STATE OF ARIZONA

Joint Committee on Capital Review

STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

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HOUSE OF REPRESENTATIVES

JOINT COMMITTEE ON CAPITAL REVIEW
Tuesday, September 21, 2004
1:30 p.m.
House Hearing Room 4

MEETING NOTICE

- Call to Order
- Approval of Minutes of August 17, 2004.
- DIRECTOR'S REPORT (if necessary).

1. ARIZONA DEPARTMENT OF ADMINISTRATION –
   A. Consider Transfer of Fund Balance for Arizona State Hospital Capital Projects.
   B. Review of Revised FY 2005 Building Renewal Allocation Plan.

2. ARIZONA STATE LOTTERY – Review of FY 2005 Building Renewal Allocation Plan.

3. OFFICE OF ARIZONA STATE TREASURER – Consider Recommending Rent Exemption.

4. ARIZONA DEPARTMENT OF TRANSPORTATION –
   A. Report on 5-Year Transportation Plan. Presentation
   B. Review of East Valley Maintenance Yard Project.

5. ARIZONA STATE UNIVERSITY –
   A. Report on ASU Scottsdale Center for New Technology and Innovation. Presentation
   B. Review of Instructional/Research Laboratory Renovations Phase II and Report on Instructional/Research Laboratory Renovation Phase I.

6. UNIVERSITY OF ARIZONA – Report on Capital Project Contingency Allocations.

The Chairman reserves the right to set the order of the agenda.
9/14/04

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

STATE OF ARIZONA

Joint Committee on Capital Review

STATE SENATE	1716 WEST ADAMS PHOENIX, ARIZONA 85007	HOUSE OF REPRESENTATIVES
ROBERT "BOB" BURNS CHAIRMAN 2003 TIMOTHY S. BEE JACK A. BROWN ROBERT CANNELL, M.D. SLADE MEAD VICTOR SOLTERO JIM WARING	PHONE (602) 542-5491 FAX (602) 542-1616 http://www.azleg.state.az.us/jlbc.htm	RUSSELL K. PEARCE CHAIRMAN 2004 ANDY BIGGS TOM BOONE EDDIE FARNSWORTH PHIL LOPES LINDA J. LOPEZ JOHN LOREDO

MINUTES OF THE MEETING
JOINT COMMITTEE ON CAPITAL REVIEW

Tuesday, August 17, 2004

The Chairman called the meeting to order at 1:30 p.m. Tuesday, August 17, 2004 in House Hearing Room 4 and attendance was as follows:

Members:	Representative Pearce, Chairman	Senator Burns, Vice Chairman
	Representative Biggs	Senator Bee
	Representative Boone	Senator Brown
	Representative Lopez	Senator Cannell
	Representative Lopes	Senator Mead
	Representative Loredo	Senator Soltero
		Senator Waring
Absent:	Representative Farnsworth	
Staff:	Richard Stavneak	Jan Belisle, Secretary
	Lorenzo Martinez	John Malloy
	Shelli Carol	Jeremy Olsen
	Tim Sweeney	Tim Everill
Others:	Carolyn Atwater	Senate
	Nikki Amberg	Senate
	Wendy Baldo	Senate
	Joy Hicks	House
	Jennifer Daly	House
	Mernoy Harrison	ASU
	Steve Miller	ASU
	Charlene Ledet	UofA
	Dick Davis	UofA
	Sam Polito	NAU
	Paul Shannon	ADOA
	Alan Ecker	ADOA
	Bruce Meyers	ADOA
	Jack Jones	ADOA
	John Webster	ADOA
	Bob Rocha	DEQ
	Jim Buster	DEQ
	Willis Sawyer	ADMMR
	Norris Nordvold	Phoenix
	Alan Maguire	The Maguire Company

Representative Pearce moved that the Committee approve the minutes of June 22, 2004. The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION – Review of FY 2005 Building Renewal Allocation Plan.

Ms. Shelli Carol, JLBC Staff, presented the Arizona Department of Administration (ADOA) request that the Committee review the FY 2005 Building Renewal Allocation Plan for its $3.5 million Capital Outlay Stabilization Fund (COSF) appropriation. There is some uncertainty over COSF revenue collections, but the department will complete a revised forecast by the end of the month. The Staff has revised the original recommendation and now recommends a favorable review for only $1 million of the $3.5 million request with the provisions stated in the memo with the revised recommendation.

There was no discussion on this item.

Senator Burns moved the Committee give a favorable review for only $1 million of request with the following provisions:

- *The $1 million represents $686,000 for the five projects detailed in Table 1 of the revised memo, plus $314,000 for FY 2005 emergency projects.*
- *ADOA report to JLBC Staff any allocations for FY 2005 emergency projects from the above-referenced $314,000 amount. The JLBC Staff will report to the Committee on significant allocations, typically those above $50,000.*
- *ADOA submit for Committee review any reallocations above $50,000 of the favorably-reviewed $1 million plan*
- *ADOA submit for Committee review an allocation plan for the remaining $2.5 million COSF appropriation.*

The motion carried.

ARIZONA STATE UNIVERSITY – Review of ASU-East Research Infrastructure Lease-Purchase Project.

Shelli Carol, JLBC Staff, presented the Arizona State University (ASU) request that the Committee review the Interdisciplinary Science and Technology Building III. This project would be financed with a COP issuance of $12 million. The Interdisciplinary Science and Technology Building III is part of the university research infrastructure lease-purchase plan authorized by the Legislature in 2003. The COP issuance for this project would be repaid over a 25-year period at an estimated interest rate of 6.0%. ASU would capitalize interest payments until FY 2008, when annual debt service of $939,000 would begin, with $783,000 from the General Fund and $156,000 from tuition.

The Staff recommends a favorable review of the request with the provisions listed in the memo.

Senator Burns asked if ASU continues to construct these new research buildings and use non-appropriated fund sources for operating these buildings, what is ASU doing to ensure that these fund sources can support operating costs when the buildings are finished.

In response to Senator Burns, Steve Miller, Deputy VP for Public Affairs, Arizona State University stated that the project is an infrastructure lease-purchase plan, which was authorized by the Legislature in 2003, and they would not seek an appropriation for the operation of the buildings.

Senator Burns moved that the Committee give a favorable review with the following provisions:

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

The motion carried.

COMMUNITY COLLEGES – Consider Review of Yuma/LaPaz Community College District Bond Projects.

Mr. Lorenzo Martinez, JLBC Staff, presented the Yuma La Paz Community College District plan to hold a bond election on November 2, 2004. If approved by the voters, the district would be authorized to issue $73.9 million in General Obligation bonds. The $73.9 million from the bond proceeds would be combined with $10 million from other fund sources for a total of $83.9 million, and would be used to fund construction and renovation projects to address student growth in the district. The bonds would be repaid over a 27-year period.

In response to Chairman Pearce, Mr. Martinez said information was received with reference to how the district projects enrollment growth. Projections are based primarily on historical trends and the Department of Economic Security population growth statistics. There is no information available on area by area enrollment projections. Mr. Martinez referenced *Table 1* in the memo. For new construction, the costs appear to be lower compared to new construction for university research related facilities which range from $300 - $507 per square foot. The district's preliminary average estimate is $298 per square foot. The scopes of the district projects are likely to be less complex than the university facilities. The estimates for new construction appear reasonable and possibly on the low end as construction costs in less urban regions of the state tend to be higher than urban areas.

The district renovation costs appear to be on high end with a range of $124 - $295 per square foot compared to $133 - $154 per square foot for recent university projects. The district will develop more refined estimates as they get closer to bond issuance.

Senator Burns moved that the Committee give a favorable review with the provision that the district return to the Committee for review prior to each actual bond issuance. The motion carried.

DEPARTMENT OF ENVIRONMENTAL QUALITY – Consider Recommending Allowing Rent Payments on Cash Flow Basis.

Mr. John Malloy, JLBC Staff, presented the Department of Environmental Quality (DEQ) request that the Committee consider recommending allowing rent payments on a cash flow basis. The department is requesting an exemption from this requirement in order to pay its rent in monthly or quarterly installments rather than in one lump sum payment.

The JLBC Staff recommends the Committee recommend the Arizona Department of Administration authorize a permanent exemption from payment of the rental fee in one lump sum payment, with the following stipulations:
1. DEQ pay its rental fee on a quarterly basis.
2. DEQ make the quarterly payments on the 15th of the month prior to the beginning of the next quarter.

Mr. Malloy indicated that the original recommendation included a third stipulation, which after consultation with DEQ, is no longer part of the JLBC Staff recommendation.

Senator Burns asked why this third option was no longer being considered.

Mr. Malloy replied that the third stipulation would have required DEQ to pay its first quarter installment utilizing all general fund dollars. Because the agency uses general fund dollars for programs that eventually get reimbursed by non-general fund monies, this option would cause cash flow problems for the agency.

Senator Burns moved that the Committee recommend the Arizona Department of Administration authorize a permanent exemption from payment of the rental fee in one lump sum payment, with the following stipulations:
1. DEQ pay its rental fee on a quarterly basis.
2. DEQ make the quarterly payments on the 15th of the month prior to the beginning of the next quarter
The motion carried.

DEPARTMENT OF MINES AND MINERALS RESOURCES – Consider Recommending Rent Exemption.

Mr. Jeremy Olsen, JLBC Staff, presented the Arizona Department of Mines and Minerals (ADMMR) request that the Committee consider recommending the Arizona Department of Administration authorize a partial rent exemption in the amount of $136,400 for FY 2005. Pursuant to A.R.S. § 41-792.01D, "if a state agency does not have the financial resources for state owned space … the Director of the Arizona Department of Administration, on recommendation of the Joint Committee on Capital Review, may authorize a whole or partial exemption from payment of the rental fee."

In FY 2004 ADMMR requested and was granted a rent exemption in the amount of $136,400. At that time the rent requirement for ADMMR was $368,100, which accounted for 57% of the agency's operating budget.

Based on the Committee's action in FY 2004, JLBC Staff recommends the rent exemption in FY 2005 as well.

There was no discussion on this item.

<u>Senator Burns moved</u> *that the Committee recommend the Arizona Department of Administration authorize a partial FY 2005 General Fund rent exemption of $136,400 for the Arizona Department of Mines and Mineral Resources.* The motion carried.

CITY OF PHOENIX – Report on Civic Plaza Expansion Project.

Mr. Tim Everill, JLBC Staff, presented the City of Phoenix report on the Civic Plaza Expansion project. Laws 2003, Chapter 266 established the Arizona Convention Center Development Fund, and authorized the state to participate financially in projects that qualify under the terms of the legislation. The City of Phoenix is proceeding with a project to expand and renovate the Phoenix Civic Plaza. One of the requirements for qualified projects is that the progress of the project be reported twice annually to the Committee.

This item is for information and no Committee action is required. The report submitted noted that:
- Major construction has begun on the expansion project, is currently on schedule, and completion is anticipated in 2009.
- A new 1,000 room downtown hotel located at 3rd Street and Van Buren will be owned by the city and operated by Sheraton. The hotel is scheduled to be completed in late 2008.

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

The 2003 legislation provides that the state is to subsidize half of the $600 million construction cost of the Civic Plaza expansion project by paying debt service and other related costs on $300 million of the construction bonds that will ultimately be issued for the project.

The City estimates that the first bonds, in the amount of $100-$150 million, will be issued sometime after the beginning of 2005. However, it should be noted that the state's financial obligation does not begin until one-year after the completion of the expansion project.

The state's total obligation in dollar terms is unknown at this time because of the uncertainty of future bond rates. Estimates prepared by the city's consultant during the discussion of the legislation indicated that the total cost to the state could be somewhere around $625 million, including $300 million of principal, and $325 million in debt service over the estimated 30-year life of the bonds. This could vary depending on interest rates and length of the bonds.

The City will own the hotel, and it will be operated by Sheraton. The construction cost is estimated to be around $210 million, funded by $280 million in construction bonds. The total cost of the project could be around $580 million, including $300 million in interest on the bonds. Construction is scheduled to begin in mid-2006, with completion in late 2008.

In reply to questions, <u>Mr. Alan Maguire, Consultant, The Maguire Company</u> said that the hotel project is definitely a financial advantage to the Civic Plaza expansion project. In reference to the potential for not enough revenue to pay the costs of the hotel project, Mr. Maguire stated that the city's guarantee is behind the project. The estimated costs of the hotel represents approximately $210,000 "per key" (per room). The numbers are an estimate, and they are trying to gather information to get more accurate comparative costs. Data from 7 comparable hotel properties indicated key costs ranging form $208,000 (Chicago Hyatt) to $350,000 (Austin Hilton). The average per key cost of the 7 hotels is $258,000.

Chairman Pearce mentioned that he struggles with the whole issue. He said that we are competing with free enterprise and it is a bad policy.

Mr. Maguire said that the convention business has changed patterns. He noted that Phoenix is an attractive place to have a convention.

No Committee action was required.

NORTHERN STATE UNIVERSITY – Report on Northern Arizona University Green Building Savings.

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

The energy efficient planning and construction of the building puts a $2.7 million premium on the $20.5 million project. Even with this premium, total and direct construction costs per square foot fall on the low end of the range of other university research infrastructure projects. NAU estimates $54,000 in annual utilities savings. Those savings, considered alone, represent a return on investment of around 2% with a repayment period of 50 years. The university believes this project will also provide intangible benefits including positive publicity and higher employee productivity.

The JLBC Staff recommends that the Arizona Board of Regents (ABOR) establish standard rates of return to evaluate energy efficient construction designs in the future. Ms. Carol stated that the item was information and no Committee action was required.

In response to Senator Burns, Sam Polito, Northern Arizona University said the "green building" design was funded under a Department of Commerce grant. NAU is expected to save approximately 60% of their energy costs, assuming no increase in traditional energy prices. Additionally, the energy efficient construction of the building required the installation of fewer major mechanical systems. Another value of "building green" comes from the ability to market/publicize the fact that the university serves as a leader in the development of sustainable facilities and positive environmental stewardship.

No Committee action was required.

UNIVERSITY OF ARIZONA – Reports on Capital Project Contingency Allocations

Mr. Shelli Carol, JLBC Staff, reported on the contingency allocation changes for 3 projects, due to rising raw materials prices. Those projects are the Medical Research Building, the Residence Life Building Renewal Phase I, and the Highland Avenue Parking Structure. U of A is reallocating $3 million out of $7.1 million in total contingency funds. The individual total budgets for the three projects remain unchanged from the original Committee-reviewed amounts and per-unit cost estimates for the projects are still reasonable after adjustment.

In reply to Senator Soltero, Ms. Carol stated the discussion of contingency reallocations at a prior meeting references different buildings.

No Committee action was required.

Without objection the Committee meeting adjourned at 2:37 p.m.

Respectfully submitted:

Jan Belisle, Secretary

Lorenzo Martinez, Assistant Director

Representative Russell Pearce

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

STATE OF ARIZONA

Joint Committee on Capital Review

STATE SENATE

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CHAIRMAN 2003
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HOUSE OF REPRESENTATIVES

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CHAIRMAN 2004
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DATE: September 14, 2004

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

THRU: Richard Stavneak, Director

FROM: Beth Kohler, Senior Fiscal Analyst

SUBJECT: Arizona Department of Administration/Department of Health Services – Consider Transfer of Fund Balance for Arizona State Hospital Capital Projects

Request

The Arizona Department of Administration (ADOA) requests Committee approval to transfer the remaining $3.5 million from the Arizona State Hospital Capital (ASH) Construction Fund appropriation for FY 2005 capital projects, including building renewal, at the Arizona State Hospital. A.R.S. § 35-173 requires the transfer of monies appropriated for capital projects to be approved by the Committee.

Recommendation

The Committee has at least the following options:

1. Approve the transfer of the entire $3.5 million from the Arizona State Hospital Capital Construction Fund to ADOA for FY 2005 capital projects, including building renewal. The costs of these projects appear reasonable relative to other projects that the Committee has reviewed in the past.
2. Do not approve the transfer of these monies. Under this option, all $3.5 million in unencumbered monies remaining in the fund would instead revert to the Budget Stabilization Fund (BSF) by July 1, 2005.

Another significant capital issue at the State Hospital is the forensic hospital, which houses mentally ill persons who have been committed through the criminal justice process. As discussed below, the original State Hospital capital construction project included the renovation and expansion of the existing forensic hospital. As a cost saving measure, however, Laws 2003, 1st Special Session, Chapter 2 prohibited ADOA from using funds to proceed with this project. The original budget for the project was $12.9 million, but DHS estimates that it would now cost $26 million. Approximately $1.5 million of the requested $3.5 million transfer will be used for projects at the forensic hospital.

(Continued)

Analysis

Background

Laws 2000, Chapter 1, as amended by Laws 2000, 7th Special Session, Chapter 1, and Laws 2001, 2nd Special Session, Chapter 3, appropriated $77.5 million from the BSF over 4 years for the demolition, construction and renovation of the Arizona State Hospital. Laws 2002, 6th Special Session, Chapter 1 transferred $13.4 million ($10.4 million from the appropriation and $3 million in interest earnings) from the Arizona State Hospital Capital Construction Fund, leaving the net budget for the ASH projects at $67.1 million.

The original project planned 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. However, Laws 2003, 1st Special Session, Chapter 2 prohibited ADOA from using any unexpended or unencumbered monies in the fund for forensic hospital renovations or expansions and therefore, the only renovations that occurred at the forensic hospital were the installation of a replacement security fence and new lighting. All major projects at the State Hospital are essentially complete at this time.

Table 1 below displays the originally budgeted amounts for each portion of the ASH demolition and construction project, the revised budget after the reductions included in Chapter 1, and the actual expenditures as reported by ADOA.

Table 1

	Original Budget By Project	Revised Budget By Project	Actual Expenditures By Project
SVP Program	$ 5,869,200	$ 5,869,200	$ 6,442,000
Civil Hospital and Adolescent Facility	45,037,700	45,037,700	42,858,000
Sitework/Infrastructure Improvements	12,364,900	12,364,900	12,971,000
Forensic Hospital	12,685,000	2,285,000	1,329,000
Contingency	1,543,200	1,543,200	0
TOTAL	**$77,500,000**	**$67,100,000**	**$63,600,000** 1/
Amount Remaining In Fund			**$ 3,500,000** 2/

1/ Of this amount, $375,000 has not yet been spent but is encumbered for finishing touches on projects.
2/ Does not include interest earnings of $1.5 million, which also remain in the fund but require legislative authorization before they are spent.

Transfer of Monies

ADOA reports that there is $3.9 million from the original appropriation remaining in the fund. Of this amount, approximately $375,000 is encumbered for finishing touches on existing projects, leaving $3.5 million available to be used for other purposes.

ADOA is requesting to transfer these remaining monies for FY 2005 building renewal and capital projects at the State Hospital. ADOA has developed a list of 28 projects, which they have prioritized in an attached list. Table 2 also summarizes the projects, grouping them by type of project and location (civil hospital, forensic hospital, or general hospital support/administration). Projects characterized as general hospital support are either hospital-wide projects (in buildings throughout the hospital) or projects located in buildings that provide services to the entire hospital (such as the dietary). The ADOA detailed list of projects (by project number) can be found in the attachment.

Table 2

	Cost	Location
Building Renewal		
Projects 4, 19	$ 110,000	Civil Hospital
Projects 8, 13, 26	1,295,800	Forensic Hospital
Project 15 [1/]	165,000	Civil and Forensic Hospitals
Projects 1, 2, 5, 7, 9, 10, 11, 12, 14, 16, 17, 18, 20, 21, 22, 23, 24, 27	2,644,224	General Hospital Support/Administration
Subtotal – Building Renewal	$4,215,024	
Other Capital Projects		
Projects 3, 28	$ 578,600	Civil Hospital
Project 25	165,000	Forensic Hospital
Project 6	143,000	General Hospital Support/Administration
Subtotal – Other Capital Projects	$ 886,600	
Total – All Projects	$5,101,624	

1/ This project consists of modifying , replacing, and expanding the closed-circuit television systems at the hospitals. The expansion component of the project would not technically be considered building renewal. ADOA is not able to provide an estimate of how much of the cost is associated with the expansion.

The cost of the projects on the list totals $5.1 million. If the estimates provided are accurate, projects 22-28 in the attached list will not be completed. These include replacing the Commissary and Dietary air handlers, abating asbestos from the General Services building, renovating the Granada building, upgrading bathrooms in certain buildings, and building out shell space in the Civil Hospital.

Some of the cost estimates represent preliminary estimates from the architectural and engineering firms involved in the original ASH project, and other estimates are based on ADOA's historical cost experience for similar projects. In general, the costs appear reasonable relative to other building renewal costs that the Committee has reviewed in the past.

Pursuant to Laws 2000, Chapter 1, as amended by Laws 2000, 7th Special Session, Chapter 1, and Laws 2001, 2nd Special Session, Chapter 3, all monies in the fund remaining unexpended and unencumbered on July 1, 2005 revert to the BSF. Furthermore, any monies approved by the Committee for building renewal projects that remain unencumbered and unexpended on September 30, 2006, will revert to the BSF.

If the Committee does not approve the $3.5 million transfer, the monies will revert to the BSF by July 1, 2005.

Interest Earnings

In addition to the $3.5 million remaining in the fund from the original appropriation, the fund also includes $1.5 million in interest earnings. Neither ADOA nor DHS can spend these interest earnings without a separate appropriation. If the Legislature does not appropriate this $1.5 million for a specific purpose, it will revert to the BSF by July 1, 2005.

RS/BK:ck

JANET NAPOLITANO
GOVERNOR

BETSEY BAYLESS
DIRECTOR

ARIZONA DEPARTMENT OF ADMINISTRATION

100 NORTH 15TH AVENUE, SUITE 202
PHOENIX, ARIZONA 85007

RECEIVED AUG 12 2004 JOINT BUDGET COMMITTEE

August 10, 2004

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

RE: Request for Placement on Joint Committee on Capital Review Agenda

Dear Representative Pearce:

The Department of Administration requests placement on the agenda of the Joint Committee on Capital Review to review the following item.

1. The use of the remaining $3.5 million dollars unexpended from the Arizona State Hospital Capital Construction Fund.

The information for this project is attached.

Sincerely,

Warren Whitney, Assistant Director,
General Services Division
Department of Administration

Attachment

cc: Senator Robert Burns, Arizona Senate
David P. Jankofsky, Director, OSPB
Richard Stavneak, Staff Director, JLBC
Lorenzo Martinez, JLBC
Betsy Bayless, Director, ADOA
Bruce Ringwald, General Manager, Construction Services
Catherine R Eden, Director, ADHS
Leslie Schwalbe, Deputy Director, ADHS
Jack Silver, Superintendent, HSP
Walter Scott, Chief Operating Officer, HSP

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ARIZONA STATE HOSPITAL

BACKGROUND

Laws 2000, Chapter 1, signed by Governor Hull January 19, 2000, appropriated the following sums for the following fiscal years 2000-2003 from the monies in the Arizona state hospital capital construction fund to the Department of Administration for the demolition, renovation and construction of the Arizona state hospital. The Department of Administration is exempt from the provisions of title 41, chapter 23, Arizona Revised Statutes, relating to procurement procedures for the purposes of this project but shall report to the Joint Committee on Capital Review and the Arizona State Hospital Capital Construction Commission as to any procurement procedures that vary from those specified in title 41, chapter 23, Arizona Revised Statutes:

1. $20,000,000 in fiscal year 1999-2000.
2. $20,000,000 in fiscal year 2000-2001.
3. $20,000,000 in fiscal year 2001-2002.
4. $20,000,000 in fiscal year 2002-2003.

Laws 2002 2nd Special Session, Chapter 3, Transferred $<2,500,000.>
Laws 2002 6th Special Session, Chapter 1, Transferred $<10,400,000.>

Total Appropriated Funds $67,100,000

The Legislation states "the Commission shall review capital construction and renovation plans at the Arizona State Hospital for Forensic, Civil, and Sexually Violent Persons facilities, the design of the facilities, and future use of the facilities and make recommendations to the Department of Administration and the Joint Committee on Capital Review."

The Arizona State Hospital Capital Construction Commission was relieved of their duties in October 2003, after a sunset hearing.

STATUS

1.	Civil - Adolescent Hospital	Complete	$42,858,000
2.	Arizona Community Protection Treatment Center	Complete	$6,442,000
3.	Site Preparation / Infrastructure Improvements	Complete	$12,971,000
4.	Forensic Security Perimeter Fencing	Complete	$1,329,000
		Contingency Remaining	$3,500,000
		Total	$67,100,000

Request

The Department of Administration, Construction Services requests that the Joint Committee on Capital Review favorably release funds to accomplish the following task:

Rank	Project		Estimate
1	Replace Electrical Service, HVAC Equipment – Administration	$	305,800
2	Replace Resin in 2 Water Softeners	$	11,330
3	Additional Automated Drug Dispensing Machines	$	133,100
4	Replace Condenser Tubes on Chiller #1 – Power Plant	$	55,000
5	Replace Media Fill-Cooling Tower # 1	$	55,000
6	Add 4th Cooling Tower	$	143,000
7	Install Central Plant Emergency Generator Hook up 3 Manual Switches	$	82,500
8	Replace Granada Building Emergency Generator, Electrical Service Equipment and Wiring	$	756,800
9	Downsize Boilers #2 and #3 or replace Boilers with water heaters	$	497,794
10	Re-roof General Services Building	$	154,000
11	Install Fire Suppression System – General Services Building	$	19,800
12	Replace Air Handler – General Services Building	$	258,500
13	Replace Granada Elevator	$	154,000
14	Replace Electrical Service Equipment and Wiring – General Services	$	185,900
15	Modification of existing CCTV Systems	$	165,000
16	Repay Building Renewal for Dietary Roof project	$	154,000
17	Repay Building Renewal for Admin Chiller project	$	77,000

18	Replace Dietary Service Entrance Section	$	99,000
19	Up Grade Card Reader Program for more Cards	$	55,000
20	Repair Commissary Roof	$	66,000
21	Replace Warehouse Service Entrance Section and connect into new sewer line	$	38,500
22	Replace Commissary Air Handler	$	82,500
23	Replace Dietry Air Handler and roof Fans	$	297,000
24	Abate Asbestos from Ceiling and Replace Ceiling Lights – General Services	$	149,600
25	Move Psych and PSRB out of Modular into 1st Floor Granada	$	165,000
26	Replace Granada 1st floor Air Handlers	$	385,000
27	ADA bathroom upgrades for Dietary, Engineering, and Commissary	$	110,000
28	Build out shell space in the Civil hospital	$	445,500
	Grand Total	**$**	**5,101,624**

STATE OF ARIZONA

Joint Committee on Capital Review

STATE SENATE

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HOUSE OF REPRESENTATIVES

DATE: September 14, 2004

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

THRU: Richard Stavneak, Director

FROM: Jeremy Olsen, Fiscal Analyst

SUBJECT: Arizona Department of Administration - Review of Revised FY 2005 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 Administration (ADOA) requests Committee review of $2,500,000 of its $3,500,000 FY 2005 Building Renewal allocation plan from the Capital Outlay Stabilization Fund (COSF). The Committee reviewed the expenditure of $1,000,000 from this fund at its August 17, 2004 meeting.

Recommendation

JLBC Staff recommends a favorable review for $1,300,000 of the request with the following provisions:

- The $1,200,000 represents $949,000 for the 11 projects listed under the *New Projects* subtitle in Table 1, plus $351,000 for FY 2005 emergency projects.
- ADOA report to JLBC Staff any allocations for FY 2005 emergency projects from the above-referenced $351,000 amount. JLBC Staff will report to the Committee on significant allocations, typically those above $50,000.
- ADOA submit for Committee review any reallocation above $50,000 between the individual projects in the favorably reviewed $1,300,000 plan.
- ADOA submit for Committee review an allocation plan for the remaining $1.2 million COSF appropriation.

(Continued)

Analysis

A.R.S. ' 41-790 defines building renewal as a major activity which involves the repair or reworking of a building and the supporting infrastructure that will result in maintaining a building's expected useful life. Building renewal does not include new building additions, new infrastructure additions, landscaping and area beautification, routine maintenance or the demolition and removal of a building. ADOA will consider projects for building renewal funding if the building or infrastructure component has a useful life of 3 years or more and has a cost of at least $1,000.

The ADOA building system contains 2,795 structures and includes all state buildings, excepting the Arizona Department of Transportation and the Board of Regents. ADOA reports that these buildings have a cumulative size of 19,451,228 square feet, and a replacement cost of $2.1 billion.

The ADOA Building Renewal plan was reviewed by the Committee at its August 17, 2004 meeting. The Committee favorably reviewed allocating $1,000,000 of the $3,500,000 COSF funds. This amount included $461,000 for the four projects listed under the *Previously Reviewed* subsection of table 1, $225,000 for construction services project management, and $314,000 for emergencies. After this original submission, ADOA revised the cost of repairs to the Pioneer's Home roof project upward by $40,000.

Since the August meeting, ADOA has submitted 10 additional projects, listed in table 1 under the *New Project* subsection, which total $899,000. In addition, $10,000 has been allocated for construction insurance premiums. ADOA is also requesting an additional emergency allocation of $1,551,000 for unspecified projects.

In combination with the $314,000 emergency funding allocation from the August meeting, ADOA's total emergency funding would be $1,865,000. This amount would represent slightly more than half of the total building renewal funding. While there is some need for unplanned emergency funding, it is unlikely that half of all monies would be needed in the month between JCCR meetings. An emergency allocation of this level also undercuts the Committee's statutory responsibility to review projects.

As a result, the Staff recommends favorably reviewing $351,000 of the $1,551,000 for emergency use. In combination with the August allocation, a total of $665,000 would be available for emergencies. This recommendation would leave $1,200,000 yet to be reviewed , which would be done when ADOA has more specific plans available for the Committee.

(Continued)

ADOA Building Renewal

Table 1

Agency	*New Projects*	*Allocation*
Administration	Replace Capital Mall cooling towers	$ 130,000
Administration	Replace carpet, 1^{st} & 2^{nd} floors, 402 W Congress, Tucson	150,000
Supreme Court	Repair & rehabilitate cooling tower, concrete repairs, condenser	200,000
Juvenile Corrections	Re-roof Esperanza building, Adobe Mountain School	225,000
Economic Security	Replace carpet in DES group homes	30,000
Economic Security	ADA bathroom renovations, group homes	40,000
Pioneers Home	Kitchen repairs phase II	40,000
School for Deaf & Blind	Replace carpet, dormitories	35,000
School for Deaf & Blind	Replace HVAC systems, Phoenix day school classrooms	40,000
Public Safety	Replace shingle roofs, Sanders remote housing units	25,000
Public Safety	Statewide HVAC replacements	24,000
Risk Management	Construction insurance premiums	10,000
Administration	FY 2005 Emergency Projects [1/]	351,000
	COSF Project Allocation Subtotal	**1,300,000**
	Previously Reviewed Request	
Pioneers Home	Kitchen roof structural repairs phase I	100,000
State Treasurer	Remodeling	170,000
Corrections	Roof replacement of the Central Unit Kitchen at the Arizona State Prison Complex in Florence	105,000
Corporation Commission and State Parks Board	Exterior building repairs to fix multiple leaks at 1300 West Washington	86,000
Administration	Construction Services Project Management	225,000
Administration	FY 2005 Emergency Projects	314,000
	Previously Approved Request Subtotal	**1,000,000**
To be determined	Additional ADOA allocation plan submitted for Committee review	1,200,000
	Building Renewal Total	**$3,500,000**

1/ Agency has requested $1,551,000. The JLBC Staff recommends $351,000.

RS/JO:jb

Janet Napolitano
GOVERNOR

Betsey Bayless
DIRECTOR

ARIZONA DEPARTMENT OF ADMINISTRATION
100 N. 15th Avenue, Suite 401
PHOENIX, ARIZONA 85007

September 8, 2004

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

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

Dear Representative Pearce:

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

As requested by JLBC, attached for your review is supplemental material from the Department of Administration that explains the situation we face concerning Building Renewal.

Sincerely,

Betsy Bayless

Betsy Bayless
Director

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

Department of Administration Building System
Additional Fiscal Year 2005 Building Renewal Allocations

The Arizona Department of Administration has identified the $899,999.00 additional Building Renewal needs that should be funded from the FY 2005 Building Renewal appropriation:

Administration	Replace Capital Mall Cooling towers (1616 W. Adams & 15 S. 15th. Ave.)	$	130,000.00
Administration	Replace carpet, 1st & 2nd floors, 402 W Congress, Tucson	$	150,000.00
Supreme Court	Repair & rehabilitate cooling tower, concrete repairs, condenser water pumps	$	200,000.00
Juvenile Corrections	Re-roof Esperanza building, Adobe Mt. School	$	225,000.00
Economic Security	Replace 15 year old and 25 year old carpet in DES group homes	$	30,000.00
Economic Security	ADA bathroom renovations, group homes	$	40,000.00
School for Deaf & Blind	Replace carpet, dormitories	$	35,000.00
School for Deaf & Blind	Replace 30 year old HVAC systems, Phoenix Day School Classrooms	$	40,000.00
Public Safety	Replace shingle roofs, Sanders Remote housing units	$	25,000.00
Public Safety	Statewide HVAC replacements	$	24,000.00
Risk Management	Construction Insurance premiums	$	10,000.00
		$	909,000.00

The JCCR, at its August 2004 meeting, approved the allocation of $461,000 for four projects, $225,000 for project administration and $314,000 for future emergency needs. The Department has subsequently added an additional $40,000 to the Pioneer's Home kitchen roof structural repairs so that the 50 year old kitchen hood can be replaced.

If the JCCR approves these additional project allocations, the planned allocations for FY 2005 will total $1,635,000.

In addition, The Department of Administration requests that the remaining $1,565,000 of uncommitted FY 2005 Building Renewal appropriation be held in reserve to complete existing projects and to fund emergency requests that are expected to occur over the next 18 months.

The Department of Administration funded a net total of $1,202,827.24 in emergency building renewal requests during FY 2004. During the same period, the Department of Administration allocated a net total of $457,399.91 in additional funds to complete planned projects.

Each quarter, the Department of Administration will evaluate the level of emergency building renewal requests to insure that the entire appropriation is committed prior to September 30, 2006.

<u>Request</u>

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

Arizona Department of Administration

Building Renewal Report for the JLBC

1. What is Building Renewal?

The Arizona Revised Statutes define building renewal as "major activities that involve the repair or reworking of a building and the supporting infrastructure that will result in maintaining a building's expected useful life. Building renewal does not include new building, additions, landscaping, new infrastructure additions and area beautification, routine maintenance, or demolition and removal of a building.

The Department of Administration has defined "Routine maintenance" is the recurring need to keep in good repair building systems or components. The repairs or replacements include items that have an expected useful life of less than three years. It is synonymous with routine preventive maintenance. Examples include: routine replacement of air filter and cooler pads, spot replacement of lamps, replacement of drive belts, routine lubrication, routine painting, routine elevator repairs, etc. These items are not eligible for building renewal funding.

The Department of Administration will consider building renewal funding for emergency repairs/replacement of a building or infrastructure component that has a useful life greater than three years and is at least $1,000.

2. Buildings under the ADOA building system

The ADOA Building System contains 2,795 structures and comprises all state buildings except for the Arizona Department of Transportation (ADOT) and the Board of Regents, who oversees the three Arizona State Universities. The 2,795 structures have a replacement cost of $2.1 billion.

ADOA Building System

	Structures	Gross Square Feet	Replacement Cost	FY 2005 Building Renewal Formula
ADOA Building System	2,795	19,451,228	$ 2,126,507,924	$21,501,659
ADOA Capitol Group[1]	**106**	**4,378,098**	**$441,914,085**	**$ 5,110,742**
ADOA Managed Buildings.	66	3,353,459	$317,437,663	$3,490,003
Legislative Buildings.	10	379,769	$80,711,247	$1,062,418
Judicial Bldg	1	257,207	$39,073,047	$224,846

[1] Doesn't include Mobile or PLTO buildings

Since FY 2003, the Capital Outlay Stabilization Fund (COSF) has been the only source of funds for building renewal. Prior to 2002, the majority of the building renewal appropriation came from the general fund. From 1994 until 1999, the Department of Administration only used the COSF funded share of the building renewal allocation for buildings in the Capitol Group. All other agency building renewal requests were funded from the general fund share of the building renewal appropriation.

3. **COSF rates**

The COSF rate is currently $15.50 a square foot for net occupied office space and $6.00 a square foot for net occupied storage space. COSF rents are collected on the net occupied office and storage space. Rent is not collected for the common space such as the building lobby, bathrooms, and shared corridors. The following chart shows that 80.7% of the net interior space of the COSF rental buildings is subject to rent.

COSF Buildings & Potential Rents

Total COSF Buildings: 36	Rental Rate	Net Occupied Space	Potential Rental Revenue	% of COSF Interior Space
Office	$15.50	939,008	$14,554,624	75.80
Storage	$ 6.00	60,664	$ 363,984	4.90
Common [1]	0	213,733	0	17.25
Vacant (no rent collected) [2]	0	25,464	0	2.06
	Potential Total COSF Rent		$14,918,608	

[1] Restrooms, shared corridors, bldg. lobby
[2] Vacant old Health Lab is 24,916 sq. ft.

4. COSF Appropriations to other agencies:

FY 2005 COSF appropriations to other agencies totaled	$1,919,900
Appropriations to other agencies directly from COSF include the following:	
Health Lab: COP payment, Utilities, & janitorial expenses	$1,576,200
Historical Society: Papago Park Museum COP payment	$ 193,700
Treasurer's Office Lump sum operating budget	$ 150,000

The JCCR has granted a partial rent exemption of $136,400 to the Mines and Minerals Museum.

The Old Health Laboratory has been vacated and no COSF rents will be collected in the next two years. The FY 2005 COSF rent would have been $288,269.

ADOA expects the Treasurer's Office to request an FY 2005 rent exemption of $59,076 to pay for temporary rental space while the offices are renovated.

5. Lease Cost Review Board

The lease cost review board, before July 1st of each even-numbered year, estimates an average square foot dollar cost for the following two fiscal years for leasing privately owned office space and recommends to the Director of ADOA a rental rate to be charged to state agencies for using space in buildings owned by or leased to this state.

The current average lease rate for state leases of class B office space is $18.50 a square foot and the recommended rate for space in state owned buildings is $16.50 a square foot. The lower rate is intended to encourage state agencies to lease space in state owned buildings rather than in privately owned buildings.

6. Trend towards more emergency building renewal requests:

The average of buildings within the ADOA Building system has been consistently increasing each year. Many of the major components of these buildings, such as HVAC, fire alarms, electrical, plumbing, roofs, etc. have reached and are now exceeding their expected useful, economic life. Deferred capital maintenance has risen dramatically since FY 1999, because the annual building renewal appropriations have been less than 20% of the amount recommended by the statutory building renewal formula.

Consequently, the number and size of emergency building renewal requests have also been rising. ADOA has allocated $1.2 million for building renewal emergency projects from July 1, 2003 through mid August, 2004. The overwhelming majority of these projects have been for the repair and replacement of failed major building system components, roofs, and building exterior.

During the same period, the net allocation for planned projects has only been $457,000. Emergency allocations have made up 72.4% of all building renewal allocations for the past 13 months.

Unplanned/emergency building renewal repairs and replaces have become the norm and is forced ADOA to hold more funds in reserve to meet these emergencies throughout the fiscal year. Failure to maintain adequate reserves to correct these unplanned needs would force ADOA to cancel less important projects after work has begun and costs have been incurred. It is not in the best interest of the state to cancel professional services contracts or to stop work after architectural or engineering studies have been completed, but construction has not yet started.

7. Potential Emergencies

- The roofs on both the House and Senate are past their useful life.
- Exterior walls at 1616 W Adams need to be refurbished.
- 30 year old boilers at 1601 & 1535 W Jefferson
- 40 year old air handlers at Executive Tower, 1624 & 1688 W. Adams
- 30 year old air handlers at 1645 and 1601 W Jefferson
- Manual & electric lock mechanisms at all Juvenile Institutions
- Emergency power generators and switchgear at Juvenile Institutions
- Catalina Mt. Administration Building HVAC system is 40 years old
- Sally port gates at Adobe Mt. and Catalina Mt. Institutions are 20 years old

Emergency Funding

July 2003 to Present

Year	Project type		Transaction Amount
1999			$36,057.72
	Fire & Life Safety	$28,627.61	
	Interior Building Finishes	$2,912.60	
	Major Building Systems Repairs/Replacement	$10,293.13	
	Preservation of Asset	($5,775.62)	
2001			$39,782.62
	Fire & Life Safety	($3,034.33)	
	Major Building Systems Repairs/Replacement	$42,816.95	
	Preservation of Asset	$0.00	
2002			$21,591.22
	Fire & Life Safety	($189.43)	
	Infrastructure	$20,118.27	
	Interior Building Finishes	$4,204.00	
	Major Building Systems Repairs/Replacement	($1,595.04)	
	Preservation of Asset	($946.58)	
2003			$485,637.32
	ADA (Accessibility)	$19,451.31	
	Fire & Life Safety	$2,725.00	
	Infrastructure	$19,022.70	
	Major Building Systems Repairs/Replacement	$274,003.31	
	Preservation of Asset	$170,435.00	
2004			$619,758.36
	Fire & Life Safety	$9,805.00	
	Infrastructure	$13,024.93	
	Interior Building Finishes	$248,000.00	
	Major Building Systems Repairs/Replacement	$243,707.09	
	Preservation of Asset	$105,221.34	
		Total:	**$1,202,827.24**

Planned Project Activity

July 2003 to Present

Year	*Project type*	*Transaction Amount*
2001		($181,354.53)
	Fire & Life Safety	($38,667.51)
	Major Building Systems Repairs/Replacement	($2,972.22)
	Project Management	($139,714.80)
2002		($23,015.17)
	Fire & Life Safety	$27,216.50
	Infrastructure	($108.85)
	Interior Building Finishes	($7,543.21)
	Major Building Systems Repairs/Replacement	($17,303.44)
	Preservation of Asset	($1,050.92)
	Project Management	($24,225.25)
2003		$317,308.66
	Fire & Life Safety	$110,799.54
	Interior Building Finishes	$83,424.39
	Major Building Systems Repairs/Replacement	$23.94
	Preservation of Asset	$140,784.79
	Project Management	($17,724.00)
2004		$344,460.95
	Fire & Life Safety	$196,000.00
	Infrastructure	$44,178.83
	Major Building Systems Repairs/Replacement	($40,027.71)
	Preservation of Asset	$124,309.83
	Project Management	$20,000.00
	Total:	$457,399.91

STATE OF ARIZONA

Joint Committee on Capital Review

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

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

DATE: September 14, 2004

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

THRU: Richard Stavneak, Director

FROM: Brian Cary, Principal Economist

SUBJECT: Arizona Lottery Commission – Review of FY 2005 Building Renewal Allocation Plan

Request

The Arizona Lottery Commission requests Committee review of its FY 2005 Building Renewal allocation plan of $41,200 from the Lottery Fund.

Recommendation

The JLBC Staff recommends a favorable review of the FY 2005 Building Renewal allocation plan. The proposed expenditure plan is consistent with building renewal requirements.

Analysis

Laws 1986, Chapter 85 established the Joint Committee on Capital Review (JCCR) and charged it with developing a Building Renewal formula to guide the Legislature in appropriating monies for maintenance and repair of state buildings. A.R.S. § 41-1252 requires JCCR review of the expenditure plans for Building Renewal monies. Laws 2004, Chapter 276 appropriated a total of $41,200 in FY 2005 from the Lottery Fund to the Lottery Commission to be used for major maintenance and repair activities in accordance with A.R.S. § 41-793. The FY 2005 plan is submitted for formal review.

The Lottery operates out of two facilities: a 38,600 square-foot state-owned building located in Phoenix and a 3,080 square-foot leased building in Tucson. The Lottery's plan provides information on proposed maintenance expenditures for the Phoenix facility, which houses the Lottery's administrative offices as well as a ticket sales and redemption site.

The Lottery Commission plans to use its $41,200 FY 2005 allocation on the following projects:

• Resurface the 8,640 square-foot parking lot	$16,000
• Replace cracked and damaged tiles and countertops	$15,000
• Repair property elevation for drainage	$ 3,000
• Repair exterior patio draining system	$ 2,500
Total	$36,500

(Continued)

The remaining $4,700 is available for contingencies.

The plan appears to be reasonable and is consistent with legislative intent. The JLBC Staff recommends a favorable review of the FY 2005 Building Renewal allocation plan.

RS/BC:jb

Janet Napolitano
Governor

Kathleen S. Pushor
Executive Director

September 8, 2004

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JOINT BUDGET COMMITTEE

Representative Russell K. Pearce, Chair
Joint Committee on Capital Review
1716 West Adams
Phoenix, AZ 85007

RE: Request for Placement on Joint Committee on Capital Review Agenda September 2004

Dear Representative Pearce:

The Arizona Lottery requests placement on the September 2004 agenda of the Joint Committee on Capital Review to present our FY2005 Capital Expenditure Plan.

Information for this item is attached.

Sincerely,

for KATIE PUSHOR
Executive Director

Attachment

Cc: Senator Robert Burns
Betsey Bayless, Director, AZ Department of Administration
Richard Stavneak, Director, JLBC
Lorenzo Martinez, Capital Analyst, JLBC
Brian Cary, Lottery Budget Analyst, JLBC
David Jankofsky, Director, OSPB
Bret Cloninger, Lottery Budget Analyst, OSPB

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Janet Napolitano
Governor

Kathleen S. Pushor
Executive Director

THE ARIZONA LOTTERY
BUILDING RENEWAL FUNDS
FISCAL YEAR 2005 ALLOCATION PLAN

Background

The Arizona Lottery operates out of two facilities - a 38,600 sq. ft. building, owned by the State of Arizona in Phoenix, and a 3080 sq. ft. leased building in Tucson. The Phoenix facility includes the administrative offices, as well as a ticket sales and redemption section. The Tucson office provides space for the district sales manager and for ticket sales and redemption. Maintenance of the Tucson facility is included as part of that lease agreement. This report provides information on proposed maintenance expenses for the Phoenix facility which has a replacement cost of approximately $4,925,162.

As part of the FY2005 Approved Budget, the Arizona Lottery received a Capital Outlay Appropriation of $41,200 from the State Lottery Fund to the Arizona State Lottery Commission for building renewal.

Total FY2005 Capital Expenditure Budget Allocation:	$41,200.00
Proposed FY2005 Expenditures:	$36,500.00
Remaining:	$ 4,700.00

FY2005 Allocation Plan

The Lottery proposes the following capital expenditures in FY2005. The cost estimates were obtained from vendor quotes solicited by the Lottery's Procurement section.

Description	Estimated Cost
• Repair exterior draining system on patio. This repair requirement was discovered as we investigated a patio leak.	$ 2,500.00
• Resurfacing the 8640 sq. ft. parking lot which is 10 years past due on a regular maintenance schedule.	$ 16,000.00
• Repair elevation of property for drainage	$ 3,000.00
• Replace cracked and damaged tiles and countertops.	$ 15,000.00
	$36,500.00

STATE OF ARIZONA

Joint Committee on Capital Review

STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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

HOUSE OF REPRESENTATIVES

DATE: September 14, 2004

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

THRU: Richard Stavneak, Director

FROM: Justin Narducci, Assistant Fiscal Analyst

SUBJECT: Office of the Arizona State Treasurer – Consider Recommending Rent Exemption

Request

The Office of the State Treasurer (ASTO) requests a rent exemption in the amount of $40,000 for FY 2005. Pursuant to A.R.S § 41-792.01D "if a state agency does not have the financial resources for state owned space…the Director of the Arizona Department of Administration (ADOA), on recommendation of the Joint Committee on Capital Review, may authorize a whole or partial exemption from payment of the rental fee."

Recommendation

JLBC Staff recommends that the Joint Committee on Capital Review recommend that ADOA authorize a FY 2005 rent exemption of $40,000, as part of the Treasurer Office's tenant improvements for FY 2005.

Analysis

The Treasurer requested $360,000 in FY 2005 for one-time office renovations. Of this amount, $320,000 was requested for building improvements, while $40,000 was for rent of temporary space during the renovation period.

The FY 2005 budget includes $150,000 from the Capital Outlay Stabilization Fund and allocates $170,000 from the ADOA appropriation for building renewal (Capital Outlay Bill) to the Treasurer for building improvements. Since monies were not appropriated for the temporary space, the ASTO requests a rent exemption of $40,000. The JLBC Staff recommends an exemption for the temporary space. The Treasurer has already made the rent payment for FY 2005 on its permanent office space.

RS/JN:jb

DAVID PETERSEN
TREASURER

(602) 542-1463 OFFICE
(602) 542-7176 FAX

OFFICE OF THE
State Treasurer
STATE CAPITOL
1700 WEST WASHINGTON
Phoenix, Arizona 85007-2812
(602) 542-5815

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September 2, 2004

Joint Committee on Capital Review
1716 West Adams
Phoenix, Arizona 85007

Please place the Office of the Arizona State Treasurer on the next JCCR meeting agenda, for September 21st, 2004. This request is a result of rent obligations that would be due from ASTO budget for temporary space to be occupied at 3443 N. Central, Phoenix, Arizona.

COSF-rent for 1700 W. Washington (current space), has already been swept from the ASTO budget FY 2005. If you have additional questions or comments please contact Tony Malaj at 602-542-2316.

Yours in Serving Arizonans,

David Petersen

David Petersen
Arizona State Treasurer

STATE OF ARIZONA

Joint Committee on Capital Review

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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

DATE: September 14, 2004

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

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst
Jeremy Olsen, Fiscal Analyst

SUBJECT: Arizona Department of Transportation – Report on 5-Year Transportation Plan

Request

In compliance with a Committee request, the Arizona Department of Transportation (ADOT) has submitted an Executive Summary of their 5-Year Transportation Facilities Construction Program for FY 2005-FY 2009.

Recommendation

This item is for information only, and no Committee action is required. JLBC Staff recommends, however, that:

- ADOT provide an Executive Summary of its 5-Year Transportation Facilities Construction Program for FY 2006-FY 2010, when the department requests Committee review of its FY 2006 highway construction budget Professional & Outside Services expenditure plan in the summer of 2005.
- The Executive Summary include the following additional information:
  - -- Clarify the definition of "over capacity" highway segments for both urban areas and the rest of the state.
  - -- List all state highway segments that are "over capacity" for ½ hour or longer, including the number of "over capacity" AM and PM hours separately for each segment.
  - -- Identify the "over capacity" segments addressed in the 5-Year Plan.
  - -- Provide maps of "over capacity" segments, and which are addressed by projects in the 5-Year Plan.
  - -- Highlight changes from the 5-Year Plan submitted to the Committee in the previous year.
  - -- Update information on "over capacity" segments, which is now over 2.5 years old.
  - -- Provide other measures of change in traffic congestion, as available. For example, the Texas Transportation Institute recently released their <u>2004 Urban Mobility Report</u> with data for 2002.

The entire 5-year plan costs $3.8 billion. Of this amount, $1.4 billion will be spent on 19 major projects. During the 5 years, the annual spending level decreases dramatically from $1.5 billion in FY 2005 to less than $800 million in each of the last 3 fiscal years, FY 2007 through FY 2009. This is mainly due to: 1) losing Maricopa Regional Area Road Fund (MRARF) revenue from the ½ cent sales tax, which will expire December 31, 2005 unless extended by the voters, and 2) repaying $200 million of Board Funding Obligations (BFO) in FY 2008 per current statute.

(Continued)

ADOT has reported that the plan addresses 12 out of 15 "over capacity" highway segments. "Over capacity" means that traffic volume exceeds capacity for all 3 hours of the morning or evening rush hours. However, there are additional highway segments that are "over capacity" from ½ hour to 2.5 hours, which ADOT did not report on. On August 31, 2004, JLBC Staff asked ADOT to provide this information by September 10, 2004, since ADOT has already completed their analysis.

Analysis

The 5-Year Transportation Facilities Construction Program for FY 2005-FY 2009 includes a 5-year total of $3.8 billion for the highway program and $0.7 billion for the aviation program. The last page of ADOT's Executive Summary shows expenditures broken out by fiscal year for each county. The following table shows the estimated revenues and expenditures for the 5-year highway program.

5 Year Highway Program

Revenues		Expenditures	
		Statewide Program	
State Highway Fund	$ 1,007,000,000	Preservation	$ 764,000,000
Regional Area Road Fund	212,000,000	Improvements	2,013,000,000
Federal Funds	1,837,000,000	Management	345,000,000
Bonds, Notes, & HELP Loans [1/]	730,000,000	Total Statewide Program	$3,122,000,000
Total	$3,786,000,000		
		MAG Freeway System	$ 664,000,000
		Total	$3,786,000,000

1/ Bonds, Grant Anticipation Notes, and Highway Expansion and Extension Loan Program Loans.

Attachment A lists the estimated expenditures by fiscal year for 19 major highway projects (those over $25 million), which total $1.4 billion of estimated expenditures for the 5-year program. The largest of the 19 highway projects are as follows:

- The Red Mountain section of Loop 202 connects the Price Freeway (Loop 101) with the Superstition Freeway (US 60). The project began June 1996 and currently extends to Higley Road. The 5 remaining sections are to be completed by September 2007 at a multiple year cost of $295.3 million beginning in FY 2005.
- The Santan Freeway section of Loop 202 connects the Superstition Freeway (US 60) to the Maricopa Freeway (I-10). Construction on the Santan began November 2000 and has been completed from I-10 to State Route 87 (Arizona Avenue). The remaining work is to be completed by December 2006 at a multiple year cost of $201.9 million beginning in FY 2005.
- The I-10/16th Street to 40th Street to Baseline project consists of a series of "connector distributor" roadway projects at a multiple year cost of $131.4 million beginning in FY 2005. Collector distributor roads are similar to frontage roads except that access to abutting property is not permitted, and the number of entrance and exit points to the freeway are reduced.
- The 5.5 mile Tucson section of I-10 from Prince Road to 29th Street is currently 3 lanes in each direction. The project will add one lane in each direction and improve the traffic interchanges at a multiple year cost of $122.4 million for portions scheduled to begin in FY 2006. The project may take 3 years to complete.
- The four-mile section of US 60 from Gilbert Road to Power Road currently consists of three travel lanes in each direction. This project will add two general purpose lanes, a High Occupancy Vehicle (HOV) or carpool lane, and merge (auxiliary) lanes in each direction. It will also be repaved with rubberized asphalt. The merge lanes will be constructed between Val Vista Drive and Higley Road. The multiple year cost is $91.7 million beginning in FY 2005.

Five of the 19 major projects are not new to the 5-Year Plan, but do now meet the $25 million threshold. These projects are as follows.

- The 6 mile section of I-10 from State Route 202L to Riggs Road is to be widened from 2 to 4 lanes in each direction, including an HOV lane and another general purpose lane in each direction for a multiple year cost of $44.9 million beginning in FY 2006 (including $42 million in FY 2009).

(Continued)

The US 60 overpass at 59th and Glendale avenues includes $27.8 million for the overpass and $9.2 million for additional right of way cost associated with the corridor. The project is to be completed by July 2006 for a multiple year cost of $37 million beginning in FY 2005. Last year $23.8 million was programmed for the overpass, and ADOT did not include additional right of way cost associated with the corridor in their definition of this project.

- The 3 mile section of State Route 179 Sedona is to be widened by 1 lane in each direction from the "Y" south on State Route 179 at a multiple year cost of $27.6 million beginning in FY 2005. This year ADOT grouped 3 related segments into 1 project for reporting purposes (this grouping then exceeded the $25 million threshold), whereas last year they did not.
- The State Route 195 Yuma Area Service Highway/Goldwater Range project is a new 26 mile long, 4 lane divided highway connecting the San Luis port of entry to I-8 east of Yuma, at a multiple year cost of $31.2 million beginning in FY 2006 (including $8 million in FY 2009). The project primarily uses right of way from the Marine training facility.
- The State Route 260 Doubtful Canyon Section project will widen 4 miles beginning at milepost 269 from a 2 lane highway to a 4 lane divided highway, at a multiple year cost of $33.8 million beginning in FY 2005 (including $32.3 million in FY 2009). This is one of six projects that will ultimately widen and straighten 21 narrow, winding miles of State Route 260 east of Payson at a cost $100 million.

ADOT's Executive Summary also includes their 5-Year Aviation Program for FY 2005-FY 2009 which totals $685.2 million, including revenues of $580 million from federal grants, $78 million from the state, and $27.2 million from local governments. The aviation program provides for planning, construction, development, and improvement of state, county, city and town airports.

Congestion Performance Measures

ADOT reported on their traffic congestion performance measures at the June 22, 2004 Committee meeting. Congested highway segments are defined as those with traffic volume at or over 100% of capacity during peak driving periods from 6 a.m. to 9 a.m. and 3:30 p.m. to 6:30 p.m. Throughout the state, ADOT reported that 15 road segments met this criteria, including 12 segments with action in the 5-Year Plan. However, they may not have included every "over capacity" highway segment, making their list of 15 road segments incomplete. The Committee asked ADOT to submit for Committee review a complete list of "over capacity" state highway segments by September 1, 2004.

ADOT responded that the 15 road segments previously reported as "over capacity" includes only those segments which are "over capacity" for the entire 3 hour duration of either the peak morning or evening driving period. The department's initial report did not include segments that are "over capacity" from ½ hour to 2.5 hours. (*See Attachment B*)

Our office asked ADOT on August 31, 2004 to provide a complete list of state highway segments (including those segments already reported to the Committee) that are "over capacity" for ½ hour or longer. The department provided maps of congested segments for the Phoenix area from a Maricopa Association of Governments (MAG) study in the fall of 2001. (*See Attachment C*) The Phoenix area maps are of limited use, since they are 2.5 years old and the data was collected prior to completion of projects such as the Loop 101, the SR 51 to Loop 101 connection, and a 34 lane mile improvement on US 60 from I-10 to Val Vista Road.

The maps show 13 segments during the morning rush and 15 during the afternoon rush that were "over capacity" from ½ to 3 hours. Since then, the congested segments may have improved or shifted to other parts or the freeway system as a result of these and other projects coupled with continuing population growth in the valley. At the June 2004 Committee meeting, ADOT reported that 6 of the 15 "over capacity" 3 hour segments are in the Phoenix area, and that 3 of the 6 have action in the 5-Year Plan.

ADOT also reported to the Committee that there are 4 "over capacity" 3 hour segments in the Tucson area and 5 "over capacity" segments for the rest of the state, all with action in the 5-Year Plan. ADOT states that they

(Continued)

have provided no additional congestion information for the Tucson area, because no highway segments are "over capacity" for ½ to 2.5 hours. This does not seem reasonable, and ADOT said that they would re-check their information. Also, in the past ADOT's 3-hour definition of congested segments has applied to the Phoenix and Tucson areas, but not the rest of the state. It is unclear what the definition is for congested segments in rural areas.

Financial Basis of 5-Year Plan

ADOT provided an outline of the financial assumptions behind the current 5-Year Plan (*See Attachment D*). The department projects that total Highway User Revenue Fund (HURF) revenues will increase from $1.18 billion in FY 2004 to $1.44 billion in FY 2009, or a 22% increase. This seems reasonable, since total HURF revenues increased by 20% from $983 million in FY 1999 to $1.18 billion in FY 2004. The $1.007 billion of State Highway Fund revenue for the 5-Year Plan shown in the previous table is the remainder of HURF revenues after various distributions and appropriations such as to cities, counties, the Department of Public Safety, ADOT's operating budget, ADOT's capital outlay and building renewal, and the $118 million vehicle license tax transfer to the General Fund in FY 2005.

The 5-Year Plan's dollar value of projects begun plus debt service decreases dramatically from $1.5 billion in FY 2005, to less than $800 million in each of the last 3 fiscal years, FY 2007 through FY 2009. This is mainly due to 2 reasons.

- First, Maricopa Regional Area Road Fund (MRARF) revenue from the ½ cent sales tax decreases from $305 million in FY 2005 to $212 million in FY 2006 to $0 in FY 2007 and beyond, since the current tax expires December 31, 2005. If the voters extend the Maricopa ½ cent sales tax at the November general election, then we would expect to see higher levels of expenditure in future 5-Year Plans.
- Second, ADOT will need to repay $200 million of BFO's to the State Treasurer in FY 2008 under current statute. BFO's are loans totaling $200 million from the General Fund operating balance to the department, as authorized by statute. If the statutory authorization for BFO's is extended, then we would again expect to see higher levels of expenditure in future 5-Year Plans.

Highlights of ADOT's bonding plans include the following.

1) HURF bonds are near the $1.3 billion statutory limit. They range from $1.15 billion in FY 2005 to $1.22 billion in FY 2008 before decreasing to $1.2 billion in FY 2009.
2) MRARF Bonds would be repaid by the end of FY 2006, due to the expiration of the Maricopa ½ cent sales tax. MRARF bonds outstanding decrease from $289 million in FY 2005 to $80 million in FY 2006 to $0 thereafter.
3) Grant Anticipation Notes (GANS) outstanding range from $330 million in FY 2005 to $456 million in FY 2008 before decreasing to $393 million in FY 2009. GANS are repaid from future federal funds.
4) Under current statute, $200 million of BFO's will need to be repaid in FY 2008 and would be $0 thereafter. The $200 million includes $60 million repaid from the State Highway Fund and $140 million repaid from the Highway Expansion and Extension Loan Program (HELP) Fund.
5) HELP Fund loans outstanding decrease from $145 million in FY 2005 and $195 million in FY 2006 to $42 million in FY 2009. This is due to ADOT having less money available to make loans from the HELP Fund in FY 2009, after repaying $140 million of BFO's from the HELP Fund to the State Treasurer in FY 2008. The HELP Fund is a state infrastructure bank which provides loans to political subdivisions, Indian tribes and state agencies for eligible transportation projects.

Attachments (4)
RS/BH:jb

Attachment A

MAJOR PROJECTS (Over $25,000,000)

	Completion	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Previous Projects						
Red Mountain Freeway – L202 Projects	9/07	$166,850	$117,409	$11,030		
Santan Freeway – L202 Projects	12/06	187,959	6,761	7,215		
Sky Harbor Freeway – Superior Ave. to University Dr.	9/07	4,072	21,928	1,019		
South Mountain Freeway – L202 "Set-Aside"		16,868	56,320			
I-10/16th St.–40th St.–Baseline – Collector Distributor *		400	14,000	97,000		$20,000
Tucson I-10, Twin Peaks – New Traffic Interchange			28,000			
Tucson I-10, Prince Rd to 29th St. – Widen to 4 lanes each way	FY 09		122,413			
I-17, SR101 – SR 74 – Carefree Highway – Widen			5,000		$26,560	33,000
SR 51, Shea Blvd – Bell Rd.– HOV Lanes				2,800	27,000	
US 60, Gilbert – Power Rd. - HOV/SOV Lanes		6,700		50,000	35,000	
US 60, Florence Jct. – Picket Post – Widen			37,000			
SR 85 – Widen Projects		26,895	18,189	15,665		25,300
SR 93 - Wickenburg By-Pass		27,000				
US 93 Old US 93 to Antelope Wash - Parallel Road		29,607				
New Projects						
I-10, SR 202L – Riggs Road – Widen			2,900			42,000
US 60, 59th Ave – Glendale overpass	7/06	36,972				
SR 179 Sedona, - Widen projects *		9,400	10,865	7,335		
SR 195 Yuma Service Highway/Goldwater Range – Widen *			19,150		4,000	8,000
SR 260 Doubtful Canyon Section – Widen		1,500				32,300

* Indicates projects that address "over capacity" segments, as reported by ADOT. We are awaiting further information from ADOT as to whether more of these projects address congested segments.

Arizona Department of Transportation

Office of the Director

206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

ADOT

Janet Napolitano
Governor

Victor M. Mendez
Director

Debra Brisk
Deputy Director

August 26, 2004

RECEIVED
AUG 27 2004
JOINT BUDGET COMMITTEE

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

Dear Representative Pearce:

At the June 22, 2004, meeting the Joint Committee on Capital Review requested of ADOT a complete list of "over capacity" state highway segments. The following is in response to that request.

The over capacity performance measure is defined by two elements, Level of Service (LOS) F and the duration of the LOS F.

LOS F is the situation where traffic volume is at or in excess of 100% of the capacity of the highway segment. Traffic flows well below the posted speed limits. Speeds are reduced to less than 30 miles per hour, and may include stop-and-go conditions. Attached you will find a pictorial description of the different levels of service.

In addition, to this volume-to-capacity ratio, the Level of Service is measured over the peak driving period. This is 6:00 a.m. to 9:00 a.m. and 3:30 p.m. to 6:30 p.m.

Therefore, a segment of road is considered over capacity if it is a LOS F over the duration of the peak driving period.

We reviewed all highway segments in the Phoenix area, the Tucson area and the Balance of State to insure the accuracy of our June 9, 2004, report.

While there are number of segments that are LOS E and there are segments that are LOS F for ½ hour to 2 ½ hours duration there are no segments that meet the congestion measure that were excluded from our June 9, 2004, report.

If you have any questions regarding this analysis please contact Terry Trost, 712-8981.

Sincerely,

Victor M. Mendez

cc: Senator Robert Burns, Vice-Chairman
Speaker of the House Jake Flake
Senate President Ken Bennett
Richard Stavneak, Director, Joint Legislative Budget Committee
David Jankofsky, Director, Office of Strategic Planning and Budgeting
D. Clark Partridge, State comptroller, Arizona Department of Administration
Marcel Benberou, Senior Analyst, Office of Strategic Planning and Budgeting
Bob Hull, Senior Analyst, Joint Legislative Budget Committee

Table 1 Level-of-Service Definition

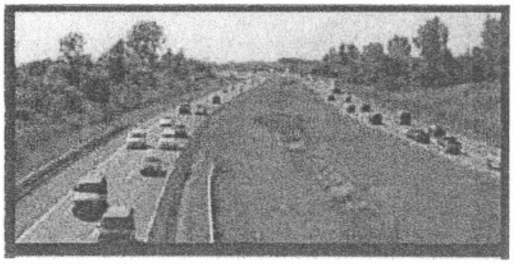
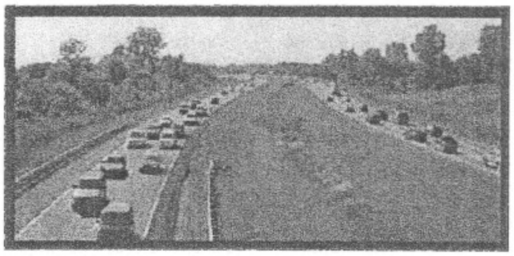
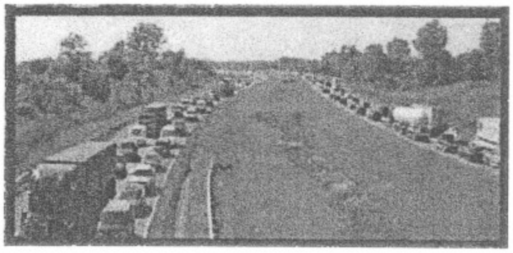
LOS	Roadway Segments	
A	Conditions of free unobstructed traffic flow with no delays, and traffic signal phases are sufficient to clear all approaching vehicles.	
B	Conditions of stable flow with very little delay, and a few signal phases are unable to clear all approaching vehicles.	
C	Stable condition, movements somewhat restricted due to higher volumes, but not objectionable to motorists.	
D	Movements are more restricted, queues and delays may occur during short peaks, but lower demands occur often enough to permit clearing, preventing excessive backups.	
E	Represents operations at lower operating speeds with volumes at or near capacity. Flow is unstable, and there may be momentary stoppages.	
F	Forced flow conditions where demand volumes exceeding capacity. Speeds are reduced significantly and stoppages may occur for short or long periods of time due to traffic congestion.	

Photo Source: Flint-Genesee County, Michigan, 2025 Long Range Transportation Plan

Attachment C

Arizona Department of Transportation

Office of the Director
206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

ADOT

Janet Napolitano
Governor

Victor M. Mendez
Director

Debra Brisk
Deputy Director

September 10, 2004

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

Dear Mr. Stavneak:

The attached maps are in response to your letter of August 31, in which you asked for a complete list of level of service F for ½ hour or longer. The maps show the duration of level of service F in ½ increments for both the a.m. and p.m. peak drive times.

The data used to develop these maps was collected between September 2001 and January 2002, and is the most recent traffic count data for the MAG bottleneck study.

This data was collected prior to the completion of a 34 traffic lane mile improvement on U.S. 60 from I-10 east to Val Vista Road. As a consequence the level of service shown on the maps for that section will be updated in the near future.

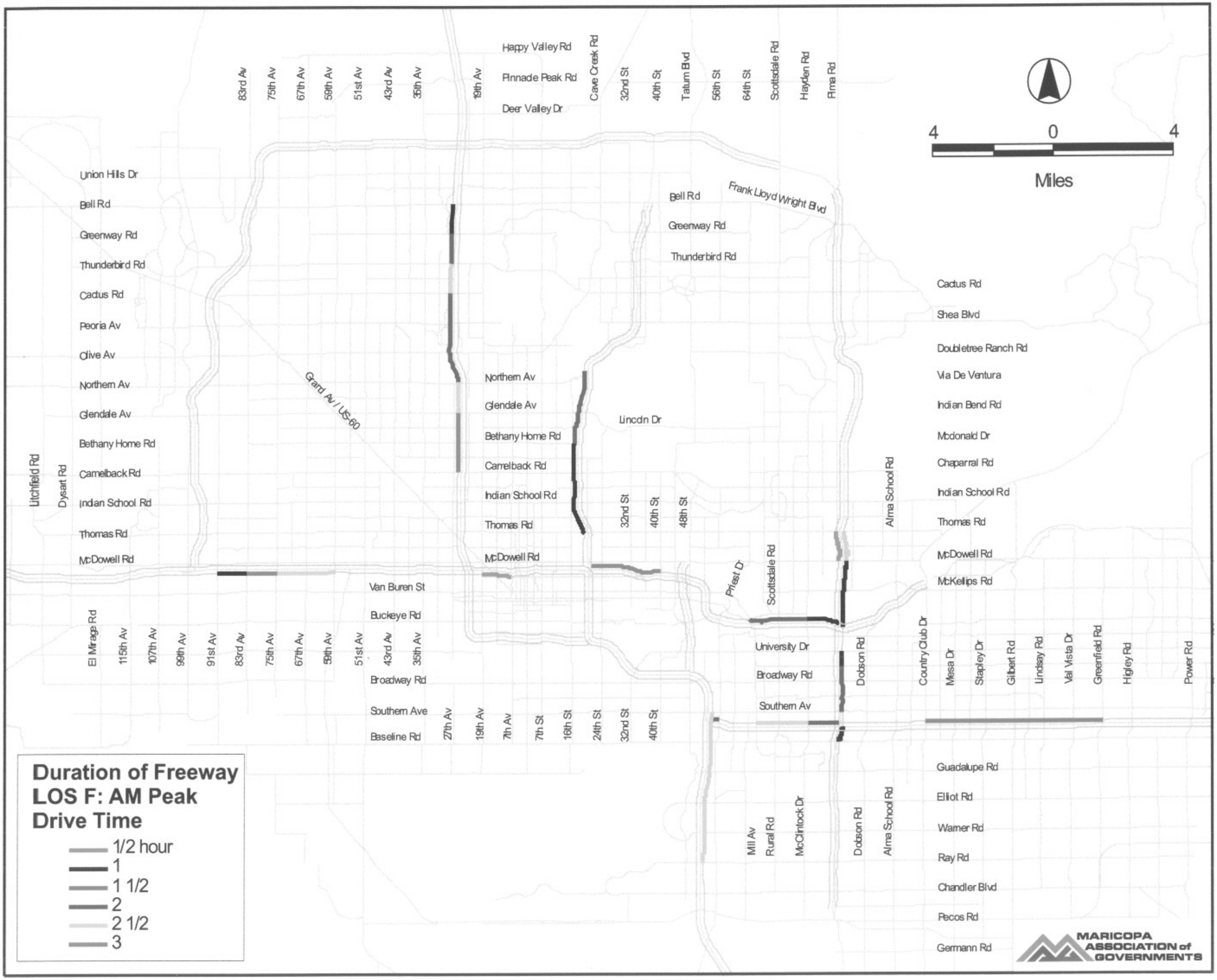
Traffic congestion is a problem facing all urban areas and is especially an issue in metropolitan Phoenix which continues to grow in population, registered vehicles and most importantly vehicle miles traveled. ADOT and its metro Phoenix area partners continue to work to find solutions to the congestion issue. Statistics recently released by the Texas Transportation Institute show that in 2002 Phoenix motorists spend 3 hours less in traffic than in 2001.

If you have further questions please call Terry Trost, 712-8981.

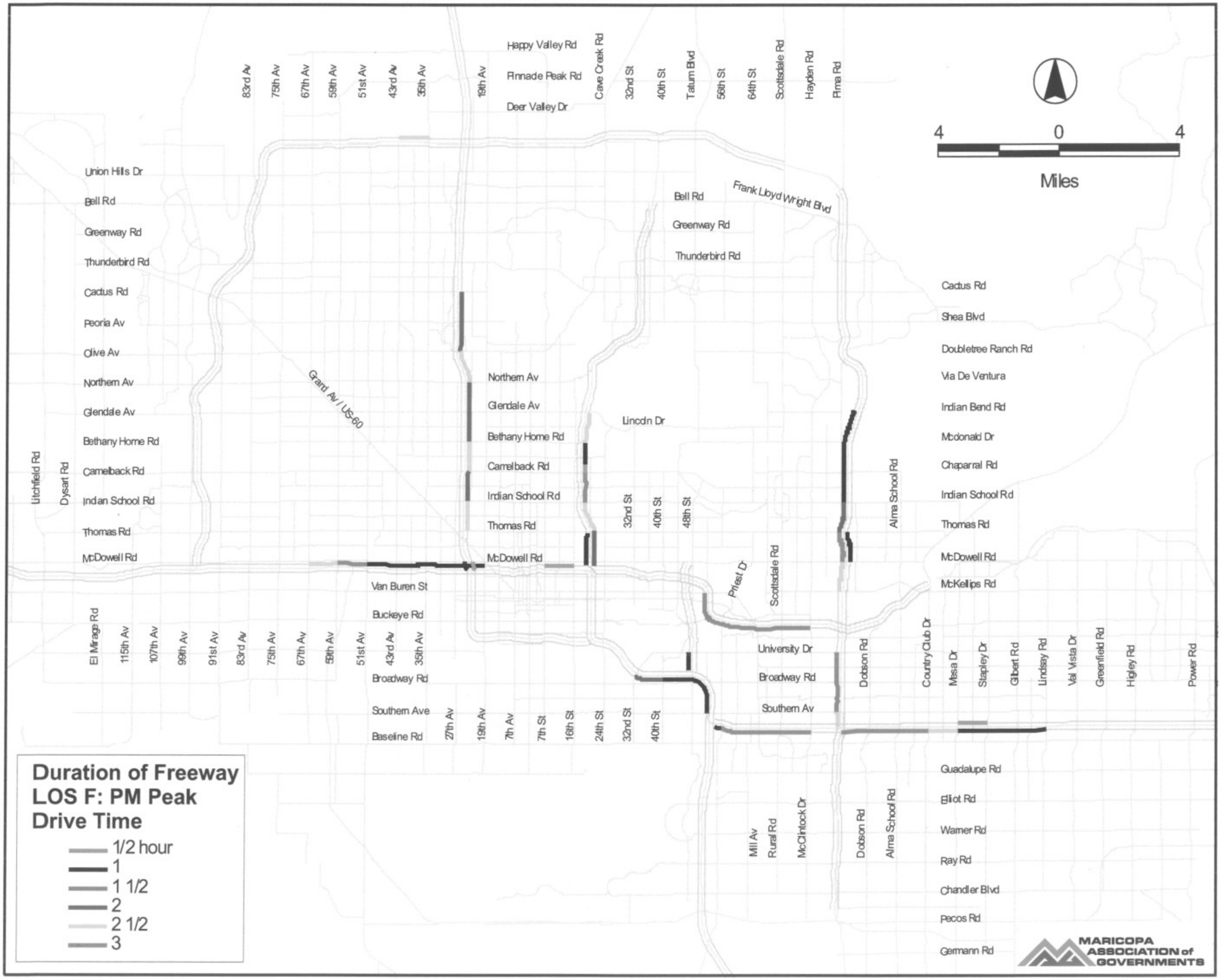
Sincerely

Victor M. Mendez

cc: Representative Russell Pearce
Senator Bob Burns
David Jankofsky, Director, OSPB
Marcel Benberou, OSPB
Bob Hull, JLBC



Duration of Freeway LOS F: AM Peak Drive Time
1/2 hour
1
1 1/2
2
2 1/2
3
Miles
4
0
4
MARICOPA ASSOCIATION of GOVERNMENTS
Happy Valley Rd
Pinnacle Peak Rd
Deer Valley Dr
Union Hills Dr
Bell Rd
Greenway Rd
Thunderbird Rd
Cactus Rd
Peoria Av
Olive Av
Northern Av
Glendale Av
Bethany Home Rd
Camelback Rd
Indian School Rd
Thomas Rd
McDowell Rd
Van Buren St
Buckeye Rd
Broadway Rd
Southern Ave
Baseline Rd
Grand Av / US-60
Frank Lloyd Wright Blvd
Lincoln Dr
Priest Dr
University Dr
Southern Av
Shea Blvd
Doubletree Ranch Rd
Via De Ventura
Indian Bend Rd
Mcdonald Dr
Chaparral Rd
McKellips Rd
Guadalupe Rd
Elliot Rd
Warner Rd
Ray Rd
Chandler Blvd
Pecos Rd
Germann Rd
Litchfield Rd
Dysart Rd
El Mirage Rd
115th Av
107th Av
99th Av
91st Av
83rd Av
75th Av
67th Av
59th Av
51st Av
43rd Av
35th Av
27th Av
19th Av
7th Av
7th St
16th St
24th St
Cave Creek Rd
32nd St
40th St
48th St
Tatum Blvd
56th St
64th St
Scottsdale Rd
Hayden Rd
Pima Rd
Alma School Rd
Dobson Rd
Country Club Dr
Mesa Dr
Stapley Dr
Gilbert Rd
Lindsay Rd
Val Vista Dr
Greenfield Rd
Higley Rd
Power Rd
Mill Av
Rural Rd
McClintock Dr


Duration of Freeway LOS F: PM Peak Drive Time
1/2 hour
1
1 1/2
2
2 1/2
3
4
0
4
Miles
MARICOPA ASSOCIATION of GOVERNMENTS
Happy Valley Rd
Pinnade Peak Rd
Deer Valley Dr
83rd Av
75th Av
67th Av
59th Av
51st Av
43rd Av
35th Av
19th Av
Cave Creek Rd
32nd St
40th St
Tatum Blvd
56th St
64th St
Scottsdale Rd
Hayden Rd
Pima Rd
Union Hills Dr
Bell Rd
Greenway Rd
Thunderbird Rd
Cactus Rd
Peoria Av
Olive Av
Northern Av
Glendale Av
Bethany Home Rd
Camelback Rd
Indian School Rd
Thomas Rd
McDowell Rd
Litchfield Rd
Dysart Rd
Grand Av / US-60
Bell Rd
Frank Lloyd Wright Blvd
Greenway Rd
Thunderbird Rd
Northern Av
Glendale Av
Bethany Home Rd
Camelback Rd
Indian School Rd
Thomas Rd
McDowell Rd
Lincoln Dr
32nd St
40th St
48th St
Cactus Rd
Shea Blvd
Doubletree Ranch Rd
Via De Ventura
Indian Bend Rd
Mcdonald Dr
Chaparral Rd
Indian School Rd
Thomas Rd
McDowell Rd
McKellips Rd
Alma School Rd
Van Buren St
Buckeye Rd
Priest Dr
Scottsdale Rd
El Mirage Rd
115th Av
107th Av
99th Av
91st Av
83rd Av
75th Av
67th Av
59th Av
51st Av
43rd Av
35th Av
Broadway Rd
Southern Ave
Baseline Rd
27th Av
19th Av
7th Av
7th St
16th St
24th St
32nd St
40th St
University Dr
Broadway Rd
Southern Av
Dobson Rd
Country Club Dr
Mesa Dr
Stapley Dr
Gilbert Rd
Lindsay Rd
Val Vista Dr
Greenfield Rd
Higley Rd
Power Rd
Guadalupe Rd
Elliot Rd
Warner Rd
Ray Rd
Chandler Blvd
Pecos Rd
Germann Rd
Mill Av
Rural Rd
McClintock Dr
Dobson Rd
Alma School Rd

Arizona Department of Transportation
Office of the Director
206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

ADOT
Janet Napolitano
Governor

Victor M. Mendez
Director

Debra Brisk
Deputy Director

August 2, 2004

RECEIVED
AUG 04 2004
JOINT BUDGET COMMITTEE

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

Dear Mr. Stavneak:

The attached information is being sent to you in response to your request dated July 7, 2004. You will find attached five (5) tables with the detailed revenue, budget, bonding and debt service information you requested.

Your letter also posed four questions, which are answered as follows;

Question: *What assumptions were used for the worst case scenario on page 14?*

Answer: The worst case scenario was based on an accelerated payout curve that represented a 3% to 6% cumulative increase in estimated cash flow payouts. The two cumulative payout curves used were as follows:

	Expected Case	Worst Case
Year 1	27%	30%
Year 2	80%	85%
Year 3	89%	95%
Year 4	95%	100%
Year 5	96%	100%
Year 6	98%	100%
Year 7	100%	100%

Question: *Why is the use of GANs as a source of revenue increased from $0 for the 5-year period beginning in FY 2003 to $147 million for the 5-year period beginning in FY 2004?*

Answer: The use of GANs was needed in order to accommodate higher levels of anticipated cash expenditures over the 5-year period due primarily to (1) growth in the total program, (2) higher estimated levels of program obligations and (3) accelerated estimated payout curves.

Question: *A chart on page 23 depicts the estimated debt to revenue ratio from FY 1996 to FY 2009. In addition to this ratio, please provide the associated figures for both debt and revenue in FY 2005 through FY 2009.*

Answer: Please refer to Table 5 attached.

Question: *How was the estimate of $2.57 billion in federal funding for the 5-year period beginning in FY 2005 derived? This amount is listed in a chart on Page 10 of the presentation. A table on page 27 lists federal funding estimates for this same time period of $2.36 billion, $2.62 billion or $2.95 billion, dependent on whether Administration, House or Senate figures are used.*

Answer: The $2.57 billion is ADOT's estimate of the amount of federal funding **Arizona** would receive under the Administration's proposal for the **five** fiscal years 2005 – 2009. Of this amount, we estimate ADOT would receive approximately $2.02 billion (ADOT share plus Debt Service). The numbers you refer to on page 27 represent the total amount we estimate **ADOT** would receive under the three competing proposals for the assumed **six-year** reauthorization period of 2004 – 2009.

Please note that in responding to your request, we have shown estimates of DPS transfers and Operating and LB&I budgets for fiscal years 2006 through 2009. These estimates may differ materially from the Department's annual budget request, the Governor's recommended budget, and appropriation levels ultimately approved by the Legislature for these future fiscal years. In addition, it should be remembered that all the numbers shown are estimates only and are subject to review and revision several times each fiscal year.

If you have any questions regarding any of the information in this transmittal, please feel free to contact myself or John McGee, ADOT's Chief Financial Officer.

Sincerely,

Victor M. Mendez

cc: David Jankofsky – Director, OSPB
Marcel Benberou - OSPB
Terry Trost – ADOT
John McGee – ADOT
John Fink – ADOT

Table 1

ADOT's Projected Revenue Sources for FY 2005-2009 ($ in Million)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	
HURF	$ 1,200.5	$ 1,256.0	$ 1,318.2	$ 1,377.5	$ 1,440.0	(1)
Maricopa 1/2 cent sales tax (MRARF)	305.0	212.3	0.0	0.0	0.0	
Federal Funds	405.9	425.1	439.6	454.6	463.6	(2)
HURF Bond Proceeds	175.0	55.0	128.0	65.0	45.0	
RARF Bond Proceeds	0.0	0.0	0.0	0.0	0.0	
Grant Anticipation Loan Proceeds (GANS)	70.1	115.0	60.0	60.0	0.0	
Highway Expansion and Extension Loan Program (HELP)	67.3	60.4	6.1	0.0	0.0	
Other Income	19.4	58.4	14.5	14.0	7.3	(3)

(1) Represents estimated total HURF, including City, County and DPS shares

(2) Represents estimate of ADOT's share of Federal Highway Funds

(3) Includes Interest Income, MVD Fees, Local/Private Contributions, Transit Transfer, and Inflation Discount Factor

	Table 2					
ADOT's Budgeting Assumptions for FY 2005-2009 ($ in Million)						
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	
ADOT's Operating Budget - SHF	$ 348.3	$ 354.8	$ 362.8	$ 370.0	$ 379.5	(1)
ADOT's Capital Outlay & Building Renewal	3.2	10.0	10.0	10.0	10.0	
DPS Transfer from HURF	52.2	40.0	10.0	10.0	10.0	
DPS Transfer from State Highway Fund	32.7	25.0	20.0	20.0	20.0	
Vehicle License Tax Transfer to General Fund	118.0	0.0	0.0	0.0	0.0	
Appropriated Debt Service - SHF Statewide Bonds	61.4	67.6	66.7	68.6	71.2	
Debt Service - HURF MAG/PAG Controlled Access Bonds	50.0	50.2	58.7	61.1	61.2	
Debt Service - MRARF Bonds	222.9	81.9	0.0	0.0	0.0	
Debt Service - GANS	66.8	59.1	71.6	59.3	94.1	
Debt Service - HELP Loans	45.8	12.0	34.8	66.0	78.0	
Debt Service - Board Funding Obligations (BFO's)	0.0	0.0	0.0	66.3	0.0	(2)

(1) Includes an estimated $53.1 million per year for costs previously charged to Capital Budget

(2) Does not include BFO payments payable from HELP fund of approx. $156 million in FY 2008

Table 3

ADOT's Bonding Plans for FY 2005-FY 2009 ($ in Million)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
HURF Bonds Outstanding - Beginning of FY	$ 1,017	$ 1,148	$ 1,148	$ 1,218	$ 1,222
HURF Bonds Issued	175	55	128	65	45
HURF Bonds Repaid	44	55	58	61	64
HURF Bonds Outstanding - End of FY	$ 1,148	$ 1,148	$ 1,218	$ 1,222	$ 1,203
MRARF Bonds Outstanding - Beginning of FY	$ 289	$ 80	$ -	$ -	$ -
MRARF Bonds Issued	0	0	0	0	0
MRARF Bonds Repaid	209	80	0	0	0
MRARF Bonds Outstanding - End of FY	$ 80	$ -	$ -	$ -	$ -
GANS Outstanding - Beginning of FY	$ 309	$ 330	$ 406	$ 423	$ 456
GANS Issued	70	115	60	60	0
GANS Repaid	49	39	43	27	63
GANS Outstanding - End of FY	$ 330	$ 406	$ 423	$ 456	$ 393
HELP Loans Outstanding - Beginning of FY	$ 103	$ 145	$ 195	$ 178	$ 116
HELP Loans Issued	82	60	6	0	0
HELP Loans Repaid	40	10	23	62	74
HELP Loans Outstanding - End of FY	$ 145	$ 195	$ 178	$ 116	$ 42
BFO's Outstanding - Beginning of FY	$ 200	$ 200	$ 200	$ 200	$ -
BFO's Loans Issued	0	0	0	0	0
BFO's Loans Repaid	0	0	0	200	0
BFO's Loans Outstanding - End of FY	$ 200	$ 200	$ 200	$ -	$ -

Table 4						
ADOT's 5-Year Plan and Estimated Debt Service Payments ($ in Million)						(1)
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	
Construction	$ 446.3	$ 520.8	$ 354.5	$ 370.9	$ 320.9	
Urban Controlled Access	424.5	210.5	22.9	6.3	0.0	
Pavement Preservation Maintenance	90.2	88.0	99.0	100.0	100.0	
Other	129.2	133.4	125.5	122.0	122.2	
Debt Service	401.1	258.9	197.0	189.1	226.5	
Total	$ 1,491.3	$ 1,211.6	$ 798.9	$ 788.3	$ 769.6	

(1) Reflects final program adopted by Transportation Board including rollover of certain FY 2004 costs

	Table 5					
ADOT's Estimated Revenue and Debt [redacted] ($ in Million)						
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	
Outstanding Debt - Fiscal Year End						
HURF	$ 1,148	$ 1,148	$ 1,218	$ 1,222	$ 1,203	
RARF	$ 80	$ -	$ -	$ -	$ -	
GANS	$ 330	$ 406	$ 423	$ 456	$ 393	
BFO's	$ 200	$ 200	$ 200	$ -	$ -	
Total	$ 1,758	$ 1,754	$ 1,841	$ 1,678	$ 1,596	
Revenues:						
HURF	$ 462	$ 614	$ 660	$ 690	$ 722	(1)
RARF	$ 305	$ 212	$ -	$ -	$ -	
Federal	$ 488	$ 508	$ 520	$ 536	$ 548	(2)
Total	$ 1,255	$ 1,334	$ 1,180	$ 1,226	$ 1,270	
Debt / Revenue Ratio	1.4	1.3	1.6	1.4	1.3	
(1) Represents estimated ADOT share of HURF Funds						
(2) Represents total estimated Federal Funds flowing to ADOT and available for Debt Service Coverage						

ADOT

Arizona Department of Transportation

Transportation Services Group

206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

Janet Napolitano
Governor

Victor M. Mendez
Director

John A. Bogert
Chief of Staff

July 15, 2004

RECEIVED
JUL 15 2004
JOINT BUDGET COMMITTEE

Bob Hull,
Principal Research/Fiscal Analyst
Joint Legislative Budget Committee Staff
1716 West Adams
Phoenix, Arizona 85007

As requested, enclosed is ADOT's Executive Summary of the 5-Year Transportation Facilities Construction Program for FY 2005 - 2009.

The ADOT Transportation Board met June 18, 2004 to adopt the final 5-Year Transportation Facilities Construction Program for FY 2005 – 2009.

If you have any questions relative to the Executive Summary, please do not hesitate to contact either Ron Boehmer (712-4948) or me (712-8981).

Sincerely

Terry Trost
Manager, Strategic Planning and Budgets

Attachment - Executive Summary of the 5-Year Transportation Facilities Construction
Program for FY 2005-2009

cc: Victor Mendéz, ADOT
David Jankofsky, OSPB
John Bogert, ADOT
Marcel Benberou, OSPB
John McGee, ADOT

Arizona Department of Transportation

Five-Year Transportation Facilities Construction Program FY 2005-2009

Executive Summary

Prepared by:
Arizona Department of Transportation

Introduction

The statutory authority for the Arizona Department of Transportation (ADOT) is found in Title 28 of the Arizona Revised Statutes. ADOT has exclusive control and jurisdiction over all state owned transportation systems including state highways, routes, and airports.

Construction Program

One of ADOT's statutory responsibilities is the development of a Five-Year Transportation Facilities Construction Program, a public document that provides the location, description of work, and expected costs of transportation construction projects under the state's purview.

Approval authority for the Five-Year Facilities Construction Program is vested in the Arizona State Transportation Board, a seven-member statutory entity whose members are appointed by the Governor, subject to Senate confirmation for a six-year term. Each member represents one of six districts in the state, with one at-large member. The Transportation Board establishes the policies and the relative weights given to criteria to guide the development, or modification of the Five-Year Transportation Facilities Construction Program, awards all construction contracts for transportation facilities and monitors the status of these projects.

In developing the Five-Year Program, the Priority Planning Advisory Committee (PPAC), a statutory committee appointed by the ADOT Director recommends transportation facilities construction projects and annually prepares and updates a long-range statewide transportation facilities construction program with which the Five-Year Program is aligned. The PPAC also recommends changes to the Five-Year Construction Program for the Board's consideration.

Development of the Construction Program

In order for a project to be included in the Five-Year Transportation Facilities Construction Program, it first must be selected for scoping. Requests for scoping are generally initiated from the Department district engineers, but may come from other sources (e.g., political subdivisions). Scoping involves identifying transportation issues, concerns, and possible solutions. The assessment also provides estimated costs for construction and design, right of way needs, and environmental requirements.

A Technical Advisory Committee (TAC) is selected to review programming and scoping requests. Regional meetings are held throughout the state to gather input from ADOT district engineers, Councils of Governments (COGs), Metropolitan Planning Organizations (MPOs) and concerned citizens.

Program Modifications

The program is continuously reviewed. Several committees review any requests involving changes to budget, schedule and scope. The Project Review Board (PRB) reviews all requests for project modifications. The Deputy State Engineer for Development chairs the PRB.

Financial Resources

The cornerstone of highway financing in Arizona is the Highway User Revenue Fund (HURF). The State of Arizona taxes motor fuels and collects a variety of fees and charges relating to the registration of motor vehicles. These revenues are deposited in the HURF. A portion of the HURF is then distributed to cities, towns, counties, and the Department of Public Safety. The remainder is deposited in the State Highway Fund. An additional source of funding dedicated entirely to construction of the Maricopa County Regional Freeway System is the Transportation Excise Tax or what is commonly referred to as the "Maricopa County 1/2 cent sales tax" which expires December 31, 2005. Finally, ADOT also receives funds from the Federal Highway Trust Fund under the Transportation Equity Act for the 21st Century (TEA-21) to develop and maintain federal-aid eligible highways on the state highway system.

All of these funding sources are further leveraged by the issuance of revenue bonds. Bonding has enabled ADOT to accelerate certain construction projects.

In accordance with A.R.S. 28-6953, the State Transportation Board adopted the FY 2005-2009 Five Year Transportation Facilities Construction Program on June 18, 2004.

Highway Program
FY 2005-2009
(In millions of dollars)

System Preservation	$ 764
System Improvements	$ 2,013
System Management	$ 345
Total Statewide Program	$ 3,122
MAG Freeway System	$ 664
Total Highway Program	$ 3,786

The following table reflects the sources of funds, in constant dollars:

State Highway Funds *	$ 1,007
Regional Area Road Fund*	$ 212
Federal Funds*	$ 1,837
Proceeds from Bonds and Notes	$ 730
Total Proceeds (net of debt service repayments*)	$ 3,786

Summary of Major Projects

A breakdown of the proposed expenditures by county is summarized on the last page of this document.

Selected major (over $25 million) projects contained in this Program include ($000):

MAJOR PROJECTS	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Red Mountain Freeway – L202 projects	166,850	117,409	11,030		
Santan Freeway – L202 projects	187,959	6,761	7,215		
Sky Harbor Freeway – Superior Ave to Univ. Dr.	4,072	21,928	1,019		
South Mountain Freeway – L202 "Set-Aside"	16,868	56,320			
I-10/16th St-40th-St–Baseline-Collector Distributor	400	14,000	97,000		20,000
I–10, SR 202L – Riggs Road widening project		2,900			42,000
Tucson I-10, Twin Peaks - Traffic Interchange		28,000			
Tucson I-10, Prince Rd to 29th St. widening		122,413			
I-17, SR 101 – SR 74 Carefree Highway widening		5,000		26,560	33,000
SR 51, Shea Blvd – Bell Road HOV lanes			2,800	27,000	
US 60, Gilbert – Power Rd. HOV/SOV lanes	6,700		50,000	35,000	
US 60, Florence Jct. – Picket Post , widening		37,000			
US 60, 59th Avenue – Glendale overpass	36,972				
SR 85 widening projects	26,895	18,189	15,665		25,300
US 93 Wickenburg by-pass	27,000				
US 93 Old US 93 to Antelope Wash parallel road	29,607				
SR 179 Sedona –widening roadway projects	9,400	10,865	7,335		
SR 195 Yuma Svc Hwy / Goldwater Range widen		19,150		4,000	8,000
SR260 Doubtful Canyon Section widening	1,500				32,300

Aviation

The State Transportation Board is also responsible for approval of the Five-Year Aviation Program. For the period 2005-2009, the Five-Year Aviation Program totals $685.2 million. Of this amount, $580.0 million comes from federal grant sources, $78.0 million from the State of Arizona and $27.2 million from local governments. The primary source of the federal funds is taxes on airline tickets, distributed by the Federal Aviation Administration. State monies are primarily derived from the flight property tax, aircraft in-lieu taxes, and taxes on aviation fuel.

Summary

The Five-Year Construction process is a continual process. As the new Five-Year program is adopted, the process for the next five-year program has already begun. The effort to improve the programming process continues each year. Increasing technology has enabled the Department to upgrade models to better forecast risk and uncertainties that could impact revenues or construction related costs. Finally, every effort is made to include public involvement into the programming process.

SUMMARY OF DOLLARS BY COUNTY

(Dollars in Thousands)

Five Year Total Construction Program

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	TOTAL
Apache County	9,847	15,726	25,682	6,000		**57,255**
Cochise County	25,780	14,637	14,542			**54,959**
Coconino County	30,020	43,511	7,335	4,400		**85,266**
Gila County	19,817	10,368	700	21,700	33,630	**86,215**
Graham County	475	1,015		6,900		**8,390**
Greenlee County	3,823	16,426				**20,249**
La Paz County	9,963	2,380	200			**12,543**
Maricopa County	624,278	368,049	246,968	173,643	171,672	**1,584,610**
Mohave County	46,005	14,805	6,150	14,100	8,900	**89,960**
Navajo County	33,334	15,037	325	1,800		**50,496**
Pima County	33,193	165,450	21,495	68,822	49,485	**338,445**
Pinal County	689	44,679	300	17,800	14,240	**77,708**
Santa Cruz County	12,003	13,413	250			**25,666**
Yavapai County	55,238	16,346	28,575	23,080		**123,239**
Yuma County	33,440	43,958		4,000	8,000	**89,398**
Sub Programs	152,294	166,831	249,402	256,944	257,104	**1,082,575**
TOTAL	**1,090,199**	**952,631**	**601,924**	**599,189**	**543,031**	**3,786,974**

INFORMATION TO BE DISTRIBUTED UNDER SEPARATE COVER

DATE: September 17, 2004

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

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: Arizona Department of Transportation – Review of East Valley Maintenance Yard Project

Request

In compliance with A.R.S. § 41-1252, the Arizona Department of Transportation (ADOT) requests Committee review of the East Valley Maintenance Yard project.

Recommendation

JLBC Staff recommends that:

- The Committee give a favorable review of the project.
- The Committee express its concern that the project has already moved forward without Committee review.
- The Committee request that ADOT formally respond by October 7, 2004 as to what procedures will be implemented to prevent projects from proceeding without Committee review.

Analysis

Laws 2002, Chapter 343 appropriated $1,184,000 from the State Highway Fund to the department to revamp the East Valley maintenance yard located in Tempe. A.R.S. § 41-1252 requires that the Committee review the scope, purpose and estimated cost, before the release of monies for construction of a new capital project costing over $250,000.

JLBC Staff tracks action taken on previously enacted capital outlay appropriations. Since ADOT had not yet requested a review of this item, JLBC Staff inquired as to the status of the project earlier this month. On September 15, ADOT informed Staff that they had begun the project on May 3, 2004 without the required Committee review.

(Continued)

ADOT has spent $246,400 out of the $1,184,000 appropriation for architectural & engineering, site work and initial construction. The project is one-third done, with an estimated completion date of October 15, 2004. ADOT reports that they are looking into a couple of options to rectify the problem of proceeding without Committee review, including not loading the appropriation into the accounting system until the ADOT budget office authorizes approval.

The project would replace a 2,040 square foot double wide mobile home installed in 1981, which is used as an office and ready room for 9 employees. In its place, ADOT would construct a 3,855 square foot single story office building and a 4,263 square foot material and equipment warehouse for a construction cost of $718,000. The architectural & engineering contract is for $86,000. In addition, a fire hydrant line would be extended to cover the new buildings at a cost of $108,000, connecting to the city sewer would cost $20,100, and paving would cost $112,000. There is a $139,900 contingency set aside for unspecified expenditures. ADOT reports that there were 19 bids and that they took the low bid. The following table summarizes ADOT's projected costs.

ADOT's Projected Costs

Architectural & Engineering	$ 86,000
Office & Warehouse Buildings	718,000
Fire Hydrant Extension	108,000
Sewer Line Connection	20,100
Paving	112,000
Contingency Set Aside	139,900
Total	$1,184,000

The project would nearly double the amount of office space from 2,040 square feet to 3,855 square feet to accommodate ADOT's anticipated future highway maintenance staffing increases as the miles of East valley freeways continues to expand. The office and warehouse would cost $99 per square foot, which seems reasonable for this space.

RS/BH:jb

Arizona Department of Transportation

Office of the Director

206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

ADOT

Janet Napolitano
Governor

Victor M. Mendez
Director

Debra Brisk
Deputy Director

September 15, 2004

RECEIVED
SEP 15 2004
JOINT BUDGET COMMITTEE

The Honorable Russell Pearce
Chairman
Joint Committee on Capital Review
1716 W. Adams
Phoenix, AZ 85007

Dear Representative Pearce:

We respectfully submit the following request for review and approval of a capital outlay project to renovate the East Phoenix Maintenance Yard.

ADOT was appropriated $1,184,000, in its FY 2003 capital outlay budget, to renovate an existing highway maintenance yard at 2450 W. Broadway in Tempe. This renovation is being done to provide the facilities necessary to maintain the expansion of the San Tan Freeway. The present site is a collection of older, manufactured housing and relocated buildings from other sites. These "make due" facilities are no longer cost effective to maintain or adequate in size to meet the expanded maintenance responsibilities required of new regional freeway additions in that area of the Valley.

The project costs are:

• Architectural and Engineering contract	$ 86,000
• Change order to modify sewer line connection	$ 20,070
• Construction contract	$ 718,000
• Fire hydrant extension	$ 108,000
• Paving	$ 112,000
Project Total	$1,044,000

Unfortunately, ADOT's facilities staff mistakenly thought that the approval by JCCR of ADOT's Asbestos and Lead Inspection and Testing Project included approval of the East Phoenix Maintenance Renovation Project. We regret this breakdown in the approval process. We are taking affirmative steps to improve internal controls to meet all project approval requirements.

Your Committee's review and approval of this project is greatly appreciated.

Sincerely,

Victor M. Mendez

Victor M. Mendez

cc: Senator Bob Burns
Richard Stavneak, JLBC
David Jankofsky, OSPB
Bob Hull, JLBC
Marcel Benberou, OSPB

Arizona Governor's Award for Quality
2001 Award Recipient

STATE OF ARIZONA

Joint Committee on Capital Review

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

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

DATE: September 14, 2004

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

THRU: Richard Stavneak, Director

FROM: Shelli Carol, Fiscal Analyst

SUBJECT: Arizona State University – Report on ASU Scottsdale Center for New Technology and Innovation

Request

JLBC Staff has been working with Arizona State University (ASU) to provide information to the Committee on a new partnership between the ASU Foundation (ASUF) and the City of Scottsdale. Together, the two organizations will construct the ASU Scottsdale Center for New Technology and Innovation at the site of the former Los Arcos Mall in Scottsdale. Envisioned as a blending of research park, business park, and university campus, bringing together the disciplines of engineering, art, science, and entrepreneurship, the center will house certain ASU units and private technology businesses.

Recommendation

This item is for information only and no Committee action is required. JLBC Staff recommends that:

- The Committee request annual updates from ASUF on the project, including physical progress, construction costs, pre-leasing and leasing activity and rates, gross revenues, debt service, and payments to the City of Scottsdale.

- ASU report to the Committee, when appropriate, on the lease rate for and amount of space the university will occupy at the Center.

ASUF has entered a 99-year ground lease for 37 acres in South Scottsdale. In consideration for the lease, ASUF must construct 1.2 million square feet of space by 2028, a project estimated to cost between $250 million and $300 million, and reimburse the City of Scottsdale for the costs of the land and structural improvements, totaling $81.4 million. If ASUF cannot or chooses not to meet the minimum schedule, the sole remedy of the City of Scottsdale is to cancel the lease on undeveloped portions of the site. ASUF would continue to own its constructed buildings and lease the developed land. The lease allows ASUF to transfer facility ownership to ASU or a private corporation, should it choose to do so in the future.

(Continued)

Analysis

On August 9, 2004, ASUF purchased the 42-acre site of the former Los Arcos Mall at Scottsdale and McDowell Roads in Scottsdale from The Ellman Companies. The foundation immediately sold the site to the City of Scottsdale at the same price, $41.5 million. Due to ongoing issues between the City of Scottsdale and The Ellman Companies, ASUF became the intermediary in negotiations and transactions. ASUF and the city then signed a 99-year ground lease for 37 acres of the property. The lease also provides ASUF an option for one 99-year renewal. Scottsdale will retain the other 5 acres of the site for complementary commercial development.

Involved Parties

ASUF is a non-profit organization distinct and separate from ASU and exists to support the mission of the university. Therefore, ASU has no legal responsibility for any ASUF contracts. ASUF has the financial resources to construct the Center for New Technology and Innovation, as well as the legal freedom to sublet the site, as a benefit to ASU. ASUF and the City of Scottsdale will jointly hire, by next January, a master developer to design, construct, and operate the facility. The City of Scottsdale will prepare and build infrastructure at the site, while ASUF will be responsible for constructing the office and retail space. Any site plan will be subject to public comment from the surrounding communities.

ASU envisions that the center will house existing ASU innovation, enterprise, and education units, including research labs and office space. The facility will accommodate in whole or part: ASU Technopolis, which provides strategic coaching, courses, and workshops to technology and life sciences entrepreneurs; student-focused entrepreneurship programs; the Arts, Media, and Engineering Program; the Technology-Based Learning and Research Program; the ASU President's Enrichment Series; the ASU Institute for Advanced Studies; and Arizona Technology Enterprises, LLC, an ASU-affiliated technology commercialization company.

With these core elements, the ASU Scottsdale Center for New Technology and Innovation intends to attract emerging technology and advanced science companies. ASU also predicts the center will attract technology commercialization organizations, financial investment services, professional business support services, community education programs, and compatible retail shops.

Obligations

The City of Scottsdale is responsible for preparing the site, including rezoning and structural improvements such as the demolition of Los Arcos Mall, grading, environmental remediation, and the installation of streets, utilities, and public plazas. This process must be completed by January 2006. Should the city fail to conclude site preparations on time, the lease provides ASUF additional construction time equal to the city's delay. Scottsdale will also construct parking structures for up to 4,000 vehicles, but not before July 2007 and not before ASUF completes approximately 350,000 square feet of the project.

The lease requires ASUF to begin construction of the Center for New Technology and Innovation by August 2006. ASUF must then build a minimum of 150,000 square feet, estimated to house 450 jobs, by August 2007, with another minimum 150,000 square feet every three years, up to a total of at least 1.2 million square feet. The final facility, as envisioned, will consist of 90% office and lab space and 10% retail space, accommodating 3,600 workers. The contract requires project completion by 2028.

(Continued)

ASUF believes, based on market forecasts, that sufficient demand exists to construct the facility more rapidly than the lease requires. The foundation intends to begin construction in late 2005, completing an initial 250,000 square feet of buildings, estimated to house 750 jobs, by late 2006, with another 250,000 square feet every two years. At this rate, ASUF plans to complete the entire project by 2015.
In addition to the minimum required building schedule, the lease mandates that ASUF maintain the character of the complex as a facility for technology, innovation, and creativity. Until completion of 1.0 million square feet or 2025, whichever comes first, the majority of office space must house compatible tenants.

The City of Scottsdale will retain ownership of the land and its infrastructure improvements and will be responsible for their operation and maintenance. ASUF will own the buildings it constructs and will be responsible for their operation, maintenance, and property taxes. Scottsdale will not provide ASUF with any special consideration, fee waivers, or tax abatements.

The sole remedy of the City of Scottsdale, should ASUF fail to meet the schedule or character requirements of the lease, is to terminate the lease on any land undeveloped by the foundation. The city cannot cancel the lease or seize buildings on land in development or fully developed by ASUF. The lease permits no other liability. Therefore, the only penalty to ASUF for not meeting its obligations is the loss of its option to develop the remaining property.

Financing

City of Scottsdale
The City of Scottsdale will invest $86.5 million in the Center for New Technology and Innovation, including the $41.5 million land purchase and up to $45 million in infrastructure improvements. The city issued Municipal Property Corporation bonds, backed by Scottsdale excise tax revenues, to purchase the land. Initially, the city expects to spend $10 million to $15 million from economic investment and capital contingency reserves to prepare the site. Once the facility has sufficient mass to necessitate parking structures, Scottsdale will fund the remaining $30 million to $35 million of structural work from existing capital funds or additional municipal bonds. The city's infrastructure improvements and debt service will not be dependent upon lease revenues from the center. Scottsdale estimates a total debt service between $33 million and $43 million.

ASUF
ASUF will be responsible for the costs, ranging between $250 million and $300 million, of constructing the buildings themselves and making any infrastructure improvements, if needed, beyond Scottsdale's $45 million limit. ASUF will fund the endeavor through lease revenues.

To reduce its risk, ASUF will not initiate construction on additional space until the foundation succeeds in pre-leasing approximately 80% of the area. ASUF will collect facilities rent as well as parking fees. Of the foundation's annual net revenues from the center, which exclude operations and maintenance costs, building debt service payments, and capital expenditure reserves, half will go to the City of Scottsdale as lease payment, up to $81.4 million. This value represents the city's initial cost for the land, minus 5 acres retained, and infrastructure improvements. ASUF will not repay Scottsdale for the city's debt service costs.

ASUF estimates that its repayment to the City of Scottsdale could take as long as 40 years, assuming construction of the entire 1.2 million square feet, but ASUF believes the market will support a more rapid payback. The foundation believes that the ASU brand can distinguish this center from standard office parks. ASUF anticipates that it can secure a return of at least 7.5% on its initial investment. Should the foundation choose to refinance or sell the facility anytime in the future, the foundation and the City of Scottsdale will share equally in the proceeds.

(Continued)

The lease requires ASUF to charge fair market rates to corporate tenants. However, ASUF will negotiate a rent discount, based on market rates, to ASU for areas occupied by the university. The foundation envisions that ASU will occupy approximately 20% of the space. However, the exact amount of the facility that will house ASU programs and the funding source for university lease payments are not certain at this time.

Rationale

ASUF believes that the Center for New Technology and Innovation will provide necessary space for ASU as it expands its programs. The lease provides maximum flexibility to the foundation with a minimum of risk, allowing ASUF to transfer ownership of completed facilities to ASU or private corporations, so long as the project continues to meet its educational mission. Additionally, the foundation's net profits ultimately support the university.

The City of Scottsdale, in addition to lease payments from ASUF, anticipates revenues from the 5 acres it has retained for commercial development. The city will also collect sales and property taxes from businesses locating in the center. Furthermore, Scottsdale foresees an indirect benefit of the facility in the redevelopment of surrounding communities now in economic decline.

Several Scottsdale City Council members have expressed concern over the city's large initial capital outlay. Should ASUF fail to develop the site or prove unable to retain sub-lessees, Scottsdale would face additional costs and complications in recovering the site.

RS/SC:jb

ASU/Scottsdale Center for New Technology and Innovation

Presented to
Scottsdale City Council, Businesses and Residents

by
Stephen Evans
ASU Foundation
June 28, 2004

ASU

Center Development Schedule and Impact

Our plan
250,000 sq ft of buildings (estimated 750 jobs) every two years.

Minimum Schedule (in lease)
150,000 sq ft of buildings (estimated 450 jobs) every three years.

Event	ASUF Plan (cumulative)	Minimum Schedule (Cumulative)
Clean up/landscaping	**Immediate**	**Immediate**
Start construction	**2005**	**2006**
Open Phase I	**2006** (250K sq ft/750 jobs)	**2007** (150K sq ft/450 jobs)
Open Phase II*	**2008** (500K sq ft/1500 jobs)	**2010** (300K sq ft/900 jobs)
Complete Center	**2015** (1.2M sq ft/3600 jobs)	**2028** (1.2M sq ft/3600 jobs)

*Center reaches critical mass at 300K sq ft/900 jobs

ASU

Center Development Schedule and Impact (con't)

Scottsdale Financial Investment

Costs		
Land and infrastructure	\$ 87.0M	(\$81.4M of cost relates to the Center)
Interest	\$ 38.0M	(City estimate)
Total	\$125.0M	

Scottsdale Financial Benefit

Direct Benefit		
ASUF lease payments	\$ 81.4M	(50% of net revenues)
Other lease revenues	\$ 8.0M	(from property retained by Scottsdale)
Direct tax revenues	\$ 28.8M	(City estimate)
Total direct revenues	\$118.2M	
Indirect Benefit	\$148.8M	(City estimate)
Total Financial Benefit	\$267.0M	

ASU

ARIZONA STATE UNIVERSITY

ASU/Scottsdale Center for New Technology and Innovation

Presented to

Scottsdale City Council, Businesses and Residents

by

Michael M. Crow

President, Arizona State University

June 28, 2004

ASU

ARIZONA STATE UNIVERSITY

Not a Real Estate Deal

- Participants —
  - City of Scottsdale
  - ASU Foundation
  - Arizona State University
- ASU's principal roles —
  - Conceptualize and design an original, world-class "assembly point" for knowledge/technology businesses (not a traditional research park, business park or university campus)
  - Place key ASU units in the Center to help attract a variety of businesses, entrepreneurs and knowledge workers

ASU

ARIZONA STATE UNIVERSITY

Economic Development in the Knowledge Economy

- Requirements
  - highly-educated, "creative-class" workers
  - innovative and creative businesses willing to take risks
  - distinctive products and services
  - venture capital
  - universities and private research firms in alignment with local economic goals
  - ability to act quickly
  - good quality of place
  - patience

ASU

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Economic Development in the Knowledge Economy

- Innovation-driven industries create substantial wealth
  - pay high wages
  - spawn new businesses
  - attract knowledge workers
  - stimulate/revitalize local economies
  - have global markets
  - import money

ASU

Technology Fusion

- Some promising new commercial opportunities
  - next-generation televisions and video displays
  - digital/holographic animation and special effects
  - virtual/mixed reality
  - smart clothing
  - entertainment and domestic robotics
  - skycars
  - intelligent personal medical devices
  - genetaceuticals
  - supermaterials
  - smarter, smaller everything

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At the Center

- ASU innovation, enterprise and education units
- Technology-focused businesses
- Retail: shops, cafes, restaurants
- Investors and financial services
- Digital and video artists
- Professional business support services
- Community education programs
- Technology commercialization organizations
- Other compatible businesses

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Innovation in Business and Technology (examples)

- ASU Technopolis
- Arizona Technology Enterprises, LLC
- ASU student-focused entrepreneurship programs
- Businesses that have or want alliances with ASU research and talent
- Technology-focused service providers
- Businesses that seek benefits of knowledge cluster critical mass

ASU

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Innovation in Digital Arts (examples)

- ASU's Arts, Media and Engineering Program
- Next generation simulation, gaming and digital entertainment entrepreneurs
- Grant-writing program for research opportunities at the nexus of information technology, digital arts and entertainment

ASU

ARIZONA STATE UNIVERSITY

Innovation in Community Education
(examples)

- ASU's Technology-Based Learning and Research program
- ASU's President's Enrichment Series
- Joint Scottsdale Community College-ASU programs
- ASU's Institute for Advanced Studies

ASU

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Why Businesses Will Engage

- Interaction with ASU units located in the Center
- Proximity to research and knowledge activities at ASU Main
- Scottsdale's national reputation, amenities, businesses and quality of life
- Proximity to route 101, airport
- Best-in-class architectural design
- Cluster of knowledge-business opportunities
- Nothing else like it in Southwest

ASU

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Going Forward

- Study and learn from technology parks, creativity centers, digital arts projects around the globe
- Add business themes that build on Scottsdale's, ASU's and Arizona's assets and aspirations
- Engage best-in-class architects
- Work with neighbors, businesses and the City to establish a design
- Identify potential additional partners
- Develop and market first building

ASU

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Concept Summary

- Original, world-class "assembly point" for technology businesses, researchers, knowledge workers and investors
- Attract a variety of businesses and retail tenants that reflect market realities
- Not a traditional research park or campus
- Focus on technology commercialization
- Transdisciplinary: intersection of engineering, art, science and entrepreneurship

ASU

Proposed ASU-Scottsdale Center for New Technology and Innovation

Presentation to Scottsdale City Council
June 28, 2004

City of Scottsdale
Economic Vitality Dept.

Purpose

- Review information on the proposal to create the "ASU-Scottsdale Center for New Technology and Innovation" on the former Los Arcos site.
- Discuss questions raised by the Council and the public.
- Hear a presentation by ASU regarding the proposal.
- Council action scheduled for July 6th.

Proposal

- The City has been approached by ASU about the potential of developing the former Los Arcos Mall site into a major technology, innovation, and creativity center. This site would contain about 1.2 million sq.ft., and could support as many as 4,000 relatively high paying jobs at buildout.

Proposal

- In order to facilitate this development, the City has been asked to purchase the Los Arcos site for $41.5 million, enter into a long-term lease with the Arizona State University Foundation, and provide up to $45 million in site related infrastructure. The transaction must be approved by the City no later than 7/9.

Key Terms and Conditions of the Proposed Los Arcos Land Purchase by the City

Purchase Agreement

- The ASUF has negotiated a purchase agreement with The Ellman Companies to acquire the former Los Arcos Mall site for $41.5 million, subject to approval by the Council of the purchase and lease by 7/9, and close of escrow by 7/30. The site will be conveyed to the ASUF free and clear of all existing liens, and conveyed "as-is".

Key Terms and Conditions of the Proposed Lease between the City and ASUF

- Parties: City will own the land and enter into a ground lease with the Arizona State University Foundation Scottsdale L.L.C (ASUF)
- Leased Land: The City will lease to ASUF approximately 37 of the 42 acres of the former Los Arcos Mall site. The City will retain about 2 acres along Scts. Rd. for future development, and 3 acres east of 74th St.
- Name: "ASU-Scottsdale Center for New Technology and Innovation"

- Lease Term: 99 year initial lease term, with one 99 year option to extend.
- Development: At buildout, the Center is anticipated to have approx. 1.2 mil. sq.ft. of space (about 90% office); 3,000-4,000 parking spaces (primarily structured); and open space/public plazas. Total estimated cost to develop will be $250-300 million.
- Development Standards: The maximum permitted FAR is 0.8; the maximum permitted height will be 60'.

- City Approvals: The development will be subject to all applicable City zoning, design review, and permitting processes. There will be no fee waivers or tax abatements by the City for this project.
- City Expenditures: City will provide site infrastructure up to $45 million, including demolition, grading, environmental remediation, streets, utilities, parking structures, public art and plazas, etc.
- ASUF Expenditures: ASUF is responsible for the cost of constructing all the buildings, and for the Center's operation/maintenance.

- Minimum Development Schedule:

  By 7/05: City entitlements complete and site infrastructure construction commenced

  By 8/06: Construction must begin on at least 150,000 sq.ft.

  By 8/07: Construction must be complete on at least 150,000 sq.ft.

  By 8/10: Construction must be complete on at least another 150,000 sq.ft.

  Every 3 years thereafter: Construction of at least another 150,000 sq.ft. must be completed

  Complete buildout is required by 2028; current projections anticipate buildout by 2015.

- Nature of Center: At least 51% of the office leaseable area (excluding retail) of the first 150k must be occupied by tenants involved in technology, innovation, or creativity. Thereafter ASUF is required to maintain this character until at least 1 mil. sq.ft. are built or the year 2025, whichever is first.
- Remedies for Non-Performance: If ASUF fails to meet the development timetable or fails to maintain the nature of the center, the City has the right to use the undeveloped remainder of the property.

13. Rent Payments: ASUF will pay to the City, on an annual basis, a payment equal to 50% of the net revenues generated from this project up to a maximum cap of $81.4 million (allocable share of $86.5 mil. in land and infrastructure costs, exclusive of 5 acres retained by the City, but not debt service costs). Net revenues are gross revenues minus project related operation/maintenance expenses, building debt service payments, and capital expenditure/tenant improvement reserve funds. The City and ASUF will share equally in any refinance or sale proceeds.

City Financing

Paying for Land

- $41.5 million land acquisition, plus closing costs, payable prior to 7/30/04
- Proposed approach: Issue $42 million in Municipal Property Corp. (MPC) bonds, with 30 year amortization. These bonds are backed by the City's excise tax, rather than a specific revenue source. $42 mil. would cover closing costs and bond issuance costs. The bonds may be issued in the future with a Reimbursement Resolution.
- MPC Board has met and approved this plan

Paying for Infrastructure

- Up to $45 million for site infrastructure
- Spread out over several years:
  - $10-15 million within first 1-2 years (for demolition, grading, streets, utilities, etc.) This could be paid for on a "pay-as-you-go" basis out of City reserves (i.e. Economic Investment Fund, capital contingency, etc.)
  - $30-35 million 4+ years out (for building the structured parking). This could be paid for either through planned CIP funds, or through additional MPC bonds, if necessary.

Total City Obligations

• Land Acquisition:	$42 million
• Infrastructure:	$45 million (cap)
• Est. debt service:	$33-43 million
Total:	$120-130 million

Issues Raised by Council and the Community

Issues

- Fiscal Analysis
- How would alternative uses compare
- Process (timing, use of emergency clause)
- Lack of direct retail on the site
- Will this create spinoff benefits
- Schedule for improvements

1. Issue --Fiscal Impacts (Direct)

- Three sources of direct fiscal impacts:
  - Lease revenue from ASUF: up to $81.4 million (anticipated to take 30-40 years)
  - Lease revenue on 5 acres: $8 mil. (first 30 yrs.)
  - Direct tax revenues from the site (sales tax, property tax on buildings, construction sales tax, permits and fees, bed tax, etc.):
    - Over 30 yrs. w/o inflation: $26-32 million
    - Over 30 yrs. w/ inflation: $35-42 million
- Total est. direct fiscal impact: $118 mil.

Fiscal Impacts - Indirect

- Staff analysis made 2 assumptions:
  - This would spur on redevelopment of key nearby commercial properties (such as Los Arcos Crossing and the K-Mart site), which would result in a net increase in City tax revenues of about $43 million over 30 years.
  - This would stabilize the sales and property tax revenues in this area (currently declining), which would result in a net increase in City tax revenue of about $103 mil. over 30 years.
- Total est. indirect fiscal impact: $149 mil.

Fiscal Summary

- Total City obligations: land acquisition, site infrastructure, debt service on the bonds: $125 mil.
- Total New City Revenues:
  - Direct from Project: $118 mil.
  - Indirect from Area: $149 mil.
  - Total: $267 mil.
- Net impact: approximately $142 million

2. Issue - Comparison of Alternatives

Net Fiscal Impact (revenues – costs) 30 yrs.

ASU Proposal:	+ \$142 million
All High Density Residential:	+ \$ 66 million
All Retail:	+ \$112 million
Mixed Use (retail/office/resid.)	+ \$114 million

Property Tax Comparison

- ASU proposal (property tax on the improvements only): \$5.15 mil.
- Residential option: \$1.28 mil.
- Retail option: \$1.26 mil.
- Mixed Use option: \$1.35 mil.

The difference is the result of the ASU project having a significantly higher assessed valuation, even without land

3. Issue – Process/Timing

- Concerns have been raised about the fast timing – need for action by 7/9 and need to close by 7/30 – and the use of the Emergency Clause
- Based on constraints imposed by the owner of the property
- Also, based on ASU's desire to move quickly with construction of first phase

4. Issue – Lack of Retail/Services

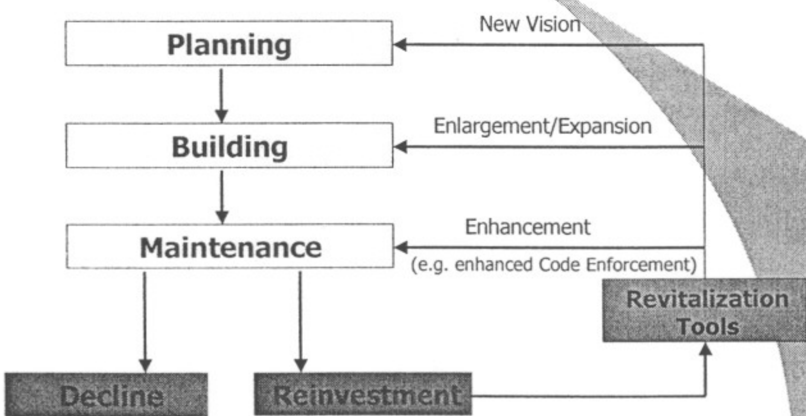
- Concerns have been raised by immediate neighborhood that this project will not provide the retail/services they desire
- Center is projected to have up to 10% of the site (max. 135,000 sq.ft.) developed as retail and support services
- Project has potential to be a catalyst for the revitalization of the area; key staff goal is working w/ key adjacent properties to facilitate new or renovated retail/services

5. Issue – Will this Create Spinoff Benefits in the Area

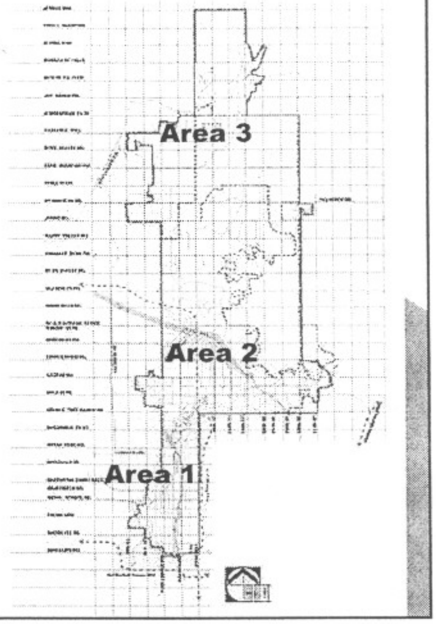
- Concerns have been raised about whether or not this use will create the types of positive impacts on the surrounding community to cause the revitalization of southern Scottsdale
- Ed Gawf – Deputy City Manager

Cycles of Community Change:

Dynamic, not Static – Most Communities (both residential and commercial) are going through one or more phases



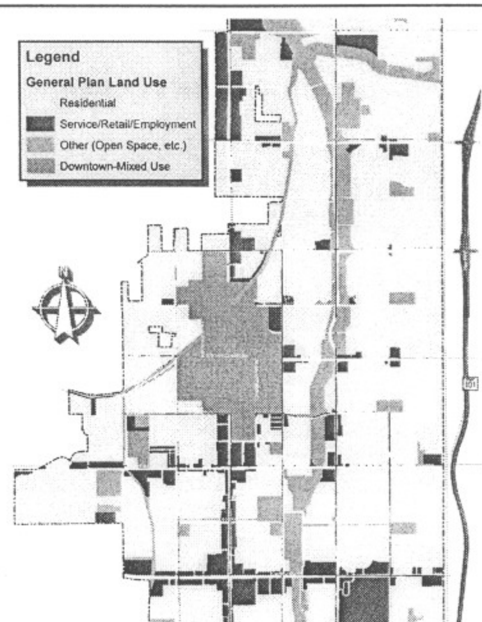
Cycles of Community Change in Scottsdale



All areas of Scottsdale (both residential & commercial) are going through one or more phases of Planning, Building or Maintenance.

- **Area 3: 1980's to Present**
  Currently in Planning & Building Phases;
- **Area 2: 1960's-1980's**
  Currently in Building and Maintenance Phases;
- **Area 1: 1930's – 1960's**
  Maintenance Phase

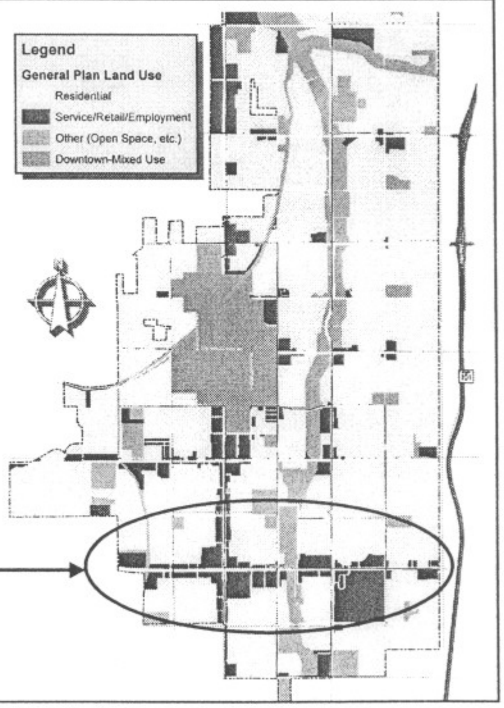
Scottsdale South of Indian Bend Road



Principles of Revitalization:

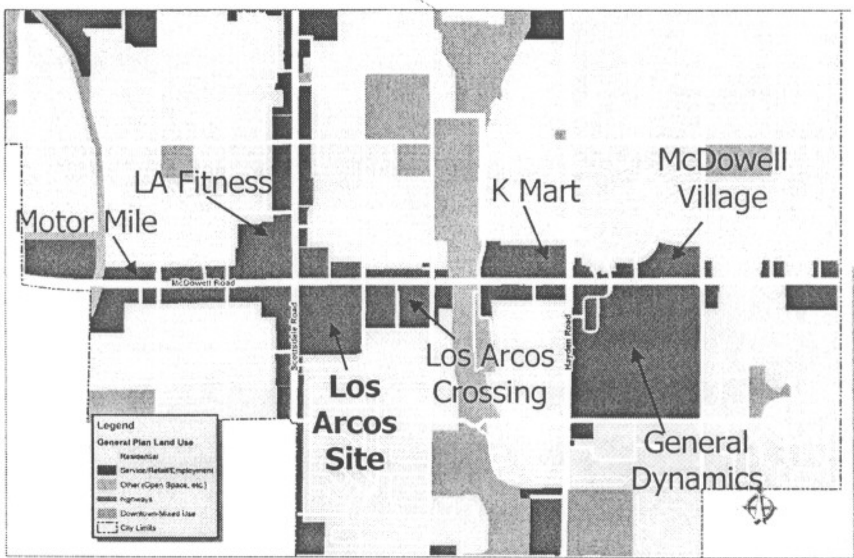
- **Economics** – Enhance existing economic drivers and target key areas for revitalization
- **Residential Revitalization** – Upgrade existing housing and encourage diversity in new housing
- **Community Pride and Characteristics** - Promote unique characteristics e.g. open space, location, etc.
- **Quality Development and City Services** – Provide services to address area needs and assure quality
- **Partnerships and Connections** – Assure regional connections to schools, ASU, SRPMIC, etc.

Scottsdale South of Indian Bend Road



McDowell Corridor

McDowell Corridor



Significance of Los Arcos Site

- Improving the Los Arcos site by itself is not enough
- Success for Scottsdale will require many individual properties to reinvest and revitalize
- However, because of the size, location, and visibility of the Los Arcos site, it is a integral component to the successful revitalization of Scottsdale
- The site along with other properties will be a catalyst for further reinvestment and optimism for the maturing neighborhoods of Scottsdale

6. Issue-Schedule

- **Planning Entitlements**
  - City Initiates Rezoning (August)
  - City Works with ASU Foundation on Site Plan
  - ASU Foundation Submits Site Plan for Review
  - Public Hearings - site plan and zoning
- **Infrastructure**
  - Phase 1 Clean up (September-October)
  - Phase 2 Building new Infrastructure
    - Site development (2005)
    - Parking Structure (2007)
- **Public Outreach** (focus on surrounding neighborhoods)
  - Concept Master Plan - McDowell and Scottsdale Rd. Corridors
  - Future Utilization of City Property
  - Public Hearing Process - Zoning and DRB
- **Financial**
  - MPC Bond Sale (September)

Proposed Actions on 7/6

- Authorize the real estate purchase of the Los Arcos site from the ASUF for $41.5 mil.
- Authorize agreement w/ MPC for funding purchase
- Authorize ground lease w/ ASUF for the Center
- Approve budget expenditure for property purchase
- Approve budget transfer from Economic Investment Fund up to $9 mil. to begin demolition/infrastructure
- Consider request by Vice Mayor to establish a formal task force to help plan 5 ac. development

Note: Items 1-3 are requested to be approved with the use of the Emergency Clause

STATE OF ARIZONA

Joint Committee on Capital Review

STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

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

HOUSE OF REPRESENTATIVES

DATE: September 14, 2004

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

THRU: Richard Stavneak, Director

FROM: Shelli Carol, Fiscal Analyst

SUBJECT: Arizona State University – Review of Instructional/Research Laboratory Renovations Phase II and Report on Instructional/Research Laboratory Renovation Phase I

Request

A.R.S. § 15-1683 requires Committee review of any university projects financed with system revenue bonds. Arizona State University (ASU), on behalf of the Arizona Board of Regents (ABOR) requests Committee review of $11.4 million for Instructional/Research Laboratory Renovations Phase II. ASU would finance this project with a total new revenue bond issuance of $20 million. ASU will identify the remaining $8.6 million in projects during the coming months.

Recommendation

JLBC Staff recommends a favorable review of the $11.4 million expenditure plan with the following provisions:

- The $11.4 million represents $9.7 million for the 14 projects currently detailed in the Instructional/Research Laboratory Renovations Phase II request, plus the $1.7 million requested as contingency funding for this plan.
- 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 projects.
- 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 agree with the change of scope as an emergency.
- ASU shall submit for Committee review an expenditure plan for the remaining $8.6 million of Phase II, including scope of work and estimated cost for each building, prior to starting any construction with those monies.
- A favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any tuition collections that may be required for debt service.

Of the $20 million total revenue-bonding amount, ASU has identified 14 projects that would cost only $9.7 million. *(See table in Analysis section for project detail.)* Additionally, the university is requesting a $1.7 million fund for design and construction contingencies. ASU wishes to set aside the remaining monies in anticipation of hiring new researchers over the next eight months. Not taking into account the extra $1.7 contingency funding of the recommended favorable review, the estimated per-square-foot costs for this request are below those for Instructional/Research Laboratory Renovations Phase I, favorably-reviewed by this Committee in December 2003.

ASU plans to issue system revenue bonds to be repaid over a 20-year period at an estimated interest rate of 5.0%. Annual debt service would be approximately $1.6 million, with $0.4 million deriving from collected tuition and $1.2 million deriving from indirect cost recovery and other local university resources. The total 20-year debt service would be $32.1 million, with $8.0 million from tuition revenues and $24.1 million from indirect cost recovery and other local sources. Tuition collections used for debt service would be unavailable to support operating expenses and may, therefore, impact the General Fund in the future. ASU does not anticipate any additional operating and maintenance costs associated with these renovations.

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 $20 million bond issuance would increase the ASU debt ratio from 6.0% to 6.1%.

Analysis

Instructional/Research Laboratory Renovations Phase II encompasses at least 14 renovation projects and up to 66,000 square-feet, at an estimated total cost of $20 million. ASU has tied only $9.7 million of those expenditures to specific projects and would use an additional $1.7 million as a contingency fund. The table below lists estimated capital costs and renovation scopes for the 14 projects associated with the $9.7 million university plan. Staff has requested additional detail from ASU on the $2.4 million Bio-Safety/Lab Security item.

ASU Instructional/Research Laboratory Renovations Phase II Costs and Scope

Project	Request	Sq-Ft	Description
ASU East Field Lab	$960,000	6,100	Renovations and extensions for classroom, labs and external observation area
Bio-Safety/Lab Security Phase II	2,400,000	N/A*	Replacement of security doors in four buildings, engineering study to diagram and upgrade fire sprinkler systems
Goldwater Center – High Performance Computing Lab	400,000	2,200	New computer center in existing space
Goldwater Center – WINTECH Lab	260,000	1,400	New Wireless Integrated Nano-Technology Center in existing space, extensions for administrative and faculty offices
Engineering Center – G Wing	600,000	12,000	Comprehensive student amenities on first floor
Engineering Research Center Code Upgrades, Phase II	2,600,000	N/A*	New toxic gas storage and piping, fire suppression systems, life safety alarms and monitors, and exhaust and air filtration mechanisms
Life Sciences Center – A & C Wings	475,000	2,175	Molecular Interactions/Bioimaging laboratories and offices in existing space
Physical Science Center – C Wing	582,000	2,670	New chemistry equipment and fire safety systems
Life Sciences Center – E Wing	245,000	1,408	Biogeochemistry/Microbial Ecology research suite in existing space
Physical Science Center – F Wing	142,000	488	New Electron Probe Microanalysis Facility in existing space
Life Sciences Center Backup Electric Service	260,000	N/A*	Generator, controls, and wiring for emergency power in A, B, and C Wings
ASU East – Applied Biological Sciences Greenhouses Completion	125,000	N/A*	Benches, storage cabinets, shelving, emergency wash station, automated misting and irrigation systems, additional structure
ASU East – Health Sciences Center Lab	120,000	2,127	Permanent cages and cage washing system
Physical Science Center – D Wing Phase II	562,000	2,601	Chemistry laboratories in existing space
PROJECT SUBTOTAL	***$9,731,000***	***33,169****	
Contingency Fund	1,716,000	N/A*	Design and construction contingencies
TOTAL	**$11,447,000**	**33,169***	

* These projects, by nature, occur in multiple areas of campus. ASU cannot determine square footage.

ASU anticipates hiring new researchers in the next eight months and cannot renovate laboratories until it knows the specific needs of those faculty members. Since the university usually makes offers in the spring and requires renovations to be complete before the start of the fall semester, a tight timeline for project approvals exists. Therefore, JLBC Staff recommends a favorable review for ASU to bond the entire $20 million at once, with the provision that the Committee review all projects associated with the unallocated $8.6 million before construction begins.

According to ASU, many of its laboratories are out of date and in danger of code violations. They do not support instructional and research requirements and are inadequate to handle state-of-the-art technologies. The renovations will include infrastructure improvements and construction of additional space to support new faculty. ASU estimates the series of renovations would occur over 23 months of construction. ASU does not anticipate any additional operating and maintenance costs upon project completion.

When considering just those projects that the university has identified, the average total cost per square foot would be $293 and the direct construction cost per square foot would be $185. These calculations do not take into account the extra $1.7 contingency funding of the recommended favorable review. Since these renovations include significant purchases of laboratory equipment, it is difficult to make meaningful comparisons to other renovation projects. However, Phase II as a whole has identical costs per square foot to those projects comprising Instructional/Research Laboratory Renovations Phase I, favorably-reviewed by this Committee in December 2003.

Report on Instructional/Research Laboratory Renovations Phase I

In December 2003, the Committee favorably reviewed the issuance of $10 million in revenue bonds for Instructional/Research Laboratory Renovations Phase I on the ASU main campus. That review included the provision that ASU report to the Committee on the scope of work and estimated cost for each building prior to starting any construction. In June 2004, ASU provided this revised cost report. Total funding remained the same, but the university reallocated monies among some of the projects, resulting in an unallocated amount of $1.7 million. ASU is now reporting on the allocation of those funds.

The table below lists the estimated capital costs and renovation scopes for 6 projects with costs totaling $1.7 million. There have been no further changes in scope or budget to Phase I projects previously reported to the Committee. The total funding amount remains the same.

ASU Instructional/Research Laboratory Renovations Phase I Additional Project Costs and Scope

Project	Request	Sq-Ft	Description
Moeur Building – Expand Mars Area	$89,000	1,100	Research suite in existing space
Life Sciences Center – C Wing Lobby	50,000	750	Computer room, study area, multimedia conference room
McGraw Lab	660,000	3,800	Evolutionary and Systems Biology laboratory and office in existing space
Escalante Lab	610,000	2,800	Ecology and Infectious Diseases laboratory and office in existing space
Physical Science Center – D Wing Phase I	151,000	699	Chemistry laboratories in existing space
Laboratory Security for InCise	100,000	N/A*	Power, networking, door hardware and software, camera surveillance, computer lockdowns
TOTAL	**$1,660,000**	**9,149***	

* These projects, by nature, occur in multiple areas of campus. ASU cannot determine square footage.

When considering just the above-mentioned projects, the average total cost per square foot is $181 and the direct construction cost per square foot is $128. For Phase I as a whole, ASU previously estimated total cost per square foot of $303 and direct construction cost per square foot of $236.

RS/SC:jb

ARIZONA STATE UNIVERSITY

September 1, 2004

RECEIVED
SEP - 2 2004
JOINT BUDGET COMMITTEE

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

Dear Representative Pearce:

In accordance with ARS 15-1683, the Arizona Board of Regents requests that the following bond financed project for ASU be placed on the next Joint Committee on Capital Review Agenda for Review:

Instructional/Research Laboratory Renovations Phase II Project

Also enclosed is an update on the previously reviewed Instructional/Research Laboratory Renovations Phase I Project, which was reviewed in December, 2003, with a previous update to the Committee in June, 2004.

If you have any questions or desire any clarification on the enclosed material, please contact me at (480) 965-3201.

Sincerely,

Mernoy E. Harrison

Mernoy Harrison
Executive Vice President,
Administration and Finance

Enclosure

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

EXECUTIVE VICE PRESIDENT FOR ADMINISTRATION AND FINANCE
PO BOX 872303, TEMPE, AZ 85287-2303
(480) 965-3201 FAX: (480) 965-8388

EXECUTIVE SUMMARY

ACTION ITEM:

Arizona State University, Instructional/Research Laboratory Renovations Phase II, Project Implementation Approval.

ISSUE:

ASU requests Project Implementation Approval for the Instructional/Research Laboratory Renovations Phase II project.

PROJECT DESCRIPTION:

Previous Board Action:

- 2005 Capital Development Plan June 2004

This project will include, but is not limited to, the renovation of approximately 66,000 SF of various science and engineering labs in the following buildings:

- Life Sciences Center A-Wing (ASUM)
- Life Sciences Center C-Wing (ASUM)
- Life Sciences Center E-Wing (ASUM)
- Physical Science C-Wing (ASUM)
- Engineering Research Center (ASUM)
- Engineering Center G-Wing (ASUM)
- Goldwater Center (ASUM)
- Schwada Classroom Office Building (ASUM)
- Applied Biological Sciences Greenhouses (ASUE)
- Health Sciences Center Annex (ASUE)

Arizona State University will bring back to the board for Project Approval any project that exceeds $1,000,000.

PROPOSED SCHEDULE:

• Project Implementation Approval	August 2004
• Construction start	October 2004
• Completion	August 2006

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

PROJECT JUSTIFICATION:

Many existing classroom laboratories, research laboratories and research building systems are inadequate and can no longer meet current code, instructional, and research requirements. The poor condition of the spaces and age of the building systems constrains the development of these strategically important areas.

The forthcoming arrival of new faculty also makes this project an imperative. Spaces must be updated and renovated for the needs of incoming researchers. These offices and laboratories will provide the core infrastructure from which faculty and students can compete in the global marketplace of ideas, stimulating not only advances in science and human health needs, but potentially stimulating the regional economy. This project will allow the University to adapt facilities for the requirements of research for new faculty. It will also upgrade research infrastructure, laboratories and building systems to maximize adaptable and flexible technologies. The project will provide the University state-of-the-art research facilities.

FISCAL IMPACT AND FINANCING PLAN:

This project is included in the 2005 CDP, approved in June 2004, which shows that ASU's debt service on all outstanding debt would be 6.1% of ASU's total projected expenditures (State Law basis, max 8%) and 7.6% of ASU's projected unrestricted expenditures (ABOR Policy basis, max 10%). The debt service for this project is .1% (1/10th of 1%) of ASU's total projected expenditures (State Law basis) and .2% (2/10th of 1%) of ASU's projected unrestricted expenditures (ABOR Policy basis).

RECOMMENDATION:

That the Board grant Project Implementation Approval to Arizona State University for the Instructional/Research Laboratory Renovations Phase II Project.

EXECUTIVE SUMMARY

Capital Project Information Summary

University: Arizona State University

Project Name: Instructional/Research Laboratory Renovations Phase II

Project Description/Location:

This project will include the renovation of approximately 66,000 SF of various physical and life sciences labs.

Project Schedule (Beginning Month/Year):

Planning	May 2004
Design	August 2004
Construction	October 2004
Occupancy	August 2006

Project Budget:

Total Project Cost	$20,000,000
Direct Construction Cost	$15,600,000
Total Project Cost per GSF	$ 303
Construction Cost per GSF	$ 236
Change in Annual Oper. /Main. Cost	N/A
Utilities	N/A
Personnel	N/A
All Other Operating	N/A

Funding Sources:

Capital
A. Revenue Bonds $ 20,000,000
(Funding source for Debt service: Tuition, Indirect Cost Recovery and Other Local Funds)

Operation/Maintenance
A. General Fund $ 0

EXECUTIVE SUMMARY

Capital Project Budget Summary

University: Arizona State University

Project Name: Instructional/Research Laboratory Renovations Phase II

	CDP Approval	Project Implementation Approval	Project Approval
Capital Costs			
1. Land Acquisition	-	-	-
2. Construction Cost	-	-	-
A. New Construction	-	-	-
B. Renovation	$ 14,000,000	$ 14,000,000	-
C. Special Fixed Equipment	720,000	720,000	-
D. Site Development (excl. 2.E.)	-	-	-
E. Parking and Landscaping	-	-	-
F. Utilities Extensions	-	-	-
G. Other* (Environmental control)	-	-	-
H. Inflation Adjustment (2%/yr)	880,000	880,000	-
Subtotal Construction Cost	$ 15,600,000	$ 15,600,000	$ -
3. Fees (% of Construction Cost)			
A. Construction Mgr	$ 156,000	$ 156,000	-
B. Architect/Engineer	1,872,000	1,872,000	-
C. Other	-	-	-
Subtotal Consultant Fees	$ 2,028,000	$ 2,028,000	
4. FF&E Movable	-	-	-
5. Contingency, Design Phase	$ 780,000	$ 780,000	$ -
6. Contingency, Constr. Phase	936,000	936,000	-
7. Parking Reserve	-	-	-
8. Telecommunications Equipment	190,000	190,000	-
Subtotal Items 4-8	$ 1,906,000	$ 1,906,000	$ -
9. Additional University Costs			
A. Surveys and Tests	$ 20,000	$ 20,000	$ -
B. Move-in Costs	56,100	56,100	-
C. Printing Advertisement	-	-	-
D. Keying, signage	20,000	20,000	-
E. Project Management Cost (1.55%)	310,000	310,000	-
F. State Risk Mgt. Ins. (.0034) **	59,900	59,900	-
Subtotal Addl. Univ. Costs	$ 466,000	466,000	
TOTAL CAPITAL COST	$ 20,000,000	$ 20,000,000	$ -

* Universities shall identify items included in this category

** State Risk Management Insurance factor is calculated on construction costs and consultant fees

ARIZONA STATE UNIVERSITY
ASU DEBT FINANCING

	Project Costs				Debt Service					Operating Costs (Presently Estimated)			
	General Fund	Tuition	Auxiliary/ Other	Total	General Fund	Tuition	Auxiliary/ Other	Total		General Fund	Tuition	Auxiliary/ Other	Total
Bonds:													
Instructional/Research Laboratory Renovations Phase II	-	5,000,000	15,000,000	20,000,000	-	401,300	1,203,600	1,604,900	(1)	-	-	-	-
Total Bonds	-	5,000,000	15,000,000	20,000,000	-	401,300	1,203,600	1,604,900	(2)	-	-	-	-

(1) The debt service calculation for the bond financed project is based on an assumed 5.0% interest rate over 20 years. Debt service on new construction projects is calculated assuming 6.0% interest over 30 years. Debt service on renovation projects is calculated assuming 5.0% interest over 20 years.

(2) ASU's debt service percentage in accordance with ARS 15-1683 will increase from 6.0% to 6.1% for the new financing (based on current expenditure estimates in most recent debt capacity study).

Instructional/Research Laboratory Renovations Phases I II
JCCR Review-September 21, 2004

Instructional Research/Laboratory Renovations Phase I				
	Project Name	**GSF**	**Construction Cost**	**Total Project Cost**
1	Expand Mars Area	1,100	$ 60,000	$ 89,000
2	Renovate Lobby Adjoining Life Sciences C-Wing 102	750	$ 34,000	$ 50,000
3	McGraw Lab Renovation	3,800	$ 472,000	$ 660,000
4	Escalante Lab Renovation	2,800	$ 436,000	$ 610,000
5	Renovate Physical Science D-Wing-rooms 324,326,332,334,336*	3,300	$ 101,000	$ 151,000
6	Laboratory Security for InCise	N/A**	$ 72,000	$ 100,000
			Sub-total	**$ 1,660,000**

Instructional Research/Laboratory Renovations Phase II				
1	ASU East Field Lab Facility	6,100	$ 600,000	$ 960,000
2	Bio/Safety/Lab Security Phase II	N/A**	$ 1,500,000	$ 2,400,000
3	Goldwater Rooms 167,177-High Performance Computing Center	2,200	$ 267,000	$ 400,000
4	Goldwater 3rd floor-WINTECH Center	1,400	$ 174,000	$ 260,000
5	Renovate Engineering Center G-wing, 1st floor	12,000	$ 375,000	$ 600,000
6	Engineering Research Center Code Upgrades, Phase II	N/A**	$ 1,625,000	$ 2,600,000
7	Renovate Life Science A-wing, rooms L1-96,L1-98 and L1-99, and C-wing 566/570	2,175	$ 297,000	$ 475,000
8	Renovate Physical Science C-wing C54,C58,C150,C154 and C158	2,670	$ 364,000	$ 582,000
9	Life Science E-wing 404 and 410	1,408	$ 164,000	$ 245,000
10	Renovate Physical Science F-wing, room 66	488	$ 95,000	$ 142,000
11	Backup Electric Service in Life Science A, B, and C Wings	N/A**	$ 174,000	$ 260,000
12	ASU East-Applied Biological Sciences Greenhouses Completion	N/A**	$ 84,000	$ 125,000
13	ASUE Health Sciences Center Lab Renovation	2,127	$ 80,000	$ 120,000
14	Renovate Physical Science D-wing-rooms 324,326,332,334,336*	see gsf identifed in phase I	$ 352,000	$ 562,000
			Sub-total	**$ 9,731,000**

*Funding for this project is split between Phase I and Phase II, total project cost is $713,000

**Square footages for these projects cannot be determined due to the nature of the projects; i.e., electrical upgrades, life safety/code upgrades or security upgrades that occur in multiple areas in a building or campus.

ARIZONA STATE UNIVERSITY

INSTRUCTIONAL/RESEARCH LABORATORY RENOVATIONS PHASE II
JCCR REVIEW • 21 SEPTEMBER 2004

The following provides additional project information for the Instructional/Research Laboratory Renovations Phase II project. The project will provide laboratory space for new faculty hires and students as well as making significant infrastructure improvements to mechanical systems to meet code and laboratory requirements. Thus far, ASU has identified the following renovation projects, totaling $9,731,000, for Phase II. ASU will report back to the Committee as further laboratory renovation projects needed for new hires are identified.

ITEM 1: ASU East Field Lab Facility
The project is comprised of renovation of 3,100 square feet and a new 3,000 square foot facility for Dr. Page, a new researcher recently recruited to ASU. There will be a general purpose classroom, a shared lab space, individual labs and an external observation area. This project cost estimate is $960,000.

ITEM 2: Bio-safety/Lab Security Phase II
This continues Phase I of the Bio-safety/Lab Security Phase I project, which was a sub-project of Instructional/Research Laboratory Renovations Phase I, approved by JCCR in December 2003. This project will address security in labs across campus, including the replacement of obsolete WEES (Westinghouse Electronic Entry System) doors in Engineering Research Center, Schwada Classroom Office Building, Goldwater Center, and in Engineering Center wings D through G. The project will also include an engineering study to create as-built drawings for fire sprinkler systems and perform some upgrades to the current systems. The cost estimate is $2,400,000.

ITEM 3: Goldwater Rooms 167, 177 – High Performance Computing Center
This project will renovate space to create a High Performance Computing Center. The cost for this project is estimated to be $400,000.

ITEM 4: Goldwater 3rd floor – WINtech Center
This project will renovate space for the new WINTECH (Wireless Integrated Nano-Technolgoy) Center. The project will create space for a new research administration suite and will renovate all interior labs and offices on the 3rd floor. This project also includes faculty offices and the remodeling of interior labs vacated by Computer Science and Engineering. The cost is estimated at $260,000.

ITEM 5: Renovate Engineering Center G-wing, 1st floor
This project will renovate the first floor for comprehensive student services, freeing up 2nd and 3rd floors for new research faculty offices and graduate offices. The budget estimate is $600,000.

ITEM 6: Engineering Research Center Code Upgrades, Phase II
The project will remedy improper toxic gas piping, inadequacies in fire suppression to combustible workstations and questionable life safety alarm and monitoring systems in cleanroom, subfab and tank farm as recommended in a consultant study. This project will replace the gas cabinet, correcting exhaust discrepancies in the ERC Cleanroom and Tank Farm. The HEPA (High Efficiency Particulate Air) system in the ERC cleanroom and in room 146 will also be updated. Cost for the project is approximately $2,600,000

ARIZONA STATE UNIVERSITY

ITEM 7: Renovate Life Science A-wing, rooms L1-96, L1-98 and L1-99, and C-wing 566/570
Work planned for this project includes renovating approximately 1,300 square feet in LS-A wing and 900 square feet of in LS-C wing into laboratory and office space to accommodate two new faculty positions in Molecular Interactions/Bioimaging. It is estimated that $475,000 will be needed to complete this project.

ITEM 8: Renovate Physical Science C-wing C54, C58, C150, C154 and C158
This project will renovate chemistry laboratories into a research suite and upgrade the labs to modern chemistry laboratory and fire safety code. The cost is expected to be $582,000.

ITEM 9: Life Science E-wing 404 and 410
Renovation of this space will make LSE 422 available for one new faculty position in Biogeochemistry/Microbial Ecology area. The renovation will encompass approximately 1,400 square feet. The cost is estimated at $245,000.

ITEM 10: Renovate Physical Science F-wing, room 66
This renovation will accommodate the electron probe microanalysis facility (EPMA). The cost for this project is estimated at $142,000.

ITEM 11: Backup Electric Service in Life Science A, B and C Wings
This project will install transfer switches with connections and an enclosed generator for critical loads. The project will also supply power to critical research during emergency power interruptions to maintain electric service, main distribution, and motor control centers. It is estimated that this project will cost $260,000.

ITEM 12: ASU East – Applied Biological Sciences Greenhouses Completion
Additional investments are required to make the Applied Biological Sciences (ABS) Greenhouses fully functional for instructional and research purposes. It will equip the instructional and research greenhouses with stationary and mobile benches, lockable storage cabinets, wall-mounted wire shelving, an emergency wash station, an automated propagation misting system, and automated irrigation systems. This project would also add an open-air 1,000 square foot shade/lath house structure to support the research components of the greenhouses. The cost is estimated at $125,000.

ITEM 13: ASU East Health Sciences Center Lab Renovation
This project makes the Health Sciences Center Lab (HSC2), a facility for research involving small animals, functional. It adds a cage washing area facility to the Lab and equips it with permanent caging, as federally mandated for all animal research facilities. This requires conversion of a garage storage area into the wash-down facility. It is estimated the project will cost $120,000.

ITEM 14: Renovate Physical Science D-wing – rooms 324, 326, 328, 332, 334, 336
This project will renovate chemistry laboratories to modern chemistry and safety standards. It is estimated to encompass 3300 square feet and total project cost $713,000. Funding from this project will be from two projects: Instructional/Research Laboratory Renovations Phase I ($251,000) and Instructional/Research Laboratory Renovations Phase II ($562,000) (see update for Instructional/Research Laboratory Renovations Phase I, item #5).

ARIZONA STATE UNIVERSITY

INSTRUCTIONAL/RESEARCH LABORATORY RENOVATIONS PHASE I
JCCR UPDATE• 21 SEPTEMBER 2004

The following is an update on the Instructional/Research Laboratory Renovations Phase I project, originally reviewed by JCCR in December 2003. As reported on June 22, 2004, the $1,660,000 that remained in project bonds was set aside for future hires or when additional lab renovation needs were identified. The renovations below have now been selected, totaling $1,660,000.

ITEM 1: Expand Mars Area. Renovation of space in the Moeur Building for Prof. Phil Christensen to expand his research programs into the area vacated by Recreation Management. Budget for this project is $89,000.

ITEM 2: Renovate Lobby Adjoining Life Sciences C Wing 102. This project will renovate approximately 750 square feet of the lobby. It will create a computer room/study area and a multi-media conference room. Budget for this project is $50,000.

ITEM 3: McGraw Lab Renovation. Renovate approximately 3800 square feet of office and lab space to accommodate new faculty, including space committed to Prof. McGraw (Evolutionary and Systems Biology). Prof. McGraw started at ASU on July 16, 2004. Budget for this project is $660,000.

ITEM 4: Escalante Lab Renovation. Renovate approximately 2800 square feet of space into lab and office space to accommodate new faculty including space committed to Prof. Escalante (Ecology of Infectious Diseases). Escalante started at ASU on July 16, 2004. Budget for this project is $610,000.

ITEM 5: Renovate Physical Science D-wing – rooms 324, 326, 328, 332, 334, 336
This project will renovate chemistry laboratories to modern chemistry and safety standards. It is estimated to encompass 3300 square feet and total project cost $713,000. Funding from this project will be from two projects: Instructional/Research Laboratory Renovations Phase I ($151,000) and Instructional/Research Laboratory Renovations Phase II ($562,000) (see submittal for Instructional/Research Laboratory Renovations Phase II, item #14).

ITEM 6: Laboratory Security for InCise

This project consists of laboratory security work including power, networking, door hardware, software to control access to the laboratories, cameral surveillance and computer lockdowns. This includes open, instructional, and research laboratories for AME, PRISM, and CuBIC. Budget for this project is $100,000.

There have been no changes in scope or budget to the projects reported to JCCR in December and June, 2004, namely: Bateman Physical Sciences Center F Wing Basement Research Lab Renovation, Engineering Research Center (ERC) Code Upgrades, Bio Safety / Lab Security, Schwada Classroom Office Building Renovations.

STATE OF ARIZONA

Joint Committee on Capital Review

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DATE: September 14, 2004

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

THRU: Richard Stavneak, Director

FROM: Shelli Carol, Fiscal Analyst

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

Request

The University of Arizona (U of A) is reporting on contingency allocation changes for three projects. At its September 2003 meeting, the Committee gave a favorable review for Roy P. Drachman Hall, a revenue bond project, as well as the Medical Research Building and the Thomas W. Keating Bioresearch Buildings, both research infrastructure projects. With these reviews, the Committee stipulated that U of A report on allocations that exceed the greater of $100,000 or 10% of each project's contingency fund amounts.

Recommendation

This item is for information only and no Committee action is required. U of A reported previous contingency allocation changes in all these projects, tied to significant cost increases for raw materials. The university plans further adjustments to take advantage of improvements in laboratory and security technologies.

U of A is reallocating $1.3 million of Roy P. Drachman Hall's remaining $2.3 million contingency fund, $0.5 million of the Medical Research Building's remaining $2.7 million contingency fund, and $0.7 million of the Thomas W. Keating Bioresearch Building's remaining $4.2 million contingency fund. The per-square-foot cost estimates for these three projects are still reasonable after modification. *(See table in Analysis section for a summary of revised costs.)*

Analysis

Laboratory and security technologies are constantly evolving. U of A aims, within its approved budget, to acquire the most state-of-the-art equipment available. Therefore, U of A will shift monies from the Roy P. Drachman Hall, Medical Research Building, and Thomas W. Keating Bioresearch Building contingency allocations to cover the costs of more advanced laboratory and security systems. The three individual total budgets remain unchanged from the original Committee-reviewed amounts.

(Continued)

U of A will complete change orders to include the equipment upgrades in its overall project contracts. Therefore, if real equipment costs rise above the quoted prices, the contract manager, rather than the university, will be responsible for the additional expense. However, if further technological advancements necessitate additional equipment upgrades, the university will need to manage those costs.

U of A reported to the Committee at its June 2004 meeting on a $0.4 million reallocation from Roy P. Drachman Hall's original $2.7 million contingency fund and a $1.5 million reallocation from the Thomas W. Keating Bioresearch Building's original $5.8 million contingency fund. The university reported again to the Committee at its August 2004 meeting on a $1.7 million reallocation of the Medical Research Building's original $4.4 million contingency fund. These previous adjustments derived from rising construction expenses. Material costs for such items as steel, cement (concrete), petroleum, copper, and gypsum (drywall) rose above the university's original estimates due to increasing worldwide demand for raw materials, especially from economic growth areas in Asia.

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

University of Arizona Contingency Reallocations
Total Project Budgets and Revised Costs

Project	Roy P. Drachman Hall	Medical Research Building	Thomas W. Keating Bioresearch Building
Total Project Budget	$ 30,000,000	$ 54,350,000	$ 65,700,000
Original Contingency	$ 2,692,000	$ 4,360,000	$ 5,772,000
Previously Reallocated Funds	$ 420,190	$ 1,682,000	$ 1,544,200
Additional Reallocated Funds	$ 1,310,030	$ 478,000	$ 669,000
Original Construction Unit Cost	$ 191/sq ft	$ 287/sq ft	$ 289/sq ft
Revised Construction Unit Cost	$ 206/sq ft	$ 303/sq ft	$ 302/sq ft

The subsequent excerpts from memos presented to the Committee at its September 2003 meeting contain direct construction costs per unit that reflect the reallocation of contingency funds.

Drachman Hall

U of A will construct 113,000 square feet of expansion to provide academic building space and consolidate the Colleges of Public Health, Pharmacy, and Nursing at the Arizona Health Sciences Center at an estimated cost of $30.0 million.

The cost per square foot for this project is $266 and the direct construction cost per square foot is $206. Based on market increases for construction materials and the university's historical actual costs for similar buildings, the costs per square foot for the project appear reasonable.

Medical Research Building

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

The cost per square foot for this project is $392 and the direct construction cost per square foot is $303. Based on historical actual costs for similar U of A buildings and accounting for unique research design and fixed equipment requirements, the costs per square foot for the project appear reasonable.

(Continued)

Thomas W. Keating Bioresearch Building (former Institute for Biomedical Science and Biotechnology)

U of A will construct 170,000 square feet of space dedicated to molecular life sciences research at an estimated cost of $65.7 million.

The cost per square foot for this project is $389 and the direct construction cost per square foot is $302. Based on market increases for construction materials and U of A historical actual costs for similar buildings and accounting for unique research design and fixed equipment requirements, the costs per square foot for the project appear reasonable.

RS/SC:jb

Senior Vice President
for Business Affairs

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August 25, 2004

Richard Stavneak, Director
Joint Committee on Capital Review
1716 West Adams
Phoenix, AZ 85007

RE: Roy P. Drachman Hall
UA Project No.: 01-8339

Dear Mr. Stavneak:

Please be advised that $1,310,030 of the project's contingency funds will be reallocated within the overall project budget to further accommodate construction cost market increases, and to purchase and install critically needed card readers and securing systems, and classroom audio/visual and distance learning equipment. All of these items were part of the project's original scope of work and budget, but were priced separately to assure that construction cost market increases could be accommodated within the project budget.

The total Project Budget of $30,000,000, as presented at the September 2003, JCCR meeting remains unchanged.

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

Sincerely,

Joel D. Valdez
Senior Vice President for Business Affairs

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

Senior Vice President
for Business Affairs

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August 25, 2004

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

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

Dear Mr. Stavneak:

Please be advised that $478,000 of the project's contingency funds will be reallocated within the overall project budget to purchase and install equipment that is critically needed to provide a research facility that is fully functional and operational. All of the equipment was part of the project's original scope of work and budget, but was priced separately to assure that construction cost market increases could be accommodated within the project budget.

Equipment to be procured includes vivarium glass and cage wash systems and associated sterilizers, and building card readers, security systems and fire alarm improvements.

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

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

Sincerely,

Joel D. Valdez
Senior Vice President for Business Affairs

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

Senior Vice President
for Business Affairs

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September 8, 2004

Richard Stavneak, Director
Joint Committee on Capital Review
1716 West Adams
Phoenix, AZ 85007

Dear Mr. Stavneak:

Subject: Thomas W. Keating Bioresearch Building
UA Project No. 01-8343

Please be advised that $669,000 of the project's contingency funds will be reallocated within the overall project budget to purchase and install equipment that is critically needed for the research facility.

Equipment to be procured includes vivarium glass, cage washers and associated sterilizers, building card readers and security and fire alarm system improvements.

The Total Project Budget of $65,652,000 as presented at the September 25, 2003 Joint Committee on Capital Review meeting remains unchanged. The CM@Risk contract for the project will be amended directly to reflect this reallocation. Please let me know if you have any questions.

Sincerely,

Joel D. Valdez
Senior Vice President for Business Affairs

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