

STATE OF ARIZONA

Joint Committee on Capital Review

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HOUSE OF
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LAURA KNAPERREK
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LINDA J. LOPEZ
RUSSELL K. PEARCE
MARION L. PICKENS

JOINT COMMITTEE ON CAPITAL REVIEW

Thursday, September 19, 2002

1:30 p.m.

House Hearing Room 4

AGENDA

- Call to Order
- Approval of Minutes of August 22, 2002.
- DIRECTOR'S REPORT (if necessary).
- 1. DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS – Review Scope, Purpose, and Estimated Cost of Yuma Armory Project.
- 2. ARIZONA DEPARTMENT OF ADMINISTRATION/DEPARTMENT OF HEALTH SERVICES – Report on Arizona State Hospital Construction Project.
- 3. SCHOOL FACILITIES BOARD – Continuation of Presentation on Qwest Contract, Lease-to-Own Financing, and Other School Facilities Board Items.

The Chairman reserves the right to set the order of the agenda.

09/12/02

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DATE: September 11, 2002

TO: Representative Laura Knaperek, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Steve Grunig, Fiscal Analyst

SUBJECT: DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS - REVIEW OF
SCOPE, PURPOSE AND ESTIMATED COST OF YUMA ARMORY PROJECT

Request

Pursuant to A.R.S. § 41-1252(C), the Department of Emergency and Military Affairs (DEMA) requests that the Committee review its plan to spend \$371,000 appropriated from the General Fund to DEMA in FY 2002 for construction of an Army National Guard training and community center in Yuma.

Recommendation

The JLBC Staff recommends a favorable review of the request. DEMA anticipates a total project cost of \$2,868,900. The project is funded with a \$371,000 General Fund appropriation and the remaining \$2,497,900 will consist of \$1,731,125 from the federal government, \$150,000 from the City of Yuma, \$216,775 from the sale of closed armories, and \$400,000 from the sale of armory property to the City of Yuma.

Analysis

Laws 2001, Chapter 311, made a FY 2002 appropriation of \$371,000 from the General Fund to DEMA for construction of an Army National Guard training and community center in Yuma. A.R.S. § 41-1252(C) requires that the Committee review the scope, purpose and estimated cost of this project.

The present National Guard facility in Yuma is 42 years old and would require renovation in order to continue being used. The current facility was built to serve 48 soldiers, rather than 100 soldiers that will use the new facility. The current facility is also becoming surrounded by redevelopment projects along the Colorado River and the armory does not fit with future plans for the area. The proposal would relocate the armory to a 5 acre site adjacent to Arizona Western College. The City of Yuma would

(Continued)

acquire the 2.88 acre site where the current armory is located and lease the new location to the National Guard over 70 years for \$1 a year. The city will pay DEMA \$400,000 to acquire the old armory property. The City of Yuma plans to use the new facility for community activities when it is not being used by the National Guard.

Under DEMA's proposed plan, the department would construct a 19,683 square foot Training and Community Center. The primary purpose of the facility is to serve as a 100 soldier armory. The facility has a multi-purpose design which makes it suitable as an armory and also allows a variety of community events to be held there. The facility will also provide space for state and federal required disaster recovery operations.

Federal guidelines require the State to provide the land, site preparation and to match at least 25% of armory construction costs. The contribution of each party is shown below. Partial funding comes from the State Armory Property Fund which received proceeds of the sale of the Bisbee armory and part of the armory land at the Silverlake armory in Tucson.

<u>Cost parties</u>	<u>Contribution</u>	<u>% of Total</u>
Federal	\$1,731,125	60.4%
City of Yuma	\$ 150,000	5.2%
State		
FY 02 Appropriation	\$ 371,000	12.9%
Sale of Closed Armories	\$ 216,775	7.6%
Sale of Yuma Armory	\$ <u>400,000</u>	<u>13.9%</u>
Total State Share	\$ 987,775	34.4%
Total Project Cost	\$ 2,868,900	100%

As the proposed project is consistent with the intent of the appropriation and the cost appears reasonable as compared to the national average for similar facilities, the JLBC Staff recommends that the Committee give a favorable review.

RS/SG:jb



JANE DEE HULL
GOVERNOR

STATE OF ARIZONA
Department of Emergency And Military Affairs
5636 EAST McDOWELL ROAD
PHOENIX, ARIZONA 85008-3495
(602) 267-2700 DSN: 853-2700



THE ADJUTANT GENERAL
MAJ. GEN. DAVID P. RATA CZAK
DIRECTOR

September 6, 2002

The Honorable Laura Knaperek
Chair, Joint Committee on Capitol Review
Arizona House of Representatives
1700 W. Washington
Phoenix, AZ 85007



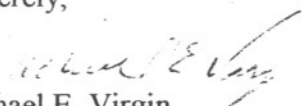
Dear Representative Knaperek:

I respectfully request the Yuma Armory Project be included on the agenda for the Joint Committee on Capitol Review September meeting.

The Arizona Army National Guard is seeking approval for a joint partnership to build a training and community center that meets the needs of the National Guard and the City of Yuma.

Thank you for your favorable consideration.

Sincerely,


Michael E. Virgin
Director
Joint Programs

Enclosure

Cf: Senator Solomon, Co-chair JCCR
JCCR
JLBC
OSPB

YUMA TRAINING AND COMMUNITY CENTER

National Guard Bureau Project No. 040007

24th Street and Arabi Street

Adjacent to Arizona Western College

The Arizona Army National Guard (AZ ARNG) and the City of Yuma have entered into a agreement to build a 19,683 square foot Training and Community Center. Federal guidelines require the State to provide the land, site preparation and to match of least 25% of the construction cost. The Yuma facility will be a jointly planned and financed by federal, state, and the City of Yuma, and will be constructed on 5 acres of city land leased to the AZ ARNG for 70 years.

PROJECT DATA:

- 100 soldiers armory
- Total cost \$2,868,900.
- 19,683 square foot
- Cost per sq ft \$143.13
- Cost parties
 - Federal \$1,731,125.
 - State \$ 987,775.
 - City of Yuma \$ 150,000.
 - Total \$2,868,900.

STATE FUNDING BREAKOUT

- | | |
|---|------------|
| • State FY02 construction appropriation | \$371,000. |
| • Sale of closed armories | \$216,775 |
| • Sale of Yuma armory to City | \$400,000 |

Other facts

- Current Armory 42 years old
- City of Yuma is providing land

Background:

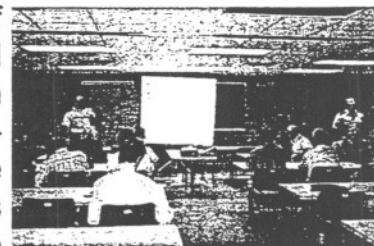
The proposed Center is an idea adopted from the State of Minnesota. The concept is based upon sharing the burden of design, construction and maintenance, which is beneficial for both parties involved. Positive outcomes of these facilities in Minnesota include, a symbiotic relationship between the National Guard and the community, a positive impact on Guard unit recruiting and retention, and the creation of a cost effective model by which other Training and Community Centers can be built.



centers around this concept. The building provides for all aspects necessary for the training of Guardsmen and the activities of the community by ensuring that the space is interchangeable. For example, the drill floor will be utilized by the Guardsmen for training, but can be partitioned off to support several community events, and in the same respect, the Guard will benefit from additional features such as conference rooms, recreational areas, and additional office space. A larger facility will also provide space for state and federal required disaster recovery operations.

The development of facilities like this, will also aid in recruiting and retaining soldiers. Every year we spend millions of dollars to train National Guard recruits, and every year soldier retention becomes more difficult. A large portion of the retention problem is due to substandard facilities and inadequate space to perform mission requirements. Funds to rehabilitate some of the old armories are constrained, and a modern multipurpose facility would prove to be more cost effective in attracting and retaining quality personnel, as well as improving the quality of life of current soldiers.

Finally, and most importantly, shared financing provides a multitude of benefits, including construction and maintenance costs, utility costs, and utilization of space. Working together with the City will ensure that both parties incorporate their needs into the building, while construction remains at the lowest possible cost. While the sharing of cost can be used to add features that would have otherwise not been possible, it is useful in practical purposes as well. Classrooms, assembly halls, office space, locker rooms, and parking are utilized by both parties, as are the basic utilities. The combining of resources, as proven in Minnesota, provides extraordinary products through cost effective measures.



The proposed site for this facility is on 5 acres of land at 24th and Arabi Streets, adjacent to Arizona Western College. The City of Yuma has begun a strategic initiative to plan and develop the Colorado river front area for the benefit of Yuma residents and visitors, therefore, they wish to acquire the land presently occupied by the Yuma Readiness Center. State Legislature has recently passed legislation that allows the Arizona National Guard to sell property and use that income for new construction or capital improvement, and through this legislation has essentially made the new Yuma Training and Community Center a realistic possibility.

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DATE: September 11, 2002

TO: Representative Laura Knaperek, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Gina Guarascio, Senior Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF ADMINISTRATION/ DEPARTMENT OF HEALTH
SERVICES - REPORT ON THE ARIZONA STATE HOSPITAL CONSTRUCTION
PROJECT

Request

Pursuant to Laws 2000, Chapter 1, the Arizona Department of Administration (ADOA) and the Department of Health Services (DHS) are providing a quarterly status report on the Arizona State Hospital (ASH) demolition and construction project.

Recommendation

This item is for information only and no Committee action is required. The adolescent facility is now occupied, as is a clinical administration building. Construction activity is continuing on the new civil hospital, and infrastructure activities are on-going.

Analysis

Background

Laws 2000, Chapter 1, as amended by Laws 2000, 7th Special Session, Chapter 1, and Laws 2002, 2nd Special Session, Chapter 3, appropriated \$77.5 million from the Budget Stabilization Fund over 4 years for the demolition, construction and renovation of ASH. ADOA is to use the appropriations to provide at least 176 new civil beds at ASH, and to renovate and expand existing facilities to address physical plant needs for civil and forensic populations, an adolescent unit, and sexually violent offenders. The legislation also created the Arizona State Hospital Capital Construction Commission and charged them with reviewing capital construction and renovation plans at ASH for the purpose of making recommendations to ADOA and JCCR. ADOA and DHS are required to report at the end of each quarter to the Committee on the status of the ASH project. This report represents the eighth of these quarterly reports.

(Continued)

Quarterly Update and Status Report

The table below presents the amounts ADOA and DHS have budgeted for each portion of the ASH demolition and construction project.

	Proposed Budget By Project
SVP Program	\$ 5,869,200
Civil Hospital and Adolescent Facility	45,037,700
Sitework/Tunnels/Telephone/Data	12,364,900
Forensic Hospital	12,685,000
Contingency	<u>1,543,200</u>
TOTAL	\$77,500,000

The Committee favorably reviewed an expenditure plan for construction of 2 new 60-bed dormitories for the Sexually Violent Persons (SVP) program using the Inmate Construction program. Both dormitories are now complete.

The Committee has also favorably reviewed an expenditure plan to address infrastructure issues at ASH, including telecommunications expansion, repair of sewer lines, repairs to address water temperature control issues, as well as Central Plant repairs. Infrastructure rerouting is now about 98% complete. ADOA has completed all Central Plant upgrades.

Building shells are in place for all planned buildings. ADOA completed the adolescent facility in July, and patients began occupying the facility on July 16, 2002. Completion of the new civil facility is scheduled for the late fall of 2002, with patient occupancy planned for mid-December.

In August of 2001, JCCR favorably reviewed an expenditure plan for the renovation of Cholla Hall for use as a support building for the SVP program. Renovation of this facility is underway and is scheduled for completion in January of 2003.

At its June meeting, the Committee favorably reviewed the expenditure plan for the renovation of the forensic hospital. ADOA is proceeding with work on the forensic hospital renovation. Abatement of the Juniper building is now underway.

RS/GG:jb

JANE DEE HULL
GOVERNOR



J. ELLIOTT HIBBS
DIRECTOR

ARIZONA DEPARTMENT OF ADMINISTRATION
100 NORTH 15TH AVENUE, SUITE 202
PHOENIX, ARIZONA 85007

August 26, 2002

The Honorable Laura Knaperek, Chairman
Joint Committee on Capital Review
1700 West Washington
Phoenix, Arizona 85007

RE: Arizona State Hospital Quarterly Report

Dear Representative Knaperek:

In accordance with Laws 2000, Chapter 1, First Regular Session, the Arizona Department of Administration (ADOA) and the Arizona Department of Health Services (ADHS) are required to report to the Joint Committee on Capital Review (JCCR) regarding procurement progress for design and construction of the Arizona State Hospital.

Information on the progress of abatement and demolition is provided along with other related activities, all work is proceeding according to schedule and budget:

- 1 The Civil and Adolescent facilities are progressing as scheduled. All the building shells are complete. Interior framing has started on all buildings. The Adolescent facility move in date was July 16, 2002. Occupancy of the Clinical Administration Building "D" occurred August 22, 2002.
- 2 Infrastructure rerouting is under way at 98% complete with the placement of all main trunk lines and connections to the Central Plant. Connecting to the buildings continues, the east portion of the campus is now operating with the four pipe system.
- 3 The Telecommunications and data are now complete and awaiting connection to the Civil Hospital.
- 4 The Cholla Hall Renovation is underway with completion in January 2003.
- 5 ADHS and ADOA began design work on the Forensic Renovation (Junipers & Wicks) with the Smith Group Architects and the Construction Manager Sundt. On June 20, 2002 the JCCR gave a favorable review to begin renovation of the Juniper & Wick Units. Abatement of Juniper 3 will begin August 28, 2002.
- 6 On June 20, 2002, the JCCR gave a favorable review to change the scope of work on the Training and Education Building to Enclosure of the Arizona Community Protection Treatment Center. This work can now be scheduled.

No formal action is required, this report is informational. Do not hesitate to contact me at (602) 542-1701 if you wish to discuss this matter further.

Sincerely,

A handwritten signature in dark ink, appearing to read "Robert Teel".

Robert Teel, Assistant Director ADOA GSD

cc: The Honorable Ruth Solomon Arizona State Senate
Tom Betsch, Director, OSPB
Richard Stavneak, Staff Director, JLBC
Lorenzo Martinez, JLBC
Elliott Hibbs Director, ADOA
Bruce Ringwald, General Manager ADOA Construction Services
Catherine R. Eden, Director, ADHS
Leslie Schwalbe, Deputy Director, ADHS
Danny Valenzuela, Deputy Director, ADHS
Jack Silver, Superintendent, Arizona State Hospital
Walter Scott, Chief Operating Officer, Arizona State Hospital
Gene Messer, Director, Arizona Community Protection Treatment Center
Pat Mah, Budget Administrator, DHS



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DATE: September 11, 2002

TO: Representative Laura Knaperek, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Jake Corey, Fiscal Analyst

SUBJECT: SCHOOL FACILITIES BOARD – CONTINUATION OF PRESENTATION ON QWEST
CONTRACT, LEASE-TO-OWN FINANCING, AND OTHER SCHOOL FACILITIES
BOARD ITEMS

At the request of the Chairman of the Committee, the School Facilities Board (SFB) was to give a presentation at the August, 2002 Committee meeting on 1) the revised networking and internet connectivity contract with Qwest, and 2) the board's current status and future plans for implementing lease-to-own financing for new school construction. Though the Committee heard the presentation on the Qwest contract, discussion of the item was not concluded at the meeting, and is therefore to be continued at the September, 2002 meeting. The presentation on lease-to-own financing was not heard during the August, 2002 meeting, but was also delayed until the September, 2002 meeting.

In addition, the School Facilities Board (SFB) is reporting its plans to transfer \$113 million from the Deficiencies Correction Fund to the New School Facilities Fund. The purpose of the transfer is so that the board may continue to fund new construction costs until the time it receives financing from any lease-to-own agreements. Proceeds from the lease-to-own financing agreements will be used to reimburse the Deficiencies Correction Fund.

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

Laws 2002, Chapter 330 replaced "pay-as-you-go" financing for new school construction in FY 2003 with lease-to-own financing. The board is authorized to enter into lease-to-own agreements of a maximum of \$400 million in FY 2003. The board reports that, while the authorized amount is sufficient to cover new construction costs in that year, the agreements will not be completed until January, 2004. Since the New School Facilities Fund currently has a balance of about \$10 million, and the fund averages a weekly distribution to school districts of about \$7 million, SFB does not have enough cash on hand to fund the costs of new construction over the next 4 months. Therefore, the board plans to temporarily transfer \$113 million from the Deficiencies Correction Fund to the New School Facilities Fund. The transfer will leave the Deficiencies Correction Fund with a balance of about \$2 million. Once SFB has received financing for the lease-to-own agreements, the board will reimburse the Deficiencies Correction Fund.

RS/JC:jb



STATE OF ARIZONA
SCHOOL FACILITIES BOARD

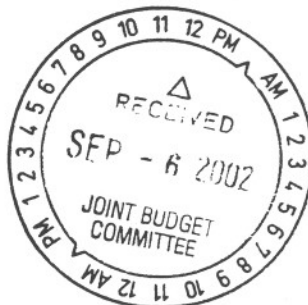
Governor of Arizona
Jane Dee Hull

Interim Executive Director
Edward E. Boot

September 4, 2002

The Honorable Laura Knaperek
Chair Joint Committee on Capital Review
State House
1700 West Washington Office 114

The Honorable Ruth Solomon
Vice Chair Joint Committee on Capital Review
State Senate
1700 West Washington Office 110



Dear Ms. Knaperek and Ms. Solomon:

A.R.S. 15-2002 L allows the School Facilities Board (SFB) to temporarily transfer dollars between any of the funds managed by the Board. Before transferring the dollars, the SFB must report the transfer to the Joint Committee on Capital Review. This letter serves to report that the School Facilities Board intends to transfer \$113 million from the Deficiency Correction Fund to the New School Facilities Fund.

During the last Legislative session, the Legislature chose to fund the New School program through a lease to own financing. While the lease to own authority is sufficient to cover the FY 03 New School Facility program costs, the financing will not be completed until January 2004. At the time of the financing, the School Facilities Board will reimburse the Deficiency Correction fund the total amount of the transfer.

Currently, the New School Facilities Fund has less than \$10 million dollars available for expenditure. The average weekly distribution from this fund is \$6.9 million. The transfer will leave \$2,030,428 in the Deficiency Corrections fund.

Executive Director Boot or myself are happy to appear at your next meeting to discuss this issue in additional detail as required. If you or your staff has any questions on the above material, please contact me at 542-6147.

Sincerely,

John Arnold
Deputy Director – Finance
School Facilities Board

C.c. Ed Boot – Director School Facilities Board
Members JCCR
Jack Mortel
Dawn Nazary – OSPB
Jake Corey – JLBC



STATE OF ARIZONA
SCHOOL FACILITIES BOARD

Governor of Arizona
Jane Dee Hull

Interim Executive Director
Edward E. Boot

Joint Committee On Capital Review

August 22, 2002

Report on the Networking and Internet Connectivity Project

(QWEST)

In late May 2002, Qwest Communications ceased initiating new phases of work on the Arizona School Facilities Board networking and Internet connectivity project as a result of Qwest's concerns that it had committed near \$112 million, which was above the \$100 million Purchase Order 'Not to Exceed' amount that the SFB Board had authorized in March 2001.

At the SFB June Board meeting Interim Executive Director Dr. James Jurs presented an historical review of the Qwest contract to the Board, and requested a 'pause' in Qwest work on this project. After much discussion, it was determined that no action could be taken at this meeting, and the 'pause' was continued, with the Board requesting that staff reconvene for action when a proper course of action had been determined.

On June 13, 2002, the Auditor General issued their "Arizona School Facilities Board Special Research Project" report, and on June 17, 2002 Edward E. Boot was appointed as the new Interim Executive Director, succeeding Dr. Jurs. On July 11, 2002 a Board meeting was held at the SFB offices, with an Executive Session, to discuss the progress of this project, update the Board with legal advice, and provide the current status of contract negotiations with Qwest. On August 1, 2002 the Board approved amending the original Purchase Order to a Lump Sum agreement increasing the project cost to \$140 million.

What follows is a summary of information in this matter that has been compiled by on events that have occurred since late May 2002 with regard to the networking and Internet connectivity project.

The School Facilities Board Executive Director signed a \$100 million Purchase Order to Qwest Communications on January 17, 2001, subject to approval by the Board on February 1, 2001. A second purchase order was signed on March 20, 2001 by the Executive Director which also stated it was subject to approval by the Board. The second P.O. was identical to the first except for a technical correction on the referenced State Contracts. This was the only Board approved financial action regarding Qwest and no cost increases, change orders, or requests for funding were requested or approved by the Board until August 1, 2002. At the August meeting, the Board approved a staff recommendation to amend the original Qwest purchase order to a new Lump Sum agreement in the amount of \$140,768,000 for the Networking and Internet connectivity of all schools and district offices (approximately 1425 sites) in the state as referenced in the 'agreement in principle' between the parties.

The March 20, 2001 \$100 million Purchase Order was identified as a "not to exceed" amount, however, representatives of both parties treated the work as a T&M contract based on existing State Contract rates less negotiated discounts of 25% for professional fees and 42% for equipment. Further, the parties implemented 37 design changes in an effort to refine the project performance specifications and to reduce costs, with none of these changes in writing or approved by the Board.

At the time work was paused in May 2002, Qwest estimated that the cost to complete this project was \$180 million. The \$180 million estimate did not include \$3 million in approved changes or 154 e-rate schools (estimated between \$3-8million), which made a total cost estimate of approximately \$190 million for the entire project.

The Auditor General report indicated that the SFB appeared to have not had a clear understanding of all the technology issues in this project, did not know what existed in schools, yet established standards, and did not have enough day-to-day controls on what Qwest was doing. Further, the SFB utilized a classic design/build scenario of survey, design, and construction by the same firm.

Since the June 2002 SFB Board Meeting staff did several things to review and verify Qwest's performance on this Purchase Order, including inspecting over 20 completed schools to confirm that the designs and work performed by Qwest are of good quality. This is in addition to the nearly 200 schools that have been inspected for completion by SFB consultants. Further, the SFB through the State Procurement Office (SPO) reviewed Qwest Communication's current financial condition and is satisfied that their stability is reasonably sound. Additionally, the SFB will continue to pay Qwest on a completed school basis, further reducing the state's exposure.

SFB staff also conducted numerous fact-finding meetings with Qwest management, the Auditor General staff, Attorney General Office, State Procurement Office, and the Governor's Executive Staff, and briefed both the Governor and key legislators on this matter before the Board action of August 1, 2002.

SFB staff also had several estimates prepared on the cost of this project, based on the scope of work identified on the Qwest Purchase Order. The prices from these estimates ranged from \$134.6 million to \$312 million. These include estimates from Heery International, Tucson Unified School District, Qwest Communications, and an early 2001 estimate done from the model 6 districts that was jointly prepared by Qwest and SFB consultants. Additionally, in July 2002, SFB staff utilized the Department of Administration state contract to select Aztech Professional Services, Inc. who in conjunction with US Networking Systems, Inc. prepared a fully independent estimate of \$164.7 million. It is important to note that Aztech and their team have no affiliation with either the SFB or Qwest, nor had any prior involvement with this project, and the individuals involved in preparing this estimate have had no association with any of the involved parties.

After several preliminary negotiation sessions with Qwest Communications, a proposal was made by Qwest on June 27, 2002 that converted the \$100 million purchase order to a fixed price for each school of \$122,715 that when totaled, was equivalent to a contract amount of \$162 million. However, this price did not include the 154 e-rate schools.

On July 11, 2002, SFB staff briefed the Board in Executive Session, regarding the progress of this project updating the Board with legal advice and providing the status of contract negotiations with Qwest Communications, and on July 12, 2002, a formal proposal was submitted to the SFB by Qwest Corporate Officers that converted this project to a "Lump Sum" contract. The Qwest proposal had several clarifying points and conditions and showed a total price of \$140.5 million, but did not include 154 e-rate schools.

On July 26, 2002, the SFB responded to Qwest with a counter-proposal that addressed all of Qwest Communications clarifying points and conditions, and provided a 'Lump Sum' contract of \$134.6 million for all sites (estimated at 1,445), which included the 154 e-rate schools.

On Tuesday, July 30, 2002 SFB staff, State Procurement, and the SFB Board Chair met with Qwest Officers and management to finalize negotiations on this matter. As a result of those discussions, the parties reached an 'agreement in principle' that clarified the scope of work, addressed each party's concerns, and would complete Internet connectivity in all Arizona school sites (including the 154 e-rate schools) with a completion date of June 30, 2003 (a 5 month delay from the original Qwest timeframe).

This agreement would supersede all previous agreements and provide for a Lump Sum contract price of \$140,768,000 that will be billed at a standard price of \$97,417.30 per school. Further, this contract agreement would eliminate network monitoring and extended maintenance warranty, which are considered M&O items and are not eligible for Students FIRST funding. It also eliminates connecting all district spaces (with the exception of the district aggregation point - generally the main district office), as the conversion of other district space is above the SFB Minimum Adequacy Guidelines.

Finally, the 'agreement in principle' was conditional upon the School Facilities Board approval at the August 1, 2002 meeting. With that Board approval, the Interim Executive Director was authorized to implement this contract agreement and have Qwest re-start activity on the project.

Following is a quote taken from Interim Executive Director Boot's presentation to the Board at the August 1, 2002 meeting:

"After extensive review of the facts in this matter, staff believes that continuing with Qwest on this project is the best available course of action in this matter. Although there have clearly been numerous errors in the original purchase order with both parties sharing responsibility in arriving at the current status, continuing with Qwest provides cost advantages, schedule advantages with a minimal five-month delay, and continues the quality implementation of this work with the least exposure and risk to the state, especially if the contract is converted to a lump sum contract, with payment for each school only after completion of that school. I believe that this is our best option to successfully complete the Internet connectivity project and is in the best interest of the students, School districts, the Board, taxpayers, and the State. Proceeding with Qwest provides a better choice for the SFB than canceling this contract and competitively selecting a new vendor(s)."

Subsequent to the August 1, 2002 Board approval to amend the original purchase order to a new Lump Sum agreement, the parties have continued work to finalize the 'MODIFICATION TO STATE OF ARIZONA PURCHASE ORDER E01SF221' and are currently meeting in negotiation with SPO and lawyers from Qwest and the Attorney General's office to finalize language acceptable to both parties.



STATE OF ARIZONA
SCHOOL FACILITIES BOARD

Governor of Arizona
Jane Dee Hull

Interim Executive Director
Edward E. Boot

Joint Committee On Capital Review

August 22, 2002

Report on the Auditor General Special Research Project

On June 13, 2002, the State of Arizona Auditor General (AG) issued to the Joint Legislative Audit Committee the results of the School Facilities Board Special Research Project. While the Executive Director was extremely pleased with the clean bill of health provided the Agency by this report, there are several points that I would like the Committee to be aware of.

The AG was requested to investigate seven major areas of the SFB operation, and in providing their report interviewed legislators, Board employees, contractors, and concerned citizens, as well as reviewing the Board's procurement policies, purchasing activity and contractor files, spending over 400 hours in researching the Board's activities.

1. Procurement. The AG **found no irregularities** in this area, and stated that the Board abided by school district procurement rules in practice until it became subject to the State Procurement Code on January 1, 2002.
2. Were there any Conflicts of Interest by the Board in contracting? After reviewing extensive files regarding bids, project manager firms, and vendors, **the only statement made by the AG of any possible conflicts was regarding the resignation of a former employee that was mistakenly referred to as 'due in part to concerns with a relationship he had with a vendor contracted by the Board'. This statement was inaccurate, as the alleged relationship the employee had was with a sub-contractor of that vendor.**
3. Has the Board had a high incidence of Bid protests? **No**. Based on over 1,700 bids, the AG found 17 protests, which in their opinion was not high, and reported that each protest was handled by the Board in accordance with procedures outlined by SPO.
4. Has the Board completed and adopted minimum standards as required in statute? **Yes**. The AG found the Standards addressed all elements required by statute, and that the Board ensured that each district agreed with the identified deficiencies.

5. Were the standards used as a benchmark to assess existing facilities? Yes. The AG stated that the Board used the minimum standards as a benchmark during the assessment and ensured that each district agreed with the identified deficiencies.
6. Has the Board established a reasonable method for contracting deficiency projects? Yes. The AG reviewed files and determined the Board established a reasonable method for contracting and managing deficiency correction projects. Further, they stated that 27 FTE positions (in actuality 20FTE) were managing 6,218 deficiency correction projects.
7. Did the Board properly procure its contract with Qwest Communications for the Internet connectivity project? Yes. The method used by the Board to procure the contract is permissible. While the AG found that no infraction occurred, they were critical that the Board did not competitively bid this work for possible better pricing, and while the AG acknowledges that significant discounts from the State contracts were negotiated, they stated the Board may still have received a better price if we had received competitive bids for the entire project. Further, they found that the use of state contracts was not the best method for contracting a project of this size and that the Board lacked the expertise to properly manage this activity, allowing the vendor to set the scope of its own contract.

AG Recommendations:

1. That the AG be directed by the Legislature to conduct bi-monthly reviews of the Board's management of the Qwest Communications contract to ensure it is managing this project appropriately.
2. That the AG serve as the Board's auditor.
3. That the Board should hire a professional consultant with technical expertise to ensure Qwest charges are reasonable and necessary. Further, that the Board require Qwest to provide in electronic format all professional services and travel claims to itemize billings by project code, date, and employee.

Summary comments:

After seven months of scrutiny, rumors and innuendos and constant media attention regarding the performance of this Board, the Auditor General recommended to the Joint Legislative Audit Committee on June 13, 2002 (after 400 hours of investigation) that the AG not proceed to conduct a full audit as they found no evidence of wrong doing or any process and/or procedural errors. Staff would be remiss if we did not point out to the Committee that with 20 FTE the Agency assessed the state's 1,350 schools, is managing over \$1 billion of deficiency work (consisting of 6,218 projects), and is currently constructing over 100 new schools, while administering the building renewal fund. We are extremely proud of the accomplishments of the Board in four years of operation and are pleased that the AG validated that rules, policies, guidelines, and proper procedures have been utilized by the Board.



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Report on the SFB Lease to Own Program

HB 2710 Plan - Lease to Own

During the last legislative session, the Legislature granted the authority to the School Facilities Board to enter into lease-to-own agreements to fund new school construction.

The Board is currently in the process of selecting both counsel and financial advisors to advise the Board and its staff on how to structure and issue the lease agreements. Staff anticipates these parties will be appointed in August.

After staff's initial review of the law and options available to the State, staff has developed a recommended structure, which attempts to minimize changes to the current new construction program.

Proposed Lease-to-Own Structure

The School Facilities Board will issue certificates of participation on behalf of school districts. The Board anticipates that the majority of current year projects will be included in the first issue. This issue will take place in November or December 2002.

Dollars raised by the issue will be deposited with the State Treasurer's office. Participating districts will design and bid their own projects as they currently do. Dollars will be distributed by the SFB to districts upon district requests supported by appropriate invoices.

The Board will seek to enter the lease-to-own without pledging the resulting facilities and land as collateral.

Depending on market conditions, title to the facilities would rest with either the governing school district or a single trustee. If it is necessary for the trustee to hold title, the school district will enter into a sublease agreement with the State.

The School Facilities Board may attempt to identify one or two projects to be financed through a private lease-to-own structure.