STATE OF ARIZONA

Joint Committee on Capital Review

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JOINT COMMITTEE ON CAPITAL REVIEW
Wednesday, September 28, 2005
1:30 p.m.
Senate Appropriations Room 109

MEETING NOTICE

- Call to Order
- Approval of Minutes of September 1, 2005.
- DIRECTOR'S REPORT (if necessary).

1. ARIZONA STATE UNIVERSITY/INDUSTRIAL COMMISSION OF ARIZONA – Review of Elevator Code Upgrade Component of Academic Renovations and Deferred Maintenance Phase I.

2. ARIZONA LOTTERY – Review of FY 2006 Building Renewal Allocation Plan and Lottery Facilities Improvements.

3. ARIZONA DEPARTMENT OF TRANSPORTATION – Report on 5-Year Transportation Plan.

The Chairman reserves the right to set the order of the agenda.
09/20/05

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STATE SENATE

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HOUSE OF REPRESENTATIVES

MINUTES OF THE MEETING
JOINT COMMITTEE ON CAPITAL REVIEW

Thursday, September 1, 2005

The Chairman called the meeting to order at 1:40 p.m., Thursday, September 1, 2005 in Senate Appropriations Room 109 and attendance was as follows:

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

Senator Burns moved the Committee approve the minutes of July 21, 2005 as presented. The motion carried.

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

Mr. Tyler Palmer, JLBC Staff, presented the Arizona Department of Administration (ADOA) request for review of the revised FY 2006 Building Renewal Allocation Plan. At the July 21, 2005 meeting, the Committee reviewed a portion of the $3.4 million Capital Outlay Stabilization Fund (COSF) appropriation. This plan contains 10 projects which are outlined in the JLBC recommendation memo.

There was no discussion on this item.

Representative Pearce moved the Committee give a favorable review of the $1,914,000 representing $1,740,000 for the 10 projects detailed in the ADOA Building Renewal Allocation Plan, plus $174,000 for emergency projects and $275,000 for project management as authorized in the Capital Outlay Bill with the following provisions:

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

The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION – Review of Refinancing and Renegotiation of the 2000 Private Lease-to-Own Agreement.

Mr. Tyler Palmer, JLBC Staff, presented the ADOA request for review of the refinancing and renegotiation of the 20000 Private Lease-to-Own (PLTO I) agreement. Because of a decline in the interest rates in the market, ADOA projects a savings of up to $12 million for refinancing the $80.3 million PLTO agreement.

Representative Pearce asked if ADOA can guarantee the refinance will not result in higher fees from the private entity, Phoenix Industrial Development Authority (Phoenix IDA).

Mr. Palmer stated that since entering this agreement in 2000, Phoenix IDA has raised their fees. The agency met with Phoenix IDA and agreed to a fee schedule that increases the fees slightly, but still results in savings for the state.

<u>Mr. Clark Partridge, State Comptroller, Arizona Department of Administration, General Accounting Office</u> stated that they have met with Phoenix IDA. Phoenix IDA has proposed they change their fees substantially. Director Betsey Bayless wrote a letter to Phoenix IDA requesting that we maintain the existing fee structure, which is $3,000 per year. They indicated their fee structure under the current model would have been closer to $64,000 per year plus the same amount as initial refunding. However, the fees have been lowered to a 2-basis point initial fee, which would be a little over $16,000 as a one-time fee. Then 1-basis point on an on-going basis, which would be $8,000 a year, but is on a declining balance, so that amount would decline as we paid down the principle of the balance. The savings we are achieving on even the early years will more than make up the fee increase. Phoenix IDA was able to make significant concessions as requested.

Representative Pearce asked what the number is of the anticipated savings.

Mr. Partridge said the savings is about $12.6 million in total overall. On a net present value basis, those numbers are about $3.8 million after the financing cots, etc, are all taken into account. Some of the numbers, such as the issuance costs, are high estimates, and we are attempting to get better numbers.

<u>Representative Pearce moved</u> the Committee give a favorable review of the refinancing and renegotiation of the 2000 Private Lease-to-Own (PLTO I) agreement, with the following stipulations:
- *ADOA report back to the Committee on the interest rate, debt service schedule, costs and estimated savings of the refinanced PLTO after the issuance*
- *ADOA report back to the Committee details concerning the potential for additional interest rate savings from other debt financed capital projects*

The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION – Review of Energy Savings Performance Contract.

This item was not presented. This item will be held until additional information on the progress of the contract is available.

ARIZONA DEPARTMENT OF JUVENILE CORRECTIONS – Review of Suicide Prevention Renovations.

Ms. Kimberly Cordes-Sween, JLBC Staff, presented the Department of Juvenile Corrections (DJC) request to use $1.1 million of its FY 2006 operating budget for suicide prevention renovations related to a federal audit. As authorized in the General Appropriation Act, the department may use $6.7 million of its FY 2006 operating budget for audit related operating and capital issues. These projects will renovate 8 housing units.

Senator Karen Johnson distributed a handout listing psychotropic drugs and known side effects. Senator Johnson requested DJC provide its perspective on the handout (at a later time).

Mr. Michael Branham, Director, Arizona Department of Juvenile Corrections, stated that this issue is continually worked on and is willing to discuss this issue in length.

Representative Russell Pearce asked if the federal government had any requirements related to the use of psychotropic drugs.

Mr. Branham answered that as treatment of all kinds of mental illness progresses, our hope is that there will better ways for this to be handled without the use of psychotropic drugs. Many of the people show up already using these types of drugs and we have to find a way to help them step down so that we do not endanger them more. We need to continue to work with the federal government and with the medical and mental health community to find better options.

Representative Pearce asked if the renovations end the obligation to the federal issues.

Mr. Branham said we are not at the point where we can say this is the last time this will come before the Committee for renovation issues. We take seriously the role that we need to continue to find ways to improve and stay within budget. We have a population that has not dipped but instead has gone up, and other issues which require us to place into operation older buildings. The department is evaluating what we do right now and what we do in the future for buildings for ADJC.

Representative Pearce stated as clarification that this does not complete the obligation.

Mr. Branham answered that is correct, but we are getting close.

Representative Pearce asked if what we are doing is more than what is required in response to the federal issues.

Mr. Branham said we are trying to make the old buildings safe while trying to change programming and other components of operations. The system will ultimately be better, appropriate, and not overdone.

Representative Pearce moved the Committee give a favorable review to the use of $1,094,500 from the DJC operating budget for suicide prevention modifications of secure care facilities with the provision that DJC report back to the Committee about whether the Department of Justice (DOJ) believes any additional suicide prevention renovations are required at any DJC facilities. If additional capital work is required, DJC should specify the individual projects required by the federal government to satisfy the terms of the federal audit.

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

The motion carried.

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

Mr. Bob Hull, JLBC Staff, presented the Arizona Department of Transportation's FY 2006 building renewal allocation plan totaling $3.7 million, including $3.6 million from the State Highway Fund for 223 projects with $225,300 for contingencies, and $75,800 from State Aviation Fund for 2 projects.

There was no discussion on this item.

<u>Representative Pearce moved</u> the Committee give a favorable review of the $3,702,900 FY 2006 Building Renewal allocation plan, including $3,627,100 from the State Highway Fund and $75,800 from the State Aviation Fund with the following provisions:

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

The motion carried.

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

Ms. Shelli Carol, JLBC Staff, presented the Arizona State University (ASU) request for review of scope revisions for Academic Renovations and Deferred Maintenance, Phase I, a $10 million system revenue bond project that was first reviewed in June 2004. The Committee heard scope changes last month and at that time unfavorably reviewed the $3 million elevator upgrades component pending additional information from the Arizona Industrial Commission. The Committee favorably reviewed all other components of this project. There was previously $1.8 million unallocated that has gone to expanding the scope of 2 renovations and 2 new renovations. The per square foot cost is still above average for the project, but they are lower than last month.

Last month Representative Tom Boone requested a comparison between Construction Manager at Risk (CMAR) and the Design-Bid-Build methods. ASU reported the example of Interdisciplinary Science and Technology Building (ISTB) II, an $18 million research infrastructure project reviewed in March 2004. CMAR saved 8 weeks and $680,000.

The Industrial Commission responded to JLBC Staff inquiries that the elevator changes they are requiring align with national codes and without those changes, rapid elevator falls, serious injuries and liabilities are possible. The Commission claims that it set no deadline for ASU and provided a rough cost estimate per elevator of $30,000-$40,000 just for this upgrade. ASU states that it has 18 elevators that would be covered by the code revision and it would cost $50,000 per elevator just to address this upgrade. However, codes require that when an elevator is renovated all of its deficiencies be address so ASU estimates an additional $150,000 would need to be allocated per elevator to do all the remaining code work. The Industrial Commission verbally suggested that ASU complete the project by December 2005 and ASU lawyers believe that to be legally binding.

Representative Andy Biggs asked if there were elevator failures in this state and where the Industrial Commission derived the evidence of failures in the elevators that occurred elsewhere in the country.

Ms. Carol answered that the Industrial Commission did not provide any more detail in the statement.

Representative Biggs asked what the Industrial Commission's response was on the request for clarification for giving ASU no deadline on the elevator upgrade.

Ms. Carol stated that the Industrial Commission viewed it as a suggestion. ASU believed that even though it was a suggestion, it had the force of authority.

Mr. Stavneak stated that there may have been a verbal conversation as opposed to a written conversation. There was a discussion between ASU and the Industrial Commission, but when JLBC Staff asked for it in writing, the Industrial Commission provided a letter stating they provided no deadline to ASU, but were willing to work with them over a period of time.

Representative Pearce asked why the Industrial Commission could not put their conversation with ASU in writing and stated that he is disappointed that the Commission declined the invitation to speak at the meeting.

Mr. Scott Cole, Deputy Executive Vice President, Arizona State University, stated that part of what was provided to JLBC Staff on this issue is the order which has the date from the Industrial Commission. Legal counsel advised that it was a binding order.

Representative Russell Pearce said there was a verbal conversation since the order issuance that was suggested to be followed, but JLBC Staff has a letter from the Industrial Commission saying there is no timeline.

Mr. Cole stated that there was documentation submitted to JLBC Staff which chronicled the conversations with the Commission. They would verbally give additional time to respond, they did not follow up in writing. We went to legal counsel and were told this order is binding and we should try to meet the order. We cannot meet the order, so we told the Commission. We provided a letter with a list of the elevators that we need to upgrade, and they did not acknowledge that they received the list.

Representative Pearce asked if ASU is requesting that the Committee approve the recommendation even though there is a question as to whether the upgrade is needed.

Mr. Cole answered that ASU would like a stipulation given that would allow 2 years to accomplish the elevator upgrades because they are not able to finish by January.

Senator Karen Johnson requested more information on where the elevator failures occurred, the problems that exist, and the reason the Industrial Commission requires the elevators to be retrofitted.

Ms. Carol explained the information provided by Industrial Commission on what could happen with an elevator failure. The code addresses upgrades to hydraulic cylinders that may corrode over time.

Senator Johnson asked for the frequency of elevator failures.

Ms. Carol answered that the information was not provided.

Representative Biggs asked in reference to the Commissions explanation of corrosion in the elevators, if the elevators were inspected for corrosion.

Mr. Cole answered that a contractor inspected the elevators and they showed no signs of corrosion or weakness on any of the hydraulic cylinders. The elevators are maintained.

Chairman Robert Burns stated that the issue of the elevators on this item will be held over to the next meeting September 28 so that the Industrial Commission can have a representative present to answer the Committee questions.

Representative Pearce asked for additional information on the difference in cost between the Commission's amount of $50,000 and ASU's amount of $200,000.

Mr. Cole stated that once you open the elevators to work on it, the rest of the cars and controls need to be up to current code. The Commission does not address the code compliance to be at another $110,000 per elevator.

Representative Pearce asked if the Commission knows that the other components of the elevator need to be up to code, why the information would not be put in their total cost assessment.

Ms. Carol stated that the code applies to elevators built before 1971 and the Industrial Commission does not have records of these older elevators. The only information they have is what ASU provides. They would not know what else needs to be done to the elevators.

Representative Tom Boone asked for more specific information in regard to Interdisciplinary Science and Technology Building (ISTB) II project and the Construction Manager at Risk (CMAR) method: 1) Is CMAR the only procurement method that allows the General Contractor to pre-purchase certain materials? Why or why not? 2) Please breakdown the $602,000 change order cost avoidance. Which change orders were avoided with CMAR and why? Why would this be the case under the CMAR but not the any other method? 3) What components under CMAR were of higher quality? Why would that occur only with CMAR?

<u>Representative Pearce moved</u> the Committee hold reconsideration of elevator code upgrade component of this issue to permit the Industrial Commission to appear at the next scheduled meeting. Also the Committee give a favorable review to the remainder of Academic Renovations and Deferred Maintenance, with the following standard university financing provisions:

- *ASU shall report to the Committee with a comparison between any compliance costs of the Governor's Executive Order 2005-05, concerning energy efficiency, and operating and other savings generated through those efficiencies.*
- *ASU shall report to the Committee before expenditure of any allocations that exceed the greater of $100,000 or 10% of the reported contingency amount total for add-alternates that <u>do not expand</u> the scope of the project. ASU shall also report to the Committee before any reallocation exceeding $100,000 among the individual planned renovations.*
- *ASU shall submit for Committee review any allocations that exceed the greater of $100,000 or 10% of the reported contingency amount total for add-alternates that <u>expand</u> the scope of the project. In case of an emergency, ASU may immediately report on the scope and estimated cost of the emergency rather than submit the item for review. JLBC Staff will inform the university if they do not concur with the emergency nature of the change in scope.*

The motion carried.

NORTHERN ARIZONA UNIVERSITY – Review of New Parking Structure

Ms. Shelli Carol, JLBC Staff, presented the Northern Arizona University (NAU) request for review of the $15 million parking structure. It would have 900 spaces on 4 levels and would allow the university to consolidate 5 surface parking lots and reclaim the land for other purposes. This project includes building a pedestrian bridge from the parking structure to an adjoining building and realigning a road. It would be financed with auxiliary revenue bonds for a term of 35 years at a 5.5% interest rate. Annual debt service of $935,000 would be paid from parking revenues. This project would increase the NAU debt ratio from 5.7% to 5.9%. The cost per space of $15,400 is slightly high, reflecting materials cost inflation as well as general premium of construction in Flagstaff.

Representative Russell Pearce asked how NAU determined the number of spaces needed and if this project would accommodate long-term parking needs.

<u>Mr. Richard Bowen, Vice President, Administration of Finance, Northern Arizona University</u> stated that there was a master plan process that identified locations and the size of a parking structure on the campus. We do not want to continue to expand the campus we want to build within the existing boundaries of the campus.

Representative Pearce asked if the addition of this structure completes the parking requirements for NAU.

Mr. Bowen stated they have grown from last year and still growing this year, hoping this is the beginning of an upward trend. There is no need for additional parking, but NAU would like to remove surface parking in the central core of campus where new buildings should go.

Representative Pearce asked if this was increasing the parking spaces.

Mr. Bowen answered that it will initially until the surface parking lots are removed. This will give no net gain in the total number of parking spaces. There will be no need to add more spaces until the university is able to grow at another level.

Representative Pearce asked what money is this being used to build the new parking structure.

Mr. Bowen answered that the money is coming from the parking fees, auxiliaries will pay debt service.

Representative Pearce clarified this is not an obligation of the General Fund to repay the Certificates of Participation. These are self-supported revenues that will pay for this entirely. He asked if the market cost per space is $10,000, why NAU is spending $15,000 per space.

Mr. Bowen stated that the $10,000 cost was used long ago, the nature of the land at the campus adds to the cost of building as compared to building in southern Arizona.

Senator Ron Gould asked for clarification on whether the university is going to displace 208 parking spaces to build the new parking structure, and netting an additional 593 parking spaces at a cost of $15 million for the overall cost of the parking structure. The university is actually spending $25,337 per parking space.

Mr. Bowen said that was correct, the total cost includes the road realignment and the pedestrian bridge.

Representative Tom Boone asked the following questions be addressed regarding the Construction Manager at Risk (CMAR) method: 1) Why does NAU believe the CMAR method is the best approach and will yield the most cost effective parking structure? 2) Describe the procedure for post-audit of General Contractor payments. 3) Document the cost effectiveness of CMAR, including building quality, occurrence of change orders, and cost savings for a previous capital project.

Chairman Robert Burns asked for clarification on the 65 acres used in eliminating the parking spaces to put in a 900 space parking garage.

Mr. Bowen stated that the university has a higher percentage of cars on the campus compared to other urban campuses. There are 65 acres total of parking lots. There are 900 parking spaces in the garage. The total number of acres will be reduced, not all the acres will be eliminated.

Representative Steve Tully asked if the 35 year bond payment is standard.

Mr. Nick Dodd, Dain Rauscher, Bond Counsel for NAU answered that 35 years is longer than average financing for some university projects. The average financing range is 20-30 years. NAU has financed over 35 years on other issuances and the average life of the facility justifies it. There is a federal tax law that requires the life of the facility to fall with the financing term.

Representative Tully asked if the term is long because of wanting to get the lowest payment.

Mr. Dodd answered the interest rate is low right now going out 35-40 years, at a flat yield curve. The university could borrow at 25 years for 5% and 35 years at 10-15 basis points more. We looked at the impact of the annual debt services and the ability to stretch it to 35 years as opposed to 25-30 years for the university. The additional cost was minimal when compared to the cash flow relief it provided by going out a little further. The university elected for the 35 year structure as opposed to something shorter.

Representative Boone asked if this is a cash flow issue based upon the projected fees coming in.

Mr. Dodd said the university is heavily front-loaded regarding debt service at $16 million this year and next year. Then it drops significantly, with debt service requirements dropping $2 million or $3 million per year in the out years. This structure follows better with the existing debt which is rapid in comparison to other universities.

Representative Boone asked if the cash flow on the fees collected for parking is the only source for revenue to repay the bonds.

Mr. Bowen stated they would only use the parking fees to pay the debt service.

Representative Boone stated that the length of the bond is to relieve the cash flow by paying more interest overall. The university has extended 35 years instead of 25 years for the cash flow relief because of projections on the fees being collected.

Mr. Bowen said that is correct.

Representative Pearce asked what the difference in dollars is on the cost of 25 years versus 35 years.

Mr. Dodds stated that the difference would probably be an extra $100,000 to $150,000 in additional interest.

Representative Pearce asked if the interest is minimal for a 10 year addition.

Mr. Bowen stated that the bonds are front-loaded so most of the money is paid in the first period of time. The bonds are sold in larger denominations in the shorter period so that the university is not carrying a longer term and the commitment drops in the out years.

Representative Pearce moved the Committee give a favorable review to the parking structure project with the standard university financing provisions:

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

The motion carried.

Without objection the Committee meeting adjourned at 2:45 p.m.

Respectfully submitted:

Yvette Medina, Secretary

Lorenzo Martinez, Assistant Director

Senator Bob Burns, Chairman

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

STATE OF ARIZONA

Joint Committee on Capital Review

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HOUSE OF REPRESENTATIVES

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PHIL LOPES
RUSSELL K. PEARCE
STEPHEN TULLY

DATE: September 21, 2005

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

THRU: Richard Stavneak, Director

FROM: Shelli Carol, Fiscal Analyst

SUBJECT: Arizona State University/Industrial Commission of Arizona - Review of Elevator Code Upgrade Component of Academic Renovations and Deferred Maintenance Phase I

Request

At several of its past meetings, the Committee has discussed the elevator code upgrade component of the Arizona State University (ASU) Academic Renovations and Deferred Maintenance, Phase I project. At its September 1, 2005 meeting, the Committee generated follow-up questions for the Industrial Commission.

The Commission subsequently responded that its staff has directly observed at least one in-state catastrophic elevator failure during an inspection, that Arizona elevator companies have directly witnessed several gradual failures in these types of elevators, and that those companies have heard of catastrophic failures in other states. The Industrial Commission also prefers to continue reasonable negotiations with ASU to complete the retrofits, rather than to take elevators out of service. The Commission states it has requested an implementation plan from ASU, which the university has not yet provided.

Recommendation

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

- Retention of the current unfavorable review, which would not require a new Committee vote.

- A favorable review, with the provision that the Industrial Commission allow ASU another 2 years to complete the elevator upgrades.

Analysis

A.R.S. § 15-1683 requires Committee review of any university projects financed with system revenue bonds. ASU has requested continuing Committee review of the elevator code upgrade component of Academic Renovations and Deferred Maintenance, Phase I, a system revenue bond project. The Committee first favorably reviewed this project at its June 2004 meeting.

(Continued)

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

Subsequent to the notification, ASU and Industrial Commission staff met to discuss the issue. University officials suggested a 3-year timeframe for the remaining elevator work, but according to ASU, Commission staff expressed a preference for a 1-year proposal. ASU legal counsel advised the university to do its best to comply with that verbal indication. By June 2005, ASU sent another letter to the Industrial Commission expressing concerns that it could not complete the upgrades by December 2005.

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

The Committee unfavorably reviewed the elevator component due to its cost and uncertainty over its urgency. The Committee also requested more information from the Industrial Commission. As a result, ASU put the elevator upgrades on hold. At its September 1, 2005 meeting, the Committee generated additional questions for the Commission.

In letters to JLBC Staff on July 29 and September 14, 2005, the Industrial Commission explained that in 2004, it adopted national code changes made by the American Society of Mechanical Engineers in 2000. The Commission notified ASU and other impacted state agencies of these requirements as early as October 2003. Without the required upgrades, certain hydraulic elevators manufactured before 1971 are in danger of catastrophic failure. While ASU previously suggested to the Committee that a slow descent of a faulty elevator was the worst possible scenario, the Industrial Commission states that rapid falls and serious injuries are possible.

The Industrial Commission is not aware of any specific elevator failures at ASU, but knows this kind of failure has occurred elsewhere in the country. One Commission inspector observed a catastrophic failure in this elevator type during an annual inspection within the state. Additionally, in its discussions with elevator companies around the state, the Commission learned that gradual failures have occurred in Arizona on several occasions. Those elevator companies have also heard of catastrophic failures in other states, although the Industrial Commission did not have the opportunity to conduct a nationwide survey.

The Industrial Commission also explains that it considers enforcement, through elevator shut-downs, a last resort. The Commission prefers to continue working with ASU towards resolution over a reasonable period of time. The Commission has requested an implementation plan from the university but has not yet received that document.

Since the Commission's Elevator Safety Division came into existence after 1971, it cannot provide records of ASU elevators. The Commission did receive an inventory of the elevators that still require repair from ASU in July. For comparison with the stated ASU cost of $50,000 per upgrade, the Commission indicated a cost estimate of $30,000 to $40,000 per elevator retrofit, based on a survey of in-state elevator companies. However, the Industrial Commission still does not possess sufficient information on the affected ASU elevators to provide an opinion on the costs of other required upgrades.

The Industrial Commission elevator code changes affect agencies around the state. However, the Commission indicated that Northern Arizona University has completed necessary upgrades for its 8 affected elevators.

RS/SC:ss

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HOUSE OF
REPRESENTATIVES

DATE: September 28, 2005

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

THRU: Richard Stavneak, Director

FROM: Leatta McLaughlin, Fiscal Analyst

SUBJECT: Arizona Lottery Commission - Review of FY 2006 Building Renewal Allocation Plan and Lottery Facilities Improvements

Request

The Arizona Lottery Commission requests that the Committee review its FY 2006 Building Renewal allocation plan, which is combined with a separate Lottery Facilities Improvements capital appropriation.

Recommendation

JLBC Staff recommends a favorable review of the request. The Lottery Commission combined its $47,600 building renewal appropriation with its $76,900 capital appropriation to upgrade a fire system and bathroom fixtures, as well as replace carpeting.

Analysis

Laws 1986, Chapter 85 established the JCCR 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 Lottery Commission operates out of two facilities; a 38,600 square foot building owned by the State of Arizona in Phoenix and a 3,080 square foot leased building in Tucson. The Phoenix facility includes administrative offices and a ticket sales and redemption area. This facility is located at 4740 East University Drive and was built in 1987. The Tucson facility has an office for the district sales manger and a ticket sales and redemption area. Maintenance of the Tucson facility is included as part of the lease agreement. This request pertains to the Building Renewal of the Phoenix facility only.

The Commission expects to allocate the appropriated building renewal and capital monies from the State Lottery Fund for the following projects:

Project	**Allocation**
Fire suppression and alarm system	$ 15,000
Restroom fixtures	10,300
Carpet replacement	95,000
Contingency	4,200
Total	**$124,500**

These cost estimates were obtained from vendor quotes and historical data.

Fire suppression and alarm system

The existing fire suppression and alarm system will be updated. The Commissions' computer room has a fire suppression system that absorbs oxygen instead of releasing water to extinguish fires, which prevents water damage. They would like to implement this same option for their telephone switching area, which is currently using a water type fire suppression system. The Commission would also like to install an alarm system for their Uninterruptible Power Supply in their computer room that would alert staff of a temperature change, which could result in the units overheating and causing a fire.

Restroom fixtures

The Commission will replace aging restroom fixtures. The sinks have not been replaced since the building was constructed in 1987 and some toilets have been replaced as needed. The toilets were not designed to conserve water and are becoming costly to maintain. There are a total of 7 bathrooms in the building, of which 6 will be upgraded. A total of 9 sinks, 12 toilets, and 4 urinals will be replaced. On average, the cost per unit is $412, which is reasonable given that these are commercial units.

Carpet replacement

The original carpet that came with the building in 1987 will be replaced. Almost 20,000 square feet of carpet will be replaced. The cost per square foot is $4.75, which is reasonable.

RS/LMc:ym

STATE OF ARIZONA

Joint Committee on Capital Review

STATE SENATE

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HOUSE OF REPRESENTATIVES

DATE: September 19, 2005

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

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: 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 2006-FY 2010.

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 2007-FY 2011, due by July 31, 2006. The Executive Summary should include at least as much information as the current submission.
- If unavailable by the Committee meeting, ADOT report by October 14, 2005 on how the Federal-Aid Highway Reauthorization bill affects the 5-Year Transportation Plan and whether it includes any projects listed in the 5-Year Plan. The report is to include a comparison of the federal funding levels with the assumptions in the 5-Year Plan, as well as an explanation of how ADOT has programmed the $41.3 million earmarked in the bill for ADOT's highest priority projects (1 of Arizona's 41 earmarks) for the 6 years FY's 2004-2009.

The entire 5-Year Plan costs $5.1 billion. Of this amount, $2.6 billion will be spent on 28 major projects. During the 5 years, the annual spending level ranges from a high of $1.6 billion in FY 2006 to a low of $1.1 billion in FY 2008, with $1.3 billion in FY's 2007 and 2009 and $1.2 billion in FY 2010.

The Federal-Aid Highway Reauthorization bill will provide an estimated $619.7 million apportionment of federal highway funds for Arizona in FY 2006. ADOT's 5-Year Plan includes $445.3 million of federal funds in FY 2006. It is not clear how the $619.7 million apportionment relates to the $445.3 million in ADOT's 5-Year Plan. Arizona received a total 6-year (FY's 2004-2009) federal dollar amount of $137.7 million for earmarked projects, including $122.5 million for highway projects and $15.2 million for transit projects, the lowest per capita level of the 50 states. Monies for earmarked projects are in addition to the formula federal highway funding received by states. The bill appears to increase funds for donor states such as Arizona from

(Continued)

90.5% in FY 2006 to 92% in FY's 2008 and 2009, but Arizona's small dollar amount for earmarked projects may counterbalance the formula shift toward donor states.

ADOT has reported that the plan addresses all of the 15 "over capacity" highway segments. "Over capacity" means that traffic volume exceeds capacity for all 3 hours of either the morning or evening rush hours. In addition, attached maps show Maricopa County state highway segments that are "over capacity" for 1 hour or longer during either the morning or afternoon commute. The maps show varying lengths of congested highway segments on most Phoenix area freeways, with heavier congestion during the afternoon commute than the morning. ADOT reports that more detailed "over capacity" information is not available for the Tucson area.

The amount of outstanding Highway User Revenue Fund (HURF) bonds is near the $1.3 billion statutory limit. They begin at $1.16 billion in FY 2006 and increase to $1.22 billion in FY 2007 before decreasing to $1.11 billion in FY 2010.

Analysis

The 5-Year Transportation Facilities Construction Program for FY 2006-FY 2010 includes a 5-year total of $5.1 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	$ 1,052,000,000	Preservation	$ 756,000,000
Regional Area Road Fund	569,000,000	Improvements	1,202,000,000
Federal Funds	1,943,000,000	Management	359,000,000
Bonds, Notes, & HELP Loans [1/]	1,553,000,000	Total Statewide Program	$2,317,000,000
Total	$5,117,000,000		
		MAG Freeway System	$2,800,000,000
		Total	$5,117,000,000

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

Attachment A lists the estimated expenditures by fiscal year for 28 major highway projects (those over $25 million), which total $2.6 billion of estimated expenditures for the 5-year program. The attachment identifies 10 projects that are new to the 5-Year Plan due to Proposition 400, and 4 projects with increased funding, earlier fiscal years or other enhancements due to Proposition 400. New Proposition 400 projects include the following along with their start dates:

- The Red Mountain Freeway (Loop 202) from the I-10/State Route 51 traffic interchange to Loop 101 eastbound widening project, FY 2009.
- The Red Mountain Freeway (Loop 202) from Loop 101 to Gilbert Road high occupancy vehicle (HOV) lanes project, FY 2009.
- The US 60 (Grand Avenue) from Loop 303 (Estrella Freeway) to Loop 101 (Agua Fria) widening project, FY 2009.
- The US 60 (Grand Avenue) from Loop101 (Agua Fria) to McDowell Road widening project, FY 2010.
- The I-10 from Loop 101 (Agua Fria) to I-17 widening project, FY 2009.
- The Loop 101 (Pima) from Princess Drive to Loop202 HOV lanes project, FY 2007.
- The Loop 101 (Price) from the Red Mountain Freeway to Baseline Road HOV lanes project, FY 2008.
- The Loop 202 South Mountain Freeway, FY 2007.
- The Loop 303 from Happy Valley Road to I-17 interim roadway project, FY 2006.
- The Loop 303 from I-10 to US 60 (Grand Avenue) design and right of way project, FY 2006.

(Continued)

ADOT's Executive Summary also includes their 5-Year Aviation Program for FY 2006-FY 2010 which totals $664.7 million, including revenues of $551 million from federal grants, $79.3 million from the state, and $34.4 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, which describe how ADOT's 5-year plan addresses some of the state's most crowded roadways, at the July 21, 2005 Committee meeting. ADOT lists 15 "over capacity" highway segments, including 8 in the Phoenix area (*See Attachment B*), 4 in the Tucson area (*See Attachment C*), and 3 in the balance of the state (*See Attachment D*). All of the 15 "over capacity" highway segments have some action in the 5-Year Plan, which was approved by the State Transportation Board on June 17, 2005. However, ADOT's definition of "over capacity" highway segments only addresses those segments that are "over capacity" for 3 hours during either the morning or afternoon commute for the Phoenix and Tucson areas.

The Committee asked ADOT, at its September 21, 2004 meeting, to provide additional information on all Maricopa County state highway segments that are "over capacity" for ½ hour or longer along with this year's submission. ADOT has provided separate maps showing Maricopa County state highway segments that are "over capacity" for 1 hour or longer during either the morning or afternoon commute (*See Attachment E)*. The maps show varying lengths of congested highway segments on most Phoenix area freeways, with heavier congestion during the afternoon commute than the morning. ADOT reports that more detailed "over capacity" information is not available for the Tucson area.

Financial Basis of 5-Year Plan

ADOT provided an outline of the financial assumptions behind the current 5-Year Plan (*See Attachment F*). The department projects that total Highway User Revenue Fund (HURF) revenues will increase from $1.25 billion in FY 2005 to $1.57 billion in FY 2010, or a 26% increase. This seems reasonable, since total HURF revenues increased by 22% from $1.02 billion in FY 2000 to $1.25 billion in FY 2005. The $1.052 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, and ADOT's capital outlay and building renewal.

The 5-Year Plan's dollar value of projects begun plus debt service ranges from a high of $1.6 billion in FY 2006 to a low of $1.1 billion in FY 2008, with $1.3 billion in FY's 2007 and 2009 and $1.2 billion in FY 2010. ADOT's 2 highway funding concerns from last year have both been addressed. First, the voters extended the Maricopa ½ cent sales tax for another 20 years effective January 1, 2006 at the November 2004 general election. Second, the statute authorizing $200 million of Board Funding Obligations (BFO's) to the State Treasurer was extended through FY 2020. BFO's are loans totaling $200 million from the General Fund operating balance to the department, as authorized by statute.

Highlights of ADOT's bonding plans include the following.

1) HURF bonds outstanding are near the $1.3 billion statutory limit. They begin at $1.16 billion in FY 2006 and increase to $1.22 billion in FY 2007 before decreasing to $1.11 billion in FY 2010.
2) MRARF Bonds outstanding increase from $140 million in FY 2006 to $980 million in FY 2010, due to large MRARF bond issues and small repayments in the early years of the second 20-year Maricopa freeway program.
3) Grant Anticipation Notes (GANS) outstanding begin at $393 million in FY 2006 and increase to $433 million in FY 2008 before decreasing to $182 million in FY 2010. GANS are repaid from future federal funds.
4) BFO's outstanding remain constant at $200 million from FY 2006 through FY 2010. The $200 million includes $60 million to the State Highway Fund and $140 million to the Highway Expansion and Extension Loan Program (HELP) Fund.

(Continued)

5) HELP Fund loans outstanding decrease from $116 million in FY 2006 to $0 in FY 2010, since ADOT does not try to project which future projects might be accelerated through the use of HELP loans. The HELP Fund is a state infrastructure bank which provides loans to political subdivisions, Indian tribes and state agencies for eligible transportation projects.

Federal-Aid Highway Reauthorization

The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) was enacted August 15, 2005. SAFETEA-LU provides funding for highways, highway safety, motor carrier safety and mass transit for federal fiscal years (FFY's) 2004-2009. Since almost one-third of this period has passed, it does not affect FFY 2004 funding, and its impact on FFY 2005 is limited.

Federal Funds Information for States (FFIS), a joint service of the National Governors Association and the National Conference of State Legislatures, reports that the net nationwide impact of the bill on highway funding is a 4.5% average annual increase in guaranteed funding over the period FFY's 2005-2009. Annual nationwide increases averaging 2% are enacted for the major highway programs.

FFIS reports preliminary estimates by the Federal Highway Administration of a $619.7 million apportionment of federal highway funds for Arizona in FY 2006. ADOT's 5-Year Plan includes $445.3 million of federal funds in FY 2006. ADOT reports that they are currently analyzing the bill. ADOT states that in the big picture the dollar amounts that they incorporated into the current 5-Year Plan are very close to what is contained in the bill, so they do not see much impact on the current 5-Year Plan. We have had difficulty verifying how the bill will affect the 5-Year Plan. Therefore, JLBC Staff is recommending that ADOT report to the Committee by October 14, 2005 on how the bill affects the 5-Year Plan and whether it includes any projects listed in the 5-Year Plan. The report is to include a comparison of the federal funding levels with the assumptions in the 5-Year Plan, as well as an explanation of how ADOT has programmed the $41.3 million earmarked in the bill for ADOT's highest priority projects (1 of Arizona's 41 earmarks) for the 6 years FY's 2004-2009. Monies for earmarked projects are in addition to the formula federal funding for highways received by states.

FFIS reports that the bill appears to increase funds for donor states such as Arizona, which provide more dollars to the Highway Trust Fund than they receive in return. FFIS reports that Arizona's rate of return is supposed to increase from 90.5% in FY 2006, to 91.5% in FY 2007, to 92% in FY's 2008 and 2009. However, the bill also includes funding for a large number of earmarked projects for states to build, and Arizona's small dollar amount for earmarked projects may counterbalance the formula shift toward donor states. FFIS lists a total 6-year (FY's 2004-2009) federal dollar amount of $137.7 million for Arizona earmarked projects, including $122.5 million for highway projects and $15.2 million for transit projects.

Taxpayers for Common Sense, a Washington DC budget watchdog organization, reports that Arizona received 41 out of 6,373 total earmarks. Arizona received $26.83 of earmarks per capita based on the 2000 census for 41 projects, the lowest of the 50 states. The national 50-state average was $86.23 of earmarks per capita for 127 projects. Alaska received the highest dollar amount per capita at $1,597 per capita for 120 projects. California (#34) received the most projects at $78 per capita for 546 projects, followed by #46 New York at $52 per capita for 494 projects. Wyoming (#6) received the fewest projects at $275 per capita for 17 projects, followed by a tie of #9 West Virginia at $210 per capita and #14 Hawaii at $158 per capita with 25 projects each. See *Attachment G* for a list of Arizona's earmarked projects.

The bill includes provisions affecting highway finance, such as permitting expanded use of state infrastructure banks (ADOT's HELP Fund), tolls, charges for high occupancy vehicle (HOV) lane use, and expanding tax-exempt financing for public-purpose private projects.

RS/BH:ym
Attachments (7)

MAJOR PROJECTS (Over $25,000,000)

Projects	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Red Mountain Freeway – L202, University to Southern	$56,674,000	$1,744,000			
Red Mountain Freeway – Power Rd to University Drive	147,640,000	5,400,000			
Red Mountain Freeway – Red Mountain Corridor ROW	38,338,000				
Red Mountain Freeway – L202, I-10/SR 51 Interchange to L101*			$3,300,000	$60,000,000	
Red Mountain Freeway – L202, L101 to Gilbert Rd, HOV *			3,100,000	35,000,000	
Santan Freeway – Santan Corridor ROW	33,412,000				
I-17 – L101 to Carefree Highway, widen **	8,570,000	161,800,000			
SR 51 – Shea Blvd to L101, HOV **	3,500,000	47,400,000			
US 60 – Gilbert to Power Rd, HOV/SOV **	85,300,000	4,100,000			
US 60 – L303 to L101, widen *		1,320,000		24,000,000	
US 60 – L101 to McDowell Rd, widen *				1,375,000	$27,165,000
I-10 – L101 to I-17, widen *			3,740,000	68,000,000	
I-10 – 40th St to Baseline, collector distributor road **	11,025,000	74,125,000	134,675,000	89,675,000	85,000,000
I-10 – SR 202L to Riggs Rd, widen		2,310,000		42,000,000	
L101 – Princess Dr to L202, HOV *	5,000,000	76,000,000			
L101 – Red Mountain to Baseline, HOV *	4,100,000		20,000,000	2,500,000	33,500,000
L202 – South Mountain Freeway *	2,000,000	30,000,000	108,000,000	80,000,000	150,000,000
L303 – Happy Valley Rd to I-17, interim roadway *	10,000,000	40,000,000	100,000,000	100,000,000	
L303 – I-10 to US 60, design & ROW *	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Tucson I-10 – Twin Peaks, traffic interchange	28,000,000				
Tucson I-10 – Prince Rd to 25th Ave, widen	124,413,000				
Tucson I-10 – Ruthrauff Rd to Prince Rd, widen	1,250,000			21,000,000	14,000,000
US 60 – Florence Junction to Queen Creek, widen	39,000,000				
SR 85 – widen projects	41,988,000	15,665,000		25,300,000	40,000,000
SR 93 – Wickenburg By-Pass	26,550,000				
SR 179 – Oak Creek to Sedona	26,876,000	18,900,000			
SR 195 – Yuma Service Highway/Goldwater Range	49,545,000		4,000,000	8,000,000	8,000,000
SR 260 – Doubtful Canyon Section, widen	500,000			33,330,000	

ROW – Right of Way SR – State Route HOV – High Occupancy Vehicle Lane SOV – Single Occupancy Vehicle

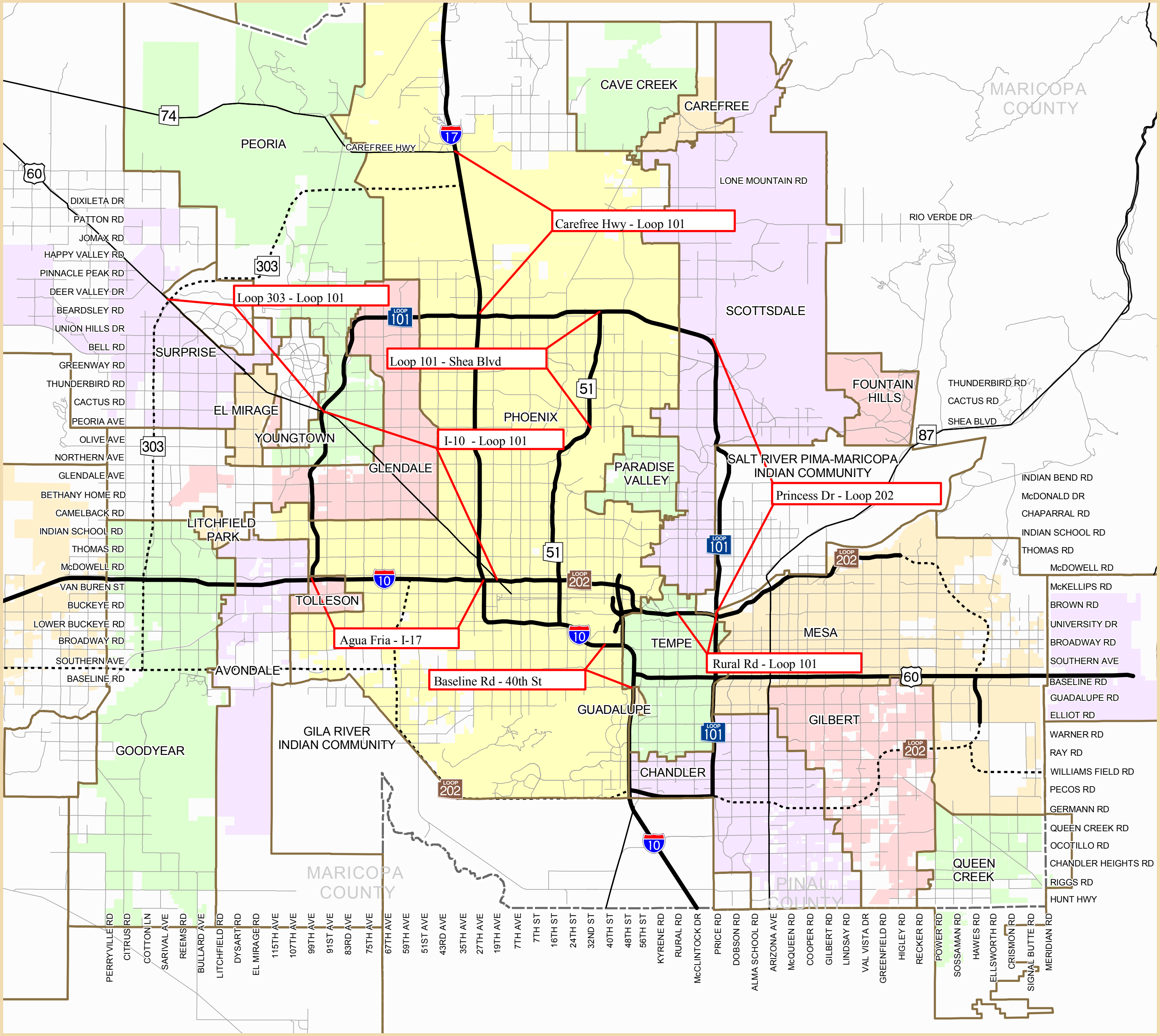
* Projects new to the 5-Year Plan due to Proposition 400.

** Projects with increased funding, earlier fiscal years or other enhancements due to Proposition 400.

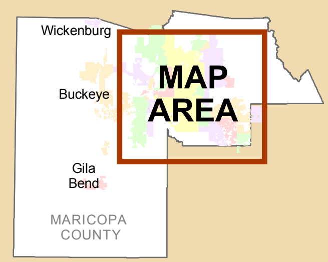
Attachment A

MARICOPA ASSOCIATION of GOVERNMENTS

ADOT Projects in MAG Area (5 Year Plan)



- Municipal Planning Area
- County Boundary
- Existing Freeway
- Planned Freeway/Highway
- Highways
- Other Roads



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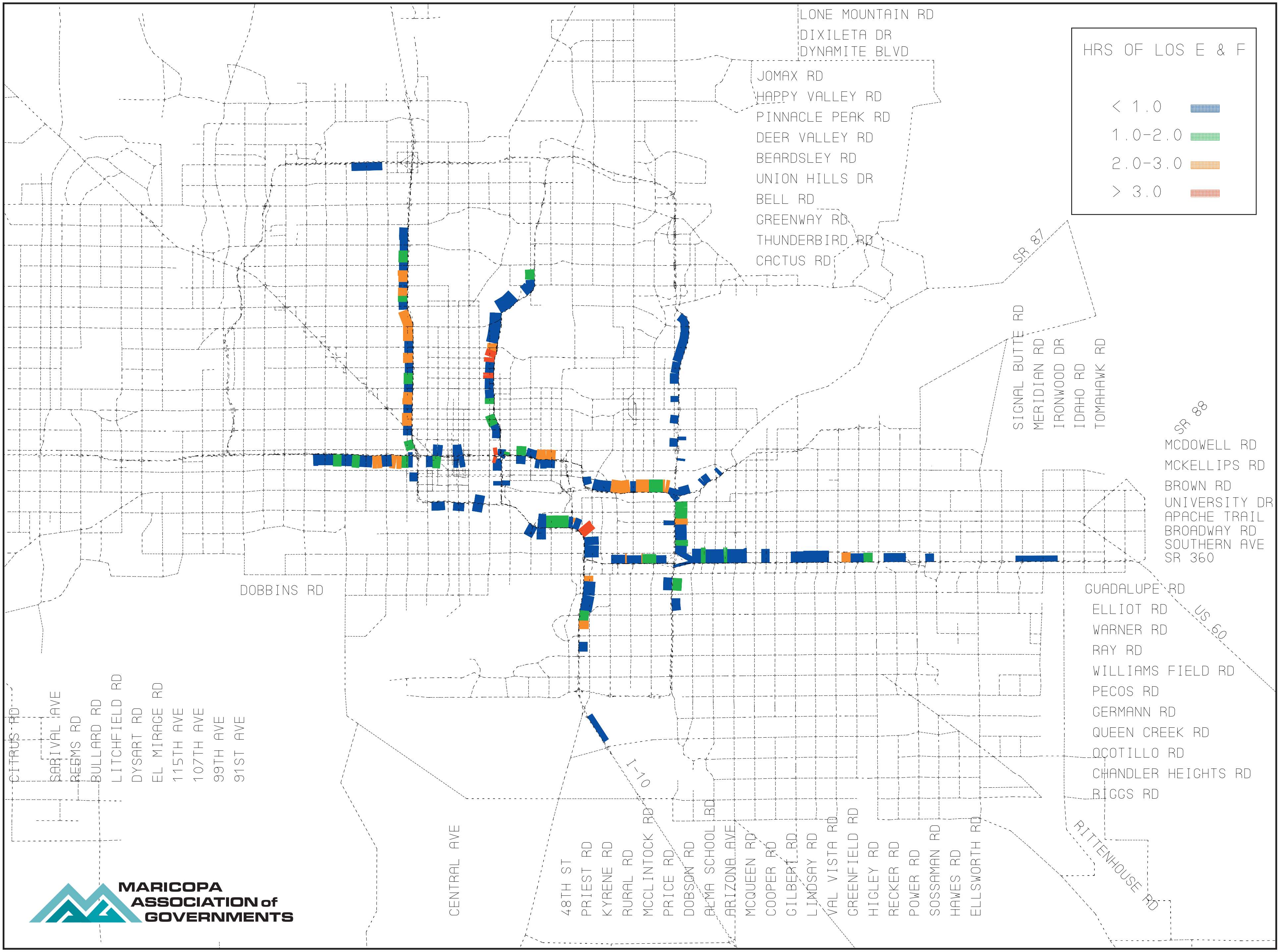
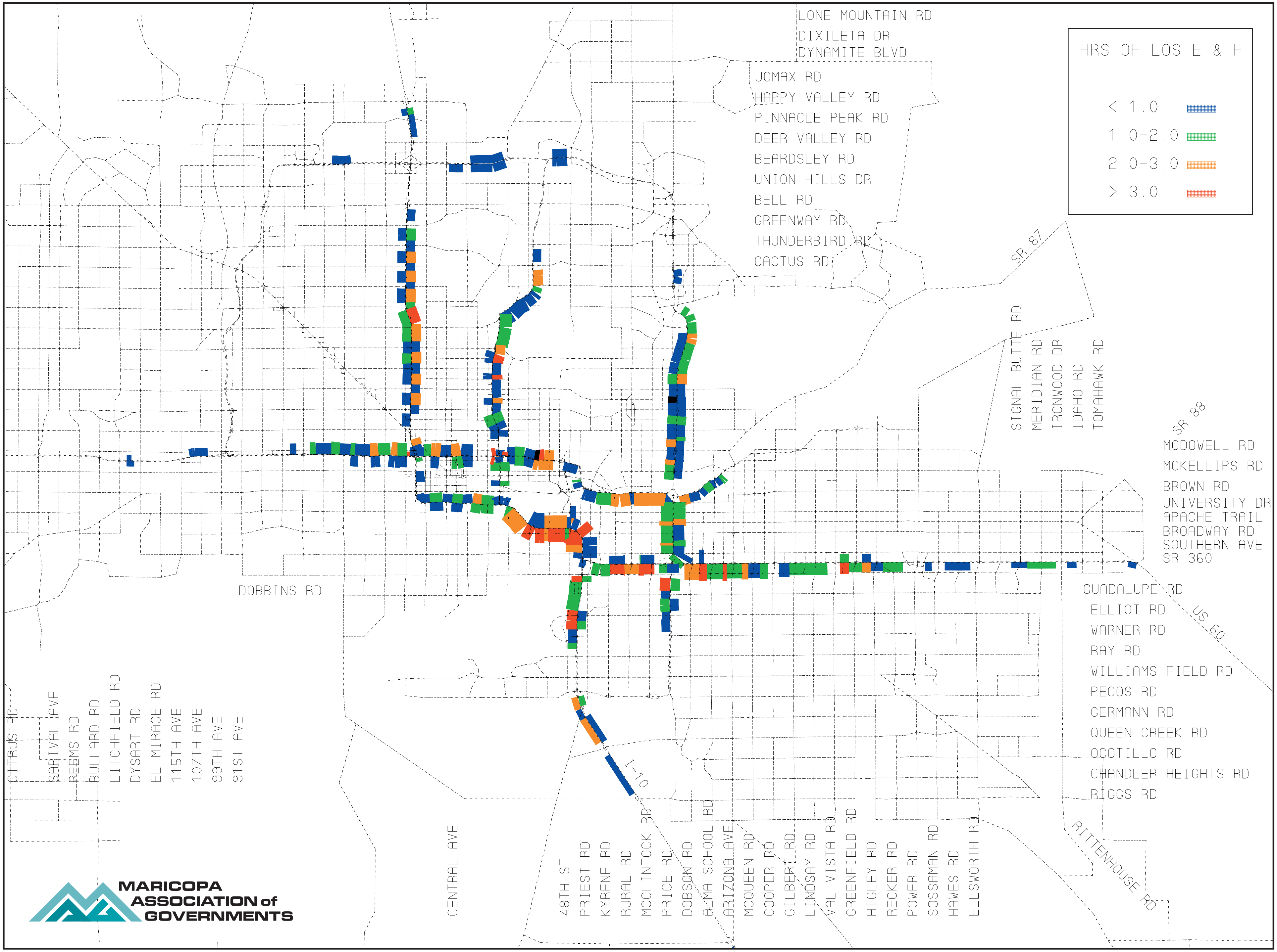
2004 AM Peak Period Duration of Level of Service (LOS) E and F



2004 PM Peak Period Duration of Level of Service (LOS) E and F



Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users
Earmarked Projects for Arizona

Project	Amount
US 60 to Gonzalez Pass	$3,040,000
SR 85 to I-10 - widen	1,200,000
Lone Pine Dam Rd (Navajo County) - improve	2,000,000
Burro Creek, Wikieup to Santa Maria River	800,000
Pinal Ave/Main St (Casa Grande) - acquire right of way	800,000
Navajo Rt 20 - design 2-lane road for 28 mile dirt road	800,000
Kabba Wash Project, I-40 to Wikieup	1,600,000
North Lake Havasu City to I-40 - passing lane	1,600,000
Rio Salado Parkway, I-10 & Loop 202 to 7th St	6,400,000
Navajo Mountain Rd	1,000,000
Twin Peaks Road to I-10 & Linda Vista Blvd - link including bridge over Santa Cruz River & railroad overpass	4,800,000
US 60, 67th Ave to McDowell - roadway improvements	1,600,000
McDowell & 35th Ave - pedestrian overpass	2,400,000
Main St (Yuma) - upgrade	960,000
Navajo Rt 9010, I-10 to Pine Springs Day School - pave	3,440,000
Grand Canyon Greenway Trails	2,560,000
6th St & 22nd St (Tucson) - railroad grade separations, & reconstruct Speedway Blvd underpass	10,640,000
Safford Gila River bridge, on N. 8th Ave - replace	3,520,000
Davis Rd, SR 80 to SR 191 - realign	2,640,000
Aspen St, Birch St, Cherry St, Bonito St, Thorpe St - construct bridges	3,000,000
SR 77 - Ore Trail in Copper Corridor	240,000
Navajo Rts 8086 & 8084 - construct	480,000
I-10, Marana Interchange to Cortato Interchange - widen	1,360,000
I-10, 40th St to Baseline Rd - collector distributor roadway	3,200,000
Pliocene Cliffs, Wikieup to Santa Maria River - reconstruct	800,000
Scott Ranch Rd (Navajo County) - connect SR260 & SR 77	1,000,000
Rio Salado Pedestrian Bridge (Tempe) - design & construct	2,400,000
Houghton Rd Corridor - widen railroad overpass	4,000,000
US 60 & US 93 (Wickenburg) - connect	1,600,000
Tonto Creek Bridge at Sheeps Crossing (Payson) - construct	2,960,000
BIA Rt 4, US 160 to SR 264 - pave remaining section	1,600,000
ADOT's highest priority projects	41,335,500
Safford Gila River bridge, on N. 8th Ave - replace	3,664,500
SR 85 - upgrade	3,000,000
Intermodal Center (Scottsdale) - design & construct	2,090,000
Dial-a-Ride Facility (Phoenix) - construct	836,000
Regional Bus Maintenance Facility (Phoenix) - construct	836,000
E. Valley Metro Bus Facility (Tempe) - construct	5,434,000
Bus & Bus Facilities (Sedona Transit System)	794,200
Buses & Bus Facilities (Flagstaff)	1,045,000
Metro Bus Facility (West Phoenix) - construct	4,180,000
TOTAL	**$137,655,200**