STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

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PHIL LOPES
RUSSELL K. PEARCE
STEPHEN TULLY

R E V I S E D

JOINT COMMITTEE ON CAPITAL REVIEW
Thursday, September 1, 2005
1:30 p.m.
Senate Appropriations Room 109

MEETING NOTICE

- Call to Order
- Approval of Minutes of July 21, 2005.
- DIRECTOR'S REPORT (if necessary).

1. ARIZONA DEPARTMENT OF ADMINISTRATION -
   A. Review of FY 2006 Building Renewal Allocation Plan.
   B. Review of Refinancing and Renegotiation of the 2000 Private Lease-to-Own Agreement.
   C. Review of Energy Savings Performance Contract.

2. DEPARTMENT OF JUVENILE CORRECTIONS - Review of Suicide Prevention Renovations.

~~3. DEPARTMENT OF ECONOMIC SECURITY / ARIZONA DEPARTMENT OF ADMINISTRATION - Review of Lease-to-Own Flagstaff Office Building.~~

4. ARIZONA DEPARTMENT OF TRANSPORTATION - Review of FY 2006 Building Renewal Allocation Plan.

5. ARIZONA STATE UNIVERSITY - Review of Academic Renovations and Deferred Maintenance Phase I Update.

6. NORTHERN ARIZONA UNIVERSITY - Review of New Parking Structure.

The Chairman reserves the right to set the order of the agenda.
08/31/05

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MINUTES OF THE MEETING
JOINT COMMITTEE ON CAPITAL REVIEW

Thursday, July 21, 2005

The Chairman called the meeting to order at 2:32 p.m., Thursday, July 21, 2005 in Senate Appropriations Room 109 and attendance was as follows:

Members:	Senator Burns, Chairman	Representative Pearce, Vice-Chairman
	Senator Cannell	Representative Biggs
	Senator Giffords	Representative Boone
	Senator Gould	Representative Brown
	Senator Johnson	Representative Tully
Absent:	Senator L. Aguirre	Representative A. Aguirre
	Senator Bee	Representative Lopes

Senator Burns moved the Committee approve the minutes of May 10, 2005 as presented. The motion carried.

ARIZONA DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS - Consider Approval of Building Renovation.

Mr. Jeremy Olson, JLBC Staff, presented the Department of Emergency and Military Affairs (DEMA) request that the Committee consider the approval of the renovation of a fire station to be acquired from the City of Tempe, which the department will utilize as a readiness center. The old armory will be exchanged with the City of Tempe for the fire station and $1,366,000. The city will then convey the old armory to a private developer. The $1,366,000 will be used to renovate the fire station.

There was no discussion on this item.

Representative Boone moved the Committee approve of the use of up to $1,366,000 from the State Armory Property Fund for renovations to the Tempe fire station, with the provision that the department return for approval after defining the scope and estimated cost of the project. The motion carried.

ARIZONA GAME AND FISH DEPARTMENT - Consider Approval of Capital Project Funding Transfer and Review of Project Scope Changes.

Mr. Jeremy Olsen, JLBC Staff, presented the request from the Game & Fish Department to:

- Consider approval of a transfer of $50,000 Deer Valley paving project to the Pinetop regional office paving project. The department is considering moving its headquarters from the Deer Valley location so while that is under consideration they put off maintenance projects at the headquarters.

- Review a reallocation of $150,000 from the Game & Fish Capital Improvement Fund for the Ben Avery safety berm project to the Ben Avery electrical & lighting project. The department was able to complete the safety berm project with donated materials and at minimal cost, so that has freed up some money from the Capital Improvement fund.

Representative Boone asked if the department made a decision on the movement from Deer Valley to Ben Avery, and is it finalized.

Mr. Fred Bloom, Chief Engineer, Game and Fish Department stated they are in the 2nd phase of an RFP process to determine if the move is feasible. It is the intention to move to Ben Avery, but until we receive responses, conduct evaluations and go before the commission with a recommendation, it is not a given.

Representative Boone asked when the information will be available.

Mr. Bloom stated in September. The RFP is scheduled so they can be reviewed and have a recommendation to the commission by September.

Representative Boone moved the Committee approve the transfer of $48,500 from the Deer Valley Headquarters paving project to the Pinetop regional office paving project, and give a favorable review to the reallocation of $146,000 from the Game & Fish Fund for the Ben Avery Shooting Range electrical/lighting project. Any unexpended monies should revert to the fund from which they were appropriated at completion of these projects. The motion carried.

DEPARTMENT OF JUVENILE CORRECTIONS / ARIZONA DEPARTMENT OF ADMINISTRATION - Review of Department of Juvenile Corrections Vocational Education Remodel.

Ms. Kimberly Cordes-Sween, JLBC Staff, presented the Department of Juvenile Corrections request to use $489,500 from operating monies to convert an existing housing unit into a vocational education building. The department was authorized to use up to $6,674,800 of the FY 2006 operating budget to address operating and capital issues related to the federal audit. This building would provide education programs in culinary arts, computer training and repair, and cosmetology (cosmetology is currently being reconsidered).

There was no discussion on this item.

Representative Boone moved the Committee give a favorable review to the use of $489,500 to convert an existing Black Canyon housing unit to a vocational education unit, with the provision that any future request to use FY 2006 operating budget monies for audit-related capital projects include a comprehensive plan of prioritized projects. The motion carried.

ARIZONA DEPARTMENT OF TRANSPORTATION - Review of FY 2006 Construction Budget Operating Expenditure Plan.

Mr. Lorenzo Martinez, JLBC Staff, presented the Arizona Department of Transportation's (ADOT) highway construction budget for Professional and Outside Services (P&O). These expenditures are made from the capital appropriation made to the department for highway construction and are used for contracting of consultants. Of the $204 million appropriated for highway construction, ADOT plans to allocate $97 million for P&O. He referred to the table on page 2 of the JLBC memo showing the 6-year history of the allocation and actual expenditures for these items, and the performance measures submitted by the department as shown on page 3 of the JLBC memo.

Senator Johnson asked for an explanation of Professional and Outside Services.

Mr. Martinez referenced the last page (schedule 7) of agency submitted materials included in the book for the broad category of how these monies are expended. For the most part, they are used for engineering contracting related to highway design and engineering.

Representative Tully stated we provided ADOT with more money to retain in-house engineers, and it looks like the P&O allocation is going down, so is that in relation to the money given to increase the salaries.

Mr. Martinez stated the department's operating budget includes $54 million and 616 FTE Positions dedicated to in-house engineering activities. There was $2.7 million appropriated to provide a 5% salary increase to in-house engineers, so part of $8 million reduction of the $97 million P&O allocation is related to the $2.7 million salary adjustment. The anticipation is they would be retaining more of their in-house engineers and providing more of these types of activities in-house.

<u>Representative Boone moved</u> the Committee give a favorable of the favorable review of ADOT's $97 million Professional and Outside Services expenditure plan for FY 2006 and also adopt the traffic congestion performance measures with the provision that ADOT report on these performance measures as part of next year's Committee review. The motion carried.

SCHOOL FACILITIES BOARD - Review of New School Construction Report and New School Facilities Fund Litigation Account.

Mr. Lorenzo Martinez, JLBC Staff, presented the review of the School Facilities Board (SFB) demographics report as well as the Litigation Account. He explained the handout of the New Construction Report Highlights.

Senator Giffords asked about the firms winning the awards for the engineering & architecture (A&E). Is there a stipulation as far as preferences for using Arizona based companies, are they based in Phoenix, and where is the money going?

Mr. Martinez stated that SFB approves projects for districts, and then districts go out and bid for the projects. This activity occurs at the district level, and he is not aware of criteria that the SFB sets relative to using in-state contractors. Staff will get more information on this process.

Senator Giffords said the $15 million allocated for A&E by SFB is smaller than the $97 million allocated for P&O by ADOT, and would also like to know if ADOT has criteria for using in-state contractors.

Senator Johnson asked how much of the bond proceeds are available for expenditure and how much is the yearly payment on debt.

Mr. Martinez said that $7.6 million will be left at the end of FY 2006, those monies will be required to finish projects that will not be completed until FY 2007.

Mr. Stavneak stated the 2006 debt service payment will be almost $51 million, but that includes the payment holiday of approximately $22 million. In FY 2007, the holiday payment will need to be added back and the requirement will be $72 million.

Senator Johnson asked how long we have to keep making those payments.

Mr. Martinez stated there have been 3 issuances, each to be repaid over 15 years. The original COP issuance was in FY 2003, with another in FY 2004 and another in FY 2005.

Senator Johnson asked how much the original bonding amounts were outstanding.

Mr. Martinez stated there was $900 million issued in total. The 3 issuances were: $400 million in FY 2003, and $250 million in each of FY 2004 and FY 2005.

Senator Johnson asked if we will be paying for that until the year 2015.

Mr. Martinez stated at a 15-year payoff, the FY 2003 issuance will be paid off in 2018, the FY 2004 issuance paid off in 2019, and FY 2005 issuance paid off in 2020.

Representative Biggs asked if locations of individual projects were available.

Mr. John Arnold, Deputy Director of Finance, School Facilities Board said not all the locations are currently identified, but a list can be obtained.

Representative Boone asked, referencing the letter of the Litigation Fund located in the agenda book, if SFB has a sense of how much potentially can be recovered from deficiencies correction projects.

Mr. Arnold said he did not have the information but can get information.

Representative Boone also asked why building renewal projects noted in a recent newspaper article were not included in the Deficiencies Correction program.

Mr. Arnold said the SFB completed the deficiency corrections assessment in 2000 and under the terms of the assessment, the inspectors went on the guidelines that if they believe the equipment, the roof, etc. had at least a 3-year useful life left, we did not fix it. If it was going to fail in the next 3 years, it became a deficiency. Now we are in 2005 and we are starting to see items not fixed starting to fail. The purpose of the Building Renewal Fund is to take care of those items.

Representative Boone wanted to know about the specific school districts outlined in the article and why they did not have building renewal money to fix what was talked about.

Mr. Arnold said they would provide information.

Representative Boone moved the Committee give a favorable review of the board report on New School Construction, with the following provisions:

- *The board report back to the Committee on actual FY 2006 expenditures for Emergency Deficiencies.*
- *The board report back to the Committee after determining how it will allocate $4 million in funding provided in FY 2006 for Full-Day Kindergarten capital grants.*

And the Committee also give a favorable review of the board report on the Litigation Account. The motion carried

ARIZONA STATE SCHOOLS FOR THE DEAF AND THE BLIND - Review of Capital Projects.

Mr. Nick Klingerman, JLBC Staff, presented the review of the expenditure plan listed on page 2 of the JLBC memo. In the FY 2006 capital outlay bill, ASDB received a $2 million appropriation for capital and building renewal projects.

Senator Johnson asked how SFB developed the ASDB 875 sq. ft. per student given that traditional schools are between 90-134 sq. ft. per student.

Mr. Klingerman said he is not sure of the details that went into the SFB projection, but they compared similar types of schools in other states. JLBC Staff will follow up with SFB to get more information.

Mr. Harold Hoff, Superintendent, Arizona State Schools for the Deaf and the Blind provided information on the proposed projects, campus and program status.

Senator Burns said the satellite set-up of having services for the deaf and blind located at certain local school districts by leasing space, does not give comfort to families with students in those areas because it is a short term lease that could end if the district needs the space for traditional enrollment. The satellite idea would have some benefits for families, but there might be something we can do to give stability to the space that's available so that the children are not there on a one-year lease type of setup and not know what might happen the following year.

Mr. Hoff agreed that they are using excess space.

Representative Boone asked if there needs to be statutory changes to allow a more permanent solution for space needs.

Mr. Hoff said the primary issue is whether space is available. Most of the schools are in areas where they are experiencing population growth. Sunnyslope Elementary thought they would have 4-5 classrooms available, but when it came down to getting everything finalized, they only had 2 spaces available. The amount of available space is diminishing.

Representative Boone moved the Committee give a favorable review to the $2,000,000 capital expenditure plan with the provision that ASDB submit a plan by January 1, 2006 that includes different options for the use of the Phoenix Campus as well as the use of satellite programs, Co-Op programs, and any alternative strategies. The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION - Review of FY 2006 Building Renewal Allocation Plan.

Mr. Lorenzo Martinez, JLBC Staff, presented the review of the Department of Administration (ADOA) FY 2006 Building Renewal Allocation Plan. A revised JLBC recommendation memo was sent separately. ADOA was appropriated $3.4 million in FY 2006 from the Capital Outlay Stabilization Fund to fund 15% of the building renewal formula. ADOA has submitted 24 projects for committee review. JLBC is recommending a favorable review for $975,000 for 7 projects. This would include $82,000 for an emergency contingency. JLBC Staff is working with ADOA to get additional detail and how the estimated costs were developed for the remaining projects. We hope to have a recommendation on the remaining projects for the Committee at its September meeting.

There was no discussion on this item.

Representative Boone moved the Committee give a favorable review for the $975,000 for the following 7 projects, plus $82,000 for emergency projects. The 7 projects include:
- *$547,000 for Department of Corrections roof replacement at ASPC-Douglas*
- *$112,000 for Department of Economic Security group home bathroom renovations*
- *$74,000 for Department of Environmental Quality roof and HVAC system replacement*
- *$50,000 for State Schools for the Deaf & the Blind classroom HVAC system replacement*
- *$50,000 for Department of Emergency and Military Affairs cooling tower replacement*
- *$40,000 for Department of Juvenile Corrections security gate replacement*
- *$20,000 for Department of Public Safety cooling tower refurbishment*

The motion carried.

NORTHERN ARIZONA UNIVERSITY - Review of Research Infrastructure Lease-Purchase Projects.

Ms. Shelli Carol, JLBC Staff, presented the Northern Arizona University (NAU) request for review of a new Laboratory Facility and North Campus Research Infrastructure projects. These 2 projects would be part of the university research infrastructure lease-purchase plan authorized by the Legislature. The Laboratory Facility would cost $33 million and would be 80,000 sq. ft. of space containing 23 wet laboratories. The Infrastructure project would cost $5 million and involve various utility extensions. The costs are reasonable although the wet labs make the facility more expensive. The projects would be financed through Certificates of Participation (COP) at a term of 25 years and 5.75%. The annual debt service of $3.3 million would be funded from $3 million from the universities research infrastructure General Fund appropriation which begins in FY 2008 and $.3 million from the local university funds. If approved these projects would exhaust NAU's remaining research infrastructure capacity.

The university has chosen to comply with the Governor's Executive Order 2005-05 which requires new and newly renovated buildings to meet energy efficiency standards to the extent practicable. The NAU Applied Research and Development Facility was the first building to raise these Green Building issues. This Committee requested as a result that the Board of Regents (ABOR) develop an evaluation criteria for green buildings, but this was not done. Staff is therefore recommending a provision in all the new university projects to report on this issue and for future projects, as well as requesting that the universities provide this information in advance.

<u>Representative Boone moved</u> the Committee give a favorable review of the New Laboratory Facility and North Campus Research Infrastructure projects with the following standard university financing provisions for each:

- *NAU 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 <u>do not expand</u> the scope of the project.*
- *NAU 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 <u>expand</u> the scope of the project. In the case of an emergency, NAU 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 in scope.*
- *NAU shall report to the Committee with a comparison between any compliance costs of the Governor's Executive Order 2005-05, concerning energy efficiency, and operating and other savings generated through those efficiencies.*
- *A favorable review by the Committee does not constitute endorsement of General Fund appropriations for operational costs when the project is complete. These costs should be considered by the entire Legislature through the budget development process.*

The motion carried.

Chairman Burns said at the request of a member, the agenda will be changed to go to item 10, then back to item 9.

UNIVERSITY OF ARIZONA - Review of New System Bond Capital Projects.

Ms. Shelli Carol, JLBC Staff, presented the request for Committee review of 4 University of Arizona (UA) projects financed with System Revenue Bonds. The financing would be $40.4 million in revenue bonds and $2.3 million in donations. The bonds would be for a term of 25 years at 6% interest rate. Annual debt service would be $3.2 million paid from tuition and auxiliary revenues. The first project is an Architecture Building Expansion; which will cost $9.4 million for 33,500 sq. ft. for a new studio and office space. The second project is Residence Life Building Renewal, Phase 2, which will cost $6.5 million to replace plumbing in Maricopa and Sonora Halls. The third item is Deferred Renovation, which will cost $20 million for 22 tasks including building renewal and utility extensions. These 3 project costs are reasonable.

The fourth project is a Poetry Center which will cost $6.8 million for 18,000 sq. ft. It includes library and special collections space. The per square foot costs for the building are significantly higher than similar projects. The university defends them as necessary for improvements that attracted the donations that are funding $4.9 million of the $6.8 million total cost.

Representative Biggs asked if these buildings are being built under the Governor's Green Building Executive Order.

Ms. Carol said that was correct. All the new or significant renovations would come under the Executive Order.

Representative Biggs asked if the same energy comparison statement is required of UA.

Ms. Carol stated that it is part of the provisions in the JLBC memo.

Representative Biggs asked if the request was asked beforehand.

Ms. Carol said because this executive order is new, we did not request these comparisons ahead of time. JLBC Staff will request this information be included with future requests.

<u>Mr. Greg Fahey, University of Arizona</u> said the Poetry Center is a building that will house various collections. It will have an endowment for future acquisitions so there will not be a need to use state money for those acquisitions. It also has great relevance to the teaching mission of the university. The university will put up $1.9 million through the debt service in return for getting $4.9 million in private fund raising. The majority of the sums have been captured in cash and solid pledges. The cost per square foot is high on the surface, but it does embrace the fact that the building is small, the economy of scale, and the tremendous cost of inflation in the construction trade. There are special features with temperature and humidity controls for keeping valuable books safe. There is the ability to use outside space that does not count as square footage, but because of the overhangs and the way the building is built, adding to the expense of the building.

Representative Boone stated the university has raised $3.7 million so far and has $1.2 million left to go. He asked if the university anticipated any problem with raising the additional $1.2 million.

Mr. Fahey said that things have been coming along well. We do have the ability to get a bridge loan from our foundation to help through a few months if there are problems. But we are not going to use any more than $1.9 million of public funding for debt service.

<u>Representative Boone moved</u> the Committee give a favorable review to the new Poetry Center, new Architecture Building Expansion, second phase of Residence Life Building Renewal, and Deferred Renovations bond projects, with the following standard university financing provisions for each:

- *UA shall report to the Committee with a comparison between any compliance costs of the Governor's Executive Order 2005-05, concerning energy efficiency, and operating and other savings generated through those efficiencies.*
- *UA 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 <u>do not expand</u> the scope of the project. UA shall also report to the Committee before any reallocation exceeding $100,000 among the individual planned renovations, renewals, or extensions.*
- *UA 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 <u>expand</u> the scope of the project. In case of an emergency, UA may immediately report 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 in scope.*

- *A favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any tuition collections, auxiliary revenues, or donations that may be required for debt service, or any operations and maintenance costs when the project is complete. These costs should be considered by the entire Legislature through the budget development process.*

The motion carried.

UNIVERSITY OF ARIZONA - Reports on Capital Project Contingency Allocations.

Ms. Shelli Carol, JLBC Staff, presented the UA report on Contingency Allocations for 3 projects. These allocations reflect faculty research needs and equipment purchase that could not reasonably be included in the original bids. UA is reallocating $.2 million of the Chemistry Building Expansion's remaining $1.1 million contingency; $2 million of the Medical Research Building's remaining $2.2 million contingency; and $1.4 million of the Keating Bioresearch Building's remaining $3.6 million contingency. Previous allocations from the contingencies were tied to raw materials cost inflation, improvements in lab and security technologies, and unforeseen underground conditions. The specialized lab space of the Chemistry Building makes it the most expensive recent university construction project. The per square foot cost estimates for the other buildings still appear reasonable after modification.

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

ARIZONA STATE UNIVERSITY - Review of Infrastructure and Sewer Systems Bond Projects.

Ms. Shelli Carol, JLBC Staff, presented the Arizona State University (ASU) request for review of a $14 million Infrastructure Improvement Phase IV and $6 million for a Sewer Systems Expansion. These will be incorporated into a larger $56 million revenue bond issuance in the fall. The infrastructure would be bonded at a term of 20 years at 5% interest rate; and the sewer project would be bonded at a term of 30 years at 6% interest rate. Annual debt service for the projects would be $1.6 million combined paid from tuition and auxiliary revenues. Due to cancellation of the June Committee meeting, ASU has begun construction before review on several components believed to be critical. Staff suggested ASU build more time into its planning process and has provided all the universities with a list of items to be included in the request to streamline the review process. The costs for these projects are reasonable.

Representative Biggs asked why this is under review if they already began the project.

Representative Pearce said they had concerns relevant to an emergency. In this case, there was legitimate reason to go forth with this. But, waiting 3 weeks before a major project goes forward to JCCR knowing there is a chance the meeting could be postponed, is not appropriate planning or gives the opportunity to respond in case of an emergency.

Representative Boone asked when ABOR approved this project.

Ms. Carol said these 2 projects were approved in January.

<u>Representative Boone moved</u> the Committee give a favorable review for both Infrastructure Improvements Phase IV and the Sewer Systems Expansion project, with the following standard university financing provisions:

- *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 <u>do not expand</u> the scope of the project. ASU shall also report to the Committee before any reallocation exceeding $100,000 among the individual planned improvements or expansions.*

- *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. JLBC Staff will inform the university if they do not concur with the emergency nature of the change in scope.*
- *A favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any tuition collections or auxiliary revenues that may be required for debt service, or any operations and maintenance costs when the project is complete. These costs should be considered by the entire Legislature through the budget development process.*

The motion carried.

ARIZONA STATE UNIVERSITY - Review of Revised Project Costs and Scopes.

Ms. Shelli Carol, JLBC Staff, presented the ASU request for review of updates to 2 previously reviewed projects. The Biodesign Institute Building B cost is increasing from $73 million to $78.5 million to upgrade security and laboratory technologies. This increase will be funded through local university sources. The costs for this building are above average but reasonable for the wet laboratories it contains. The other project is Academic Renovations and Deferred Maintenance Phase I. The university cancelled 7 of 11 items involved in this project costing $7.7 million. Instead they are addressing immediate elevator code deficiencies at a cost of $3 million and have added 6 new components related to academic program growth at a cost of $2.9 million. These rearrangements left $1.8 million unassigned and the costs of the projects are reasonable. As with the previous item, ASU has begun construction before review on several of the components. The Biodesign Institute scope increase was reviewed by ABOR in June 2005.

Representative Pearce said there has been an arbitrary order on the elevators, where they are not scheduled for maintenance. Is this part of the project?

Ms. Carol said there was a code concern from the Arizona State Industrial Commission Elevator Safety Division. They adopted code changes that were supposed to be done by January 2005, but gave the university an extension to December 2005.

Mr. Scott Cole, Arizona State University stated the university would not have spent $3 million on the elevator upgrades at this time. It's a mandate that came out of the Arizona Industrial Commission, it was a code change on their part, we have not had problems with these elevators, and they had not expressed any concerns. We have an annual maintenance review of every elevator on campus and this did force us to take $3 million worth of projects off the list to get done. It is a problem, but we are addressing it and we're taking the money to get it done.

Representative Biggs wanted clarification if the Industrial Commission changed their code and now is requiring ASU to come into compliance.

Mr. Cole said that it was a change in the compliance requirements for those elevators and were mandated to change out the elevators by January 2005. The December 2005 date was negotiated because it was short notice.

Mr. Stavneak said they would write to the Industrial Commission to find out more information on the code changes.

Representative Boone moved *the Committee give a favorable review to the scope and cost revision for both projects, with the standard university financing provisions and one special provision as outlined in the July 14, 2005 JLBC memo to the Committee.*

<u>Representative Pearce moved</u> for a substitute motion for an unfavorable review until the Committee gets further information.

Senator Burns said this does not address the Industrial Commission. He asked what kind of bind this would put on ASU and what the leverage the Industrial Commission has over ASU.

Mr. Cole said the Commission could red tag the elevators and they could not be used.

Mr. Boone asked if this project has started.

Mr. Cole said this project has not started.

Representative Boone said he could amend his motion to accommodate the substitute motion.

Senator Burns said the clarification on the motion is that we would give an unfavorable review to the elevator code compliance but it would not stop ASU from going forward.

<u>Representative Boone moved</u> a substitute motion that the Committee give an unfavorable review to the campus elevator issue portion of the projects and that the Committee give a favorable review to the scope and cost revisions for the remaining Academic Renovations and Deferred Maintenance project, and the Biodesign Institute, Building B project with the following provisions:

- *ASU shall submit for Committee review an allocation plan for the remaining $1.8 million associated with Academic Renovations and Deferred Maintenance, Phase I before expending those funds.*
- *ASU shall report to the Committee with a comparison between any compliance costs of the Governor's Executive Order 2005-05, concerning energy efficiency, and operating and other savings generated through those efficiencies.*
- *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 <u>do not expand</u> the scope of the project. ASU shall also report to the Committee before any reallocation exceeding $100,000 among the individual planned renovations.*
- *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 <u>expand</u> 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. JLBC Staff will inform the university if they do not concur with the emergency nature of the change in scope.*

Senator Burns would like to include that the reason for the unfavorable review is due to the elevator code compliance changes from the Industrial Commission.

Representative Tully asked if ASU had discussions resisting the demands.

Mr. Cole said yes, but they were told that it is a code issue and you must comply.

Representative Tully asked if legal counsel was involved.

Mr. Cole said no, they did not get into a legal battle. What they laid out was the fact that in certain locations in the country there were failures of these types of elevators. As a precaution they put this code into effect. We have not experienced any problems with those elevators because we maintain our elevators annually. If we had 5 years to get up speed it would be a lot different, but we had it dropped on to us with less than a 1 year mandate.

The motion carried.

ARIZONA STATE UNIVERSITY - Review of Revised Scopes for Laboratory Renovations.

Ms. Shelli Carol, JLBC Staff, stated this item was sent out separately. It is an ASU request for review of scope revisions to Instructional Research Laboratory Renovations Phases I & II, originally favorably reviewed by the Committee in December 2003 and September 2004. These changes are related to evolving academic program priorities. Phase I is a $10 million project, ASU would reallocate $640,000 for 3 new laboratory renovations. Phase II is an $11.4 million project, ASU would cancel 5 existing components and allocate $9.2 million to 11 new components. All of these projects would include a large contingency of over 18% of the total project cost to cover standard unknowns as well as to prepare labs for yet to be identified or yet to be hired researchers. This large contingency should reduce the possibility of total project cost escalations, but the Committee can expect to see more contingency allocation reports. The per square foot costs for these renovations exceed those of other recent state renovation projects, but JLBC Staff believes they are reasonable due to specialized laboratory needs.

Senator Gould asked if there are studies that show construction manager at risk (CMAR) saves money.

Ms. Carol said we have not done any studies. The universities may have.

Mr. Cole said they did comparisons with their previous methodologies for construction. The CMAR process has been saving 12%-14% in costs and 3-7 months on time depending on the difficulty of the construction.

Senator Gould stated his concern with construction manager at risk is that it does not go out to competitive bid.

Mr. Cole said the method of procurement does solicit firms that are qualified to do the work. They go through a review process to identify which firms are qualified to do the work. They are not bidding on a hard dollar amount, but they are evaluated based upon their credentials and ability to deliver. We are finding that we are getting a better quality product as well, so we are not excluding anyone other than the fact that when you go through the process, if you have not answered all of the questions appropriately, such as you do not have experience in the specific type of laboratories your dealing with, you will be excluded from going on further into the process.

Representative Boone said he disagrees and would like to see the data that shows ASU has experienced savings.

Mr. Cole said he could do that.

<u>Representative Boone moved</u> the Committee give favorable reviews to the scope and cost revisions for Instructional Research Lab Renovations Phases I and II, with the following provisions:

- *ASU shall submit for Committee review an allocation plan for the remaining $1.6 million associated with Instructional/Research Laboratory Renovations Phase II before expending those funds.*
- *ASU shall report to the Committee with a comparison between any compliance costs of the Governor's Executive Order 2005-05, concerning energy efficiency, and operating and other savings generated through those efficiencies.*
- *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 <u>do not expand</u> the scope of the project. ASU shall also report to the Committee before any reallocation exceeding $100,000 among the individual planned renovations.*
- *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 <u>expand</u> 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. JLBC Staff will inform the university if they do not concur with the emergency nature of the change in scope.*

The motion carried.

Without objection the Committee meeting adjourned at 4:11 p.m.

Respectfully submitted:

Yvette Medina, Secretary

Lorenzo Martinez, Assistant Director

Senator Bob Burns, Chairman

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

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HOUSE OF REPRESENTATIVES

DATE: September 1, 2005

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

THRU: Richard Stavneak, Director

FROM: Tyler Palmer, Fiscal Analyst

SUBJECT: Arizona Department of Administration – Review of FY 2006 Building Renewal Allocation Plan

Request

Laws 1986, Chapter 85 established the Joint Committee on Capital Review and charged it with developing a Building Renewal Formula to guide the Legislature in appropriating monies for the maintenance and repair of state buildings. A.R.S. § 41-1252 requires Committee review of expenditure plans for building renewal monies. At its July 21, 2005 meeting, the Committee favorably reviewed the Building Renewal Allocation Plan for $975,000 of the $3.4 million Capital Outlay Stabilization Fund (COSF) appropriation. The Arizona Department of Administration (ADOA) requests Committee review of the Revised FY 2006 Building Renewal Allocation Plan.

Recommendation

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

- The $1,914,000 represents $1,740,000 for the 10 projects detailed in the ADOA Building Renewal Allocation Plan, plus $174,000 for emergency projects and $275,000 for project management as authorized in the Capital Outlay Bill. The 10 projects include:
  1. $80,000 – Department of Revenue for designing fire alarm system
  2. $350,000 – Department of Economic Security for designing and renovating elevators
  3. $600,000 – Department of Revenue for designing and replacing chillers
  4. $280,000 – Department of Health Services for designing and replacing air handler and fans
  5. $10,000 – Arizona Department of Administration for repairing and re-coating roof
  6. $16,000 – Department of Public Safety for replacing roofs
  7. $234,000 – Department of Juvenile Corrections for designing and replacing roofs
  8. $65,000 – Arizona Department of Administration for replacing carpet
  9. $13,000 – Department of Public Safety for replacing carpet
  10. $92,000 – Arizona Department of Corrections for designing and installing generator

(Continued)

- ADOA submit for Committee review any reallocation above $50,000 between the individual projects in the favorably reviewed $2,633,000 (prior $893,000 plus current $1,740,000) Building Renewal Plan.
- ADOA report to JLBC Staff any allocations for FY 2006 emergency projects from the total reviewed $256,000 (prior $82,000 plus current $174,000) amount. JLBC Staff will report to the Committee on significant allocations, typically those above $50,000.

Analysis

Arizona's Building Renewal Formula takes into consideration a facility's age (adjusted to account for major renovations), replacement value, and expected life in determining a suitable appropriation level for repairs. The formula does not account for any maintenance deferred as a result of insufficient past funding. In FY 2005, the Legislature funded 18% of the formula amount. This figure was 18.5% in FY 2004 and 15% in FY 2003. The FY 2006 Capital Outlay Bill (Laws 2005, Chapter 298) appropriated $3.4 million from COSF to fund 15% of the building renewal formula. COSF derives its monies from rent revenues charged to state agencies in state-owned buildings.

At its July 21, 2005 meeting, the Committee favorably reviewed the use of $893,000 for 7 projects, plus $82,000 for emergency projects, for a total of $975,000. ADOA has submitted for review the following additional detail. The costs of these projects appear reasonable and consistent with guidelines for building renewal.

1. Department of Revenue Fire Alarm System Design
   The current fire alarm system was installed in 1988, when the building was completed. Due to the age of the current system many replacement parts require custom manufacturing. ADOA will seek a capital appropriation for construction in FY 2007, and this $80,000 design will provide a basis for the estimated project costs. During building renovations in 2003, a consulting engineer from TRK estimated that a new fire alarm system would cost about $750,000.

2. Department of Economic Security Elevators Design and Renovation
   These elevators are not functioning properly. Some of the common malfunctions include employees trapped between floors, elevator doors jamming, cars failing to level when the doors open, and elevators out of service. Of the total $350,000 amount, $50,000 will be used to design renovations for the six elevators. The remaining $300,000 will be used to renovate a complete bank of three elevators on either the west or the east side of the building. Renovations on the other bank of three elevators will be postponed until future funding is available.

3. Department of Revenue Chillers Design and Replacement
   The building's two chiller tubes have failed and/or are now blocked. The current chillers also use R-11, an obsolete refrigerant, that is only available recycled and at a high cost. Engineers have suggested that installing different sizes and types of chillers results in greater energy efficiency, such as one screw and one centrifugal chiller. Of the total $600,000 amount, $75,000 will be used to design the two new chillers, and the remaining $525,000 will be used for replacement.

4. Department of Health Services Air Handler and Roof Mounted Fans Design and Replacement
   The air handler and roof mounted fans are 42 years old and replacement parts are hard to locate. Furthermore, the fans are expensive to operate. The costs are based on a preliminary estimate, and could escalate if in the design period asbestos or some other obstacle is encountered. Of the total $280,000 amount, $30,000 will be used for design purposes, and the remaining $250,000 will be used for replacement.

(Continued)

5. Arizona Department of Administration Roof Repair and Re-coating
The useful life of the Kingman Office Building roof can be extended approximately 5 years through some repairs and a re-coating at an estimated cost of $10,000. Replacing the roof would cost more than triple the cost of re-coating.

6. Department of Public Safety Roof Replacements
The roofs on the Needles Mt. area office, the Wenden area office, and the Wikieup remote housing unit need to be replaced. These $16,000 replacements are to maintain the useful life of the buildings.

7. Department of Juvenile Corrections Roof Design and Replacement
The flat portion of the roofs on six housing units needs to be replaced to prevent leaking. Of the total $234,000 amount, $42,500 will be used for designing the six roofs. The remaining $191,500 will be used to replace three of the roofs in FY 2006. The other three roofs will be replaced in FY 2007, unless a favorable bid is obtained and funding becomes available.

8. Arizona Department of Administration Re-carpeting
Much of the Executive Tower has been re-carpeted over the past 10 years as part of major remodels and the backfill of the space vacated by ADOA 3 years ago. This $65,000 plan includes re-carpeting the remaining square feet on the 3rd and 4th floors, and the entire 5th floor, for a total of 20,000 square feet. This will complete the re-carpeting for the Executive tower.

9. Department of Public Safety Re-carpeting
Due to age the carpet on the second floor of the Data Processing Building has begun tearing. The $13,000 estimated cost for 4,200 square feet ($27.86/sq. yard) is in line with prior re-carpeting projects.

10. Arizona Department of Corrections Emergency Generator Replacement
The contractor that performed preventative maintenance on the Rincon and Cimarron emergency generators found metal filings in the crankcase oil at Cimarron. This indicates deterioration in the components of the emergency generator, which will eventually lead to the generator not functioning. In order to avoid the potential of complete power failure, the generator needs to be replaced at a cost of $408,000.

The above projects add $1,740,000 to the $893,000 in individual projects already favorably reviewed, for a total of $2,633,000. In addition, $174,000 will be allocated for emergency contingency, increasing the total amount from $82,000 to $256,000. JLBC Staff believe this increased flexibility for emergency response is reasonable. Lastly, $275,000 will be allocated for project management, as authorized in the Capital Outlay Bill. Including this and prior recommendations, $3,164,000 of the appropriated $3,400,000 will have been reviewed by the Committee, leaving $236,000 from COSF to be reviewed in the future.

RS/TP:ck

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HOUSE OF REPRESENTATIVES

DATE: August 22, 2005

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

THRU: Richard Stavneak, Director

FROM: Tyler Palmer, Fiscal Analyst

SUBJECT: Arizona Department of Administration – Review of Refinancing & Renegotiation of the 2000 Private Lease-to-Own Agreement

Request

The Arizona Department of Administration (ADOA) requests the Committee review the refinancing and renegotiation of the 2000 Private Lease-to-Own (PLTO I) agreement.

Recommendation

The JLBC Staff recommends a favorable review of the request, with the following stipulations:
- ADOA report back to the Committee on the interest rate, debt service schedule, costs and estimated savings of the refinanced PLTO after the issuance
- ADOA report back to the Committee details concerning the potential for additional interest rate savings from other debt financed capital projects

The proposed refinancing will involve refunding $80,270,000 in outstanding bonds. Based on the current interest rates, total savings over the life of the PLTO agreement are estimated to be $12,082,000. Most of these savings will be realized in the last 10 years of the agreement, from FY 2018 to FY 2028. Annual debt service payments would maintain a similar payment schedule, but decrease in amount under the proposed refinancing agreement. The repayment period, therefore, would be the same under the proposed refinancing as in the existing agreement.

Analysis

A.R.S. § 41-791.02(E) requires that applicable lease purchase agreements be reviewed by the JCCR before the agreement takes effect. Since the Series 2000 Private Lease to Own (PLTO) agreement was entered into, interest rates have fallen. By refinancing at the current market rates, ADOA projects a total nominal savings of $12,082,000 in reduced debt service costs. Because these cash savings are phased in over the next 22 years, adjusted for inflation and the time value of money, the ADOA proposal would result in a real dollar savings of $3,400,000. The original Series 2000 PLTO was issued to finance the ADOA and the Department of Environmental Quality (DEQ) buildings located on the capitol mall. The projected debt service, current debt service, and projected savings are displayed below in *Table 1*.

Table 1

PLTO I Refinance

Date	Net New Debt Service	Old Net Debt Service	Savings
FY 2007	$ 5,458,500	$ 5,491,400	$ 32,900
FY 2008	5,592,900	5,625,600	32,700
FY 2009	5,726,400	5,760,700	34,300
FY 2010	5,868,300	5,901,200	32,900
FY 2011	6,004,500	6,037,700	33,200
FY 2012	6,150,400	6,182,600	32,200
FY 2013	6,289,100	6,324,900	35,800
FY 2014	6,449,100	6,479,900	30,800
FY 2015	6,597,100	6,630,900	33,800
FY 2016	6,758,500	6,790,400	31,900
FY 2017	6,913,200	6,953,400	40,200
FY 2018	6,957,000	7,112,300	155,300
FY 2019	6,959,900	7,280,500	320,600
FY 2020	6,957,300	7,454,500	497,200
FY 2021	6,963,600	7,627,200	663,600
FY 2022	6,963,100	7,808,100	845,000
FY 2023	6,960,500	7,994,500	1,034,000
FY 2024	6,960,300	8,178,300	1,218,000
FY 2025	6,961,600	8,368,700	1,407,100
FY 2026	6,958,800	8,568,600	1,609,800
FY 2027	6,961,100	8,766,500	1,805,400
FY 2028	6,967,900	9,123,000	2,155,100
Total	**$ 144,379,100**	**$ 156,460,900**	**$ 12,081,800**

To restructure the existing debt service schedule, ADOA will incur transaction costs. The estimated costs are detailed in the table below.

Underwriter Fee	$ 361,200
Insurance	342,800
Issuance Costs	400,000
Total Transaction Costs	$ 1,104,000

The transaction costs are rolled into the overall restructuring payment schedule, and therefore would not affect the overall cost changes indicated above.

This PLTO agreement was enabled by the Government Office Lease Revenue Bonds (Series 2000) issued through the Phoenix Industrial Development Authority (Capitol Mall L.L.C Project). Under a PLTO 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. The lease payment is made through an annual appropriation. Because the financing is not carried by the state, the refinancing ultimately must be done through the private entity, Phoenix Industrial Development Authority (Phoenix IDA). Phoenix IDA has given preliminary indication that it will approve the refinancing. Nevertheless, in order to maintain Phoenix IDA's acceptance with the refinancing, ADOA desires to make the refinancing as effortless and seamless as possible. ADOA's objective is to complete all of the work and present the proposal to Phoenix IDA for approval. Two risks of attempting to refinance a PLTO are that the state could pay the refinancing preparation costs, approximately $400,000, only for Phoenix IDA to deny the refinancing proposal or attempt to renegotiate the lease purchase agreement with increased fees.

RS/TP:ck

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DATE: August 16, 2005

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

THRU: Richard Stavneak, Director

FROM: Jeremy Olsen, Fiscal Analyst

SUBJECT: Arizona Department of Administration – Review of Energy Savings Performance Contract

Request

Pursuant to A.R.S. § 41-1252, the Arizona Department of Administration (ADOA) requests Committee review of its performance contract for energy conservation improvements. Statute requires capital projects which have an estimated cost of $250,000 or greater be submitted to the Committee for review.

Recommendation

The JLBC Staff recommends a favorable review of ADOA's performance contract with Sempra Energy Services for energy conservation improvements.

The total cost of the improvements is $2,335,100. Rather than financing the project on a pay-as-you-go basis, the contract provides for a 15 year payment term. At a 4.3% interest rate, payments over the life of the contract will total $3,230,700. During this time period, the department expects the improvements to result in $7,250,200 in reduced energy costs. Total net savings, therefore, are estimated to be $4,019,500.

Analysis

A.R.S. § 34-451 requires ADOA to reduce energy consumption in all buildings it administers by 10% before July 1, 2008, and by 15% before July 1, 2011. Energy reduction percentages are calculated using energy consumption during FY 2002 as a baseline. A.R.S § 34-455 requires the department to enter into a performance contract to achieve these reductions in energy consumption.

Project Costs
In order to meet these energy conservation goals, ADOA has selected Sempra Energy Services to provide energy conservation improvements. The total cost of these improvements is $2,335,100. In order to meet the energy reduction goal of 15%, the contractor will install energy efficient lighting, utilize fan

(Continued)

scheduling for Heating, Ventilating, and Air Conditioning (HVAC) equipment, and will install a variable speed drive in a chilled water pump which supplies cold water to HVAC equipment in the House and Senate buildings.

Energy Savings Performance Contract Detailed Costs

Lighting Retrofit	$1,315,900
Fan Scheduling	124,400
Variable Speed Drives	30,200
Labor	203,000
Overhead	203,000
Profit	135,400
Technical Audit	119,500
Tax	114,100
Other	89,600
Total	**$2,335,100**

In FY 2003, the State Energy Office (SEO) reported moderate reductions in energy use in state building systems. Overall, the SEO noted that the ADOA, the Arizona Department of Transportation (ADOT), and the Arizona Board of Regents (ABOR) reduced building system energy usage by 2.5% over the baseline year of FY 2002.

The SOE noted that in FY 2004, the ADOA system reduced energy usage by 14.4% over FY 2002, while ADOT reduced energy usage by 9.9% over FY 2002. However, due to increases in building size in the ABOR system at both ASU West and ASU East, overall energy usage in FY 2004 increased in comparison to FY 2002. The report did not provide a comparison for statewide energy consumption to compare to the baseline year.

<u>Financing and Projected Savings</u>
The contract amount of $2,335,100 will be financed over its 15 year term at an interest rate of 4.3%, adding an additional $895,600 in interest to the overall cost of the contract, increasing the total cost of the project to $3,230,700.

The department estimates these improvements will result in energy savings of $410,200 in the first year. Of this amount, $182,800 will be used to pay the contract, while the remaining $227,400 will be retained by the department as savings. ADOA estimates energy costs will increase at an average annual rate of change of 2.3%, which would net the department a total savings of $4,019,500 over the life of the contract.

Pursuant to A.R.S. § 34-456, ADOA retains energy cost savings as “energy conservation funds.” These funds are required to be allocated toward additional energy conservation measures in state facilities. These funds are non-lapsing, and half of the after contract savings are available to the department without further appropriation.

ADOA has not yet determined where the savings from the improvements will be retained, but is considering using a sub-account in the Utility Special Line Item. The Utility Special Line Item provides funding for utility charges (including gas, water, and electric), and is funded from the Capital Outlay Stabilization fund. In FY 2006, the Utility SLI received an appropriation of $5,733,800.

RS/JO:ym

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DATE: August 24, 2005

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

THRU: Richard Stavneak, Director

FROM: Kimberly Cordes-Sween, Fiscal Analyst

SUBJECT: Department of Juvenile Corrections/Arizona Department of Administration – Review of Suicide Prevention Renovations

Request

The Department of Juvenile Corrections (DJC) is requesting Committee review of its proposal to use $1,094,500 of its operating budget for suicide prevention modifications of secure care facilities. The General Appropriation Act (Laws 2005, Chapter 286) includes a footnote authorizing DJC, pending Committee approval, to use up to $6,674,800 of its FY 2006 operating budget to address operating and capital issues related to a federal audit. The total cost of the project includes $793,500 of direct audit-related costs and $301,000 for fire code compliance improvements.

Recommendation

The JLBC Staff recommends a favorable review of the request with the provision that DJC report back to the Committee about whether the Department of Justice (DOJ) believes any additional suicide prevention renovations are required at any DJC facilities. If additional capital work is required, DJC should specify the individual projects required by the federal government to satisfy the terms of the federal audit.

The Committee further requests that DJC's report to the Committee include any correspondence that indicates the federal government perspective on whether DJC's renovation projects have satisfied the conditions of the federal audit.

Analysis

As a result of 3 youth suicides in FY 2003, DJC was investigated by the U.S. Department of Justice (DOJ) for violations of the Civil Rights of Institutionalized Persons Act (CRIPA). On September 15, 2004, the Governor signed a Memorandum of Agreement that requires the DJC to improve certain programs and facilities, including suicide prevention, special education, medical care, and mental health

(Continued)

care. As a contingency of this agreement, the Department of Justice requires a 4-person Consultant Committee to complete CRIPA compliance evaluations every six months until the 3-year agreement period ends in September, 2007. This Committee consists of subject matter experts chosen by the involved parties and includes mostly academic scholars.

As outlined in the Memorandum of Agreement, DJC has agreed to renovate its facilities to ensure youth are held in suicide-resistant rooms. The Agreement defines suicide-resistant rooms as “rooms without protrusions that would enable youth to hang themselves.” The original CRIPA Report in January 2003, identified hazardous ventilation grilles and ceiling vents with “large gauge openings”, exposed bolts on desks, horizontal bars on windows, and holes in bunk bed platforms as potential hanging hazards. Door hinges and shower rods were further suggestions in the first Consultant Report in March 2004.

The suicide prevention renovations began in FY 2003. To date DJC has spent $2,476,800 on suicide prevention renovations. This request to expend an additional $1,094,500 is for the last phase of renovations for all units currently in use at DJC facilities. The Department of Juvenile Corrections is proposing to fully renovate 8 housing units at Adobe Mountain School and intends to make units fire code compliant. Projects will focus on youth rooms and showers including new combination sink and toilet units, furniture, replacement of shower fixtures, installation of improved vents, and new door hinges to eliminate anchor points for youth hanging.

The total cost also includes $301,000 for installation of 4 egress doors at each of 6 units. Units currently do not have easily accessible doors at the ends of hallways and are therefore not fire code compliant as a secure-care facility. Due to the extent of repairs already in progress, the Department of Administration has also requested that DJC bring the units into compliance with fire code regulations.

To complete all modifications, 55,564 square feet would be renovated at a direct construction cost of $902,300, or $16 per square foot. Total project costs equate to $19.70 per square foot. The costs appear reasonable given that the scope of renovations includes mostly minor parts replacement, which does not require extensive construction or demolition. Construction costs do however include demolition of some existing walls for installation of new fire code compliant egress doors.

Estimated costs for the project components are listed in *Table 1*.

Table 1

Category	**Project Cost**
Professional Fees	$ 58,000
Construction Services	902,300
Project Support	24,900
Contingency	109,300
Total	**$1,094,500**

After FY 2006, DJC estimates an additional $180,000 is needed to renovate the 3 remaining unoccupied housing units for CRIPA compliance (a cost of $270,000 including the fire escape doors for fire code compliance). DJC has not yet requested monies for these units since they do not plan to occupy them in the near future.

RS/KC:ck

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DATE: August 19, 2005

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

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: Department of Transportation – Review of FY 2006 Building Renewal Allocation Plan

Request

Laws 1986, Chapter 85 established the Joint Committee on Capital Review and charged it with developing a Building Renewal Formula to guide the Legislature in appropriating monies for the maintenance and repair of state buildings. A.R.S. § 41-1252 requires JCCR review of the expenditure plan for Building Renewal monies. The Arizona Department of Transportation (ADOT) requests that the Committee review its $3,702,900 FY 2006 Building Renewal allocation plan, including $3,627,100 from the State Highway Fund and $75,800 from the State Aviation Fund.

Recommendation

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

- ADOT report to JLBC Staff any allocations for FY 2006 projects from the $225,300 contingency amount. JLBC Staff will report to the Committee on significant allocations, typically those above $50,000.
- ADOT submit for Committee review any reallocation above $50,000 between the individual projects in the $3,702,900 favorably reviewed plan.

ADOT has allocated $3,401,800 from the State Highway Fund among 223 projects leaving a contingency amount of $225,300. ADOT has allocated $75,800 from the State Aviation Fund for 2 projects. All of the projects fit within the guidelines for building renewal projects.

Analysis

The Capital Outlay Bill (Laws 2005, Chapter 298) appropriated a total of $3,702,900 to ADOT for building renewal in FY 2006, including $3,627,100 from the State Highway Fund and $75,800 from the State Aviation Fund. The FY 2006 Building Renewal appropriations represent 100% of the amount generated by the Building Renewal Formula for the ADOT Building System and 100% for the Grand

(Continued)

Canyon Airport. ADOT expects to allocate the Building Renewal monies from the State Highway Fund in the following categories for 223 projects:

Category	Projects	State Highway Fund	% of Total
Fire/Life/Safety	11	$ 211,400	5.8%
Roofs Repair/Replacement	15	265,300	7.3
Exterior Preservation (Doors, Windows, Siding)	55	463,800	12.8
Building Systems (HVAC, Electrical, Plumbing)	35	742,400	20.5
Interior Finishes (Paint, Carpet, Tile)	58	554,100	15.3
Remodel	20	700,100	19.3
Americans with Disabilities Act	14	206,700	5.7
Infrastructure (Sewers, Parking)	15	258,000	7.1
Contingencies		225,300	6.2
Total	**223**	**$3,627,100**	**100.0%**

For the Committee's information, the following 13 State Highway Fund projects require $50,000 or more:

Project	Allocation
Asbestos abatement for renewal projects – Statewide	$ 100,000
Roof inspections – Southern Region	90,000
Renovate elevators – Engineering Building 205 S. 17th Ave	193,000
Renovate freight elevator – MVD Building 1801 W. Jefferson St	103,000
Replace carpet – Arizona Highways Magazine 2039 W. Lewis	80,000
Replace carpet – Facilities Management Building 1655 W. Jackson	65,000
Consultant project managers – Central Region Projects 1/	100,000
Renovate restrooms – Traffic Signal Operations 2104 S. 22nd Ave	80,000
Renovate employee restrooms – Mesa MVD 1840 S. Mesa Drive	50,000
Replace customer counters – S. Mountain MVD 221 E. Olympic Drive	80,000
Renovate lab restrooms – Phoenix Maintenance District Headquarters	60,000
Install training facility restrooms – Phoenix Maintenance District HQ	80,000
Replace electrical service panels – Phoenix Maintenance District HQ	60,000
Subtotal	**$1,141,000**

1/ ADOT is using project management consultants in the Metro Phoenix region, and their own project management staff for the northern and southern regions.

ADOT expects to allocate the $75,800 of Building Renewal monies from the State Aviation Fund for 2 projects, including $50,000 to re-roof the Grand Canyon Airport terminal and $25,800 to replace the water line for Grand Canyon Airport housing.

The JLBC Staff recommends a favorable review of the FY 2006 expenditure plan. The attached material submitted by ADOT lists each project and its estimated cost. The projects are consistent with Building Renewal guidelines and appropriations.

RS/BH:ym

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DATE: August 25, 2005

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

THRU: Richard Stavneak, Director

FROM: Shelli Carol, Fiscal Analyst

SUBJECT: Arizona State University – Review of Academic Renovations and Deferred Maintenance Phase I Update

Request

A.R.S. § 15-1683 requires Committee review of any university projects financed with system revenue bonds. Arizona State University (ASU) requests Committee review of scope revisions for Academic Renovations and Deferred Maintenance, Phase I, a system revenue bond project. The Committee first favorably reviewed this project at its June 2004 meeting.

Subsequently, in discussions with the Arizona State Industrial Commission's Elevator Safety Division concerning code revisions, ASU increased the priority of renovations for 18 university elevators at a cost of $3 million. Addressing the specific code concern of the Industrial Commission would cost around $50,000 per elevator, while simultaneously addressing all other code deficiencies for those elevators would cost an additional $150,000 per elevator. ASU also prioritized 6 new renovations relating to academic program growth.

At its July 2005 meeting, the Committee unfavorably reviewed the elevator upgrade component due to its cost and uncertainty over its urgency. Meanwhile, the Committee favorably reviewed the remaining scope changes of the project. With those reviews, the Committee requested additional information from the Industrial Commission and asked ASU to submit for review the renovations planned with the remaining $1.8 million of the $10 million overall project.

In its response, the Industrial Commission stated that it made changes to align with new national codes, that serious injuries and liabilities were possible without the elevator upgrades, and that the Commission has not imposed a deadline on ASU. Meanwhile, the university placed the elevator retrofits on hold. Additionally, ASU has expanded the scope of 2 non-elevator-related renovations and added 2 new renovations to utilize the remainder of the project monies.

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Recommendation

Concerning the elevator code upgrade component of Academic Renovations and Deferred Maintenance, Phase I, the Committee has, at least, the following options:

- Retention of the current unfavorable review, pending full Legislative consideration of all elevators statewide requiring these upgrades. This option would not require a new Committee vote.
- A favorable review, with the provision that the Industrial Commission allow ASU another 2 years to complete the elevator upgrades.
- A favorable review, with the provision that ASU complete the upgrades, as scheduled, by December 2005.

JLBC Staff recommends a favorable review of the remainder of Academic Renovations and Deferred Maintenance, with the following standard university financing provisions:

- ASU shall report to the Committee with a comparison between any compliance costs of the Governor's Executive Order 2005-05, concerning energy efficiency, and operating and other savings generated through those efficiencies.
- 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. ASU shall also report to the Committee before any reallocation exceeding $100,000 among the individual planned renovations.
- 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. JLBC Staff will inform the university if they do not concur with the emergency nature of the change in scope.

Analysis

At the time of the Committee's first favorable review, in June 2004, ASU planned to renovate 11 buildings, covering approximately 75,000 square-feet, at an estimated total cost of $10 million. Typical building renovation categories are fire and life safety improvements, preservation of assets, and critical repairs for continued operation of existing programs. Typical building renewal projects include replacement of utility distribution systems; Heating, Ventilating, Air Conditioning (HVAC) systems; and roofs. All 11 buildings required major renovations and some violated life safety codes.

However, code revisions published by the Arizona State Industrial Commission Elevator Safety Division led ASU to revise its Academic Renovations and Deferred Maintenance project. The Commission required modifications to 21 university elevators by January 2005. By July 2004, ASU did not believe it could meet the original January 2005 deadline and notified the Industrial Commission of its difficulty. Apparently, existing ASU budgets were only able to support the renovation of 3 affected elevators by that date.

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Subsequent to the notification, ASU and Industrial Commission staff met to discuss the issue. University officials suggested a three-year timeframe for the remaining elevator work, but according to ASU, Commission staff expressed a preference for a one-year proposal. ASU legal counsel advised the university to do its best to comply with that verbal indication. By June 2005, ASU sent another letter to the Industrial Commission expressing concerns that it could not complete the upgrades by December 2005.

To comply with national codes, as well as to reduce costs and maximize efficiencies, ASU planned to conduct all needed elevator upgrades and deferred maintenance at one time, at a cost of around $3 million. ASU reports that the specific changes required by the Industrial Commission would cost $50,000 per elevator, while additional code compliance retrofits addressing controls, cabs, and infrastructure would cost around $150,000 per elevator.

Adding the elevator work and 6 new renovations relating to academic program growth and canceling 7 previously reviewed renovations, ASU submitted its revised Academic Renovations and Deferred Maintenance project for review in July 2005. At that time, the project covered 9 buildings and 44,800 square feet, as well as the elevator upgrades.

The Committee unfavorably reviewed the elevator component due to its cost and uncertainty over its urgency. The Committee also requested more information from the Industrial Commission. As a result, ASU put the elevator upgrades on hold.

In a letter to JLBC Staff on July 29, 2005, the Commission explained that in 2004, it adopted national code changes made by the American Society of Mechanical Engineers in 2000. The Commission notified ASU and other impacted state agencies of these requirements as early as October 2003. Without the required upgrades, certain hydraulic elevators manufactured before 1971 are in danger of catastrophic failure. While ASU previously suggested to the Committee that a slow descent of a faulty elevator was the worst possible scenario, the Industrial Commission states that rapid falls and serious injuries are possible.

The Industrial Commission is not aware of any specific elevator failures at ASU, but knows this kind of failure has occurred elsewhere in the country. Since the Commission's Elevator Safety Division came into existence after 1971, it cannot provide records of ASU elevators. The Commission states that it has not yet received an inventory from ASU of elevators needing repair. Lastly, for comparison with the stated ASU cost of $50,000 per upgrade, the Commission indicated a rough cost estimate of $30,000 to $40,000 per elevator retrofit, based on some conversations with others in the industry.

The Industrial Commission elevator code changes affect agencies around the state. Therefore, regarding the elevator code upgrade component of this ASU project, the Committee could defer the issue to the full Legislature, which would not require any further action. The Committee also has at least the options of provisioning that ASU complete the retrofit by the previously stated deadline of December 2005 or allowing ASU extra time for the upgrades.

Concerning the remainder of Academic Renovations and Deferred Maintenance, Phase I, ASU has been able to complete the Psychology Floors 2 & 3 component under budget, freeing $0.1 million for other portions of the project. Additionally, the Social Sciences and Psychology Floor 1 renovations' costs have collectively increased by $0.5 million due to previously unknown site conditions, new fire

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codes, and evolving academic needs. ASU seeks to reconfigure recently freed spaces in Wilson Hall and the Family Studies Building to house certain university administrative offices, the Justice Studies program, and a Graduate Student Center. Lastly, ASU would upgrade the electrical service in Great Hall, which has no remaining power capacity. These latter 2 elements have a total cost of $1.4 million.

Academic Renovations and Deferred Maintenance, Phase I, as revised, would renovate approximately 55,400 square feet in 11 buildings. The project remains on its revised schedule for completion in November 2006. *Table 1* summarizes the status, estimated capital costs, and scopes of both the previously reviewed and newly proposed renovations.

Table 1

ASU Academic Renovations and Deferred Maintenance Phase I Status, Costs, and Scope

Building	Request	Ext. Structure	Int. Structure	Air	Plumbing	Electric	Safety
Continuing Projects							
University Archives	$ 1,200,000	X	X	X	X	X	X
Armstrong Hall	363,000		X		X	X	
Language & Literature	362,500		X				
East Engineering Labs	1,100,000	X	X	X	X	X	
Ceramics Relocation	250,000		X				
East Flight Simulator	291,800	X	X	X	X	X	
Continuing Subtotal	*$ 3,567,300*						
Adjusted Projects							
Psychology Floors 2 & 3	$ 615,000		X			X	
Social Sciences	650,000		X				
Psychology Floor 1	765,700		X				X
Adjusted Subtotal	*$ 2,030,700*						
Planned Projects							
Wilson / Family Studies	$ 650,000		X				X
Great Hall Electrical	732,000					X	
Planned Subtotal	*$ 1,382,000*						
Elevators - On Hold	*$ 3,020,000*	_	X	_	_	_	_
Construction Total	**$10,000,000**	**3**	**11**	**3**	**4**	**6**	**3**
Cancelled Projects							
Payne Hall	$1,600,000	X	X	X	X	X	
Nursing	1,500,000	X	X	X	X	X	X
Farmer Education	1,300,000	X	X	X	X	X	X
Dixie Gammage Hall	960,000	X	X	X	X	X	X
Durham Language	884,000	X	X	X	X	X	
Schwada Classroom Office	800,000	X	X	X	X		X
Wilson Hall	668,000	X	X	X	X	X	X
Cancelled Total	**$7,712,000**	**7**	**7**	**7**	**7**	**6**	**5**
Locally Retained Tuition							
Ross-Blakely Law Library	$40,000		X				

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These scope changes would add an additional $22,000 for furniture, fixtures, and equipment, as well as $3,600 for parking and landscaping. The revised total cost per square foot for this project would be approximately $181 ($133 originally; $183 at last review) and the direct construction cost per square foot would be $136 ($100 originally; $140 at last review). These estimates are above the average per-square-foot cost of other Committee-reviewed university renovation projects, but below the per-square-foot costs favorably reviewed for this project by the Committee in July 2005.

Since renewal and renovation projects often combine both minor and major work, it is difficult to make meaningful comparisons among them. However, due to the emphasis on elevator upgrades, JLBC Staff believes the per-square-foot costs for Academic Renovations and Deferred Maintenance, Phase I are reasonable. *Table 2* compares the costs of some assorted renovation projects.

Table 2

Selected Building Renewal/Renovation Projects
Estimated Per Square Foot Costs

Project	Total Project Cost	Total Cost Per Square Foot	Direct Construction Cost Per Square Foot
ASU-Backfill Space Renovation II	$ 3,800,000	$ 40	$ 24
Treasurer Renovations	360,000	42	34
UA-Residential Life Building Renewal Phase I	8,600,000	61	51
AVERAGE		***$138***	***$106***
NAU-School of Communication Building Renovations	14,020,000	154	131
ASU-Academic Renovations & Deferred Maintenance Phase I	**10,000,000**	**181**	**136**
ASU-Instruction/Research Laboratory Renovations Phase I	10,000,000	238	213
ASU-Instruction/Research Laboratory Renovations Phase II	11,447,000	293	185

Comments: Costs are not adjusted for general or materials inflation.

ASU would contract these scope revisions using Construction Manager at Risk (CMAR). In CMAR, a competitively selected General Contractor manages a construction project, including the associated architect and other subcontractors, from design to completion. CMAR defines a guaranteed maximum price, after which the General Contractor must absorb almost all cost increases, except those caused by scope changes or unknown site conditions. Occasionally, in the case of substantial materials price inflation, a university will partially cover higher costs to maintain good contractor relations.

The last JCCR meeting raised questions on the cost effectiveness of the CMAR method, as compared to the previous method of choice, Design-Bid-Build. To demonstrate the time and cost savings of using CMAR, ASU provided the example of Interdisciplinary Science and Technology Building (ISTB) II, an $18 million research infrastructure project, which the Committee favorably reviewed in March 2004. By involvement in the design phase, the General Contractor can pre-purchase certain specialty construction materials. In the case of ISTB II, ASU estimates this integration reduced the construction schedule by 8 weeks, compared to the Design-Bid-Build method, and saved $78,000. Additionally, CMAR reduces the occurrence of change orders, which ASU believes saved $602,000 on ISTB II. ASU also states that CMAR produces buildings of higher quality.

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DATE: August 23, 2005

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

THRU: Richard Stavneak, Director

FROM: Amy Strauss, Fiscal Analyst

SUBJECT: Northern Arizona University – Review of New Parking Structure

Request

A.R.S. § 15-1683 requires Committee review of any university projects financed with bond proceeds. Northern Arizona University (NAU) requests Committee review of a new $15 million parking structure. NAU would finance the project with auxiliary revenue bonds.

Recommendation

The Committee has, at least, the following options:

- A favorable review, with the standard university financing provisions (listed below).
- NAU 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 <u>do not expand</u> the scope of the project.
- NAU 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 <u>expand</u> 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. JLBC Staff will inform the university if they do not concur with the emergency nature of the change in scope.
- A favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any auxiliary revenues that may be required for debt service costs when the project is complete. These costs should be considered by the entire Legislature through the budget development process.

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NAU plans to start construction in September 2005. The university anticipates issuing the auxiliary revenue bonds in November, with a Standard & Poor's A+, Moody's A2 credit rating, for a term of 35 years, at an estimated interest rate of 5.5%. NAU plans to utilize reserves (plant funds) as temporary funding and will reimburse reserves once the bonds are sold. Total annual debt service would be approximately $935,000, paid from auxiliary parking revenues and local funds. The total 35-year debt service would be $32.7 million. Permits and auxiliary maintenance revenues will cover the $935,000 debt service, with an additional net income of $34,800.

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. The $15 million auxiliary revenue bond issuance would increase the NAU debt ratio from 5.69% to 5.95%.

Analysis

A.R.S. § 15-1683 gives each state university the authority to issue bonds.

New Parking Structure

The parking structure will be a 900-car, 4-level structure located on an existing parking lot. It would be located at the central campus at Riordan Road and Knoles Drive to eliminate interior surface parking and consolidate spaces. The project merges five surface parking areas along Knoles Drive and two interior, for a total of 800 spaces. This eliminates multiple, interior surface parking lots, which dissect the campus and cover approximately 65 acres of University land. NAU maintains that the central location of the structure allows for public parking during activities and other campus venues, in addition to student parking. The initial 208 spaces displaced by the construction on the existing parking lot will be relocated to another parking lot with shuttle service or to residence hall parking lots.

Of the $15 million total estimated cost, $13.9 million will be allocated toward the parking structure, including $11.5 million for construction costs and $2.4 million for design, consulting, project management, and equipment. The remaining $1.1 million will fund a road realignment at $640,000 and a pedestrian bridge at $480,000. The capital development plan for the project anticipated closing Riordan Road to make way for the new parking structure; however, closing the road would hinder adequate response by the Flagstaff Fire Department, and traffic flow on campus during events. An enclosed pedestrian bridge is also included in the project, to connect the second floor of the parking structure to an adjacent University building.

Table 1 compares the per-space costs of the parking structure to those at other universities. *Table 1* does not adjust earlier project costs for general or materials inflation. In the past few years, however, material costs have risen markedly due to increasing worldwide demand.

Table 1

Comparison of Similar Parking Structures

Institution	Levels	Spaces	Price Per Space	Total Cost	Annual Debt Service
NAU	4	900	$15,424	$13,900,000*	$935,000
U of A	NA	1,516	$11,800	$18,000,000	$1,016,900
ASU	6	1,635	$9,969	$16,300,000	$976,000

* Total cost for parking structure only. Does not include costs associated with road realignment or pedestrian bridge.

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The parking structure would have a total cost per parking space of $15,424. As *Table 1* illustrates, the project has a cost per space that is substantially higher than comparable projects.

The comparatively fewer spaces, coupled with heightened costs of construction in the Flagstaff area, account for the difference in cost. NAU would contract the bond project using Construction Manager at Risk (CMAR). In CMAR, a competitively selected general contractor manages a construction project, including the associated architect and other subcontractors, from design to completion. CMAR defines a guaranteed maximum price, after which the general contractor must absorb almost all cost increases, except those caused by scope changes or unknown site conditions. Occasionally in the case of substantial materials price inflation, a university will partially cover higher costs to maintain good contractor relations.

Financing

Of the $15 million total cost for this project, auxiliary revenue bonds would fund the entire $15 million. The project creates revenue to support debt service, operations and maintenance costs through the sale of permits, short term parking fees, event parking fees, and higher permit fees. Parking auxiliary local system funds will cover first year maintenance costs. Expected growth in fee and usage will eliminate the system auxiliary local system funding.

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