STATE OF ARIZONA

Joint Committee on Capital Review

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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** R E V I S E D **

JOINT COMMITTEE ON CAPITAL REVIEW
Thursday, June 19, 2014
11:30 A.M.
Senate Appropriations, Room 109

MEETING NOTICE

- Call to Order

- Approval of Minutes of April 8, 2014 and April 10, 2014.

- DIRECTOR'S REPORT (if necessary).

1. ARIZONA DEPARTMENT OF ADMINISTRATION - Review of FY 2015 Building Renewal Allocation Plan.

2. DEPARTMENT OF CORRECTIONS - Review of the FY 2015 Building Renewal Allocation Plan.

3. ARIZONA EXPOSITION AND STATE FAIR BOARD - Review of Capital Improvement Expenditures.

4. EAST VALLEY INSTITUTE OF TECHNOLOGY - Consider Approval of Proposed JTED Lease.

5. ARIZONA STATE UNIVERSITY - Review of System Revenue Bond Refund and Building Acquisition for ASU West Dormitories.

6. NORTHERN ARIZONA UNIVERSITY - Review of Indirect Financing of Student Center and Academic Services Building.

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

8. ARIZONA STATE UNIVERSITY - Review of Indirect Financing for New Washington, DC Facility.

The Chairman reserves the right to set the order of the agenda.
~~6/11/14~~
6/17/14
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

DON SHOOTER
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GAIL GRIFFIN
JOHN McCOMISH
AL MELVIN
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ANNA TOVAR

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HOUSE OF REPRESENTATIVES

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

MINUTES OF THE MEETING

JOINT COMMITTEE ON CAPITAL REVIEW

April 8, 2014

The Chairman called the meeting to order at 8:35 a.m., Tuesday, April 8, 2014 in House Hearing Room 4. The following were present:

Members:	Senator Shooter, Vice-Chairman	Representative Kavanagh, Chairman
	Senator Cajero Bedford	Representative Alston
	Senator Griffin	Representative Forese
	Senator McComish	Representative Gowan
	Senator Melvin	Representative Gray
	Senator Pancrazi	
	Senator Tovar	
Absent:		Representative Campbell
		Representative Sherwood

APPROVAL OF MINUTES

Representative Kavanagh moved that the Committee adopt the minutes from August 20, 2013. The motion carried.

ARIZONA STATE LOTTERY COMMISSION - Review of FY 2014 Building Renewal Allocation Plan.

Mr. Jack Brown, JLBC Staff, presented the State Lottery Commission's request for review of the commissions' FY 2014 Building Renewal Allocation Plan.

The JLBC Staff presented options to the Committee.

Senator Shooter moved that the Committee give a favorable review to the FY 2014 Building Renewal Allocation Plan with the provision that the agency subsequently provide its specific expenditure plan to the JLBC Staff. The motion carried.

(Continued)

UNIVERSITY OF ARIZONA - Review of Phase 1 of McKale Memorial Center Improvements.

Mr. Art Smith, JLBC Staff, presented the University of Arizona's (UA) request for review of a $12.5 million bond issuance to fund Phase 1 of McKale Memorial Center Improvements. The JLBC Staff presented options to the Committee.

Senator Shooter moved that the Committee give a favorable review to UA's $12.5 million bond issuance to fund Phase 1 of McKale Memorial Center Improvements with the following Standard University Financing Provisions:

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

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

The motion carried.

NORTHERN ARIZONA UNIVERSITY - Review Aquatics and Tennis Project and Code and Safety Renovations.

Mr. Art Smith, JLBC Staff, presented Northern Arizona University's (NAU) request for review of a $57.0 million bond to fund construction of a new Aquatics and Tennis Center and for code and safety renovations.

Ms. Christy Farley, Vice President for Government Affairs and Business Partnerships, NAU, responded to member questions.

Senator Shooter moved that the Committee give a favorable review to NAU's $57.0 million in revenue bond issuances to fund construction of a new Aquatics and Tennis Center and for code and safety renovations at existing residential units at NAU's Flagstaff Campus with the following provisions:

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

- *NAU shall provide the final debt service schedules for the projects as soon as they are available.*

Additional Provision
- *The aquatic facility retain the name Douglas J. Wall Aquatics Center.*

The motion carried.

ARIZONA STATE UNIVERSITY - Review of Center for Law and Society Project and Psychology Building Renovations.

Mr. Art Smith, JLBC Staff, presented Arizona State University's (ASU) request for review of $136.7 million in system revenue bonds to fund construction of a new Center for Law and Society at its Downtown Phoenix Campus and renovations to the Psychology building at its Tempe Campus.

(Continued)

<u>Senator Shooter moved</u> *that the Committee give a favorable review to ASU's $136.7 million in revenue bond issuances to fund construction of a new Center for Law and Society at its Downtown Phoenix Campus and renovations to the Psychology building at its Tempe Campus with the following provisions:*

<u>Standard University Financing Provisions</u>
- 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 projects as soon as they are available.

<u>Additional Provision</u>
- ASU shall provide a report to JCCR by December 31, 2014 on the projected fund sources for the law school debt service for each fiscal year through FY 2020. The report shall separately delineate the following sources: 1) City of Phoenix funds, 2) revenues from increased enrollment, 3) revenues from increased per-student tuition, and 4) all other.

The motion carried.

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

Mr. Ben Beutler, JLBC Staff, presented the Arizona Department of Transportation's (ADOT) request for review of $2,280,000 for 5 de-icer buildings.

<u>Mr. John Hetzel, Facilities Manager, ADOT,</u> responded to member questions.

<u>Senator Shooter moved</u> *that the Committee give a favorable review to ADOT's $2,280,000 for the construction of 5 de-icer buildings to house chemicals, bulk sand, and cinders used during winter months with the provision that ADOT report any project reallocations above $100,000.* The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION - Consider Recommending FY 2014 Partial Rent Exemption.

Mr. Steve Grunig, JLBC Staff, presented the Arizona Department of Administration's (ADOA's) request that the Committee recommend a partial rent exemption totaling $10,000 in FY 2014 for the State Real Estate Department.

<u>Senator Shooter moved</u> *that the Committee recommend the partial rent exemption for FY 2014 totaling $10,000 for the State Real Estate Department.* The motion carried.

(Continued)

Without objection, the meeting adjourned at 9:00 a.m.

Respectfully submitted:

Kristy Paddack, Secretary

Jack Brown, Principal Fiscal Analyst

Representative John Kavanagh, Chairman

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

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MINUTES OF THE MEETING

JOINT COMMITTEE ON CAPITAL REVIEW

April 10, 2014

The Chairman called the meeting to order at 10:23 a.m., Thursday, April 10, 2014 in Senate Appropriations Room 109. The following were present:

Members:	Senator Shooter, Vice-Chairman	Representative Kavanagh, Chairman
	Senator Cajero Bedford	Representative Alston
	Senator Griffin	Representative Gray
	Senator McComish	Representative Sherwood
	Senator Melvin	
	Senator Pancrazi	
	Senator Tovar	
Absent:		Representative Campbell
		Representative Forese
		Representative Gowan

SCHOOL FACILITIES BOARD - Review of Lease-Purchase Refinancing.

Mr. Ben Henderson, JLBC Staff, presented the School Facilities Board's (SFB) refinancing agreement that reduces the board's lease-purchase payments in FY 2014 and FY 2015 by $8.4 million. This was the second refinancing agreement reviewed by the Committee under the authority of the FY 2014 K-12 Education Budget Reconciliation Bill (Laws 2013, 1st Special Session, Chapter 3). At its October 29, 2013 meeting, the Committee favorably reviewed the first refinancing agreement.

The JLBC Staff presented options to the Committee.

Senator Shooter moved *that the Committee give a favorable review to the second refinancing agreement with the provision that SFB submit a final debt service schedule associated with the refinancing agreement.* The motion carried.

(Continued)

Without objection, the meeting adjourned at 10:25 a.m.

Respectfully submitted:

Kristy Paddack, Secretary

Jack Brown, Principal Fiscal Analyst

Representative John Kavanagh, Chairman

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

Joint Committee on Capital Review

1716 WEST ADAMS
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http://www.azleg.gov/jlbc.htm

DATE: June 12, 2014

TO: Representative John Kavanagh, 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 2015 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 2015 Building Renewal Allocation Plan. The FY 2015 Capital Outlay Bill (Laws 2014, Chapter 15) appropriated a total of $18 million for building renewal. This amount consists of $9 million from the General Fund and $9 million from the Capital Outlay Stabilization Fund (COSF).

ADOA is requesting a review of an $11.8 million allocation from the overall $18 million appropriation, and plans to request review of the remaining $6.2 million later during FY 2015.

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:

1. ADOA report on actual FY 2015 building renewal spending by project and appropriation source on December 31, 2014, June 30, 2015 and June 30, 2016. This provision is new.

2. ADOA shall report any change in the building renewal spending plan to the JLBC Staff, including reallocations between projects and non-emergency use of contingency monies. If there is significant change of scope in the reallocation reported by ADOA, the JLBC Staff shall recommend ADOA to request Committee review of the reallocation. Prior reviews also included this provision.

(Continued)

3. The distribution of the emergency contingency allocation of $571,000 be addressed as follows:

   A. ADOA 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.

   B. If the emergency project is $50,000 or greater, ADOA will request JCCR review.

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

   D. The Chairman will notify ADOA if he does not agree that the project is an emergency and will request that ADOA not proceed with the project.

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

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 $18 million is appropriated to ADOA to fund 53% of building renewal formula in FY 2015. (These amounts exclude Department of Corrections facilities as they received their own building renewal appropriation.) See *Table 1* for the list of projects included in ADOA's FY 2015 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, and Energy Conservation. Additionally, ADOA has allocated funding for demolition and other areas including project management and contingencies. However, the ADOA Building Renewal Allocation plan lists potential projects within each category and not all projects listed may be funded, while other additional projects within each category may be selected.

To track ADOA's actual spending decisions, the JLBC Staff is recommending the new provision #1, which requires ADOA to report on actual FY 2015 building renewal spending by project and appropriation source on December 31, 2014, June 30, 2015 and June 30, 2016.

<u>Fire and Life Safety Projects</u>
A total of $5,000,000 will be allocated to 4 different projects. Of this amount, $1,200,000 will fund a continuation of phased fire alarm systems replacements in the Capitol Mall office buildings. In addition, this amount will fund fire alarm systems replacement in the Arizona Historical Society (AHS) Tempe Museum. An amount of $500,000 will be allocated to both a continuation of phased fire alarm systems replacement at the Arizona State School for the Deaf and the Blind's (ASDB) Tucson Campus and a continuation of phased fire alarm systems replacement at the Department of Health Services' (DHS) Arizona State Hospital. Also, a continuation of phased fire alarm system replacement at the Department of Juvenile Corrections (ADJC) Adobe Mountain School (AMS) will be funded at $2,800,000.

<u>Building Shell/Interior Projects</u>
A total of $1,000,000 will be allocated to repair or replace failing roofs at the Carnegie Library, Senate, Department of Public Safety (DPS) Tucson District Office and Phoenix Encanto Headquarters, and the Department of Economic Security (DES) at several facilities statewide.

(Continued)

Major Building Services Projects
A total of $3,200,000 will be allocated to 3 different projects. Of this amount, $1,000,000 will be spent to repair or replace cooling towers for Capitol Mall office buildings. In addition, HVAC system replacements will cost $1,800,000 at Capitol Mall office buildings. The remaining $400,000 will replace HVAC systems at ASDB Tucson and Phoenix campuses.

Demolition
The FY 2015 Budget Procedures BRB (Laws 2014, Chapter 14) allows ADOA to use funds appropriated in FY 2015 for building renewal for demolition. A total of $500,000 will be allocated to 2 different projects. Specifically, ADOA will allocate $250,000 for demolition of several small ADOA buildings located at 1937 W. Jefferson and $250,000 for demolition of vacant DES Arizona Training Program at Coolidge (ATPC) building units located on Arizona State Land Department Trust Land.

Energy Conservation Project
A total of $1,000,000 will be allocated to various energy conservation projects, including lighting retrofits and the installation of automated energy management controls.

Other
The sum of $275,000 will be allocated to cover project management costs for FY 2015 building renewal projects. Because some of the project costs listed above were based solely on agency estimates and ADOA has not yet allocated all $18 million, $250,000 will be spent on contractors to better develop a list of potential projects and cost estimates. A payment of $4,000 will be paid for a Construction Insurance Premium. A total of $571,000 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.

(Continued)

Table 1

FY 2015 Building Renewal Allocation Plan

Fire & Life Safety Projects	
ADOA Capitol Mall Fire Alarm Systems Replacement	$ 1,200,000
ASDB Fire Alarm System Replacement	500,000
DHS State Hospital Fire Alarm System Replacement	500,000
ADJC AMS Fire Alarm and Lock Systems Replacement	2,800,000
Subtotal	*5,000,000*
Building Shell/Interior Project	
ADOA Roof Replacement	$ 1,000,000
Major Building Services Projects	
ADOA Capitol Mall Cooling Towers Replacement	$ 1,000,000
ADOA Capitol Mall HVAC Replacement	1,800,000
ASDB HVAC Replacement	400,000
Subtotal	*$ 3,200,000*
Demolition	
ADOA 1937 W. Jefferson	$ 250,000
DES ATPC Coolidge Ponderosa, Building Units 11-26	250,000
Subtotal	*$ 500,000*
Energy Conservation Project	
ADOA Statewide Energy Conservation	$ 1,000,000
Other	
Emergency Contingency	$ 571,000
Building Renewal Project Scoping	250,000
Personnel Services/ERE Costs	275,000
Risk Management Insurance Premium	4,000
Subtotal	*$ 1,100,000*
TOTAL	**$11,800,000**

RS/RP:kp

Janice K. Brewer
Governor

Brian C. McNeil
Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

100 NORTH FIFTEENTH AVENUE • SUITE 401
PHOENIX, ARIZONA 85007

(602) 542-1500

May 29, 2014

RECEIVED
MAY 29 2014
JOINT BUDGET COMMITTEE

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

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

Dear Representative Kavanagh 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 2014, Second Regular Session, Chapter 15 (HB2709) appropriates $18,000,000 to the Arizona Department of Administration (ADOA) for building renewal to allocate to the ADOA Building System. This request is for $11.8 million of the appropriation. ADOA intends to request review of the balance later in the year.

ADOA requests JCCR review ADOA's FY 2015 ADOA Building System building renewal allocation plan (attachment). 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 2015 ADOA Building System building renewal allocation plan, please contact William G. Hernandez, Assistant Director, ADOA General Services Division (GSD), at (602) 364-2872.

Sincerely,

Brian C. McNeil
Director

cc: Richard Stavneak, Director, JLBC Staff
Jack Brown, Principal Fiscal Analyst, JLBC Staff
John Arnold, Director, OSPB
Ed Boot, Capital Manager, OSPB
Will Palmisano, Capitol Budget Analyst, OSPB
Paul Shannon, Assistant Director, ADOA
William Hernandez, Assistant Director, ADOA
Nola Barnes, General Manager, ADOA

Attachment

Arizona Department of Administration (ADOA) Building System
FY 2015 Building Renewal Allocation Plan
Laws 2014, Second Regular Session, Chapter 15 (HB2709)
$18,000,000 ($11,800,000)

Facility/Benefiting Agency	Project Description		Allocation
	Fire & Life Safety		
Tempe Museum	Repair or Replace Fire & Life Safety Systems		$1,200,000
Historical Society, Arizona			
1700 W Washington			
House of Representatives			
Senate			
Legislative Council; Secretary of State Library and Archives			
ASDB Tucson Campus	Repair or Replace Fire & Life Safety Systems		$500,000
Deaf and the Blind, Arizona State Schools for the			
Arizona State Hospital	Repair or Replace Fire & Life Safety Systems		$500,000
Health Services, Department of			
ADJC Adobe Mountain School	Repair or Replace Fire & Life Safety Systems		$2,800,000
Juvenile Corrections, Arizona Department of			
		Sub-Total	**$5,000,000**
	Building Shell (Asset Preservation)		
	Repair or Replace Failing Roofs		$1,000,000
Carnegie Library			
Legislative Council; Secretary of State Library and Archives			
1700 W Washington			
Senate			
DPS Tucson District Office			
Public Safety Department of			
DPS Phoenix Encanto Headquarters			
Public Safety Department of			
DES Statewide Facilities			
Economic Security, Department of			
		Sub-Total	**$1,000,000**
	Major Building Services		
1700 W Washington	Repair or Replace Cooling Towers		$1,000,000
Treasurer, State			
Contractors, Registrar			
Administration, Department of			

Arizona Department of Administration (ADOA) Building System
FY 2015 Building Renewal Allocation Plan
Laws 2014, Second Regular Session, Chapter 15 (HB2709)
$18,000,000 ($11,800,000)

Facility/Benefiting Agency	Project Description		Allocation
Economic Security, Department of			
Governor, Office of			
Homeland Security, Arizona Department of			
Indian Affairs, AZ Commission of			
Mine Inspector, State			
Navigable Stream Adjudication Commission, Arizona			
Public Safety, Department of			
School Facilities Board			
Secretary of State			
1700 W Washington			
House of Representatives			
Senate			
1200, 1300 W Washington			
Corporation Commission, Arizona			
Parks Board, State			
1275 W Washington			
Attorney General, Office of the			
1400 W Washington			
Acupuncture, Board of Examiners			
State Boards' Office			
Administrative Hearings, Office of			
Automobile Theft Authority			
Barbers, Board of			
Corporation Commission			
Economic Security, Department of			
Funeral Directors & Embalmers, State Board of			
Homeopathic & Integrated Medicine Examiners, Board of			
Massage Therapy, Board of			
Naturopathic Physicians Medical Board			
Nursing Care Institution Administrators & Assisted Living, Board of			
Opticians, State Board of Dispensing			
Optometry, State Board of			
Personnel Board			
Podiatry Examiners, State Board of			

Arizona Department of Administration (ADOA) Building System
FY 2015 Building Renewal Allocation Plan
Laws 2014, Second Regular Session, Chapter 15 (HB2709)
$18,000,000 ($11,800,000)

Facility/Benefiting Agency	Project Description		Allocation
Private Postsecondary Education, State Board of			
Psychologist Examiners, State Board of			
Respiratory Care Examiners, Board of			
1200, 1300 W Washington	Replace Failing HVAC		$1,800,000
Corporation Commission, Arizona			
Parks Board, Arizona State			
1535 W Jefferson			
Education, Department of			
1601, 1645 W Jefferson			
Corrections, Department of			
1700 W Washington			
Senate			
ASDB Phoenix and Tucson Campus	Replace Failing HVAC		$400,000
Deaf and the Blind, Arizona State Schools for the			
		Sub-Total	**$3,200,000**
	Energy Conservation		
Forestry - Deer Valley	Energy Conservation Measures		$1,000,000
Forestry Division, Arizona State			
Tempe Museum			
Historical Society, Arizona			
		Sub-Total	**$1,000,000**
	Demolition		
1937 W Jefferson	Former Child Daycare Center (Vacant 2009) Demolition		$250,000
Administration, Department of			
Arizona Training Program at Coolidge	Ponderosa, Building Units 11-26 (Vacant) Demolition		$250,000
Economic Security, Department of		**Sub-Total**	**$500,000**
	Contingency		
	Project Contingency		$571,000
		Sub-Total	**$571,000**
	Project Scoping		
	Project Scoping		$250,000
		Sub-Total	**$250,000**

Arizona Department of Administration (ADOA) Building System
FY 2015 Building Renewal Allocation Plan
Laws 2014, Second Regular Session, Chapter 15 (HB2709)
$18,000,000 ($11,800,000)

Facility/Benefiting Agency	Project Description		Allocation
	Personnel Services		
	Personnel Services or Employee Related Expenditures		$275,000
		Sub-Total	**$275,000**
	Risk Management Insurance Premium		
	State Risk Management Construction Insurance Premium		$4,000
		Sub-Total	**$4,000**
	Sub-Total FY 2015 Building Renewal Appropriation		
	(Total $18,000,000)		**$11,800,000**
Laws 2014, Second Regular Session, Chapter 15 (HB2709), appropriated $18 million in fiscal year 2014-2015 for building renewal.			
A.R.S. § 49-793.D. requires each agency responsible for its Building System and each State agency should give priority to fire and life safety projects.			
A.R.S. § 41-1252.B. requires JCCR should give priority to funding fire and life safety projects.			
Laws 2014, Second Regular Session, Chapter 14 (HB2708), allows for the use of appropriated building renewal funds for fiscal year 2014-2015 for building demolition.			
Facility/Benefiting Agency means the agency occupying a particular facility that will benefit from a potential project.			

Arizona Department of Administration (ADOA) Building System
FY 2015 Building Renewal Allocation Plan
Laws 2014, Second Regular Session, Chapter 15 (HB2709)
$18,000,000 ($11,800,000)

Fire and Life Safety: improve or eliminate an impending 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.

$1,200,000: Administration, Department of (ADOA) – Statewide Priorities – Repair or Replace Fire and Life Safety Systems

A.R.S. § 49-793.D. requires that ADOA should give priority to fire and life safety projects. Many facilities in the ADOA Building System have code compliance and fire egress issues, including obsolete proprietary alarm systems in many buildings. Some of the alarm system companies have been out of business for many years and alternative sources do not manufacture or support the obsolete systems. This allocation will continue a phased approach to address statewide fire and life safety issues. Potential projects include:

AHS - Tempe Museum
1700 W. Washington (House of Representatives)
1700 W. Washington (Senate)
1700 W. Washington (Capitol Museum)

$500,000: Deaf and the Blind, Arizona Schools for the (ASDB) – Tucson Campus – Repair or Replace Fire and Life Safety Systems

An FY 12 allocation provided monies for a campus-wide fire alarm assessment; including prioritization recommendations. ADOA re-prioritized recommendations in FY 13 and FY 14 for replacement of fire alarms concurrent with a requirement to install fire suppression in the campus dormitories. The proposed allocation will provide monies for design and construction of fire alarms in the Ocotillo, Navajo, Pima, and Apache buildings.

$500,000: Health Services, Department of (DHS) – Arizona State Hospital (ASH) – Repair or Replace Fire and Life Safety Systems

A number of fire alarm and sprinkler suppression systems currently serving ASH are obsolete and in various stages of failure. Related equipment and a majority of replacement parts are no longer available. A FY 14 building renewal allocation procured the construction of fire and life safety systems within buildings of the Arizona Community Protection and Treatment Center (ACPTC) secure unit. The proposed allocation will provide monies for design and construction of fire alarms in additional ASH campus buildings.

$2,800,000: The Arizona Department of Juvenile Corrections (ADJC) is responsible for management of the State's secure juvenile facilities and the delivery of services – including education, rehabilitation, and treatment. The State Fire Marshal's office completed a thorough inspection of the campus and provided information regarding a number of fire and life safety code related deficiencies that ADJC must address immediately to bring the campus into compliance. As part of an FY 2014 allocation, ADOA procured the services of an engineer to design the required infrastructure upgrades needed to support the new automatic suppression system. In addition to the need for campus-wide fire suppression, the cell door locks and control panels need replaced. The locking systems are subject to a high frequency of daily use and have worn over time. The aging lock system is difficult to repair and some replacement parts are unavailable.

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

The allocations in this category are reflective of deteriorating exterior systems repaired to maximum effectiveness where further repairs are not cost effective nor prevent leaks. Neglect of exterior roofs, walls, windows and doors facilitates deterioration of building structural systems, 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 to mitigate negative impacts of interruption to mission critical functions and expensive "crisis-mode" emergency repairs and replacements.

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

A majority of roofs on buildings in the ADOA Building System 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 represents just a small portion of roofing priorities:

- 1101 W. Washington St. (Carnegie Library)

- 1700 W. Washington St. (Senate)
- DPS – Tucson District Office
- DPS – Phoenix Encanto Headquarters
- DES – Statewide Roof Replacements

Given the years of deferred repairs and replacements, unanticipated failures may warrant reprioritization of projects.

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.

$1,000,000: Administration, Department of (ADOA) – Capitol Mall Office Buildings - Repair or Replace Cooling Towers

A number of Capitol Mall buildings' cooling towers are well over 30-years old, far surpassing their expected useful service lives. The oldest and most critical cooling towers are unique, as most are permanent concrete structures built as a part of mechanical buildings.

Major maintenance can extend the service lives of the cooling tower systems by up to 25-years and facilitate maximum efficiency. The scope of work includes, but is not limited to, replacing fans, fill materials, water distribution systems, drift eliminators, etc., and rental of portable cooling towers, hoses, pumps, and fueled generators to provide temporary cooling to buildings for the duration of permanent cooling tower servicing. Failure to address the dramatic effects of constant moisture on cooling tower infrastructure might result in complete system failures, possibly during the summer months, requiring ADOA to close affected buildings until it procures temporary cooling towers and puts them into service. Emergency based procurements increase expenses and out of service times. Potential projects include:

- 1700 W. Washington (Executive Tower, House of Representatives, and Senate)
- 1200, 1275 W. Washington

- 1300, 1400 W. Washington

$1,800,000: Administration, Department of (ADOA) – Capitol Mall Office Buildings – Replace Failing HVAC

Several ADOA-managed buildings in the Capitol Mall need to have HVAC systems replaced. 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:

- 1200, 1300 W. Washington – Replace Chillers, Chilled Water Pumps
- 1535, 1601, 1645 W. Adams – Replace Boilers
- 1700 W. Washington – (Senate)

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

$400,000: Deaf and the Blind, Arizona Schools for the (ASDB) – 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 address the most critical HVAC issues on campus in an effort to prevent costly repairs and emergency replacements.

Energy Conservation: primarily emphasizes the reduction of energy consumption by a building, utility system, or core building component

$1,000,000: Administration, Department of (ADOA) – Statewide – Energy Conservation Measures

Executive Order 2003-14 directed all agencies to take the necessary steps to reduce energy costs by reducing energy consumption and increasing energy conservation measures. State agencies can realize energy and operational savings by implementing projects such as Energy Management System (EMS) controls, upgraded lighting systems, and other innovative energy saving technologies. Potential projects include:

- Capitol Mall - EMS Controls System Integration
- AHS - EMS Controls Upgrade –Tucson and Tempe Museums

- State Forester - Lighting Retrofits, Deer Valley Office

Demolition: Includes abatement and demolition of existing structures and supporting infrastructure.

Pursuant to Laws 2014, Second Regular Session, Chapter 14 (HB 2708), Section 11, notwithstanding A.R.S. § 41 – 790.1., ADOA may use monies appropriated for FY 15 building renewal for building demolition.

$250,000: Administration, Department of (ADOA) – 1937 W. Jefferson – Building Demolition

Constructed in 1967 and acquired by the State in 1978, the ADOA buildings located at 1937 W. Jefferson include the former ADOA Child Development Center (CDC) and two modular buildings, one previously occupied by the Arizona Department of Public Safety (DPS) Capitol Police Emergency Operations Center (EOC). ADOA closed the CDC in FY 09 and DPS closed the EOC in approximately FY 11. All three buildings remain vacant, in chronic decline, creating an attractive nuisance that facilitates trespass and vandalism.

$250,000: Economic Security, Department of (DES) – ATPC Coolidge Ponderosa, Building Units 11-26 – Demolition

The Arizona Training Program at Coolidge (ATPC) is located on Arizona State Land Department (State Land) Trust Land leased to DES. Approximately 17-years ago, ATPC retired use of approximately 180 acres of the leased land and abandoned a landfill and structures. DES wishes to relinquish the unutilized acreage to State Land; however, the terms of the land lease require DES to remove and remediate regulated materials, including asbestos in 17 structures, and waste associated with the landfill, and restore the acreage to its original condition at DES' exclusive expense. DES is obligated for the lease payments associated with current land lease for the unutilized acreage. DES' remediation and restoration obligations for the State Trust Land survive the expiration of the land lease term. DES previously funded an environmental assessment of the acreage that resulted in recommendations to abate environmental hazards and restore the site. As an alternative to a full $2.2 million appropriation in a single fiscal year, ADOA recommends an annual phased approach beginning with $250,000 for the abatement and demolition of all vertical structures. This initial allocation would remove any potential liability associated with the dilapidated buildings.

Arizona Department of Administration (ADOA) Building System
FY 2015 Building Renewal Allocation Plan
Laws 2014, Second Regular Session, Chapter 15 (HB2709)
$18,000,000 ($11,800,000)

Contingency:

$571,000: Administration, Department of (ADOA) Building System – ADOA Building System Statewide Priorities – Contingency

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 and address unforeseen scope of work conditions.

Project Scoping:

$250,000: Administration, Department of (ADOA) – ADOA Building System – Building Renewal Project Priorities (FY 15 and Prospective FY 16) Scoping

This allocation will primarily justify allocations associated with the $9 million pending future JCCR review. S ome of the building renewal requests ADOA receives for funding consideration are deficient or have very broad scopes of work, no supporting documentation, and insufficient, unreliable, or aged cost estimates. The proposed allocation supports ADOA's mission to prepare an allocation plan that addresses the ADOA Building System's current and deferred building renewal requirements efficiently, including allocating an appropriate amount – not too much; not too little – of monies to well scoped projects.

The potential projects that require additional scoping/professional services follow:

- ADJC - Fire Code Compliance; Fire Suppression System at Adobe Mountain School
- ADJC - Replace Failing Cell Door Locks at Adobe Mountain School
- DEMA – Statewide Fire & Life Safety Improvements
- DPS – Replace Tucson Headquarters Fire Alarm
- DHS - Replace Chiller #2 at Arizona State Hospital

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 five FTE Positions for building renewal project management.

Risk Management Insurance Premium:

$4,000: 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.

STATE OF ARIZONA

Joint Committee on Capital Review

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HOUSE OF REPRESENTATIVES

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DATE: June 12, 2014

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

THRU: Richard Stavneak, Director RS

FROM: Micaela Larkin, Fiscal Analyst ML

SUBJECT: Arizona Department of Corrections - Review of FY 2015 Building Renewal Allocation Plan

Request

A.R.S. § 41-1252 requires Committee review of expenditure plans for building renewal monies. The FY 2015 Capital Outlay Bill (Laws 2014, Chapter 15) appropriated a total of $8,464,300 to the Arizona Department of Corrections (ADC) for general building renewal. This amount consists of $5,464,300 from the Department of Corrections Building Renewal Fund and $3,000,000 from the General Fund. ADC requests the Committee review its FY 2015 Building Renewal Allocation Plan, which primarily funds the replacement of obsolete locking and control systems, conversions from evaporative coolers to air conditioning in select units, and work on 2 wells.

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:

1. ADC shall report any change in the building renewal spending plan to the JLBC Staff, including reallocations between projects and non-emergency use of contingency monies. If there is significant change of scope in the reallocation reported by ADC, the JLBC Staff shall recommend ADC request Committee review of the reallocation. Prior reviews also included this provision.
2. The distribution of the emergency contingency allocation of $175,800 be addressed as follows:

(Continued)

A. ADC 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.

B. If the emergency project is $50,000 or greater, ADC will request JCCR review.

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

D. The Chairman will notify ADC if he does not agree that the project is an emergency and will request that ADC not proceed with the project.

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

Analysis

A total of $8,464,300 was appropriated to ADC for building renewal in FY 2015, with $5,464,300 from the Department of Corrections Building Renewal Fund, and $3,000,000 from the General Fund. Of this amount, ADC proposes to use $8,265,500 for building renewal, $175,800 for contingency, and $23,000 for project management software. The FY 2015 Building Renewal Allocation Plan consists of the following projects:

Table 1

FY 2015 Building Renewal Allocation Plan

Locking and Control Systems	
Eyman/Special Management Unit I	$1,200,000
Phoenix/Alhambra	1,034,900
Florence/Central	750,000
Subtotal	*$2,984,900*
Air Conditioning for Select Units - Health (H) and Mental (M) Units	
Perryville/Lumley (H & M)	$622,400
Lewis/Barchey (H)	438,600
Lewis/Stiner (H)	438,600
Tucson/Manzanita (H)	428,000
Eyman/Meadows (H)	328,900
Eyman/Cook (H)	287,500
Florence/South (H)	23,200
Subtotal	*$2,567,200*
Wells	
Lewis Complex Well	$2,000,000
Winslow Apache Unit	142,000
Subtotal	*$2,142,000*
Structural Additions, Repairs, and Assessment	
Eyman/Rynning - Structural Repairs	$200,000
Tucson/Rincon - Negative Pressure Rooms	150,000
Lewis-Stiner - New Cooler and Duct Work	136,400
Assessment of Deterioration Due to Evaporative Coolers	85,000
Subtotal	*$571,400*
Building Renewal Subtotal	**$8,265,500**
Project Management Software	$23,000
Contingency	$175,800
TOTAL	**$8,464,300**

(Continued)

Locking & Control Systems
A total of $2,984,900 would be allocated for locking and control systems at 3 units in FY 2015. From FY 2012 to FY 2014, about $6,300,000 has been spent on improving locking 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 and old locks systems, the staff faces equipment failures, repairs, and in the case of ASPC - Phoenix and ASPC - Florence, manual operation of some doors and locks.

Eyman Special Management Unit I has 96 housing pods in need of repair and upgrades. The FY 2015 Building Renewal funding will allow for the repair and upgrade of 20 of the Eyman pods which builds upon the 20 pods repaired with FY 2014 Building Renewal funding, leaving 56 pods in need of repair and upgrades.

The contractor for the locking and control system projects will be chosen through a competitive bid process. It is typical for doors and locks to be upgraded at the same time as the control system. The costs for each unit depend on the size of the unit and the extent of repair or upgrading needed for the locks and doors.

Air Conditioning for Select Health (H) & Mental (M) Units
A total of $2,567,200 would primarily be allocated for the conversion from evaporative cooling to air conditioning in 7 units at 5 APSC facilities dedicated to housing inmates with medical and/or mental health issues. The use of evaporative coolers causes high humidity and higher than normal interior temperatures during the summer months. The cost for converting each unit will range from $23,200 to $622,400.

Wells
A total of $2,142,000 would be allocated for drilling new wells at 2 prisons to secure long term reliable water sources.

A new well would be constructed for the ASPC-Lewis Complex at a cost of $2,000,000. The facility uses 1.2 million gallons of potable water per day. The facility currently uses 2 original water wells installed in 1998 that were "re-cased" about a decade ago to fix corrosion. Since "re-casing" the tanks again would reduce the capacity of the wells, a new production well was built in 2013 at a cost of $2,300,000. Just prior to operation, however, ADC discovered that the levels of uranium exceeded federal water quality standards. Based on earlier wells at this location, uranium had not been an issue in this aquifer and extensive testing was not conducted beforehand. In terms of the proposed new well, ADC had an environmental consultant evaluate and assess options. The consultant found drilling a new well to be the most cost effective viable option. For the new well, ADOA will employ a hydro-geologist to determine the site of the new well and will conduct extensive element testing. With the exception of $400,000 in equipment that can be utilized for the new well, the other $1,900,000 of 2013 expenditures are a sunk cost. The previously constructed well in 2013 will remain unused.

In addition, a new well would be constructed for the Winslow Apache Unit at a cost of $142,000. Reaching the end of its service life, the current well has experienced several failures. During these occurrences, ADC purchased water and transported it to the unit. The new well will allow the current well to be utilized as a backup source of water.

(Continued)

Structural Additions, Repairs, and Assessment
A total of $571,400 would be allocated for structural additions, repairs, and assessment. The structural additions and repairs would be for the installation of 2 medical isolation rooms ("negative pressure rooms") at the Tucson Inpatient Care Unit, the repair of structural damage at an ASPC - Eyman unit from the humidity produced by evaporative cooling, and the installation of a new evaporative cooler and ductwork in an ASPC - Lewis unit laundry building. The department will use $85,000 to assess the systemwide deterioration and damage from the prolonged exposure to high humidity due to the widespread use of evaporative cooling in ADC facilities.

Project Management Software
A total of $23,000 would be allocated for project management software.

RS/ML:kp

Arizona Department of Corrections

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JANICE K. BREWER
GOVERNOR

CHARLES L. RYAN
DIRECTOR

RECEIVED
MAY 30 2014
JOINT BUDGET COMMITTEE

May 29, 2014

The Honorable John Kavanagh, Chairman
Joint Committee on Capital Review
1716 West Adams
Phoenix, Arizona 85007

Dear Representative Kavanagh:

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 2015 Building Renewal Plan.

In FY 2015 a total of $8,464,300 ($3,000,000 General Fund & $5,464,300 Building Renewal Fund) is appropriated to ADC. Supporting documentation for the plan is enclosed.

If you have any questions regarding any of the proposed items, 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
John Arnold, Director, Office of Strategic Planning and Budgeting (OSPB)
Richard Stavneak, Director, Joint Legislative Budget Committee (JLBC)
Stefan Shepherd, Deputy Director, JLBC
Scott Selin, Budget & Project Manager, OSPB
Ed Boot, Capital Manager, OSPB
Micaela Larkin, Fiscal Analyst, JLBC Staff

ARIZONA DEPARTMENT OF CORRECTIONS
2015 BUILDING RENEWAL

LOCATION	PROJECT DESCRIPTION	ESTIMATED COST	
LEWIS COMPLEX	WELL #5 RELOCATION	$	2,000,000
EYMAN SMU I	LOCKING SYSTEM UPGRADE PHASE II	$	1,200,000
EYMAN RYNNING	STRUCTURAL REPAIRS	$	200,000
TUCSON RINCON	IPC NEGATIVE PRESSURE ROOMS	$	150,000
LEWIS STINER	NEW COOLER AND DUCTWORK FOR LAUNDRY	$	136,400
PHOENIX ALHAMBRA	LOCKING SYSTEMS	$	1,034,880
FLORENCE CENTRAL	LOCKING SYSTEMS HU 5,6,7	$	750,000
VARIOUS	STRUCTURAL ENGINEERING SURVEY	$	85,000
WINSLOW APACHE	INSTALL SECOND WELL	$	142,000
TUCSON MANZANITA HU6	A/C CONVERSION	$	428,000
EYMAN MEADOWS HU7	A/C CONVERSION	$	328,893
FLORENCE SOUTH HU7	A/C CONVERSION	$	23,250
PERRYVILLE LUMLEY YD30	A/C CONVERSION	$	622,400
LEWIS BARCHEY HU6	A/C CONVERSION	$	438,600
LEWIS STINER HU6	A/C CONVERSION	$	438,600
EYMAN COOK HU5	A/C CONVERSION	$	287,500
SUB TOTAL		$	8,265,523
PM SOFTWARE		$	23,000
CONTINGENCY		$	175,777
TOTAL		$	8,464,300
FUND SOURCE			
GENERAL FUND		$	3,000,000
BUILDING RENEWAL FUND		$	5,464,300
TOTAL FUND		$	8,464,300

Arizona Department of Corrections
ADC FY 2015 Building Renewal Plan

Lewis Complex Well: $2,000,000

ASPC-Lewis utilizes 1.2 million gallons of potable water per day; the two original water wells were installed in 1998 and have deteriorated due to the corrosive nature of water from this aquifer. Several repairs have been made over the years to both wells including new stainless steel casings approximately 10 years ago. These casings have also corroded in areas and have been patched. Re-casing again would reduce the capacity of the wells below the required finished water production of 1.2 million gallons per day; further failures are anticipated and could occur at any time. To provide a new long- term reliable water source for the prison, a new production well was completed by the Department of Administration (ADOA) at ASPC-Lewis in 2013, utilizing funds from the 2007 Certificates of Participation for water and wastewater projects at various prisons. $2.3 million was expended on the design and construction of this well.

When the final water testing was conducted prior to the new well being brought online it was discovered that levels of uranium exceeding federal drinking water standards were present. This had not been an issue for the existing wells, so further testing was ordered. The raw water tested at 48.9 micrograms/liter for uranium, which exceeds the federal limit of 30 micrograms/liter. ASPC-Lewis currently has an Electrodialysis Reversal (EDR) water treatment system that treats the existing well water to municipal standard; however post-treatment levels for water from the new well tested at 29.5 micrograms/liter for uranium with a +/- 2.9 microgram / liter degree of error, still exceeding federal standard. ADOA and ADC in consultation with Wilson Engineers, have explored various options: 1) consult with GE, the manufacturer of the current EDR plant for possible enhancements, 2) design and install an industry standard ion reversal pre-treatment system, 3) blend water from the existing and current wells to produce finished water meeting federal standard, or 4) conduct zonal sampling of the new well to determine if the uranium could be isolated to one level or 5) drill a new well. Wilson Engineers explored these various options with the following findings: 1) for option one, GE does not believe the EDR system capable of removing the uranium without pre-treatment, 2) an ion reversal pre-treatment system was estimated to cost over $2 million to design and construct and would have an unknown continued operating expense in disposing of the radioactive waste-product, 3) blending would require the installation of sophisticated controls and continuous monitoring at a highly prohibitive cost and 4) zonal sampling was performed indicating that the uranium was present in all zones and in amounts ranging from 49.1 to 69.8 milligrams / liter; all in excess of what current treatment could bring into federal compliance levels. This left option 5, drill a new well, as the most viable.

The Department proposes partnering with ADOA on siting and drilling a new well. ADOA will employ the services of a hydro-geologist in determining the site and will conduct extensive testing prior to development of the well. We believe the uranium is isolated to this one particular area of the aquifer, as the existing production wells do not contain levels of uranium exceeding standard. Approximately $400,000 of equipment installed in the previous well completed in 2013, will be utilized in the new well.

Eyman SMU I Locking System Upgrade Phase II: $1,200,000

The doors and locks at SMU I were installed in 1987 and have reached the end of their service life. The SMU I unit houses maximum custody level inmates and it is critical that doors and locks are secure and function properly. The entire SMU I unit requires repairs and upgrades; 20 of the 96 housing pods were addressed as part of the 2014 building renewal plan, an additional 20 pods will be addressed in the 2015 building renewal budget.

Eyman Rynning Unit Structural Repairs: $200,000

Due to the long term effects humidity produced by evaporative cooling, the Rynning unit has structural issues that need to be repaired. In several areas of this unit concrete is spalling, rebar has rusted and expanded and door frames and doors have rusted to the point of failure. If left un-repaired conditions will worsen and compromise the structural integrity of the buildings.

Tucson Rincon Negative Pressure Rooms: $150,000

In addition to the Inpatient Care Unit being completed as part of the 2014 building renewal funding, ADC would like to install 2 negative air pressure medical isolations rooms at the Inpatient Care Unit. The additional of these 2 rooms will allow medically necessary isolation to take place at the Rincon unit vs. having to transport inmates to hospitals. This will allow ADC to avoid staff and transportation costs associated with such transports. This will also allow inmates to remain in a more secure environment.

Lewis Stiner Unit New Cooler and Ductwork: $136,400

The ASPC-Lewis Stiner unit laundry building has an evaporative cooler and associated ductwork that has reached the end of its service life. The original equipment was installed in 2000 and due to the extremely hard water conditions that exist at the Lewis complex; the equipment has deteriorated to the point where replacement is necessary.

Phoenix Alhambra Unit Locking System Upgrade: $1,034,880

The locking systems at the Alhambra unit have reached the end of their service life and are in need of replacement. The Alhambra unit is the intake facility for ADC and is operated as a maximum custody unit. The original locking systems are over 20 years old and are in need of frequent repairs. In some cases electronic controls do not always function properly and thus staff must utilize keys to operate doors. The replacement of the locks and control systems are critical to the secure operation of the unit in the future.

Florence Central Unit Housing Units 5, 6, 7 Locking System Upgrade: $750,000

Housing units 5, 6 & 7 at the Florence Central unit house maximum custody inmates. These locking systems originally installed over 20 years ago have reached the end of their service life and must be replaced to insure a secure housing area for maximum custody inmates. In some cases electronic controls do not always function properly and thus staff must utilize keys to operate doors. The replacement of the locks and control systems are critical to the secure operation of the unit in the future.

Structural Engineering Survey: $85,000

Due to the widespread use of evaporative cooling in the ADC prisons and prolonged exposure to high humidity, several of the ADC concrete and steel structures have shown signs of deterioration or damage. The intent of this engineering survey is to identify the buildings with the most severe structural issues and develop a scope of work for repairs to be funded in future building renewal budgets.

Winslow Apache Unit Install Second Well: $142,000

The Winslow Apache unit which is located 13 miles from the nearest town is currently dependent on one water well. In the past 2 years the well has experienced several failures as it is reaching the end of its service life. In FY 2014 the well was out of service for several days and the unit was forced to have water purchased and delivered. The addition of a new well will allow the current well to be taken out of daily service and be utilized as a back up well for the unit.

Tucson Manzanita Health Unit Air Conditioning Conversion: $428,000

Housing unit 6 at the Tucson Manzanita 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.

Eyman Meadows Health Unit Air Conditioning Conversion: $328,893

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.

Florence South Health Unit Air Conditioning Conversion: $23,250

Housing unit 7 at the Florence South 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.

Perryville Lumley Yard 30 Air Conditioning Conversion: $622,400

Yard 30 at the Perryville Lumley unit houses maximum custody inmates with both health and mental health issues. 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.

Lewis Barchey Unit Air Conditioning Conversion: $438,600

Housing unit 6 at the Lewis Barchey 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.

Lewis Stiner Unit Air Conditioning Conversion: $438,600

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.

Eyman Cook Unit Air Conditioning Conversion: $287,500

Housing unit 5 at the Eyman Cook 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.

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DATE: June 12, 2014

TO: Representative John Kavanagh, 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 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 $731,000 for capital improvements. The FY 2015 Capital Outlay Bill (Laws 2014, Chapter 15) 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 9 capital projects with a total cost of $731,000 in FY 2015.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review.

2. An unfavorable review.

Analysis

Background
The Arizona Exposition and State Fair requests the Committee review the following 9 projects:

1. Plaza Building Fire Alarm System
AESF's staff and the State Fire Marshal's Office have determined that fire safety improvements are required. These include installation of pull station alarms, audible horns and visual flashers. Estimated project cost is $100,000.

(Continued)

2. Coliseum Rigging Safety Lines
   Riggers that raise and lower lights for an event work 60 feet above the Coliseum floor. The current system of safety lines are approaching 50 years old and need to be replaced to ensure worker safety. An entirely new safety line system will be designed and installed. While the new system is being installed, temporary safety improvements will be made to allow events to continue until the permanent improvements can be completed. Estimated project cost is $140,000.

3. Wallace and Ladmo Stage Expansion
   The small size of the current stage requires the rental of a tent and stage when large acts are performing. The stage improvements will add a 34' wide by 10' deep section to the stage. The new stage dimensions will be approximately 34' x 24'. Estimated project cost is $21,000.

4. Restroom Improvements
   Renovating 8 aging restrooms will enhance the guest experience and help maintain the current facilities. The project involves repairing or replacing restroom partitions and fixtures in 3 buildings. The work will be performed by AESF staff. Estimated project cost is $70,000.

5. Sidewalk Repairs
   A section of Phoenix city sidewalk along McDowell Road needs to be replaced. The project will eliminate a hazardous area with the potential for trips and falls. Estimated project cost is $30,000.

6. Asphalt Improvements - South Property along McDowell Road
   Removing damaged asphalt and paving the dirt section along the south property line will allow the area to be used for potential revenue generating opportunities. The newly resurfaced space can be rented to additional sponsors and vendors. Estimated project cost is $110,000.

7. Wrought Iron Fencing
   The low height decorative fencing along the McDowell Road property line does not provide adequate security for the property. The current fencing will be replaced with a 6' wrought iron style fence. Estimated project cost is $20,000.

8. Grandstand Roof Coating
   The life of the grandstand roof can be extended through preventive measures. The project would repair or replace damaged sections of the steel roof and apply a 1" foam coating to the roof canopy top. The project includes painting the structural supports for the canopy. Estimated project cost is $120,000.

9. Asphalt Improvement- Avenue of Flags
   Dirt areas along the east side of the Avenue of Flags create dust issues for food vendors that use the area. The project will pave the dirt areas which will mitigate the existing dust issues for both food vendors and customers. It will also improve the condition of the property for potential future uses. Estimated project cost is $120,000.

RS/SG:kp

Arizona State Fair

May 27, 2014

RECEIVED
JUN 02 2014
JOINT BUDGET COMMITTEE

The Honorable John Kavanagh
Joint Committee on Capital Review
Arizona House of Representatives
1700 W. Washington
Phoenix, AZ 85007

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

Dear Representative Kavanagh:

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

1. Plaza Building Fire Alarm System	$100,000
2. Coliseum Rigging Safety Lines	$140,000
3. Wallace & Ladmo Stage Expansion	$ 21,000
4. Restroom Improvements	$ 70,000
5. Sidewalk Repairs	$ 30,000
6. Asphalt Improvement – South Property	$110,000
7. Wrought Iron Fencing	$ 20,000
8. Grandstand Roof Coating	$120,000
9. Asphalt Improvement – Avenue of Flags	$120,000

A brief description of the projects is as follows:

1. <u>Plaza Building Fire Alarm System</u>
   New detection and audible warning systems are being required by the State Fire Marshal. Project includes installation of pull station alarms, audible horns and visual flashers. This project is being sought to comply with fire safety requirements and public protection.

2. <u>Coliseum Rigging Safety Lines</u>
   Design and installation of safety lines for riggers working in the Coliseum ceiling. Current system is dated back fifty years with questionable modifications and damages. Project includes evaluation of existing safety points and design of a new system to include installation of a permanent rigging system. After design, a temporary safety system installed as a first phase depending upon project time

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

and cost. This project is being sought as a work place and life safety requirement.

3. Wallace & Ladmo Stage Expansion
Addition of approximately 300 square feet to the front performance area of the permanent Wallace and Ladmo stage. This will allow the Fair to eliminate a tent and stage rental cost. The increased stage size will create an area that is large enough to be used for dance groups, bands and large choirs to perform during the Fair. This project is being sought as a costs savings effort and a building improvement.

4. Restroom Improvements
Restroom renovations to include repair or replacement of restroom partitions and fixtures in the Grandstands, Agricultural Center and Bolin Youth Building (8 sets of facilities). This project is being sought to improve or maintain the facilities and enhance the guest experience.

5. Sidewalk Repairs
Replace city sidewalk section along McDowell Road adjacent to bus pull out near the Grand Avenue intersection. The sidewalk area is cracked, uneven and hazardous as an area for potential trip and falls. This project is being sought to improve the area and for safety concerns.

6. Asphalt Improvements – South Property along McDowell Road
Remove damaged asphalt and pave the dirt area along the south property line. This project is being sought to improve the area for potential revenue opportunities.

7. Wrought Iron Fencing
Replace low height decorative fencing along the McDowell Road property line with a 6' wrought iron style fence to secure the property. This project is being sought as a protective measure for the property.

8. Grandstand Roof Coating
Repair or replace damaged sections of steel roof and apply a 1" foam coating to roof canopy top. Project to include painting of structural supports for the canopy. This project is being sought as a preventive measure to extend the life of the canopy and improve the appearance of the structure.

9. Asphalt Improvements – Avenue of Flags
Pave dirt areas along the east side of the Avenue of Flags. Work will mitigate dust issues with food vendors and enhance use of the area. This project is being sought to improve the conditions of the property and reduce health issues with dust in food areas.

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 process to accomplish these projects, whether through bid, state contracts or in-house labor. ADOA General Services will also administer these constructions projects as appropriate.

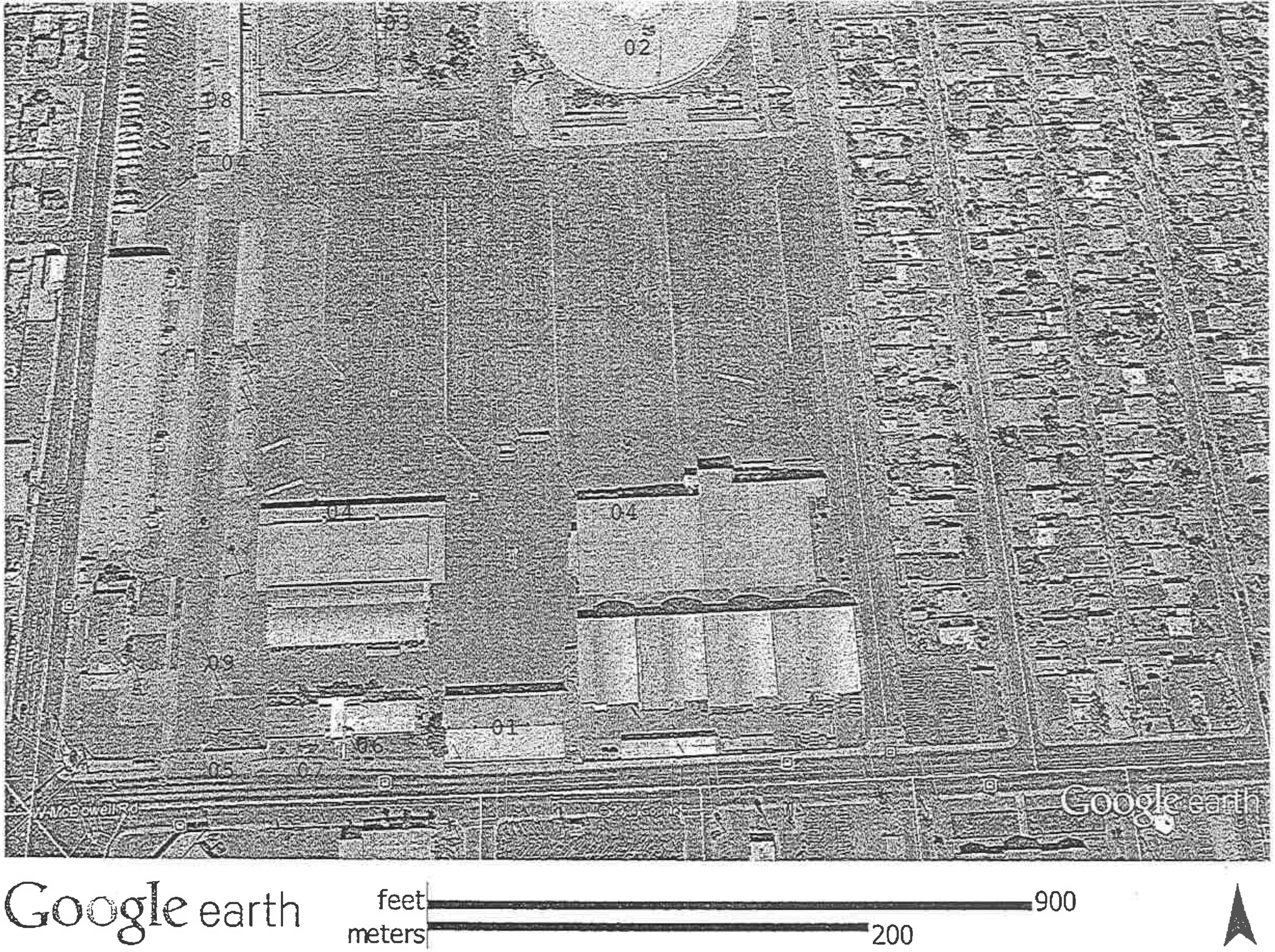
Please see the attached budget worksheet for project costs analysis and site map for reference.

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

Sincerely,

Wanell Costello
Deputy Director

CC: The Honorable Don Shooter
Illya Riske, OSPB
Steve Grunig, JLBC



Projects 2014-

01 Plaza Fire Alarm
02 Coliseum Rigging Lines
03 Walace & Ladmo Stage
04 Restroom Improvements
05 Sidewalk Repairs
06 Asphalt Improvement - South Property
07 Wrought Iron Fence
08 Grandstand Canopy Coating
09 Asphalt Improvement - Avenue of Flags

AZ Exhibition & State Fair Projects

CONSTRUCTION SERVICES

PROJECT: Plaza Building Fire Alarm				Original JCCR Estimate	Current Estimate at Completion	Contingency Project Shortfall
PROJECT NUMBER: 2014-02	DATE PREPARED:	June 1, 2014	Project No.			
	REVISED :			$100,000	$0	($100,000)
GENERAL MANAGER:					$0	$0
DESCRIPTION	INDEX	AMOUNT				
Project — AESF Total Transfers in:						
1 Plaza Building Fire Alarm		$100,000				
				$100,000	$0	($100,000)
				Cumulative Contingency Total:		$7,600
TOTAL FUNDING for AZ State Fair Campus		$100,000				

	Cost Codes	Original JCCR Estimates — Plaza Building Fire Alarm	Current Estimate @ Completion — Plaza Building Fire Alarm	Original JCCR Estimates	Current Estimate @ Completion
Professional Services:					
1. Engineering		$23,000			
Subtotal		$23,000	$0	$0	$0
Construction Services (GC):	1700				
JOC Contractor		$65,000			
Gordian Fee		$1,270			
State Fire Marshal Fees		$500			
Subtotal		$66,770	$0	$0	$0
Subtotal		$0	$0	$0	$0
Project Support:					
1. ADOA Project Management	1200	$2,300			
2. Risk Management at .34%	1314	$330			
Subtotal		$2,630	$0	$0	$0
Contingency Allowance:		$7,600			
TOTAL PROJECT COST		$100,000	$0	$0	$0

NOTES:

AZ Exhibition & State Fair Projects

CONSTRUCTION SERVICES

PROJECT: Restroom Improvements							
PROJECT NUMBER: 2014-04	DATE PREPARED:	June 1, 2014			Original JCCR Estimate	Current Estimate at Completion	Contingency Project Shortfall
	REVISED :			Project No.			
GENERAL MANAGER:					$70,000	$0	($70,000)
						$0	$0
DESCRIPTION	INDEX	AMOUNT					
Project AESF Total Transfers in:							
4 Restroom Improvements		$70,000					
					$70,000	$0	($70,000)
					Cumulative Contingency Total:		$5,000
TOTAL FUNDING for AZ State Fair Campus		$70,000					

	Cost Codes	Original JCCR Estimates Restroom Improvements	Current Estimate @ Completion Restroom Improvements	Original JCCR Estimates	Current Estimate @ Completion
Professional Services:					
1. Engineering					
Subtotal		$0	$0	$0	$0
Construction Services (GC):	1700				
1. Fixtures, Materials and Paint					
Grandstand Restrooms		$35,000			
Bolin Youth Restrooms		$15,000			
Agricultural Center Restrooms		$15,000			
Subtotal		$65,000	$0	$0	$0
Subtotal		$0	$0	$0	$0
Project Support:					
1. ADOA Project Management	1200	$0			
2. Risk Management at .34%	1314	$0			
Subtotal		$0	$0	$0	$0
Contingency Allowance:		$5,000			
TOTAL PROJECT COST		**$70,000**	**$0**	**$0**	**$0**
NOTES: In-house Labor					

AZ Exhibition & State Fair Projects									
			CONSTRUCTION SERVICES						
PROJECT:		Sidewalk Repairs							
PROJECT NUMBER: 2014-05			DATE PREPARED:	June 1, 2014			Original JCCR Estimate	Current Estimate at Completion	Contingency Project Shortfall
			REVISED :			Project No.			
GENERAL MANAGER:							$70,000	$0	($70,000)
								$0	$0
DESCRIPTION			INDEX	AMOUNT					
	Project	AESF Total Transfers in:							
	5	Sidewalk Repairs		$20,000					
							$70,000	$0	($70,000)
							Cumulative Contingency Total:		$0
	TOTAL FUNDING for AZ State Fair Campus			$20,000					
				Original JCCR Estimates	Current Estimate @ Completion	Original JCCR Estimates	Current Estimate @ Completion		
			Cost Codes	Restroom Improvements	Restroom Improvements				
Professional Services:									
1.	Engineering								
	Subtotal			$0	$0	$0	$0		
Construction Services (GC):			1700						
1.	JOC - Contractor Services			$68,000					
		Subtotal		$68,000	$0	$0	$0		
	Subtotal			$0	$0	$0	$0		
Project Support:									
1.	ADOA Project Management		1200	$1,760					
2.	Risk Management at .34%		1314	$240					
	Subtotal			$2,000	$0	$0	$0		
Contingency Allowance:									
TOTAL PROJECT COST				$70,000	$0	$0	$0		
NOTES:									

AZ Exhibition & State Fair Projects							
	CONSTRUCTION SERVICES						
PROJECT: Asphalt Improvements - South Property							
PROJECT NUMBER: 2014-06	DATE PREPARED:	June 1, 2014			Original JCCR Estimate	Current Estimate at Completion	Contingency Project Shortfall
	REVISED :			Project No.			
GENERAL MANAGER:					$110,000	$0	($110,000)
						$0	$0
DESCRIPTION	INDEX	AMOUNT					
Project AESF Total Transfers in:							
6 Asphalt Imprvements - South Property		$110,000					
					$110,000	$0	($110,000)
					Cumulative Contingency Total:		$8,000
TOTAL FUNDING for AZ State Fair Campus		$110,000					

	Cost Codes	Original JCCR Estimates Asphalt Improvements - South Property	Current Estimate @ Completion Asphalt Imrpovements South Property	Original JCCR Estimates	Current Estimate @ Completion
Professional Services:					
1. Engineering					
Subtotal		$0	$0	$0	$0
Construction Services (GC):	1700				
1. JOC - Construction Construction		$100,000			
2. Gordian Fee		$2,000			
Subtotal		$102,000	$0	$0	$0
Subtotal		$0	$0	$0	$0
Project Support:					
1. ADOA Project Management	1200	$1,000			
2. Risk Management at .34%	1314	$340			
Subtotal			$0	$0	$0
Contingency Allowance:		$8,000			
TOTAL PROJECT COST		**$110,000**	**$0**	**$0**	**$0**
NOTES:					

AZ Exhibition & State Fair Projects							
	CONSTRUCTION SERVICES						
PROJECT: Wrought Iron Fence							
PROJECT NUMBER: 2014-07	DATE PREPARED:	June 1, 2014			Original JCCR Estimate	Current Estimate at Completion	Contingency Project Shortfall
	REVISED :			Project No.	$20,000	$0	($20,000)
GENERAL MANAGER:						$0	$0
DESCRIPTION	INDEX	AMOUNT					
Project 7 — AESF Total Transfers in: Wrought Iron Fence		$110,000					
					$20,000	$0	($20,000)
					Cumulative Contingency Total:		$935
TOTAL FUNDING for AZ State Fair Campus		$110,000					

	Cost Codes	Original JCCR Estimates — Wrought Iron Fence	Current Estimate @ Completion — Wrought Iron Fence	Original JCCR Estimates	Current Estimate @ Completion
Professional Services:					
1. Engineering		$0			
Subtotal		$0	$0	$0	$0
Construction Services (GC):	1700				
1. Materials		$19,000			
Subtotal		$19,000	$0	$0	$0
Subtotal		$0	$0	$0	$0
Project Support:					
1. ADOA Project Management	1200				
2. Risk Management at .34%	1314	$65			
Subtotal		$65	$0	$0	$0
Contingency Allowance:		$935			
TOTAL PROJECT COST		$20,000	$0	$0	$0

NOTES: In-house Construction and Labor

AZ Exhibition & State Fair Projects								
		CONSTRUCTION SERVICES						
PROJECT:	Grandstand Roof Coating							
PROJECT NUMBER: 2014-08		DATE PREPARED:	June 1, 2014			Original JCCR Estimate	Current Estimate at Completion	Contingency Project Shortfall
		REVISED :			Project No.			
GENERAL MANAGER:						$120,000	$0	($120,000)
							$0	$0
DESCRIPTION		INDEX	AMOUNT					
Project	AESF Total Transfers in:							
8	Grandstand Roof Coating		$120,000					
						$120,000	$0	($120,000)
						Cumulative Contingency Total:		$1,600
TOTAL FUNDING for AZ State Fair Campus			$120,000					

	Cost Codes	Original JCCR Estimates Grandstand Roof Coating	Current Estimate @ Completion Grandstand Roof Coating	Original JCCR Estimates	Current Estimate @ Completion
Professional Services:					
1. Engineering		$0			
Subtotal		$0	$0	$0	$0
Construction Services (GC):	1700				
1. Contractor Services - Roof Coating		$65,000			
2. Contractor Services - Structural Repairs		$20,000			
3. Contractor Services - Painting		$33,000			
Subtotal		$118,000	$0	$0	$0
Subtotal		$0	$0	$0	$0
Project Support:					
1. ADOA Project Management	1200	$1,500			
2. Risk Management at .34%	1314	$400			
Subtotal		$400	$0	$0	$0
Contingency Allowance:		$1,600			
TOTAL PROJECT COST		$120,000	$0	$0	$0

NOTES:

AZ Exhibition & State Fair Projects

CONSTRUCTION SERVICES

PROJECT: Asphalt Improvements - Avenue of Flags

PROJECT NUMBER: 2014-09 DATE PREPARED: June 1, 2014

REVISED :

GENERAL MANAGER:

DESCRIPTION		INDEX	AMOUNT	Project No.	Original JCCR Estimate	Current Estimate at Completion	Contingency Project Shortfall
					$120,000	$0	($120,000)
						$0	$0
Project	AESF Total Transfers in:						
9	Asphalt Improvements - Ave of Flags		$120,000				
					$120,000	$0	($120,000)
					Cumulative Contingency Total:		$1,600
TOTAL FUNDING for AZ State Fair Campus			$120,000				

		Cost Codes	Original JCCR Estimates Asphalt Improvements Avenue of Flags	Current Estimate @ Completion Asphalt Improvements Avenue of Flags	Original JCCR Estimates	Current Estimate @ Completion
Professional Services:						
1.	Engineering		$0			
	Subtotal		$0	$0	$0	$0
Construction Services (GC):		1700				
1.	JOC - Contractor Services					
	Subtotal		$0	$0	$0	$0
	Subtotal		$0	$0	$0	$0
Project Support:						
1.	ADOA Project Management	1200	$1,500			
2.	Risk Management at .34%	1314	$400			
	Subtotal		$400	$0	$0	$0
Contingency Allowance:			$1,600			
TOTAL PROJECT COST			$2,000	$0	$0	$0

NOTES:

STATE OF ARIZONA

Joint Committee on Capital Review

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

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

DATE: June 12, 2014

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

THRU: Richard Stavneak, Director RS

FROM: Steve Schimpp, Deputy Director SS

SUBJECT: East Valley Institute of Technology - Consider Approval of Proposed JTED Lease

Request

Pursuant to A.R.S. § 15-393R4, the East Valley Institute of Technology (EVIT) requests approval of its plan to lease 3 Career and Technical Education (CTE) buildings from the Apache Junction Unified School District (AJUSD) in order to establish a "leased centralized campus" at Apache Junction High School.

Recommendation

The Committee has at least the following 2 options:

1. Approve EVIT's request.
2. Disapprove EVIT's request.

Analysis

Background

Joint Technical Education Districts (JTEDs) are entities consisting of more than one public school district that join together to provide CTE instruction on a regional basis. Individual school districts must receive voter approval in order to join a JTED, as taxpayers in JTED "member" districts pay a 5¢ Qualifying Tax Rate (QTR) tax in addition to the QTR taxes paid to their "regular" school district in order to help fund their local JTED.

(Continued)

Like "regular" school districts, JTEDs receive K-12 equalization formula funding based on their Average Daily Membership (ADM) counts. JTED students attend CTE classes at either a "central campus" or "satellite" site. The latter are located at local high schools and can generate up to an additional 0.25 ADM per pupil above the 1.0 ADM that each of their pupils can generate for their non-JTED classes (so up to 1.25 ADM total). JTED "central campus" programs instead typically are taught at "regional" facilities that students travel to each day after taking non-JTED courses at their local high school. Central campus programs can generate up to an additional 0.75 ADM per pupil for JTED attendance (so up to 1.75 ADM total).

A.R.S. § 15-393R4 (enacted by Laws 2013, Chapter 229) now also permits JTEDs to generate up to 0.75 ADM for pupils taught at a "**leased** centralized campus." These facilities function like a traditional central JTED campus (such as by serving students from multiple high schools), but are located in leased facilities rather than at JTED "central campus" buildings (which typically are constructed with voter-approved bonds).

A.R.S. § 15-393R4 requires JCCR approval of JTED leases located on the site of a member district through December 31, 2016. Our understanding is that this requirement is intended to prevent "ordinary" satellite sites (ones not of a truly "regional" nature) from leasing themselves to their parent JTED in order to qualify for up to 1.75 ADM per site. Widespread conversions of this nature could substantially increase state General Fund costs for JTEDs.

Current Request

With Committee approval, EVIT plans to lease 3 CTE buildings from the AJUSD in FY 2015 at a 10-month lease rate of $1,500 per building. EVIT plans to make extensive renovations to these buildings in preparation for providing central campus-type CTE programs in Construction Technologies, Welding, and Culinary Arts at Apache Junction High School. EVIT's request letter (attached) indicates it expects initial building improvements at Apache Junction High School to cost in the range of "$300,000 to $400,000."

EVIT indicates that AJUSD officials approached it in 2012 seeking input on how to better provide CTE to the District's declining student population. Since then, EVIT has played an increasing role in administering the AJUSD CTE program and now has assumed responsibility for hiring and managing CTE faculty at AJUSD and for maintaining the district's CTE facilities.

State Fiscal Impact

Approval of the proposed lease would not have a *direct* state fiscal impact, as it would not directly entitle EVIT to additional Basic State Aid funding. It would be expected to have an *indirect* state fiscal impact, however, by attracting more students into CTE programs at the new leased centralized campus. Each new student typically would generate an additional 0.75 ADM, which would increase state costs by approximately $3,600. Approximately 1,350 students currently attend Apache Junction High School, where the new leased centralized JTED campus would be located.

RS/SSc:kp

CAREER AND COLLEGE PREP

RECEIVED JUN 05 2014 JOINT BUDGET COMMITTEE

June 5, 2014

Sally E. Downey, Ed.D.

ASST. SUPERINTENDENT
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Dr. A. Keith Crandell Campus
1601 West Main Street
Mesa, Arizona 85201
(480) 461-4000
FAX: (480) 461-4089
www.evit.com

The Honorable John Kavanagh, Chairman
Joint Committee on Capital Review
1716 West Adams
Phoenix, Arizona 85007

Dear Representative Kavanagh:

ARS15-393 (R)(4) requires approval by the Joint Committee on Capital Review (JCCR) of lease agreements entered into between a Joint Technical Education District and a School District for purposes of recovering average daily membership from the Department of Education. The East Valley Institute of Technology (EVIT) requests approval of a lease between EVIT and Apache Junction High School (AJHS), allowing EVIT to continue the creation, upgrade, and maintenance of Career and Technical Education (CTE) courses as a leased centralized campus located on the present campus of Apache Junction High School.

ARS 15-393-R. The average daily membership for a pupil in grade ten, eleven or twelve who is enrolled in a course that meets for at least one hundred fifty minutes per class period at a leased centralized campus shall not exceed 0.75. The sum of the average daily membership, as provided in section 15-901, subsection A, paragraph 1, of a pupil who is enrolled in both the school district and in joint technical education district courses provided at a leased centralized campus shall not exceed 1.75 if all of the following conditions are met:

4. <u>The lease is established at fair market value if the lease is executed for a facility located on the site of a member district and was approved by the joint committee on capital review</u>, except that a lease that was executed or renewed before December 31, 2012 is not subject to approval by the joint committee on capital review. The requirement prescribed in this paragraph does not apply from and after December 31, 2016.

A brief background: The East Valley Institute of Technology was approached by officials of the Apache Junction High School district in 2012 with concerns about the continued viability of the CTE courses taught by the AJHS District. Overall AJHS had seen a drop in population from 2000 students in 2006 to 1350 today. In addressing this issue, Apache Junction concluded that the demographics of their service area demanded more rigorous career education offerings from the school, and entered into discussions with EVIT administrators. An initial agreement was entered into allowing EVIT to oversee the programs at the AJ facility, and EVIT provided increased expertise and oversight, upgrading curriculum standards and assuming responsibility for teacher employment, in-service and training.

Initially the three courses were taught in daily 55 minute increments in very cramped and insufficiently ventilated conditions that inhibited the capacity for instruction of the students. For example, one room of 20 x 30 foot dimension housed both teaching tools: desks, blackboards, instructional materials adjacent to a plasma cutting station, grinders, welders and other equipment, creating an atmosphere unacceptable to successful instruction as well as unsafe conditions for work and study.

It was immediately apparent to our administration and instructional staff that to improve the overall success of the faculty and program, updating the physical facilities was necessary.

General agreements: EVIT agreed to employ and assume responsibility for the training and management of the CTE faculty. EVIT agreed to maintain the facilities through cooperation of our mutual facilities personnel. Curriculum, teaching methods and tools are to be extensions of current EVIT practices and procedures. Other requirements: safety, deportment, ingress and egress of personnel, are by agreement with AJHS and its administration.

Inherently Construction Technologies, Welding, and Culinary Arts courses require costly and specific physical equipment and infrastructure to be maintained correctly. A review of other facilities available on the campus was conducted and administrators agreed to the use by EVIT of other physical facilities that were underutilized but could be retrofitted and remodeled to accommodate these courses.

Proposed Improvements:

Welding: EVIT proposes to bring up to approved fire and instructional safety standards the present location. This requires extensive electrical upgrading, air ventilation (for fumes and particulate matter incident to welding activity) by occupying other adjacent classroom space. This will allow the full utilization of several types of welders, torches, grinders, chop saws and plasma cutting devices to be utilized in a safe, professional and workmanlike manner.

Construction Technologies: EVIT proposes to retrofit and remodel an old science lab building currently "mothballed" for this course. The existing old sinks, counter tops, natural gas installations and older air and ventilation equipment will be removed. The building will be retrofitted into two parallel rooms for academic instruction and construction activity. Code certified sprinkler, air ventilations systems, and electrical upgrades of sufficient capacity for equipment upgrading, placement and portability will be installed. Power equipment is a safety hazard inherently, and the table saws, band saws, router tables, radial arm saws and various handheld equipment items will be safe for instructional use in this newly planned retrofit.

Culinary Arts: The present Culinary Arts area will be improved and remodeled. It will also allow for the needed expansion of instructional production to address public interaction. Opening access through the building exterior and the installation of a secure serving window will allow students to interact with other students and the general public in providing appropriate food items for school and community events. This training is part of the professional standards EVIT employs to prepare students for real world job opportunities.

Financial Terms: EVIT, with this approval, agrees to continue a sizeable financial and educational support investment in the reinvigorated CTE courses taught at this location. Initial improvement costs are estimated in the range of $300,000.00 to $400,000.00. Additionally, EVIT has proposed a 10 month lease rate of $1500 per month per building. We also plan to include increased payments for additional student occupancy.

The lease will allow EVIT to maintain and manage separate and distinct faculty and physical plant facilities on and within the AJHS campus. Plans will be available for your review upon request.

We humbly petition your approval of this lease.

Sincerely,

Sally E. Downey

Sally Downey
Superintendent
East Valley Institute of Technology

STATE OF ARIZONA

Joint Committee on Capital Review

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

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

DATE: June 12, 2014

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

THRU: Richard Stavneak, Director RS

FROM: Art Smith, Principal Fiscal Analyst AS

SUBJECT: Arizona State University - Review of System Revenue Bond Refund and Building Acquisition

Request

A.R.S. § 15-1682.02 requires Committee review of any university projects using indirect debt financing (also known as third party financing). A.R.S. § 15-1683 requires Committee review of any university projects financed with revenue bonds. Arizona State University (ASU) requests Committee review of a $15.7 million revenue bond issuance to refund privately-issued revenue bonds for Las Casas Residence Hall at ASU - West campus and to acquire the property.

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 provision that the project is ultimately approved by the Arizona Board of Regents along with the following standard university financing provisions:

Standard University Financing Provisions

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

- ASU shall provide the final debt service schedule for the project as soon as it is available.

(Continued)

Analysis

ASU plans to refund an existing housing bond that funded the Las Casas Residence Hall at ASU - West campus.

Background

West Campus Housing, LLC (WCH) was formed in 2002 for the purpose of constructing student housing. The LLC is essentially a 3rd party entity created by ASU to issue debt, receive dorm fees and use those monies to make the debt service payments. In 2002, WCH issued revenue bonds in the amount of $15.0 million at an average interest rate of 5.6% to finance the construction of Las Casas Residence Hall, a 108-unit, 414 bed student housing facility. In May of 2005, WCH refinanced its revenue bonds at an average interest rate of 4.79%.

The Series 2005 bond was issued for a term of 30 years. Today, $15.4 million in principal (plus $9.8 million in interest) is outstanding.

Financing

ASU plans on issuing a $15.9 million revenue bond expected in spring 2015 depending on market conditions, with an expected rating of Aa3 (Moody's)/AA (S&P) at an average annual interest rate of 3.62% for a term of 21 years with payments ending in the same timeframe (FY 2035). Of this amount, $200,000 is allocated for issuance costs.

The university estimates a debt service payment of approximately $580,000 in FY 2015, followed by annual payments of $1.0 million from FY 2016 until FY 2019 and $1.1 million over the remaining years of the bond's term. In comparison, the current annual debt service payment is $1.2 million for an additional 21 years.

The total expected cost of the bond over the 21-year term is $22.7 million, which is $2.5 million lower than the existing 2005 bond. The debt service payments will be paid with auxiliary funds and local tuition.

Debt Ratio Impact

A.R.S. § 15-1683 allows each state university to incur a projected annual debt service for bonds and certificates of participation of up to 8% of each institution's total projected annual expenditures. This calculation is known as the debt ratio. This revenue bond would increase the ASU debt ratio by 0.05%, from 5.5% to 5.55%.

RS/AS:kp

ARIZONA STATE UNIVERSITY

May 29, 2014

RECEIVED
JUN 02 2014
JOINT BUDGET COMMITTEE

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

Dear Representative Kavanagh:

In accordance with ARS 15-1683 and 15-1682.02, the Arizona Board of Regents requests that the following bond-financed and third-party-financed items for Arizona State University be placed on the next Joint Committee on Capital Review agenda for review:

- Refund Student Housing Bonds, Series 2005
- Washington DC Facility Lease

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, ABOR
Lorenzo Martinez, Associate Vice President for Finance and Administration, ABOR
Steve Miller, Deputy Vice President, Public Affairs, ASU
Lisa Frace, Associate Vice President, Planning and Budget and Chief Budget Officer, ASU
Bruce Jensen, Interim Associate Vice President, Facilities Development and Management, ASU
Joanne Wamsley, Vice President for Finance and Deputy Treasurer, ASU
Art Smith, Senior 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
June 2014 JCCR Meeting

On behalf of the Arizona Board of Regents, ASU requests that JCCR review the following items as required by ABOR policy and ARS § 15-1683 and 15-1682.02.

Refund Student Housing Bonds, Series 2005

ASU intends to refund the West Campus Housing, LLC (WCH) Student Housing Revenue Refunding Bonds. In November 2002, the Arizona Board of Regents (ABOR), on behalf of ASU, as lessor, approved the execution of a Ground Lease Agreement for land located on the West Campus upon which WCH constructed Las Casas Residence Hall, a 108-unit, 414-bed student housing facility together with a community center and related facilities. In 2002, WCH issued the Series 2002 West Campus Housing LLC Student Housing Revenue Bonds to finance the project, and in May 2005 issued the Series 2005 West Campus Housing LLC Student Housing Revenue Refunding Bonds to refund the Series 2002 Bonds, of which $15,390,000 remain outstanding with a final maturity of 2035.

The WCH Bonds will be refunded and redeemed through the issuance of ASU System Revenue Bonds to acquire the Las Casas Residence Hall. The refunding and acquisition is expected to result in debt service savings, currently estimated at $1.2 million present value savings or 8 percent of the outstanding WCH Bonds.

The authorization for issuance of System Revenue Bonds to refund and redeem the student housing bonds is scheduled for review and approval at the June 5, 2014 ABOR meeting. Additional information is available in the following pages and in the attached ABOR executive summary.

Washington, DC Facility Lease

ASU intends to enter into a master lease with an Arizona limited liability company (LLC), whose sole member is the ASU Foundation, for a multi-use office building in Washington, DC. ASU currently leases space in two separate Washington, DC locations to house the McCain Institute, academic programs such as the Cronkite News Service and the Sandra Day O'Connor College of Law Semester in Washington, DC, and Washington, DC-based operations within the Office of Federal Relations, the Office of Knowledge Enterprise Development, the Office of University Affairs, and the Consortium for Science, Policy and Outcomes.

ASU has outgrown its current locations and requires additional space to support strategic academic and institutional initiatives in the Washington, DC area. Additionally, ASU desires to consolidate its operations in a single location to strengthen collaboration and streamline facility management. The ASU Foundation LLC has identified a facility that meets ASU's requirements and will master lease the facility to ASU.

The Washington, DC lease is scheduled for review and approval at the June 5, 2014 ABOR meeting. Additional information is available in the attached ABOR executive summary.

Joint Committee on Capital Review
Arizona State University
June 2014 JCCR Meeting

PROJECT SUMMARY – ASU System Revenue Bonds

Refunding:	Funding Sources:	Amount:
Student Housing Bonds, Series 2005	Auxiliary Revenues	$15,700,000
Total		$15,700,000

FINANCING INFORMATION

Revenue Bonds:	
Project Costs	$15,700,000
Estimated Costs of Issuance	$ 200,000
Anticipated Bond Rating	Aa3 (Moody's) and AA (S&P)
Assumed Interest Rate	3.62%
Final Maturity	2035

Debt Service Information:	
Estimated Debt Service 2015	$578,469.25
Estimated Debt Service 2016 and 2017	$970,384.42
Estimated Debt Service 2018 to 2035	$1,119,765.17
Total Estimated Debt Service Costs	$22,675,011.08

DEBT RATIO

Debt Ratio on Existing Debt	5.50%
Incremental Debt Ratio	.05%
Projected Debt Ratio	5.55%

Joint Committee on Capital Review
Arizona State University
June 2014 JCCR Meeting

System Revenue Bonds

Refund Student Housing Bonds, Series 2005

Fiscal Year	Principal	Interest	Total
2015	$575,000	$ 3,469.25	$ 578,469.25
2016	310,000	647,225.83	957,225.83
2017	440,000	543,543.00	983,543.00
2018	480,000	527,615.00	1,007,615.00
2019	525,000	510,239.00	1,035,239.00
2020	640,000	491,234.00	1,131,234.00
2021	665,000	468,066.00	1,133,066.00
2022	690,000	443,993.00	1,133,993.00
2023	715,000	419,015.00	1,134,015.00
2024	740,000	393,132.00	1,133,132.00
2025	765,000	366,344.00	1,131,344.00
2026	795,000	338,651.00	1,133,651.00
2027	820,000	309,872.00	1,129,872.00
2028	850,000	280,188.00	1,130,188.00
2029	885,000	249,418.00	1,134,418.00
2030	915,000	217,381.00	1,132,381.00
2031	950,000	184,258.00	1,134,258.00
2032	980,000	149,868.00	1,129,868.00
2033	1,015,000	114,392.00	1,129,392.00
2034	1,055,000	77,649.00	1,132,649.00
2035	1,090,000	39,458.00	1,129,458.00
	$15,900,000	$6,775,011.08	$22,675,011.08

EXECUTIVE SUMMARY

ITEM NAME: **Authorization for Issuance of System Revenue Bonds for Arizona Center for Law and Society, Psychology Building Renovation and West Campus Housing LLC Las Casas Refunding and Acquisition (ASU)**

☒ Action Item ☐ Discussion Item ☐ Information Item

Issue: Arizona State University (ASU) requests that the committee review and forward to the full Board for approval: (a) to sell one or more series of System Revenue Bonds (Bonds) to finance (1) multiple new capital projects, not to exceed $136.7 million; (2) the refunding and acquisition of an existing third-party student housing project, not to exceed $15.7 million; (3) costs of issuance, including bond underwriting fees, not to exceed $1.5 million; and (4) 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 whole or in part, and at fixed or variable rates of interest; and (c) to enter into necessary agreements, including those related to bond insurance or other credit enhancement or liquidity agreements.

Previous (Pending) Board Actions:

	CDP Approval	Project Approval
Center for Law and Society Facility	Dec-12	June-14
Psychology Building Renovation	Feb-14	June-14

Statutory/Policy Requirements:

- ABOR Policy 7-102D: Requires Business and Finance Committee review and Board approval of all debt financing, including bonds, lease-purchases, and certificates of participation.
- ABOR Policy 3-501: Requires that matters relating to revenue bonds, including issuance, sale, appointment of bond counsel, appointment of financial consultant, appointment of trustee, and all other incidents connected with revenue bonds shall be presented for Board action.

Projects to be Financed:

The following projects ("FY 2015 Projects") are scheduled to receive the required Arizona Board of Regents (ABOR) Project Approval ("PA") at the June 5, 2014 meeting and previously received favorable review by the Joint Committee on Capital Review (JCCR). The following FY 2015 Projects will be financed only upon receipt of PA and subject to the terms of the PA (dollars in millions):

Arizona Center for Law and Society	$ 114.0
Psychology Building Renovation	22.7
Total	$ 136.7

The following refunding and acquisition ("Las Casas") is expected to be reviewed at the next JCCR meeting. This project will not be financed until JCCR review has been completed (dollars in millions):

West Campus Housing LLC Las Casas Refunding and Acquisition	$ 15.7
Total of New Projects and Refunding Acquisition	$ 152.4

Refinancing Summary:

Refunding and Acquisition of Third Party Student Housing Facility
In November 2002, ABOR, on behalf of ASU, as lessor, approved the execution of a Ground Lease Agreement and in May 2005, approved the execution of an Amended and Restated Ground Lease Agreement with West Campus Housing LLC (WCH), as lessee, for land located on the West Campus upon which WCH constructed Las Casas Residence Hall, a 108-unit, 414-bed student housing facility together with a community center and related facilities. In 2002, WCH issued the Series 2002 West Campus Housing LLC Student Housing Revenue Bonds to finance the project, and in May 2005 issued the Series 2005 West Campus Housing LLC Student Housing Revenue Refunding Bonds in the principal amount of $16,005,000 to refund the Series 2002 Bonds. The Series 2005 Refunding Bonds carry an average interest rate of 4.7 percent per annum, and $15,390,000 remains outstanding with a final maturity of 2035. The WCH Bonds are proposed to be refunded and redeemed through the issuance of ASU System Revenue Bonds to acquire the Las Casas Residence Hall and related facilities.

Financing Approach and Structure:

- Debt service for these projects will be funded by tuition or auxiliary revenues.

- Depending on market conditions at the time of sale, ASU may issue the entire amount, or a portion of the financing, as fixed-rate or variable-rate bonds. Given current market conditions, including low long-term interest rates, ASU anticipates selling fixed-rate bonds for this issue.

- The financing term for the Bonds that will fund the FY 2015 Projects (the "New Money Bonds") will range from 20 to 30 years (final maturity of July 1, 2046), depending on the project. ASU's financial advisor estimates the New Money Bonds would sell at an overall true interest cost of approximately 4.20 percent per annum, based on market rates as of May 13, 2014, and the proposed amortization structure for the New Money Bonds. ASU will proceed with the financing if the overall true interest cost of the Bonds is no more than 6.0 percent per annum. Based on a maximum 6.0 percent true interest cost and average maturity of 19.5 years, the estimated annual average debt service (principal and interest) requirement for the New Money Bonds would be $10.4 million in fiscal years 2016 through 2035 and $8.4 million in fiscal years 2036 through 2046.

- The financing term for the portion of the Bonds used to acquire and refund the Las Casas project issue will mirror the maturity of the Series 2005 WCH bonds being refunded. The refunding and acquisition is expected to result in debt service savings, currently estimated at a $1.2 million present value savings or 8 percent of the outstanding WCH Bonds.

EXECUTIVE SUMMARY

- ASU's total existing debt service as a percentage of ASU's total expenditures is 5.5 percent. The debt service for the system revenue bond issue will increase this ratio by an estimated 0.55 percent to 6.05 percent overall, well below the 8 percent statutory limit.

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

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

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

Pricing Parameters:

Overview:		Comments
Total Issuance Amount, Excluding Costs (not-to-exceed)	$152.4M	Includes new projects and acquisition/refunding of Las Casas project
Total Issuance Costs (not-to-exceed)	$1.5M	
Credit Enhancement Cost	TBD	Only if economically beneficial
Maturity Range	2016-2046	Different projects may have different maturity dates
Average Maturity	19.5 years	FY 2015 Projects
Interest Rate (not-to-exceed)	6.00%	FY 2015 Projects
Annual Average Debt Service for FY 2015 Projects (at not-to-exceed 6%)	$10.4M $8.4M	2016-34 2035-46

Recommendation to the Committee:

It is recommended that the committee review and forward to the full Board for approval ASU's request to issue one or more series of System Revenue Bonds to finance:

1) Not to exceed $136.7 million for costs associated with the FY 2015 projects, at a true interest cost not exceeding 6 percent per annum;

2) not to exceed $15.7 million to acquire the Las Casas student housing project at the West Campus and refund and redeem the WCH Bonds, with authorization limited to JCCR-reviewed projects without changes in scope or budget that would require additional Board approval;

3) not to exceed $1.5 million for costs of issuance.

ASU also would be authorized to sell such Bonds at a price at, above or below par, on a tax-exempt or taxable basis, and at fixed or variable rates of interest; to take related actions; and to enter into necessary agreements, including those related to bond insurance or other credit enhancement and liquidity facility or letter of credit agreements, where there is a demonstrated economic benefit to ASU.

STATE OF ARIZONA

Joint Committee on Capital Review

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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

DATE: June 12, 2014

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

THRU: Richard Stavneak, Director RS

FROM: Art Smith, Principal Fiscal Analyst AS

SUBJECT: Northern Arizona University - Review of Indirect Financing Project

Request

A.R.S. § 15-1682.02 requires Committee review of any university projects using indirect debt financing (also known as third party financing). Northern Arizona University (NAU) requests Committee review of their proposal to enter into a ground lease agreement for a new Student and Academic Services building at its Flagstaff campus, that would be built by a 3rd party. The total cost of this project is estimated to be $38.8 million.

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 provision that this does not constitute endorsement of any level of General Fund appropriations.

Analysis

Through its Request for Proposal process, NAU has selected American Campus Communities (ACC) to develop a new Student and Academic Services building on its Flagstaff campus. The project is scheduled to break ground in Summer 2014 with an expected completion and opening date in Fall 2015.

(Continued)

The new building will be approximately 100,000 gross square feet and 4-stories. The building will include space for student support services, office space for faculty and new classrooms specifically customized for math instruction (Math Emporium). NAU states that the Math Emporium will employ a personalized learning methodology utilizing technology for program delivery in an effort to increase student learning and improve student retention, particularly freshmen.

The total construction per square foot is projected to be $388.

In order to allow this project to be funded with tax-exempt revenue bonds, the Arizona Board of Regents (ABOR) formed a new Limited Liability Corporation (LLC), Student and Academic Services Building, LLC.

Financing

The LLC will issue $38.8 million in revenue bonds, which will be paid to ACC to finance both the design and construction costs of the project. The LLC would lease the land from NAU for a term not to exceed 35 years. NAU will enter into a lease purchase agreement for the building for a term not to exceed 30 years. At the end of the term, NAU will own the building.

The annual lease payment would be no more than $3.0 million for the life of the debt and would be paid from tuition and other local funds. NAU's annual cost for operating the facility is projected to be $481,000.

Use of a LLC

NAU states that the additional legal costs of establishing the LLC is not significant and would likely be less than $5,000.

All 3 universities are statutorily limited to a debt ratio of 8% -- the level of debt service payments cannot exceed 8% of each institution's total projected annual expenditures. Since the LLC will technically hold the student center debt, the debt service will not count against NAU's debt ratio. At the current time, NAU's debt ratio is 5.7%. If NAU were to issue the student center debt directly, the ratio would increase to 6.2%.

NAU has issued $92.7 million in other third party debt since FY 2011. These monies were used to construct dormitories, with ACC operating the facilities, on NAU's Flagstaff campus.

RS/AS:kp

NORTHERN
ARIZONA
UNIVERSITY

Office of the Vice President for Finance and Administration

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

928-523-2708
928-523-4230 fax
nau.edu/vpadmin

May 27, 2014

RECEIVED
MAY 28 2014
JOINT BUDGET COMMITTEE

The Honorable John Kavanagh, Chairman
Joint Committee on Capital Review
Arizona House of Representatives
1700 W. Washington
Phoenix, Arizona 85007-2890

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

Dear Representative Kavanagh:

In accordance with ARS 15-1682.02, the Arizona Board of Regents requests that the following third-party financed project for Northern Arizona University be placed on the next Joint Committee on Capital Review agenda for review:

- Student and Academic Services Classroom Building

The review is contingent upon the approval of the ground lease and lease-purchase agreement by the ABOR Business and Finance Committee scheduled for June 5, 2014.

Enclosed is the pertinent information relating to this item. If you have any questions or need additional clarifications regarding the enclosed information, please contact me at (928) 523-8871.

Sincerely,

Jennus L. Burton
Vice President for Finance and Administration

Attachment

cc: Richard Stavneak, Director, JLBC
Art Smith, JLBC Analyst
Eileen Klein, ABOR President
Lorenzo Martinez, Associate Vice President, ABOR
John D. Haeger, President
Christy Farley, Vice President, Government Affairs

EXECUTIVE SUMMARY

Item Name: Student and Academic Services Classroom Building, Third Party Development Ground Lease and Lease Purchase Agreement Approval (NAU)

☒ Action Item ☐ Discussion Item ☐ Information Item

Issue: Northern Arizona University requests Approval for (i) a Ground Lease and (ii) Lease Purchase Agreement for the Student and Academic Services Classroom Building project. The project is consistent with the university master planning update and strategic goals. As a third-party development and financing project, Northern Arizona University also requests (iii) the Board to approve the formation of an Arizona limited liability company (L.L.C.) by Northern Arizona Capital Facilities Finance Corporation for financing the project and the issuance by the L.L.C. of Lease Revenue Bonds in an amount necessary for the purpose of financing the design, construction and equipping of the project on a tax-exempt basis.

Previous Board Action:		
	Second Amended FY14 Capital Development Plan	February 2014
	FY 2015 – 2017 Capital Improvement Plan	September 2013
	Amended FY14 Capital Development Plan	September 2013

Statutory / Policy Requirements:

- Pursuant to Arizona Board of Regents Policy Chapter 7-207, all leases that exceed 120 months or exceed $500,000 annual base lease payments shall be brought to the Business and Finance Committee for approval regardless of funding source or financing.

Background:

- This project is consistent with the approved Master Plan and the Arizona Higher Education Enterprise Plan by creating an open concept, learning and teaching environment currently not provided on campus. As NAU pursues cutting-edge, personalized education opportunities, this academic environment will enhance faculty and student interaction, and facilitate goals of increasing retention and graduation rates.

- The project includes classroom spaces for the Math Emporium, an innovative and successful personalized learning methodology utilizing technology for instruction and program delivery. This approach to teaching math is expected to increase student learning and improve student retention, particularly of freshmen. The model provides close interactions with faculty while requiring fewer faculty to educate more students. The classrooms will include state-of-the-art technology.

Contact Information

Jennus Burton, Vice President, (928) 523-8871, jennus.burton@nau.edu

- The project includes faculty office spaces for collegial interactions and facilitation of student access to professors, all within a collaborative learning environment. Increased office space is needed to attract and retain high quality faculty and is a crucial component of the emporium model, as well as meeting research metrics by 2020.

- Another component of the project will be the creation of a *one-stop-shop* location that will provide better customer service to students and parents. This project will provide space to enable these services to be reconfigured and integrated for student access to frequently needed services without having to travel to a number of sites on campus. It will facilitate interactions and productive collaborations between student service providers and shared support functions and vastly improve customer service.

- A site west of the new San Francisco Parking garage has been identified for this building and will facilitate ease of access for pedestrian and vehicle traffic. The location is also adjacent to the NAU Bookstore, the Transportation Spine, and the University Union and its various dining facilities, including the expanded Food Court. The University Union serves as the hub of student activities and interactions that integrate students into campus life. Enhancing the overall student experience works toward increasing student enrollment and freshman retention rates.

- This project furthers the University's active pursuit of its Enterprise goals to facilitate student access, student retention, and increased graduation rates utilizing many, concurrent methodologies that enhance educational and organizational structure. NAU is committed to strategies that enhance the economic and workforce opportunities for students and Arizona citizens, and is also committed to opportunities to achieve these goals.

Project Description and Scope:

- This project will be a new four-story building, consisting of approximately 100,000 gross square feet. It will include new classrooms, space for student support services and office space for faculty. Classroom space will feature a math emporium while the student support space will feature a one-stop-shop location for enrollment services. The project is in design and individual components may change as the project design is completed.

- The project will be in conformance with applicable ABOR Space Guidelines.

- The project will be designed in accordance with university design standards and will be constructed of high quality, maintainable materials and building systems to maximize energy efficiency and minimize operational, repair and replacement costs.

- In an effort to demonstrate the University's commitment to responsible, sustainable design, this new construction project will incorporate sustainable materials and practices wherever possible and is intended to qualify for a United States Green Building Council (USGBC) Leadership in Energy and Environmental Design (LEED) Silver Certification.

Project Status and Schedule:

- The University is finalizing the terms of a Development Agreement with American Campus Communities (ACC), the firm selected as the developer through a competitive process involving pre-screened development teams also selected through a competitive process. The University has executed a pre-construction agreement with ACC and is finalizing the terms of the Development Agreement.

- The building will open to students and faculty during the fall semester 2015.

Lease-Purchase Financing Plan:

- To effectuate the financing of the project, Northern Arizona Capital Facilities Finance Corporation will form the L.L.C. of which the Corporation will be the sole member. The L.L.C. will ground lease the site for the project from NAU and will own the project during the financing term.

- ACC will contract for the design and for the construction of the project, which design and construction contracts will be assigned to the L.L.C. as a part of the financing. The GMP will be presented to the L.L.C. and shared with NAU. The L.L.C. will issue Lease Revenue Bonds in an amount sufficient to finance the cost of designing, constructing and equipping the project.

- The L.L.C. will lease the project to NAU for the financing term under a lease-purchase agreement with lease payments made from general University funds. The Lease Revenue Bonds issued by the L.L.C. will be payable solely from the lease revenues the L.L.C. receives under the lease-purchase agreement and further secured by the L.L.C.'s leasehold interest in the land site and the project financed. Upon retirement of the L.L.C.'s debt, the ground lease will terminate and title to the buildings and all improvements will become the property of NAU at no additional cost.

- The bond counsel for the financing, Ballard Spahr, has confirmed that in order to meet federal tax-exempt bond rules for interest on the L.L.C.'s bonds to be tax-exempt, it is necessary for the Board to approve the formation of the L.L.C. and the issuance of the bonds by the L.L.C. for the project, and certain other matters, including an agreement by the Board to accept title to and operate the project following retirement of the Bonds. The Board is also being requested to approve the terms of the ground lease and the lease-purchase agreement listed below, which will reflect the final financing structure, and any and all appropriate documents and actions necessary in order to complete the development .

Terms Of The Ground Lease:

- The terms and conditions of the ground lease will include the following:

  1. A ground lease not to exceed July 1, 2049 (approximately 35 years). The ground lease will terminate earlier if the debt related to the project is pre-paid.

  2. The project will transfer to the University once the L.L.C. bonds have been fully paid.

  3. The land will not be subordinated and title to the land will not be mortgaged in any way.

  4. The University will have the right to terminate the ground lease at any time by prepaying or providing for payment of the outstanding L.L.C. bonds plus interest due on the bonds. Once the L.L.C. bonds have been fully paid or provided for, the University will obtain all right, title and interest in and to the project.

  5. In order for the L.L.C.'s bonds to be issued on a tax-exempt basis under federal tax law, the ground lease will include the Board's acknowledgement and approval of the formation of the L.L.C. for purposes of the financing, the issuance by the L.L.C. of its bonds and an agreement by the Board to accept title to the project facilities upon retirement of the L.L.C.'s bonds.

Terms Of The Lease-Purchase:

- The terms and conditions of the lease-purchase agreement will include the following:

  1. A lease-purchase agreement not to exceed July 1, 2044 (approximately 30 years.

  2. The L.L.C. will lease the Student and Academic Services Classroom Building to the University at lease payment rates equal to the L.L.C.'s actual financing costs.

  3. Lease payments will pay for the L.L.C.'s financing of the design, construction and equipping of the Student and Academic Services Classroom Building.

  4. The L.L.C. will retain ownership of the building until termination of the lease-purchase agreement.

5. The University will be responsible for operating costs, including taxes, insurance, utilities and maintenance during the term of the lease-purchase.

Fiscal Impact:

- By working with ACC as a third-party developer for the development, design and construction of the project, NAU is able to accelerate and streamline the procurement process for the project while utilizing a cost effective financing alternative through the L.L.C. that allows the University to preserve its bonding capacity under the statutory debt ratio for academic and other facility needs. On full payment under the lease-purchase agreement by NAU, the property and facility will revert back to the University at no additional cost and free of all encumbrances. NAU is using the Northern Arizona Capital Facilities Finance Corporation as the most cost effective vehicle to issue tax-exempt debt for the project under a third party financing arrangement. .

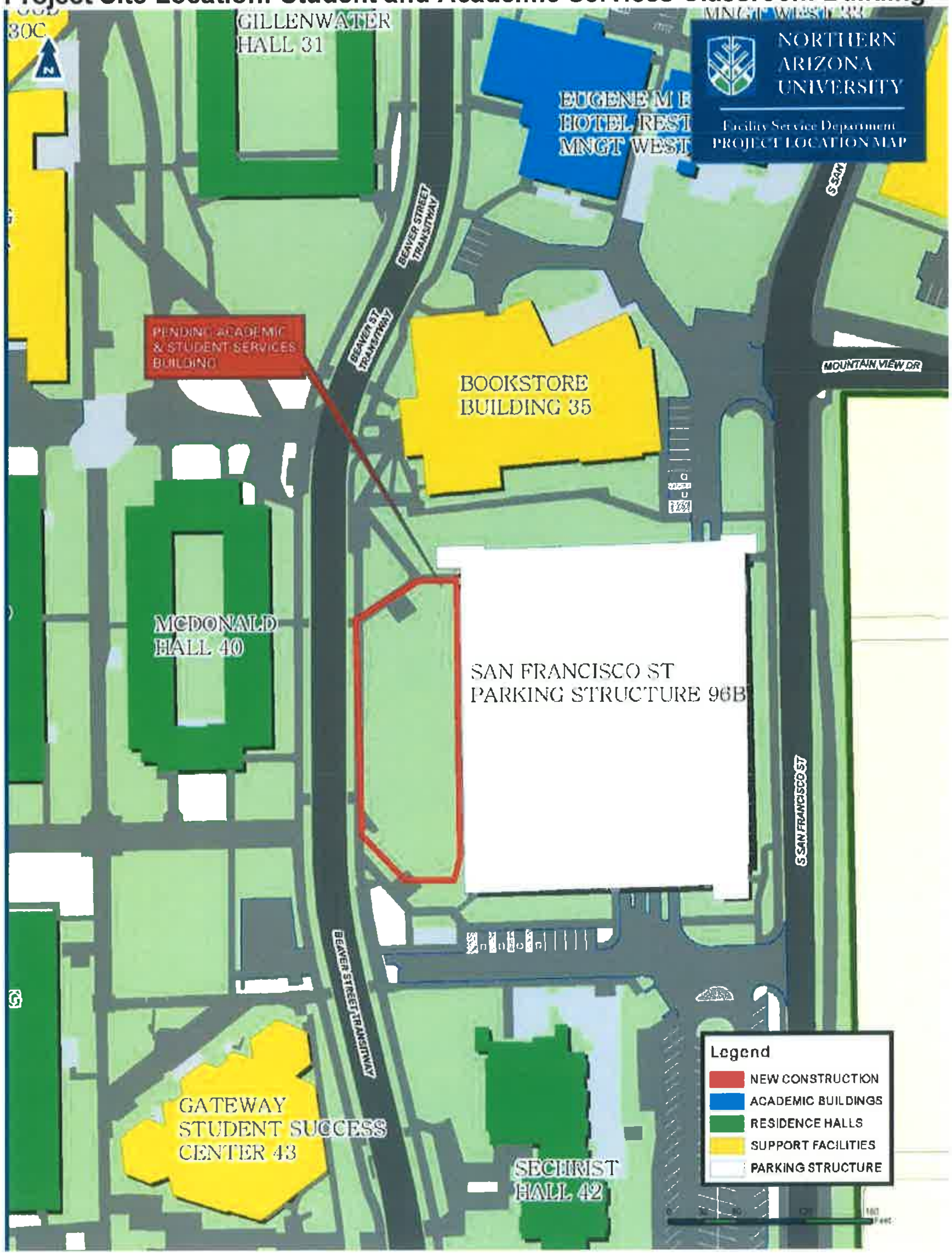
- Annual lease-purchase payments that the University will make to utilize the project facility will not exceed $2,995,000 and will be payable from general University funds.

- Operations and Maintenance (O&M) costs are expected to be approximately $481,000 a year, but could change once the composition of the building is finalized.

Recommendation:
That the Business and Finance Committee approves the formation of the L.L.C. for the financing of the Student and Academic Services Classroom Building; the lease of the project site to the L.L.C. pursuant to a Ground Lease for a term not exceeding July 1, 2049 ; a lease-purchase of the Student and Academic Services Classroom Building from the L.L.C. to NAU pursuant to a Lease-Purchase Agreement for a term not exceeding July 1, 2035; and the issuance of Lease Revenue Bonds by the L.L.C. in an amount necessary for financing the design, construction and equipping of a Student and Academic Services Classroom Building and related costs on the north campus of Northern Arizona University adjacent to the San Francisco Parking Garage.; and

That the President and the Vice President for Finance and Administration, are hereby authorized to negotiate, sign and deliver said ground lease agreement and lease purchase agreement on substantially the terms described herein and any other necessary or appropriate documents in connection with the development and related financing, and take all necessary and appropriate actions in this connection, provided that counsel to the Board has reviewed the ground lease and the lease purchase agreement.

Project Site Location: Student and Academic Services Classroom Building



Contact Information

Jennus Burton, Vice President, (928) 523-8871, jennus.burton@nau.edu

STATE OF ARIZONA

Joint Committee on Capital Review

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

DATE: June 12, 2014

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

THRU: Richard Stavneak, Director RS

FROM: Ben Beutler, 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 2014 Capital Outlay Bill (Laws 2013, 1st Special Session, Chapter 8) appropriated $3.0 million 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 $2.4 million 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 $2.4 million plan.

2. An unfavorable review of the $2.4 million 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.

Analysis

The FY 2014 Capital Outlay Bill appropriated $3.0 million from the State Highway Fund in FY 2014 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

(Continued)

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.

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 $2.4 million to construct new vehicle wash systems at 6 locations (Cordes Junction, Fredonia, Ganado, Globe, Kayenta, and Springerville), as shown in the following table:

ADOT's Estimated Cost for 6 Vehicle Wash Systems

	Estimated Cost
6 Vehicle Wash Systems	$ 1,975,000 1/
Engineering Services/Contingency	400,000
Total	**$2,375,000**

1/ Low bid

ADOT's estimated cost for the 6 proposed locations averages $395,800 per location. ADOT was appropriated $4.1 million for vehicle wash systems in FY 2008 and FY 2009, but these monies were transferred to offset a General Fund shortfall in FY 2009.

The FY 2015 Capital Outlay Bill appropriates another $3.0 million for vehicle wash systems. ADOT, however, is only requesting review of the FY 2014 appropriation.

RS/BB:kp

ADOT

Director's Office

Janice K. Brewer, Governor
John S. Halikowski, Director
John H. Nichols, Deputy Director for Business Operations
Floyd Roehrich, Jr., Deputy Director for Policy
Jennifer Toth, Deputy Director for Transportation

June 11, 2014

RECEIVED
JUN 11 2014
JOINT BUDGET COMMITTEE

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

Dear Representative Kavanagh:

We respectfully request to be placed on the next meeting of the JCCR for review and approval of projects related to ADOT's FY2014 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: Cordes Junction, Kayenta, Ganado, Fredonia, Springerville, and Globe.

The total cost of the project is estimated to be $2,375,000 which includes the current bid amount of $1,974,605 plus $ 400,000 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 Melissa Wynn, ADOT Budget Director, at 602.712.8981.

Sincerely,

John S. Halikowski

Enclosure

c: Richard Stavneak, JLBC Director
Ben Beutler, JLBC Analyst
Illye Riske, OSPB Analyst
John Hetzel, ADOT

			Sky Construction		TSG Construction, LLC		A J Roberts Industrial, Inc.	
Primary Locations								
	Quantity	UoM	Unit Price	Ext. Price	Unit Price	Ext. Price	Unit Price	Ext. Price
Ganado Maintenance Yard	1	EA	$373,000.00		$360,957.00		$312,808.00	
Fredonia Maintenance Yard	1	EA	$383,000.00		$361,780.00		$318,521.00	
Cordes Junction Maintenance Yard	1	EA	$388,000.00		$372,821.00		$305,654.00	
Springerville Maintenance Yard	1	EA	$373,000.00		$365,387.00		$306,186.00	
Kayenta Maintenance Yard	1	EA	$378,000.00		$361,630.00		$312,528.00	
			$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
			$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
			$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
			$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
			$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
			$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
			$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Subtotal			$1,895,000.00		$1,822,575.00		$1,555,697.00	
Lump Sum Taxes 5 locations:			$94,565.00	$0.00	$112,425.00		$89,491.00	
Total			$1,989,565.00		$1,935,000.00		$1,645,188.00	
(Alternate Location)								
	Quantity	UoM	Unit Price	Ext. Price	Unit Price	Ext. Price	Unit Price	Ext. Price
Globe Maintenance Yard	1	EA	$407,000.00		$366,512.00		$311,498.00	
Lump Sum Taxes			$22,751.00		$20,488.00		$17,919.00	$0.00
			$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Subtotal			$429,751.00	$0.00	$387,000.00	$0.00	$329,417.00	$0.00
Total to include alterate location			**$2,419,316.00**		**$2,322,000.00**		**$1,974,605.00**	
RECOMMEND AWARD TO:								

APPROVED BY: ______________________

STATE OF ARIZONA

Joint Committee on Capital Review

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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FAX (602) 926-5416

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

DATE: June 17, 2014

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

THRU: Richard Stavneak, Director RS

FROM: Art Smith, Principal Fiscal Analyst AS

SUBJECT: Arizona State University - Review of Indirect Financing for New Washington, DC Facility

Request

A.R.S. § 15-1682.02 requires Committee review of any university projects using indirect debt financing (also known as third party financing). Arizona State University (ASU) requests Committee review of a master lease agreement for a multi-use office building in Washington, DC. The total cost for the project would be approximately $11.5 million.

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 university financing provisions:

Standard University Financing Provisions

- A favorable review by the Committee does not constitute endorsement of any level of General Fund appropriations.

- ASU shall provide the final lease terms for the project as soon as it is available.

Analysis

ASU plans to lease a multi-use office building located at 1800 I Street NW, Washington, DC in order to support and consolidate academic and institutional initiatives in the area.

(Continued)

Background

ASU currently leases approximately 13,000 square feet in 2 separate locations in Washington, DC to house the McCain Institute, academic programs, College of Law Semester in Washington, DC in addition to various offices that have operations within Washington, DC. The 2 locations are being leased at a total annual cost of $700,000 per year. ASU states that it has outgrown its current space and has chosen a 26,500 gross square feet building on 1800 I Street NW, Washington, DC to house its programs in the area, while consolidating various programs into one location.

ASU students, faculty and staff will fully occupy the building. Academic programs at the new building would include the McCain Institute, Cronkite News Service, in addition to other academic services and offices. ASU estimates that the required building renovations would take approximately 2 years, with the facility opening in fall 2016. The timing of the renovations would align with expiring leases for the university's 2 existing facilities in Washington, DC to ensure the continuing operation of ASU's programs in the area.

Financing

The ASU Foundation will issue $11.5 million in revenue bonds to generate funds to purchase and prepare the building for use by the university. Existing as a separate nonprofit entity from ASU, the Foundation serves to raise, manage and invest private gifts for the university. The Foundation has assets of over $850 million.

ASU would lease the building from the ASU Foundation at a cost equal to the debt service payment incurred in financing the purchase. ASU has indicated this annual payment would not exceed $2.6 million annually for a term of 20 years.

The annual rental payments would be derived from lease revenues earned at the ASU Research Park. The Research Park, which is a commercial office park located in south Tempe, is projected by ASU to generate $4.8 million of average annual income over the next 20 years. ASU has selected this method of indirect financing as the substantial asset holdings of the ASU Foundation allow for more favorable bond financing terms.

The maximum lease payment amount of $2.6 million would result in an annual rental cost of $98 per square foot. Recent listings suggest premium office space in Washington, DC is priced at an annual cost of $50 to $60 per square foot. In regards to the higher per square foot cost of the proposal, ASU states that by entering into a long-term lease for the proposed facility, the university will protect itself against future rental rate increases in the Washington, DC market.

This project does not affect ASU's debt ratio since the ASU Foundation will finance the project.

RS/AS:kp

ARIZONA STATE UNIVERSITY

May 29, 2014

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JUN 02 2014
JOINT BUDGET COMMITTEE

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

Dear Representative Kavanagh:

In accordance with ARS 15-1683 and 15-1682.02, the Arizona Board of Regents requests that the following bond-financed and third-party-financed items for Arizona State University be placed on the next Joint Committee on Capital Review agenda for review:

- Refund Student Housing Bonds, Series 2005
- Washington DC Facility Lease

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, ABOR
Lorenzo Martinez, Associate Vice President for Finance and Administration, ABOR
Steve Miller, Deputy Vice President, Public Affairs, ASU
Lisa Frace, Associate Vice President, Planning and Budget and Chief Budget Officer, ASU
Bruce Jensen, Interim Associate Vice President, Facilities Development and Management, ASU
Joanne Wamsley, Vice President for Finance and Deputy Treasurer, ASU
Art Smith, Senior 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

EXECUTIVE SUMMARY

Item Name: **Approval to Enter into a Master Lease Agreement for a Multi-Use Building Located at 1800 I Street NW, Washington, DC. (ASU)**

☒ Action Item ☐ Discussion Item ☐ Information Item

Issue: Arizona State University (ASU) requests approval to enter into a Master Lease agreement between Arizona State University and an Arizona limited liability company (LLC) whose sole member is the ASU Foundation, for a multi-use office building located at 1800 I Street NW, Washington, DC.

Statutory/Policy Requirements

Board Policy 7-207 requires Business and Finance Committee review and Board approval for leases of real property if the annual rent including tax, insurance and maintenance payable by the University exceeds $500,000 or the term is in excess of five years.

Background

ASU currently leases approximately 13,000 square feet in two separate locations in Washington, DC to house the McCain Institute, academic programs such as the Cronkite News Service and the Sandra Day O'Connor College of Law Semester in Washington, DC, and Washington, DC-based operations within the Office of Federal Relations, the Office of Knowledge Enterprise Development, the Office of University Affairs, and the Consortium for Science, Policy and Outcomes.

ASU has outgrown its current locations and requires additional space to support strategic academic and institutional initiatives in the Washington, DC area. Additionally, ASU desires to consolidate its operations in a single location to strengthen collaboration and streamline facility management.

With expiration of ASU's current leases over the next two years, the ASU Foundation and the University have developed a plan whereby the ASU Foundation, through an LLC affiliated entity whose sole member is the ASU Foundation, would acquire and improve an office and multi-use building in Washington, DC, providing ASU with the opportunity to consolidate operations and lock in attractive lease rates in the competitive Washington, DC real estate market.

Strategic Implications

Academic programs in Washington, DC provide unique educational experiences for ASU students interested in learning about our federal government and the legislative, regulatory, policy and political activities that impact a broad range of individuals, institutions and society in general on a global basis. Given the current breadth of ASU programming, students are best served by programs provided in an ASU facility with dedicated classrooms and student support

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

space, allowing them to spend significant time in Washington, DC and ensuring their academic programs are of the highest possible quality.

In addition to the educational benefits, having staff in Washington, DC allows ASU to maintain constant contact with federal agencies and philanthropic organizations based there, which are a major source of the research funds needed to achieve the ABOR research goals. A key piece of ASU's strategy to do so is its work to identify new trends and program interests as they develop in the funding agencies, and to build capacity to compete successfully and bring new funding to Arizona. This requires a presence in Washington, DC to achieve maximum success.

Further extending ASU's national reputation are research centers like the McCain Institute, which is doing important work in areas such as conflict resolution and foreign policy. Reputational advancement is another key element in building enrollment and financial strength in support of a number of ABOR goals, including degree attainment, moderate tuition, and cost effectiveness.

Key Data/Findings

The ASU Foundation has identified a seven-story building that will provide approximately 26,500 gross square feet in the central business district of Washington, DC. The building at 1800 I Street NW, Washington, DC *("DC facility")* is located six blocks from the White House on the same block as the World Bank and International Monetary Fund, with immediate access to Reagan National Airport via a nearby metro station that soon will provide direct access to the Dulles Airport as well. The location will enhance teaching and learning activities for our Washington, DC-based students, and support ASU's research outreach and the McCain Institute's public policy initiatives.

The ASU Foundation estimates up to two years will be required to complete improvements to the DC Facility, which will align the schedule with termination of ASU's current Washington, DC leases.

Summary of Lease Terms

- The LLC will purchase the DC Facility and make substantial capital improvements based on ASU's programming needs.

- The LLC will finance the purchase and renovation, along with related costs, over approximately 20 years.

- The LLC will retain ownership of the DC Facility.

- The LLC will master lease the DC Facility to ASU for a term of approximately 20 years, with annual lease payments equal to the annual debt service the LLC incurs in financing the acquisition and renovation of the DC facility, not to exceed average annual lease payments of $2,600,000. The lease may include optional extensions.

- ASU will be responsible for all operating costs, including taxes, insurance, utilities, asset management fees, and maintenance during the term of the lease.

EXECUTIVE SUMMARY

Fiscal Impact and Management Plan

The incremental cost of the lease, relative to the current leases ASU maintains in the DC market, will be funded with ASU Research Park net revenues.

Recommendation to the Committee

It is recommended that the Committee review and forward to the full Board for approval Arizona State University's request to enter into a Master Lease with an Arizona limited liability company formed by and whose sole member is the ASU Foundation, in accordance with the terms and conditions outlined above, and with average annual lease payments by ASU not to exceed $2,600,000. The President of ASU, the Executive Vice President, Treasurer and Chief Financial Officer of ASU, the Vice President for Finance and Deputy Treasurer of ASU, and the Assistant Vice President for University Real Estate Development of ASU are each separately authorized, in the name of and on behalf of the Board, to take all appropriate actions to finalize negotiations and to execute and deliver any and all documents associated with and to consummate the Master Lease agreement on substantially the terms described herein, and to take all other actions and to execute and deliver such other certificates, agreements and other documents as are necessary in connection with the acquisition, renovation and financing of the DC Facility by the LLC.

Appendix

See attached location map

EXECUTIVE SUMMARY

Exhibit A - Location Map