## JOINT COMMITTEE ON CAPITAL REVIEW

.

Tuesday, June 20, 2017

Immediately Upon Adjournment of the JLBC Meeting

House Hearing Room 1



STATE OF ARIZONA

## Joint Committee on Capital Review

STATE SENATE

DEBBIE LESKO CHAIRMAN 2017 SYLVIA ALLEN OLIVIA CAJERO BEDFORD STEVE FARLEY KATIE HOBBS JOHN KAVANAGH KIMBERLY YEE 1716 WEST ADAMS PHOENIX, ARIZONA 85007

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HOUSE OF

DON SHOOTER CHAIRMAN 2018 JOHN M. ALLEN LELA ALSTON MARK CARDENAS HEATHER CARTER VINCE LEACH REBECCA RIOS

## \*\* R E V I S E D \*\*

#### JOINT COMMITTEE ON CAPITAL REVIEW Tuesday, June 20, 2017 Immediately Upon Adjournment of JLBC Meeting House Hearing Room 1

#### MEETING NOTICE

- Call to Order
- Approval of Minutes of April 5, 2017 and April 27, 2017.
- DIRECTOR'S REPORT (if necessary).
- 1. DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS Review of Proposed Expenditures from the Military Installation Fund.
- 2. ARIZONA EXPOSITION AND STATE FAIR BOARD Review of FY 2017 Capital Improvement Expenditures.
- 3.\* STATE DEPARTMENT OF CORRECTIONS Review of FY 2018 Building Renewal Plan and Capital Projects.
- 4.\* ARIZONA DEPARTMENT OF ADMINISTRATION/ARIZONA DEPARTMENT OF CORRECTIONS -Review and Approval of Lease-Purchase Refinancing
- 5.\* ARIZONA DEPARTMENT OF ADMINISTRATION
  \*A. Review of FY 2018 Building Renewal Plan.
  \*B. Consider Recommending FY 2017 Partial Rent Exemption (Secretary of State).
- 6. NORTHERN ARIZONA UNIVERSITY Review of Recital Hall Project.

- 7. ARIZONA STATE UNIVERSITY Review of Tempe Power Plant Indirect Financing Project.
- \* Consent Agenda These items will be considered in one motion and no testimony will be taken.

The Chairman reserves the right to set the order of the agenda. <del>6/13/17</del> 6/16/17 kp

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#### STATE OF ARIZONA

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#### MINUTES OF THE MEETING

#### JOINT COMMITTEE ON CAPITAL REVIEW

April 5, 2017

Chairman Lesko called the meeting to order at 9:04 a.m., Wednesday, April 5, 2017 in Senate Appropriations Room 109. The following were present:

Members: Senator Lesko, Chairman Senator Allen Senator Cajero-Bedford Senator Farley Senator Hobbs Senator Kavanagh Senator Yee Representative Shooter, Vice-Chairman Representative Allen Representative Alston Representative Cardenas Representative Carter Representative Leach Representative Rios

Absent:

#### **APPROVAL OF MINUTES**

Hearing no objections from the members of the Committee to the minutes of December 14, 2016, Chairman Debbie Lesko stated that the minutes would stand approved.

#### ADOPTION OF COMMITTEE RULES AND REGULATIONS

Mr. Richard Stavneak, JLBC Staff, stated that the Committee Rules and Regulations remain the same as last session, along with 2 technical changes to Rule 6 to conform to statute.

<u>Senator Kavanagh moved</u> that the Committee adopt the JLBC Committee Rules and Regulations. The motion carried.

DEBBIE LESKO CHAIRMAN 2017 SYLVIA ALLEN OLIVIA CAJERO BEDFORD STEVE FARLEY KATIE HOBBS JOHN KAVANAGH

KIMBERLY YEE

STATE

SENATE

(Continued)

#### NORTHERN ARIZONA UNIVERSITY (NAU) - Review of Student Housing Indirect Financing Project.

Mr. Matt Beienburg, JLBC Staff, stated pursuant to A.R.S. § 15-1682.02 and A.R.S. § 15-1683, the Committee is required to review any university projects using indirect debt financing (also known as third-party financing) and any university project financed with revenue bonds, respectively. NAU requested Committee review of a \$58,790,000 project for Honors College student housing and academic and administrative spaces and utilities infrastructure at the Flagstaff campus. The JLBC Staff presented options to the Committee.

Ms. Katy Yanez, Associate Vice President for Government Affairs and Business Partnerships, NAU, responded to member questions.

<u>Representative Shooter moved</u> that the Committee give a favorable review to NAU's \$58,790,000 Honors College construction project, including the issuance of \$14,800,000 in system revenue bonds, with the following standard university financing provisions:

#### Standard University Financing Provisions

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

The motion carried.

# ARIZONA GAME AND FISH DEPARTMENT (AGFD) - Review of FY 2017 Building Renewal Allocation Plan.

Mr. Ben Murphy, JLBC Staff, stated A.R.S. § 41-1252 requires the Committee to review expenditure plans for building renewal monies prior to expenditure. AGFD requests the Committee review its FY 2017 Building Renewal Allocation Plan for \$104,100. The FY 2017 Capital Outlay Bill (Laws 2016, Chapter 126) appropriated a total of \$530,000 from the Game and Fish Fund for building renewal. The department is requesting Committee review of a Tucson Regional Office roofing replacement project with a total cost of \$104,100. The JLBC Staff presented options to the Committee.

<u>Representative Shooter moved</u> that the Committee give a favorable review to the expenditure of \$104,100 from the Game and Fish Fund for AGFD's FY 2017 Building Renewal Allocation for the Tucson Regional Office roofing replacement project with the following provisions:

- A. The distribution of the emergency allocation of \$75,000 favorably reviewed at the September 21, 2016 JCCR meeting shall continue to be addressed as follows:
  - 1. AGFD shall notify the Chairman and JLBC Staff that they plan to spend monies on an emergency project. The Chairman can allow AGFD to move forward with an emergency project without Committee review.
  - 2. The Chairman will notify the AGFD if she does not agree that a project is an emergency and that the project will require full Committee review.

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

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

The motion carried,

#### DEPARTMENT OF JUVENILE CORRECTIONS (DJC) - Review of FY 2017 Building Renewal Allocation Plan.

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

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

Mr. Jeff Hood, Interim Director, DJC, responded to member questions.

<u>Senator Lesko moved</u> that the item be held with the intent on coming back before Legislative session ends. The motion carried.

# ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA) - Consider Recommending FY 2017 Partial Rent Exemption.

Mr. Geoffrey Paulsen, JLBC Staff, stated that A.R.S. § 41-792.01D authorizes the Director of ADOA, on recommendation from the Committee, to grant a full or partial exemption from the payment of stateowned rental fees if the agency has vacated its space or if an agency does not have the financial resources to make the payment. ADOA requested that the Committee recommend a partial exemption to the Department of Revenue of \$(28,275) and a corresponding rent payment of \$28,275 for the Attorney General. The JLBC Staff recommended the agency's request.

#### Senator Kavanagh moved that the Committee recommend:

- A partial rent exemption of \$(28,275) in FY 2017 for the Department of Revenue.
- A corresponding rent payment of \$28,275 in FY 2017 for the Attorney General.

#### The motion carried.

Without objection, the meeting adjourned at 9:58 a.m.

Respectfully submitted:

Padddck, Secretary

Jack Brown, Assistant Director

Senator Debbie Lesko, Chairman

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



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#### MINUTES OF THE MEETING

#### JOINT COMMITTEE ON CAPITAL REVIEW

April 27, 2017

Chairman Lesko called the meeting to order at 9:05 a.m., Wednesday, April 27, 2017 in Senate Appropriations Room 109. The following were present:

Members: Senator Lesko, Chairman Senator Allen Senator Cajero-Bedford Senator Farley Senator Hobbs Senator Kavanagh Senator Yee Representative Shooter, Vice-Chairman Representative Allen Representative Alston Representative Cardenas Representative Carter Representative Leach Representative Rios

Absent:

DEPARTMENT OF JUVENILE CORRECTIONS (DJC) - Review of FY 2017 Building Renewal Allocation Plan.

Mr. Chris Gustafson, JLBC Staff, stated that A.R.S. § 41-1252 requires the Committee to review expenditure plans for building renewal monies prior to expenditure. The FY 2017 Capital Outlay Bill (Laws 2016, Chapter 126) appropriated a total of \$1,100,000 for building renewal from the Criminal Justice Enhancement Fund. DJC is requesting a review of the remaining \$776,300 of the department's appropriation for building renewal projects in FY 2017 for Roof Repair, Floor Covering Systems, HVAC Replacement and Shower Door Replacement at the Adobe Mountain Juvenile Facility. At its September 2016 meeting, the Committee favorably reviewed \$350,000. The JLBC Staff presented options to the Committee.

Mr. Jeff Hood, Interim Director, DJC, responded to member questions.

Constituents, Julie Reed and Ann O'Brien, testified to their concerns regarding the Adobe Mountain Juvenile Facility.

(Continued)

<u>Senator Kavanagh moved</u> that the Committee give a favorable review for the remaining \$776,300 for building renewal projects. The favorable review included the following provisions:

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

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

The motion carried.

# ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA) – Review of Funding Reallocation for 1740 West Adams Renovation.

Mr. Geoffrey Paulsen, JLBC Staff, stated A.R.S. § 41-1252 requires Committee review of expenditure plans for building renewal monies. At the June 2016 and December 2016 JCCR meetings, the Committee favorably reviewed ADOA's building renewal project of \$4,200,000 to renovate the old Department of Health Services building at 1740 West Adams. Pursuant to a Committee provision, ADOA is requesting review of its plan to increase the project budget by another \$1,059,000 to reinforce the concrete floor slabs and structural columns inside the building. ADOA proposes using \$791,000 in cost savings from other FY 2017 Building Renewal projects and \$268,000 from its Contingency Allocation. The JLBC Staff presented options to the Committee.

Mr. John Hauptman, General Manager, Construction Services, ADOA, responded to member questions.

<u>Senator Kavanagh moved</u> that the Committee give a favorable review of the reallocation of \$791,000 in cost savings from other FY 2017 Building Renewal Projects and \$268,000 from the Contingency Allocation for a total \$1,059,000 to be used to reinforce the concrete slab and structural columns at the 1740 West Adams building with the provision that ADOA shall report to the Committee on how they plan to address agencies with early termination penalties. The motion carried.

Without objection, the meeting adjourned at 9:36 a.m.

Respectfully submitted:

delle

Kristy Paddack, Secretary

Jack Brown, Assistant Director

Senator Debbie Lesko, Chairman

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



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## Joint Committee on Capital Review

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 YEE
 REBECCA RIOS

 DATE:
 June 13, 2017

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

 THRU:
 Richard Stavneak, Director FS

 FROM:
 Josh Hope, Fiscal Analyst JH

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

#### Request

Pursuant to A.R.S. § 41-1252, the Department of Emergency and Military Affairs (DEMA) is requesting the review of their plan to expend \$1,140,000 from the Military Installation Fund for 2 acquisitions and 1 grant. The proposal is as follows:

- Up to \$660,000 to acquire a 300-acre conservation easement near Fort Huachuca
- Up to \$230,000 to purchase 10 acres within the Davis-Monthan Air Force Base (AFB) fence line
- Up to \$250,000 to provide a grant to Pima County to purchase additional land within the Davis-Monthan AFB fence line

#### Recommendation

The Committee has at least the following 2 options:

- 1. A favorable review.
- 2. An unfavorable review.

The Committee may consider the following provisions:

A. The \$250,000 Pima County grant shall only be disbursed as a reimbursement of the county's expenditure to purchase land in line with DEMA's grant policy.

(Continued)

B. The purchase price for the direct acquisition of the 10 acre parcel within the Davis-Monthan Air Force Base fence line may not exceed \$102,000. The \$250,000 grant to Pima County for the purchase of other acreage inside the Davis-Monthan fence line shall be based on a comparable price per acre as paid by DEMA in its direct purchase of land. Upon final agreement on both the direct purchase and the Pima County grant, DEMA shall notify the Committee of the terms and conditions of both transactions.

#### Analysis

The 10-acre Davis-Monthan AFB acquisition and the Fort Huachuca easement were on the June 2016 agenda. The Committee held consideration of both items. DEMA is once again requesting review of both items along with the Pima County grant.

The Military Installation Fund (MIF) was created by Laws 2004, Chapter 235 for the purpose of helping to maintain the presence of military facilities through the purchase, preservation, or maintenance of land near the facilities. The Military Installation Fund receives revenue from one-time General Fund appropriations and interest on the fund balance. As of June 5, 2017, the fund had an unreserved balance of \$2.9 million.

A.R.S. § 26-262 requires that 80% of the monies received by the Military Installation Fund be utilized for land purchases, land improvements, and the acquisition of development rights. The remaining 20% is required to be provided as grants to local governments. Grant monies are only disbursed on a reimbursement basis.

The Arizona Military Affairs Commission (AMAC) makes recommendations on fund expenditures to DEMA. The latter may accept or change the Commission's recommendation.

#### \$660,000 for Conservation Easement near Fort Huachuca

DEMA is proposing to allocate \$660,000 to acquire conservation easement rights to a 300-acre parcel, which is located approximately 1-mile north of Fort Huachuca. The land is known as the Rain Valley Ranch, which is owned by BBA Foresight and located in the Babacomari River Watershed. The land is a private working ranch used for cattle, horses, and tourism. Fort Huachuca's interest in these lands results from its desire to protect the Buffalo Soldier Electronic Test Range (BSETR) and restrict military airspace from electronic interference.

The conservation easement was valued at \$660,000, or \$2,200 per acre, based on an appraisal done in March 2017. There is not yet an agreement to acquire the conservation easement rights at this price.

DEMA would contract with the Arizona Land and Water Trust (ALWT) to acquire and manage the conservation easement. A conservation easement is a legal agreement between a land-owner and a non-profit land trust such as ALWT, or a government agency, which permanently limits uses of the land. Landowners grant conservation easements to restrict developments and to protect resources, while retaining rights of private ownership. The landowner is compensated for limiting future development of the land. This particular easement will allow the traditional uses of this land for ranching, agriculture, open space, and rural residential and recreational uses.

In 2015, DEMA provided a grant of \$772,900 to ALWT to acquire conservation easement rights for 396 acres within the Rain Valley Ranch at a price of \$1,950 per acre. Since DEMA did not consider this to be a direct land purchase by the state, DEMA chose not to seek JCCR review for this item.

(Continued)

#### \$230,000 for Land Acquisition within Davis-Monthan AFB Fence Line

DEMA would spend up to \$230,000 to purchase a 10-acre parcel within the fence line of Davis-Monthan AFB. This undeveloped land is located immediately to the southeast of the main air strip and is within the base fence line. The acquisition of this property and subsequent ownership by the state would eliminate an annual \$35,000 lease payment that Davis-Monthan AFB currently pays to the landowner. DEMA believes that the federal government will view the purchase as a favorable action by the state to keep Davis-Monthan AFB open.

This property was initially appraised at \$102,000. The property owner challenged the initial appraisal and requested that a second appraisal be conducted. The second appraisal of this property was \$230,000.

The property owner originally requested \$475,000. It is not known whether the property owner will accept a lower price. Arizona Administrative Code requires that DEMA pay no more than the appraised value for land acquisitions and easement purchases from the Military Installation Fund.

The appraisal raises the issue of how to properly value land within the fence line of a military base. In determining the value of the property, DEMA asked the appraiser to assume that the land could be rezoned and developed. This assumption is obviously problematic, because the property is located within the fence line and within a potential explosive radius of the munitions storage areas and runway.

The Committee may consider a provision to limit the direct purchase price to no more than \$102,000, consistent with the original appraisal.

\$250,000 Grant to Pima County for Land Acquisition within Davis-Monthan AFB Fence Line There are a total of 99 privately held acres within the fence line of Davis-Monthan AFB. As described above, DEMA is proposing to expend \$230,000 to acquire 10 acres directly. In addition, DEMA is proposing to provide a \$250,000 grant to assist Pima County so that the latter can purchase the remaining 89 acres. Pima County would combine these grant monies with non-MIF grant funding to acquire the land. Because the MIF grants are disbursed on a reimbursement basis, the county would have to expend their own funds first before any of the \$250,000 in grant monies can be transferred to Pima County. The Committee may consider a provision which reiterates this reimbursement policy. This purchase was originally scheduled to be made with funds from a Pima County bond issuance. However, voters rejected that issuance in November 2015.

The remaining 89 acres are made up of 8 parcels. Of these 8 parcels, 3 have been appraised at an average price of \$10,700 per acre. At this appraised value, the \$250,000 grant would only fund a portion of the remaining 89 acres.

If the Committee decides to add the provision on the direct purchase price of the 10 acres (see above), it may also want to require DEMA to use a comparable per acre cost when negotiating the Pima County grant. This per acre cost would be approximately \$10,000 to \$11,000 per acre.

Davis-Monthan AFB currently pays approximately \$289,000 annually to lease the 89 acres (\$3,200 per acre) being considered under this proposal. Acquisition of these properties would eliminate the requirement for Davis-Monthan AFB to pay to lease this land.

RS/JH:kp



### STATE OF ARIZONA DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS

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



May 30, 2017

The Honorable Debbie Lesko, Chairwoman Joint Committee on Capital Review (JCCR) Arizona State Senate 1700 W. Washington Street Phoenix, Arizona 85007 The Honorable Don Shooter, Vice-Chair Joint Committee on Capital Review (JCCR) Arizona House of Representatives 1700 W. Washington Street Phoenix, Arizona 85007

SUBJECT: Military Installation Fund Recommended Acquisitions

Dear Chairwoman Lesko, Vice-Chairman Shooter, and Committee Members:

The Arizona Department of Emergency and Military Affairs (DEMA) respectfully requests its placement on the June 20, 2017 Joint Committee on Capital Review (JCCR) meeting agenda for review of the expenditure of monies appropriated to the Military Installation Fund and recommended by the Military Affairs Commission for land acquisition and capital projects pursuant to A.R.S. § 41-1252.

A.R.S. § 26-262(G) directs DEMA upon recommendation by the Military Affairs Commission to acquire private property or property rights for the purpose of preserving or enhancing a military installation. For all private property transactions, DEMA offers the lesser of either the applicant's asking price or the property's appraised value. At the Joint Committee on Capital Review meeting on June 16, 2016, two private property applications that were recommended for funding by the Military Affairs Commission to protect and enhance Arizona's military installations and assist property owners impacted by those adjacent military installations were tabled to provide additional time to answer members' questions. DEMA respectfully submits these recommended acquisitions for review:

Proposed Conservation Easement Acquisition - \$660,000 to BBA Foresight/ALWT

- 300 acres within the Rain Valley area of Cochise County near Fort Huachuca and within the Buffalo Soldier Electronic Testing Range as identified by A.R.S. § 37-102(H)(3).
- Appraised value \$660,000; Applicant requested \$900,000
- Protects the mission of Fort Huachuca and the Buffalo Soldier Electronic Testing Range by preserving the ranching industry currently performed in the area, which is an economically compatible development of the land that does not produce electronic interference within the Range that would endanger the mission and the base's economic impact of \$2.4 billion to southern Arizona.
- Compliments over \$4.5M from the Department of Defense REPI Program.
- Proximate to 3,300 acres that have been conserved by Fort Huachuca through the Army Compatible Use Buffer (ACUB) program.

Proposed Property Acquisition - up to \$230,000 to Kolb Road Development

- 10+/- acres, Pima APN #'s: 141-06-007C and 141-06-0190
- Initial Appraisal value \$102,000; Applicant Requested Second Appraisal<sup>1</sup> value \$230,000; Applicant requested \$475,000
- The property is within the fence-line of Davis-Monthan Air Force Base, and within the required safety buffer zone of the installation's explosive storage area.

The Honorable Debbie Lesko The Honorable Don Shooter May 30, 2017 Page 2 of 2

• Acquisition of these properties would eliminate the requirement for Davis-Monthan AFB to lease the proposed property, reducing the operational expense of the installation by \$35,000 per year and improving the viability of the installation. This property borders additional private property that Pima County intends to acquire in order to achieve this same goal. Acquisition will resolve impacts to the property owner caused by the property being within the fence-line of Davis-Monthan AFB.

Additionally, A.R.S. § 26-262(G) directs DEMA upon recommendation by the Military Affairs Commission to award grants to political subdivisions for military installation preservation and enhancement projects. At the Joint Committee on Capital Review meeting on June 16, 2016, one grant recommended for funding by the Military Affairs Commission was tabled. Grants monies are only disbursed on a reimbursement basis. DEMA respectfully submits the following recommended grant for review:

Proposed Military Preservation Project Grant – Up to \$250,000 to Pima County

- Grant would contribute to the acquisition of up to 89+/- acres of privately owned properties. The subject properties are within the Davis-Monthan AFB fence line and adjacent to the Munitions Storage Area (MSA), which places the properties within the Quantity Distance Explosive Safety Arcs where occupied structures are prohibited.
- There is a total of 99+/- privately held acres within Davis-Monthan AFB. The owner of 10+/- of those privately held acres submitted a separate application for acquisition by the Military Installation Fund (the Kolb Road Development application).
- Grant was originally going to be added to a proposed \$5 million bond that was ultimately defeated in November 2015. The proposed bond would have included the acquisition of state land within Davis-Monthan AFB.
- With the defeat of the bond, Pima County will combine MIF grant dollars with other non-MIF grant funding to acquire the 89+/- privately held acres.
- Acquisition of these privately held properties is a priority for Davis-Monthan AFB. Davis-Monthan currently pays \$324,000 annually to lease the private property. Acquisition of these properties would eliminate the requirement for Davis-Monthan to lease the proposed property, greatly improving the long-term viability of Davis-Monthan AFB by reducing the future operational expense of the installation which employees over 8,900 Airmen and civilians and provides over \$1.5 billion in economic impact to the region.

If you have any questions regarding these proposed acquisitions, please contact Travis Schulte, DEMA Legislative Policy Administrator and Coordinator for the Military Affairs Commission, at 602.267.2732 or travis.schulte@azdema.gov.

Sincerely, 1 mil

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

cc: Richard Stavneak, Staff Director JLBC Joshua Hope, DEMA Analyst, JLBC Lorenzo Romero, Director, OSPB Sarah Pirzada, DEMA Budget Analyst, OSPB 

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DATE:	June 13, 2017
TO:	Senator Debbie Lesko, Chairman Members, Joint Committee on Capital Review
THRU:	Richard Stavneak, Director
FROM:	Chris Gustafson, Senior Fiscal Analyst
SUBJECT:	Arizona Exposition and State Fair Board - Review of FY 2017 Capital Improvement Expenditures

#### Request

Pursuant to A.R.S. § 41-1252 the Arizona Exposition and State Fair (AESF) Board requests Committee review of the scope, purpose and estimated cost of 9 capital projects with a total cost of \$303,000. The FY 2017 Capital Outlay Bill (Laws 2016, Chapter 126) appropriated \$1,000,000 from the Arizona Exposition and State Fair Fund to the Arizona Exposition and State Fair Board for capital improvements.

#### Recommendation

The Committee has at least the following 2 options:

- 1. A favorable review.
- 2. An unfavorable review.

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

- A. AESF shall report to the JLBC Staff if the actual cost of any project included in the expenditure plan exceeds the estimated cost by more than 20%.
- B. If an emergency arises that is not addressed by the existing expenditure plan:

(Continued)

- 1. AESF shall notify the Chairman and the JLBC Staff that they plan to spend less than \$50,000 on an emergency project. AESF can proceed without Committee review.
- 2. The Chairman can allow AESF to move forward with an emergency project of greater than \$50,000 without Committee review.
- 3. The Chairman will notify AESF if she does not agree that the project is an emergency and that the project will require full Committee review.

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

- C. It is the intent of the Committee to not review the \$120,000 allocation from the FY 2017 ADOA building renewal appropriation for the repair of the 1938 Works Progress Administration Civic Building until the provisions pursuant to Laws 2016, Chapter 126 are met. Statute does not permit ADOA to spend the \$120,000 until matching funds from the City of Phoenix are received. When ADOA and the Arizona Exposition and State Fair Board subsequently request review of the 1938 WPA Civic Building Project, they shall include information on how total project funds will be spent and if the repairs will be sufficient to make the building operational.
- D. No monies from the FY 2017 (Laws 2016, Chapter 126) or FY 2018 (Laws 2017, Chapter 306) capital appropriation may be spent on projects related to the 1938 WPA Civic Building without prior Committee review.

#### Analysis

#### Background

The AESF requests the Committee review the following 9 projects:

1. Removal and Resurface of Concrete Slab West of Coliseum Entrance

The slab protrudes into the parking lot and was intended as a ramp for entrance into the Coliseum. It was built to comply with the Americans with Disabilities Act (ADA) and is used during the fair as vendor space. Removing the slab will not result in a loss of ADA accessibility as there will still be space that is at grade for wheelchairs and other limited mobility devices. Resurfacing the area will allow for a greater number of vendors to be place in the area. Estimated project cost is \$30,000.

- <u>Replacement of One Agriculture Center Cooler</u> AESF uses swamp coolers in some buildings. The cooler is beyond repair in Agriculture Building 1. Estimated project cost is \$50,000.
- <u>Replacement of the Wesley Bolin Building Coolers</u> Wet boxes are necessary to operate the swamp coolers on the fairgrounds. AESF is seeking to replace 4 wet boxes at the Wesley Bolin Building as the current boxes are beyond their serviceable life. Estimated project cost is \$25,000.
- 4. Phase 1 Installation of Water System Isolation Valves

Currently, when a valve to the water supply breaks, AESF is unable to isolate the broken valve resulting in a loss of fresh water to large sections of the facility. Phase 1 of the project would install 4 isolation valves that can cut off water in a damaged section while rerouting the rest of the water supply intact. The total project would involve 12 valves. The estimated cost of Phase 1 is \$28,000.

#### 5. Phase 2 LED Lighting Upgrade

This is the second phase of LED Lighting upgrades at the State Fair property. AESF will be upgrading LED lights in phase 2 to create a brighter exhibition space in the Home Arts Building and the Commercial Exhibits Building. The upgrades will also reduce electricity costs. At its June 16, 2016 meeting, the Committee approved \$75,000 for Phase 1 of the LED lighting upgrade for the parking lots around the fairgrounds. The estimated cost of Phase 2 is \$50,000.

#### 6. Purchase of 500 Folding Tables

Folding tables are used for events during the fair and are rented out to vendors for events yearround. AESF recently took 300 folding tables out of use because of damage. Estimated project cost is \$50,000.

#### 7. Purchase of 500 Molded Plastic Chairs

Like the folding tables, AESF rents out these chairs to vendors for events. If chairs are too damaged for use, the vendors will rent from outside companies. Estimated project cost is \$20,000.

#### 8. Purchase of 20'x12' Large Umbrellas and Bases

Large umbrellas are used during the fair to provide shade for fair attendees. AESF will be purchasing 5 umbrellas at a cost \$6,000 each for a total estimated project cost of \$30,000.

#### 9. Purchase of Adjustable Trussing

A truss is used to provide vendors and shows extra light by installing temporary lighting in areas where existing fixed lights leave a room too dark for displays and exhibitions. AESF believes this will help with attracting more visitors for vendors. Estimated project cost is \$20,000.

#### **Reasonableness of Cost Estimates**

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

#### Works Progress Administration Civic Building Renovations

The FY 2017 Capital Outlay Bill (Laws 2016, Chapter 126) allocated \$120,000 from the Arizona Department of Administration (ADOA) building renewal appropriation to repair the 1938 Works Progress Administration (WPA) Civic Building on the State Fair grounds. The bill stipulated that ADOA may not spend the monies allocated for this purpose unless the department receives matching monies from the City of Phoenix to repair the building and the state maintains control and ownership of the building. ADOA requested review of this funding at the June 2016 JCCR meeting. The Committee did not review the request since the statutory conditions had not been met.

As of last year's meeting, the City of Phoenix had approved \$200,000 for the historical preservation and renovation of the 1938 WPA Civic Building. AESF reports, however, that the Phoenix funding is contingent on the state signing a conservation easement. The conservation easement would require the state to agree to preserve the historic, cultural, and architectural aspects of the building for a period of 20 to 30 years.

In our June 2016 meeting memo, we noted that ADOA and AESF were working with the Attorney General to determine if the state can sign the conservation easement. While we understand that the Attorney General's office was not asked to provide a formal opinion to AESF, ADOA subsequently determined it is against state policy to enter into such an agreement. Meetings between Phoenix and AESF have so far not resolved this issue.

According to AESF, Phoenix estimates the cost to repair the roof is \$180,000. Total renovation costs range between \$500,000 and \$1.8 million. These estimates are unchanged from those presented at the June 16, 2016 meeting of the Committee. In addition to the funds provided by the state and city, private fundraising will also be needed to pay for the renovations. AESF reports that approximately \$30,000 has been raised so far.

The Committee may consider a provision requiring ADOA and the Arizona Exposition and State Fair report on how total project funds will be spent and if the repairs will be sufficient to make the building operational when they request review of \$120,000 allocation for the WPA Civic Building Project. This report would be due when this item is resubmitted at a later time for JCCR review. This provision is identical to one adopted at the June 2016 JCCR meeting.

Given the current lack of activity on the project, the Committee may consider a provision prohibiting any of the FY 2017 or FY 2018 AESF capital appropriations from being spent on the 1938 WPA Civic Building without prior Committee review.

RS/CG:kp



May 26, 2017

The Honorable Debbie Lesko Joint Committee on Capital Review Arizona Senate 1700 W. Washington, Room 200 Phoenix, AZ 85007



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

Dear Senator Lesko:

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

1.	Removal and Resurface of Concrete Slab West of Coliseum Entrance	\$30,000
2.	Replacement of One Ag Center Cooler	\$50,000
3.	Replacement of the Wesley Bolin Building Coolers	\$25,000
4.	Phase 1 Installation of Water System Isolation Valves	\$28 <i>,</i> 000
5.	Phase 2 LED Lighting Upgrade (Commercial Exhibit and Home Arts Buildings)	\$50,000
6.	Purchase of 500 Folding Tables	\$50,000
7.	Purchase of 500 Molded Plastic Chairs	\$20,000
8.	Purchase of Funbrellas and Bases	\$30,000
9.	Purchase of Adjustable Trussing	\$20,000

A brief description follows:

#### 1. Removal and Resurface of Concrete Slab West of Coliseum Entrance

The removal of the concrete slab will reduce trip hazards, as well as improve ADA access to the Coliseum for both events and access to administrative offices. Additionally, this improvement will allow for a greater number of concessions or vendors to be placed in the adjacent area which will lead to greater revenue and flexibility of event staging.

This repair is needed and being sought for the safety and convenience of the public, as well as to increase opportunities for revenue generation.

### 2. Replacement of One Ag Center Cooler

The coolers in the Ag Center are beyond the expected service life. The condition of the coolers has degraded to such a condition that units could fail at any time. All units are beyond repair and require

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



replacement. However one cooler is in the poorest condition and replacement is critical. The cooler is required for continued business operation and to meet the terms of special event contracts currently in place. Failure to replace the coolers, especially this one, could potentially result in significant revenue loss without advance notice and negatively impact the ability of the facilities to provide for guest comfort during events. This would be a first phase with the remainder of the coolers being replaced as soon as possible.

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

#### 3. Replacement of the Wesley Bolin Building Coolers

The wet boxes, a component of the coolers in Wesley Bolin, are currently beyond the expected service life. Replacing the wet boxes now, before additional degradation occurs, will extend the expected service life of the cooling units in general and delay greater costs. The coolers are required for continued business operation and to meet the terms of special event contracts currently in place. Failure to replace the coolers could potentially result in significant revenue loss without advance notice and negatively impact the ability of the facilities to provide for guest comfort during events.

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

#### 4. Phase 1 Installation of Water System Isolation Valves

Due to the age of the facility, the Fairgrounds experiences regular failure to the fresh water supply system. Because of the nature of the facility operation, the situation is further exasperated by the greater probability of system failure at the most inopportune times (i.e., during major events, due to the demands of the system. Currently, the water infrastructure has a limited ability to isolate zones when needed for repair. This inability to isolate lines needed for repair causes the necessary closure of primary water lines leaving restrooms and concession stands inoperable across the grounds. Subsequently, a health and safety concern arises that has caused delayed opening of the fair and loss in revenue from both admission and food sales. Phase 1 would include the installation of four (4) of the needed 12 isolation valves.

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

#### 5. Phase 2 LED Lighting Upgrade (Commercial Exhibit and Home Arts Buildings)

Improved lighting in the designated areas will provide more illumination to the building and make the building more attractive to current and potential promoters. In the Commercial Exhibits Building, improved lighting will also allow for better display of products for Arizona State Fair exhibitors, which should lead to increased sales and help generate additional sales tax revenue for the State. In the Home Arts Building, improved lighting will also create a more enjoyable experience for fair guests and improve the appearance of Fair exhibit displays entered by residents of the State.



This is Phase 2 of a broad plan for lighting upgrades. Lighting for the Entry Gates, 19<sup>th</sup> Avenue, Avenue of the Flags and the Cattle Barn was previously completed. This project is pressing as rebates offered by the utility company may be expiring. Phase 3 will include the Plaza Building, Wesley Bolin and Ag Center Buildings.

In addition, converting to an LED lighting system is a much needed step towards improving conservation as LED lighting will increase efficiency and decrease cost. LED lighting will also reduce heat generation in the buildings.

These needed repairs and upgrades are being sought to improve public safety, as well as improve efficiency of operation and to conserve energy.

#### 6. Purchase of 500 Folding Tables

Much of the inventory of folding tables (approx. 800), that are rented weekly to special events are severely damaged and require replacement. Additionally, approximately 300 tables, which could be rented several times a year, have been taken out of use as a result of excess damage that left the tables unusable. The tables not only pay for themselves, but also generate revenue as the tables are available for rent during events. Newly purchased tables would replace the decommissioned tables and begin a process of replacement for the most damaged tables that are still in use.

This purchase is needed and is being sought to maintain efficiency and convenience for the agency and promoters, as well as increase opportunities for revenue generation.

#### 7. Purchase of 500 Molded Plastic Chairs

Five hundred of the AESF chair inventory have faded, become brittle and are no longer usable. The chairs not only pay for themselves over time, but the chairs are also used to generate revenue. It is further expected that the chairs will be available for rent. Without replacement, both clients and the Fair itself are required to rent chairs elsewhere.

This purchase is needed and is being sought to maintain efficiency and convenience for the agency and promoters, as well as increase opportunities for revenue generation.

#### 8. Purchase of Funbrellas and Bases

Shade continues to be one of the most requested items for both the Fair and majority of events held on the fairgrounds. Funbrellas are oversized, sturdy and can be moved to where they are most effective, to provide shade and comfort that contributes to a more positive experience for guests.

This purchase is needed and is being sought to increase customer service for guests and promoters.



#### 9. Purchase of Adjustable Trussing

Adjustable trussing is used to provide infrastructure necessary to install temporary lighting and/or shading in a variety of areas around the Fairgrounds during events. Increased lighting in walkways will improve safety, as well as increase traffic in less traveled areas. Additionally, trussing can be used to create entry ways as well as ambiance as needed for more successful events and more effective directing of patron movement.

This purchase is needed and is being sought to improve venue attractiveness and utility, as well as improve efficiency and hosting of more successful events. This purchase will also increase public safety and comfort.

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

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

Sincerely,

Wanell Costello Executive Director

CC: Richard Stavneak, JLBC Sarah Pirzada, OSPB Chris Gustafson, JLBC 

#### STATE OF ARIZONA

## Joint Committee on Capital Review

STATE SENATE

1716 WEST ADAMS PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

HOUSE OF REPRESENTATIVES

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DEBBIE LESKO CHAIRMAN 2017 SYLVIA ALLEN OLIVIA CAJERO BEDFORD STEVE FARLEY KATIE HOBBS JOHN KAVANAGH KIMBERLY YEE

DATE: June 13, 2017

TO:Senator Debbie Lesko, ChairmanMembers, Joint Committee on Capital Review

THRU: Richard Stavneak, Director 74

FROM: Micaela Larkin, Senior Fiscal Analyst ML

SUBJECT: Arizona Department of Corrections - Review of FY 2018 Building Renewal Allocation Plan and Capital Projects

#### Request

A.R.S. § 41-1252 requires Committee review of expenditure plans for building renewal monies. The Arizona Department of Corrections (ADC) requests review of:

- a) ADC's FY 2018 Building Renewal Plan.
- b) Expenditure of the \$1,450,000 appropriated for locking system replacement in the FY 2018 Capital Outlay Bill.
- c) Review of reallocations of the FY 2016 and FY 2017 Building Renewal Plans.

#### Recommendation

The Committee has at least the following 2 options:

- 1. A favorable review of all 3 requests.
- 2. An unfavorable review of all 3 requests.

Under either option, the JLBC Staff recommends the following standard provisions for the FY 2018 Building Renewal Plan:

(Continued)

- A. ADC shall report any reallocations between projects to the JLBC Staff. If there is significant change of scope in the reallocation reported by ADC, the JLBC Staff shall recommend ADC request Committee review of the reallocation.
- B. If an emergency arises that is not addressed by the existing expenditure plan:
  - 1. ADC shall notify the Chairman and the JLBC Staff that they plan to spend less than \$50,000 on an emergency project. ADC can proceed without Committee review.
  - 2. The Chairman can allow ADC to move forward with an emergency project of greater than \$50,000 without Committee review.
  - 3. The Chairman will notify ADC if he does not agree that the project is an emergency and that the project will require full Committee review.

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

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

#### Analysis

The FY 2018 Capital Outlay Bill (Laws 2017, Chapter 306) appropriated a total of \$5,464,300 from the Department of Corrections Building Renewal Fund to ADC for general building renewal. The FY 2018 Capital Outlay Bill also appropriated an additional \$1,450,000 from the Department of Corrections Building Renewal Fund to ADC for the replacement of locking systems at state prison facilities. These appropriations require review pursuant to A.R.S. § 41-1252. In addition, ADC seeks review of reallocations of the FY 2016 and FY 2017 Building Renewal Plans.

#### FY 2018 Building Renewal Plan

A total of \$5,464,300 was appropriated to ADC for building renewal in FY 2018 from the Department of Corrections Building Renewal Fund. Unless a bid is described below, the figures represent ADC's best estimates for costs of the projects based on prior work.

The FY 2018 ADC Building Renewal Plan includes monies for the following projects:

- \$1,920,000 for the replacement of the ported cables in the perimeter electronic security systems that have reached the end of their service life at ASPC Lewis and ASPC Florence East (installed in 1983).
- \$1,100,000 for structural repairs at ASPC Florence. Of this amount, \$875,000 is allocated for the repair of ceilings in a cell block constructed in 1960 that has deteriorated from age and the extended use of evaporative cooling. The remaining \$225,000 is allocated for replacing the foundation in a modular building at Florence due to cracks in the existing foundation. The foundation work is based on a received bid.
- \$909,500 for repairs to the water tank road at Lewis, the addition of extra cameras to monitor the complex at Yuma, and the replacement of 2 water clarifiers at the ASPC - Lewis wastewater treatment plant.
- \$501,500 for air conditioning upgrade for a mental health unit at ASPC Tucson.

- \$420,000 for locking and control systems at 2 facilities. Of that amount, \$250,000 is for the work that was discovered during initial repairs at ASPC - Eyman SMU I. Additional monies will be used at this unit from the FY 2018 appropriation for locking systems described in the next section. An additional \$170,000 is allocated for door locking control panels at ASPC - Eyman Meadows. This continues previous work at this facility.
- \$613,300 for the repair of the perimeter road at the private prison ASP Kingman Cerbat Unit. This cost is based on a bid. The state owns the prison at Kingman after a purchase during FY 2017 and pays a private contractor to operate the facility. ADC describes the road as washing out during storms, and this reduces the security of the perimeter. The road was built by the previous prison vendor in 2009.

Table 1 FY 2018 Building Renewal Plan Perimeter Security Ported Cable Replacement - Lewis \$ 1,635,000 Ported Cable Replacement - Florence 285,000 Subtotal \$ 1,920,000 Structural Repairs \$ 875,000 Cell Block Modular Ceiling Structural Repair - Florence **Modular Structural Repairs - Florence** 225,000 Subtotal \$1,100,000 Equipment Replacement, Upgrade, and System Improvements \$ 475,000 Water Tank Road Repairs - Lewis Camera Upgrades - Yuma 250,000 **Replace Wastewater Treatment Plant Clarifiers - Lewis** 184,500 Subtotal \$ 909,500 Air Conditioning - Select Units Air Conditioning - Tucson Rincon \$ 501,500 Subtotal \$501,500 Locking & Control Systems Locking Systems Phase III Completion - Eyman SMU I \$ 250,000 **Door Locking Controls - Eyman Meadows** 170,000 Subtotal \$420,000 State Facilities Operated by Private Vendor Perimeter Road Repairs - ASP Kingman Cerbat (Operated by Geo) Subtotal \$ 613,300 **Building Renewal Subtotal** Contingency \$5,464,300 \$ 0 \$5,464,300 TOTAL

The FY 2018 Building Renewal Plan consists of the following projects:

Locking System Replacement (Laws 2017, Chapter 306, Section 9)

Laws 2017, Chapter 306, Section 9 appropriates \$1,450,000 from the Department of Corrections Building Renewal Fund to ADC for FY 2018 for the replacement of locking systems at the SMU I unit at ASPC - Eyman.

The ASPC - Eyman SMU I Unit was constructed in 1987.

The total project cost will be \$8,300,000. ADC has previously used \$3.7 million on this project from the following sources for the first 3 phases of the project:

Phase OneFY 2014 Building Renewal Plan\$1,300,000Phase TwoFY 2015 Building Renewal Plan\$1,200,000Phase ThreeFY 2016 Building Renewal Plan\$1,200,000

ADC is seeking review of a total of \$1,700,000 for Phase Four in FY 2018, which includes \$1,450,000 from this specific appropriation and \$250,000 from the FY 2018 Building Renewal Plan described in *Table 1*.

ADC anticipates 2 additional phases that will each cost \$1,450,000 in future years.

#### FY 2016 and FY 2017 Building Renewal Reallocation

ADC has been replacing a control panel for locking doors at ASPC - Eyman. Monies for this project were allocated in the FY 2016 Building Renewal Plan, and the monies lapse as of June 30, 2017. Due to circumstances with the vendor declaring bankruptcy, ADC proposes reassigning this project and the \$385,000 for this project to the FY 2017 Building Renewal Plan, which is available until June 30, 2018. ADC would then move the ASPC - Florence Globe propane tank and system upgrade to the FY 2016 Building Renewal Plan. This propane tank and system upgrade will be completed as of June 30, 2017, and the FY 2016 monies can be used to pay for this project before lapsing.

ADC requests the following allocation changes to the FY 2016 and FY 2017 plans:

#### Revised FY 2016 Building Renewal Plan Reallocation

ADC requests the reallocation of \$385,000 from the ASPC - Eyman Meadows Unit Control Room security panel project to the ASPC - Florence Globe Unit propane tank and system upgrade. *Table 2* details the proposed revisions to the FY 2016 Building Renewal Plan:

Table 2							
FY 2016 Building Renewal Plan							
	Approved Allocation December 15, 2015	Difference	Revised Allocation				
Amended Projects							
Control Panel Replacement - Eyman Meadows	\$ 395,000	\$ (385,000)	\$ 10,000				
Propane Tank and System Upgrade - Florence Globe	0	385,000	385,000				
Subtotal	\$ 395,000	\$ 0	\$ 395,000				
Projects Not Modified	\$5,069,300		\$5,069,300				
Total	\$5,464,300		\$5,464,300				

(Continued)

#### Revised FY 2017 Building Renewal Plan Reallocation

ADC requests the reallocation of \$385,000 from the ASPC - Florence Globe Unit propane tank and system upgrade to the ASPC - Eyman Meadows Unit Control Room Security panel project. *Table 3* details the proposed revisions to the FY 2017 Building Renewal Plan:

Table 3							
FY 2017 Building Renewal Plan							
	Approved Allocation September 21, 2016	Difference	Revised <u>Allocation</u>				
Amended Projects							
Propane Tank and System - Florence Globe	\$ 385,000	\$ (385,000)	\$ 0				
Control Panel Replacement - Eyman Meadows	0	385,000	385,000				
Subtotal	\$ 385,000	\$ 0	\$ 385,000				
Projects Not Modified	\$5,079,300		\$5,079,300				
Total	\$5,464,300		\$5,464,300				

RS/ML:kp

# Arizona Department of Corrections



1601 WEST JEFFERSON PHOENIX, ARIZONA 85007 (602) 542-5497 www.azcorrections.gov



DIRECTOR

DOUGLAS A. DUCEY GOVERNOR

May 26, 2017

PM 1 2 3 2 5 6 RECEIVED PM RECEIVED PMAY 2 J 2017 DOINT BUDGET COMMITTEE P 2 5 2 1 W

The Honorable Debbie Lesko, Chairman Joint Committee on Capital Review 1716 West Adams Phoenix, Arizona 85007

Re: Submission for review of FY 2018 Building Renewal Plan

Dear Senator Lesko:

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 2018 Building Renewal Plan and a reallocation of projects between the FY 2016 and FY 2017 plans.

In FY 2018 ADC was appropriated \$5,464,300 and \$1,450,000 from the Building Renewal Fund (2551). Supporting documentation for the plan is enclosed.

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

Sincerely, Charles L. Director

Enclosures

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

#### ARIZONA DEPARTMENT OF CORRECTIONS FY 2018 BUILDING RENEWAL PLAN

#### Locking Systems Replacement - Laws 2017, 1st Regular Session, Chapter 306, Section 9 (SB 1523)

LOCATION PROJECT DESCRIPTION			MATED COST
ASPC-Eyman SMU I TOTAL	Locking system replacement - Phase IV	\$	1,450,000 1,450,000
FUND SOURCE BUILDING RENEWAL FUND TOTAL FUND		<del>\$</del>	1,450,000 1,450,000

#### Building Renewal - Laws 2017, 1st Regular Session, Chapter 306, Section 2 (SB 1523)

LOCATION PROJECT DESCRIPTION		E	STIMATED COST
ASPC-Eyman SMU I	Locking systems phase III completion - expanded scope	\$	250,000
ASPC-Eyman Meadows Unit	Door locking controls phase II - continuation of project	\$	170,000
ASPC-Florence CB3 & CB4	Cell ceiling structural repair	\$	875,000
ASPC-Florence East Unit	Ported cable replacement - end of service life	\$	285,000
ASPC-Florence Central Unit	HU 10 re-level building	\$	225,000
ASP-Kingman Cerbat Unit	Perimeter road repairs	\$	613,300
ASPC-Lewis Complex	Wastewater treatment plant - replace two clarifiers	\$	184,500
ASPC-Lewis Complex	Water tank road repairs	\$	475,000
ASPC-Lewis Various Units	Ported cable replacement - end of service life, not supported	\$	1,635,000
ASPC-Tucson Rincon Unit	A/C system upgrade for mental health area	\$	501,500
ASPC-Yuma Complex	Camera upgrades to enhance security	_\$	250,000
TOTAL		\$	5,464,300
FUND SOURCE			
BUILDING RENEWAL FUND		_\$	5,464,300
TOTAL FUND		\$	5,464,300

## Locking Systems Replacement - Laws 2017, 1st Regular Session, Ch. 306, Section

## ASPC-Eyman SMU I Locking Systems – Phase IV

ASPC-Eyman SMU I was constructed in 1987, the cell doors, shower doors and locks have exceeded their useful life and need to be replaced. There have been three previous phases to this project and an anticipated three additional phases to complete the work at this unit. This project would be considered phase IV of the total project. This unit is a special management maximum custody unit and properly functioning locking systems are critical to staff, inmate and public safety.

## Building Renewal - Laws 2017, 1st Regular Session, Ch. 306, Section 2

## ASPC-Eyman SMU I locking system phase III completion

ASPC-Eyman SMU I was constructed in 1987, the cell doors, shower doors and locks have exceeded their useful life and need to be replaced. Additional work was discovered in the phase III repairs of this project which requires additional funding to complete phase III.

## ASPC-Eyman Meadows Unit door locking control phase II

The original project scope, funded with FY 2016 Building Renewal monies, included replacement of nine control panels. Phase II includes additional work, including the replacement of three additional panels.

#### ASPC-Florence cell block (CB) 3&4 cell ceiling structural repairs \$875,000

Constructed in 1960 and cooled by evaporative cooling CB 3 & 4 have developed structural issues. Structural engineers have determined that concrete ceilings in some cells need to be repaired in order for the cells to remain in use and to prevent additional structural issues.

## ASPC-Florence East Unit ported cable replacement

The perimeter electronic security system at the ASPC-Florence East unit has reached the end of its service life and needs to be replaced. The original system which was installed in 1983 is no longer reliable. This system is required to prevent escapes and provide for public safety.

#### ASPC-Florence Central Unit housing unit (HU) 10 re-level building \$225,000

HU 10, an inpatient health care building, over time has settled on its foundation creating cracks and separations in the building interior. This triple wide modular building needs to be raised and a new foundation installed to allow the building to remain in use for inmates with health issues.

\$170,000

## \$285,000

## \$1,450,000

# \$250,000

## Arizona Department of Corrections FY 2018 Building Renewal Plan (continued)

## ASP-Kingman Cerbat Unit perimeter road repairs

The perimeter road at ASP-Kingman Cerbat Unit was poorly installed by the previous private prison operator in 2009 and is in need of repairs. The perimeter road washes out frequently during rain events and prevents perimeter patrols from completing their mission. In addition, these washouts jeopardize the perimeter fence in some areas, causing major security issues.

## ASPC-Lewis wastewater treatment plant - replace two clarifiers \$184,500

The clarifiers at the ASPC-Lewis waste water treatment plant have reached the end of their service life and are in need of replacement. The clarifiers are critical to the plant operation and its ability to stay in compliance with ADEQ regulations.

## ASPC-Lewis Complex water tank road repairs

The road leading to the water tank for ASPC-Lewis has suffered structural issues due to weather events and is in need of repair. The road up the small mountain east of the prison is critical to providing water to the prison.

## ASPC-Lewis Complex ported cable replacement

Six of the prison units at ASPC-Lewis have perimeter electronic security systems that have reached the end of their service life and are no longer supported by the manufacturer. These units need to be replaced. These systems are critical to insuring public safety and preventing escapes.

## ASPC-Tucson Rincon Unit HU 7 A/C upgrade

ADC wishes to upgrade the cooling system at HU 7 of the Rincon unit. The current cooling system does not adequately keep up with the demand for cooling during the summer months. This unit houses inmates with mental health issues and a properly cooled environment is critical to their successful treatment.

## ASPC-Yuma Complex camera upgrades to enhance security

ASPC-Yuma is in need of additional cameras to properly monitor inmate activities and provide a higher level of security and also improve staff and inmate safety.

## \$613,300

# \$250,000

## \$475,000

## \$1,635,000

\$501,500

#### ARIZONA DEPARTMENT OF CORRECTIONS BUILDING RENEWAL REALLOCATION PLAN

	FY 2017						
LOCATION	OCATION PROJECT DESCRIPTION		APPROVED as of SEP. 21, 2016		PROPOSED REALLOCATION		FFERENCE
ASPC-Lewis Stiner Unit	Health unit alr conditioning conversion	\$	575,800	\$	575,800	\$	35
ASPC-Eyman Meadows Unit	Health unit air conditioning conversion	\$	530,000	\$	530,000	\$	8
ASPC-Florence Globe Unit	Propane tank and system upgrade	\$	385,000	\$	2	\$	(385,000)
ASPC-Perryville Lumley Unit	Maximum custody perimeter fence upgrade	\$	200,000	\$	200,000	\$	
ASPC-Tucson Santa Rita Unit	Locking system upgrade	\$	725,000	\$	725,000	\$	8
ASPC-Florence	Utility tunnel structural repairs	\$	250,000	\$	250,000	\$	2
ASPC-Lewis	Control room locking panel upgrades (Bachman, Barchey, Buckley)	\$	650,000	\$	650,000	\$	3
ASPC-Florence Central Unit	Electrical upgrade & generator replacement	\$	1,244,500	\$	1,244,500	\$	1
ASPC-Eyman Rynning Unit	Detention unit structural repairs	\$	510,700	\$	510,700	\$	€
ASPC-Eyman Rynning Unit	Dining room repairs (structural repair/cooling system upgrade)	\$	393,300	\$	393,300	\$	s (
ASPC-Eyman Meadows Unit	Control room security panel replacement	\$	2	\$	385,000	\$	385,000
TOTAL		\$	5,464,300	\$	5,464,300	\$	·
FUND SOURCE							
BUILDING RENEWAL FUND		\$	5,464,300	\$	5,464,300	\$	*
TOTAL FUND		\$	5,464,300	\$	5,464,300	\$	2

LOCATION	ON PROJECT DESCRIPTION		PROJECT DESCRIPTION APPROVED as of DEC. 15, 2015					DIFFERENCE	
Various	Identify buildings with structural issues, develop scope of work	\$	115,000	\$	115,000	\$	2		
ASPC-Eyman SMU I	Phase III: Replace obsolete, non-functional locks and doors	\$	1,200,000	\$	1,200,000	\$	× .		
ASPC-Eyman Meadows Unit	Control room security panel replacement	\$	395,000	\$	10,000	\$	(385,00		
ASPC-Lewis	Evaporative cooler ductwork replacement	\$	400,000	\$	400,000	\$			
ASPC-Yuma	Water tank replacement	\$	426,000	\$	426,000	\$	*		
COTA	Fire alarm Design	\$	29,600	\$	29,600	\$			
ASPC-Douglas Glla Unit	Electrical loop upgrade	\$	314,300	\$	314,300	\$	÷.		
ASPC-Eyman Rynning Unit	Kitchen structural repair	\$	539,000	\$	539,000	\$	8		
ASPC-Florence Central Unit	Water Line Replacement	\$	800,000	\$	800,000	\$	2		
ASPC-Tucson	Gas Line Replacement	\$	576,000	\$	576,000	\$	3		
ASPC-Lewls Barchey Unit	A/C Conversions from Evaporative Cooling	\$	454,400	\$	454,400	\$	5		
ASPC-Florence South Unit	A/C Conversions from Evaporative Cooling	\$	215,000	\$	215,000	\$	S2		
ASPC-Florence Globe Unit	Propane tank and system upgrade	\$	5	\$	385,000	\$	385,000		
TOTAL		\$	5,464,300	\$	5,464,300	\$			
ND SOURCE									
Bullding Renewal Fund		\$	5,464,300	\$	5,464,300	\$	<u>×</u>		
TOTAL FUND		\$	5,464,300	\$	5,464,300	\$			

# FY 2016 and FY 2017 Building Renewal Reallocation

# ASPC-Eyman Meadows Unit Control Panel Project Request to Change Funding Year

The ASPC-Eyman Meadows Unit control panel replacement project was funded through the FY 2016 Building Renewal process. The vendor, Sierra Detention, was given a notice to proceed on January 31, 2017. Sierra Detention declared on May 15, 2017 that they are insolvent and cannot finish the project. ADC is working with the bond company complete the project. However, the funding expires on June 30, 2017.

ADC requests that funding of \$385,000 for the ASPC-Eyman Meadows Unit control panel replacement project be moved from the FY 2016 to the FY 2017 Building Renewal.

The ASPC-Florence Globe Unit propane tank and system upgrade totaling \$385,000 was originally funded by the FY 2017 Building Renewal. However, this project will be completed prior to June 30, 2017.

ADC requests that funding of \$385,000 for the ASPC-Florence Globe Unit propane tank and system upgrade be moved from the FY 2017 to the FY 2016 Building Renewal.



### STATE OF ARIZONA

# Joint Committee on Capital Review

STATE SENATE

DEBBIE LESKO CHAIRMAN 2017 SYLVIA ALLEN OLIVIA CAJERO BEDFORD STEVE FARLEY KATIE HOBBS JOHN KAVANAGH KIMBERLY YEE 1716 WEST ADAMS PHOENIX, ARIZONA 85007

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HOUSE OF REPRESENTATIVES

DON SHOOTER CHAIRMAN 2018 JOHN M. ALLEN LELA ALSTON MARK CARDENAS HEATHER CARTER VINCE LEACH REBECCA RIOS

- TO: Senator Debbie Lesko, Chairman Members, Joint Committee on Capital Review
- THRU: Richard Stavneak, Director 725
- FROM: Jack Brown, Assistant Director 36
- SUBJECT: Arizona Department of Administration/Arizona Department of Corrections Review and Approval of Lease-Purchase Refinancing

### Request

Pursuant to A.R.S. § 41-791.02, the Arizona Department of Administration (ADOA) requests that the Committee review and approve the refinancing of a lease-purchase agreement that was issued in 2008 to fund additional Arizona Department of Corrections (ADC) prison beds. At its June 2015 meeting, the Committee reviewed and approved a refinancing agreement for a portion of the outstanding 2008 ADC lease-purchase financing. The current proposed refinancing transaction addresses the remaining 2008 issuance that was not part of the June 2015 approval.

At current interest rates, refinancing \$43.4 million in outstanding principal obligations is estimated to result in savings of \$985,400 over the duration of the financing period.

### Recommendation

The Committee has at least the following 2 options:

- 1. Review and approval of the refinancing agreement.
- 2. An unfavorable review and disapproval of the refinancing agreement.

The Committee may consider the following provision:

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

(Continued)

### Analysis

A.R.S. § 41-791.02 requires that a lease-purchase agreement be reviewed and approved by the Committee before the agreement takes effect. In order to take advantage of current low interest rates, ADOA is proposing to refinance the remaining portions of financing from the 2008 ADC lease-purchase agreement.

When the state enters into lease-purchase agreements to finance capital projects, each overall financing agreement consists of individual issuances, each with different principal amounts and term lengths which are then sold in the open market to investors. The original 2008 ADC lease-purchase contained \$155.8 million of principal that was due during FY 2018 – FY 2028. In the refinancing transaction completed in 2015, the state elected to only refinance \$112.4 million of this amount, based on market conditions at that time. ADOA is now proposing to refinance the remaining \$43.4 million of principal.

Based on the structure of the remaining principal being refinanced, the most significant savings would occur in FY 2018, FY 2019, FY 2020 and FY 2028. ADOA estimates total savings of \$985,400 from FY 2018 through FY 2028, which takes into account approximately \$375,000 in issuance costs. The new issuance is projected to reduce interest rates from an average of 4.0% to 2.4%. All of the other basic terms, such as the overall length of the financing, would remain the same.

*Table 1* below summarizes the debt service savings by year from the proposed refinancing. The amounts listed under the "Current Debt Schedule" column represent the total principal and interest payments for the ADC financing after the 2015 refinance. After the proposed refinancing of \$43.4 million of principal payments from that column, the debt service schedule would be modified as listed under the "Proposed Debt Schedule" column.

Table 1			
	Estimated Changes to ADC Debt	Service Schedule Due To Refin	ancing
Fiscal Year	Current Debt Schedule	Proposed Debt Schedule	Difference
FY 2018	19,505,100	19,340,400	(164,700)
FY 2019	19,507,400	19,299,500	(207,900)
FY 2020	19,504,000	19,296,600	(207,400)
FY 2021	19,046,900	19,018,800	(28,100)
FY 2022	19,041,200	19,013,200	(28,000)
FY 2023	19,046,300	19,018,200	(28,100)
FY 2024	15,280,500	15,252,500	(28,000)
FY 2025	15,283,000	15,255,000	(28,000)
FY 2026	15,276,700	15,248,600	(28,100)
FY 2027	15,278,600	15,250,600	(28,000)
FY 2028	15,277,800	15,068,700	(209,100)
Total	\$192,047,500	\$191,062,100	(\$985,400)

When the state issues new financing or refinances, it occurs certain transaction costs. These costs include fees paid to: financial advisors, bond counsel/attorneys, credit rating agencies, and underwriters (investment banks who sell the financing to investors). For the proposed refinancing, the transaction costs are projected to be \$375,000. These costs are deducted from the refinancing savings, resulting in a net savings amount of \$985,400 after factoring in these expenses.

RS/JB:kp



Douglas A. Ducey Governor Craig C. Brown Director

## ARIZONA DEPARTMENT OF ADMINISTRATION

### GENERAL ACCOUNTING OFFICE

100 NORTH FIFTEENTH AVENUE • SUITE 302 PHOENIX, ARIZONA 85007

Phone: (602) 542-5601 • Fax: (602) 542-5749

May 31, 2017



The Honorable Debbie Lesko, Chairman 2017 Joint Committee on Capital Review Arizona House of Representatives 1700 West Washington Phoenix, Arizona 85007

Dear Representative Lesko:

We request placement on the next Joint Committee on Capital Review (JCCR) meeting agenda to review a refinancing opportunity for the 2008A Certificates of Participation (COPs). The current outstanding principle is \$43,360,000 and the potential estimated savings from the proposed refinancing is approximately \$900,000. As is the case with all financings, the amount of savings is interest rate sensitive and is subject to change depending on market conditions.

The 2008A COPs were issued to provide 4,000 additional prison beds. In 2015 the majority of the outstanding 2008A COPs were refinanced. This refinancing would address the remaining portion. The proposed refinancing does not change the timing or duration of the payments.

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

Sincerely,

D. Clark Partridge State Comptroller

cc: Richard Stavneak, JLBC Geoff Paulsen, JLBC Jack Brown, JLBC Craig Brown, ADOA Elizabeth Bartholomew, ADOA Lorenzo Romero, OSPB Ashley Beason, OSPB Bill Greeney, OSPB Derik Leavitt, ADOA Kurt Freund, RBC Capital Markets STATE OF ARIZONA Department of Administration Refunding Certificates of Participation, Series 2017

**Refunding Review** 

June 2017





**RBC Capital Markets** 



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- With the current low interest rate environment, the State has the opportunity to achieve debt service savings as a result of refinancing the State's existing Certificates of Participation, Series 2008A
  - Opportunity to refinance is a function of low interest rates in the municipal bond market
  - The 2018, 2019 and 2027 maturities of the State's Certificates of Participation, Series 2008A make economic sense to refinance based on current market conditions
  - No other State Certificates of Participation produce debt service savings at this time
- The average interest rate of the existing Certificates to be Refinanced is 4.01%. The estimated interest rate of the new Refunding Certificates, which have the same final maturity date, is 2.40%.
- Based on current market interest rates, the estimated debt service savings to the State, net of all costs of issuing the Refunding Certificates, is \$985,438 over the remaining life of the Certificates to be Refinanced through September 1, 2027.
  - On a current dollar, or present value basis, the net savings amount to approximately \$908,000
- The actual savings realized by the State will be a function of the interest rates in the market at the time of sale.
  - A 15 basis point change in rates (.15%) will increase or decrease overall present value savings by approximately \$125,000



#### STATE OF ARIZONA

#### **Certificates of Participation**

### Estimated Pro Forma Debt Service Requirements

	Existing	2008A Debt	Service	Less: Debt	Service to	be Retired	Plus: Ref	funding Series	2017 <sup>(a)</sup>	Estimate	d New Debt	Service	
Period Ending	Principal	Interest	Debt Service	Principal	Interest	Debt Service	Principal	Interest	Debt Service	Principal	Interest	Debt Service	Savings
06/30/2017		945,700	945,700								945,700	945,700	
06/30/2018	12,560,000	1,640,200	14,200,200		694,500	694,500		529,813	529,813	12,560,000	1,475,513	14,035,513	164,688
06/30/2019	13,075,000	1,127,500	14,202,500	13,075,000	1,127,500	14,202,500	13,035,000	959,550	13,994,550	13,035,000	959,550	13,994,550	207,950
06/30/2020	13,675,000	524,125	14,199,125	13,675,000	524,125	14,199,125	13,500,000	491,700	13,991,700	13,500,000	491,700	13,991,700	207,425
06/30/2021		182,250	182,250		182,250	182,250		154,200	154,200		154,200	154,200	28,050
06/30/2022		182,250	182,250		182,250	182,250		154,200	154,200		154,200	154,200	28,050
06/30/2023		182,250	182,250		182,250	182,250		154,200	154,200		154,200	154,200	28,050
06/30/2024		182,250	182,250		182,250	182,250		154,200	154,200		154,200	154,200	28,050
06/30/2025		182,250	182,250		182,250	182,250		154,200	154,200		154,200	154,200	28,050
06/30/2026		182,250	182,250		182,250	182,250		154,200	154,200		154,200	154,200	28,050
06/30/2027		182,250	182,250		182,250	182,250		154,200	154,200		154,200	154,200	28,050
06/30/2028	4,050,000	91,125	4,141,125	4,050,000	91,125	4,141,125	3,855,000	77,100	3,932,100	3,855,000	77,100	3,932,100	209,025
TOTAL	43,360,000	5,604,400	48,964,400	30,800,000	3,713,000	34,513,000	30,390,000	3,137,563	33,527,563	42,950,000	4,083,263	47,033,263	985,438

(a) Reflects dated date of September 6, 2017 and rates as of May 18, 2017.

A



### STATE OF ARIZONA

# Joint Committee on Capital Review

1716 WEST ADAMS PHOENIX, ARIZONA 85007

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STATE SENATE

DEBBIE LESKO CHAIRMAN 2017 SYLVIA ALLEN OLIVIA CAJERO BEDFORD STEVE FARLEY KATIE HOBBS JOHN KAVANAGH KIMBERLY YEE HOUSE OF REPRESENTATIVES

DON SHOOTER CHAIRMAN 2018 JOHN M. ALLEN LELA ALSTON MARK CARDENAS HEATHER CARTER VINCE LEACH REBECCA RIOS

DATE:	June 13, 2017
TO;	Senator Debbie Lesko, Chairman Members, Joint Committee on Capital Review
THRU:	Richard Stavneak, Director RS
FROM:	Morgan Dorcheus, Fiscal Analyst MD
SUBJECT:	Arizona Department of Administration - Review of FY 2018 Building Renewal 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 2018 Building Renewal Allocation Plan. The FY 2018 Capital Outlay Bill (Laws 2017, Chapter 306) appropriated a total of \$8,300,000 for building renewal. This amount consists of \$5,700,000 from the General Fund and \$2,600,000 from the Capital Outlay Stabilization Fund (COSF).

ADOA is requesting a review of the full \$8,300,000 appropriation for building renewal projects in FY 2018. The proposed building renewal expenditure plan is consistent with building renewal guidelines and appropriations.

### Recommendation

The Committee has at least the following 2 options:

- 1. A favorable review of the \$8,300,000 request.
- 2. An unfavorable review.

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

A. ADOA shall report any reallocations between projects as listed in *Table 1* to the JLBC Staff. If there is significant change of scope in the reallocation reported by ADOA, the JLBC Staff shall recommend

(Continued)

- 2 -

ADOA request Committee review of the reallocation.

- B. The distribution of the emergency contingency allocation of \$437,900 be addressed as follows:
  - 1. ADOA shall notify the Chairman and the JLBC Staff that they plan to spend less than \$50,000 on an emergency project. ADOA can proceed without Committee review.
  - 2. The Chairman can allow ADOA to move forward with an emergency project of greater than \$50,000 without Committee review.
  - 3. The Chairman will notify ADOA if she does not agree that the project is an emergency and that the project will require full Committee review.

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

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

### 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 \$8.3 million is appropriated to ADOA to fund 20% of the building renewal formula in FY 2018. (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 2018 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, Major Building Services, Infrastructure, Special Construction Projects, and Preventative Maintenance. Additionally, ADOA has allocated funding for project management and contingencies.

### **Reasonableness of Estimates**

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

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

To track ADOA's actual spending decisions, the FY 2018 Capital Outlay Bill included a footnote requiring ADOA to report to the JLBC Staff on the status of all building renewal projects and building renewal expenditures on or before January 31, 2018 and July 31, 2018.

Table 1				
FY 2018 Building Renewal Allocation Plan				
Fire & Life Safety Projects ADOA Statewide Replace Fire and Life Safety Systems	\$ 1,567,600			
Building Shell Projects ADOA Statewide Roof Repair and Replacement	\$ 696,000			
<u>Major Building Services Projects</u> ADOA Statewide HVAC Systems Replacement Statewide ADOA Capitol Mall Repair/Modernize Elevators Subtotal	\$ 2,491,000 800,000 \$ 3,291,000			
Infrastructure Projects ADOA Statewide Replace/Repair Parking Lots	\$ 850,000			
Special Construction Projects DPS Remote Modular Units Replacement	\$ 550,000			
Preventative Maintenance Projects ADOA Capitol Mall Preventative Maintenance	\$ 300,000			
Other Projects Personnel Services/ERE Costs Building Renewal Project Scoping Risk Management Insurance Premium Emergency Contingency Subtotal	\$ 275,000 330,000 2,500 <u>437,900</u> <i>\$ 1,045,400</i>			
TOTAL	\$ 8,300,000			

### Fire and Life Safety Projects

A total of \$1.6 million will be allocated to fire and life safety system replacements statewide. ADOA has identified 5 priorities, including 2 ADOA buildings and 3 Department of Emergency and Military Affairs (DEMA) buildings for fire alarm and suppression system replacement.

Fire alarm replacement has been a major building renewal priority for the past several years. ADOA has allocated approximately \$14.1 million in the last 6 years to repair or replace fire alarm systems at 47 state buildings. Fire alarm systems have a life-span of approximately 15 years.

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

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

ADOA submitted this report in December 2015. ADOA reported that during its FY 2017 Capital Improvement Plan (CIP) process, state agencies requested fire alarm system replacements for 76 buildings (excluding Department of Corrections). Replacement costs for alarm systems older than 15 years were estimated to be \$11.4 million. The FY 2017 expenditure plan reduced this cost by approximately \$5.0 million. The FY 2018 expenditure plan would reduce this cost by another \$1.6 million.

- 3 -

(Continued)

### **Building Shell Projects**

A total of \$696,000 will be allocated to 6 different projects to fund the repair or replacement of failing roofs at agencies statewide within in the ADOA Building Renewal System. Six building priorities include 1 building used by ADOA, 3 buildings used by the Department of Economic Security (DES), and 2 buildings used by DPS.

### Major Building Services Projects

A total of \$3.3 million will be allocated to 10 different projects. Of this amount, \$2.5 million will be spent on 9 HVAC projects which include replacing chillers, cooling towers, boilers, and air handling units.

A sum of \$800,000 will be spent on elevator repair or upgrade projects on the Capitol Mall.

### Infrastructure Projects

A total of \$850,000 will be allocated to infrastructure projects. This amount will be used to replace or repair parking lot surfaces including repairing damage caused by erosion throughout the ADOA Building System.

### Special Construction Projects

A total of \$550,000 is allocated to replace DPS remote modular units throughout the state that have exceed their useful life. These units may be either housing or office units.

Generally, statute restricts building renewal appropriations for the repair and maintenance of existing building structures. Therefore, building renewal appropriations cannot be used for new construction projects. However, the FY 2018 Capital Outlay Bill permits ADOA to use a portion of the building renewal appropriation for replacement units but does not specify a dollar amount.

DPS remote units are located in rural areas and allow DPS Highway Patrol Officers to limit travel and response time. DPS reports that many of these units are over 50 years old and not compliant with code. The Executive budget proposed a one-time capital appropriation of \$1.9 million from the General Fund in FY 2018 to replace 4 housing units and 6 office units.

ADOA is proposing to allocate \$550,000 to replacing 3 of the most deficient units in Wikieup and Nogales, including two housing units and one office unit. *Table 2* below provides the details and cost of each unit. DPS estimates total replacement costs of \$596,500, including fabrication, delivery and installment of each unit. Costs above the allocation of \$550,000 will be paid by DPS.

Table 2						
		DPS Remote I	Modular Unit Repla	cement		
<u>Location</u> 17909 S Highway 93 Wikieup, Arizona	<u>Type of Unit</u> Housing	<u>Year Built</u> 1968	<u>Current Sq. Ft.</u> 780	<u>New Sq. Ft.</u> 1,440	<u>Cost/Sq. Ft.</u> \$140.28	<u>New Unit Cost</u> \$ 202,000
17909 S Highway 93 Wikieup, Arizona	Housing	1968	780	1,440	\$140.28	202,000
3030 N Grand Avenue Nogales, Arizona	Office	1970	1,152	1,440	\$133.68	<u>192,500</u>
					тс	<b>DTAL</b> \$596,500

(Continued)

### Preventative Maintenance Projects

A total of \$300,000 is allocated for planned electrical, mechanical, and plumbing maintenance on the Capitol Mall.

#### Other Projects

The sum of \$275,000 will be allocated to cover project management costs for FY 2018 building renewal projects. Because some of the project costs listed above were based solely on agency estimates, \$330,000 will be spent on contractors to better develop detailed scopes of work to implement projects in a cost effective manner. A payment of \$2,500 will be paid for a Construction Insurance Premium. A total of \$437,900 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.

#### FY 2017 Expenditures

The FY 2017 Capital Outlay Bill (Laws 2016, Chapter 126) appropriated a total of \$27.0 million for building renewal. This amount consisted of \$8.0 million from the General Fund and \$19.0 million from COSF. ADOA has spent \$8.6 million of the total FY 2017 appropriation. Of the remaining amount, \$15.4 million has been committed but unexpended, and \$3.0 million is uncommitted and unexpended.

RS/MD:kp

Douglas A. Ducey Governor



Craig Brown Director

## **ARIZONA DEPARTMENT OF ADMINISTRATION**

### OFFICE OF THE DIRECTOR

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

May 30, 2017



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

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

Dear Senator Lesko and Representative 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 2017, First Regular Session, Chapter 306 (SB1523) appropriated \$8,300,000 to the Arizona Department of Administration (ADOA) to allocate to the ADOA Building System for building renewal projects.

ADOA requests JCCR review ADOA's FY 2018 ADOA Building System building renewal allocation plan for \$8,300,000.

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

If you have any questions regarding ADOA's FY 2018 ADOA Building System building renewal allocation plan please contact Nola Barnes, Assistant Director, ADOA General Services Division (GSD), at 602-542-1954.

The Honorable Debbie Lesko The Honorable Don Shooter May 30, 2017 Page 2 of 2

Sincerely,

Craig C. Brown Director

Attachments (2)

 cc: Richard Stavneak, Director, JLBC Staff Geoffrey Paulsen, Fiscal Analyst, JLBC Staff Lorenzo Romero, Director, OSPB Ashley Beason, Budget Analyst, OSPB Ryan Vergara, Budget Analyst, OSPB Kevin Donnellan, Deputy Director, ADOA Nola Barnes, Assistant Director, ADOA/GSD John Hauptman, General Manager, ADOA/GSD

\$1,567,600 **REPLACE FIRE AND LIFE SAFETY SYSTEMS** to improve or eliminate an impending condition that threatens life or property

A.R.S. § 41-793.D. requires that the Arizona Department of Administration (ADOA) should give priority to fire and life safety projects. 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. This project will upgrade fire alarm and suppression systems necessary to bring state facilities into compliance with Federal, State, and Local fire and life safety regulations. The following list of deficiencies is just a small portion of the fire and life safety work that needs to be accomplished throughout the building system.

- ADOA–1535 W Jefferson Building Fire Alarm
- ADOA-416 W Congress Replace Fire Alarm/Suppression
- Department of Emergency and Military Affairs (DEMA)–Silverlake DFAC, P5441 Install Fire Alarm and Suppression
- DEMA–Silverbell AHP L4100 Install Fire Alarm and Suppression
- DEMA–Sunnyslope RC M8360 Install Fire Alarm and Suppression

**\$696,000 BUILDING SHELL** for asset protection to address deficiencies in existing roofs, exterior closures, walls, windows and/or doors

The deficiencies being addressed represent a small portion of the deteriorating exterior systems 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. This project is dedicated to proactively replacing failing roof systems throughout the ADOA Building System to mitigate negative impacts of interruption to mission critical functions and expensive "crisis-mode" emergency repairs and replacements. Project deficiencies include:

- ADOA-1600 W Monroe Roof Replacement
- Economic Security, Department of (DES)– Replace Chinle
- DES-815 N 18th St Phoenix Remove and Replace Shingles
- DES–1140 F Street, Douglas
- Public Safety, Department of (DPS)–Statewide Roof Replacements Wireless Services BLDG
- DPS-Statewide Roof Replacements Supply Compound

## **\$2,491,000 REPLACE FAILING HVAC SYSTEMS** in the ADOA Building System

The deficiencies in this project reflect the worsening condition of HVAC components, including large central plants, in ADOA Building System. Many of the failing chillers and cooling towers are original to building construction, have 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 operations. 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.

Various HVAC and energy management building controls throughout the ADOA building system are lacking and/or equipped with disparate "front-ends" requiring multiple computers, workstations, and hardware to control major building systems. Current HVAC system components are inefficient, lack interconnectivity, and are failing. Replacing and integrating multiple systems into a single processing source will provide a centralized control of HVAC and energy management systems, decrease energy consumption, reduce equipment downtimes and improve allocation of personnel resources. Failure to address these aging systems could result in a shutdown of mission critical State services and increased costs for emergency procurement.

Project deficiencies include:

- ADOA–1535 W Jefferson Renew Heat Generating System
- ADOA–1616 W Adams Cooling Tower Replacement
- ADOA–400 W Congress Mechanical Building Boiler Replacement
- ADOA–Tucson Campus HVAC Replacements
- ADOA- 1616 W Adams Boiler Replacement
- DES–Replace HVAC Package Units
- Mistorical Society, Arizona (AHS)-Replace chiller and Repair I Beam
- DPS-Replace Package Units North
- DPS–Replace Package Units South

## \$800,000 **REPAIR/MODERNIZE ELEVATORS**

Various elevator control systems within the ADOA building system are obsolete and replacement parts are no longer available. Failure of elevators would leave buildings without passenger or freight elevator services, placing the buildings out of compliance with ADA guidelines, increase emergency repair costs and have a detrimental effect on building safety and daily operations. The proposed allocation will address critical needs on the Capitol Mall.

### \$850,000 INFRASTRUCTURE

This project can include existing roadways, parking lots, pedestrian paving, site electrical and mechanical utilities, water supply and distribution, sanitary and storm sewers, waste treatment, electrical distribution, site lighting, fencing, communications, and security. Various parking lots have been in a "deferred indefinitely" status for many years and are in an exhausted state of deterioration. The parking lot surfaces have succumbed to long-term erosion, shifting, and settling caused by water penetration of the underlying pavement base and extreme weather conditions further exacerbated by the weight of passing traffic. In most cases, interim measures such as patch repairs and sealants are ineffective and the only option is to remove and replace the asphalt. The proposed allocation will address critical needs throughout the ADOA Building System.

# **\$550,000 SPECIAL CONSTRUCTION PROJECTS** to replace statewide remote office and housing modular units

To support Arizona's vast highway system, DPS Highway Patrol officers are stationed at reasonable travel intervals throughout the State. With great distances between Arizona's populations centers, remote offices and housing compounds are necessary. The most cost effective solution at these remote locations is modular construction. This project is part of an ongoing plan to improve existing remote office and housing units in rural Arizona. Newer units are far more energy efficient and cost less to operate and maintain. Better working and living conditions offer more incentive for Highway Patrol officers and their families to relocate to rural areas of the State.

DPS has 60+ remote modular units across the State, many of which far exceed their useful life of 20 to 25 years, with some units exceeding 50 years old. Older units are poorly insulated, no longer code compliant and have rapidly deteriorating building systems. The burden for continuous "Band-Aid" fixes to these units is not cost effective. Under this project, the units determined to be the most deficient will be replaced.

### **\$300,000 PREVENTATIVE MAINTENANCE** of ADOA Managed Facilities

ADOA plans to spend this allocation on preventative maintenance for planned electrical, mechanical, and plumbing maintenance on the Capitol Mall.

# **\$330,000 PROJECT SCOPING/PROFESSIONAL SERVICES** for ADOA Building System–Building Renewal Project Priorities (FY 18 and Prospective FY 19)

Due to state agency attrition, some of the building renewal requests ADOA receives for funding consideration have deficient or very broad scopes of work, no supporting documentation, and insufficient, unreliable, or aged cost estimates. The proposed allocation supports ADOA in the development and implementation of detailed scopes of work that adequately and cost effectively address the requirements of an agency project request.

# **\$275,000 CONSTRUCTION SERVICES PROJECT MANAGEMENT COSTS** for ADOA Personnel Services or Employee Related Expenditures

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

# **\$2,500 RISK MANAGEMENT INSURANCE PREMIUM** for ADOA Risk Management Construction Insurance

The ADOA General Services Division (GSD) pays a 0.34% 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 reimbursable expenses.

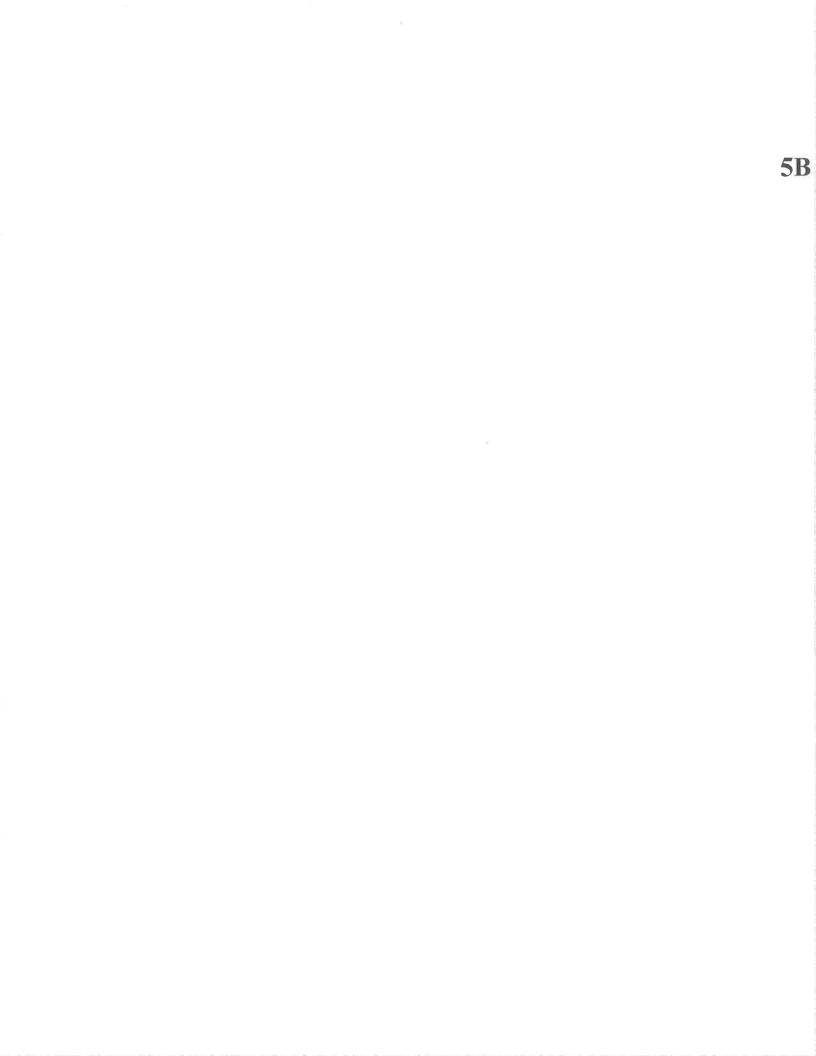
# \$437,900 BUILDING RENEWAL EMERGENCY AND CONTINGENCY ALLOCATION for ADOA Building System Statewide Priorities

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

# FY 2018 Building Renewal Allocation Plan

20

Project Category	Allocation
Replace Fire & Life Safety Systems	\$ 1,567,600
Building Shell (Asset Preservation)	\$ 696,000
Replace Failing HVAC Systems	\$ 2,491,000
Repair/Modernize Elevators	\$ 800,000
Infrastructure	\$ 850,000
Special Construction	\$ 550,000
Preventative Maintenance	\$ 300,000
Project Scoping and Professional Services	\$ 330,000
Construction Services Project Management Costs	\$ 275,000
Risk Management Insurance Premium	\$ 2,500
Building Renewal Emergency & Contingency Allocation	\$ 437,900
Total FY 2018 Building Renewal Appropriation	\$ 8,300,000





### STATE OF ARIZONA

# Joint Committee on Capital Review

1716 WEST ADAMS

STATE SENATE

PHOENIX, ARIZONA 85007 DEBBIE LESKO DON SHOOTER (602) 926-5491 CHAIRMAN 2017 SYLVIA ALLEN JOHN M. ALLEN OLIVIA CAJERO BEDFORD azleg.gov LELA ALSTON STEVE FARLEY KATIE HOBBS JOHN KAVANAGH VINCE LEACH REBECCA RIOS KIMBERLY YEE DATE: June 13, 2017 TO: Senator Debbie Lesko, Chairman Members, Joint Committee on Capital Review Richard Stavneak, Director THRU: Geoffrey Paulsen, Fiscal Analyst 🖨 FROM: SUBJECT: Arizona Department of Administration - Consider Recommending Full Rent Exemption

Request

A.R.S. § 41-792.01D authorizes the Director of the Arizona Department of Administration (ADOA), on recommendation from the Joint Committee on Capital Review, to grant a full or partial exemption from the payment of state-owned rental fees if the agency has vacated its space or if the agency does not have the financial resources to make the payment. ADOA requests the Committee recommend a full rent exemption to the Secretary of State (SOS) of \$(238,500) for the Talking Book Library property in FY 2017.

### Recommendation

The JLBC Staff recommends that the Committee recommend a full exemption of \$(238,500) in FY 2017 and FY 2018 for SOS. The JLBC Staff further recommends an ongoing Rent Exemption in future years unless the Legislature provides additional funding to SOS to cover the cost of the Talking Book Library property.

### Analysis

SOS was charged an annual Capital Outlay Stabilization Fund (COSF) rent of \$238,500 in FY 2017 for the facility located at 1030 North 32<sup>nd</sup> Street in Phoenix. The lease-purchase agreement for this property was paid off in FY 2012. Since that time, ADOA has believed this property should be charged COSF rent, according to standard practice. While rent charges are paid on all Capitol Mall state-owned space, that practice has not been applied uniformly outside the Capitol Mall. ADOA first billed SOS for rent on the property in FY 2016. The Committee approved a full rent exemption of \$(238,500) in FY 2016 at its December 15, 2015 meeting.

HOUSE OF REPRESENTATIVES

CHAIRMAN 2018 MARK CARDENAS HEATHER CARTER

Since SOS did not receive an appropriation for the FY 2017 COSF rent amount charged by ADOA for the operations and maintenance of the facility, however, ADOA is now seeking a rent exemption for SOS. The FY 2018 budget again did not provide SOS an appropriation to cover this rent.

The facility houses the Arizona State Library, Archives, and Public Records Division Talking Books Library that provides books, magazines, and other library resources in alternative formats for Arizona residents whose visual or physical disabilities prevent them from reading conventional print materials.

### **Reimbursement of Costs**

Because SOS was granted a rent exemption for FY 2016, SOS entered into an ISA to reimburse ADOA for its utility expenses, routine maintenance, and janitorial services, which are normally covered by the state rental charge. For FY 2016, these reimbursements totaled \$64,400.

ADOA has indicated there is no ISA in place with SOS for the North 32<sup>nd</sup> Street property in FY 2017. Through May, ADOA estimates FY 2017 expenditures of \$53,600 for utilities and other expenses at the property.

RS/GP:Im



MICHELE REAGAN Secretary of State State of Arizona

January 12, 2017

Craig C Brown, Director Arizona Department of Administration 100 North 15<sup>th</sup> Avenue Phoenix, Arizona 85007

Dear Mr. Brown:

The Department of State is requesting an exemption from the rent expense of the 1030 North 32<sup>nd</sup> Street building. This building houses the Arizona Talking Book Library that provides books, magazines and other library resources in alternate formats for all Arizona residents whose visual or physical disabilities prevent the reading of conventional print materials.

The Department has been using this building rent-free, excluding maintenance and upkeep, as it was gifted to the Arizona Talking Book Library. The increase of rental expenses to \$238,500 is sizable and the Department is unable to find the additional funding without severe cuts to staffing and programs. During the budget cycle, staff was informed that a request would be made on behalf of the Department to increase the appropriation to cover the increase costs being presented to the Department. Unfortunately, the increased appropriation was not completed prior to the closing of the 52nd Legislature.

Thank you in advance for your consideration and should you have any questions, please contact me at 602-542-6171 or latkinson@azsos.gov.

Sincerely

Liz Atkinson Chief Financial Officer

CC: Nola Barnes, Acting Assistant Director, General Services Division





### STATE OF ARIZONA

# Joint Committee on Capital Review

1716 WEST ADAMS PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

STATE SENATE

DEBBIE LESKO CHAIRMAN 2017 SYLVIA ALLEN OLIVIA CAJERO BEDFORD STEVE FARLEY KATIE HOBBS JOHN KAVANAGH KIMBERLY YEE HOUSE OF REPRESENTATIVES

DON SHOOTER CHAIRMAN 2018 JOHN M. ALLEN LELA ALSTON MARK CARDENAS HEATHER CARTER VINCE LEACH REBECCA RIOS

DATE:	June 13, 2017
TO:	Senator Debbie Lesko, Chairman Members, Joint Committee on Capital Review
THRU:	Richard Stavneak, Director TCS
FROM:	Sam Beres, Fiscal Analyst SB
SUBJECT:	Northern Arizona University – Review of Recital Hall Financing Project

### Request

A.R.S. § 15-1683 requires Committee review of any university projects financed with system revenue bonds. Northern Arizona University (NAU) requests Committee review of a \$15,000,000 project to construct a Recital Hall adjacent to the Performing and Fine Arts building, as well as to renovate existing choral rooms. The project will be funded from \$9,250,000 in system revenue bonds and \$5,750,000 in gifts.

### Recommendation

The Committee has at least the following 2 options:

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

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

## Standard University Financing Provisions

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

### Analysis

The \$9.25 million bond issuance and \$5.75 million in gifts will be used for construction of a Recital Hall as well as to renovate existing space in need of maintenance and repair. The new 250-seat Recital Hall will be located next to the Performing and Fine Arts (PFA) building. Additional project components include a choral rehearsal room, an instrument rehearsal room, a choral library, an instrumental library, and a lobby space.

Currently, the building being utilized as a recital hall is located on a different part of campus than the PFA building and the Ardrey Memorial Auditorium. NAU notes that this project will solve existing logistical and acoustic concerns associated with the current recital hall, while also helping the university to keep its facilities up to date given continuous enrollment increases. By locating the new recital hall adjacent to the Auditorium and PFA building, this project would create a performing and fine arts complex. This new complex is intended to provide a "more functional learning environment and community gathering place," as well as serve as a cultural center of the university.

The project includes 21,463 square feet for the new recital hall as well as 5,400 square feet of renovated space.

#### Financing

NAU intends to issue \$9.25 million of 20-year, fixed rate system revenue bonds with a rating of A1 (Moody's)/A+ (S&P) by September 30, 2017 at an estimated interest rate of 3.3%. NAU will not proceed with financing if the interest rate exceeds 6.0%. In addition to project costs, issuance costs are projected to not exceed \$340,000. Under the assumption of a 3.3% interest rate, an initial interest payment of \$230,300 in FY 2018 would be followed by average annual debt service payments of \$654,100 throughout the remaining life of the issue. Total debt service would amount to \$13.3 million. (See *Table 2* for a summary of the bond's financing terms). NAU will use tuition and fee revenues to pay the debt service on the issue. The project will also be funded by \$5.75 million in gifts, of which \$2.1 million has already been pledged or received.

Financing this project will increase NAU's debt ratio by an estimated 0.14%, from 5.56% of 5.70%.

NAU is not funding this project through the recently enacted \$1 billion university infrastructure program.

### **Construction Costs**

Total project costs are projected to be \$15.0 million, which does not include issuance costs. Of this amount, total direct construction costs (excluding items such as design and project management costs) are \$11.2 million. As shown in *Table 1* below, total project costs per square foot are \$558, while direct construction costs per square foot are \$415. The project will increase annual operating and maintenance costs by \$80,000, which includes utilities, personnel, and other operating costs.

The project's Construction Manager at Risk (CMAR) will complete the project under the guaranteed maximum price arrangement with NAU. Construction is scheduled to begin in June of 2017, and is estimated to be completed by October 2018.

(Continued)

Table 1					
NAU Recital Hall Project					
Total Square Footage	26,863				
<u>Funding</u> System Revenue Bonds <sup>1/</sup> Gifts <b>Total</b>	9,250,000 <u>5,750,000</u> <b>15,000,000</b>				
<u>Costs</u> Direct Construction Costs Other Costs <sup>2/</sup> <b>Total</b>	11,152,000 <u>3,848,000</u> <b>15,000,000</b>	(415 per sq. ft.)			
Under the assumption of a 3.3% interest rate, an interest payment of \$230,270 in FY18 would be followed by annual debt service payments of \$654,100. Under the same assumption, total debt service on the \$9.25 million issue would be \$13.31 million.					
2/ Includes equipment, project design and management fees, and other costs.					

Table 2				
NAU Recital Hall Financing Terms				
Issuance Amount	\$9.25 million			
Issuance Date	Fall 2017			
Issuance Transaction Fees	\$340,000 (not to exceed)			
Rating	A1 (Moody's) / A+ (S&P)			
Interest Rate	3.3% (not to exceed 6.0%)			
Term	20 years			
Total Debt Costs (at 3.3%)	\$13.31 million			
Debt Service Payments (at 3.3%)	\$654,100			
Payment Source	Tuition and Fees			
Debt Ratio Increase	0.14%			
Construction Start	June 2017			

RS/SB:kp



Office of the Vice President for Capital Planning and Campus Operations

> Daniel T. Okoli, PhD Vice President nau.edu/vpadmin 928-523-2708 office

PO Box 4088 Flagstaff, AZ 86011

May 30, 2017

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



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

Dear Senator Lesko:

In accordance with ARS 41-1252, the Arizona Board of Regents requests the following NAU project be placed on the next available agenda for the Joint Committee on Capital Review (JCCR):

Recital Hall

The Arizona Board of Regents Business and Finance Committee is requested to recommend approval to the full Board at its meeting to be held on June 7, 2017. The full Board of Regents will consider this project for approval as well as the financing plans at its meeting on June 8, 2017. We request that the JCCR review these projects at the next scheduled meeting on June 20, 2017.

Enclosed is the pertinent information relating to these items. If you require additional information, please do not hesitate to contact me at (928) 523-8871. Thank you for your consideration of this request.

Sincerely,

Daniel Okoli Vice President for Capital Planning and Campus Operations

Attachments

cc: Richard Stavneak, JLBC Director Matt Beienburg, JLBC Analyst Eileen Klein, ABOR Lorenzo Martinez, ABOR Rita Hartung Cheng, NAU Joanne Keene, NAU Christy Farley, NAU Bjorn Flugstad, NAU Wendy Swartz, NAU

# Joint Committee on Capital Review Northern Arizona University June 2017 JCCR Meeting

## PROJECT SUMMARY – Revenue Bonds Recital Hall

Total	\$15,000,000
Recital Hall	\$15,000,000
Project Costs	

**Funding Source** 

# Tuition and program fee revenue

## **FINANCING INFORMATION**

### System Revenue Bonds:

Project Costs Estimated Cost of Issuance Anticipated Bond Rating Assumed Interest Rate Term Recital Hall \$9,250,000 \$340,000 A1 (Moody's) and A+ (S&P) 3.30% / not to exceed 6% 20 years

### DEBT RATIO

	Recital Hall	
Debt Ratio on Existing Debt	5.56%	Note: includes Honors Community approved in April, 2017
Incremental Debt Ratio	0.14%	The second s
Projected Debt Ratio	5.70%	

# NORTHERN ARIZONA UNIVERSITY System Revenue Bonds, Series 2017 (Project Costs - \$9.25 Million)

# Current Market Rates (3.3%)

<b>Fiscal Year</b>	<b>Principal</b>	Interest	<u>Total</u>
2018		\$ 230,270.25	\$ 230,270.25
2019	\$ 345,000	307,027.00	652,027.00
2020	360,000	295,918.00	655,918.00
2021	370,000	284,326.00	654,326.00
2022	380,000	272,412.00	652,412.00
2023	395,000	260,176.00	655,176.00
2024	405,000	247,457.00	652,457.00
2025	420,000	234,416.00	654,416.00
2026	435,000	220,892.00	655,892.00
2027	445,000	206,885.00	651,885.00
2028	460,000	192,556.00	652,556.00
2029	475,000	177,744.00	652,744.00
2030	490,000	162,449.00	652,449.00
2031	510,000	146,671.00	656,671.00
2032	525,000	130,249.00	655,249.00
2033	540,000	113,344.00	653,344.00
2034	560,000	95,956.00	655,956.00
2035	575,000	77,924.00	652,924.00
2036	595,000	59,409.00	654,409.00
2037	615,000	40,250.00	655,250.00
2038	635,000	20,447.00	655,447.00
Total	\$9,535,000	\$3,776,778.25	\$13,311,778.25

### **EXECUTIVE SUMMARY**

## Item Name: Recital Hall Project and Financing Issuance Approval (NAU)

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

**Issue:** Northern Arizona University requests project and financing approval of a Recital Hall. The 26,863 square foot, \$15,000,000 capital project will be financed with \$9,250,000 in System Revenue Bonds and \$5,750,000 of fundraising gifts.

The par amount of the System Revenue Bonds will be in an amount not to exceed \$9,250,000 of the \$15,000,000 in total project costs plus an amount not to exceed \$340,000 to pay costs of issuance, plus an amount necessary to pay for any bond issuance or credit enhancement of the Bonds provided that such issuance or credit enhancement provides a net benefit to the University. The debt service based on current interest rates for the Bonds is estimated at \$655,000 per year and will be paid over approximately 20 years from tuition and fee revenue.

### **Previous Board Action**

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

September 2016 June 2017

## Enterprise or University Strategic Plan

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

Contact Information: Dan Okoli, VP of Capital Planning & Campus Operations Dan.Okoli@nau.edu (928) 523-8831

### **EXECUTIVE SUMMARY**

Page 2 of 9

### Statutory/Policy Requirements

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

## Project Justification/Description/Scope

- This project encompasses the planning, design, and construction of a Recital Hall and the renovation of existing space in need of maintenance and repair, for the College of Arts and Letters, located between the Ardrey Memorial Auditorium and the Performing and Fine Arts building. Project components include a 250-seat recital hall, a choral rehearsal room, an instrumental rehearsal room, a choral library, an instrumental library, and a lobby space.
- The construction includes 21,463 of new GSF for the Recital Hall and instrument 0 rooms, and 5,400 GSF of renovation of the existing choral rooms, for a total of 26,863 of construction.
- The completion of this project will solve existing acoustic and logistical problems that are impacting the quality of music education at NAU. As facilities continue to age, and student enrollment continues to increase, the gap in keeping up with the demand for use of NAU facilities and the quality of spaces continues to widen.
- This project creates a Performing and Fine Arts Complex that wholly serves the needs of NAU's students and the northern Arizona community. This recital hall, in combination with the other performance venues on campus, will increase the stature and allure of NAU for prospective students, local audiences, faculty members, and guest performing artists. NAU's reputation and brand recognition will improve throughout the region, and recruitment of additional high quality students will be enhanced.
- The College of Arts and Letters utilizes Ashurst Hall as its functioning recital hall. which is located on north campus, a considerable distance away from the existing

Business and Finance Committee Meeting
June 7, 2017
Item #
Page 3 of 9

### **EXECUTIVE SUMMARY**

Ardrey Auditorium and Performing and Fine Arts buildings. Transporting musical instruments and equipment across campus is difficult, time consuming and cumbersome for students. Patrons of events in Ashurst Hall also frequently lament its inadequacy for the high-quality student, faculty, and guest artist performances taking place there. The performance stage is inadequate, the acoustics are sub-par, and there is no permanent seating. A new recital hall located adjacent the existing buildings will create a Performing and Fine Arts Complex, a more functional learning environment, and community gathering place.

- The NAU School of Music has a proud history of graduating exemplary students and is committed to retaining and recruiting outstanding faculty and staff. Currently, there are 425 undergraduate and graduate music majors and minors enrolled in coursework and ensembles, with an additional 200 non-music majors who perform in organizations from the NAU Lumberjack Marching Band to University Singers. Annually NAU graduates 30-40 future music educators for the teaching profession, dozens of instrumental and vocal performance majors, and countless creative artists for future work within higher education music, creative industries, and the music industry.
- The NAU Community Music and Dance Academy, an education-outreach of the School of Music, enrolls around 500 students each year, and the Curry Summer Music Camp at NAU hosts 400 junior and senior high-school campers each summer. The School of Music hosts more than 200 performances, recitals, and festivals each year with an estimated 57,000 attendees. Without the NAU School of Music, Flagstaff and northern Arizona would not have access to professional caliber performances, high-quality outreach programs, and other collaborative opportunities.
- Improved performance and music facilities will not only impact NAU students, but will better serve the needs of faculty, community members, and local school children. NAU's re-imagined Performing and Fine Arts Complex will even more strongly function as the cultural center of the university, community and region.

# **Project Delivery Method and Process**

- This project will be delivered through the Construction Manager at Risk (CMAR) delivery method. This approach was selected to provide contractor pre-construction services and a high level of project team integration, which alleviates potentially adversarial project environments.
- NAU utilized a request for qualifications (RFQ) to select a design professional. Five firms submitted qualifications and all five were interviewed. RSP Architects was selected as the design professional. An RFQ was issued to select a CMAR in which

seven firms responded and five firms were shortlisted for interviews. Core Construction was selected as the CMAR for this project.

# **Project Status and Schedule**

• This project is in the design phase, with construction scheduled to begin when all approvals are in place. Construction is targeted to begin in June 2017, with Substantial Completion in October 2018.

# Project Cost

- The budget for this project is \$15,000,000.
- The budget represents an estimated construction cost of \$415 per GSF and a total project cost of \$558 per gross square foot.
- The CMAR, Core Construction, has developed a GMP based on 100% Design Development Documents. A third party estimate was complete by Rider Levett Bucknall. The estimate from the CMAR, and the third-party estimator are within 1% of each other on the cost of construction for the project.
- This project is utilizing the CMAR delivery method in which the CMAR is at risk to provide the completed project within the agreed-upon Guaranteed Maximum Price (GMP). A final report on project cost and schedule will be provided at project completion.

# **Fiscal Impact and Financing Plan**

- The \$15,000,000 for the Recital Hall will be financed with \$9,250,000 in System Revenue Bond proceeds and \$5,750,000 of fundraising gifts. The debt service on the Bonds will be paid by tuition and fee revenue.
- The following table reflects charitable gift funding anticipated for the Recital Hall plan of finance.

	Approval Date	Occupancy Date	Project Cost	Gift Target	Current Gifts and Pledges
Recital Hall	CIP 9/2016	10/2018	\$15,000,000	\$5,750,000	\$2,100,000
Total			\$15,000,000	\$5,750,000	\$2,100,000

NAU intends to issue the Bonds as long-term fixed rate bonds with a final maturity of

approximately 20 years on June 1, 2038. NAU's financial advisor estimates the overall true interest rate on the Bonds as of May 11, 2017 would be approximately 3.30%; the actual interest rate conditions on the Bonds may be higher or lower depending on the market interest rate conditions as of the date the bonds are issued. NAU will proceed with the System Revenue Bond financing if the overall true interest cost of the Bonds is not more than 6% per annum.

- The estimated annual debt service based on the 6% not to exceed rate is \$833,000 which will be funded from tuition and fee revenue.
- The debt service associated with this project will increase the debt ratio by 0.14%, from 5.56% to 5.70% using the not to exceed 6% rate. These numbers are stated for FY2020 as they represent the future maximum projected debt service which is below the 8% statutory limit. These calculations include the projected debt service of the Honors Community project that was approved at the April 2017 Board meeting.
- NAU will evaluate bond insurance from viable bond insurers available in the market at the time of the sale. The decision as to whether bond insurance will be used will be a function of market conditions and the bond insurer's ratings at the time of bond pricing. Bond insurance will be used only if it provides a demonstrated economic benefit to NAU.
- The university plans to issue the long-term financing for the project by September 30, 2017.

14 March 14		Comments	
Not-to-Exceed Project Costs	\$15,000,000	Including \$9.25M of Bonds and \$5.75M of fundraising gifts	
Issuance Costs (not to exceed)	\$340,000	Not to exceed	
Credit Enhancement/Insurance Cost	TBD	Only executed if economically beneficial	
Interest Rate (current market as of May 11, 2017) / (not to exceed)	3.30% / 6.00%		
Maturity Range	2019 - 2038	Approximately 20 years	
Average Instrument Life	12.29 years		
Estimated Annual Debt Service for FY 2019 – 2038, based on 6.00% not to exceed rate	\$833,000	Funded from tuition and fee revenues	

The table below shows the anticipated pricing parameters for the financing.

# Occupancy Plan

- This project is scheduled to minimize the impact to the College of Arts and Letters. There will be a temporary relocation of the choral and band practice rooms during construction so classes can continue uninterrupted.
- The Recital Hall will have two key completion dates. The first is for the completion of the choral and band practice rooms which must be completed by August 2018 to accommodate the start of school. The recital hall space is scheduled to be completed by October 2018.
- An evaluation of the vacated space at Ashurst Hall is underway by NAU's Strategic Space Planning Committee to determine its best future use.

#### **Requested Action**

Northern Arizona University requests the committee forward to the full Board the Recital Hall project for Project and Financing Approval, and authorization to issue System Revenue Bonds as presented in the Executive Summary, with the terms and legal provisions of the bonds set forth in a resolution or other legal document to be prepared by bond legal counsel, including authorizing the Vice President for Capital Planning and Campus Operations, the Vice President for Finance, Institutional Planning and Analysis and the Associate Vice President for Finance and Comptroller to execute any necessary documents to build and finance this project as described herein.

# **Capital Project Information Summary**

University: Northern Arizona University

Project Name: Recital Hall

Project Description and Location: The construction of a 26,863 gross square feet of Recital Hall to create improved facilities for the School of Music.

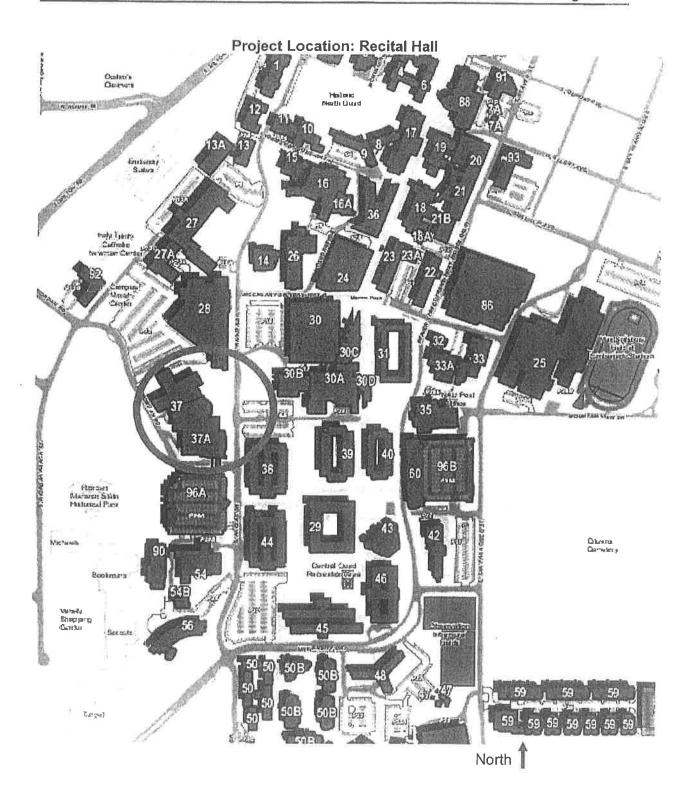
	ect Schedule:				
Planning			November 2015		
	gn Start		March 2016		
	struction Start		June 2017		
UCCL	ipancy		October 2018		
Proje	ect Budget:				
Total Project Cost		\$	15,000,000		
Total Project Cost per sq. ft.			558		
Direct Construction Cost		\$	11,152,00		
	truction Cost per sq. ft.	+ IIII02100			
		Ψ	-10		
Chan	ige in Annual				
Oper	ating/Maintenance Costs:				
Utilities		\$	15,000		
Personnel		\$	37,000		
All Other Operating		\$	28,000		
		\$	80,000		
Fund	na Saunaan				
Capita	ing Sources:				
Capita	System Revenue Bonds	¢	0.250.000		
0	Gifts	\$ \$	9,250,000		
			5,750,000		
	Auxiliary Funds	\$	0		
		φ	15,000,000		
Opera	tion/Maintenance:				
0	Tuition and Fees		80,000		
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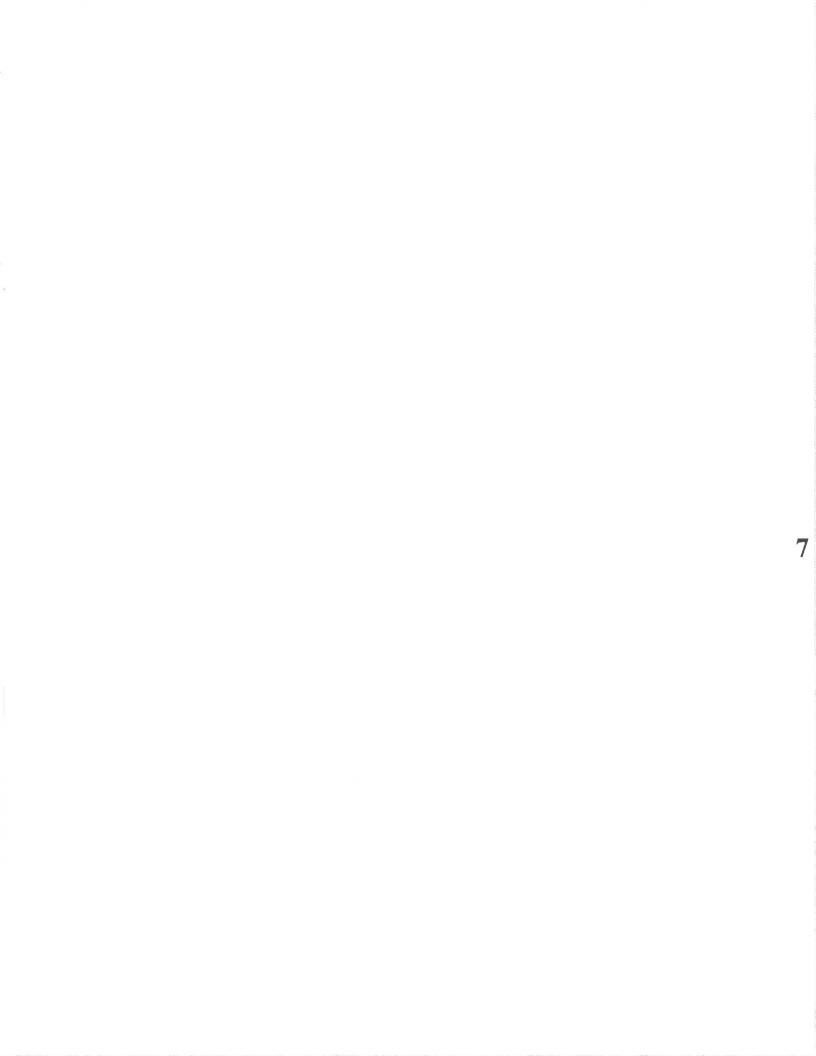
# Capital Project Cost Estimate

University: Northern Arizona University	Project: Recital Hall			
	Capital Development Plan	Project Approval		
Capital Costs	\$ -	\$		
<ol> <li>Land Acquisition</li> <li>Construction Cost</li> </ol>	Ð -	ψ 354		
A. New Construction	\$11,152,000			
B. Renovation				
C. Fixed Equipment				
D. Site Development (excl. 2.E.)				
E. Parking and Landscaping				
F. Utilities Extensions				
G. Other H. Inflation and Market Adjustment				
Subtotal Construction Cost	\$ 11,152,000	\$		
3. Fees				
A. Construction Mgr				
B. Architect/Engineer (14%)	\$1,555,000			
C. Other				
Subtotal Consultant Fees	\$ 1,555,000	\$		
4. FF&E Movable	\$139,700			
5. Contingency, Design Phase (10.0%)	\$155,000			
6. Contingency, Construction Phase (9.0%)	\$1,026,000			
7. Parking Reserve				
8. Telecommunications/Security Equip	\$180,000			
Subtotal Items 4-8	\$ 1,500,700	\$ -		
9. Additional University Costs	\$204,000			
<ul> <li>A. Surveys, Tests, Inspections, etc.</li> <li>B. Move-in Costs</li> </ul>	ψ204,000			
C. Printing Advertisement	\$34,000			
D. Commissioning	\$39,200			
E. 3rd Party Estimate, Audit	\$31,700			
F. Project Management Cost (3%)	\$436,900			
G. State Risk Mgmt Insurance (0.34%)	\$46,500			
Subtotal Additional University Costs	\$ 792,300	\$		
TOTAL CAPITAL COST	\$ 15,000,000	\$ -		

Business and Finance Committee Meeting June 7, 2017 Item # Page 9 of 9

# **EXECUTIVE SUMMARY**







#### STATE OF ARIZONA

# Joint Committee on Capital Review

1716 WEST ADAMS

STATE SENATE

PHOENIX, ARIZONA 85007 DEBBIE LESKO (602) 926-5491 CHAIRMAN 2017 SYLVIA ALLEN OLIVIA CAJERO BEDFORD LELA ALSTON azleg.gov STEVE FARLEY KATIF HOBBS VINCE LEACH JOHN KAVANAGH KIMBERLY YEE DATE: June 16, 2017 TO: Senator Debbie Lesko, Chairman Members, Joint Committee on Capital Review Richard Stavneak, Director 74 THRU: Matt Beienburg, Fiscal Analyst  $M\beta$ FROM: Arizona State University - Review of Tempe Power Plant Indirect Financing Project SUBJECT:

# 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 \$21,000,000 project for the construction of a second combustion turbine at ASU's Tempe campus. The debt will be issued by Sun Devil Energy Center, LLC, which is a subsidiary of an ASU component unit, the Arizona Capital Facilities Finance Corporation (ACFFC).

#### Recommendation

The Committee has at least the following 2 options:

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

The Committee may consider the following standard university financing provision:

# Standard University Financing Provision

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

HOUSE OF REPRESENTATIVES

DON SHOOTER CHAIRMAN 2018 JOHN M. ALLEN MARK CARDENAS HEATHER CARTER REBECCA RIOS

#### Analysis

Sun Devil Energy Center, LLC financed construction of a power plant at the Tempe campus near Rural Rd. and Apache Blvd. in 2004 to help support the university's energy needs. Specifically, the power plant provides energy to the Biodesign A and B and Interdisciplinary Science and Technology Buildings (ISTB) 1 and 4 among others, comprising up to 22% of the Tempe campus' overall power needs during peak requirements and 19% during off-peak times.

ASU reports that the use of on-site generation improves reliability of power delivery to its campuses and reduces the need to purchase power from the grid during peak-load demand. ASU also cites greater control of power voltage and frequency settings, which benefits sensitive research equipment.

ASU reports that the completion of the Biodesign C building in March 2018 and additional planned research facilities will require increasing the power plant's energy production capabilities.

#### Additional Turbine Construction

Under the current proposal, Sun Devil Energy, LLC would issue \$21.0 million of long-term debt via bonds or a lease-purchase agreement to pay for construction of a second combustion turbine at the power plant. With the second turbine, the plant is projected to provide up to 36% of the Tempe campus' peak energy requirements. ASU reports that building the additional turbine would save approximately \$6.4 million in present value over the next 20 years compared to purchasing additional power and using stand-alone generators.

Under the existing agreement with Sun Devil Energy, LLC, the university is already required to purchase a minimum of \$7.5 million worth of energy per year for 25 years to cover Sun Devil Energy, LLC's management and capital costs. The second turbine is estimated to increase the required annual purchase by approximately \$2.5 million through 2038, at which point ownership of the facility will transfer to ASU. As described above, ASU has indicated that this increase is still part of an overall net savings compared to the cost of generating the additional power externally.

#### Third-Party Background

Sun Devil Energy Center, LLC formed in 2004 as a subsidiary of the Arizona Capital Facilities Finance Corporation (ACFFC), a component unit of ASU. As a component unit, ACFFC is a legally separate entity from ASU, but whose primary purpose is to directly benefit the university. Other component units include the ASU Foundation, ASU Research Park, Inc., and other entities.

As reported in ASU's 2016 Comprehensive Annual Financial Report, ACFFC carries \$252.7 million of longterm debt. Overall, ASU's component units carry \$499.8 million of long-term debt, compared to \$1.6 billion held by the university itself. Component unit debt service payments are not included in the calculations of the university's statutory debt service limit established by A.R.S. § 15-1683.

Through another of its subsidiaries, the Polytechnic Campus Energy Center, LLC, ACFFC also provides power to the ASU Polytechnic (ASU - East) Campus. The management of both the Tempe and Polytechnic plants is provided by the power company NRG Energy.

RS/MB:Im

Arizona State University

May 30, 2017



The Honorable Debbie Lesko, Chairman Joint Committee on Capital Review Arizona State Senate Capitol Complex 1700 West Washington, Room 200 Phoenix, AZ 85007-2890

Dear Senator Lesko:

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

- Building and Infrastructure Enhancements and Modifications
- Classroom and Academic Renovations
- Research Laboratory/Faculty Startup Renovations
- Sun Devil Energy Center, LLC

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

Richard Stavneak, Director, JLBC C:

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

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

# Joint Committee on Capital Review Arizona State University June 2017 JCCR Meeting

On behalf of the Arizona Board of Regents, Arizona State University (ASU) requests Joint Committee on Capital Review (JCCR) review of the following items as required by ABOR policy and ARS 15-1683 and 15-1682.02.

#### **Issuance of Bonds**

Arizona State University plans to undertake bond-financed projects including infrastructure upgrades and classroom, academic and research laboratory renovations at multiple campuses. These projects respond to the need to provide students, faculty and staff with high-quality facilities that will enable their success and support the key elements of ASU's Strategic Enterprise Framework. Additional information regarding these projects is included on the following pages.

#### **Indirect and Third-Party Financing**

In 2004 Arizona Capital Facilities Finance Corporation (ACFFC) financed and constructed a combined heat and power plant (CHP) on the Tempe campus through Sun Devil Energy Center, LLC, a wholly-owned subsidiary. Sun Devil Energy Center, LLC, contracts with NRG for management of the facility. To meet increased power requirements on the Tempe campus, a second combustion turbine is needed in the CHP. Sun Devil Energy, LLC, will issue bonds or enter into a lease-purchase agreement to acquire and install the second turbine.

An Arizona Board of Regents executive summary is attached, which outlines the terms and other details relevant to this project.

# Page 1 of 3

# Item Name: Acknowledgement and Approval for Sun Devil Energy Center, LLC to Issue Revenue and Refunding Bonds (ASU)



Action Item Committee Recommendation to Full Board

Arizona State University (ASU) asks for committee review and Issue: recommendation for the full board to acknowledge and approve the issuance by Sun Devil Energy Center, LLC, a wholly-owned subsidiary of Arizona Capital Facilities Finance Corporation (ACFFC) of its revenue bonds: (1) to finance up to \$21.0 million of capital improvements, (2) to refund up to \$32.41 million of its outstanding 2008 Revenue Refunding Bonds (Arizona State University Project), (3) to pay associated issuance and transaction costs, and (4) authorization to take all actions and enter into all agreements necessary in conjunction with the issuance or refunding of Bonds.

# **Previous Board Action**

Tempe campus Privatized Sun Devil Energy Center December 2012 LLC, Refunding Bond Approval

# Enterprise or University Strategic Plan

(Check the element(s) of the strategic plan that this item supports or advances)

Empower Student Success and Learning

Advance Educational Attainment within Arizona

- Create New Knowledge
- Impact Arizona
- Compliance
  - Real property purchase/sale/lease
- Other:

# Statutory/Policy Requirements

- ABOR Policy 3-501 requires matters relating to the issuance and sale of debt be presented for board action as outlined in board policy.
- ABOR Policy 7-102(B) requires Committee review and Board approval of projects shared with outside entities, such as third parties.

• ABOR Policy 7-207(A) requires Committee review and Board approval for the lease and lease amendments of real property.

# Background

- In April 2004, the Board approved the formation of Sun Devil Energy Center, LLC (the Company), the execution and delivery of a ground lease by ASU to the Company for the construction of a combined heat and power (CHP) plant to serve ASU's Tempe campus, and the issuance by the Company of \$51.6 million of its tax-exempt revenue bonds (Bonds) to finance construction of the plant. The Bonds were issued by the Company in November 2004 as Variable Rate Demand Revenue Bonds. In July of 2008, the Bonds were refunded with the 2008 Variable Rate Demand Revenue Refunding Bonds; subsequently, in 2013, the Bonds were converted to tax-exempt, fixed-rate bonds, of which \$32.41 million remains outstanding.
- The CHP was commissioned in 2004 for the purpose of providing reliable power to the research community and currently provides electrical power to Biodesign A and B and Interdisciplinary Science and Technology Buildings (ISTB) 1 and 4. The plant contains a combustion turbine, a steam turbine, and a heat recovery steam generator. Two independent electrical feeds from APS provide redundancy in the event of a turbine failure.

# Discussion

- With Biodesign C currently under construction and future plans for additional facilities, a second combustion turbine is needed to meet expected power requirements. The CHP plant was designed and built with future expansion in mind, and space exists within the building for an additional turbine and related support equipment. Installation of a second turbine would create significant savings over the cost of purchasing power at market rates from an independent utility provider and would provide reliability and redundancy benefits.
- The cost to add a second turbine to the facility is estimated at \$21 million. The project will be financed by ACFFC through the Company, which will issue bonds or enter into a lease purchase agreement to acquire and install the second turbine.

 ACFFC also may refund the outstanding \$32.41 million of tax-exempt bonds with taxable bonds, in order to extend the existing Operation and Management Agreement and enhance the financial responsibility of NRG as the Facility Manager. If issued, the refunding bonds will have a final maturity that is no longer than the final maturity of the Bonds being refunded.

## **Committee Review and Recommendation**

EXECUTIVE SUMMARY

Arizona State University (ASU) asks that the Committee forward to the full Board for acknowledgement and approval the existence and purposes of Sun Devil Energy Center, LLC, the issuance of Revenue and Refunding Bonds by Sun Devil Energy Center, LLC, and authorization to take all actions and enter into all agreements necessary in conjunction with the issuance or refunding of the Bonds, as described and presented in this Executive Summary.

#### **Requested Action**

Arizona State University asks the Board to acknowledge and approve the existence and purposes of Sun Devil Energy Center, LLC, the issuance of Revenue and Refunding Bonds by Sun Devil Energy Center, LLC, and authorization to take all actions and enter into all agreements necessary in conjunction with the issuance or refunding of the Bonds, as presented in this Executive Summary.