

Capital

A. System Revenue Bonds $ 15,000,000
Debt Service Funding Sources: Tuition

Operation/Maintenance $ 0
Funding Sources:

EXECUTIVE SUMMARY

Capital Project Budget Summary

University: Arizona State University

Project: Building and Infrastructure Modifications and Enhancements

	Capital Development Plan	Project Approval
Capital Costs		
1. Land Acquisition		
2. Construction Cost		
A. New Construction		
B. Bldg. Infrastructure Improvements	300,000	
C. Special Fixed Equipment	2,500,000	
D. Site Development (excl. 2.E.)	1,000,000	
E. Parking and Landscaping	1,500,000	
F. Utilities Extensions	4,500,000	
G. Other* (Demolition)	300,000	
Subtotal Construction Cost	$ 10,100,000	$ -
3. Fees		
A. CMAR Pre-Construction	$ 211,195	
B. Architect/Engineer	1,407,970	
C. Other	79,160	
Subtotal Consultant Fees	$ 1,698,325	$ -
4. FF&E Movable/Security	$ 422,391	
5. Contingency, Design Phase	1,015,090	
6. Contingency, Constr. Phase	1,015,090	
7. Parking Reserve		
8. Telecommunications Equipment	140,797	
Subtotal Items 4-8	$ 2,593,368	$ -
9. Additional University Costs		
A. Surveys, Tests, Haz. Mat. Abatement	$ 675	
B. Move-in Costs	8,400	
C. Printing Advertisement		
D. Keying, signage, facilities support	36,000	
E. Project Management Cost	528,892	
F. State Risk Mgt. Ins. (.0034 **)	34,340	
Subtotal Addl. Univ. Costs	$ 608,307	$ -
Total Capital Cost	$ 15,000,000	$ -

* Universities shall identify items included in this category

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

Arizona Board of Regents
Arizona State University
Capital Development Plan Project Justification Report
Classroom and Academic Renovations

Previous Board Action:

- FY 2018-2019 Capital Improvement Plan — September 2015

Statutory/Policy Requirements

- ABOR Policy 7-109 requires approval of renovation or infrastructure projects with a total project cost over $5 million before contracts can be executed and construction can begin.

Project Justification/Description/Scope

- ASU intends to renovate existing classrooms, create new classrooms of various sizes and add smaller instructional spaces at all campuses. Plans call for the renovation of approximately 30,750 gross square feet of classrooms and academic space, including faculty and student space. Building components such as HVAC, plumbing, electrical systems, flooring, ceilings, interior and exterior paint, roofs, windows, doors, internal walls and partitions, elevators, and fire prevention equipment may be upgraded in this project. The Classroom and Academic Renovations project bundle will comprise multiple components at each ASU campus.

- The ASU Strategic Enterprise Framework identifies several goals, including improving retention and graduation performance, curricular reform, and improved student outcomes. Resources needed to achieve these ends include continued investment in faculty as well as space renovations to support teaching innovations. These projects will provide renovated and growth space for academic programs, allowing better student/faculty interaction and learning experiences. The work will create attractive spaces for student learning, and renovate worn areas that distract from learning and teaching effectiveness, resulting in improved and updated space for new faculty hires.

- These project components will enhance the quality of the buildings, with improved space for faculty and better classroom experience for students, maintain compliance with code requirements for safety, and address ABOR directives to reduce deferred maintenance. Project components essential for life safety/code compliance and University strategic initiatives have been given top priority.

Project Delivery Method and Process:

- Depending on the nature of the work, components of this project may be delivered through either the CMAR or Job Order Contracting (JOC) method.
- ASU has not yet selected a CMAR, JOC contractor or design professional firm for any components of this project. Contractors and design professionals will be selected according to ABOR policy and Arizona law.

Project Status and Schedule

- Design Professionals (DPs) will be selected after CDP approval. Design will be complete approximately six to nine months after the DP contract is awarded.
- General construction is scheduled to begin when design is complete and after all approvals are in place. Construction on all project components will be completed by 2019.

Project Cost

- The budget for this set of projects is $10,000,000.
- The budget represents an estimated construction cost of $211 per gross square foot. The estimated total project cost is $325 per gross square foot.
- For this Capital Development Plan phase, no preliminary external cost estimates have been provided by third-party consultants. DP and CMAR or JOC contractor teams have not yet been selected for these projects. Independent cost estimates will be provided by the DP, CMAR or JOC contractor after these selections are complete.
- For projects selected to use the CMAR delivery method, the CMARs will be at risk to provide the completed project within the agreed-upon Guaranteed Maximum Price (GMP). A final report on project control procedures, including change orders and contingency use, will be provided at project completion.

EXECUTIVE SUMMARY

Fiscal Impact and Financing Plan:

- The $10.0 million project budget will be funded with system revenue bonds. Debt service will be paid from tuition.
- There are no expected increases in operation and maintenance costs for this set of projects.
- **Debt Ratio Impact**: The projected incremental debt ratio impact for this project bundle is 0.03 percent.

Occupancy Plan

- These project components will reconfigure and renew spaces for classroom and academic areas. Programs may be temporarily displaced as spaces are renovated.

EXECUTIVE SUMMARY

Capital Project Information Summary

University: Arizona State University **Project Name:** Classroom and Academic Renovations

Project Description and Location: This project bundle includes the renovation of approximately 30,750 gross square feet of classrooms and academic space, including faculty and student space at all campuses. Building components such as HVAC, plumbing, electrical systems, flooring, ceilings, interior and exterior paint, roofs, windows, doors, internal walls and partitions, elevators, and fire prevention equipment may be upgraded in this project.

Project Schedule:

Planning	January	2016
Design	July	2016
Construction Start	December	2016
Construction Completion	December	2019

Project Budget:

Total Project Cost	$ 10,000,000
Total Project Construction Cost	$ 6,500,000
Total Project Cost per GSF	$ 325
Construction Cost per GSF	$ 211

Change in Annual O & M Cost:

Utilities	$
Personnel	
All Other Operating	
Subtotal	$ 0

Funding Sources:

Capital

A. System Revenue Bonds	$ 10,000,000
Debt Service Funding Sources:	Tuition

Operation/Maintenance Funding Sources:	$ 0

EXECUTIVE SUMMARY

Capital Project Budget Summary

University: Arizona State University | **Project:** Classrooms and Academic Renovations

	Capital Development Plan	Project Approval
Capital Costs		
1. Land Acquisition		
2. Construction Cost		
A. New Construction		
B. Tenant Improvements	5,300,000	
C. Special Fixed Equipment	1,000,000	
D. Site Development (excl. 2.E.)		
E. Parking and Landscaping		
F. Utilities Extensions		
G. Other* (Demolition/abatement)	200,000	
Subtotal Construction Cost	$ 6,500,000	$ -
3. Fees		
A. CMAR Pre-Construction	$ 97,500	
B. Architect/Engineer	780,000	
C. Other	91,660	
Subtotal Consultant Fees	$ 969,160	$ -
4. FF&E Movable	$ 325,000	
5. Contingency, Design Phase	650,000	
6. Contingency, Constr. Phase	650,000	
7. Parking Reserve		
8. Telecommunications Equipment	455,000	
Subtotal Items 4-8	$ 2,080,000	$ -
9. Additional University Costs		
A. Surveys, Tests, Haz. Mat. Abatement		
B. Move-in Costs	8,840	
C. Printing Advertisement		
D. Keying, signage, facilities support	50,000	
E. Project Management Cost	358,680	
F. State Risk Mgt. Ins. (.0034 **)	33,320	
Subtotal Addl. Univ. Costs	$ 450,840	$ -
Total Capital Cost	$ 10,000,000	$ -

* Universities shall identify items included in this category

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

Arizona Board of Regents
Arizona State University
Capital Development Plan Project Justification Report
Research Laboratory/Faculty Startup

Previous Board Action:

- FY 2018-2019 Capital Improvement Plan — September 2015

Statutory/Policy Requirements

- ABOR Policy 7-109 requires approval of renovation or infrastructure projects with a total project cost over $5 million before contracts can be executed and construction can begin.

Project Justification/Description/Scope

- The Research Laboratory/Faculty Startup projects bundle will involve the renovation of approximately 30,000 gross square feet of laboratories to meet the needs of new and current research requirements within existing facilities. Multiple wet and dry lab spaces will be upgraded, as well as infrastructure and building systems, in order to maximize adaptable and flexible technologies. Renovation activities will involve building systems such as HVAC, mechanical, fume hoods, lab gas lines, electrical, and code-required life safety upgrades.

- Many existing University laboratories and building systems are inadequate, due to age and the requirements of emerging technologies. The poor condition of the spaces and age of the building systems constrain the development of these strategically important areas. This project will ensure facility systems can meet research demands and will keep areas within code compliance. It will convert inadequate classroom laboratories, research laboratories and research building systems to state-of-the-art research facilities.

- Increasing research activity and the resultant arrival of new faculty continue to make laboratory renovation projects an imperative. Spaces must be updated and renovated for the needs of incoming researchers and successful grant applications. These laboratories will provide the core infrastructure from which faculty and students can compete in the global marketplace of ideas, stimulating not only advances in science and human health needs, but potentially stimulating the regional economy.

- The 2012 campus master plan update identified a need for additional research space totaling 350,000 gross square feet. This project will contribute to meeting this need.

Project Delivery Method and Process:

- Depending on the nature of the work, components of this project may be delivered through either the CMAR or Job Order Contracting (JOC) methods.

- ASU has not yet selected a CMAR, JOC contractor or design professional firm for any components of this project bundle. Contractors, and design professionals will be selected according to ABOR policy and Arizona law.

Project Status and Schedule

- Design Professionals (DPs) will be selected after CDP approval. Design will be complete approximately six to nine months after the DP contract is awarded.

- General construction is scheduled to begin when design is complete and after all approvals are in place. Construction on all project components will be completed by 2019.

Project Cost

- The budget for this project bundle is $15,000,000.

- The budget represents an estimated construction cost of $325 per gross square foot. The estimated total project cost is $500 per gross square foot.

- For this Capital Development Plan phase, no preliminary external cost estimates have been provided by third-party consultants. DP and CMAR or JOC contractor teams have not yet been selected for these project components. Independent cost estimates will be provided by the DP, CMAR or JOC contractor after these selections are complete.

- For project components selected to use the CMAR delivery method, the CMARs will be at risk to provide the completed project within the agreed-upon Guaranteed Maximum Price (GMP). A final report on project control procedures, including change orders and contingency use, will be provided at project completion.

Fiscal Impact and Financing Plan:

- The $15.0 million project budget bundle will be funded with system revenue bonds. Debt service will be paid from tuition.

- There are no expected increases in operation and maintenance costs for this project bundle.

- **Debt Ratio Impact**: The projected incremental debt ratio impact for this project bundle is 0.05 percent.

Occupancy Plan

- These project components will not affect occupancy or programs, but will renew research spaces.

EXECUTIVE SUMMARY

Capital Project Information Summary

University: Arizona State University **Project Name:** Research Laboratory/Faculty Startup

Project Description and Location: **The** Research Laboratory/Faculty Startup project bundle will involve the renovation of approximately 30,000 gross square feet of laboratories to meet the needs of new and current research requirements within existing facilities.

Project Schedule:

Planning	January	2016
Design	June	2016
Construction Start	January	2017
Construction Completion	December	2019

Project Budget:

Total Project Cost	$ 15,000,000
Total Project Construction Cost	$ 9,760,000
Total Project Cost per GSF	$ 500
Construction Cost per GSF	$ 325

Change in Annual O & M Cost:

Utilities	$
Personnel	
All Other Operating	
Subtotal	$ 0

Funding Sources:

Capital

A. System Revenue Bonds $ 15,000,000
Debt Service Funding Sources: Tuition

Operation/Maintenance $ 0
Funding Sources:

EXECUTIVE SUMMARY

Capital Project Budget Summary

University: Arizona State University

Project: Research Laboratory/Faculty Startup

	Capital Development Plan	Project Approval
Capital Costs		
1. Land Acquisition		
2. Construction Cost		
A. New Construction		
B. Tenant Improvements	7,260,000	
C. Special Fixed Equipment	2,000,000	
D. Site Development (excl. 2.E.)		
E. Parking and Landscaping		
F. Utilities Extensions		
G. Other* (Demolition/abatement)	500,000	
Subtotal Construction Cost	$ 9,760,000	$ -
3. Fees		
A. CMAR Pre-Construction	$ 146,400	
B. Architect/Engineer	1,171,200	
C. Other	50,000	
Subtotal Consultant Fees	$ 1,367,600	$ -
4. FF&E Movable	$ 650,000	
5. Contingency, Design Phase	976,000	
6. Contingency, Constr. Phase	976,000	
7. Parking Reserve		
8. Telecommunications Equipment	650,000	
Subtotal Items 4-8	$ 3,252,000	$ -
9. Additional University Costs		
A. Surveys, Tests, Haz. Mat. Abatement		
B. Move-in Costs	8,772	
C. Printing Advertisement		
D. Keying, signage, facilities support	50,000	
E. Project Management Cost	528,444	
F. State Risk Mgt. Ins. (.0034 **)	33,184	
Subtotal Addl. Univ. Costs	$ 620,400	$ -
Total Capital Cost	$ 15,000,000	$ -

* Universities shall identify items included in this category

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

11A

STATE OF ARIZONA

Joint Committee on Capital Review

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DATE: June 9, 2016

TO: Representative Justin Olson, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director RS

FROM: Patrick Moran, Fiscal Analyst PM

SUBJECT: University of Arizona – Review of Health Sciences Innovation Building

Request

A.R.S. § 15-1683 requires Committee review of any university projects financed with system revenue bonds. The University of Arizona (UA) requests Committee review of $165,000,000 in system revenue bond issuances to fund construction of the 212,000 square foot Health Sciences Innovation Building. The debt service payments will be funded by University of Arizona Health Science (UAHS) funds and other local funds.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the project.

2. An unfavorable review of the project.

Under either option, the JLBC Staff recommends the standard university financing provisions:

Standard University Financing Provisions

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

- UA shall provide the final debt service schedules for the project as soon as they are available.

(Continued)

Analysis
In accordance with its 3-year capital development plan, UA seeks to expand its Health Sciences Center by constructing the 212,000 square foot Health Sciences Innovation Building (HSIB) at the University of Arizona Health Sciences (UAHS), Tucson campus.

UA seeks to build HSIB to provide "inter-professional education" areas for students in medicine, nursing, pharmacy, and public health to foster greater collaboration across health disciplines. According to UA, current UAHS facilities do not meet space standards to facilitate group learning and collaboration. As a result, HSIB will feature flexible spaces that can support both team-based learning as well as large lectures. Such spaces will include "learning studios, small group spaces" as well as "classrooms that can flip from a standard lecture hall to a room that fosters creative interaction and collaborative engagement." UA believes such facilities will help meet increasing requirements from accrediting agencies to foster "inter-professional activities" in health sciences education.

HSIB would also feature a simulation center. The existing Arizona Simulation and Technology and Education Center (ASTEC) would be relocated from the UA College of Medicine and expanded in HSIB. According to UA, ASTEC allows health sciences' students to "learn, practice and assess their understanding of procedures in a high-tech, realistically simulated environment." The Simulation Center at HSIB is expected to account for 30,000 square feet of the 212,000 square feet in the building. The relocation of ASTEC and other health sciences' programs is expected to result in an estimated 35,000 square feet of vacant space in existing UAHS buildings.

UA plans to use the vacant space in existing UAHS buildings to provide additional space to programs that were affected by the Banner Health's Affiliation Agreement with the University Medical Center. Prior to February 2015, UA leased UAHS hospital buildings and land to the non-profit University Medical Center Corporation that managed the hospital. In January 2015, UA agreed to sell the hospital and additional land to the Banner Health Group that at that time merged with the University Medical Center Corporation. With the subsequent transfer ownership of the property, UA needs to relocate 120,000 square feet of programs that were situated in the University Medical Center.

HSIB would also include space for UAHS administration and the school's research center, as well as 10,000 square feet of shell space at the basement level to accommodate potential future research projects. An underground tunnel would also provide secure movement of UAHS staff and research subjects between HSIB and the BIO5 building and the planned Bioscience Research Laboratory.

<u>Financing</u>
UA intends to issue $165.0 million of 30-year, fixed rate system revenue bonds with a rating of Aa2 (Moody's)/AA-(S&P) at an estimated interest rate of 4.0% (UA reports that the actual rate shall not exceed 6.0%). In addition to project costs, issuance costs are projected to not exceed $1,358,000, for a total financing amount of $166.4 million. Based on the 4.0% interest rate, UA estimates debt service payments covering principal and interest at $9.6 million per year from FY 2017 to FY 2046, for a total debt service cost of $288.2 million. *(Please see Table 2 for a summary of the bond's financing terms.)*

UA will fund the debt service payments using UAHS Funds and local funds. UAHS funds include revenues from the Academic Enhancement Fund and the clinical revenues associated with the Affiliation Agreement with Banner Health. The Local Funds include indirect cost recoveries associated with research grants, as well auxiliary revenues from food services and concessions.

(Continued)

The Academic Enhancement Fund, which was developed as part of the Affiliation Agreement with Banner, is a $300 million endowed fund that provides $20 million annually for academic improvements, faculty recruitment, and program development at the Tucson and Phoenix Medical Schools. Academic Enhancement Fund revenues will fund a small portion of the HSIB debt service. For additional detail on UA's planned allocations of the Academic Enhancement Fund, please see Attachment A.

HSIB's debt service will increase UA's current debt ratio from 4.1% to 4.6%. The current 4.1% debt ratio is based on UA's actual FY 2015 debt service payments of $76.3 million as a percentage of total FY 2015 expenditures, or $1.86 billion. This debt ratio does not include the additional debt service costs of other projects pending JCCR review or those for which bonds were issued after FY 2015, nor growth in UA's total expenditures. UA estimates that the debt service for all planned projects will reach $103.8 million in FY 2019, or 4.38% of its projected $2.37 billion total expenditures in FY 2019.

Construction Costs

Of the $165.0 million total project cost, direct construction costs (excluding items such as design and project management costs) are $124.0 million. As shown in *Table 1* below, total project costs per square foot are $778, while direct construction costs per square foot are $585. Construction costs for "comparable projects" identified by UA averaged $610 per square foot. The comparable projects include the UA Health Sciences Education Building in Phoenix ($504), the University of Virginia Claude Moore Medical Education Building ($674), and the University of Pennsylvania Neural and Behavioral Sciences Building ($652). The project's completion date is July 2018, and the Construction Manager at Risk (CMAR) will complete the project under the guaranteed maximum price arrangement with UA.

Operations and Maintenance Costs

UA estimates that annual operations and maintenance costs for HSIB will total $1.8 million. Utilities and personnel will comprise the majority of this expense, costing $701,200 and $727,400, respectively. UA intends to use UAHS funds and other local funds to cover operations and maintenance.

Table 1

UA Health Sciences Innovation Building

Total Square Footage	212,000	
Funding		
System Revenue Bonds 1/	$165,000,000	
Costs		
Direct Construction Costs 2/	$124,000,000	($585 per sq. ft.)
Other Costs 3/	41,000,000	($193 per sq. ft.)
Total	**$165,000,000**	**($778 per sq. ft.)**
Annual Operations & Maintenance 4/		
Utilities	$701,200	
Personnel	727,400	
Other	349,900	
Total	**$1,778,500**	

1/ Annual debt service payments on $165 million principal are estimated at $9.6 million from FY 2017 - FY 2046 based on 4.0% interest rate for a total debt service cost of $288.2 million.
2/ Includes $8 million to build a secure transportation corridor to other UAHS facilities and excavation for basement shell space.
3/ Includes, equipment, furniture, project design and management fees, and other costs.
4/ Operations and maintenance costs to be funded by UAHS funds and other local funds.

(Continued)

Table 2

UA Health Sciences Innovation Building Financing Terms

Issuance Amount	$165.0 million (not to exceed)
Issuance Date	Summer 2016
Issuance Transaction Fees	$1,358,000 (not to exceed)
Rating	Aa2 (Moody's) / AA- (S&P)
Interest Rate	4.0% (not to exceed 6.0%)
Term	30 years
Total Debt Costs	$288.2 million
Debt Service Payments (at 4.0%)	$9.6 million
Payment Source	UAHS Funds and Local Funds
Debt Ratio Increase	0.44%
Construction Start	June 2016

RS/PM:kp

The University of Arizona
Health Sciences

Academic Enhancement Fund
December 2015

	UA BH	FY15 Year 1	FY16 Year 2	FY17 Year 3	FY18 Year 4	FY19 Year 5	FY20 Year 6	FY21 Year 7	FY22 Year 8	FY23 Year 9	FY24 Year 10	FY25 Year 11	FY26 Year 12	12-Year Total
		20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	240,000,000
Planned Commitments														
Assoc. Dean for Research	COM-P	$0	$0	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$2,500,000
* Asthma & Airway Disease Research Center	COM-P	$0	$0	$475,000	$475,000	$475,000	$475,000	$475,000	$475,000	$475,000	$475,000	$475,000	$475,000	$4,750,000
* Center for Border Health	COM-P	$0	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$2,750,000
* Center for Disparities in Diabetes, Obesity & Metabolism	COM-P	$0	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$2,750,000
* Center for Innovation in Brain Science	COM-P	$0	$1,325,000	$1,325,000	$1,325,000	$1,325,000	$1,325,000	$1,325,000	$1,325,000	$1,325,000	$1,325,000	$1,325,000	$1,325,000	$14,575,000
Department of Medicine	COM-P	$0	$500,000	$1,000,000	$2,000,000	$2,000,000	$3,000,000	$3,000,000	$3,000,000	$3,000,000	$3,000,000	$3,000,000	$1,000,000	$24,500,000
Department of Translational Neurosciences	COM-P	$0	$0	$1,000,000	$1,500,000	$1,500,000	$2,000,000	$2,000,000	$2,000,000	$2,000,000	$2,000,000	$2,000,000	$1,000,000	$17,000,000
Facilities Capital Planning (Debt Financing, Renovations)^	COM-P	$0	$1,625,000	$1,625,000	$1,625,000	$1,625,000	$1,625,000	$1,625,000	$1,625,000	$1,625,000	$1,625,000	$1,625,000	$1,625,000	$17,875,000
Next Big Thing(s)	COM-P	$0	$0	$125,000	$625,000	$875,000	$1,125,000	$1,850,000	$2,100,000	$3,600,000	$3,600,000	$3,600,000	$3,075,000	$20,575,000
Research Bridge Funding	COM-P	$0	$100,000	$100,000	$100,000	$100,000	$100,000	$100,000	$100,000	$100,000	$100,000	$100,000	$250,000	$1,250,000
* Asthma & Airway Disease Research Center	COM-T	$0	$0	$475,000	$475,000	$475,000	$475,000	$475,000	$475,000	$475,000	$475,000	$475,000	$475,000	$4,750,000
* Center for Border Health	COM-T	$0	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$2,750,000
* Center for Disparities in Diabetes, Obesity & Metabolism	COM-T	$0	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$2,750,000
* Center for Innovation in Brain Science	COM-T	$0	$1,325,000	$1,325,000	$1,325,000	$1,325,000	$1,325,000	$1,325,000	$1,325,000	$1,325,000	$1,325,000	$1,325,000	$1,325,000	$14,575,000
Department of Family & Community Medicine (M. Muramoto)	COM-T	$0	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$250,000	$10,250,000
Department of Medicine (M. Kraft)	COM-T	$0	$1,250,000	$1,250,000	$1,250,000	$1,250,000	$1,250,000	$1,250,000	$1,250,000	$1,250,000	$1,250,000	$1,250,000	$500,000	$13,000,000
Department of Surgery (L. Neumayer)	COM-T	$0	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$250,000	$10,250,000
Facilities Capital Planning (Debt Financing, Renovations)#	COM-T	$0	$1,625,000	$1,625,000	$1,625,000	$1,625,000	$1,625,000	$1,625,000	$1,625,000	$1,625,000	$1,625,000	$1,625,000	$1,625,000	$17,875,000
Next Big Thing(s)	COM-T	$0	$0	$125,000	$625,000	$875,000	$1,125,000	$1,850,000	$2,350,000	$3,350,000	$3,350,000	$3,350,000	$3,325,000	$20,325,000
Research Bridge Funding	COM-T	$0	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$2,750,000
UA Cancer Center (A. Kraft)	COM-T	$0	$2,000,000	$2,000,000	$2,000,000	$2,000,000	$2,000,000	$2,000,000	$2,000,000	$2,000,000	$2,000,000	$2,000,000	$1,000,000	$21,000,000
SVP Strategic Initiatives	COM-T/CO	$0	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$11,000,000
Total Commitment		**$0**	**$14,000,000**	**$16,950,000**	**$19,450,000**	**$19,950,000**	**$21,950,000**	**$23,400,000**	**$24,150,000**	**$26,650,000**	**$26,650,000**	**$26,650,000**	**$20,000,000**	**$239,800,000**
Balance Available		**$20,000,000**	**$26,000,000**	**$29,050,000**	**$29,600,000**	**$29,650,000**	**$27,700,000**	**$24,300,000**	**$20,150,000**	**$13,500,000**	**$6,850,000**	**$200,000**	**$200,000**	

Summary by Unit	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY25	FY25	12-Year Total	% of Total	% of Total (FY25 - Year 12)
College of Medicine (Phoenix)	$0	$4,050,000	$6,400,000	$8,400,000	$8,650,000	$10,400,000	$11,125,000	$11,375,000	$12,875,000	$12,875,000	$12,875,000	$9,500,000	$108,525,000	45.3%	47.5%
College of Medicine (Tucson)	$0	$8,950,000	$9,550,000	$10,050,000	$10,300,000	$10,550,000	$11,275,000	$11,775,000	$12,775,000	$12,775,000	$12,775,000	$9,500,000	$120,275,000	50.2%	47.5%
SVP Strategic Initiatives COM-T/COM-P	$0	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$11,000,000	4.6%	5.0%
Total Commitment	**$0**	**$14,000,000**	**$16,950,000**	**$19,450,000**	**$19,950,000**	**$21,950,000**	**$23,400,000**	**$24,150,000**	**$26,650,000**	**$26,650,000**	**$26,650,000**	**$20,000,000**	**$239,800,000**		

* Cross college Centers of Excellence designed to maximize programmatic collaboration, campus-based expertise and B-UMD patient-base

^ Projected projects include HSEB & BPB build-out (shell space)

\# Projected projects include Health Sciences Library, HSIB, Bldg. 201

Attachment A

THE UNIVERSITY OF ARIZONA
Business Affairs

SENIOR VICE PRESIDENT FOR
BUSINESS AFFAIRS AND
CHIEF FINANCIAL OFFICER

Administration Building Room 712
P.O. Box 210066
Tucson, AZ 85721-0066
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Fax: 520-621-7714

June 3, 2016

The Honorable Don Shooter, Chairman
Joint Committee on Capital Review
House of Representatives
1716 West Adams
Phoenix, Arizona 85007

Dear Senator Shooter,

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

The University of Arizona Health Sciences Innovation Building (HSIB)

The proposed 212,000 gross square feet (GSF) Health Sciences Innovation Building (HSIB) will serve the needs of UAHS and the community at large. The proposed facility will provide a state-of-the-art inter-professional education and simulated practice facility for medical, nursing, pharmacy, and public health education. The proximity of the existing BIO5 Institute, Medical Research Building and the planned Bioscience Research Laboratories Building, will foster multi-disciplinary collaborations across campus and will serve as a unique place for productive interactions between inter-professional teams of health professions and students and faculty. Construction would start after ABOR approval and JCCR review.

This project will also include excavation of approximately 10,000 gsf at the basement level to allow for future research space. The excavation and construction of cold shell space can be developed as needed in the future to support the University's research enterprise.

Bond Summary

The UA intends to finance the $165 million Health Sciences Innovation Building project by selling System Revenue Bonds. The estimated annual debt service is $9.6 million based on a 30 year maturity and an estimated 4% interest rate based on current market conditions. Operations and maintenance (O&M) costs for this project are estimated at $1.8 million annually. The University will fund the debt service on the Bonds and the O&M costs with the UAHS and local funds. The University's current operating resources have the capacity to pay for the debt service on the Bonds and operating and maintenance costs.

Enclosed is the ABOR Project Approval submittal, System Revenue Bonds Amortization Schedule and Summary of Financing Information.

The Honorable Don Shooter, Chairman
Joint Committee on Capital Review
June 3, 2016
Page Two

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

Sincerely,

Gregg Goldman
Senior VP for Business Affairs and Chief Financial Officer

Attachments: ABOR Project Approval submittal, System Revenue Bonds Amortization Schedule and Summary of Financing Information

xc: Tim Bee, Senior Associate Vice President, Legislative and Community Relations, UA
Dr. Ann Weaver Hart, President, UA
Eileen I. Klein, President, Arizona Board of Regents
Duc Ma, Interim Associate Vice President, Financial Services, UA
Art Smith, JLBC Analyst
Lorenzo Martinez, Associate Vice President for Finance and Administration, ABOR
Robert Smith, Vice President for Business Affairs, UA
Richard Stavneak, Director, JLBC

EXECUTIVE SUMMARY

Item Name: **Health Sciences Innovation Building (formerly SIPHER) Project and Financing Issuance Approval (UA)**

☐ Committee Recommendation to Full Board
☒ Full Board Approval

Issue: The University of Arizona asks the board for Project Approval of the $165 million, 212,000 square foot, Health Sciences Innovation Building project (previously submitted as SIPHER in the November 19-20, 2015 CDP) and Financing Approval to (a) sell one or more series of System Revenue Bonds (Bonds) in an amount not to exceed $166.4 million to finance the Health Sciences Innovation Building and the costs of issuance, (b) to sell such Bonds at a price at, above, or below par, on a tax exempt or taxable basis, and at fixed rates of interest; and (c) to take related actions, enter into necessary agreements and to execute all necessary documents. The debt service on the Bonds, of an estimated $9.6 million per year, will be paid over approximately 30 years from the University of Arizona Health Science (UAHS) funds and local funds. The proposed budget includes a $2 million increase over the CDP budget submitted to support an additional 10,000 gsf of basement excavation and shell space for future build-out.

Previous Board Action

- Capital Development Plan Revised FY 2016 — November 2015
- Capital Improvement Plan FY 2017-2019 — September 2015

Enterprise or University Strategic Plan

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

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JOINT BUDGET COMMITTEE

Statutory/Policy Requirements

- ABOR Policy 7-109 requires approval of new construction projects with a total project cost over $10 million before contracts can be executed and construction can begin.

Contact Information:
Gregg Goldman, Senior Vice President and CFO, (520) 621-5977, ggoldman@email.arizona.edu

- ABOR Policy 7-102 requires approval of the issuance of bonds, lease-purchase agreements, certificates of participation issuance, or any debt instrument.

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

- Arizona Revised Statute 15-1683 A. 1 (b) requires the project to be acquired with the proceeds of the bonds to be reviewed by the Joint Committee on Capital Review.

Project Justification/Description/Scope

- The proposed 212,000 gross square feet (GSF) Health Sciences Innovation Building (HSIB) will serve the needs of UAHS and the community at large. The proposed facility will provide a state-of-the-art inter-professional education and simulated practice facility for medical, nursing, pharmacy, and public health education. The proximity of the existing BIO5 Institute, Medical Research Building and the planned Bioscience Research Laboratories Building, will foster multi-disciplinary collaborations across campus and will serve as a unique place for productive interactions between inter-professional teams of health professions and students and faculty.

- Office space for the Health Sciences administration and several of their research centers is included in the building square footage.

- To further utilize this proximity nexus, a separate connectivity corridor will facilitate the safe and secure movement of University staff and research subjects within portions of the UAHS campus.

- This project will also include excavation of approximately 10,000 gsf at the basement level to allow for future research space. The excavation and construction of cold shell space can be developed as needed in the future to support the University's research enterprise.

- This new facility will help attract the best and the brightest health sciences students from Arizona and beyond, increase enrollment in the health sciences, bring new talented faculty to the UA and support retention of our most innovative faculty.

- The HSIB will be constructed in conformance to UA Design & Specification Standards to minimize operations and maintenance costs and to maximize the

EXECUTIVE SUMMARY

University's long-term investment. It will be constructed of high-quality, durable, maintainable materials and systems to maximize energy efficiency and minimize operational, repair and replacement costs.

Project Delivery Method and Process

- This project will be delivered through the Construction Manager at Risk (CMAR) method. This approach was selected for the project because it can save time and cost through fast-track project scheduling, provide contractor design input and coordination throughout the project, improve potentially adversarial project environments and allow for the selection of the most qualified contractor leadership team for this project. With the use of independent cost estimates at each phase, qualified trade partner sub-contractor team members and low-bid subcontractor pricing for the actual construction work, this method also provides a high level of quality and cost control.
- The CMAR has been selected through the capital project selection committee process prescribed by the ABOR Procurement Code. A licensed contractor was included on the selection committee as required by ABOR policy. The design team has been selected through a similar ABOR Selection Committee process.

Project Status and Schedule

- Design Development and Construction Documents are being completed concurrently in order to facilitate a fast-track project delivery.
- Construction is scheduled to start in late June, 2016.
- Project construction would be completed in 2018 for the start of the 2018 UAHS College of Medicine semester.

Project Cost

- The total project budget is $165 million. This includes $8 million allocated to basement shell space and a secure corridor. The construction cost of HSIB is estimated at $116 million.

Fiscal Impact and Financing Plan:

- The UA intends to finance the $165 million Health Sciences Innovation Building project by selling System Revenue Bonds. The estimated annual debt service is

EXECUTIVE SUMMARY

$9.6 million based on a 30 year maturity and an estimated 4% interest rate based on current market conditions. Operations and maintenance (O&M) costs for this project are estimated at $1.8 million annually. The University will fund the debt service on the Bonds and the O&M costs with the UAHS and local funds. The University's current operating resources have the capacity to pay for the debt service on the Bonds and operating and maintenance costs.

- **Debt Ratio Impact:** The estimated annual debt service of $9.6 million for this project would increase the UA's debt ratio by .44%. The projected highest debt ratio is 4.98%, well below the 8% ABOR policy and statutory limitation.

- The UA intends to utilize a financial advisor, a bond counsel, and a bond trustee previously approved by the board. The Bonds will be marketed and sold on a negotiated basis to one or more investment banking firms previously approved by the board.

- The University plans to issue the long-term financing for the project by the end of calendar year 2016. The table below shows the anticipated pricing parameters for the long-term financing:

Item		Comments
Project Costs	$165 million	Not to exceed amount
Issuance Costs (not to exceed)	$ 1.4 million	Not to exceed amount
Credit Enhancement/Insurance Cost	TBD	Only executed if provides benefit that exceeds cost of insurance
Fixed Interest Rate (anticipated rate /not to exceed rate)	4%/6%	Not to exceed based on maximum the UA is willing to pay
Maturity Range	2017 - 2046	Final maturity is June 1, 2046
Average Instrument Life	18.31 years	Approximately 30 year financing period

EXECUTIVE SUMMARY

Occupancy Plan

- HSIB is programmed to provide educational space for Medicine, Nursing, Pharmacy and Public Health. This will include both large and small learning studios, specialized medical environments and information commons spaces. The building will also provide offices for Health Sciences staff in the research and administrative areas. The Health Sciences Bookstore will locate into HSIB, and there will be space in the basement dedicated to Animal Care. The majority of the building will be new program; however, some relocated functions will leave space open in other buildings. These spaces will be back-filled in accordance with the plans being developed to coordinate facility occupancy with changes occurring due to the Banner – University Medical Center negotiations.

Committee Review and Recommendation

The Business and Finance Committee reviewed this item at its June 8, 2016 meeting and recommended forwarding the item to the full board for approval.

Requested Action

The University of Arizona (UA) asks the board to provide Project Approval and Financing Approval for Health Sciences Innovation Building (HSIB), as presented in this Executive Summary.

EXECUTIVE SUMMARY

Capital Project Information Summary

University: The University of Arizona

Project Name: Health Sciences Innovation Building

Project Description/Location:

The proposed 212,000 gsf Health Sciences Innovation Building (HSIB) would provide state-of-the-art inter-professional education and simulated practice for health related professions. This building is appropriately located proximate to the Medical Research Building, BIO5, Keating and the planned UAHS Bioscience Research Laboratories Building in the Land-Use Zone identified in the Comprehensive Campus Plan for research and education programs.

Project Schedule (Beginning Month/Year):

Planning	May 2015
Design	November 2015
Construction	June 2016
Occupancy	July 2018

Project Budget:

Total Project Cost (excludes $8m shell/corridor)	$157,000,000
Total Project Cost per GSF - HSIB	$741
Direct Construction Cost - HSIB	$116,000,000
Construction Cost per GSF - HSIB	$547
Change in Annual Oper./Maint. Cost	
Utilities	$701,200
Personnel	$727,400
Other	$349,900

Funding Sources:

Capital:	
• System Revenue Bonds (Debt service paid by UAHS and local funds)	$165,000,000
Operation/Maintenance:	
• UAHS and local funds	$1,778,500

EXECUTIVE SUMMARY

Capital Project Budget Summary

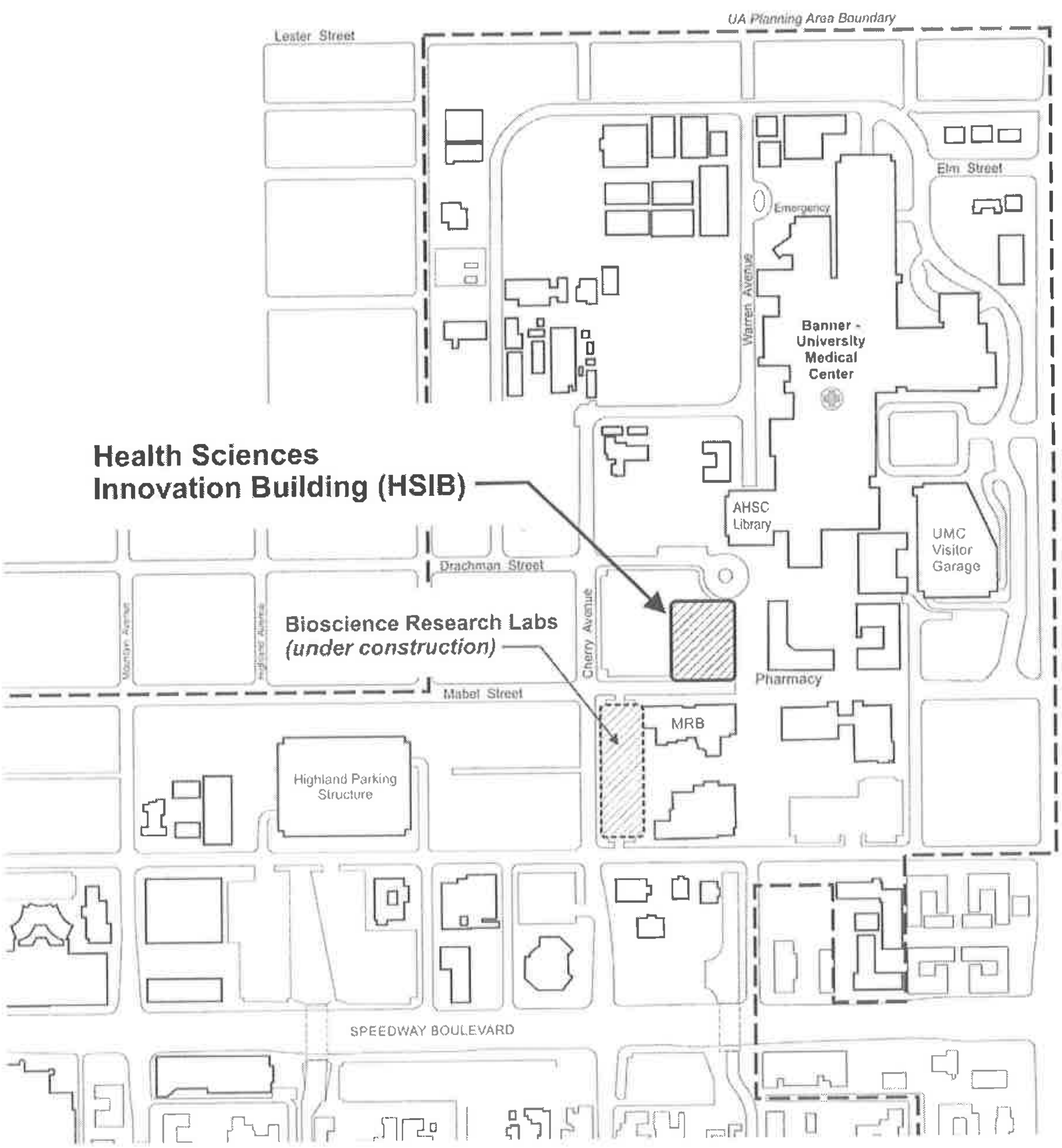
University: The University of Arizona

Project Name: Health Sciences Innovation Building

	Capital Development Plan Approval		Project Approval	
Date of Budget Estimate		November 2015		June 2016
1. Land Acquisition (Basement Shell and Secure Transportation Corridor)	$	6,000,000	$	8,000,000
2. Construction Cost				
A. New Construction		114,815,000		115,700,000
B. Renovation		0		0
C. Fixed Equipment		264,000		300,000
D. Site Development (exclude 2.E.)		In 2A		In 2A
E. Parking & Landscaping		In 2A		In 2A
F. Utilities Extensions		In 2A		In 2A
G. Other (escalation)		21,000		0
Subtotal Construction Cost	$	115,100,000	$	116,000,000
3. Consultant Fees				
A. Construction Manager		1,036,000		1,200,000
B. Architect/Engineering Fees		10,704,000		11,300,000
C. Other (Programming, Special Conslt.)		1,611,000		700,000
Subtotal Consultant Fees	$	13,351,000	$	13,200,000
4. Furniture Fixtures and Equipment		9,680,000		9,750,000
5. Contingency, Design Phase		4,604,000		2,500,000
6. Contingency, Construction Phase		5,755,000		6,000,000
7. Parking Reserve		2,130,000		1,300,000
8. Telecommunications Equipment		1,842,000		2,000,000
Subtotal Items 4-8	$	24,011,000	$	21,550,000
9. Additional University Costs				
A. Surveys and Tests		1,118,000		1,250,000
B. Move-in Costs		50,000		60,000
C. Public Art		0		0
D. Printing/Advertisement		20,000		40,000
E. Univ. Facilities & Project Management		2,850,000		4,330,000
F. State Risk Mgt. Ins		500,000		570,000
Subtotal Additional University Costs	$	4,538,000	$	6,250,000
TOTAL CAPITAL COST	$	163,000,000	**$**	**165,000,000**

EXECUTIVE SUMMARY

Project Site Location Map



Joint Committee on Capital Review
June 16, 2016 JCCR Meeting
University of Arizona Projects Submission

Health Sciences Innovation Building
System Revenue Bonds
Amortization Schedule

Period Ending	Annual Principal	Annual Interest	Annual Debt Service
6/1/2017	2,730,000	6,099,867	8,829,867
6/1/2018	3,090,000	6,545,200	9,635,200
6/1/2019	3,210,000	6,421,600	9,631,600
6/1/2020	3,340,000	6,293,200	9,633,200
6/1/2021	3,475,000	6,159,600	9,634,600
6/1/2022	3,615,000	6,020,600	9,635,600
6/1/2023	3,760,000	5,876,000	9,636,000
6/1/2024	3,910,000	5,725,600	9,635,600
6/1/2025	4,065,000	5,569,200	9,634,200
6/1/2026	4,230,000	5,406,600	9,636,600
6/1/2027	4,395,000	5,237,400	9,632,400
6/1/2028	4,575,000	5,061,600	9,636,600
6/1/2029	4,755,000	4,878,600	9,633,600
6/1/2030	4,945,000	4,688,400	9,633,400
6/1/2031	5,145,000	4,490,600	9,635,600
6/1/2032	5,350,000	4,284,800	9,634,800
6/1/2033	5,565,000	4,070,800	9,635,800
6/1/2034	5,785,000	3,848,200	9,633,200
6/1/2035	6,015,000	3,616,800	9,631,800
6/1/2036	6,260,000	3,376,200	9,636,200
6/1/2037	6,510,000	3,125,800	9,635,800
6/1/2038	6,770,000	2,865,400	9,635,400
6/1/2039	7,040,000	2,594,600	9,634,600
6/1/2040	7,320,000	2,313,000	9,633,000
6/1/2041	7,615,000	2,020,200	9,635,200
6/1/2042	7,920,000	1,715,600	9,635,600
6/1/2043	8,235,000	1,398,800	9,633,800
6/1/2044	8,565,000	1,069,400	9,634,400
6/1/2045	8,905,000	726,800	9,631,800
6/1/2046	9,265,000	370,600	9,635,600
	166,360,000	121,871,067	288,231,067

Joint Committee on Capital Review
June 16, 2016 JCCR Meeting
University of Arizona Project Submission

Summary of Financing Information:

Health Sciences Innovation Building System Revenue Bonds

Issuance amount (anticipated)	$ 166,360,000
Estimated Cost of Issuance	$ 1,358,000
Anticipated interest rate	4.0%
Payment term:	Approximately 30 years

Fund Source for debt payment:	UA Health Science Funds/Local Funds	
Annual debt service (by fund source):		
Principal & Int. FY17 - FY46 (Ave.)	UA Health Science Funds/Local Funds	$ 9,635,000
Total debt service through maturity	UA Health Science Funds/Local Funds	$288,232,000
Anticipated date of issuance	Summer 2016	
Expected bond rating	AA- (S & P) and Aa2 (Moody's)	

Debt Ratio Information:

Current projected debt ratio	4.54%
Increment debt ratio	0.44%
Projected highest debt ratio	4.98%

11B

STATE OF ARIZONA

Joint Committee on Capital Review

STATE SENATE

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HOUSE OF REPRESENTATIVES

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VINCE LEACH
ERIC MEYER, M.D.
STEVE MONTENEGRO

DATE: June 9, 2016

TO: Representative Justin Olson, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director RS

FROM: Micaela Larkin, Senior Fiscal Analyst ML

SUBJECT: University of Arizona - Review of Health Sciences Alvernon Way Project

Request

A.R.S. § 15-1683 requires Committee review of any university projects financed with system revenue bonds. The University of Arizona (UA) requests Committee review of $9,300,000 in system revenue bond issuances to purchase and renovate real property at 655 N Alvernon Way in Tucson to be used for UA programs previously located in the Banner University Medical Center. The debt service payments will be funded by University of Arizona Health Science (UAHS) funds and other local funds.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the project.

2. An unfavorable review of the project.

Under either option, the JLBC Staff recommends the standard university financing provisions:

Standard University Financing Provisions

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

- UA shall provide the final debt service schedules for the project as soon as they are available.

(Continued)

Analysis
UA seeks to purchase and renovate property at 655 N Alvernon Way to relocate UA programs that were previously located at the Banner University Medical Center Tucson hospital.

Prior to February 2015, UA leased the hospital buildings and land to the non-profit University Medical Center Corporation that managed the hospital. In January 2015, UA agreed to sell the hospital and additional land to the Banner Health Group that at that time merged with the University Medical Center Corporation. With the subsequent transfer of ownership of the property, UA needs to relocate 120,000 square feet of programs that were situated in the hospital.

UA seeks to purchase the Alvernon Way property to relocate some of the displaced programs into the 42,600 square foot building. The building is close to the hospital and other facilities. Since many of the physicians that work for the Banner University Medical Center also serve as medical instructors for the College of Medicine, this project will allow for the accommodation of the displaced programs to a building near the hospital and other medical buildings. The University currently leases space in the building for the Opthamology program, and they will remain in the building. The building will house the Family and Community Medicine department and other programs. Of the 42,600 square feet, the University estimates that displaced staff will occupy 25,500 square feet in the building. (*For further discussion of the relocation of UA programs that were previously housed in the now Banner University Medical Center, please see the UA Health Sciences Innovation Building memo.*) The University plans to buy and begin developing the property prior to the issuance of bonds in September 2016. They will use cash up front to purchase the property and then be reimbursed by the bond proceeds.

<u>Financing</u>
UA intends to issue $9.0 million of 20-year, fixed rate system revenue bonds with a rating of Aa2 (Moody's)/AA-(S&P) at an estimated interest rate of 4.0%. In addition to project costs, issuance costs are projected to not exceed $300,000, for a total financing amount of $9.3 million. Based on the 4.0% interest rate, UA estimates debt service payments covering principal and interest of approximately $685,000 per year from FY 2017 to FY 2036, for a total debt service cost of $13.7 million. *(Please See Table 2 for a summary of the bond's financing terms.)*

The Alvernon Way project's debt service will increase UA's current debt ratio slightly, but the debt ratio remains at 4.1%. The current 4.1% debt ratio is based on UA's actual FY 2015 debt service payments of $76.3 million as a percentage of total FY 2015 expenditures, or $1.86 billion. This debt ratio does not include the additional debt service costs of other projects pending JCCR review or those for which bonds were issued after FY 2015, nor growth in UA's total expenditures. UA estimates that the debt service for all planned projects will reach $103.8 million in FY 2019, or 4.38% of its projected $2.37 billion total expenditures in FY 2019.

UA will fund the debt service payments using UA Health Science funds and local funds. For this project, UA will utilize monies from debt savings resulting from prior refinancings, along with monies from the Academic Enhancement Fund established with the Banner transaction. As part of the Banner merger, the $300 million fund was established to provide $20 million per year for ongoing funding for academic enhancements, faculty recruitment, and program development.

(Continued)

Construction Costs

Of the $9.0 million total project cost, the cost of the purchase of the land is $2.6 million. This is at a cost of $60.46 per square foot. The purchase price was determined after 2 appraisals and represents the median between the 2 appraised values. UA estimates that the building renovation will cost $6.4 million. Of this amount, $4.9 million is directed for construction costs for direct repair and renovation costs. As shown in *Table 1*, total project costs per square foot are $211, while the construction costs per square foot is $116. The remaining $1.5 million is for indirect expenses. The project's completion date is a year after the purchase.

Operations and Maintenance Costs

UA estimates that annual operations and maintenance costs for the Alvernon Way project will total $311,000. UA intends to use UA Health Science funds and other local funds to cover operations and maintenance.

Table 1

Alvernon Way Project

Total Square Footage	42,600	
Funding		
System Revenue Bonds 1/	$9,000,000	
Costs		
Direct Construction Costs	$4,925,000	($ 116 per sq. ft.)
Property	$2,575,000	($ 60 per sq. ft.)
Other Costs 2/	$1,500,000	($ 35 per sq. ft.)
Total	**$9,000,000**	**($211 per sq. ft.)**
Annual Operations & Maintenance 3/		
Total	**$ 311,000**	

1/ Annual debt service payments on $9.3 million principal are estimated at $685,000 from FY 2017 - FY 2036 based on 4.0% interest rate for a total debt service cost of $13.7 million.
2/ Other Costs include permits, design fees, furniture, and other expenses.
3/ Operations and maintenance costs to be funded by UAHS funds and other local funds.

Table 2

Alvernon Way Project Financing Terms

Issuance Amount	$9.3 million (not to exceed)
Issuance Date	September 2016
Issuance Transaction Fees	$300,000 (not to exceed)
Rating	Aa2 (Moody's) / AA- (S&P)
Interest Rate	4.0% (not to exceed 6.0%)
Term	20 years
Total Debt Costs	$13.7 million
Debt Service Payments (at 4.0%)	$685,000
Payment Source	UAHS Funds and Local Funds
Debt Ratio Increase	0.03%
Construction Start	Summer 2016

RS/ML:kp

THE UNIVERSITY OF ARIZONA
Business Affairs

SENIOR VICE PRESIDENT FOR
BUSINESS AFFAIRS AND
CHIEF FINANCIAL OFFICER

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Fax: 520-621-7714

June 3, 2016

The Honorable Don Shooter, Chairman
Joint Committee on Capital Review
House of Representatives
1716 West Adams
Phoenix, Arizona 85007

Dear Senator Shooter,

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

Purchase of the real property located at 655 N. Alvernon Way, Tucson, AZ from Alvernon Place, LLC

The University of Arizona is required to relocate 120,000 square feet of UA programs from the existing Banner hospital building and from the designated footprint of the new nine story, 672,000 square foot replacement hospital tower. The University is purchasing 655 N. Alvernon Way early in the construction process to avoid any negative impacts on the hospital construction and minimize disruption to the affected University programs. The acquisition of 655 N. Alvernon Way is identified as the best and only effective option to accommodate a portion of the affected programs within close proximity to the University and Kino campus until the Banner Hospital is constructed. The University currently leases space in 655 N. Alvernon Way for our Ophthalmology program which is strategically located adjacent to 707 N. Alvernon Way owned by Banner Health for its Medicine Multispecialty Services. University programs that will occupy the building after the sale will benefit long term from the strategic location and the further enhanced collaborations between the University and Banner.

Bond Summary

UA intends to issue SRBs in the amount of $9,300,000 to fund the purchase and renovation of the real property located at 655 N. Alvernon Way, Tucson, Arizona and pay costs of issuance. The estimated annual debt service is $700,000. Operations and maintenance costs will be funded by Arizona Health Science funds and local funds. The University's current operating resources have the capacity to pay for the debt service on the Bonds and the O&M costs.

Enclosed is the ABOR Purchase/Financing Approval submittal, System Revenue Bonds Amortization Schedule and Summary of Financing Information.

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

Sincerely,

Gregg Goldman
Senior VP for Business Affairs and Chief Financial Officer

Attachments: ABOR Purchase/Financing submittal, System Revenue Bonds Amortization Schedule and Summary of Financing Information

xc: Tim Bee, Senior Associate Vice President, Legislative and Community Relations, UA
Dr. Ann Weaver Hart, President, UA
Eileen I. Klein, President, Arizona Board of Regents
Duc Ma, Interim Associate Vice President, Financial Services, UA
Art Smith, JLBC Analyst
Lorenzo Martinez, Associate Vice President for Finance and Administration, ABOR
Robert Smith, Vice President for Business Affairs, UA
Richard Stavneak, Director, JLBC

EXECUTIVE SUMMARY

Item Name: **Purchase of Real Property and Financing Approval for Purchase and Renovation Costs (UA)**

☐ Committee Recommendation to Full Board
☒ Full Board Approval

Issue:	The University of Arizona (UA) asks the board to approve the $9,000,000, purchase and renovation on 42,584 square foot of the real property located at 655 N. Alvernon Way, Tucson, Arizona, from Alvernon Place, L.L.C. and financing approval to (a) sell one or more series of System Revenue Bonds (Bonds) in an amount not to exceed $9,300,000 to finance the real property purchase and renovation, and pay costs of issuance, (b) to sell such Bonds at a price at, above, or below par, on a tax exempt or taxable basis, and at fixed rates of interest; and (c) to take related actions, enter into necessary agreements and to execute all necessary documents. The debt service on the Bonds, of an estimated $700,000 per year, will be paid over approximately 20 years by Arizona Health Science funds and local funds.

Enterprise or University Strategic Plan

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

Statutory/Policy Requirements

- ABOR Policy 7-102 requires approval of the issuance of bonds, lease-purchase agreements, certificates of participation issuance, or any debt instrument.
- ABOR Policy 7-203 requires board approval of purchases of real property over $500,000.
- ABOR Policy 7-203 requires that a request for authorization to purchase real property include a legal description of the real property.

Contact Information:
Gregg Goldman, Senior Vice President for Business Affairs and CFO, 520.521.5977, ggoldman@email.arizona.edu

- ABOR Policy 7-206 requires two appraisals for the purchase of real property with an anticipated sale price over $1,000,000. All appraisals shall be independent, unilaterally requested and paid for by the University.

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

Background

- The University of Arizona is required to relocate 120,000 square feet of UA programs from the existing Banner hospital building and from the designated footprint of the new nine story, 672,000 square foot replacement hospital tower.

- Although the University has space available to accommodate many of the programs being relocated as a result of the Banner construction, additional space is needed.

- The property located at 655 North Alvernon Way (the "Alvernon Property") consists of a 42,584 square foot office building located on 2.48 acres of land with 64 covered parking spaces.

- The purchase of the Alvernon Property will provide sufficient space to relocate all programs for which there is not space available on the University's main campus.

- By acquiring the Alvernon Property now, these programs will be able to relocate early in Banner's construction process, thereby minimizing the disruption to these programs from the adjacent construction and avoiding any negative impacts on Banner's hospital construction.

- The acquisition of the Alvernon Property has been identified as the best and only effective option to accommodate the relocated programs in a timely way and in close proximity to the University and Kino campus.

- The University currently leases space in the Alvernon Building for our Ophthalmology program, which will remain in the building after the University completes the acquisition.

- The Alvernon Property is strategically located adjacent to Banner-University Medicine Multispecialty Services at 707 N. Alvernon Way. University programs that will be relocated to the Alvernon Property will benefit from the enhanced collaboration made possible by the proximity to this Banner-University facility.

- It is anticipated that a $6,425,000 building renovation will be required to repair or replace aging or failing building systems and finishes, as needed for the use of relocated UA programs. Of this amount, $4,925,000 is expected to be in construction cost, and $1,500,000 in indirect expenses.

Discussion

- Alvernon Place, L.L.C. has agreed to sell the Alvernon Property to the University for $2,575,000, ($60.46/square foot).

- In accordance with board policy, two appraisals have been obtained for the Alvernon Property, and the proposed purchase price is between the two appraised values.

Fiscal Impact and Financing Plan:

- UA intends to issue SRBs in the amount of $9,300,000 to fund the purchase and renovation of the real property located at 655 N. Alvernon Way, Tucson, Arizona and pay costs of issuance. The estimated annual debt service is $700,000. Operations and maintenance (O&M) costs for the building are estimated at $311,000. Debt service on the bonds and the O&M costs will be funded by Arizona Health Science funds and local funds. The University's current operating resources have the capacity to pay for the debt service on the Bonds and the O&M costs.

- Debt Ratio Impact: UA's projected highest ratio of debt service to total expenditures is estimated at 5.01 percent, well below the 8.0 percent statutory maximum. The estimated annual debt service of $700,000 will increase the debt ratio by 0.03 percent.

- The UA intends to utilize a financial advisor, a bond counsel, and a bond trustee previously approved by the board. The SRBs will be marketed and sold on a negotiated basis to one or more investment banking firms previously approved by the board or through a direct sale of the SRBs to a bank or banks.

- The University plans to issue the long-term financing for the project by the end of calendar year 2016. The table below shows the anticipated pricing parameters for the long-term financing:

EXECUTIVE SUMMARY

Item		Comments
Project Costs	$9.0 million	Not to exceed amount
Issuance Costs (not to exceed)	$300 thousand	Not to exceed amount
Credit Enhancement/Insurance Cost	TBD	Only executed if provides benefit that exceeds cost of insurance
Fixed Interest Rate (anticipated rate/not to exceed rate)	4%/6%	Not to exceed based on maximum the UA is willing to pay
Maturity Range	2017 – 2036	Final maturity is June 1, 2036
Average Instrument Life	12.41	Approximately 20 year financing period

Exhibits

- Exhibit A – Legal Description
- Exhibit B – Location Map

Committee Review and Recommendation

The Business and Finance Committee reviewed this item at its June 8, 2016 meeting and recommended forwarding the item to the full board for approval.

Requested Action

The University of Arizona (UA) asks the board to provide purchase, renovation, and financing approval for the Alvernon Property in Tucson, Arizona, as presented in this Executive Summary.

EXHIBIT A
Legal Description

Lots 13, 14, 15 in Block 9 of SPEEDWAY VIEW ADDITION, according to the plat of record in the office of the County Recorder of Pima County, Arizona, recorded in Book 3 of Maps, page 107.

EXCEPTING that portion conveyed to the City of Tucson, a municipal corporation, by Deed dated March 28, 1990 and recorded in Docket 8771 at page 898, more particularly described as follows:

BEGINNING at the Northeast corner of said Lot 13;

THENCE South 00 degrees 50 minutes 49 seconds East along the East line of said Lot 13, a distance of 2.83 feet;

THENCE North 45 degrees 42 minutes 24 seconds West, a distance of 4.01 feet to a point on the North line of said Lot 13;

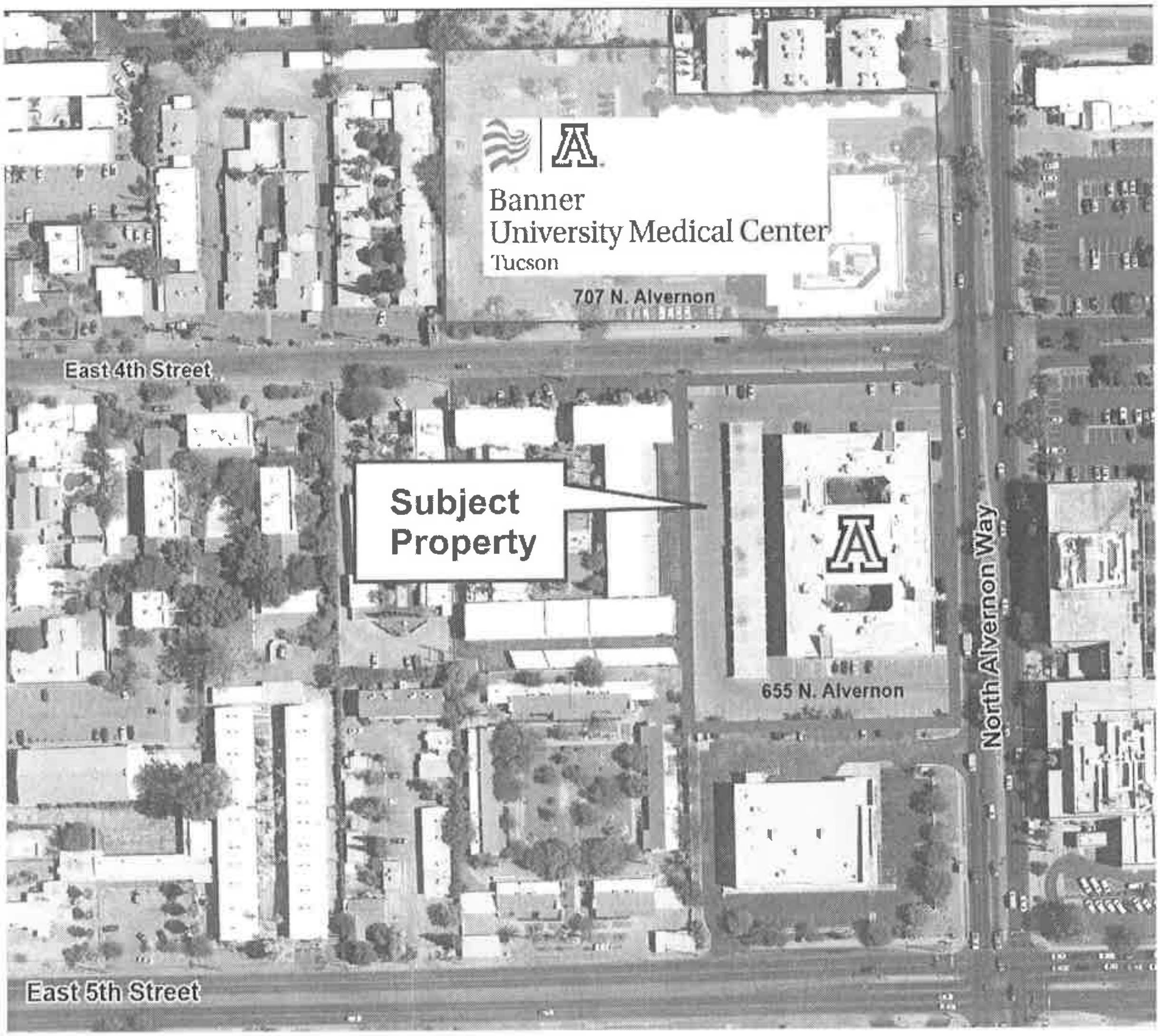
THENCE North 89 degrees 26 minutes 01 seconds East along the North line of said Lot 13, a distance of 2.83 feet to the POINT OF BEGINNING.

Pima County Assessor's Parcel:

125-11-247C

EXECUTIVE SUMMARY

EXHIBIT B
Location Map



Joint Committee on Capital Review
June 16, 2016 JCCR Meeting
University of Arizona Project Submission

Summary of Financing Information:

Alvernon Way Real Estate Purchase and Renovation System Revenue Bonds

Issuance amount (anticipated)	$ 9,300,000
Estimated Cost of Issuance	$ 300,000
Anticipated interest rate	4.0%
Payment term:	Approximately 20 years
Fund Source for debt payment:	UA Health Science Funds/Local Funds

Annual debt service (by fund source):

Principal & Int. FY17 - FY36 (Ave.)	UA Health Science Funds/Local Funds	$ 685,000
Total debt service through maturity	UA Health Science Funds/Local Funds	$13,688,000

Anticipated date of issuance	Summer 2016
Expected bond rating	AA- (S & P) and Aa2 (Moody's)

Debt Ratio Information:

Current projected debt ratio	4.98%
Increment debt ratio	0.03%
Projected highest debt ratio	5.01%

Joint Committee on Capital Review
June 16, 2016 JCCR Meeting
University of Arizona Projects Submission

655 N. Alvernon Way
System Revenue Bonds
Amortization Schedule

Period Ending	Annual Principal	Annual Interest	Annual Debt Service
6/1/2017	310,000	372,000	682,000
6/1/2018	325,000	359,600	684,600
6/1/2019	340,000	346,600	686,600
6/1/2020	350,000	333,000	683,000
6/1/2021	365,000	319,000	684,000
6/1/2022	380,000	304,400	684,400
6/1/2023	395,000	289,200	684,200
6/1/2024	410,000	273,400	683,400
6/1/2025	430,000	257,000	687,000
6/1/2026	445,000	239,800	684,800
6/1/2027	460,000	222,000	682,000
6/1/2028	480,000	203,600	683,600
6/1/2029	500,000	184,400	684,400
6/1/2030	520,000	164,400	684,400
6/1/2031	540,000	143,600	683,600
6/1/2032	560,000	122,000	682,000
6/1/2033	585,000	99,600	684,600
6/1/2034	610,000	76,200	686,200
6/1/2035	630,000	51,800	681,800
6/1/2036	665,000	26,300	691,300
	9,300,000	4,387,900	13,687,900

STATE OF ARIZONA

Joint Committee on Capital Review

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE: June 15, 2016

TO: Representative Justin Olson, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director RS

FROM: Micaela Larkin, Senior Fiscal Analyst ML

SUBJECT: University of Arizona - Review of Phoenix Medical Campus Lease

Request

A.R.S. § 15-1683 requires Committee review of any university projects purchased with the proceeds of system revenue bonds. The University of Arizona (UA) requests Committee review of $23,330,000 in system revenue bond issuances to purchase previously leased Phoenix Medical Campus buildings. The debt service payments will be funded by the savings generated through terminating the previous capital lease.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the project.

2. An unfavorable review of the project.

Under either option, the JLBC Staff recommends the following provision and the standard university financing provisions:

A. By November 30, 2016, the Arizona Board of Regents (ABOR), shall report to the Committee for a review of their policy of determining the appropriate level of each University's financial liquidity and cash reserves. The report shall include metrics used to measure each University's days cash on hand, current levels of days cash on hand, and benchmarks used to develop the cash reserve policies. In addition, ABOR shall report on the potential future use of cash reserves to finance capital projects in place of using debt financing.

(Continued)

B. *Standard University Financing Provisions*

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

- UA shall provide the final debt service schedules for the project as soon as they are available.

Analysis

In 2004, the University of Arizona entered into a 33-year lease with the City of Phoenix for 3 Phoenix Union High School historic buildings and related land located in downtown Phoenix. The city allowed the University of Arizona to enter into a partnership with a developer whereby the developer owned the buildings and UA entered into a capital lease to occupy the property. The developer received certain tax incentives, and the costs of construction were reduced. The chosen vendor, DESCO Southwest, renovated the facilities to accommodate administrative offices, student conference rooms, and auditorium space for UA - College of Medicine programs and Northern Arizona University (NAU).

UA had been leasing 3 buildings for the Phoenix Medical Campus with 85,000 square feet from DESCO Southwest with an average annual lease payment of $1.4 million through March 2015. On April 1, DESCO Southwest was going to increase the lease payment to $4.2 million. This $2.8 million increase was due to provisions in the lease agreement that specified an increase in the interest rate on the outstanding balance from an interest rate of 3.8% to 6.5%.

During capital leases, there is an option to purchase. Due to the increase in the lease payment, UA purchased the facility at a price of $23.1 million earlier this year. Of this amount, $22.0 million was for the outstanding principal of the loans by DESCO Southwest to replace the bonds issued for the building improvements, and to pay the closing costs of $1.1 million.

The university is seeking the authority to issue $23.3 million in system revenue bonds. Those proceeds will be applied to reimbursing the university for its cash payment used for terminating the capital lease agreement. After taking into account the debt service for financing this reimbursement, the university will avoid a net additional $29.7 million in costs over the next 15 years by purchasing and refinancing the building. The building will continue to be used to house College of Medicine programs. There is no impact to NAU, but UA will evaluate NAU's agreement to determine whether any savings will need to transfer to NAU.

Financing

UA intends to issue $23.1 million of 15-year bond, fixed rate system revenue bonds with a rating of Aa2 (Moody's)/AA-(S&P) at an estimated interest rate of 4.0%. In addition to the purchase cost of $23.1 million, issuance costs are projected to not exceed $192,000, for a total financing amount of $23.3 million. Based on the 4.0% interest rate, UA estimates debt service payments covering principal and interest of approximately $2.1 million per year from FY 2017 to FY 2031, for a total debt service cost of $31.4 million. *(Please see Table 2 for a summary of the bond's financing terms.)*

(Continued)

The Phoenix Medical Campus capital lease's debt service will increase UA's current debt ratio from 4.1% to 4.2%. The current 4.1% debt ratio is based on UA's actual FY 2015 debt service payments of $76.3 million as a percentage of total FY 2015 expenditures, or $1.86 billion. This debt ratio does not include the additional debt service costs of other projects pending JCCR review or those for which bonds were issued after FY 2015, nor growth in UA's total expenditures. UA estimates that the debt service for all planned projects will reach $103.8 million in FY 2019, or 4.38% of its projected $2.37 billion total expenditures in FY 2019.

UA will fund the debt service payments of $2.1 million using system revenues, including funds from hospital contract revenues.

Operations and Maintenance Costs

Operations and maintenance costs are already budgeted within the Phoenix Medical Campus budget.

Table 1

Phoenix Medical Campus Capital Lease

Total Square Footage	85,000
Funding	
System Revenue Bonds [1/]	$23,138,000
Costs	
Purchase	$22,020,300
Closing Costs	$ 1,117,700
Total	**$23,138,000**

1/ Annual debt service payments on $23.3 million principal are estimated at $2,107,000 from FY 2017 - FY 2031 based on 4.0% interest rate for a total debt service cost of $31,427,000.

Table 2

Phoenix Medical Campus Capital Lease

Issuance Amount	$23.3 million (not to exceed)
Issuance Date	Summer 2016
Issuance Transaction Fees	$192,000 (not to exceed)
Rating	Aa2 (Moody's) / AA- (S&P)
Interest Rate	4.0% (not to exceed 6.0%)
Term	15 years
Total Debt Costs	$31.4 million
Debt Service Payments (at 4.0%)	$2.1 million
Payment Source	University Revenues
Debt Ratio Increase	0.10%

RS/ML:kp

THE UNIVERSITY OF ARIZONA
Business Affairs

SENIOR VICE PRESIDENT FOR
BUSINESS AFFAIRS AND
CHIEF FINANCIAL OFFICER

Administration Building Room 712
P.O. Box 210066
Tucson, AZ 85721-0066
Ofc: 520-621-5977
Fax: 520-621-7714

June 3, 2016

The Honorable Don Shooter, Chairman
Joint Committee on Capital Review
House of Representatives
1716 West Adams
Phoenix, Arizona 85007

Dear Senator Shooter,

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

The University of Arizona Phoenix Union High School Capital Lease Buyout

On September 27, 2005, the city of Phoenix leased the Phoenix Union High School historic buildings and land to ABOR (The University of Arizona) for 33 years to support the College of Medicine Phoenix Campus. On September 29, 2005, The UA sub-leased the property to a development company DESCO Southwest for 30 years, to finance and renovate the property for occupancy. DESCO Southwest sub-subleased the property back to the UA for an average lease payment of $1.4 million per year through March 2015. Per the lease agreement, the annual lease payment increased in April 2015 through the remainder of the lease term. The increase is based on 6.5% interest rate of the outstanding principal and higher executory costs.

The Phoenix Union High School (PUHS) Historic buildings are being used for administrative offices, faculty offices, the Dean's office, student work space conference rooms, and the Piper Auditorium for the College of Medicine, Pharmacy, Eller, University Relations, University of Arizona Health Science, and Arizona Telemedicine Program. On April 1, 2015 DESCO Southwest increased the annual lease payments to about $4.2 million. Due to the significant increase in annual lease payments, the UA exercised its right to terminate the capital lease and release all monetary encumbrances on the property, as provided by the lease agreement as modified by the lease termination option agreement, at a price of $23,138,013.

Bond Summary

The University plans to issue System Revenue Bonds in an amount not to exceed $23.4 million to finance the payoff of its Capital Lease Agreement with DESCO Southwest and pay costs of issuance.

The debt service on the bonds will be paid from lease savings generated through the capital lease termination. The University believes the current low interest rate environment is an advantageous time to undertake such a reimbursement.

Enclosed is the ABOR Financing Approval submittal, System Revenue Bonds Amortization Schedule and Summary of Financing Information.

The Honorable Don Shooter, Chairman
Joint Committee on Capital Review
June 3, 2016
Page Two

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

Sincerely,

Gregg Goldman
Senior VP for Business Affairs and Chief Financial Officer

Attachments: ABOR Financing Approval submittal, System Revenue Bonds Amortization Schedule and Summary of Financing Information

xc: Tim Bee, Senior Associate Vice President, Legislative and Community Relations, UA
Dr. Ann Weaver Hart, President, UA
Eileen I. Klein, President, Arizona Board of Regents
Duc Ma, Interim Associate Vice President, Financial Services, UA
Art Smith, JLBC Analyst
Lorenzo Martinez, Associate Vice President for Finance and Administration, ABOR
Robert Smith, Vice President for Business Affairs, UA
Richard Stavneak, Director, JLBC

EXECUTIVE SUMMARY

Item Name: Issuance of System Revenue Bonds to Pay Off the Phoenix Union High School Historic Buildings Renovation Capital Lease (UA)

☐ Committee Recommendation to Full Board
☒ Full Board Approval

Issue: The University of Arizona (UA) asks the board for financing approval to sell one or more series of System Revenue Bonds (SRBs) (a) in an amount not to exceed $23.4 million to finance the payoff of its Capital Lease Agreement with DESCO Southwest and pay costs of issuance, (b) to sell such Bonds at a price at, above, or below par, on a tax exempt or taxable basis, and at fixed rates of interest; and (c) to take related actions, and enter into necessary agreements and to execute all necessary documents, contingent on the University receiving JCCR review. The debt service on the SRBs is estimated at $2.1 million per year and will be paid over approximately 15 years from local funds.

Previous Board Action

• Modify Lease Agreement Approval	March 2005
• Lease Agreement Approval	February 2005
• Intergovernmental Agreement Approval	January 2004

Enterprise or University Strategic Plan

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

Statutory/Policy Requirements

- ABOR Policy 7-102 requires approval of the issuance of bonds, lease-purchase agreements, certificates of participation issuance, or any debt instrument.

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

Contact Information:

Gregg Goldman, Senior VP for Business Affairs and Chief Financial Officer, (520) 621-5977, ggoldman@email.arizona.edu

EXECUTIVE SUMMARY

- Arizona Revised Statute 15-1683 A. 1 (b) requires the project to be acquired with the proceeds of the bonds to be reviewed by the joint committee on capital review.

Project Justification/Description/Scope

- At its January 2004 meeting, the board approved an Intergovernmental Agreement (IGA) with the City of Phoenix allowing the renovation of the Phoenix Union High School (PUHS) historic buildings and construction of new facilities for the Phoenix Biomedical Campus. The board further authorized The University of Arizona to enter into a 33-year lease with the City of Phoenix for three PUHS historic buildings and related land located at 7th and Van Buren Streets at its February and March 2005 meetings. The City offered the University of Arizona an opportunity to participate in its New Market Tax Credit Program, which could reduce construction costs by 25% by offering Federal Income Tax Credits to any proposed developer.

- DESCO Southwest was selected from five proposing developers based mainly for their experience with New Market Tax Credits. The renovations started in March 2005 on the 85,000 sq. ft. facility. Currently these buildings include administrative offices, faculty offices, the Dean's office, student work space conference rooms, and the Piper Auditorium for the College of Medicine, Pharmacy, Eller, University Relations, University of Arizona Health Science, Arizona Telemedicine Program and the NAU Health and Human Services College.

- The University of Arizona was leasing the three (3) buildings from DESCO Southwest with an average annual lease payment of $1.4 million through March 2015. On April 1, 2015 DESCO Southwest increased the annual lease payments to about $4.2 million. Due to the significant increase in annual lease payments, the UA exercised its right to terminate the capital lease and release all monetary encumbrances on the property, as provided by the lease agreement as modified by the lease termination option agreement, at a price of $23,138,013. The purchase price reflected the release of the $22,020,272 outstanding principal of the loans taken by DESCO Southwest to replace the bonds issued for the building improvements, and to pay closing costs of $1,117,741. The University wishes to reimburse itself through the issuance of System Revenue Bonds (SRBs) and believes that the current low interest rate environment is an advantageous time to undertake such reimbursement.

Fiscal Impact and Financing Plan:

- By paying off the capital lease, the UA will realize an estimated annual savings of $2 million in lease payments.

EXECUTIVE SUMMARY

- UA intends to issue SRBs in the amount of $23.4 million to reimburse the University for terminating the DESCO Southwest Capital Lease Agreement. The estimated annual debt service is $2.1 million. Debt service on the bonds will be funded by lease savings generated through the capital lease termination.
- Debt Ratio Impact: UA's projected highest ratio of debt service to total expenditures is estimated at 4.54 percent, well below the 8.0 percent statutory maximum. The estimated annual debt service of $2.1 million will increase the debt ratio by 0.10 percent.
- The UA intends to utilize a financial advisor, a bond counsel, and a bond trustee previously approved by the board. The SRBs will be marketed and sold on a negotiated basis to one or more investment banking firms previously approved by the board or through a direct sale of the SRBs to a bank or banks.
- The University plans to issue the long-term financing for the project by the end of calendar year 2016. The table below shows the anticipated pricing parameters for the long-term financing:

Item		Comments
Project Costs	$23.2 million	Not to exceed amount
Issuance Costs (not to exceed)	$192 thousand	Not to exceed amount
Credit Enhancement/Insurance Cost	TBD	Only executed if provides benefit that exceeds cost of insurance
Fixed Interest Rate (anticipated rate/not to exceed rate)	4%/6%	Not to exceed based on maximum the UA is willing to pay
Maturity Range	2017 - 2031	Final maturity is June 1, 2031
Average Instrument Life	8.68 years	Approximately 15 year financing period

Committee Review and Recommendation

The Business and Finance Committee reviewed this item at its June 8, 2016 meeting and recommended forwarding the item to the full board for approval.

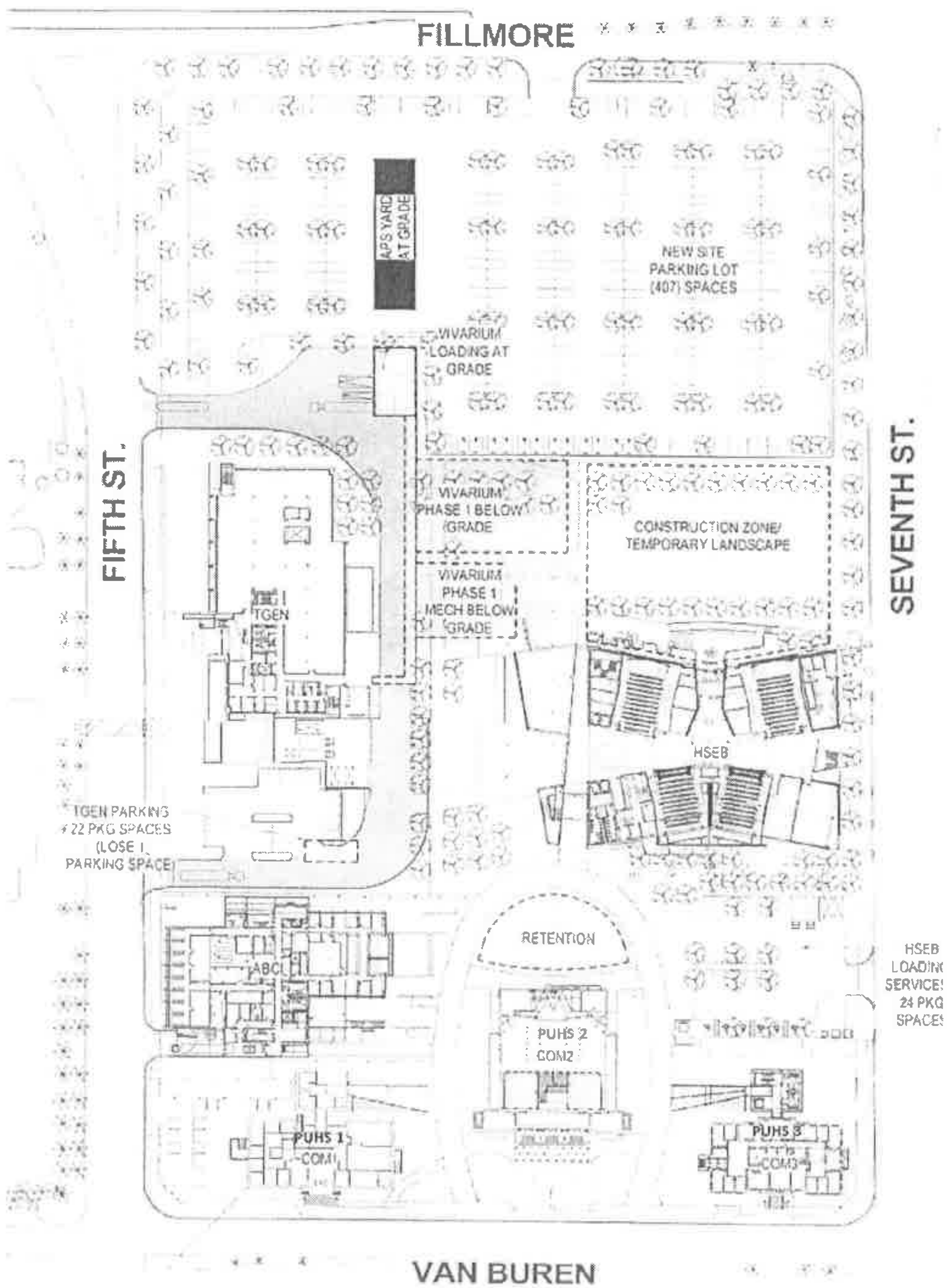
EXECUTIVE SUMMARY

Requested Action

The University of Arizona (UA) asks the board to provide Financing Approval to reimburse the UA for the payoff of its Capital Lease Agreement with DESCO Southwest, as presented in this Executive Summary.

EXECUTIVE SUMMARY

Location Map



Joint Committee on Capital Review
June 16, 2016 JCCR Meeting
University of Arizona Projects Submission

Phoenix Union High School System Revenue Bonds Amortization Schedule

Period Ending	Annual Principal	Annual Interest	Annual Debt Service
6/1/2017	1,075,000	855,400	1,930,400
6/1/2018	1,215,000	890,200	2,105,200
6/1/2019	1,265,000	841,600	2,106,600
6/1/2020	1,315,000	791,000	2,106,000
6/1/2021	1,370,000	738,400	2,108,400
6/1/2022	1,425,000	683,600	2,108,600
6/1/2023	1,480,000	626,600	2,106,600
6/1/2024	1,540,000	567,400	2,107,400
6/1/2025	1,600,000	505,800	2,105,800
6/1/2026	1,665,000	441,800	2,106,800
6/1/2027	1,730,000	375,200	2,105,200
6/1/2028	1,800,000	306,000	2,106,000
6/1/2029	1,875,000	234,000	2,109,000
6/1/2030	1,950,000	159,000	2,109,000
6/1/2031	2,025,000	81,000	2,106,000
	23,330,000	8,097,000	31,427,000

Joint Committee on Capital Review
June 16, 2016 JCCR Meeting
University of Arizona Project Submission

Summary of Financing Information:

Phoenix Union High School System Revenue Bonds

Issuance amount (anticipated)	$ 23,330,000
Estimated Cost of Issuance	$ 192,000
Anticipated interest rate	4.0%
Payment term:	Approximately 15 years
Fund Source for debt payment:	Current Budgeted Lease Savings
Annual debt service (by fund source):	
Principal & Int. FY17 - FY31 (Ave.)	Current Budgeted Lease Savings $ 2,107,000
Total debt service through maturity	Current Budgeted Lease Savings $31,427,000
Anticipated date of issuance	Summer 2016
Expected bond rating	AA- (S & P) and Aa2 (Moody's)

Debt Ratio Information:

Current projected debt ratio	4.44%
Increment debt ratio	0.10%
Projected highest debt ratio	4.54%