STATE OF ARIZONA

Joint Committee on Capital Review

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1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

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JOINT COMMITTEE ON CAPITAL REVIEW
August 14, 2003
1:30 p.m.
Senate Appropriations Room 109

AGENDA

- Call to Order
- DIRECTOR'S REPORT (if necessary).
- Approval of Minutes of June 12, 2003

1. MARICOPA COMMUNITY COLLEGE DISTRICT – Review of Performing Arts Center Bond Project.
2. SCHOOL FACILITIES BOARD –
   A. Review of Lease-Purchase New School Construction Projects and Report on Temporary Fund Transfer.
   B. Consider Approval of Deficiencies Correction Bond Projects.
3. ARIZONA DEPARTMENT OF TRANSPORTATION – Review of FY 2004 Construction Budget Operating Expenditure Plan.
4. ARIZONA BOARD OF REGENTS/ARIZONA STATE UNIVERSITY –
   A. Review of Bond and Lease-Purchase Projects.
   B. Review of Revised Packard Stadium Clubhouse and Playing Field Renovation Project.
5. GOVERNMENT INFORMATION TECHNOLOGY AGENCY – Report on Telecommunications Privatization.
6. JLBC STAFF – Report on Refinancing of Board Funding Obligations.

The Chairman reserves the right to set the order of the agenda.
8/0703

People with disabilities may request accommodations such as interpreters, alternative formats, or assistance with physical accessibility. Requests for accommodations must be made with 72 hours prior notice. If you require accommodations, please contact the JLBC Office at (602) 542-5491.

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HOUSE OF REPRESENTATIVES

MINUTES OF THE MEETING
JOINT COMMITTEE ON CAPITAL REVIEW

Thursday, June 12, 2003

The Chairman called the meeting to order at 8:45 a.m. Thursday, June 12, 2003 in Senate Appropriations Room 109 and attendance was as follows:

Members:	Representative Pearce, Vice Chairman	Senator Burns, Chairman
	Representative Boone	Senator Bee
	Representative Lopez	Senator Brown
		Senator Cannell
		Senator Soltero
Absent:	Representative Farnsworth	Senator Mead
	Representative Loredo	Senator Waring
	Representative Biggs	
	Representative Lopes	
Staff:	Richard Stavneak	Jan Belisle, Secretary
	Lorenzo Martinez	Jake Corey
	Tony Vidale	Beth Kohler
	Michael Stelpstra	
Others:	John Arnold	SFB
	Jack Jones	ADOA
	Ray Diciccio	ADOA
	Joy Hicks	House
	Debbie Johnston	Senate

Senator Burns moved *the Committee approve the minutes of March 26, 2003 as presented.* The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION –

Review of Risk Management Capital Construction Insurance Rates.

Tony Vidale, JLBC Staff, presented the Arizona Department of Administration (ADOA) request that the Committee review its proposed rate for the Construction Insurance Fund. ADOA proposes setting the rate at 0.34%. The state self-insures against construction and design claims and a rate is charged to capital projects with monies being deposited into the Construction Insurance Fund. That fund covers any construction and design claims. In the past, the rate has been set at 0% as the balance in the fund has been sufficient to cover any expenditures. By the end of FY 2003 the funds will be depleted without an increase in the rate.

In response to Representative Boone, Ray Diciccio, Department of Administration, stated $7 million is collected as a deductible on any type of loss that may occur with a construction and design claim. ADOA would absorb the first $7 million of any loss and an insurance policy would pay the remaining balance. The cost of the insurance policy is built into the rate.

Representative Pearce moved the Committee give a favorable review to the proposed rate of 0.34% for the Construction Insurance Fund. The motion carried.

Consider Approval of Partial Rent Exemptions for FY 2003.

Tony Vidale, JLBC Staff, presented the Arizona Department of Administration submittals of agency requests that the Committee approve partial rent exemptions in FY 2003, totaling $385,000. Mr. Vidale reviewed the agencies rent exemptions. Most agencies listed in the recommendation section occupied office space in 7 buildings whose lease-purchase was completed in FY 2003 and converted to state-owned office space. Prior to completion of the lease-purchase, these agencies were budgeted at a rate of $13.50 per square foot. After the lease-purchase completion, agencies occupying space in these buildings were assessed the ADOA rental rate of $15.50 per square foot for state-owned office space. The recommendation provides an exemption to $15 per square foot. This is consistent with how other agencies have been funded for rent.

The Board of Executive Clemency required an exemption due to a reallocation of office space.

The Department of Juvenile Corrections required an exemption because of a technical error in calculating square footage allocations.

The Department of Mines and Mineral Resources required an exemption to reduce the disproportionate impact of budget reductions given that rent makes up 57% of the agencies total budget.

Representative Pearce moved the Committee approve the General Fund partial rent exemptions in FY 2003, totaling $385,000. The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION(ADOA)/DEPARTMENT OF HEALTH SERVICES (DHS) – Report on the Arizona State Hospital Construction Project.

Beth Kohler, JLBC Staff presented the ADOA/DHS quarterly report on the Arizona State Hospital construction project. Laws 2000, Chapter 1 appropriated $77.5 million over 4 years from the Budget Stabilization Fund for construction and renovation of the state hospital including a new civil hospital and adolescent facility, new sexually violent persons dormitory, and the renovation of the forensic hospital. In the 6th Special Session, $13.4 million was transferred from the project to the General Fund and ADOA was directed to halt the forensic renovations. All other major projects are nearing completion.

Senator Burns asked how the forensic renovations would be completed. Ms. Kohler stated that the project is on hold indefinitely as there have been no discussions on its completion.

No Committee action was required.

SCHOOL FACILITIES BOARD – Temporary Fund Transfer.

Jake Corey, JLBC Staff, presented the School Facilities Board (SFB) report that it plans to transfer up to $89 million from the New School Facilities Fund to the Deficiencies Correction Fund in order to continue corrections projects until additional funding is available. As part of the FY 2004 budget agreement, SFB will be receiving $280 million in bond proceeds to complete deficiencies projects. The transfer will enable SFB to continue to fund the deficiencies corrections projects until the time they receive the bond proceeds, which could be in late September. Bond proceeds would be used to reimburse the New School Facilities Fund.

There was no discussion and no action was required.

The meeting adjourned at 8:55 a.m.

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Jan Belisle, Secretary

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Lorenzo Martinez, Assistant Director

____

Senator Robert “Bob” Burns, Chairman

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STATE SENATE

1716 WEST ADAMS
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PHONE (602) 542-5491

FAX (602) 542-1616

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HOUSE OF REPRESENTATIVES

DATE: August 7, 2003

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

THRU: Richard Stavneak, Director

FROM: Jake Corey, Fiscal Analyst

SUBJECT: MARICOPA COMMUNITY COLLEGE DISTRICT – REVIEW OF PERFORMING ARTS CENTER BOND PROJECT

Request

Pursuant to A.R.S. § 15-1483, Maricopa County Community College District (District) requests Committee review of a district project to be financed by revenue bonds.

Recommendation

The JLBC Staff recommends a favorable review of the request.

The project represents a revenue bond issuance of $7,785,000 to be issued on September 10, 2003. Proceeds from the issuance will fund a Performing Arts Center at Paradise Valley Community College. Over a 20-year period, and with an estimated interest rate of 5.1%, total interest payments for the project will equal approximately $5,767,200. Total debt service for the project would be approximately $13,552,200. The District plans to fund the debt service with revenues derived from tuition and fees. The annual debt service will average $373,000 through FY 2010, and will rise to an average of $760,000 through FY 2023, with a final payment of $1.4 million in FY 2024.

Analysis

A.R.S. § 15-1483 requires a community college district, prior to the issuance of bonds, to submit information on any projects to be funded with the bond proceeds to the Committee for review.

The Governing Board of the District has provided approval for the issuance of revenue bonds to finance the Performing Arts Center at Paradise Valley Community College. Student tuition and fees will be used for the debt service payments. The Governing Board previously has adopted District tuition and fee schedules and budgets to support the development of the project. The following table shows the estimated annual debt service payments for the project.

Revenue Bond Debt Service Schedule
Performing Arts Center
FY 2005 – FY 2024

FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
$332,400	$381,100	$381,100	$381,100	$381,100	$381,100	$881,100	$671,500	$653,600	$725,500
FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
$723,100	$719,600	$725,000	$718,800	$821,400	$817,300	$811,500	$803,900	$804,500	$1,437,800

The performing arts center is part of a larger proposal to develop these centers at five of the District's colleges that lack such buildings. These centers will allow the colleges to offer a more comprehensive instructional program with the appropriate facilities and increase services to the community. Currently, Paradise Valley does not have any space that will accommodate more than 150 people. The District will construct a 26,518 square foot facility, including an auditorium that can seat 276. The new center will provide performance and rehearsal space for the college's theatre and music programs. In addition, the center will be used to host cultural and arts events and performances, college meetings, and community groups. The center will serve the residents of Paradise Valley, Northeast Phoenix, North Scottsdale, Carefree, and Cave Creek.

Proceeds from the revenue bonds will fund the design, construction, furnishings, and equipment of the facility. The new center is expected to be completed in January 2005. Annual operating costs are estimated to be $241,000 and will be funded with existing revenue sources.

RS/JC:jb

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HOUSE OF REPRESENTATIVES

DATE: August 7, 2003

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

THRU: Richard Stavneak, Director

FROM: Jake Corey, Fiscal Analyst

SUBJECT: SCHOOL FACILITIES BOARD – REVIEW OF LEASE-PURCHASE NEW SCHOOL CONSTRUCTION PROJECTS AND REPORT ON TEMPORARY FUND TRANSFER

Request

Pursuant to A.R.S. § 15-2004, the School Facilities Board (SFB) requests the Committee review its list of $215 million in potential new school construction projects to be financed with lease-purchase agreements. The board will return to the Committee later in the year to review approximately $35 million in additional projects to bring the yearly total to $250 million.

The board is also reporting its plans to transfer $50 million from the New School Facilities Fund to the Deficiencies Correction Fund for cash flow purposes. The monies will be repaid later in the year. The report on the transfer of funds is for information only and no Committee action is required.

Recommendation

The JLBC Staff recommends a favorable review of the request.

The board has submitted for review 32 projects in 23 school districts. The total value of these projects is $215 million. The term of the lease-purchase agreement will be 15 years. Certificates of Participation will be issued over the next 7 years with an average life of almost 9 years. At a projected interest rate of 4.16%, SFB estimates the annual payments to be approximately $18,350,000. Total debt service is estimated to be about $280 million, which includes $200 million in principal and $80 million in interest. The following table shows the estimated costs associated with the lease-purchase financing agreement.

Construction Proceeds	$ 200,000,000
Issuance Cost	450,000
Underwriting Fee	344,000
Insurance	558,000
Total Issuance	$ 201,352,000

(Continued)

The JLBC Staff notes that SFB has submitted a list of *potential* projects to be included in the lease-purchase financing agreement. The total value of these projects is $215 million. The board only plans to enter into an agreement, however, for $200 million in lease-purchase financing. Therefore, when the board has finalized its list of projects to be included in the lease-to-own agreement, the $215 million amount will be reduced to $200 million. If the Committee decides to favorably review the report, JLBC Staff recommends that the Committee's review be contingent on SFB subsequently submitting a list of the *actual* projects included in the agreement.

Analysis

Lease-Purchase Agreement

A.R.S. § 15-2004 grants SFB the authority to enter into lease-purchase agreements to pay for the costs of new school construction. Before any agreement takes effect, the statute requires the board to submit for Committee review the projects related to the agreement.

The attached materials detail the potential lease-purchase projects. There are a total of 32 projects. Among the highlights:

- Approximately 18,900 students will be housed in the space provided by these projects.
- Of the total number of projects, 25 are for new schools, 6 are for additional space at existing schools, and 1 is for a replacement school.
- Twenty-seven of the projects are for K-8 space, 4 are for high school space, and 1 combines K-8 and high school space.
- Nine of the projects are currently under construction, while 22 are in the design phase.
- Geographically, the majority of the projects (23) are located in the Phoenix metropolitan area, including 20 projects in the West Valley, 2 in the East Valley, and 1 in Cave Creek. Projects in areas outside of Phoenix include 1 project in Yavapai County, 2 in Yuma County, 2 in Pinal County, 1 in Santa Cruz County, 1 in Cochise County, and 1 in Apache County.

As stated earlier, the board plans to enter into a total of $250 million in lease-purchase agreements in FY 2004. The board is proposing to immediately enter into a lease-purchase agreement for $200 million and subsequently enter into another agreement for $50 million. The board plans to enter into two separate lease-purchase agreements because, under A.R.S. § 15-2006, the board only has the authority to enter into lease-purchase agreements for up to a maximum of $200 million in any one fiscal year. The Education ORB notwithstands A.R.S. § 15-2006 and grants the board the authority to enter into lease-purchase agreements for up to a maximum of $250 million in FY 2004; however, the Education ORB does not become effective until September 18, 2003. The board, therefore, has opted to enter into a lease-purchase agreement immediately under its current statutory authority so that it may have available funds to loan to the deficiencies correction program. The board will then enter into another agreement when the Education ORB becomes effective to receive the remaining financing required to fund new school construction in FY 2004. Entering into two separate lease-purchase agreements, instead of just one, will increase the issuance costs of the total transaction. The board has indicated, however, that the increase will be minimal as issuance costs are generally based on the amount of the lease-purchase agreement. At the time of this writing, Attorney General review and approval of the $200 million lease-purchase agreement is pending.

Fund Transfer

A.R.S. § 15-2002(L) grants SFB the authority to temporarily transfer monies between funds if 1) the transfer is necessary to avoid a temporary shortfall in the fund into which monies are transferred, 2) the transferred monies are restored to the originating fund as soon as the temporary shortfall in the other fund has been addressed, and 3) SFB reports to the Committee the amount of and reason for any monies transferred.

(Continued)

The Education ORB granted SFB the authority to fund remaining deficiencies correction costs with $247.1 million in bond proceeds. The SFB can not issue those bonds, however, until September 18, 2003, the date the Education ORB becomes effective. The board currently estimates it will have depleted all of its remaining deficiencies correction funding resources by the end of August 2003. The board proposes transferring $50 million from the New School Facilities Fund to the Deficiencies Correction Fund to provide monies for deficiencies correction projects until the time the board receives the bond proceeds. The board previously transferred $50 million in July 2003.

Of the total $100 million SFB plans to transfer, the board previously reported its intent to transfer up to $89 million. The board is therefore requesting an additional $11 million in transfer authority. The $89 million figure represented the balance of the New School Facilities Fund at the time of the previous report. The current fund balance is less than $10 million; however, the lease-purchase agreement will provide the board with additional monies that can be transferred.

RS/JC:jb

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DATE: August 8, 2003

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

THRU: Richard Stavneak, Director

FROM: Jake Corey, Fiscal Analyst

SUBJECT: SCHOOL FACILITIES BOARD - CONSIDER APPROVAL OF DEFICIENCIES CORRECTION BOND PROJECTS

Request

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

The SFB requests Committee approval of the projects and project bids associated with its $247.1 million deficiencies correction State School Trust revenue bond issuance. The SFB also requests Committee approval of the estimated annual principal and interest payments related to the bond agreement. Due to uncertainties with the Internal Revenue Service (IRS) regarding the taxable nature of the bonds (see Analysis section) and fluctuations in bond market interest rates, the board requests Committee approval of two potential issuance structures. One structure would be to issue taxable bonds with a long-term fixed interest rate and the other structure would be to issue short term variable interest rate taxable bonds that would be converted in the future to long-term fixed interest rate tax-exempt bonds.

Recommendation

The JLBC Staff recommends that the Committee approve the projects and project bids. The board plans to fund 1,451 projects in 97 school districts with the $247.1 million in proceeds from the bond issuance, and has received bids for the cost of all projects to be funded with the proceeds.

With regard to Committee approval of the estimated annual principal and interest payments, the board is unsure if it will be able to issue tax-exempt bonds, and has therefore estimated costs under both a taxable and a tax-exempt scenario. The JLBC Staff believes the Committee has the following options:

(Continued)

1) Approve the issuance of long-term fixed rate taxable bonds. Total estimated principal would be $247.1 million and total estimated interest, assuming a 5.1% interest rate, would be $114.4 million. The annual average debt service would be $24.4 million for 15 years. The advantage to this method of financing is that the state would lock in a current low interest rate. This disadvantage is that the taxable rate is not as low as the current tax-exempt rate of 4.2%.

2) Approve the issuance of short-term taxable bonds with a variable interest rate, with the understanding that the bonds would be converted in the future to long-term fixed rate tax-exempt bonds after resolving issues with the IRS. The board estimates annual debt service under this structure to be $22.9 million at the current tax-exempt rate of 4.2%. The state would save $1.5 million annually in debt service and $22 million over the life of the bond. The disadvantage of this approach is that we are currently in the midst of rising interest rates. By January or March 2004, the tax-exempt rate may be higher than the existing 5.1% taxable rate.

   If the Committee approves this option, JLBC Staff recommends that SFB return to the Committee for subsequent approval of the estimated annual principal and interest payments before the board converts the bonds to long-term tax-exempt bonds with a fixed interest rate.

3) Approve either of the above potential bond issuance structures and allow SFB to decide which option is most advantageous to the state at the time the bonds are initially issued. The board recommends this option.

Since the board can not issue the bonds until September 18, 2003 (the day the Education ORB becomes effective), and there will be another Committee meeting September 25, 2003, JLBC Staff recommends deferring action on this item until the next Committee meeting. In addition to providing the Committee with a better estimate of what interest rates will be at the time of issuance, this will give SFB time to negotiate with the IRS and provide more up to date information on the status of the negotiations.

Analysis

The Education ORB authorized SFB to issue revenue bonds in FY 2004 for up to a maximum of $247.1 million to pay for Deficiencies Correction Program costs. The legislation requires SFB, prior to issuing the bonds, to: 1) Receive bids for the cost of all projects to be funded with the bond proceeds, and 2) Submit a list of the projects, project bids, and the estimated annual principal and interest payments related to the bond agreement to the Committee for approval.

The bonds will be repaid with revenues from the Permanent State School Fund (Expendable Endowment Earnings). These monies currently are used to help pay the costs of K-12 Basic State Aid. As a result, the General Fund will need to annually backfill the loss of these revenues.

<u>Projects and Project Bids</u>

As stated earlier, the board would fund 1,451 projects with the proceeds from the bond issuance, and has received bids for the cost of all projects to be funded with the proceeds. The average cost per project is $170,300. The SFB has provided JLBC Staff with a list of the projects and the project bids, which is available to Committee members upon request. The total estimated cost of the Deficiencies Correction Program is $1.289 billion. This is $5 million less than was projected at the beginning of FY 2003. After the projects related to the $247.1 million bond issuance are completed, there will be approximately $100 million of projects left to be funded in FY 2005.

(Continued)

Estimated Annual Principal and Interest Payments

The SFB has recently learned that federal requirements do not grant tax-exempt status to any bonds that would be issued against Permanent State School Fund revenues. The board estimates that, in the current market, issuing taxable bonds would cost a total of approximately $22 million more in debt service over the life of the bond ($1.5 million annually) than issuing tax-exempt bonds. The SFB believes, however, they could reach an agreement with the IRS that would allow them to issue tax-exempt bonds. Such an agreement would likely take at least three months to finalize. Since SFB has immediate cash flow needs, the board plans to issue bonds once the Education ORB becomes effective.

Taxable bonds typically have a higher interest rate than tax-exempt bonds. Interest rates may change, however, such that they are higher for tax-exempt bonds at the time of the actual issuance than the current rate for taxable bonds. It is difficult to predict what interest rates will be over the next 3 to 6 months as they tend to fluctuate greatly for these types of bonds. The attached materials provide a comparison of the estimated total debt service costs for each type of issuance as well as estimated annual principal and interest payments for the issuance of long-term fixed rate taxable bonds.

RS/JC:jb

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1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

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DATE: August 7, 2003

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

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF TRANSPORTATION - REVIEW OF FY 2004 CONSTRUCTION BUDGET OPERATING EXPENDITURE PLAN

Request

In compliance with a Capital Outlay Bill footnote, the Arizona Department of Transportation (ADOT) requests that the Committee review its FY 2004 highway construction budget expenditure plan for Professional & Outside Services (contracted consultants).

Recommendation

The JLBC Staff recommends a <u>favorable review</u> of ADOT's $105 million Professional & Outside Services expenditure plan for FY 2004. The JLBC Staff further recommends that the Committee adopt the performance measures in this memo, and require that ADOT report on these performance measures as part of next year's Committee review of ADOT's Professional & Outside Services expenditure plan.

The JLBC Staff further recommends that the Committee require that ADOT report on their proposed new traffic congestion performance measures by November 1, 2003. On pages 3 and 4, you will find a list of performance measures and a description of how the 5-year construction plan addresses the state's most overcrowded freeways in Phoenix, Tucson and the rest of Arizona. These "traffic congestion" measures have been useful in identifying the targets for future improvements. ADOT did not add any new segments to their listing of the state's most overcrowded highways, since they would like to propose some new traffic congestion performance measures.

As in prior years, it remains difficult to evaluate the efficiency of our expenditures. The available "operational" performance measures tend to be descriptive of the magnitude of ADOT's work and do not necessarily measure efficiency. As part of their November 1 report, we suggest that the department comment on their ability to develop unit cost measures.

In prior years, the Committee reviewed a construction operating budget of approximately $150 million. Of that amount, roughly $50 million represented the cost of ADOT's 619 FTE Positions and related expenditures. Since these monies are direct operating expenditures, the $50 million was moved to the operating budget (and, hence, is no longer part of this review). At the time of the budget's passage, ADOT raised concerns that this transfer would negatively affect the highway construction program. ADOT currently reports that the San Tan Freeway and other projects in the 5-year plan have not been affected.

Analysis

ADOT expends large sums of monies within its capital budget for Professional & Outside Services related to capital construction, such as highway design and other engineering services. These expenditures are less visible than the operating budget. To improve its oversight of these consulting services in the capital budget, the Capital Outlay Bill (Laws 2003, Chapter 261) requires that ADOT submit their Professional & Outside Services expenditure plan for FY 2004 for review by the Committee.

The Capital Outlay Bill appropriated $83,475,000 from the State Highway Fund to ADOT for highway construction in FY 2004. In addition, the $128,000,000 that was not diverted in FY 2004 from the State Highway Fund portion of the vehicle license tax to the General Fund would also be available for highway construction. Allowable uses of the appropriation include the planning and construction of state highways, the acquisition of rights-of-way, the cost of contracted field administration and field engineering on construction projects, and the payment of debt-service on bonds issued for highway construction. The act also specified that any balances and collections in the State Highway Fund in excess of the amounts otherwise appropriated to the department are available for highway construction.

ADOT's approved operating budget, in the General Appropriation Act (Laws 2003, Chapter 262), includes a State Highway Fund transfer-in of $50,742,800 and 619 FTE Positions in FY 2004 from the capital budget for field administration, engineering, and oversight on highway construction projects to better align this function with ADOT's structure. Additional monies for consulting services were retained in the capital budget, to allow ADOT the flexibility to handle any interim changes in the level of funding for highway construction.

ADOT's submittal indicates a planned FY 2004 budget for capital construction consultant services of $105,000,000 based on their tentative 5-Year Highway Construction Program. As described below, it is difficult to evaluate Professional and Outside Services and whether resources are being used efficiently.

The following table details ADOT's estimated Professional and Outside Services expenditures:

Construction Budget Professional and Outside Services Expenditure Plan

	Expenditures			
Category	FY 2002 Actual	FY 2003 Plan	FY 2004 Plan	FY 04 Increase
Professional and Outside Services	$111,094,300	$99,471,800	$105,000,000	$5,528,200

ADOT's Expenditure Plan shows an increase of $5,528,200 or 5.6% for FY 2004 above FY 2003 for Professional and Outside Services. ADOT reports that they increased their use of consulting services in the capital budget:

1) To offset operating budget FTE Position reductions in the Highways Program.
2) To offset a reduction in filled FTE construction operating budget Positions, which resulted from an ADOT instituted agencywide hiring freeze from November 22, 2002 to July 3, 2003. ADOT reports that they had 583 filled construction operating budget FTE Positions in December 2002, which decreased to 560 in June 2003. ADOT could not explain why they included their 619 construction operating budget FTE Positions in their hiring freeze, since no budget reduction was proposed or implemented for their construction operating budget. ADOT's actions also seem to refute their claim that keeping the construction FTE Positions in the capital budget would protect them from budget reductions.

Performance Measures

Last year the Committee adopted the performance measures in Tables 1-4, and required that ADOT report on these performance measures as part of this year's Committee review of the highway construction budget operating expenditure plan for FY 2004. To develop these performance measures, the JLBC Staff spoke with the National Conference of State Legislatures, researched other states performance measures, and worked with ADOT. Some states have highway construction performance measures related to their accomplishments, such as the number of projects contracted or completed, the number of miles begun or completed, the dollar volume of construction contracts, the percent of projects completed, and the design costs as a percent of project values. The adopted performance measures serve more as indicators of the level and consistency of ADOT's use of consultant services, than as useful tools for predicting ADOT's future needs for consultant services. It is difficult to make useful comparisons of expenditures for consultant services to those for highway construction in a given fiscal year, due to the multi-year nature of highway construction projects from their design stage to their completion. However, if the level of highway construction is projected to remain relatively constant, one might expect the use of consultant services to also remain at a relatively constant level.

Field administration of construction projects in these performance measures refers to functions, such as project supervision, quality control, and related services, involved in the oversight of construction projects in the field whether performed by consultants or by ADOT staff. Certain performance measures in Table 1 are deleted in FY 2004, since they relate to the FTE Positions and related expenditures that were moved to the operating budget.

Table 1

PERFORMANCE MEASURES	FY 2002 Est./Actual	FY 2003 Estimate	FY 2004 Estimate
• Design Expenditures as % of Total Construction Operating Budget	51/53	51	--
• Professional and Outside Services $ for Design Work by Consultants ($ in millions)	75.6/80.4	75.7	80.7
• Projects Designed by Consultants	1,249/1,249	1,307	1,270
• Personal Services $ for Design Work by ADOT Staff ($ in millions)	1.2/1.2	1.2	--
• Projects Designed by ADOT Staff	612/637	612	--
• Field Administration of Projects as % of Total Construction Operating Budget	24/24	24	--
• Professional and Outside Services $ for Field Administration of Projects by Consultants ($ in millions)	21.1/22.7	21.4	22.9
• Projects Administered by Consultants	394/377	420	380
• Personal Services $ for Field Administration of Projects by ADOT Staff ($ in millions)	13.3/14.5	13.6	--
• Projects Administered by ADOT Staff	501/506	521	--
• Percent of state highway system with traffic volume from 0% to 80% of capacity during peak driving periods in Phoenix Metro area 1/	62/62	62	64
• Percent of state highway system with traffic volume from 0% to 80% of capacity during peak driving periods in Tucson Metro area 1/	73/73	73	75
• Percent of state highway system with traffic volume from 0% to 80% of capacity in balance of state	97/97	97	96

1/ Peak driving periods means from 6 a.m. to 9 a.m. and from 3 p.m. to 7 p.m., Monday through Friday.

Tables 2, 3 and 4, describe how ADOT's 5-year plan addresses some of the state's most crowded roadways. All of the segments listed in this year's report were also listed in last year's report. However, ADOT verbally reports that they did not add any new segments, since they would like to propose some new traffic congestion performance measures in the near future.

Table 2

PERFORMANCE MEASURES – PHOENIX AREA	FY 2002 Est./Actual	FY 2003 Estimate	FY 2004 Estimate
• Percent of state highway system with traffic volume over 100% of capacity during peak driving periods in Phoenix Metro area 1/	12/12	12	14

1/ Peak driving periods means from 6 a.m. to 9 a.m. and from 3 p.m. to 7 p.m., Monday through Friday.

Phoenix Metro Area Highway Segments Over 100% of Capacity During Peak Driving Periods

Action in 5-Year Plan	Route	Segment	ADOT Action
Yes	US 60	I-10-Loop 101	8 intersection grade separations; 25% done; 6/06 completion.
Yes	I-10	Baseline-40th St	Design report to be done fall 2003.
Yes	I-10	40th St-24th St	Environmental study to be done fall 2003.
Yes	SR 51	Northern-Thomas	HOV lanes; 10% done; fall 2004 completion.
No	I-17	Greenway-Indian School	No plan.
No	I-10	7th St-67th Ave	Probable spot studies in the future.
No	Loop 101	Guadalupe-Pima	Future HOV lanes.
No	Loop 202	24th St-Loop 101	Future HOV lanes.

HOV lanes - High Occupancy Vehicle lanes.

Table 3

PERFORMANCE MEASURES – TUCSON AREA	FY 2002 Est./Actual	FY 2003 Estimate	FY 2004 Estimate
• Percent of state highway system with traffic volume over 100% of capacity during peak driving periods in Tucson Metro area 1/	6/6	6	10

1/ Peak driving periods means from 6 a.m. to 9 a.m. and from 3 p.m. to 7 p.m., Monday through Friday.

Tucson Metro Area Highway Segments Over 100% of Capacity During Peak Driving Periods

Action in 5-Year Plan	Route	Segment	ADOT Action
Yes	I-10	Ina Rd – Contaro Rd	Widening project; 90% done; fall 2003 completion.
Yes	I-10	Prince Rd - 22nd Ave	Widening project and frontage roads; 2006 completion.
Yes	Oracle Rd	Calle Concordia - 1st Ave	Widen from 4 to 6 lanes; fall 2004 completion.
Yes	Oracle Rd	Magee Rd - River Rd	Add shoulders; fall 2004 completion.

Table 4

PERFORMANCE MEASURES – BALANCE OF STATE	FY 2002 Est./Actual	FY 2003 Estimate	FY 2004 Estimate
• Percent of state highway system with traffic volume over 100% of capacity in balance of state	1/1	1	1

State Highway Segments Over 100% of Capacity in Balance of State

Action in 5-Year Plan	Route	Segment	ADOT Action
Yes	SR 95	S. of Bullhead City (MP 236.2 - 242.8)	Bought right-of-way; 2006 completion.
Yes	SB 8	Yuma (MP 12 - 12.9)	Design area service highway; 2008 completion.
Yes	US 93	Hoover Dam Bypass (MP 0 – 1.7)	South bridge approach being constructed.
Yes	US 93	Hoover Dam Bypass (MP 1.7 - 16.1)	Begin construction in FY 06.
No	SR 77	Near Show Low (MP 342.7 - 343.3)	---
No	SR 84	W. of Casa Grande (MP 177 - 177.6)	---
No	SR 92	S. of Sierra Vista (MP 322.7 - 323.7)	---
Yes	SR 179	I-17 - Sedona (MP 306.2 - 307)	Needs study; to be done 2004.
No	US 60	Miami - Globe (MP 242.8 - 243.5)	Engineering and environmental study; done 2004.

MP - Mile post. SA – Alternate route. SR - State route. SB - Business route.

ADOT reports completion of the following projects which were listed last year: Table 2, widening and HOV lanes for US 60 from Priest to Gilbert; Table 4, SR 260 from Show Low to Hon Dah, SA 89 from Cottonwood to Flagstaff, and US 93 northwest of Kingman.

RS/BH:jb

STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

HOUSE OF
REPRESENTATIVES

DATE: August 8, 2003

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

THRU: Richard Stavneak, Director

FROM: Lorenzo Martinez, Assistant Director

SUBJECT: ARIZONA BOARD OF REGENTS/ARIZONA STATE UNIVERSITY – REVIEW OF BOND AND LEASE-PURCHASE PROJECTS

JLBC Staff is continuing to analyze the Arizona Board of Regents (ABOR) and Arizona State University (ASU) request for Committee review of the Grady Gammage Memorial Auditorium Rigging, Infrastructure Improvements, University Services Building Backfill, and Parking Structure bond projects, as well as the Brickyard Tenant Improvements and Land Acquisition for the South Campus Student Group Housing lease-purchase projects.

We have requested additional information from ASU on the estimates and individual project components. We will forward our analysis and recommendation to the Committee under separate cover when we receive sufficient information to complete our analysis.

Attached for your information is the ABOR and ASU request along with the supporting material submitted for each project.

RS/LM:jb

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

DATE: August 7, 2003

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

THRU: Richard Stavneak, Director

FROM: Lorenzo Martinez, Assistant Director

SUBJECT: ARIZONA BOARD OF REGENTS/ARIZONA STATE UNIVERSITY – REVIEW OF REVISED PACKARD STADIUM CLUBHOUSE AND PLAYING FIELD RENOVATION PROJECT

Request

A.R.S. § 15-1682.01 requires Committee review of any projects financed with Certificates of Participation (also known as COPs or lease-purchase).

The Arizona Board of Regents (ABOR) on behalf of Arizona State University requests Committee review of the revised scope and estimated cost of the Packard Stadium Clubhouse and Playing Field Renovation Lease-Purchase Project.

Recommendation

The JLBC Staff recommends a favorable review of the request. Since last reviewed by the Committee in March 2002, the estimated cost of the project has increased from $2,000,000 to $2,850,000 and some of the project components have been modified. The increased costs will be covered from reallocated financing from another project that has been postponed.

Analysis

At its March 2002 meeting, the Committee gave a favorable review to the issuance of $2,000,000 in COPs to finance renovations to Packard Stadium which included remodeling the clubhouse, locker room, coaching facilities, entrance and concourse areas, as well as extensive field improvements.

The revised scope for the project will expand improvements to the utility systems and plaza area above the clubhouse, and create a bermed grass seating area for spectators. Renovations to the clubhouse and coaching facilities will be deferred.

The increase in cost of $850,000 resulting from market conditions and revised scope will be covered using COP proceeds received for the Memorial Union renovation and expansion project. The union project has been deferred.

RS/LM:jb

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Joint Committee on Capital Review

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

DATE: August 4, 2003

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

THRU: Richard Stavneak, Director

FROM: Paul Shannon, Senior Fiscal Analyst

SUBJECT: GOVERNMENT INFORMATION TECHNOLOGY AGENCY – REPORT ON TELECOMMUNICATIONS PRIVATIZATION

Request

Laws 2003, Chapter 263, Section 101 requires the Government Information Technology Agency (GITA) , in consultation with the Arizona Department of Administration, to prepare and submit to the JCCR an actionable request for proposals (RFPs) to privatize the state's telecommunication services. Both agencies are required to submit monthly reports on the status of activities and expenditures related to the act.

Recommendation

This item is for information purposes only and no Committee action is required.

Analysis

The effective date of Laws 2003, Chapter 263 is September 18, 2003; GITA has provided its first report in advance of the required date. ADOA has not prepared a report for this meeting.

GITA has outlined the privatization effort's goals to include cost-effective, reliable telecommunications services and the foundation for a statewide converged voice, video and data network. The first step taken toward this goal is the development of a "roadmap" that will shape the direction of future RFPs. To date, GITA has met with stakeholders, including agency directors, information officers, JLBC and Information Technology Authorization Committee (ITAC) members, Governor's budget office staff and members of the Telecommunications Executive Governance committee (TEGC) to identify agency business needs.

GITA will next engage a consultant to assist in the RFP and road map development, complete an inventory of telecommunications assets, meet with State Procurement Office officials to ensure full compliance with procurement law, and continue to involve ITAC members and other stakeholders.

The project has not expended any funds to date.

RS/PS:jb

STATE OF ARIZONA

Joint Committee on Capital Review

STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

HOUSE OF REPRESENTATIVES

DATE: August 8, 2003

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

THRU: Richard Stavneak, Director

FROM: Lorenzo Martinez, Assistant Director

SUBJECT: JLBC STAFF – REPORT ON REFINANCING OF BOARD FUNDING OBLIGATIONS

A.R.S. § 28-7678 authorizes the Transportation Board to sell Board Funding Obligations (BFOs) to the State Treasurer. BFOs were developed to allow the Transportation Board to "borrow" monies from the state treasury (General Fund) to partially capitalize the Highway Expansion and Extension Loan Program (HELP). HELP was created to provide political subdivisions of the state a mechanism for receiving advance funding to accelerate construction of transportation projects. BFOs are required to be paid back to the Treasurer with interest. Issuances were allowed in FY 2000, FY 2001, FY 2002 and FY 2004. The principal amount of the BFOs could not exceed $200 million at any one time.

The Transportation Board currently has approximately $190 million in BFOs outstanding. These BFOs were originally scheduled to be repaid and reissued between March and June 2004, however, the Transportation Board plans to repay and reissue these BFOs earlier (August 2003) to take advantage of potential lower interest rates. The early refinancing is allowed under statute.

Refinancing the BFOs earlier than originally scheduled means that the General Fund will lose approximately 9 months of interest that it otherwise would have received. This equates to approximately $1,400,000 for every 1% decrease in the refinanced interest rate.

The current interest rates on the BFOs range from 3.1% to 4.6%. Interest rates were fluctuating between 1% to 2% a few weeks ago, however, given the recent fluctuations in the market, it is difficult to predict where rates might be throughout this month when the BFOs are refinanced. As a result, the refinancing might reduce General Fund interest earnings by $2,000,000 to $3,000,000.

RS/LM:jb