STATE OF ARIZONA

Joint Committee on Capital Review

STATE SENATE

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CHAIRMAN 2003
TIMOTHY S. BEE
JACK A. BROWN
ROBERT CANNELL, M.D.
SLADE MEAD
VICTOR SOLTERO
JIM WARING

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

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PHIL LOPES
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JOHN LOREDO

JOINT COMMITTEE ON CAPITAL REVIEW
Tuesday, August 17, 2004
1:30 p.m.
House Hearing Room 4

MEETING NOTICE

- Call to Order
- Approval of Minutes of June 22, 2004.
- DIRECTOR'S REPORT (if necessary).

1. ARIZONA DEPARTMENT OF ADMINISTRATION – Review of FY 2005 Building Renewal Allocation Plan.
2. ARIZONA STATE UNIVERSITY – Review of ASU-East Research Infrastructure Lease-Purchase Project.
3. YUMA/LA PAZ COMMUNITY COLLEGE DISTRICT – Consider Review of Yuma/LaPaz Community College District Bond Projects.
4. DEPARTMENT OF ENVIRONMENTAL QUALITY – Consider Recommending Allowing Rent Payments on Cash Flow Basis.
5. DEPARTMENT OF MINES & MINERAL RESOURCES – Consider Recommending Rent Exemption.
6. CITY OF PHOENIX – Report on Civic Plaza Expansion.
7. NORTHERN ARIZONA UNIVERSITY – Report on Northern Arizona University Green Building Savings.
8. UNIVERSITY OF ARIZONA – Reports on Capital Project Contingency Allocations.

The Chairman reserves the right to set the order of the agenda.
8/9/04

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ROBERT "BOB" BURNS CHAIRMAN 2003 TIMOTHY S. BEE JACK A. BROWN ROBERT CANNELL, M.D. SLADE MEAD VICTOR SOLTERO JIM WARING	PHONE (602) 542-5491 FAX (602) 542-1616 http://www.azleg.state.az.us/jlbc.htm	RUSSELL K. PEARCE CHAIRMAN 2004 ANDY BIGGS TOM BOONE EDDIE FARNSWORTH PHIL LOPES LINDA J. LOPEZ JOHN LOREDO

MINUTES OF THE MEETING
JOINT COMMITTEE ON CAPITAL REVIEW

Tuesday, June 22, 2004

The Chairman called the meeting to order at 9:40 a.m. Tuesday 22, 2004 in House Hearing Room 4 and attendance was as follows:

Members:	Representative Pearce, Chairman	Senator Burns, Vice Chairman
	Representative Biggs	Senator Brown
	Representative Lopez	Senator Cannell
	Representative Lopes	Senator Mead
	Representative Loredo	Senator Soltero
		Senator Waring
Absent:	Representative Farnsworth	Senator Bee
	Representative Boone	
Staff:	Richard Stavneak	Cheryl Kestner, Secretary
	Lorenzo Martinez	Jake Corey
	Shelli Carol	Jeremy Olsen
	Tim Sweeney	Bob Hull
	Brad Regens	
Others:	Carolyn Atwater	Senate
	Nikki Amberg	Senate
	Jamie Hogue	House
	Jennifer Daly	House
	Betsey Bayless	ADOA
	Mernoy Harrison	ASU
	Sam Polito	NAU
	Anne Barton	NAU
	Kurt Davis	NAU
	Dick Roberts	UofA
	Charlene Ledet	UofA
	Greg Fahey	UofA
	Dick Davis	UofA
	Scott Smith	ASU
	Steve Miller	ASU
	Jerry Snyder	ASU
	Bill Bell	SFB
	John Arnold	SFB
	Jay Ziemann	Parks

(Continued)

Fred Bloom	Game & Fish
Kurt Freund	Dain Rauscher
Rufus Glasper	Maricopa Community College District
Lionel Diaz	Maricopa Community College District
Terry Trost	ADOT
Keith Hoskins	Gust Rosenfeld Law Firm
Andre Briere	Telecommunications Program Office, ADOA

Representative Pearce moved *that the Committee approve the minutes of March 26, 2004.* The motion carried.

MARICOPA COMMUNITY COLLEGE - Consider Review of Bond Projects.

Mr. Jake Corey, JLBC Staff, said this item is a plan by Maricopa Community College to hold a bond election in November for a $951 million bond issuance. He explained the 2 tables on page 3 of the JCCR memo showing estimated college expenditures and estimated district-wide expenditures. The first table shows campus-by-campus where the district would be allocating monies for specific campuses. The second table is more expenditures that are district-wide projects.

Mr. Corey said that there are 2 statutory sections that allow community college districts to issue bonds. One of them requires JCCR review while the other does not. The district plans to issue the bonds under the section that does not require Committee review. However, legislative intent may have been for all districts bonds to receive JCCR review prior to issuing those bonds. Mr. Corey explained the 5 options listed in the JCCR memo showing actions that the Committee could take on this item.

Senator Waring said it appeared there was some confusion whether the Committee should be hearing this item. However, option 2 indicates that the voters would have passed this at the ballot and we would be getting it piece by piece for us to decide whether they can move forward. That seems to be backward.

Mr. Corey said what the Committee could do today is approve the whole $950 million and then at the time of bond issuance get updated estimates on projects and costs estimates.

Senator Cannell asked what the impact would be of an unfavorable review if Maricopa County passes this at the election.

Mr. Corey said that the Bond Council indicated that it would not matter if they got an unfavorable review, in terms of whether they would be able to move forward.

Mr. Keith Hoskins, Attorney, Gust Rosenfeld Law Firm, said they do not have a clear answer on what happens if the Committee gives a negative review. He said as bond lawyers, we tend to be conservative and make sure there are no issues, so there would be concerns if we are given a negative review. He believes, under statute, they are not required to appear before the Committee.

Senator Brown said he would like not to have any controversy on this issue. It would be in question and they would have to sell the bonds at a higher rate just because of something the Committee decided to do. He said a favorable review sounds like the best way to go, especially if you look at the amount of money they are going to raise over the years and how little it will cost each homeowner. He noted that Maricopa County Community College is one of the best in the state, if not the nation.

Senator Soltero asked if they went through JCCR review on the last bond election.

Mr. Corey said at that time, the districts would have submitted bond issuance through the State Board, which has since been eliminated.

Representative Pearce said that when the board was eliminated the intent was JCCR would become the review process, even though it goes to the voters.

(Continued)

Dr. Rufus Glasper, Chancellor, Maricopa Community College District, said they have spent 10 years planning for the 2004 bond. When they went into the 1994 bond they were anticipating 250,000 students by the year of 2003, they actually ended with 268,000. By the year 2010 they expect 400,000 students. Dr. Glasper said the $951 million bond does not represent what they need, it represents what they can afford. Through efforts of strategic master and facilities planning they have the highest rating from our bond rating companies. He said growth is the driver but they are about teaching and education of students.

Dr. Glasper said it appears the statute needs clarification regarding review by the Committee, but he has no problem coming before the Committee to explain what these dollars will be used for. They are looking at buying more land in areas where growth is higher than others. The tax rate they are assuming right now is less than $16 a year on $100,000 assessed house valuation. In 1994 they had the luxury of not having any General Obligations (GO) bond debt on the books, which is not the case now.

He said they are working with their advisory groups and will continue to do so and to provide the Committee with information on what they are doing. They provide for the community advisory groups updates by individual colleges and by district. Dr. Glasper said they will manage within their resources and will continue to keep individuals apprised of what is being done.

Representative Pearce said he agrees that we have the finest community college system in the nation with affordable and good quality education. He expressed concern about 4 campuses being added to the west side and no new sites on the east side.

Dr. Glasper said they bought land on the east side in the 1994 bond. They have land in north Scottsdale, Red Mountain, and Chandler-Gilbert and are trying to work out arrangements with Williams Air Force Base so they can utilize additional land.

Representative Biggs said some of the locations mentioned were not in the southeast area and it is growing rapidly. What is the projected growth of students in the southeast valley and what is in this bond that will address that.

Dr. Glasper said that what is in this bond to address that is, on the fringes of the Queen Creek area which are right on Pinal County they are looking at opening up a center. If they see that expansion as necessary they are ready to make a recommendation to the governing board.

Representative Biggs asked if they did see a need and consequently met with the governing board, what would the remedy be.

Dr. Glasper said they would look what resources are available to meet the needs of the community. They do have some state funding, and investment income that they can begin to manage. He said that looking at the current numbers, they need to be as flexible as possible. If numbers are growing in a particular area, they have traditionally started with education centers. Those would then be expanded into additional campuses, and then possibly a full college.

Representative Biggs asked if they were able to move resources as needed.

Dr. Glasper said that they have specific projects that are planned, however, this is a 10-year bond and things can change. He said if they are flexible and determine that 7 years from now the population in a particular area has grown, they can adjust the plan to fit the needs.

Representative Pearce asked how much flexibility they have and how each of these campuses reflect the enrollment projections.

Dr. Glasper said they reflect them quite accurately. In the Chandler-Gilbert area those numbers are spiking pretty high. He noted that when he speaks about flexibility he also means in the areas of programming, course load and items like that. They have been quite successful in opening up campus sites in new high-growth areas. He said that

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Pinal County growth is going north and Maricopa County growth is going south so they may be able to partner to provide educational areas to those communities.

Representative Pearce asked how much total expenditure will go toward new space as opposed to improving existing space.

Lionel Diaz, Maricopa Community College, said in their estimates for this bond they are intending to add 1.6 million square feet of new space at a cost of $480 million and to remodel 600 square feet of existing space at a cost of $68 million. He said they have tried to work with the colleges and their master plans, so these numbers actually came from the colleges.

In response to Representative Pearce, Mr. Diaz said that the ballot is general in information, but they are providing lots of information in marketing brochures so the voters will understand what they are voting on.

Discussion continued on this issue.

Senator Burns moved that the Committee give a favorable review with the stipulation that the Maricopa Community College District return to the Committee for review prior to each actual bond issuance. The motion carried.

ARIZONA DEPARTMENT OF TRANSPORTATION (ADOT) – Review of FY 2005 Construction Budget Operating Expenditure Plan.

Mr. Bob Hull, JLBC Staff, said this item is a review of ADOT's FY 2005 Highway Construction Expenditure Plan. The Staff is recommending a favorable review of $105 million for Professional and Outside Services for FY 2005, which would remain the same as in FY 2004. In the past, there has been Committee interest in traffic congestion performance measures and we recommend adoption of the tables of performance measures listed in the JCCR memo, and that ADOT report these measures as part of next year's Committee review. In working with these tables we have found that some information may not be complete and also recommend that ADOT submit to the Committee a complete list of over-capacity state highway segments by September 1, 2004.

In response to Representative Biggs, Mr. Hull said it is very difficult to evaluate the efficiency of the expenditures for Professional and Outside Services. Expenditures are adjusted as the 5-year plan is altered. There is not a good way to measure how effectively the money is being spent. He noted that in the past they have checked with other states to see what sort of measures they use. They are more along the lines of what has been completed as opposed to a plan of what is to be done.

Mr. Terry Trost, Director, Strategic Planning and Budgeting, ADOT, said that the list of over-crowded segments reflects items that are in the 5-year plan. He said he is not sure why the list is not complete as he does not have any history on what the original request was.

Representative Pearce said he would like to see a complete list.

Mr. Trost said he would provide the most complete list possible.

Senator Burns moved that the Committee give a favorable review of ADOT's expenditure plan for FY 2005 and adopt the Performance Measures with the stipulations that ADOT report on the measures as part of next year's Committee review, and submit for Committee review a complete list of over capacity state highway segments by September 1, 2004. The motion carried.

GAME AND FISH DEPARTMENT – Review of Canyon Creek Hatchery Project.

Mr. Jeremy Olsen, JLBC Staff, said this item is a request from the Arizona Game and Fish Department for a review of the Canyon Creek Hatchery clarifier project. The Staff is recommending a favorable review of this request. The total cost of the project is estimated to be $685,000, which represents the low bid received by Arizona Game and Fish

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Department. The clarifier construction portion is estimated to be $610,000 and the remaining $75,000 is allocated to construction of tertiary treatment of facilities. Funding for the project is provided from 2 sources: $360,000 from the Game and Fish Fund appropriation in FY 2004, which serves for matching funds for a federal grant of $335,000.

There was no discussion on this item.

Senator Burns moved that the Committee give a favorable review to the Arizona Game and Fish Department Canyon Creek Hatchery clarifier project. The motion carried.

NORTHERN ARIZONA UNIVERSITY (NAU) – Review of Infrastructure Research Lease-Purchase Projects.

Ms. Shelli Carol, JLBC Staff, said this item is a request from NAU for review of 2 infrastructure research projects. They are the College of Engineering and Technology Renovation, and the Applied Research and Development Facility. These projects would be financed with a Certificates of Participation (COPs) issuance of a revised amount of $39,295,000 rather than the original $33,000,000. NAU indicated that the original figure included construction costs for the two projects, but did not include capitalized interest. Therefore, NAU estimates that, starting in FY 2008, its combined annual debt service on the two projects would be $2,888,000, leaving $3,012,000 from Laws 2003, Chapter 267 appropriated amount to fund other NAU research infrastructure projects. For unrelated reasons, NAU revised its debt ratios as well. The university's current debt ratio is 4.23%, which this COP issuance would raise to 5.32%. The JLBC Staff is recommending a favorable review with the stipulations listed in the JCCR memo.

Senator Burns moved that the Committee give a favorable review to Northern Arizona University's Infrastructure Research Lease-Purchase Projects with the following stipulations:

- *NAU report to the Committee before expenditure of any allocations that exceed the greater of $100,000 or 10% of the reported contingency amount total for add alternates that do not expand the scope of the project.*
- *NAU submit for Committee review any allocations that exceed the greater of $100,000 or 10% of the reported contingency amount total for add alternates that expand the scope of the project. In case of an emergency, NAU may immediately report on the scope and estimated cost of the emergency rather than submit the item for review. The JLBC Staff will inform the university if they do not agree with the change of scope as an emergency.*
- *A favorable review by the Committee does not constitute endorsement of General Fund appropriations for operational costs when the projects are complete. These costs should be considered by the entire Legislature through the budget development process.*
- *NAU report to the Committee with a comparison between the costs of meeting "green building" standards and the savings generated through energy and other operating efficiencies.*

The motion carried.

UNIVERSITY OF ARIZONA (UofA)

A. Review of Revised Cost of Chemistry Building Expansion Lease-Purchase Project.

Mr. Lorenzo Martinez, JLBC Staff, said this project was favorably reviewed by the Committee at its September 2003 meeting. The project cost is increasing from $45,000,000 to $46,100,000. In addition, the University is also allocating $2.6 million from the project's contingency fund to fund the higher costs of the building. UofA reports that the increased costs are the result of increasing costs of construction material. This project does have higher costs than some of the university projects we have seen. If that is an issue for the Committee they could request that the university bring further options to keep the cost of the project within its original scope.

Representative Pearce asked what the reason was for increasing costs.

Mr. Martinez said that the university is experiencing significant cost increases related to building materials. Based on steel costs alone, that accounts for approximately $300,000 of the price increase.

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Mr. Greg Fahey, University of Arizona, said that the cost of steel and concrete has been going up worldwide. He said they had 2 basic choices to make once they looked at the escalation of costs. They could find no other way to keep the costs lower without changing the project itself in a way that would be poor. He said they could either use an additional $1.1 million from appropriations authorized by Laws 2003, Chapter 267 money or we could try to find it internally through gifts and indirect cost recovery. By using internal funding, monies remain available from Chapter 267 to fund another project.

Mr. Dick Davis, University of Arizona, said that they were able to get Guaranteed Maximum Prices (GMP) on all their projects. This particular one is the most intensive of all the projects and has the most wet labs. A lot of steel is going into this project and we worked hard to keep this within the budget. Finally, we came to the conclusion that there are so many wet labs consuming so much of the metal that we reallocated as much money as we could internally, but realized we would have to have an increase. With so much concrete and steel the construction line went up 22%.

Representative Pearce asked what would be the result if the Committee asked them to go back and see if they could come more in-line with the budget.

Mr. Davis said they have scrubbed as much as they possibly can. They talked about not doing so many labs and they moved the mechanical system from the roof to the basement. It would be a matter of not building so many wet labs. The original scope of the building was 88,500 square feet and they have cut it to 85,000 square feet.

Representative Pearce noted the university still has a contingency of about $1.4 million and asked what it will be used for.

Mr. Davis said they have only recently started construction, and this contingency is the smallest they have ever had going into a project. Their intent is to return the contingency back to the project if they can do it. He said it is necessary to go into this project with some sort of reserve.

Representative Pearce said that his concern is with new funding. This project was the most expensive by $50 per square foot. He said he is uncomfortable with this request at a time when the state continues to run a huge deficit. He suggests they should use the contingency first.

Senator Cannell said he would be hesitant to hit the UofA with a decrease and/or make them revise their plans in this building. They are trying to build a top-notch research facility with labs that will be used by students, as well as researchers. We do not want them to take safety risks to try to cut expenses, and if they cut labs then the building will not be adequate for what they want it for.

Mr. Fahey said that for the $1.1 million overrun, they are going to use their own indirect cost recovery monies and some gift funds. The state is getting a bargain in this case, in that the overage will not come from taxpayer monies. We are trying to deal with the Committee's concerns.

Representative Biggs asked if the cost for overruns is a university-wide problem. Since there are other projects going on that will be using steel and concrete and other various building materials, should we be expecting a 2% to 5% cost overrun from other university projects as well. He asked how reasonable is this cost overrun compared to others.

Mr. Martinez said that they have talked to people at NAU, relative to this project, and they are aware of the issues that are affecting the prices for construction materials. They are ready to go back and revise the scope of their projects, if necessary. They are still in the process of working with their construction managers to develop the GMP. He said if the scope changes NAU will have to go back for Committee review just the same as this project. What has happened at some of the prior projects is they have reached, for the most part, those GMPs with material orders being placed before the costs have increased. This project has been caught in that window of working towards the GMP during which time the prices have gone up.

Senator Mead asked if when the building was being negotiated for the material prices, had the Legislature already authorized money that they had not tied down yet and is that the traditional way it is done.

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Mr. Martinez said that was correct. He said there are various contract procedures that are available to the universities. A few years ago they were given the authority to use Construction Manager at Risk (CMAR) contracting. What they will do is contract with a design team and contract with a contractor. The project works in concert with each other to arrive at a final design and final cost (GMP) simultaneously. What used to occur is they hired a design team and finalized the design. It then went out for bid and the contractor would bid on that design. The way the JCCR process worked under that scenario, is that projects would come to the Committee after they knew what the bid costs looked like. At that time the Committee had a better idea of what the actual costs would be. Under the CMAR process, because everything is working in concert, a lot of times the projects get brought to the Committee before final design and GMP is reached. Committee review is required before the COPs are issued, and COPs must be issued to continue financing design and cost estimate activities.

Senator Mead asked if the CMAR was put in place thinking that in the long run we would save money. He feels the Committee should stand behind the CMAR. This will be a state-of-the-art building.

Mr. Martinez said the intent of allowing CMAR was to possibly generate cost savings, but mainly to create a more efficient design and cost estimating process.

Senator Cannell noted that construction costs have gone up, also because of so much building going on. He said hospitals are using the same method to try to save money.

Mr. Davis said HVAC alone is 25% of the building costs because the project is so wet-lab intensive and uses lots of steel for venting, etc. It has gone up 60% since the beginning of the year and concrete also has gone up. This is an international problem.

Senator Cannell said it sounds as if they do not lock this in that prices may continue to go up.

Senator Waring said if we do not lock in today and prices rise tomorrow, either the quality of the building will decline or they will be asking for an even bigger increase.

Representative Biggs said that what is driving this is commodity prices have gone up for steel, and should material prices go down under the CMAR, construction costs should go down.

Mr. Martinez said that once the GMP is agreed to, regardless of whether prices go up or down , the cost will be what was agreed to by the CMAR. The CMAR would absorb any increases or keep the savings of any cost decreases.

Senator Soltero said he hopes the Committee can give a favorable review. He said he has confidence that the University has people with expertise that are trying to do the best job possible at the best price.

Senator Burns moved the Committee give a favorable review with the same stipulations from the September meeting concerning the use of contingency funds:

1. *UofA report to the Committee before expenditure of any allocations that exceed the greater of $100,000 or 10% of the reported contingency amount total for add alternates that do not expand the scope of the project.*
2. *UofA submit for Committee review any allocations that exceed the greater of $100,000 or 10% of the reported contingency amount total for add alternates that expand the scope of the project. In case of an emergency, UofA may report on the scope and estimated cost of the emergency rather than submit the item for review. The JLBC Staff will inform UofA if they do not agree with the change in scope as an emergency.*

   The motion carried.

B. Reports on Capital Project Contingencies.

Mr. Martinez, JLBC Staff, said that this is a report on Capital Project Contingency Allocations and no Committee action is required. UofA is reallocating $420,190 of the Drachman Hall project's $2,692,000 contingency funds to cover higher than anticipated costs of construction materials (steel, copper, drywall, etc.) and data/communication infrastructure costs. UofA is also reallocating $1,544,200 of the Keating Bioresearch Building project's $5,772,000

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contingency funds to cover higher costs of construction materials. The cost estimates for both projects would still be reasonable with these adjustments.

At its September 2003 meeting, the Committee favorably reviewed the Drachman Hall bond project and the Keating Bioresearch Building university research infrastructure lease-purchase project with the stipulation that any allocations from reviewed contingency amounts that exceeded $100,000 or 10% of the contingency amount, which ever is greater, be reported to the Committee.

There was no discussion on this item and no Committee action was required.

ARIZONA STATE UNIVERSITY – Review of Academic Renovations and Deferred Maintenance-Phase I Bond Project and Report on Instruction and Research Lab Renovation Lease-Purchase Projects.

Ms. Shelli Carol, JLBC Staff, stated that ASU has provided a revised cost report for this previously reviewed project. In December 2003, the Committee favorably reviewed the issuance of $10,000,000 in revenue bonds for Instructional/Research Laboratory Renovations Phase I on the ASU main campus. The total funding amount remains the same, but ASU reallocated funding among two of the four buildings. The table on page 3 of the memo shows the original and revised costs of each facility.

ASU is also requesting Committee review of the Academic Renovations and Deferred Maintenance – Phase I bond project. ASU plans to issue system revenue bonds to finance the project. The bonds would be repaid over a 15-year period at an estimated interest rate of 6.0%. Annual debt service would be approximately $1,030,000, deriving from collected tuition. The interest paid would total $5,450,000. ASU does not anticipate any additional operating and maintenance costs associated with this project. The per-square foot costs for this project are comparable to other university projects of its scope.

A.R.S. § 15-1683 allows each state university to incur a projected annual debt service for bonds and certificates of participation of up to 8% of each institution's total projected annual expenditures. This calculation is known as the debt ratio. This project would increase the ASU debt ratio from 5.8% to 5.9%.

Ms. Carol described the options that are available to the Committee.

Representative Pearce noted that historically they do not bond for things that do not have a life expectancy greater than the bond.

Ms. Carol said that the cosmetic repairs, in this case, are only a small portion of the project. The university can explain how they have arranged the financing so the bonding is being paid off in a reasonable time frame relative to the useful life of the project components.

Dr. Mernoy Harrison, Exec. Vice President for Administration and Finance, ASU, said that in this case they have taken all the components, estimated their average useful life and come up with 17 years. We provided Staff with the detail on that. We are actually issuing a bond with a total life of 15 years. Those components with less than a 15-year life get paid off sooner. We will not bond for things with less than a life expectancy than the bond.

Senator Burns moved that the Committee give a favorable review to the ASU bond issuance of $10,000,000 with the following stipulations:

1. *ASU shall report to the Committee before expenditure of any allocations that exceed the greater of $100,000 or 10% of the reported contingency amount total for add alternates that do not expand the scope of the project.*
2. *ASU shall submit for Committee review any allocations that exceed the greater of $100,000 or 10% of the reported contingency amount total for add alternates that expand the scope of the project. In case of an emergency, ASU may immediately report on the scope and estimated cost of the emergency rather than submit the item for review. The JLBC Staff will inform the university if they do not agree with the change of scope as an emergency.*
3. *A favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any tuition collections that may be required for debt service.*

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4. *ASU shall not use bonding to finance any repairs whose typical life span is less than the bond repayment period. Such repairs include, but are not limited to new flooring and painting. The exceptions to this stipulation are circumstances where such repairs are required to complete a major renovation.* The motion carried.

SCHOOL FACILITIES BOARD (SFB)

A. Consider Approval of Converting Deficiencies Correction Bonds from Variable to Fixed Interest Rates.

Mr. Jake Corey, JLBC Staff, provided some history on this issue. He said as part of the FY 2004 budget, the Legislature authorized the SFB to issue $250 million bonds for the Deficiencies Correction program. The debt service on that bond was to be paid through land trust earnings. The legislation required SFB to get Committee approval prior to issuing the bond. In August, SFB came before the Committee and at that time provided information to the Committee that the IRS would not allow the bonds to be issued tax exempt, which typically have a higher interest rate than tax-exempt bonds. What SFB proposed doing was issuing short-term taxable variable rate bonds and then converting them to tax-exempt long-term fixed rate bonds in the future if they could convince the IRS to allow the tax-exempt status. The Committee approved that plan, but required SFB to come back before the Committee prior to the conversion. When SFB actually prepared to issue bonds subsequent to receiving Committee review, they learned that the bonds would be rated non-investment (junk bonds) unless they did 2 things, establish a reserve fund and then purchase insurance. This would allow them to get a AAA rating.

Mr. Corey discussed 2 concerns that JLBC Staff has with this item that relate to not anticipating the IRS concerns and low bond rating. Despite the concerns, the JLBC Staff recommends approving the request given the low interest rates for fixed rate bonds.

Representative Pearce said he is very concerned about several of the cost increases and the low rating. It is going to cost us buying an insurance policy at an additional $7 million. He asked if going to a fixed-rate affects the insurance policy.

Mr. Corey said the insurance does not relate to the fixed-rate or variable rate, it relates to the nature of the revenue source for the debt service.

Representative Biggs noted that when this was brought before the Committee last August there was a bond counsel involved. Why weren't the issues of IRS, underwriting fees, etc., anticipated by the professionals who worked on this on a regular basis.

Mr. Corey said there was a bond counsel and they are the ones who worked with the IRS.

Representative Lopez said she shares concerns with the additional expense and not anticipating these issues and questioned what the impact will be to the state trust land package.

<u>Mr. John Arnold, Deputy Director of Finance, SFB</u>, said in regards to the question of why we did not anticipate the taxing issues that were related to this item, when we discussed this at the last JCCR meeting our bond counsel was there and they agreed that they missed on this issue. An in-depth review had not taken place until legislation had passed to go ahead and issue these bonds. The legislation was passed very late in the process. It took 6 months of negotiations with the IRS to get the bonds declared tax-exempt. We show that by having the bonds declared taxable by the route that this Committee chose in issuing variable-rate taxable bonds, and instead going to the IRS and now being able to issue non-taxable bonds, we saved the state $33 million over the life of this bond.

Representative Pearce said the issue of not anticipating the low credit rating for land trust earnings revenue bonds is still disturbing. This is money that should be going to the project.

Mr. Arnold said this was not a normal process. It is brand new, no state in the union has issued bonds against a land trust such as this one. When we approached the rating agencies they did not know what to do with this particular issue. They chose to treat this very conservatively.

Continued)

Representative Biggs stated that he feels the consultants did not act as expert professionals with this issue.

Discussion continued with this item.

Senator Burns moved *that the Committee approve converting the bonds from variable to fixed interest rates.* The motion carried.

B. Review of FY 2005 New School Construction Lease-Purchase Projects.

Mr. Jake Corey, JLBC Staff, said the board is requesting review of its list of $230 million in potential new school construction projects to be financed with lease-purchase agreements. SFB will return later in the year with additional projects to be reviewed, to bring the yearly total to $250 million. The JLBC recommends a favorable review of the request.

Senator Burns moved *that the Committee give a favorable review to the New School Construction lease-purchase projects.* The motion carried.

ARIZONA STATE PARKS – Consider Approval of Yuma Crossing Transfer.

Mr. Tim Sweeney, JLBC Staff, said this item is an approval of State Parks request to transfer 2.2 acres at Yuma Crossing State Historical Park to the City of Yuma. As part of a downtown redevelopment plan the city is trying to acquire these 2 parcels of land acquired by State Parks from the U.S. General Services Administration (GSA) at no cost. The parcels are surrounding the park but not attached to the main section of the park. Because it was acquired at no cost by the Parks Department, the city will be required to reimburse the GSA and that negotiation is currently ongoing. Additionally, there are some use restrictions that the GSA has indicated that they will waive as this process moves forward. JLBC Staff recommends the Committee approve the transfer with the stipulation that GSA also approve it.

Representative Pearce asked if JLBC Staff knows if GSA is going to accept the $300,000 appraisal by the city.

Mr. Sweeney, as well as State Parks, said they have not heard any further information on that at this time.

Senator Burns moved *that the Committee approve the land transfer with the stipulation that the U.S. General Services Administration also approve the transfer.* The motion carried.

DEPARTMENT OF ADMINISTRATION (ADOA)/DEPARTMENT OF CORRECTION (DOC) – Reports on Prison Construction Schedule and Status of Private Prison Bed Contracts.

Mr. Brad Regens, JLBC Staff, said this item does not require any action. It is a report by ADOA and DOC updating the status of the construction of 1,000 state-operated beds and the contracting of 1,000 new private prison beds authorized in the 2nd Special Session. The state beds should be ready for occupation in December, and as for the contract for the private beds, the department anticipates award in July and hopes to have those beds available in March.

Senator Burns said based on history of the Kingman privatization issue, how often does the department communicate with staff, and if they were to miss their target date of July would we know it very quickly.

Mr. Regens noted that the department has been giving monthly or bimonthly reports. Since the 2nd Special Session they have kept staff up-to-date as far as the construction of beds and the contract negotiations. Staff recommends that the department continue to make those reports until those beds are open. As far as the target date of July, we would know it quickly if they missed it.

No Committee action was required.

(Continued)

JLBC STAFF – Report on Telecommunications Privatization.

Ms. Shelli Carol, JLBC Staff, said this is an update on the privatization project and there is no action required. This Committee and the Information Technology Authorization Committee (ITAC) favorably approved the Request for Proposals (RFP) drafted by the Government Information Technology Agency (GITA) at the March JCCR meeting. ADOA released the Statewide Telecommunications Outsourcing RFP on April 16, 2004 as scheduled. However, the ADOA RFP significantly changed several business decisions from the original ITAC RFP. ITAC approved the ADOA RFP on May 12, 2004. The ITAC approval included conditions seeking detailed information on bid evaluation criteria, reasoning behind bid selection, methods of approach, and exit strategies. ITAC also requested monthly status reports. GITA recommended that JCCR, as well, review the new ADOA RFP. The solicitation period for the telecommunications RFP closed on June 2, 2004. ADOA received proposals from eight vendors. ADOA has put together an evaluation committee of eight voting members and over twenty technical advisors and anticipates choosing a competitive range of bidders for the second phase of the solicitation process in the next few weeks. ADOA plans to have any final contracts ready for ITAC approval and JCCR review in mid-August.

Representative Pearce said there was a concern early on about a conflict if the management of this project is also the provider of services. Has ADOA resolved that conflict issue.

Ms. Carol said that they are 2 different plans or options for how this project can go forward. The RFP that the Committee reviewed, calls for a management contractor that would interface between agencies and various other vendors and have a more limited role. The RFP expands the possible options that is possible for one contractor to both manage and provide all services. There is no conflict of interest, they are just different options. There are various ranges of outsourcing. If the contract that is brought before the Committee is one where the vendor is going to provide both management services and carrier services then you will have to consider the positives and negatives of that. There is no conflict of interest, it is just what level of outsourcing you wish to pursue.

Mr. Richard Stavneak, JLBC Staff, said that what that really reflects is that if you go with a single contractor you know what you are buying, meaning some may view it as a conflict while others may view it as efficiency. If you take that step you are doing it with your eyes open to the fact that they are the total provider and there are pros and cons to that.

Andre Briere, Director, Telecommunications Program Office, I have responsibility for oversight for contract management and for dealing with the kind of issues you referenced. Making sure that once the contract is let that issue and other issues are resolved to the satisfaction of the state and that we manage to the letter of the contract. Agency heads will also be involved in providing executive oversight over the whole project. Any outsourcing agreement must be managed. He does not believe that this is an issue that cannot be easily resolved.

No Committee action was required.

Without objection the Committee meeting adjourned at 11:50 a.m.

Respectfully submitted:

Cheryl Kestner, Secretary

Lorenzo Martinez, Assistant Director

Representative Russell Pearce

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

STATE OF ARIZONA

Joint Committee on Capital Review

STATE SENATE

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PHONE (602) 542-5491

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DATE: August 13, 2004

TO: Representative Russell Pearce, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Shelli Carol, Fiscal Analyst

SUBJECT: August 17 Meeting, Agenda Item 1 – Arizona Department of Administration – Review of FY 2005 Building Renewal Allocation Plan

In accordance with A.R.S. § 41-1252, the Arizona Department of Administration (ADOA) requested Committee review of the FY 2005 Building Renewal Allocation Plan for its $3.5 million Capital Outlay Stabilization Fund (COSF) appropriation. This review is Item 1 of the Committee's August 17, 2004 meeting. Based on further discussions with ADOA, JLBC Staff have revised our original recommendation.

Revised Recommendation

JLBC Staff recommend a favorable review for only $1 million of request with the following provisions:

- The $1 million represents $686,000 for the five projects detailed in Table 1, plus $314,000 for FY 2005 emergency projects.

- ADOA report to JLBC Staff any allocations for FY 2005 emergency projects from the above-referenced $314,000 amount. JLBC Staff will report to the Committee on significant allocations, typically those above $50,000.

- ADOA submit for Committee review any reallocations above $50,000 of the favorably-reviewed $1 million plan.

- ADOA submit for Committee review an allocation plan for the remaining $2.5 million COSF appropriation.

(Continued)

Of the $3.5 million COSF allocation, $686,000 would fund five critical building renewal projects within the ADOA Building System. Table 1 provides information on these projects. Due to uncertainty over the sufficiency of COSF revenues, the ADOA proposal would set aside $1.1 million as an emergency contingency fund and $1.4 million as a revenue contingency fund for a total $2.5 million reserve. JLBC Staff recommend that ADOA further develop an expenditure plan for these monies and submit that plan for Committee review.

Table 1

ADOA Building Renewal Allocations

Agency	***Project***	***Allocation***
Pioneers Home	Kitchen roof structural repairs; the Committee originally approved the roofing project in FY 2004, but ADOA reallocated the funds for more critical plumbing repairs	$ 100,000
State Treasurer	Laws 2004, Chapter 276 (Capital Outlay Act) mandated remodeling	170,000
Corrections	Emergency roof replacement at the Central Unit Kitchen of the Arizona State Prison Complex in Florence	105,000
Corporation Commission and State Parks Board	Exterior building repairs to correct multiple leaks at 1300 West Washington	86,000
Administration	Construction Services Project Management	225,000
Administration	FY 2005 Emergency Projects	314,000
	Favorably-Reviewed COSF Allocation Subtotal	**$1,000,000**
To Be Determined	Additional ADOA Allocation Plan submitted for Committee review	$2,500,000
	ADOA Building Renewal Allocation Request Total	**$3,500,000**

The revised JLBC Staff recommendation adds $86,000 to repair leaks at 1300 West Washington. The new recommendation also augments the suggested emergency contingency amount to be favorably reviewed from $100,000 to $314,000. After additional discussions with ADOA, JLBC Staff believe this increased flexibility for emergency response before the Committee's September meeting is reasonable. This additional amount will allow ADOA to address emergencies that occur between JCCR meetings. This $300,000 expansion of the recommended amount for favorable review brings it from $700,000, as we originally stated, to $1 million.

RS/SC:jb

Janet Napolitano
Governor

Betsey Bayless
Director

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

August 4, 2004

RECEIVED
AUG - 5 2004
JOINT BUDGET COMMITTEE

The Honorable Russell K. Pearce, Chairman
Joint Committee on Capital Review
1700 West Washington
Phoenix, Arizona 85007

Reference: Supporting Material for the Meeting of the Joint Committee on Capital Review

Dear Representative Pearce:

The Department of Administration requests that the FY 2005 Building Renewal Plan be placed on the August 2004, agenda of the Joint Committee on Capital Review. Attached is the Arizona Department of Administration's FY2005 Interim Building Renewal Allocation Plan, we are requesting review and approval of this plan.

Sincerely,

Warren Whitney
Assistant Director

Attachment
cc: Senator Robert Burns, Arizona State Senate
Richard Stavneak, Staff Director, JLBC
Lorenzo Martinez, JLBC
David Jankofsky, Director, OSPB
Bret Clonninger, OSPB
Betsey Bayless, Director, ADOA
Bruce Ringwald, General Manager, ADOA
Paul Shannon, Budget Officer, ADOA
Roger Berna, General Manager, ADOA
Correspondence File – Building Renewal
Alan Ecker, Legislative Liaison

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Department of Administration Building System
Fiscal Year 2005 Interim Building Renewal Allocation Plan

The FY 2005 Arizona Department of Administration (ADOA) Capital Improvement Plan identified the following FY 2005 agency Building Renewal forecasted needs:

General Fund Subtotal	$37,730,350
Lottery Department	$40,000
Game & Fish	$393,000

The Building Renewal Formula amount for FY 2005 was $21,779,419.

The FY 2005 capital outlay appropriation included $3.5 million in the Capital Outlay Stabilization Fund for the ADOA Building Renewal.

In April 2004, ADOA informed all agencies that the FY 2005 appropriation might not be supported by the revenue available to the COSF fund. The ADOA forecast of the COSF cash flow will not be completed until late August 2004. ADOA has held consultations with agencies to refine the highest priority Building Renewal needs that could be funded with the anticipated funds.

ADOA has given priority consideration only to the most critical projects that cannot be deferred.

At this time, ADOA will allocate the projected $3,500,000 FY 2005 COSF Building Renewal funds as follows:

- $100,000 for the Pioneers Home kitchen roof structural repairs (JCCR approved the roofing project in FY 2004; however, FY 2004 funds were re-allocated to make up the funds short-fall for the plumbing replacement project).
- $170,000 that was legislatively mandated for the remodeling of the State Treasurer's offices.
- $105,000 for the emergency roof replacement, Central Unit Kitchen, ASPC-Florence.
- $1,500,000 for FY 2005 emergencies and additions to FY 2004 projects.
- $225,000 for Construction Services Section project management.
- $1,400,000 contingency for planned projects if COSF revenues support the balance of the FY 2005 Building Renewal appropriation. planned projects will be submitted to JLBC for JCCR review.

Request

The Arizona Department of Administration requests Committee review of the FY 2005 Interim Building Renewal Allocation Plan for the ADOA Building System.

STATE OF ARIZONA

Joint Committee on Capital Review

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DATE: August 10, 2004

TO: Representative Russell Pearce, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Shelli Carol, Fiscal Analyst

SUBJECT: Arizona State University – Review of ASU-East Research Infra Lease-Purchase Project

Request

A.R.S. § 15-1682.01 requires Committee review of any university projects financed with Certificates of Participation (also known as COPs or lease-purchase). Arizona State University (ASU) requests Committee review of the Interdisciplinary Science and Technology Building III. This project would be financed with a COP issuance of $12 million.

Recommendation

JLBC Staff recommends a favorable review of the request with the following provisions:

- ASU report to the Committee before expenditure of any allocations that exceed the greater of $100,000 or 10% of the reported contingency amount total for add alternates that do not expand the scope of the project.
- ASU submit for Committee review any allocations that exceed the greater of $100,000 or 10% of the reported contingency amount total for add alternates that expand the scope of the project. In the case of an emergency, ASU may report immediately on the scope and estimated cost of the emergency rather than submit the item for review. JLBC Staff will inform the university if they do not concur with the emergency nature of the change of scope.
- A favorable review by the Committee does not constitute endorsement of General Fund appropriations for operational costs when the projects are complete. These costs should be considered by the entire Legislature through the budget development process.

The Interdisciplinary Science and Technology Building III is part of the university research infrastructure lease-purchase plan authorized by the Legislature in 2003. The COP issuance for this project would be repaid over a 25-year period at an estimated interest rate of 6.0%. ASU would capitalize interest payments for this project until FY 2008, when annual debt service payments of $939,000 would begin.

(Continued)

Of this amount, $783,000 annually would be paid from the $14.5 million appropriation to ASU in Laws 2003, Chapter 267 and $156,000 annually would be paid from the savings of refinanced COPs. Total interest costs would be a projected $9.6 million, with $8.0 million paid from the General Fund appropriation and $1.6 million paid from the COP refinancing savings.

The per-square-foot costs for this project are comparable to other university projects of its respective scope. *(See table in Analysis section for per-square-foot cost comparisons with other projects.)*

A.R.S. § 15-1683 allows each state university to incur projected annual debt service for bonds and certificates of participation of up to 8% of each institution's total projected annual expenditures. This calculation is known as the debt ratio. These projects would increase the ASU debt ratio from 5.9% to 6.0%.

ASU estimates $346,000 of new operating and maintenance costs when the Interdisciplinary Science and Technology Building III is complete. The university plans to fund these operating costs through the Indirect Cost Recovery Fund.

Analysis

ASU submitted the Interdisciplinary Science and Technology Building III as a "research infrastructure" project. Laws 2003, Chapter 267 amended A.R.S. § 42-5075 to confer tax-exempt status on the proceeds and income of research-infrastructure-related construction contracts. A.R.S. § 15-1670 defines research infrastructure as "installations and facilities for continuance and growth of scientific and technological research activities at the university."

The intent of the Chapter 267 tax exemptions is to lower the cost of such projects and to reduce debt service payments until General Fund appropriations from Chapter 267 become available in FY 2008. Chapter 267 makes an annual General Fund appropriation of $14.5 million to ASU for debt service payments from FY 2008 through FY 2031. Given previously reviewed projects and assuming this COP issuance takes place, approximately $1.5 million would remain available for debt service on other ASU research infrastructure projects.

ASU would construct a new, 39,400 square-foot Interdisciplinary Science and Technology Building at its East campus to house four key research programs. The Applied Cognitive Science Institute studies ergonomics, cognition, and human-computer interaction, with relevance to aviation, homeland defense, and systems usability. The Healthy Lifestyles Institute studies and advocates healthy lifestyles and disease prevention, engaging in research and community outreach to address smoking, physical inactivity, and poor diet. The Applied Biotechnology Sciences program investigates ecological restoration, wildlife habitat management, urban horticulture, and environmental policy, promoting sustainability in both urban and rural environments. Lastly, the Arizona Biodesign Institute, based at ASU Main, would open a branch at ASU East to focus on plant-made pharmaceutical bioengineering.

ASU estimates the project would require 11 months of construction. After completion, annual ongoing operating and maintenance costs would be approximately $346,000 for the project. ASU intends to fund these costs through indirect cost recovery.

The total cost per square foot for the Interdisciplinary Science and Technology Building III would be approximately $305 and the direct construction cost per square foot would be $228. These estimates fall on the low end of the per-square-foot cost range of other university research infrastructure projects. The following table shows cost comparisons.

(Continued)

University Research Infrastructure Projects
Estimated Per Square Foot Costs

Project	Total Project Finance Cost	Total Cost Per Square Foot	Direct Construction Cost Per Square Foot
ASU-Interdisciplinary Science and Technology Building 2	$18,000,000	$300	$217
ASU-Interdisciplinary Science and Technology Building 3	**12,000,000**	**305**	**228**
NAU-Applied Research and Development Facility	18,000,000	342	275
UA-Institute for Biomedical Science and Biotechnology Building	70,241,700	389	285
AVERAGE		***$395***	***$300***
UA-Medical Research Building	63,568,800	392	318
ASU-Interdisciplinary Science and Technology Building 1	74,000,000	412	285
ASU-Biodesign Institute 2	73,000,000	425	307
UA-Chemistry Building Expansion	53,848,200	507	410

RS/SC:jb

ARIZONA STATE UNIVERSITY

June 7, 2004

RECEIVED
JUN - 7 2004
JOINT BUDGET COMMITTEE

The Honorable Russell K. Pearce, Chair
Joint Committee on Capital Review
1700 W. Washington
Phoenix, AZ 85007

Dear Representative Pearce:

In accordance with House Bill 2529 and ARS 15-1682.01, the Arizona Board of Regents (ABOR) requests that the following Certificate of Participation Lease Purchase financed project for ASU be placed on the next JCCR agenda for review:

Interdisciplinary Science and Technology Building III, ASU East

Enclosed is pertinent information relating to this project.

We appreciate your consideration of our request. If you have any questions or desire any clarification on the enclosed material, please contact me at (480) 965-3201.

Sincerely,

Mernoy Harrison
Executive Vice President for
Administration and Finance

Enclosure

c: Lorenzo Martinez, Assistant Director, JCCR
Linda Blessing, Executive Director, Arizona Board of Regents
Ted Gates, Assistant Executive Director for Capital Resources, Arizona Board of Regents
Milton Glick, Executive Vice President and Provost
Virgil Renzulli, Vice President for Public Affairs
Scott Cole, Deputy Executive Vice President, University Services
Steve Miller, Deputy Vice President, Public Affairs
Alan Carroll, Associate Vice President, Budget Planning and Management
Gerald Snyder, Associate Vice President for Finance and Treasurer
Scott Smith, Director, State Relations

EXECUTIVE VICE PRESIDENT FOR ADMINISTRATION AND FINANCE
PO Box 872303, Tempe, AZ 85287-2303
(480) 965-3201 Fax: (480) 965-8388

6/4/2004

ARIZONA STATE UNIVERSITY
ASU DEBT FINANCING

	Project Costs				Debt Service					Operating Costs (Presently Estimated)			
	General Fund	Tuition	Auxiliary/ Other	Total	General Fund	Tuition	Auxiliary/ Other	Total		General Fund	Tuition	Auxiliary/ Other	Total
<u>COPS:</u>													
Interdisciplinary Science and Technology Building III	10,000,000	-	2,000,000	12,000,000	783,000	-	156,000	939,000	(1)	-	-	346,000	346,000
Total Bonds	10,000,000	-	2,000,000	12,000,000	783,000	-	156,000	939,000	(2)	-	-	346,000	346,000

(1) The debt service calculation for the COP financed project is based on an assumed 6.0% interest rate over 25 years. ASU plans to capitalize interest until July 1, 2007 when the annual state appropriation begins. The remaining ASU research infrastructure project in Downtown Phoenix is anticipated to be presented to JCCR later at which time more specifics on the consolidated financing plan for all of the research infrastructure projects will be presented. The reason for presenting this research infrastructure project at this time for review is that construction on this project is scheduled to begin in several months.

(2) ASU's debt service percentage in accordance with ARS 15-1683 will increase from 5.9% to 6.0% for the new financing (based on current expenditure estimates in most recent debt capacity study).

EXECUTIVE SUMMARY

ACTION ITEM:

Interdisciplinary Science and Technology Building III (formerly Research Building), Project Implementation, Arizona State University East (ASUE).

ISSUE:

The University requests Project Implementation Approval for Interdisciplinary Science and Technology Building III project at ASU East.

PROJECT DESCRIPTION:

- Previous Board Action:
  - 2004 CDP Approval — September 2003

This project will consist of the construction of an approximately 39,400 gross square foot new building that will accommodate research needs for the Applied Cognitive Science Institute, the Healthy Lifestyles Institute, the Applied Biological Sciences (ABS) and certain biotechnology components of the Arizona Biodesign Institute.

- The Applied Cognitive Science Institute requires specialty human factors and people interface spaces, as well as heavy computer/systems utilization areas.

- The Healthy Lifestyles Institute requires various types of space, ranging from changing rooms and physical testing laboratories to clinical research space.

- The ABS needs laboratory intensive research space that will address concerns of cross contamination and adjacent laboratory compatibility issues while the plant biotechnology portion of the Arizona Biodesign Institute needs laboratory space for pharmaceutical level/grade research.

- ASU is using Construction Manager at Risk (CMAR) for the construction delivery method.

- The total cost of the project is estimated to be $12,000,000.

PROPOSED SCHEDULE:

- Project Implementation — April 2004
- Project Approval — November 2004
- Construction Start — January 2005
- Occupancy — December 2005

Contact: Mernoy Harrison, Executive Vice President for Administration and Finance
(480) 965-3201 mernoy.harrison@asu.edu

PROJECT JUSTIFICATION:

Arizona State University East is developing several areas of research excellence that will contribute to the research goals of ASU's drive to become the "New American University". Spires of excellence will bring national recognition to the university through significant programs of research and graduate education. A high level of research productivity will, in turn, increase economic development activity in the metropolitan area. Research efforts at ASU East focus on the application of knowledge in order to understand and address real societal problems and needs, thereby generating more direct impact in the community.

Focused areas of excellence that require additional research facilities include health and wellness programs, applied cognitive sciences, and applied biological sciences. These three areas have the potential to generate significant returns on investment, but require new facility investment to fully enable the faculty and future program development. This project also creates an opportunity for ASU East to partner with the Production of Vaccines from Applied Crop Science (ProVacs) within the Arizona Biodesign Institute's Center for Infectious Diseases and Vaccines, in its production-oriented, biotechnology research. Each of these focus areas is aligned with strategic plans to add tenure track and research faculty to further enhance our capacity and capabilities.

A summary of the research areas to be included in the ASU East Research Building follows:

- The *Applied Cognitive Science Institute* (ACSI) will bring together faculty who conduct research in such areas as human factors, ergonomics, models of actors and agents, team cognition and coordination, human-computer interaction, and knowledge engineering. This research has direct relevance to issues and problems in aviation, homeland defense, and usability of systems including computer systems, training, and decision-making.

- The *Healthy Lifestyles Institute* will address the scientific study and promotion of healthy lifestyles, and extend the scientific knowledge base that focuses on healthy lifestyles and disease prevention, study the application of practices designed to effectively enhance healthy lifestyles, and promote healthy lifestyles among the citizens of Arizona across the lifespan. This research is motivated by the fact that although heart disease, cancer, and stroke are listed as the top three causes of death, the "actual" root causes of death have been traced to three unhealthy lifestyle behaviors – smoking, physical inactivity, and poor diet. In addition, researchers who will affiliate with the Healthy Lifestyles Institute engage in research and community outreach that address special issues, such as the health of American Indian populations, the diet and physical activity of school-aged children, and cancer prevention more generally.

- The *Applied Biological Sciences (ABS)* research will span a variety of specialized fields, including ecological restoration, wildlife habitat management, urban horticulture, and environmental policy. Much of this work is directed at understanding and solving issues related to the sustainability of the natural environment, both in urban and rural areas, for the greater good of the community. Plans to expand into areas of biotechnology, with an emphasis on plant biotechnology, will further strengthen research capabilities at ASU East.

- The *Arizona Biodesign Institute (AzBio)* research is in areas that relate to PMP (Plant-Made Pharmaceutical) biomanufacturing. In contrast to most other universities with strong plant biology programs, ASU does not have a College of Agriculture. In the case of PMP research, that is a positive since we are not "distracted or directed" to focus on traditional crop agriculture for food and fiber production. AzBio has already carved out an internationally recognized niche in PMP production for plant-based vaccines (the "ProVacs" program in AzBio) and have recruited new faculty with broad expertise in this area for Main Campus. In parallel, AzBio invested in a PMP genetic containment greenhouse facility at ASU East and has begun plans for expansion of its capacity.

FISCAL IMPACT AND FINANCING PLAN:

This project was included in the Revised 2004 Capital Development Plan, submitted in January 2004, which shows that debt service on all outstanding debt would be 5.8 percent of total projected expenditures (State Law sets a maximum of 8%) and 7.2 percent of projected unrestricted expenditures (ABOR Policy sets a maximum of 10%). The debt service for this project is .08 percent ($8/100^{th}$ of 1%) of total projected expenditures (State Law) and .1% ($1/10^{th}$ of 1%) of projected unrestricted expenditures (ABOR Policy).

State appropriations primarily will fund the debt service on this project beginning July 1, 2007. Until that time, there will be financing assistance through the state sales tax exemption for the contractor of this project, which ASU will capture, and the capitalization of interest payments. The objective of the capitalization of interest approach is the matching of debt service costs when paid to the available appropriations starting on July 1, 2007. In addition, other local funds will support a portion of the debt service costs.

RECOMMENDATION:

That the Board grant Project Implementation Approval to Arizona State University East for the Interdisciplinary Science and Technology Building III Project.

EXECUTIVE SUMMARY

Capital Project Information Summary

University: Arizona State University East

Project Name: Interdisciplinary Science and Technology Building III

Project Description/Location:

The Interdisciplinary Science and Technology Building III project at ASUE is a 39,400 square foot, $12,000,000 facility to be situated at the southeast corner of East Unity Avenue and South Sawyer on the Arizona State University East campus (see attached site diagram).

Project Schedule (Beginning Month/Year):

Planning	December 2003
Design	February 2004
Construction	January 2005
Occupancy	December 2005

Project Budget:

Total Project Cost	$	12,000,000
Direct Construction Cost	$	8,975,000
Total Project Cost per GSF	$	305
Construction Cost per GSF	$	228
Change in Annual Oper. /Main. Cost:		
Utilities	$	188,788
Personnel	$	79,600
All Other Operating	$	78,000
Subtotal	$	346,388

Funding Sources:

Capital

A. Certificates of Participation $12,000,000

(Funding Source of Debt Service: Primarily State appropriations starting on July 1, 2007. Until that time, there will be financing assistance through the state sales tax exemption for the contractor of this project, which ASU will capture, and the capitalization of interest payments. A portion of the debt service (on $2,000,000 cost) will be funded from other local funds).

Operation/Maintenance

A. Indirect Cost Recovery $ 346,888

EXECUTIVE SUMMARY

Capital Project Information Summary

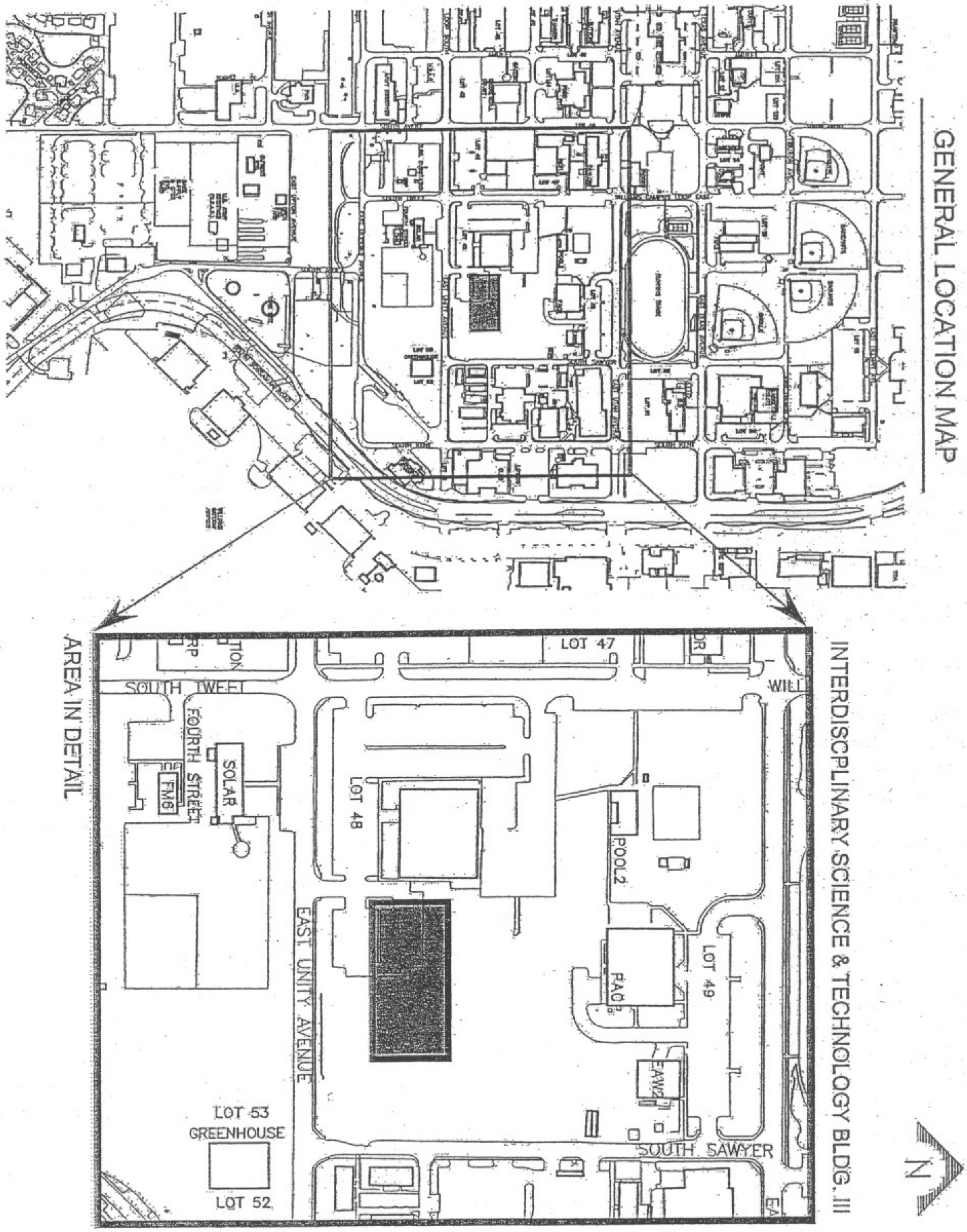
University: Arizona State University East **Project Name:** IS&TB III

	Revised CDP Estimate	Project Implementation Approval	Project Approval
Capital Costs			
1. Land Acquisition			
2. Construction Cost			
A. New Construction Shell / Core	$ 7,754,612	$ 7,814,899	$ -
B. Renovation	-	-	-
C. Special Fixed Equipment	-	-	-
D. Site Development (excl. 2.E.)	-	219,876	-
E. Parking and Landscaping	250,000	281,100	-
F. Utilities Extensions	100,000	93,700	-
G. Other* (1) (Demolition, Haz Mat Abatement,Sign	-	-	-
H. Inflation Adjustment Construction Midpoint)	-	-	-
I. State Sales Tax Research Exemption (6.3%)	521,388	565,425	-
Subtotal Construction Cost	$ 8,626,000	$ 8,975,000	$ -
3. Fees (% of Construction Cost)			
A. Pre-construction Services	107,825	151,030	-
B. Architect/Engineer	1,035,120	1,205,091	-
C. Other (Interior Design, Special Consultant)	30,000	30,000	-
Subtotal Consultant Fees	$ 1,172,945	$ 1,386,121	$ -
4. FF&E Movable	$ 340,000	$ 396,498	$ -
5. Contingency, Design Phase	690,080	333,380	-
6. Contingency, Constr. Phase	690,080	446,324	-
7. Parking ReplacementReserve	25,000	-	-
8. Telecommunications Equipment	170,000	175,000	-
Subtotal Items 4-8	$ 1,915,160	$ 1,351,202	$ -
9. Additional University Costs			
A. Surveys and Tests	$ 40,000	$ 40,000	$ -
B. Move-in Costs	15,000	15,000	-
C. Printing Advertisement	5,630	5,630	-
D. Project Management Cost (1.5%)	176,848	176,819	-
E. Other (Keys/Signage)	15,101	15,000	-
F. Other (Facilities Support) (1)	-	-	-
G. State Risk Mgt. Ins. (.0034) (2)	33,316	35,228	-
Subtotal Addl. Univ. Costs	$ 285,895	$ 287,677	$ -
TOTAL CAPITAL COST	$ 12,000,000	$ 12,000,000	$ -

(1) Universities shall identify items included in this category: Line item 9G "Other" includes:
demolition, hazardous material assessment and abatement, signage, alarm and detection systems, Campus Entry).

(2) State Risk Management Insurance factor is calculated on construction contract and architect/engineer fees if applicable.

EXECUTIVE SUMMARY



ARIZONA STATE UNIVERSITY

Interdisciplinary Science and Technology Building III - JCCR REVIEW

The following is more detailed information for specific items in the Capital Project Information Summary for the Interdisciplinary Science and Technology Building III project:

Item 2C-Special Fixed Equipment: See Attachment A

Item 2E-Parking and Landscaping: Eight parking spaces are included in the project budget, and Zeriscape (LEED) landscaping is being designed into the project.

Item 4-FF&E Movable: See Attachment B

Item 7-Parking Replacement Reserve: Interdisciplinary Science and Technology Building III will displace 0 vehicular spaces from the site.

Item 8-Telecommunications Equipment: Includes equipment and distribution inside the building from the closest telecommunications manhole at the street. See Attachment C

Item 9G-Other (Facilities Support): Costs include anticipated planning, construction and moving costs. All occupants are new or will be relocated from the East Campus. There are no costs listed in the budget for the relocation of research equipment; no costs are anticipated.

Interdisciplinary Science and Technology Building 3

Attachment A
Date: 5/24/04

Special Fixed Equipment Budget	Lab Offices	Assigned Workstations	Lab Work Stations	Conference Rooms
Mezzanine Level	0	0	0	0
First Floor Level	10	0	40	1
Second Floor Level	9	0	20	0
Total			60	

		Average Cost per Space
Lab Equipment Budget	$600,000	$10,000.00

Interdisciplinary Science and Technology Building 3

Attachment B
Date: 3/24/04

FF&E Budget	Lab Offices	Assigned Work Stations	Lab Work Stations	Conference Room
Mezzanine Level	0	0	0	0
First Floor Level	10	0	40	1
Second Floor Level	9	0	20	0
Subtotal	19	0	60	1

		Average Cost per Occupant
Office / Workstation FF&E Budget	$168,300	$2,103.75

Total FF&E	$396,498*

*difference ($228,198) is for scientific equipment

Interdisciplinary Science and Technology Building 3

Attachment C
Date: 5/24/04

Floor	Phone	Data Cat 6/Cat3	Active Ethernet	Assigned Occupants	Lab Occupants
Mezzanine Level	1	10	5	0	0
First Floor Level	70	63	60	40	20
Second Floor Level	55	55	50	20	10
Total	126	128	115	60	30

		Cost per Connect	Average Cost per Occupant
Telephone Budget Estimate	$50,000	$396.83	$555.56
Ethernet Budget Estimate	$50,000	$434.78	$555.56

STATE OF ARIZONA

Joint Committee on Capital Review

STATE SENATE

ROBERT "BOB" BURNS
CHAIRMAN 2003
TIMOTHY S. BEE
JACK A. BROWN
ROBERT CANNELL, M.D.
SLADE MEAD
VICTOR SOLTERO
JIM WARING

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

RUSSELL K. PEARCE
CHAIRMAN 2004
ANDY BIGGS
TOM BOONE
EDDIE FARNSWORTH
PHIL LOPES
LINDA J. LOPEZ
JOHN LOREDO

DATE: August 10, 2004

TO: Representative Russell Pearce, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Jake Corey, Fiscal Analyst

SUBJECT: Yuma La Paz Community College District – Consider Review of Yuma/LaPaz Community College District Bond Projects

Request

Yuma La Paz Community College District plans to hold a bond election on November 2, 2004. If approved by the voters, the district would be authorized to issue $73.9 million in General Obligation (GO) bonds. The $73.9 million from the bond proceeds would be combined with $10 million from other fund sources for a total of $83.9 million, and would be used to fund construction and renovation projects to address student growth in the district. The bonds would be issued in two equal installments of $36.9 million in FY 2005 and FY 2008.

There are two statutory sections granting community college districts the authority to issue bonds, one that requires Committee review and one that does not. The district plans to issue the bonds under the section that does not require Committee review. As a result, the district is submitting this information as a report and is not requesting a review. A legal argument can be made, however, that legislative intent requires Committee review of all community college bond issuances. At its June 22, 2004 meeting, the Committee chose to review Maricopa Community College District's proposed $950 million bond issuance.

Recommendation

The Committee has at least three options:

1) A favorable review.

2) A favorable review with the provision that the district return to the Committee for review prior to each actual bond issuance. Requiring the district to return for review prior to each actual bond issuance would allow the Committee to receive greater detail on the projects to be funded with each individual issuance.

3) An unfavorable review.

The issuances represent a total of $73.9 million in projects. Over a 27-year period, and with an estimated interest rate of 6%, total interest payments would equal $75.1 million. Total debt service would be approximately $149.0 million. The first payment of $3.0 million would be in FY 2006. The amount would increase as the second set of bonds is issued, equaling $6.1 million in FY 2010. Payments would remain at this level for most of the payment term, with the final payment in FY 2032. *(See Attachment #1)*

To make the debt service payments, the district estimates increasing the secondary property tax rate by 34¢ in FY 2006. The rate would increase as the second set of bonds is issued, equaling 58¢ in FY 2010. The rate would subsequently decline as assessed property values increase. Over the life of the bonds, the district estimates increasing secondary property tax rates by an average of 48¢. This would annually result in approximately $48 in additional taxes for every $100,000 of house value.

The $36.9 million FY 2005 issuance amount would increase the district's outstanding GO debt from approximately $8.4 million to $45.3 million, and the FY 2008 issuance would further increase it to approximately $77.6 million. The Constitution limits the amount of GO debt a community college district may incur. Despite the increases, the district would still be below its constitutional limit.

Analysis

Project Costs

Tables 1 and *2* provide greater detail on the district's expenditure plan. The total cost of the projects is $83.9 million. Of the total, $62.8 million would be allocated for construction and renovation, $7.7 million for equipment and furniture, $7.0 million for architecture and engineering fees, and $6.3 million for contingency funding. The amount allocated for new projects would be $57.9 million and $25.9 million would finance renovations to the existing infrastructure.

Table 1

New Project Expenditures

	Project Cost ($ in millions)	Square Feet	Cost Per Square Foot
Science and Agriculture Complex	$ 21.6	65,724	$ 329
Child Development Learning Lab	1.5	11,586	131
College Community Center	20.6	72,191	286
Learning Center (Quartzsite)	1.6	5,000	314
Learning Center (E. Yuma County)	6.3	20,000	315
Learning Center (S. Yuma County)	6.2	20,000	312
TOTAL	**$ 57.9**	**194,501**	**$ 298**

Table 2

Renovated Project Expenditures

	Project Cost ($ in millions)	Square Feet	Cost Per Square Foot
Learning Center (Parker)	7.1	25,000	$ 284
Extend Campus Infrastructure	3.0	--	--
Math Facility	2.2	17,799	124
Student Services Building	11.0	37,352	295
Center for Teaching Effectiveness	0.9	7,446	124
Humanities and Social Sciences Building	1.7	13,914	124
TOTAL	**$ 25.9**	**101,511**	**$ 226**

(Continued)

As a comparison, new construction for university research related facilities ranges from $300-$507 per square foot compared to the district's preliminary average estimate of $298 per square foot. Given that the scopes of the district projects are likely to be less complex than the university facilities, the estimates for new construction appear reasonable and possibly on the low end as construction costs in less urban regions of the state tend to be higher than urban areas.

As a comparison of renovation estimates, the cost for Arizona State University renovation projects is estimated to be $133 per square foot and the cost for renovation of the Communications Building at Northern Arizona University (NAU) is estimated to be $154 per square foot. The district estimated costs for renovation projects range from $124-$295 per square foot.

The Committee has the option of having the district submit updated cost and project information prior to each bond issuance.

To pay for the $83.9 million cost of all projects, the district would finance $73.9 million with bond proceeds and the remaining $10.0 million with cash. The cash financing includes $1.0 million from district capital funds, $3.0 million from private contributions, and $6.0 million from lease-purchase proceeds NAU will generate pursuant to authority provided by Laws 2003, Chapter 267 (university research infrastructure financing).

Enrollment Growth

The district projects that the FY 2005 Full-Time Student Equivalent (FTSE) enrollment will be approximately 4,350. Through FY 2015 the district estimates annual FTSE growth of 4.8%. Total existing square footage within the district is currently 480,288. The planned projects would provide an additional 194,501 square feet to the existing space, for a new total of 674,789. *Table 3* details existing and projected district enrollment.

Table 3

Projected Enrollment

	FTSE	Square Feet	Square Foot Per FTSE
FY 2005	4,350	480,288	116
FY 2010	5,500	674,789	123
FY 2015	6,950	674,789	97

Bond Issuances and Debt Service

Attachment #1 provides information on the issuances and the district's estimated debt service payment schedule. Each of the bond issuances would have a 25-year payment term.

In addition to the debt service payments associated with the new issuances, the district is currently paying debt service on older bonds that will be retired in FY 2010. Including amounts for new and previous GO issuances, the total district FY 2006 debt service payment is estimated to be $4.8 million.

Total outstanding debt for the district at the end of FY 2003 was $10.3 million. This amount consists of $9.8 million in principal from GO bonds and $420,000 from revenue bonds. The Constitution limits the amount of outstanding GO debt the district may incur to 15% of the district's total Secondary Net Assessed Valuation (NAV). In FY 2003 the district's outstanding debt was equal to approximately 1.3% of its Secondary NAV. The FY 2005 planned issuance of $36.9 million would increase that amount to approximately 5.4%, and the FY 2008 issuance would further increase it to approximately 8.1%.

(Continued)

Tax Rates

To pay for the annual debt service costs, the district estimates it will have to increase secondary property tax rates. *Attachment #1* details the estimated tax rates associated with the new issuances. Over the life of the debt service payments the district estimates that rates would increase by an average of approximately 48¢. *Table 4* provides the impact on the estimated tax rates for each year of the debt service and the tax revenue on a house valued at $100,000.

Table 4

Estimated Annual Impact of New Tax Rates on $100,000 House

	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14
Tax Rate	34¢	24¢	46¢	44¢	58¢	58¢	57¢	56¢	56¢
Revenue	$34	$24	$46	$44	$58	$58	$57	$56	$56

	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23
Tax Rate	55¢	55¢	54¢	54¢	53¢	53¢	52¢	52¢	51¢
Revenue	$55	$55	$54	$54	$53	$53	$52	$52	$51

	FY 24	FY 25	FY 26	FY 27	FY 28	FY 29	FY 30	FY 31	FY 32
Tax Rate	51¢	50¢	50¢	49¢	49¢	48¢	48¢	23¢	23¢
Revenue	$51	$50	$50	$49	$49	$48	$48	$23	$23

To determine the level of tax rates necessary to make the debt service payments, the district has assumed annual Secondary NAV growth of 4.9% from FY 2006 to FY 2010, and 1.0% for each subsequent year. Since the actual tax rate for each year is calculated based on actual Secondary NAV, the actual tax rates required to fund the debt service payments will depend on future NAV growth. Over the past 10 years secondary NAV in Yuma La Paz has grown by an average of 4.6%. The district, therefore, is likely underestimating secondary NAV growth beyond FY 2010, which could result in lower secondary property tax rate increases if Secondary NAV is above the 1.0% used in the estimates.

RS/JC:jb

Yuma La Paz Community College District Materials

YUMA / LA PAZ COUNTIES COMMUNITY COLLEGE DISTRICT
$73,850,000 General Obligation Bond Program / Election 2004
Debt Service and Estimated Tax Rate

Fiscal Year Ending	Secondary Assessed Valuation (1)	Existing Debt Service Principal	Existing Debt Service Interest	Existing Debt Service Total	Projected Tax Rate	SERIES 2005 Dated: 03/01/2005 Principal	SERIES 2005 Interest (2)	SERIES 2005 Total	SERIES 2007 Dated: 07/01/2007 Principal	SERIES 2007 Interest (2)	SERIES 2007 Total	New Program Total Debt Service	New Program Estimated Tax Rate	Aggregate Total Debt Service	Aggregate Estimated Tax Rate
2005	831,670,960	$1,515,000	$286,213	$1,801,213	$0.2166									$1,801,213	$0.2166
2006	872,589,171	1,550,000	248,338	1,798,338	0.2061		$2,954,000	$2,954,000				$2,954,000	$0.3385	4,752,338	0.5446
2007	915,520,558	1,590,000	213,463	1,803,463	0.1970		2,215,500	2,215,500				2,215,500	0.2420	4,018,963	0.4390
2008	960,564,170	1,655,000	149,863	1,804,863	0.1879		2,215,500	2,215,500		$2,215,500	$2,215,500	4,431,000	0.4613	6,235,863	0.6492
2009	1,007,823,927	1,725,000	83,663	1,808,663	0.1795		2,215,500	2,215,500		2,215,500	2,215,500	4,431,000	0.4397	6,239,663	0.6191
2010	1,057,408,864	345,000	10,350	355,350	0.0336	$925,000	2,215,500	3,140,500	$785,000	2,215,500	3,000,500	6,141,000	0.5808	6,496,350	0.6144
2011	1,067,813,768					980,000	2,160,000	3,140,000	835,000	2,168,400	3,003,400	6,143,400	0.5753	6,143,400	0.5753
2012	1,078,321,055					1,035,000	2,101,200	3,136,200	885,000	2,118,300	3,003,300	6,139,500	0.5694	6,139,500	0.5694
2013	1,088,931,734					1,100,000	2,039,100	3,139,100	935,000	2,065,200	3,000,200	6,139,300	0.5638	6,139,300	0.5638
2014	1,099,646,822					1,165,000	1,973,100	3,138,100	990,000	2,009,100	2,999,100	6,137,200	0.5581	6,137,200	0.5581
2015	1,110,467,347					1,235,000	1,903,200	3,138,200	1,050,000	1,949,700	2,999,700	6,137,900	0.5527	6,137,900	0.5527
2016	1,121,394,346					1,310,000	1,829,100	3,139,100	1,115,000	1,886,700	3,001,700	6,140,800	0.5476	6,140,800	0.5476
2017	1,132,428,866					1,390,000	1,750,500	3,140,500	1,180,000	1,819,800	2,999,800	6,140,300	0.5422	6,140,300	0.5422
2018	1,143,571,966					1,470,000	1,667,100	3,137,100	1,255,000	1,749,000	3,004,000	6,141,100	0.5370	6,141,100	0.5370
2019	1,154,824,714					1,560,000	1,578,900	3,138,900	1,330,000	1,673,700	3,003,700	6,142,600	0.5319	6,142,600	0.5319
2020	1,166,188,190					1,655,000	1,485,300	3,140,300	1,405,000	1,593,900	2,998,900	6,139,200	0.5264	6,139,200	0.5264
2021	1,177,663,481					1,750,000	1,386,000	3,136,000	1,490,000	1,509,600	2,999,600	6,135,600	0.5210	6,135,600	0.5210
2022	1,189,251,690					1,860,000	1,281,000	3,141,000	1,580,000	1,420,200	3,000,200	6,141,200	0.5164	6,141,200	0.5164
2023	1,200,953,927					1,970,000	1,169,400	3,139,400	1,675,000	1,325,400	3,000,400	6,139,800	0.5112	6,139,800	0.5112
2024	1,212,771,313					2,085,000	1,051,200	3,136,200	1,775,000	1,224,900	2,999,900	6,136,100	0.5060	6,136,100	0.5060
2025	1,224,704,983					2,215,000	926,100	3,141,100	1,885,000	1,118,400	3,003,400	6,144,500	0.5017	6,144,500	0.5017
2026	1,236,756,080					2,345,000	793,200	3,138,200	1,995,000	1,005,300	3,000,300	6,138,500	0.4963	6,138,500	0.4963
2027	1,248,925,760					2,485,000	652,500	3,137,500	2,115,000	885,600	3,000,600	6,138,100	0.4915	6,138,100	0.4915
2028	1,261,215,189					2,635,000	503,400	3,138,400	2,245,000	758,700	3,003,700	6,142,100	0.4870	6,142,100	0.4870
2029	1,273,625,547					2,795,000	345,300	3,140,300	2,380,000	624,000	3,004,000	6,144,300	0.4824	6,144,300	0.4824
2030	1,286,158,022					2,960,000	177,600	3,137,600	2,520,000	481,200	3,001,200	6,138,800	0.4773	6,138,800	0.4773
2031	1,298,813,817								2,670,000	330,000	3,000,000	3,000,000	0.2310	3,000,000	0.2310
2032	1,311,594,145								2,830,000	169,800	2,999,800	2,999,800	0.2287	2,999,800	0.2287
Total				**$9,371,888**		**$36,925,000**	**$38,589,200**	**$75,514,200**	**$36,925,000**	**$36,533,400**	**$73,458,400**	**$148,972,600**		**$158,344,488**	
										Average Tax Rate for New Bond Program			**$0.4821**		

(1) Secondary Assessed Value for FY 2004/05 is $831,670,960 based on actual values provided by the Arizona Department of Revenue.
SAV are assumed to grow at 4.92% for fiscal years 2006 through 2010 and at .984% each year thereafter.

(2) Interest is assumed at 6.00%

Prepared by:
RBC Dain Rauscher Inc.

7/6/2004

ATTACHMENT 1

Office of the President
P.O. Box 929
Yuma, AZ 85366-0929

RECEIVED
JUN 29 2004
JOINT BUDGET COMMITTEE

June 28, 2004

Representative Russell Pearce, Chairman
Joint Committee on Capital Review
Care of Mr. Richard Stavneak, Director
1716 W. Adams
Phoenix, Arizona 85007

Re: Yuma La Paz Counties Community College District – G. O. Bond Election

Dear Representative Pearce:

This letter is to inform you that the Yuma La Paz Counties Community College District (AWC) has called for a special bond election to be held on November 2, 2004. The district is requesting authorization to issue $73,850,000 in General Obligation (GO) bonds if approved by the voters pursuant to A.R.S. 15-1465.

In order to ensure that the legislature and JCCR fully understand what the district is doing, I have attached a copy of our Facilities Planning for the Future 2004 report.

If I can provide any further information, please call me at 928-344-7500.

Sincerely,

Don E. Schoening
President

Cc: Senator Robert Cannell

Voice ▲ 928-344-7500
FAX ▲ 928-344-7709
www.azwestern.edu

Arizona Western College Construction and Renovation Needs to Accommodate Population Growth and to Maintain Quality Educational Programming

SCIENCE AND AGRICULTURE COMPLEX

New construction to provide state-of-the-art facility to support a growing demand for science, agriculture, health care and education.

- State-of-the-art laboratory equipment and instructional technology
- Double the number of students able to enroll in science classes
- NAU / Yuma to provide more science-related bachelor degrees
- AWC / NAU / U of A expansion of agriculture program
- Increase of 43,000 square feet of teaching, research, demonstration and support space
- Meet needs of agriculture industry
- Address health science requirements
- Respond to pre-K – 12 science teaching

CHILD DEVELOPMENT LEARNING LAB

Classrooms, observation, training and support spaces and playground facilities located adjacent to the building.

- Support child care education program requirements
- Expand preschool from 25 to 36
- Add toddler program for 22
- Add infant program for 6
- Increase of 5,480 square feet

EXTEND CAMPUS INFRASTRUCTURE

Add chiller, water tower, extend piping and electrical services

- ❖ Existing infrastructure maxed out at 95%
- ❖ Provide services for science / agriculture
- ❖ Provide services for Child Development
- ❖ Allow future infrastructure capacity expansion
- ❖ Move radio tower for facilities placement

<u>"SMART" TECHNOLOGY MATH FACILITY</u>

Renovate former science/chemistry buildings and install new technology and infrastructure

- ❖ Remove existing building interiors and reprogram facilities
- ❖ Provide eleven high tech math / general purpose classrooms
- ❖ Locate mathematics program in one facility
- ❖ Address heating, ventilation and air conditioning (HVAC) and Americans with Disabilities Act issues

LA PAZ LEARNING CENTER

Renovate existing Learning Center to create comprehensive learning environment

- Respond to growth needs of area
- Add classroom space
- Add additional faculty and administrative offices
- Provide space for community purposes
- Modernize facility to maximize utility

LA PAZ QUARTZSITE LEARNING CENTER

Provide high quality teaching and learning facility to accommodate growth and need.

- ❖ Respond to growth in area
- ❖ Provide for increasing demand for college services
- ❖ Provide space for personal enrichment activities
- ❖ Build on site adjacent to elementary school

EAST YUMA COUNTY LEARNING CENTER

Provide high quality teaching and learning facilities to accommodate growth and need.

- Respond to projected growth in the area
- Provide for increasing demand for college services

SOUTH YUMA COUNTY LEARNING CENTER

Provide high quality teaching and learning facilities for one of the fastest growing locations in AWC's service area

- Respond to South County growth
- Provide for increasing demand for college services
- Build on a five acre parcel adjacent to San Luis High School
- Maintain current facilities in Somerton and San Luis

COLLEGE COMMUNITY CENTER

Construct new Campus Life, Food Services, and College Community Center

- Provide classroom, professional office, and conference space to address college and community needs
- Create adequate Campus Life facilities
- Provide adequate Food Service functions
- Expand bookstore space
- Provide a venue for educational conferences
- Create an accessible "open-door" campus entry

"ONE-STOP" STUDENT SERVICES BUILDING

Renovate/reprogram existing College Union
to implement a "one-stop" concept

- Centralize admissions, registration, testing, financial aid, counseling, and business services in one convenient location
- Provide Americans with Disabilities Act accessibility
- Replace antiquated technology and infrastructure
- Enhance structural appearance

CENTER FOR TEACHING EFFECTIVENESS

Renovate vacated Administration Building to centralize teaching and learning support services

- Provide one general purpose classroom
- Develop one demonstration classroom
- Provide office space for associate and full-time faculty
- Renovate to address HVAC and Americans with Disabilities Act issue

HUMANITIES AND SOCIAL SCIENCE BUILDING

Renovate existing Student Support Services Building to create a centralized location for Humanities and Social Sciences

- Address higher capacity classroom environments
  - Provide one 60 person computer lab / lecture room
  - Provide two 40 person general purpose classrooms
- Provide 21 faculty offices
- Upgrade technology and infrastructure

Outcomes of Implementing Facilities Master Plan

- Increase of 79 classrooms and/or labs
- Increase of 58 faculty and professional staff offices
- Increase of 296,000 new or renovated square footage overall
- New facilities in sites currently lacking an AWC facility
- Facilities that reflect technological realities of modern workplace
- Adequate learning environments to accommodate growth realities
- Centralized student support services
- Improved services for residential students
- Increase in course and program offerings
- Infrastructure capacity for expansion
- Venue for educational conferences and community events
- Compliance with ADA accessibility regulations

Project	Projected Square Foot requirement	Est Cost PSF	Est Project Cost	FF&E	A & E	Contingency 10% of Construction cost	Total	Rounded
Science & Agriculture Complex								
Science & Agriculture Lab Building	54,724	250	13,681,000	2,736,200				
Agriculture Research Building	6,000	180	1,080,000	162,000				
Research Greenhouses	3,000	165	495,000	74,250				
Shade house	2,000	25	50,000					
Estimated project cost			15,306,000	2,972,450	1,836,720	1,530,600	21,645,770	21,647,000
Child Development Learning Lab								
Interior spaces	7,403	140	1,036,420	103,642				
Exterior spaces	4,183	30	125,490					
Estimated project cost			1,161,910	103,642	127,810	116,191	1,509,553	1,512,000
Extend Campus Infrastructure								
Add chiller, water tower, extend piping & electrical services			2,500,000		250,000	250,000	3,000,000	3,000,000
Science & Chemistry Renovations	17,799	95	1,690,905	169,091	169,091	169,091	2,198,177	2,200,000
LaPaz Learning Center Renovation	25,000	210	5,250,000	787,500	525,000	525,000	7,087,500	7,088,000
South County Center	20,000	240	4,800,000	480,000	480,000	480,000	6,240,000	6,240,000
College Community Center								
Student Life services	35,965	220	7,912,300	791,230				
College & Community meeting spaces	36,226	220	7,969,720	796,972				
Estimated project cost			15,882,020	1,588,202	1,588,202	1,588,202	20,646,626	20,647,000
College Union Renovation	37,352	220	8,217,440	821,744	1,150,442	821,744	11,011,370	11,012,000
Administration Renovation	7,446	95	707,370	70,737	70,737	70,737	919,581	922,000
Student Services Renovation	13,914	95	1,321,830	132,183	132,183	132,183	1,718,379	1,720,000
Sub-total			56,837,475	7,125,549	6,330,184	5,683,748	75,976,955	
East County Center	20,000	240	4,800,000	480,000	528,000	480,000	6,288,000	6,290,000
LaPaz Quartsite Center	5,000	240	1,200,000	120,000	132,000	120,000	1,572,000	1,572,000
Total for all projects	296,012		62,837,475	7,725,549	6,990,184	6,283,748	83,836,955	83,850,000
Total new construction	194,501							
Total renovation	101,511							
Estimated cost per square foot for all projects/all costs		283.22						

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

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JOHN LOREDO

DATE: August 9, 2004

TO: Representative Russell Pearce, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: John Malloy, Fiscal Analyst

SUBJECT: Department of Environmental Quality – Consider Recommending Allowing Rent Payments on Cash Flow Basis

Request

A.R.S. § 41-792.01 requires that agencies pay the entire amount of their building lease rental fee at the beginning of each fiscal year in a lump sum. Statute allows the Committee to authorize an exemption for periods of one year or more if the agency can demonstrate a practice of making full payment of rent necessary due to cash flow issues. The Department of Environmental Quality (DEQ) is requesting an exemption from this requirement in order to pay its rent in monthly or quarterly installments rather than in one lump sum payment.

Recommendation

The JLBC Staff recommends the Committee recommend the Arizona Department of Administration (ADOA) authorize a permanent exemption from payment of the rental fee in one lump sum payment, with the following stipulations:

1. DEQ pay its rental fee on a quarterly basis.
2. DEQ make the quarterly payments on the 15th of the month prior to the beginning of the next quarter (September 15, for example, for its second quarter payment).
3. ADOA sweep the entire General Fund portion of the agency's rental fee, which would account for the first quarter's rental payment.

Analysis

DEQ utilizes General Fund dollars as well other appropriated and federal funds to make the lease payment on the privatized lease to own building it occupies. Under a privatized lease to own agreement, a private entity finances and constructs a building and leases it to the state. At the end of the lease term, the state takes possession of the building. ADOA makes the lease payments to the private entity monthly.

Approximately 25% of DEQ's rental fee is funded via the General Fund, while the other appropriated and federal funds make up the remaining balance. The appropriated and federal funds generate revenues to the department on a monthly basis. As a result, DEQ does not have enough up-front money to make the required FY 2005 lump sum payment at the beginning of the fiscal year. The following table shows the estimated rent amounts ADOA will collect from DEQ in FY 2005.

FY 2005 Privatized Lease to Own Payments

	General Fund	Other Funds	Federal Funds	Total
Department of Environmental Quality	939,500	1,999,700	665,900	3,605,100

Because General Fund monies make up a quarter of the agency's rental fee, JLBC Staff recommends that the first quarterly rental fee installment be made entirely from General Fund dollars. These monies currently reside in the agency's base budget for this expressed purpose and would therefore not impede on the agency's on-going operations. This would also allow for the other funding sources to accumulate additional revenues in order to pay off its portion of the rental fee.

RS/JM:jb

ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY

Janet Napolitano
Governor

1110 West Washington Street • Phoenix, Arizona 85007
(602) 771-2300 • www.adeq.state.az.us

Stephen A. Owens
Director

June 10, 2004

The Honorable Russell Pearce, Chairman
Joint Committee on Capital Review
1716 West Adams
Phoenix, Arizona 85007

Dear Chairman Pearce:

The Department of Environmental Quality (ADEQ) requests to be included on your next agenda. The purpose of our request is to obtain your recommendation permanently exempting ADEQ under ARS-41-792.01-E, from the full payment of its rent assessment on an annual basis due on July 1st.

We request that ADEQ be allowed to pay its rent assessment on a monthly or quarterly basis. Since our federal and fee funds contribute to the payment of our rent to ADOA and ADEQ receives these funds monthly, ADEQ does not have a full rent payment available on July 1.

If you or your staff have any questions, please call Mr. Robert Rocha at 602-771-4867.

Sincerely,

For Stephen A. Owens
Director

Cc: Senator Robert Burns
Mr. Richard Stavneak
Ms. Betsey Bayless

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

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HOUSE OF REPRESENTATIVES

DATE: August 9, 2004

TO: Representative Russell Pearce, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Jeremy Olsen, Fiscal Analyst

SUBJECT: Arizona Department of Mines and Mineral Resources – Consider Recommending Rent Exemption

Request

The Arizona Department of Mines and Mineral Resources (ADMMR) requests a partial rent exemption in the amount of $136,400 for FY 2005. Pursuant to A.R.S. § 41-792.01D, "if a state agency does not have the financial resources for state owned space … the Director of the Arizona Department of Administration (ADOA), on recommendation of the Joint Committee on Capital Review, may authorize a whole or partial exemption from payment of the rental fee."

Recommendation

JLBC Staff recommends that the Joint Committee on Capital Review recommend the ADOA authorize a FY 2005 rent exemption of $136,400, as this is consistent with the Committee's decision to grant a rent exemption for last year. The analysis section outlines the other option of not approving the exemption.

Analysis

In FY 2004 ADMMR requested and was granted a rent exemption in the amount of $136,400. At that time the rent requirement for ADMMR was $368,100, which accounted for 57% of the agency's operating budget. The only other funding source available in the budget for rent was Personal Services and Employee Related Expenditures (ERE). Transferring additional funds to cover the rent charge would have required a reduction in staff.

Laws 2003, Chapter 263 (Public Finances Omnibus Reconciliation Bill) would have exempted ADMMR from $205,100 per year in ADOA rent charges for FY 2004 and FY 2005. The Governor, however, vetoed this section of the bill.

(Continued)

The FY 2005 rent requirement for ADMMR is again $368,100. The agency's total Other Operating Expenditures (OOE) allocation for FY 2005 is $254,300. Approving the requested $136,400 rent exemption would allow the board to pay $231,700 for rent and use the remaining OOE funding of $26,500 for risk management, technology services, office supplies, printing, repairs, training, and postage expenses. Based on the Committee's action to recommend an exemption for FY 2004, the JLBC staff recommends an exemption for FY 2005 as well.

If a rent exemption were not granted, ADMMR would have to do one of the following:

1) Transfer funds from Personal Services and ERE, requiring a reduction of 3-4 FTE Positions. The agency has 7 appropriated and filled FTE Positions.
2) Transfer Personal Services and ERE and make a one-time expenditure of funds from the Mines and Mineral Resources Fund, a non-appropriated fund. ADMMR estimates that the fund will have a balance of approximately $167,000 at the end of FY 2005.

RS/JO:jb

ADMMR
Arizona Department of Mines and Mineral Resources
1502 West Washington, Phoenix, AZ 85007 Phone (602) 255-3795
1-800-446-4259 in Arizona FAX (602) 255-3777 www.admmr.state.az.us

Representative Russell Pearce
Chairman
Joint Committee on Capital Review (JCCR)
1700 West Washington
Phoenix, Arizona 85007

June 30, 2004

RECEIVED
JUL - 2 2004
JOINT BUDGET COMMITTEE

Re: Rent Exemption Issue for ADMMR

Dear Representative Pearce:

You may recall that last November 2003, the Joint Committee on Capital Review granted the ADMMR a partial exemption of the FY 2004 annual rent that is paid to the Department of Administration. The annual rent comprises over one-half of our total budget.

We expect to face the same rent issue in FY 2005.

I discussed this issue with the ADMMR Board of Governors. Our Chairman of the Board, Jim Miller, suggested that we send you a letter informing you of the issue so that we might get on the JCCR agenda at your convenience. Our new JLBC Budget analyst, Jeremy Olsen has also been informed of the situation as well as the OSPB analyst.

To provide a long-term remedy to the rent issue, we will be working with both JLBC and OSPB during the upcoming budget cycle. We appreciate your past support and look forward to working with you in the future. Should you have any questions, please contact me at 255-3795 ext. 25.

Sincerely;

Willis D. (Doug) Sawyer
Director ADMMR

cc: ADMMR Board of Governors
Jeremy Olsen, JLBC Analyst

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STATE OF ARIZONA

Joint Committee on Capital Review

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PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

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DATE: August 10, 2004

TO: Representative Russell Pearce, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Tim Everill, Revenue Section Chief

SUBJECT: City of Phoenix – Report on Civic Plaza Expansion Project

Request

Laws 2003, Chapter 266 established the Arizona Convention Center Development Fund, and authorized the state to participate financially in projects that qualify under the terms of the legislation. Based on this legislation, the City of Phoenix (City) is proceeding with a project to expand and renovate the Phoenix Civic Plaza. One of the requirements for qualified projects is that the progress of the project be reported twice annually to the Committee. The City has issued its first progress report.

Recommendation

This item is for information only and no Committee action is required. Among the highlights, the report noted that:

- Major construction has begun on the expansion project, is currently on schedule, and completion is anticipated in 2009.
- A new 1,000 room downtown hotel located at 3rd Street and Van Buren will be owned by the City and operated by Sheraton. The hotel is scheduled to be completed in late 2008 and is considered an essential component of the expanded Civic Plaza's financial viability.

In the next report to JCCR, JLBC Staff recommends that the City provide a discussion of updated financing cost estimates for both the expansion project and the downtown hotel, as well as any revisions to the construction timelines for both projects.

Analysis

The City has begun a $600 million project to renovate and expand the Phoenix Civic Plaza. The project will more than triple the rentable space at the facility to over 900,000 square feet. The financing plan for the project provided that the state will pay debt service on $300 million of construction bonds (city funds

(Continued)

will be used to retire the other $300 million of bonded indebtedness). The states' obligation will begin at $5 million the first year after construction is completed, increase to $10 million the second year, $15 million the third year, $20 million the fourth year, then increase by an additional $500,000 per year up to a maximum of $30 million. The financing plan assumed a 5-year construction period, with construction due to be completed sometime in 2009.

As noted above, the state's obligation for this project is to pay the debt service and related costs on $300 million of construction bonds. The total state funded amount will ultimately depend on when bonds are issued and the interest rates on the bonds. In June 2003 during the discussion of this legislation, the City's consultant indicated that there may be a total state payment amount of approximately $625 million, including principal and interest.

A.R.S. § 9-626 does not indicate specifically what is to be reported to the Committee. However, JLBC Staff requested that the City include the following in their August 17, 2004 report to the Committee: 1) current construction status, 2) status of financial considerations, 3) impact of construction on current bookings, 4) overview of the downtown hotel project, and 5) estimated certificate of completion date for the project. The City's response to the requested information is attached, and is summarized as follows:

Construction Status

Preliminary construction activity on the project began in late 2003, with site preparation work and utility relocation. Groundbreaking was in December 2003, with major construction commencing in January 2004. The demolition of the terrace area and the pedestrian bridge over 3rd Street has been completed. Excavation is currently underway for the underground exhibition hall. The City indicates that the construction timeline is on track, and will be available to provide a presentation at the Committee meeting detailing the construction activity currently underway.

Financial Status

In December 2003, the Phoenix City Council authorized issuance of up to $600 million in bonds to finance the project. The City will fund up to $300 million of the bonds, and the state will fund up to $300 million. Based on cash demand analysis, several series of bonds will be issued throughout the course of construction, with the first bond issue tentatively scheduled for the first quarter of CY 2005 in the amount of $100-$150 million.

Impact of Construction on Current Convention Activity

The City has taken several proactive steps to mitigate potential negative impacts of the construction activity on conventions, including a phased development plan, noise and dust walls, and a construction plan that ensures that construction activity does not occur within the space clients are occupying. National convention activity during the first year of construction will be about the same as the previous year, with 2 fewer conventions, but more convention attendees. For calendar year 2004, the Civic Plaza will host 43 national conventions representing approximately 140,000 delegates. This compares to 45 conventions representing 100,000 delegates in calendar year 2003.

In terms of future bookings, the City's report provides data that indicates both the number of future bookings (over a 10-year period) and the size of bookings have increased substantially in the past fiscal year compared to the prior year. The data includes both definite bookings (contractually committed) and tentative bookings (holding space, but not contractually committed).

Overview of Hotel Project

During the 2003 legislative discussions of the Civic Plaza, the City's proposed financing plan for the expansion project assumed the addition of 1,000 hotel rooms to the downtown Phoenix area by the time the project is completed. The additional downtown hotel rooms were viewed as an integral part of the financial viability of this project.

(Continued)

The City solicited private developer interest for the construction and operation of a downtown hotel in October 2003. There was little interest generated, and the City concluded that a privately financed downtown hotel was not feasible. This conclusion was based on developer input, outside consultant advice, and city staff research. The City Council Report (included in the attached materials) submitted by the City notes that a number of large downtown hotels across the country are being publicly financed.

According to newspaper accounts (*Arizona Republic, June 6, 2004*), the results of these publicly financed "convention" hotels are mixed. The article notes that publicly financed hotels in Omaha, Sacramento and Houston appear to be doing well. Hotels in Myrtle Beach, South Carolina and Overland Park, Kansas are doing poorly. The hotel in Denver is not open yet, but has resulted in increased bookings for the Colorado Convention Center. The hotel in Austin has not met projections, but is anticipated to do well enough to cover the annual debt service.

The City established a nonprofit corporation to oversee the development and financing of the hotel, as well as provide oversight of hotel operations. It is estimated that the development budget for the hotel will total $210 million, financed through $280 million of bond funding, and $10 million from hotel operator contribution and the utilization of existing City debt reserve. In addition to the development budget of $210 million, the bond issuance would provide for funds for capitalized interest during construction, debt service and operating reserves, bond insurance, pre-opening expenses, and other related costs. The bonds would be secured by both the net revenues of the hotel project, and city non-General Fund excise taxes, including City sales taxes generated at the new hotel, plus a portion of excise taxes in the City's Sports Facilities Fund.

Total costs for the hotel, including financing costs, will depend on when the construction bonds for the project are issued and the final amount of the issuance. The City estimates that the first construction bonds will be issued in September 2006. It is uncertain what bond interest rates will be at that time, but assuming a $280 million issuance for 30 years at 5.5% interest, total costs for the project would be $578 million, including $298 million in interest and the $280 million principal.

The hotel will be owned by the City (through the nonprofit corporation), and operated by Starwood Hotels & Resorts Worldwide (Sheraton). It will be located on the northwest corner of 3rd Street and Van Buren. Design work for the new hotel is scheduled to begin in early 2005, with construction starting in mid-2006. The hotel is scheduled to open in late 2008.

The estimated construction costs of the hotel represent approximately $210,000 "per key" (per room). The City provided data on 7 comparable hotel properties indicating per key costs ranging from $208,000 (Chicago Hyatt) to $350,000 (Austin Hilton). The average per key cost of the 7 hotels is $258,000.

Estimated Certificate of Completion Date
Chapter 266 provides that the state will participate financially in the project based on a schedule that begins during the year after the certificate of completion for the project is issued. An updated estimate of the projected date for the issuance of the certificate of completion was requested. The City indicates that the current estimate for the issuance of the certificate of completion is 2009.

RS/TE:jb
Attachment

City of Phoenix Submission

The City of Phoenix submission for this Agenda Item is a separate bound document and has been included with the other materials provided to the Committee members. If anyone else would like a copy of the City's submission, please contact our office.

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

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

DATE: August 10, 2004

TO: Representative Russell Pearce, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Shelli Carol, Fiscal Analyst

SUBJECT: Northern Arizona University – Report on Northern Arizona University Green Building Savings

Request

Northern Arizona University (NAU) is reporting the costs of meeting "green building" standards as compared to the savings generated through energy and other operating efficiencies. At its June 2004 meeting, the Committee gave a favorable review to the Applied Research and Development Facility, a research infrastructure project that will house environmental academic programs. NAU plans to construct this building to U.S. Green Building Council standards. Due to this unique design, the Committee requested that NAU provide a cost-benefit analysis.

Recommendation

This item is for information only and no Committee action is required. However, JLBC staff recommends that the Arizona Board of Regents (ABOR) establish standard rates of return to evaluate energy efficient construction designs in the future. NAU estimates that $1.9 million of the $16.2 million construction costs and $811,000 of the $2.1 million design fees for the Applied Research and Development Facility derive from plans to comply with green building standards.

The energy efficient construction of the Applied Research and Development Facility will save an estimated $54,000 annually in utilities costs. NAU believes that this project will also provide intangible benefits to the university, including positive publicity, lower absenteeism, and higher employee productivity. When considering utility savings alone, the green design of the building will repay itself in approximately 50 years.

(Continued)

Analysis

NAU intends to construct the Applied Research and Development Facility to achieve the Leadership, Energy, and Environmental Design (LEED) Platinum Rating. This standard, published by the U.S. Green Building Council, attests to the highest available level of environmental sustainability. Currently, only six sites in the nation carry the Platinum Rating. This certification will allow the facility to highlight the environmentally friendly technologies and building processes taught in its labs.

NAU estimates the total construction cost for the facility to be $16.2 million, of which $1.9 million, or 11.8%, derive from environmentally sound materials and processes. Additionally, NAU reported design fees for the project will be approximately $2.1 million, of which $811,000, or 38.5%, arise from green building standards compliance. NAU estimates that, with such environmentally sound building practices becoming more widespread, premiums for green construction will halve in 5 years and cease in 10 years.

NAU's base utility costs run approximately $1.50 per square foot per year. Traditionally constructed, the 60,000 square-foot Applied Research and Development Facility would incur $90,000 in utility costs annually. With energy-efficient construction, the building's annual utility costs will reach only $36,000, an annual savings of $54,000, or 60%.

A $54,000 per year savings for the initial total investment of $2.7 million represents an annual rate of return of approximately 2%. Meanwhile, if the same $2.7 million were invested in the 30-year Treasury Bond market, it would yield over 5% annually. The utility savings, considered alone, will repay the total $2.7 million green-building premium of this project in around 50 years. Given the additional investment's low rate of return relative to the expected operational savings, as well as the extended recovery period for those costs, JLBC staff recommends that ABOR establish standard rates of return to evaluate energy efficient construction designs in the future.

NAU emphasizes that the Applied Research and Development Facility will also provide certain non-quantifiable benefits. It will create significant marketing and publicity opportunities to the university as a leader in sustainable development and environmental education. Additionally, the Executive has identified renewable energy use as an agency priority. This facility will derive 20% of its energy from renewable sources. NAU also states, according to ongoing research, that due to the minimization of construction materials containing toxic chemicals, employees working in green buildings have lower absentee rates and higher productivity.

As reported at the Committee's June 2004 meeting, the total and direct construction costs per square foot for the Applied Research and Development Facility, including green building premiums, still fall on the low end of the per-square-foot cost range of other university research infrastructure projects.

RS/SC:jb

NORTHERN ARIZONA UNIVERSITY

OFFICE OF THE PRESIDENT

RECEIVED
AUG 05 2004
JOINT BUDGET COMMITTEE

July 30, 2004

Mr. Richard Stavneak, Director
State of Arizona
Joint Committee on Capital Review
1716 West Adams
Phoenix, AZ 85007

Dear Mr. Stavneak:

Thank you for the opportunity to respond to your letter of June 25, 2004. My letter will specifically address item 4 in your letter regarding "Green Building" costs. There are costs associated with the processes involved in assuring compliance to "Green Standards." Our involvement with the design and construction process has demonstrated that the costs are outweighed by the benefits realized by the facility owner or developer. Many costs have direct payback in financial operations, while other benefits are realized in cost avoidance and indirect value to the project.

Using the Applied Research and Design (ARD) project the following attempts to quantify these costs and benefits realized by NAU:

Construction Cost of ARD Facility	$16,213,165
Construction Cost Premium to attain LEED Platinum	1,909,000

The "premium" calculates to 12% surcharge for Platinum Rating

ARD Facility Scope calls for 60,000 gross square feet

NAU Base Utility Costs (raw commodity only)	$1.50 per square foot
Traditional Facility Annual Utility Cost (60,000 gsf)	$90,000
LEED Platinum Rating is 60% below average consumption savings	54,000 annual
Simple Payback of Premium by Utility Cost savings	35.3 years*
Return on Investment **(ROI).**	2.83%

The 12 percent premium on construction costs was calculated from the gross maximum price submission from Kitchell Construction, the project construction manager at risk. A spreadsheet of premium costs is attached for your consideration.

PO Box 4092, Flagstaff, AZ 86011-4092 (928) 523-3232 fax (928) 523-1848

Design premium is also a consideration in determining the value of "Building Green." The ARD Facility is carrying a design fee of 13%, higher than traditional construction projects. We would anticipate a design fee of 8% or 9% on a similar project. This increase represents a design premium of 5% which includes the costs of design commissioning, documentation of the validity of the design, and the application of green design standards into actual facility construction. An energy model will also be developed to verify the real savings of the green systems after the facility is in operation.

An additional one time cost for seeking certification from the USGBC is $1,500. This includes USGBC consultation and recognition of the project on the USGBC LEED Website.

As mentioned initially in this letter, there are also a variety of intangible benefits associated with "building green." There is a mounting volume of research regarding worker productivity and sense of well being associated with working in a Green Building. They include:

- lower absenteeism,
- higher productivity,
- positive public perception from the community associated with the realization that the "green building" is more sensitive to environmental sustainability because it is less polluting, more energy efficient, and
- facilitates lower costs of operation which ultimately benefit state taxpayers.

Another value of "building green" comes from the ability to market/publicize the fact that the university serves as a leader in the development of sustainable facilities and positive environmental stewardship. Awareness of the local and national media can pay positive dividends to NAU by being the first LEED Platinum Facility at a 7000 foot elevation. Additionally, the interdisciplinary nature of the NAU curriculum is a testament to the operational plan of the ARD Facility. A true model of what can be done to benefit today's user and the users of generations to come.

Sincerely,

John D. Haeger

John D. Haeger
President

Enclosure

NAU ARD Facility
Kitchell Contractors Inc.
26-Jul-04

ARD LEED Platinum Premium

Baseline cost	**$**	**16,213,165**	
LEED Platinum premium		**12%**	
Misc.			
Wind cowls (demonstration)	$	54,000	0.33%
Rain collection (demonstration)	$	50,000	0.31%
Foundations			
n/a			
Superstructure			
Topping/insulation at Penthouse	$	40,000	0.25%
Exterior Wall			
Triple Glazing	$	20,000	0.12%
Operable windows	$	15,000	0.09%
Roller shades at Atrium	$	230,000	1.42%
Exterior Louvers	$	150,000	0.93%
Louvers at typ. Windows	$	45,000	0.28%
Roofing			
Energy Star roofing	$	35,000	0.22%
R50 vs. R30 Insulation	$	25,000	0.15%
Full height glazing partitions	$	170,000	1.05%
Recycled denim insulation	$	5,000	0.03%
Void formed floor at labs	$	65,000	0.40%
FSC Wood doors/lumber	$	10,000	0.06%
Plumbing			
Shower stalls	$	5,000	0.03%
Grey water piping/pumps	$	14,000	0.09%
HVAC			
Packaged HVAC vs. central plant	$	350,000	2.16%
Electrical			
Lighting/dimming system/distribution	$	100,000	0.62%
Site Utilities			
Reclaimed water line	$	30,000	0.19%
Site Electrical			
Wind turbine collection and distribution	$	496,000	3.06%
	$	1,909,000	
		12%	

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

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JOHN LOREDO

DATE: August 10, 2004

TO: Representative Russell Pearce, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Shelli Carol, Fiscal Analyst

SUBJECT: University of Arizona – Reports on Capital Project Contingency Allocations

Request

The University of Arizona (U of A) is reporting on contingency allocation changes for three projects. At its September 2003 meeting, the Committee gave a favorable review for the Medical Research Building, a research infrastructure project. At its March 2004 meeting, the Committee gave a favorable review for Residence Life Building Renewal Phase I and the Highland Avenue Parking Structure. With all these reviews, the Committee stipulated that U of A report on allocations that exceed the greater of $100,000 or 10% of each project's contingency fund amounts.

Recommendation

This item is for information only and no Committee action is required. These contingency allocation changes are tied primarily to significant cost increases for raw materials. U of A is reallocating $1.7 million of the Medical Research Building's $4.4 million contingency fund, $0.7 million of Residence Life Building Renewal Phase I's $1.0 million contingency fund, and $0.6 million of the Highland Avenue Parking Structure's $1.7 million contingency fund. The per-unit cost estimates for these three projects are still reasonable after adjustment. *(See table in Analysis section for a summary of revised costs.)*

Analysis

Due to increasing worldwide demand for raw materials, especially from economic growth areas in Asia, construction material costs for such items as steel, cement (concrete), petroleum, copper, and gypsum (drywall) continue to rise above the university's original estimates. Therefore, U of A will shift monies from the Medical Research Building, Residence Life Building Renewal Phase I, and Highland Avenue Parking Structure contingency allocations to cover higher construction costs. The individual total budgets for the three projects remain unchanged from the original Committee-reviewed amounts.

(Continued)

The following table shows the total budgets and contingency reallocations for the three projects.

University of Arizona Contingency Reallocations
Total Project Budgets and Revised Costs

Project	Total Project Budget	Original Contingency	Reallocated Funds	Original Construction Unit Cost	Revised Construction Unit Cost
Medical Research Building	$54,350,000	$4,360,000	$1,682,000	$287/sqft	$318/sqft
Residence Life Building Renewal Phase I	8,600,000	969,000	740,000	$46/sqft	$51/sqft
Highland Avenue Parking Structure	18,000,000	1,669,000	562,000	$8,234/space	$8,604/space

The subsequent excerpts from memos presented to the Committee at the September 2003 and March 2004 meetings, respectively, contain direct construction costs per unit that reflect the reallocation of contingency funds.

Medical Research Building

U of A will construct 138,710 square feet of space to provide laboratory, support, and office space for programs related to translational research and to alleviate a shortage of wet laboratory space, at an estimated cost of $54.4 million.

The cost per square foot for this project is $392 and the direct construction cost per square foot is $318. Based on historical actual costs for similar U of A buildings and accounting for unique research design and fixed equipment requirements, the costs per square foot for the project appear reasonable.

Residential Life Building Renewal – Phase 1

U of A plans to replace plumbing and electrical systems in the Gila, Yuma and Arizona residential halls and convert common areas in the Gila and Yuma residential halls to provide capacity for 80 additional beds. The estimated cost is $8.6 million, which will be funded with a COP issuance.

The cost per square foot for these renovations is $61 and the direct construction cost per square foot is $51. Based on the extent of renovations and infrastructure upgrades, these costs appear reasonable.

Highland Avenue Parking Structure

U of A plans to construct a 1,516 space multi-level parking garage in the northeast portion of the campus. The facility will provide parking for building development related to university research infrastructure (bioscience) projects. Cost of the garage is estimated to be $18.0 million and will be financed with the issuance of $13.0 million in COPs and $5.0 million from existing Parking Replacement Reserves. Parking Replacement Reserves are funded from other capital projects that result in the permanent loss of existing parking spaces. The estimated cost of $11,800 per space is within the range of costs typical for multi-level parking facilities. This amount includes $2.5 million allocated for land acquisition. The cost without land acquisition is $10,200 per space, with direct construction costs of $8,604 per space.

RS/SC:jb

Senior Vice President
for Business Affairs

THE UNIVERSITY OF
ARIZONA®
TUCSON ARIZONA

Administration Building
Tucson, Arizona 85721
Tel (520) 621-5977
Fax (520) 621-7714

June 29, 2004

Richard Stavneak
Director,
Joint Legislative Budget Committee
1716 West Adams
Phoenix, AZ 85007

RE: Medical Research Building
UA Project No.: 02-8444

Please be advised that $1,681,656 of the project's contingency funds will be reallocated to the Construction Budget primarily due to significant cost increases in building systems and raw materials such as steel, concrete (cement), copper, drywall (gypsum) and various wood products as a result of recent market escalations.

The total Project Budget of $54,350,000 as presented at the September 25, 2003, Joint Committee on Capital Review meeting remains unchanged.

In order to cap further market escalation, the CM@Risk contract for the project will be amended directly to reflect this reallocation. Please let me know if you have any questions.

Sincerely,

Joel D. Valdez
Senior Vice President for Business Affairs

xc: Dick Davis
Greg Fahey
Ted Gates
Lorenzo Martinez
Dick Roberts
Bob Smith
Carolyn Watson

Senior Vice President
for Business Affairs

THE UNIVERSITY OF
ARIZONA®
TUCSON ARIZONA

Administration Building
Tucson, Arizona 85721
Tel (520) 621-5977
Fax (520) 621-7714

July 6, 2004

Richard Stavneak
Director,
Joint Legislative Budget Committee
1716 West Adams
Phoenix, AZ 85007

RE: Residence Life Building Renewal Phase 1
UA Project No.: 04-8535

Please be advised that $740,000 of the project's contingency funds will be reallocated to the Construction Budget primarily due to significant cost increases in building systems and raw materials such as steel, copper, drywall (gypsum) as a result of recent market escalations; as well as unforeseen and obscured existing conditions that contained hazardous lead paint and asbestos materials.

The total Project Budget of $8,600,000 as presented at the March 26, 2004, Joint Committee on Capital Review meeting remains unchanged.

In order to cap further market escalation, the CM@Risk contract for the project will be amended directly to reflect this reallocation. Please let me know if you have any questions.

Sincerely,

Joel D. Valdez
Senior Vice President for Business Affairs

xc: Dick Davis
Greg Fahey
Ted Gates
Lorenzo Martinez
Dick Roberts
Bob Smith
Carolyn Watson

Senior Vice President
for Business Affairs

THE UNIVERSITY OF
ARIZONA®
TUCSON ARIZONA

Administration Building
Tucson, Arizona 85721
Tel (520) 621-5977
Fax (520) 621-7714

July 7, 2004

Richard Stavneak
Director,
Joint Legislative Budget Committee
1716 West Adams
Phoenix, AZ 85007

RE: Highland Avenue Parking Structure
UA Project No.: 01-8344

Please be advised that $562,028 of the project's contingency funds will be reallocated to the Construction Budget primarily due to significant cost increases in building systems and raw materials such as steel and concrete (cement) as well as minor, below grade unforeseen site conditions.

The total Project Budget of $18,000,000 as presented at the March 26, 2004, Joint Committee on Capital Review meeting remains unchanged.

In order to cap further market escalation, the CM@Risk contract for the project will be amended directly to reflect this reallocation. Please let me know if you have any questions.

Sincerely,

Joel D. Valdez
Senior Vice President for Business Affairs

xc: Dick Davis
Greg Fahey
Ted Gates
Lorenzo Martinez
Dick Roberts
Bob Smith
Carolyn Watson