

STATE OF ARIZONA

Joint Committee on Capital Review

STATE
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JOINT COMMITTEE ON CAPITAL REVIEW

Wednesday, November 15, 2006

1:30 p.m.

House Hearing Room 4

MEETING NOTICE

- Call to Order
- [Approval of Minutes of September 21, 2006.](#)
- DIRECTOR'S REPORT (if necessary).
- 1. [ARIZONA DEPARTMENT OF TRANSPORTATION - Report on Modular Buildings on Capitol Mall.](#)
- 2. SCHOOL FACILITIES BOARD -
 - A. [Review of FY 2008 New School Construction Report and New School Facilities Fund Litigation Account.](#)
 - B. [Review of FY 2007 Building Renewal Distributions.](#)
- 3. [ARIZONA STATE LOTTERY COMMISSION - Review of FY 2007 Building Renewal Allocation.](#)
- 4. [ARIZONA STATE PARKS BOARD - Review of State Lake Improvement Fund Projects.](#)
- 5. [NORTHERN ARIZONA UNIVERSITY - Report on Indirect Debt Financing for Conference/Hotel Center Complex.](#)
- 6. [ARIZONA STATE UNIVERSITY - Review of New System Revenue Bond Capital Projects.](#)
- 7. UNIVERSITY OF ARIZONA -
 - A. [Review of Law Commons Bond Project.](#)
 - B. [Review of Intercollegiate Athletics Facilities Bond Projects.](#)

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

11/8/06

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**MINUTES OF THE MEETING
JOINT COMMITTEE ON CAPITAL REVIEW**

Thursday, September 21, 2006

The Chairman called the meeting to order at 1:45 p.m., Thursday, September 21, 2006 in House Hearing Room 4 and attendance was as follows:

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

Hearing no objections from the members of the Committee, Representative Boone stated the minutes of August 24, 2006 would stand approved.

DIRECTOR'S REPORT

Mr. Richard Stavneak, Director, JLBC Staff, asked the Committee members to try to attend the October 24, 2006 Committee meeting to avoid difficulties in getting a quorum.

ARIZONA DEPARTMENT OF TRANSPORTATION – Review of FY 2007 Construction Budget Operating Expenditure Plan.

Mr. Bob Hull, JLBC Staff, presented the review of the Arizona Department of Transportation's (ADOT) FY 2007 Construction Budget Expenditure Plan. The Committee has heard this item twice before. At its July meeting, the Committee approved \$34.6 million through the end of October and requested additional information on the Auditor General report. ADOT requests \$103.6 million for the Construction Budget Professional and Outside Services. The JLBC recommendation memo from the July meeting still applies for this item. An additional handout was provided to summarize the Auditor General's recommendations (*Attachment 1*).

Representative Tom Boone asked if the original JLBC Staff recommendation was a favorable review.

Mr. Hull said the original recommendation was a favorable review since it is in line with previous year's expenditures.

Representative Boone stated the Committee needed to consider 2 other possible options: have the department report more information at the next meeting or wait for the sunset review process.

Representative Boone asked if the Auditor General findings would be covered during the sunset review process. Mr. Hull said yes.

Representative Phil Lopes asked when the Committee of Reference would meet. Mr. Hull said that the Committee would meet in fall 2007.

Representative Lopes asked for clarification on the JLBC Staff recommendation. Mr. Hull replied that the JLBC Staff recommends that the Committee give a favorable review. The Committee could request additional information, as noted in the handout, if it chose to pursue the consultant issue.

Senator Burns said he understands that ADOT agreed to the Auditor General findings regarding the use of consultants. He asked if there was a plan in place for a reduction in consultant use in the upcoming year.

Mr. Terry Trost, Budget Director, ADOT, said the consultants have contributed to their success on state highways and roadways. One of the issues is the mix of in-house staff and consultants being used by the department. There is a budget issue submitted for FY 2008 that scratches the surface on one of many strategies the agency could employ with consultants. The agency believes in-house staff better serves positions in roadway right-of-way and bridge and environmental planning areas. There are other strategies being looked at.

Senator Burns asked for the cost estimate for reduced consultants and an increase of in-house staff.

Mr. Trost said they are looking at 22 positions and approximately \$4 to \$5 million. The use of consultants is significant when looking at program and project requirements.

Senator Burns said that according to 1 of the Auditor General recommendations, ADOT needs to improve documentation of inspections and auditing of the contracts. He asked how ADOT plans to measure the improvements.

Mr. Brian McInnis, Chief Auditor, ADOT, said there were 6 recommendations relative to ADOT's Office of Audit Analysis. The basic recommendations included staffing levels, the audit management system, revisions to the audit manual, and an annual risk-based audit plan. Five of the 6 recommendations have been fully implemented. The department staffing is currently at an 85% staffing level. The new audit management system, which allows the department to do performance measurements on the effectiveness of the audits, was fully implemented in September. The outdated audit manual was updated and completed July 31. The annual audit plan for FY 2007 was completed on August 14.

Representative Pearce said the outside professional consultants have increased by 425%. This type of an increase can be a concern especially when there are in-house staff that can do the same job that the outside consultants have been hired to do. There are also concerns with the incomplete inspections and check lists not done in some cases. Field inspectors say 66% of the work met inspection and the independent inspectors found 35% of the work met inspection. There is also the time it took for the extension of the Maricopa County highway dollars, 45% of those dollars were taken away for other projects. There is a serious issue with our freeway construction trying to meet demands for the state. He would like to see reduction of the consultants or a better support of the reason why money is being used for the consultants.

Mr. Terry Trost said he understands the concerns and the agency would like to bring more people in-house but it would only be on an appropriate basis if it belongs within a state agency. They will be coming forward with more recommendations as they look into the issue of how to replace and supplant.

Representative Pearce said that the design-build procurement method was meant to minimize the need for consultants and have an in-house workload reduction.

Mr. Trost said that it is a more effective and efficient process. However, it does not come without a cost.

Representative Lopes said that 425% increase is over a 10-year period, or about 40% per year. He asked what an acceptable increase is, if the 425% increase is not acceptable.

Mr. Trost said that he does not know if there is a national standard. The 425% is a shocking number, but it was also over a period when they agency was pushed to accelerate the freeway system and deliver more miles in less time. One of the mechanisms used to deliver that was the use of private consultants.

Ms. Shan Hays, Performance Audit Manager, Office of the Auditor General, said the use of consultants is widespread amongst state's transportation department, the range of the use in some states have been in 5% to 95% of projects. There is no defined number. They compared ADOT's use of consultants with use in other states and they appeared to be among the highest in the use of consultants.

Representative Lopes asked if the use seems high relative to other state agencies or relative to other states.

Ms. Hays replied that the result was in both. A couple of years ago, the Governor's efficiency review found that ADOT had a higher use of consultants compared to all other agencies combined. They understand that ADOT uses the consultants differently than other state agencies, so they also looked at how other state agencies use their consultants. There is a wide range of consultant usage but Arizona and ADOT seem to be among the highest in the use. The comparison of growth in the workload was considered since they had an accelerated workload and more complexity in the workload which requires them to use the consultants with special expertise. The bottom line was that it is ADOT's responsibility to determine what the right level is and use good practices to determine when to use a consultant.

Representative Boone said the recommendation from JLBC Staff is to give a favorable review. He asked members to what extent the Professional and Outside Services should be continued or if members want to wait until the budget process begins.

Representative Pearce said he has concerns with the growth in outside consultants. He agrees with the Auditor General in that the use seems high. He prefers to leave this for the appropriations process.

Mr. Stavneak said that Committee questions can be conveyed to ADOT then decide whether the Committee would like to look at this more extensively in the appropriations process.

Representative Lopes agreed with Mr. Stavneak and to take any action before the budget process would be premature.

Senator Burns moved the Committee give a favorable review of ADOT's \$103,644,800 Professional and Outside Services expenditure plan for FY 2007. The Committee is also interested in getting more ADOT input on the Auditor's finding and requests that the department report to the Committee by October 20, 2006 on the following items:

- 1. ADOT's current and proposed dollar amount for engineering pay plan salaries, and how it might affect vacancies.*
- 2. ADOT's target for reduced consultant use.*
- 3. ADOT's targets for meeting the Auditor General's second and third recommendations concerning improved documentation of inspections and auditing of its contracts.*

The motion carried.

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

Mr. Bob Hull, JLBC Staff, presented the 5-year report on ADOT's Transportation Plan. Since the Legislature neither appropriates all 5-year plan funding nor approves individual projects, the Committee traditionally requests information on the plan to ensure some legislative oversight. To improve Legislative oversight over the years, the Committee has requested an executive summary, congestion performance measures, and maps of congested

highway segments. After reviewing the plan, JLBC Staff believes that further improvements would be useful. He referred to a handout and explained the executive summary (*Attachment 2*).

Senator Robert Cannell asked if the cost was based on inflation.

Mr. Hull replied that ADOT has revenue flow projections for which they take out inflation. In the 5-year plan, they discount to current year dollars. They take into account expected increases in the revenue when they allocate for projects.

Senator Cannell asked if inflation is considered in the costs to the material.

Mr. Hull said that the project costs are discounted into the current year, so the cost in the 5-year plan would be higher.

Senator Burns said ADOT is limited by statute for HURF revenues to be more than 3 times the debt payments and current revenues are 4.8 times more than the debt requirement. He asked if ADOT has a long-term goal for the revenue to debt ratio

Mr. John McGee, Chief Financial Officer, ADOT, said for the current project plan there is approximately \$800 million in HURF bonds that will be issued. That is what was needed to balance the program. The financial advisor did an estimate on the bond plan and the low point at 4.3 coverage on HURF bonds. Debt service is not the only thing paid with the HURF revenues. There will be \$650 to \$700 million in HURF revenues. The highest maximum debt service during the period will be \$100 to \$150 million. The operating program is also funded from HURF, of which the state highway portion is \$300 to \$350 million.

Senator Burns said the Maricopa Regional Area Road Fund bond issuances will increase over the next few years. He asked how much that will increase the debt service payments.

Mr. McGee replied that the half-cent sales tax in Maricopa County is a limited term tax. The bonding has to be repaid within the 20-year term. Unlike HURF, the only 2 uses are for construction and debt service. The program anticipates an aggressive bonding strategy. The plan is to bond to a coverage ratio of 1.2 of revenue. It significantly accelerates the work in the bond program. They are able to bond it down to a lower level and make it a competitive project because there are no other demands on the revenue.

Senator Burns asked how the need is measured and if there is some type of ranking system in picking projects.

Mr. McGee replied that it differs with respect to statewide programs or Maricopa County programs. Under statute, the prioritization of projects within Maricopa County falls within the Maricopa Association of Governments (MAG). The plan is put together project-by-project and quarter-by-quarter for the entire 20-year of the half-cent sales tax. It is subject to change if issues are encountered. Pima County follows a similar course with the Pima Association of Governments and Tucson gives recommendations.

Representative Boone said this plan does not have action that needs to be taken, however, there are recommendations to ADOT's 5-year plan for next year.

Senator Burns moved that the Committee adopt the recommendation submitted by JLBC Staff that ADOT provide an Executive Summary of its 5-Year Transportation Facilities Construction Program for FY 2008-FY 2012, due by July 31, 2007. The Executive Summary should include the information in Tables 1-9 of the memo, plus:

- *A narrative explanation of the changes in revenues and expenditures between the FY 2007-FY 2011 and FY 2008-FY 2012 plans.*
- *A narrative description of major projects added and removed since the FY 2007-2011 plan, along with the current status and completion dates for removed projects.*

- *Separate the listing of 3 revenue dollar amounts for bonds, notes, and HELP loans. In addition, debt service payments should be listed separately and not deducted from revenue.*
- *A table that crosswalks next year's obligation basis 5-year highway program revenues to ADOT's cash flow projections, along with an explanation of the reasons for differences.*
- *A comparison of ADOT's bonding level to the statutory HURF Bond coverage requirement and the bond agencies' rating standard.*

The motion carried.

UNIVERSITY OF ARIZONA – Review of Residence Life Building Renewal Phases III and IV Bond Projects.

Ms. Leah Ruggieri, JLBC Staff, presented the University of Arizona (UA) request of \$21.9 million for Phases III and IV of Residence Life Building Renewal projects. The Residence Life Building Renewal Projects occurred in 5 phases. The Committee previously favorably reviewed Phases I, II, IIA. Phases III and IV will be replacement of fire sprinkler and plumbing systems inside residence halls. UA will issue system revenue bonds for a term of 25 years with an annual debt service of \$1.9 million. They pay the debt service with housing fees. The costs per square foot are outlined in Tables 1 and 2 in the JLBC recommendation memo. UA plans to contract the projects using the Construction Manager at Risk method.

Senator Burns said the interest rate for these projects is higher. He asked why dorm fees are considered a less stable revenue source.

Mr. Joel Valdez, Senior Vice President-Business Affairs, University of Arizona, said that the interest rate is determined by the market in which the bonds are sold. The fees that are charged to residents in the halls cover all the costs. The interest rates cannot be anticipated to what the interest rates will be at the time of the issuance. The rates charged to the residents are established by the Board of Regents. This is a multi-year multi-phase project approved by the Regents and the capital committee. These projects need to be done in the summer when there are no residents.

Mr. Kurt Freund, Managing Director, RBC Capital Markets, said the universities issue different types of debt. This particular type of debt is the system revenue bond issue which is secured by system revenues of UA. The system revenues consist of tuition fees, university fees, and auxiliary revenues. These bonds are tied to student dormitory fees. They will be paid by the university out of that source. The interest rate on the bonds will not be higher because the security for the bonds is the total revenues of the university. The interest rate will be in the low 4% range under today's market.

Senator Burns asked if there is a breakdown of the increased cost of construction due to inflation and how much is due to the requirements of the building.

Mr. Valdez said costs and timing are important issues. The costs will continue to escalate the longer it takes to do renovations.

Representative Boone asked if there is an outside 3rd party being used on the project.

Mr. Valdez replied that the outside party was selected by the university to work in conjunction with the contractor on this project.

Representative Boone requested a breakdown of the projects that includes contingency amounts and architect fees.

Senator Burns moved the Committee give a favorable review, as recommended by JLBC Staff, to the request of \$21.9 million Residence Life Building Renewal Phases III and IV Bond Projects with the following standard university financing provisions:

- *UA shall report to the Committee before expenditure of any allocations that exceed the greater of \$100,000 or 10% of the reported contingency amount total for add-alternates that do not expand the scope of the project. UA shall also report to the Committee before any reallocation exceeding \$100,000 among the individual planned renovations, renewals, or extensions.*
- *UA shall submit for Committee review any allocations that exceed the greater of \$100,000 or 10% of the reported contingency amount total for add-alternates that expand the scope of the project. In case of an emergency, UA may immediately report on the scope and estimated cost of the emergency rather than submit the item for review. JLBC Staff will inform the university if they do not concur with the emergency nature of the change in scope.*
- *A favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any auxiliary revenues that may be required for debt service, or any operations and maintenance costs when the project is complete. Auxiliary funds derive from substantially self-supporting university activities, including student housing.*

The motion carried.

ARIZONA STATE UNIVERSITY – Review of Polytechnic Academic Complex Lease-Purchase Project.

Ms. Leah Ruggieri, JLBC Staff, presented the Arizona State University (ASU) request to issue a lease-purchase of \$103 million to construct a Polytechnic Academic Complex that will be located at the ASU East Campus. The Polytechnic Academic Complex would be approximately 240,000 square feet with 3 new buildings comprised of office, classroom, and lab space. To finance the project, ASU would issue Certificates of Participation (COP) for a term of 30 years with an annual debt service of approximately \$7.5 million. The annual debt service would be funded by the discretionary adjustment that the university received in the FY 2007 budget. *Table 1* of the JLBC recommendation memo lists other projects that have office and classroom space similar to the Polytechnic Academic Complex. The complex falls on the higher end of per square foot costs, however, there are 2 factors to consider. The first is the projects listed do not involve lab space and the second is inflationary increases have occurred in the process since the construction of buildings. The project will be contracted using the Construction Manager at Risk (CMAR) method.

Representative Boone said the \$103 million is the COP issuance for the project construction. He asked if the total cost with the 30 year debt service amount would be approximately \$224 million. Ms. Ruggieri said yes.

Senator Burns asked how renovations for the vacated spaces will be funded in the future.

Mr. Scott Smith, Director of State Relations, ASU, replied that the space will be backfilled, however, the plans are still under development. They will be submitted as soon as they are complete.

Representative Boone referred to the Capital Project Budget Summary in the Executive Summary. He asked why the Architect/Engineer Fees seem higher than the current market and if the Project Management Cost are for an outside firm.

Mr. Smith replied that there is an in-house position that manages the projects. He will follow up with more information.

Senator Burns moved the Committee give a favorable review, as recommended by the JLBC Staff, to the \$103 million Polytechnic Academic Complex lease-purchase project with the following standard university financing provisions:

- *ASU shall report to the Committee before expenditure of any allocations that exceed the greater of \$100,000 or 10% of the reported contingency amount total for add-alternates that do not expand the scope of the project.*
- *ASU shall submit for Committee review any allocations that exceed the greater of \$100,000 or 10% of the reported contingency amount total for add-alternates that expand the scope of the project. In case of an emergency, ASU may immediately report on the scope and estimated cost of the emergency rather than submit the item for review. The JLBC Staff will inform the university if they do not agree with the change of scope as an emergency.*
- *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, or any operations and maintenance costs when the project is complete. Auxiliary funds derive from substantially self-supporting university activities, including student housing.*

The motion carried.

ARIZONA EXPOSITION & STATE FAIR BOARD – Review of FY 2007 Building Renewal Allocation Plan.

Mr. Tyler Palmer, JLBC Staff, presented the review of the State Fair Building Renewal Allocation. The plan as presented is for \$430, 600 consisting of 5 projects, 4 of which include paving and the other for a temporary roof repair. This would leave \$1 million for a future Committee review.

There was no discussion on this item.

Senator Burns moved the Committee give a favorable review, as recommended by JLBC Staff, to the FY 2007 Building Renewal Plan of \$430,600 for the 5 submitted paving and roof projects with the provision that AESF submit for Committee review an allocation plan for the remaining \$1,077,800 if monies are to be used for additional projects. The motion carried.

Without objection the Committee meeting adjourned at 3:03 p.m.

Respectfully submitted:

Yvette Medina, Secretary

Lorenzo Martinez, Assistant Director

Representative Tom Boone, Chairman

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

ADOT's CONSTRUCTION OPERATING BUDGET

September 21, 2006
JLBC Staff

Auditor General Findings

- Optimize internal resources to reduce consultant usage.
 - Auditor General notes that consultant payments increased 424% in the past decade.
 - ADOT agrees, but would need to increase pay to keep staff.
 - ADOT does not specify the cost of pay parity, or whether it can be done.
- Improve and better document inspections.
 - 43 of 47 inspectors' diaries were incomplete.
 - 27 of 47 inspectors did not fill out required checklists.
 - Field inspectors found 66% of work met specs, but independent inspectors found that only 35% met specs.
- Improve contract audits.
 - Audits were backlogged, and 7 of 16 positions were vacant.
 - Staffing has improved to 92%, with 2 vacancies.

Recommendations

- A favorable or unfavorable review of ADOT's \$103.6 million Professional and Outside Services expenditure plan for FY 2007.
- If interested, ask for more information on the Auditor's findings, as shown at the bottom of page 1 of the memo.
- Or, defer the issue to the sunset review process' Committee of Reference.

EXECUTIVE SUMMARY

ADOT'S 5-YEAR TRANSPORTATION PLAN FY 2007 - FY 2011

September 21, 2006
JLBC Staff

ADOT's 5-Year Plan

FY 2007 - FY 2011

\$ in billions

	<u>06 - 10</u>	<u>07 - 11</u>
• Highways	\$5.1	\$5.8
• Aviation	<u>0.7</u>	<u>0.7</u>
	\$5.8	\$6.5

Revenues - Highway Program

FY 2007 - FY 2011

\$ in billions

	<u>06 - 10</u>	<u>07 - 11</u>
• State Highway Fund	\$1.0	\$0.8
• Regional Area Road Fund	0.6	0.4
• Federal Funds	1.9	2.2
• Bonds, Notes, & HELP Loans	<u>1.6</u>	<u>2.4</u>
	\$5.1	\$5.8

- Revenues are shown in current fiscal year dollars, and therefore do not show the actual funds collected over the 5 years.
- Debt service payments are deducted from revenue and are not displayed as expenditures.

Expenditures - Highway Program

FY 2007 - FY 2011

\$ in billions

	<u>06 - 10</u>	<u>07 - 11</u>
• Preservation	\$0.8	\$0.9
• Improvements	1.2	1.3
• Management	<u>0.4</u>	<u>0.4</u>
• Total Statewide Program	\$2.3	\$2.6
• MAG Freeway System	<u>2.8</u>	<u>3.2</u>
	\$5.1	\$5.8

- Expenditures are shown on an obligation basis, and do not represent cash flow.
- Expenditures exclude debt service, which is netted out of revenue.
- The \$5.8 billion does not include the \$307 million from the FY 2007 budget to accelerate certain highway projects.

Major Projects Over \$25 Million

- \$3.1 billion will be spent on 33 major projects above \$25 million.

11 New Major Projects in FY 2007 - 2011

\$ in millions

<u>North Valley</u>	<u>07 - 11</u>
I-17 – Jomax/Dixileta Interchanges	\$40
L303 (Estrella) – Happy Valley Rd to I-17, interchange	30
<u>West Valley</u>	
I-10 – Sarival Rd to Dysart Rd, widen & HOV	90
I-10 – Dysart Rd to L101 (Agua Fria), widen & HOV	54
<u>East Valley</u>	
I-10 – SR 51 to 40th St, collector distributor road	140
L101 (Pima) – Tatum Blvd to Princess Dr, HOV	28
<u>Tucson</u>	
Tucson I-10 – Ina Rd, interchange	38
Tucson I-19 – Valencia Rd to Ajo Way, widen	38
<u>Balance of State</u>	
Safford US 191 – MP 151 to Threeway, widen	33
Kingman US 93 – Hoover Dam to MP 17, widen	80
Prescott SR 260 – Little Green Valley, widen	27

Bonding - Highway Program

FY 2007 - FY 2011

<u>Outstanding Obligations</u>	<u>FY 2007</u>	<u>FY 2011</u>
• HURF Bonds	\$1.5 Billion	\$1.8 Billion
• MRARF Bonds	386 Million	1.3 Billion
• Grant Anticipation Notes	283 Million	315 Million
• Board Funding Obligations	200 Million	200 Million
• HELP Loans	121 Million	0

- The \$1.3 billion HURF bond statutory limit was removed in FY 2007.
- MRARF bonds reflect large bond issues and small repayments in the early years of the second 20-year Maricopa freeway program.
- HELP loans decrease to \$0, since ADOT does not try to project which future projects might be accelerated by using HELP loans.

Bonding - Highway Program

FY 2007 - FY 2011

- By statute, annual HURF revenues must be at least 3 times the highest annual debt service payments for HURF bond issues.
- The current HURF bond debt service ratio is 4.5. This ratio is the key factor in determining bond ratings.
- ADOT's HURF bonds, MRARF bonds and GANS are rated high quality by the bond rating services.
- S&P gives HURF bonds their highest "AAA" rating.
- S&P gives MRARF bonds and GANS their second highest "AA" rating.
- Moody's gives HURF bonds, MRARF bonds and GANS their second highest "Aa" rating.

Over Capacity Highway Segments

- As an on-going performance measure, we have attempted to track how the 5-Year Plan addresses most congested segments

Over Capacity Definition

- Phoenix & Tucson Areas
 - Traffic volume exceeds capacity from 6 to 9 AM or 3:30 to 6:30 PM
- Rest of State
 - Traffic volume exceeds capacity

Over Capacity Highway Segments

- There are 20 overcapacity highway segments, including 13 in the Phoenix area, 4 in the Tucson area, and 3 in the rest of the state.
- The plan addresses all 20 “over capacity” highway segments, which are shown in *Tables 5 - 7*, along with planned actions.
- Attachments B - D are maps of the congested segments, the planned projects, and Phoenix area AM and PM congestion in 1-hour intervals.

Revenues - Aviation Program

FY 2007 - FY 2011

\$ in millions

• Federal Grants	\$589
• State Aviation Fund	96
• Local Governments	<u>32</u>
	\$717

Recommendations

- ADOT provide an Executive Summary for its 5-Year Transportation Program for FY 2008-2012, due by July 31, 2007. The Executive Summary should include the information in *Tables 1-9*, plus:
 - A narrative explanation of the changes in revenues and expenditures from this year's plan.
 - A narrative description of major projects added and removed since this year's plan, along with the status and completion dates for removed projects.
 - A table that crosswalks next year's obligation basis 5-year highway program revenues to ADOT's cash flow projections, along with an explanation of the reasons for differences.
 - A comparison of ADOT's bonding level to the statutory HURF Bond coverage requirement and the bond agencies' rating standard.

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DATE: November 8, 2006

TO: Representative Tom Boone, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: Department of Transportation – Report on Modular Buildings on Capitol Mall

Request

The Arizona Department of Transportation (ADOT) proposes using operating budget monies to install 2 modular buildings at a cost of \$725,700 and lease them at an annual cost of \$360,000.

Recommendation

This item is for information only and no Committee action is required. However, since ADOT proposes using operating budget monies for a capital project the Committee could give a favorable review with the provision that no monies be spent from the Motor Vehicle Division for the project.

Analysis

ADOT currently leases 18,194 square feet at 2828 N. Central Avenue, Phoenix for \$338,000, or \$18.58/square foot, in FY 2006. The facility houses 86 FTE traffic engineering Positions. The property manager has requested \$402,000 rent, or \$22.10/square foot, in FY 2007. In addition, ADOT wants to move their engineering personnel closer to their main Capitol Mall office buildings. Consequently, ADOT proposes using \$725,700 from the State Highway Fund from their FY 2007 operating budget to install 2 modular buildings on the Capitol Mall at 1611 and 1615 West Jackson Street, Phoenix. The modulares would be located just southeast of ADOT's Engineering Building. If this were done, ADOT would terminate their lease at 2828 N. Central Avenue, and move the 86 FTE Positions to the modulares.

The proposed modulares would have 26,420 square feet and would house a total of 167 FTE Positions, including the 86 existing FTE Positions from 2828 N. Central Avenue, 73 existing FTE Positions from several other ADOT locations, and 8 new FTE Positions. The 8 new FTE Positions would include 3 environmental coordinator positions and 5 Maricopa regional freeway management positions. ADOT states that the \$725,700 for the installation costs comes from operating budget vacancy savings due to having insufficient space to fill positions. *Table 1* shows ADOT's estimated breakout for the \$725,700 installation cost.

(Continued)

Table 1	
Estimated Expenditures for Installation	
Design and Project Management	\$200,000
Water and Sewer Connection	22,200
Electrical	327,500
Communication Fiber Optics Conduit	<u>176,000</u>
Total Expenditures	\$725,700

ADOT would lease the 2 modular buildings for 5 years at an annual cost of \$360,000, or \$13.63/square foot. ADOT would save \$42,000 annually by leasing the modulares for \$360,000 versus paying \$402,000 for the Central Avenue location. It would take 17.3 years to pay back the \$725,700 installation cost using the \$42,000 of annual lease saving. However, ADOT also expects savings from not having to rent additional space to house more staff, and from reduced travel time due to centralizing their engineering staff. ADOT reports that leasing the modulares was less expensive in the short run than either buying them outright or lease-purchasing them. We have asked ADOT to provide cost data on these options. ADOT states that they would likely renew the lease after the initial 5 years. *Table 2* shows ADOT's current and proposed lease costs.

	Current Lease – 2828 N. Central Ave.	Proposed Lease – 2 Modulares
	<u>FY 2006</u>	<u>FY 2007</u>
State Highway Fund	\$338,000	\$314,400
Maricopa Regional Area Road Fund	<u>0</u>	<u>45,600</u>
Total	\$338,000 ^{1/}	\$360,000

^{1/} The property manager has requested \$402,000 rent in FY 2007.

ADOT reports that they previously presented the project to the Governmental Mall Commission on March 17, 2006. The Commission requested minor changes, including sidewalks and landscaping. The Governmental Mall Commission approved ADOT's modular project on October 19, 2006.

RS/BH:ym

**PROPOSAL TO PLACE TWO
MODULARS BUILDINGS EAST OF
1655 W. JACKSON AVE.**

Project Scope:

The Arizona Department of Transportation plans to lease two, 13,210 square foot modular buildings for occupancy by the:

- Newly created Office of Environmental Services (OES).
- Relocate the Traffic Engineering Group (TEG) from commercial leased office space. Traffic Engineering Group has been leasing office space on Central Avenue for the past nine years.
- Relocate the Maintenance Planning Unit from commercial leased office space at 28th street and Washington facility.
- Relocate Valley Project Management

The purpose of this space is to consolidate environmental, engineering and maintenance activities closer to peer activities in the ADOT capital complex. A closer proximity will produce greater efficiencies and lower costs. The relocation of Valley Project Management is due to the need for additional space for proposition 400 project managers.

Modular Lease Costs:

• 5 Yr. Modular Lease Cost	\$1,800,000
Design and Project Management cost	<u>\$200,000</u>
Total:	\$2,000,000

Savings:

- Relocation Savings:

Traffic Engineering 5 yr. lease savings	\$2,010,000
Maintenance Group 5 yr. lease savings	\$ 385,000
- RARF Reimbursements: \$225,000
- Cost Avoidances (Lease savings): \$627,000
(ADOT would have to lease 6,600 square feet of commercial office space for the new Office of Environmental Services. This is the estimated cost avoidance, 6,600 sq. ft. X \$19 /sq. ft. = \$125,400 X 5 yrs. = \$627,000)
- Cost Avoidances (Travel time and equipment cost): \$250,000

Total = \$3,497,000

Total Lease Net Savings: \$1,497,000

Benefits:

In addition to net lease savings of \$1.5 million, other added benefits of having the leased modular buildings are:

- Helps us with ability to respond to growing demands.
- Production time not lost traveling to meetings.
- Necessity for additional space for Office of Environmental Services.
- Space needed to locate all related Environmental positions together.
- Moving groups from Engineering Building opens space allowing office space for current and vacant positions.
- Groups located in Capitol area are accessible.

Status:

- Design has been completed
- The project was presented to Capital Mall Commission and received approval on 3/17/06. Minor changes were requested (sidewalks and minor landscaping adjacent to the modular) and ADOT was asked to return to Capital Mall Commission for final approval.
- The project was placed on hold during budget negotiations. ADOT would like to move forward with this project since FY07 budget is in place.

Issues:

- Traffic engineering lease expires on June 07. We will be required to renew the lease if there are more delays. The property manager (Eldan properties) has requested a rate of \$402,000 per year.
- We need to put on the next Capital Mall Commission meeting agenda.
- Cost of the site preparation and utilities extension (electric, water, sewer, telephone, fiber optic) will be paid with the operating funds.

FM&SG

Utility estimate for Jackson Street Modulares

1611 & 1615 WEST JACKSON STREET

as of 9.11.2006

SCOPE	East Bldg	West Bldg	
Water and sewer connection only	\$19,200	\$3,000	\$22,200.00
ELECTRICAL	\$173,500	\$154,000	\$327,500.00
COMMUNICATION CONDUITS	\$57,000	\$119,000	\$176,000.00
Sub Total:	\$249,700	\$276,000	\$525,700.00

**PROPOSED OCCUPANTS FOR
NEW MODULAR BUILDINGS**

GROUP NAME		# OF POSITIONS
OFFICE OF ENVIRONMENTAL SERVICES		47
ENVIRONMENTAL POSITIONS IN EPG	30	
ENVIRONMENTAL POSITIONS IN LOCAL GOVERNMENT	2	
ENVIRONEMNTAL POSITION IN ENHANCEMENT	1	
ENVIRONMENTAL COMPLIANCE COORDINATOR	1	
ENVIRONMENTAL WATER QUALITY COORDINATOR	1	
ENVIRONMENTAL PLANS & PERMITS COORDINATOR	1	
ENVIRONMENTAL POSITIONS IN NATURAL RESOURCES	11	
VALLEY PROJECT MGT GROUP(RARF)		20
MAINTENANCE PLANNING GROUP		14
TRAFFIC ENGINEERING GROUP		86
TOTAL		167

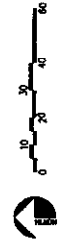
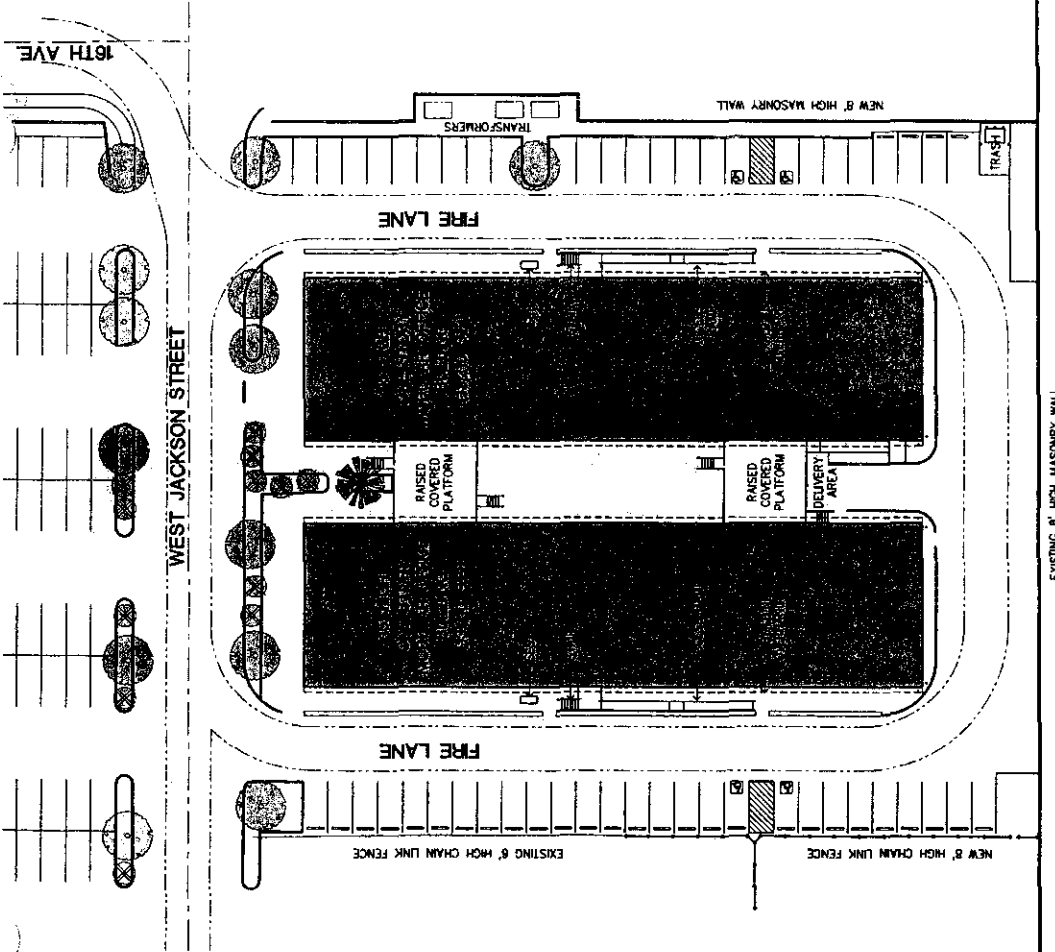
SEPTEMBER 22, 2006

**ENGINEERING BUILDING
ADDITIONAL SPACE REQUIREMENTS**

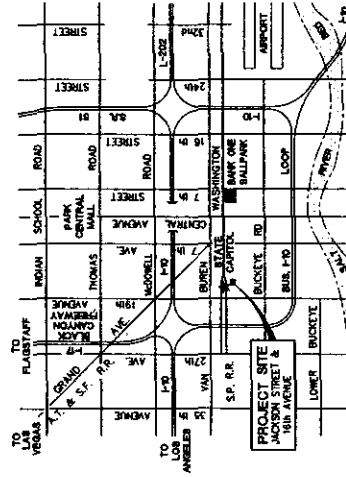
SECTION NAME	# SPACES
PROGRAM AND PROJECT MGT	9
ENGINEERING CONSULTANTS SECTION	8
JOINT PROJECT ADMINISTRATION	2
BRIDGE (DRAINAGE)	5
BRIDGE (DESIGN)	12
ROADWAY	10
STATEWIDE PROJECT MGT	10
UTILITIES	3
TOTAL	<hr/> 59

SEPTEMBER 22, 2006

ADOT SITE DESIGN FOR NEW
MODULAR OFFICE BUILDINGS
 16th AVENUE and JACKSON STREET
 PHOENIX, ARIZONA

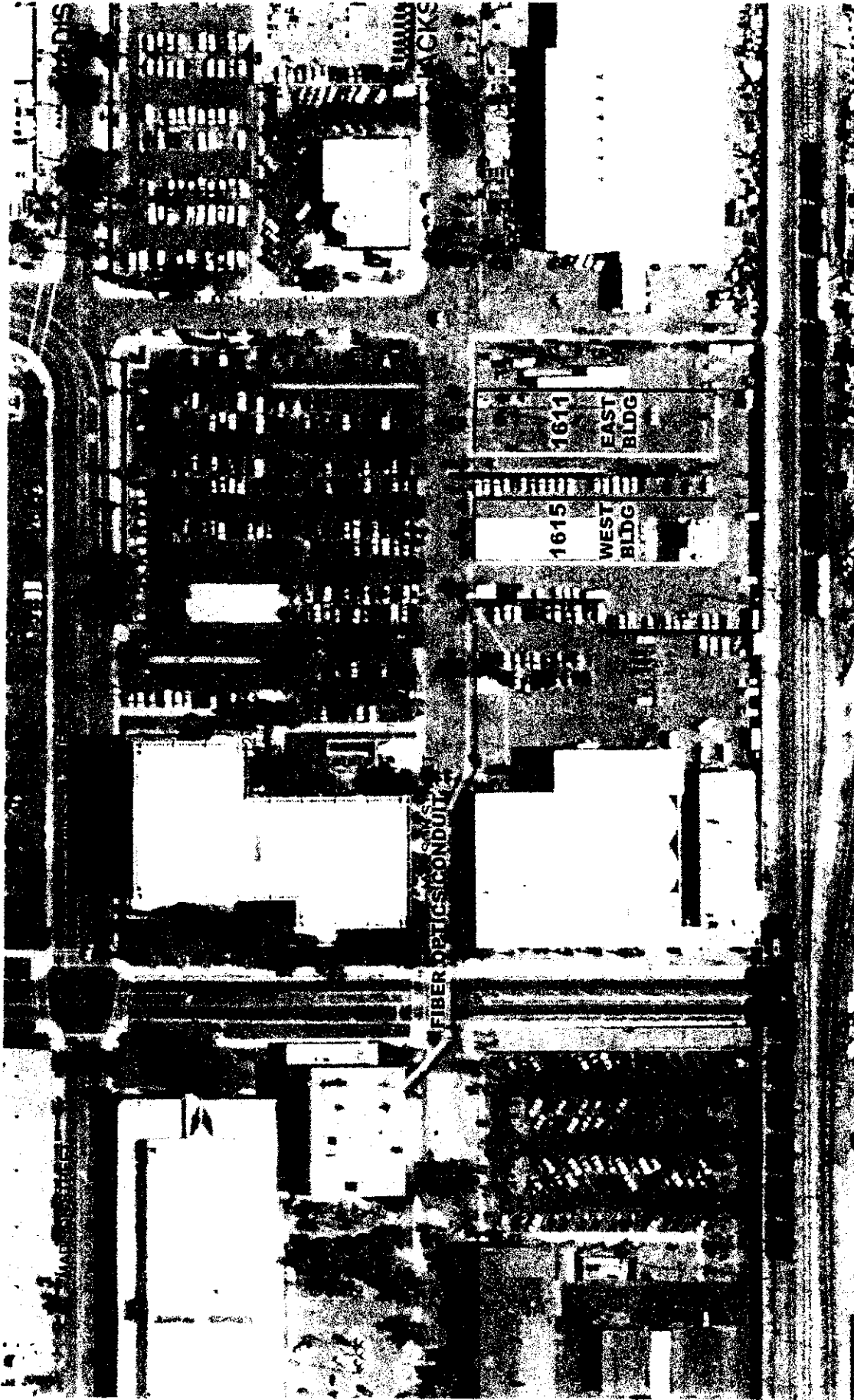


SITE PLAN
 1" = 20'-0"

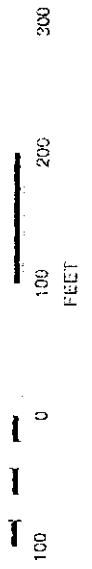


VICINITY MAP

ARIZONA DEPARTMENT OF TRANSPORTATION
NEW MODULAR OFFICE COMPLEX



SCALE 1 : 1,516



STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

ROBERT L. BURNS
CHAIRMAN 2005
PAULA ABOUD
LINDA AGUIRRE
TIMOTHY S. BEE
ROBERT CANNELL
RON GOULD
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1716 WEST ADAMS
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HOUSE OF
REPRESENTATIVES

TOM BOONE
CHAIRMAN 2006
AMANDA AGUIRRE
ANDY BIGGS
JACK A. BROWN
PHIL LOPES
RUSSELL K. PEARCE
STEPHEN TULLY

DATE: November 8, 2006

TO: Representative Tom Boone, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Leatta McLaughlin, Fiscal Analyst

SUBJECT: School Facilities Board – Review of FY 2008 New School Construction Report and New
School Facilities Fund Litigation Account

Request

Pursuant to A.R.S. § 15-2002, the School Facilities Board (SFB) requests the Committee review its demographic assumptions, proposed construction schedule, and new school construction cost estimates for FY 2008. The board is annually required to submit this information by October 15.

In addition, pursuant to A.R.S. § 15-2041, the Committee is required to conduct an annual review of the New School Facilities Fund Litigation Account, including the costs associated with current and potential litigation.

Recommendation

New School Construction Report

The JLBC Staff recommends that the Committee defer action on the new construction report until the board has completed its project approval process in the current fiscal year. At this time, SFB does not have a specific list of projects for FY 2008. The approval process begins in November and will be complete by the spring. The JLBC Staff recommends that the board report by May 1, 2006 on its proposed construction schedule and cost estimates by project. This item is included on the agenda to provide the Committee with the board's current estimate of new construction spending in FY 2008.

The board estimates that it will spend a total of \$401.8 million in FY 2008. This amount includes funding for construction projects that have already been approved by the board, as well as projects that will be approved by the end of FY 2007. Of the \$401.8 million, SFB is requesting \$399 million from the General Fund. This would be a \$149 million increase from the FY 2007 \$250 million appropriated amount.

New School Facilities Fund Litigation Account

The JLBC Staff recommends that the Committee give a favorable review of the board's report on the Litigation Account. The account is to be used to pay the expenses associated with any litigation in which

(Continued)

SFB pursues the recovery of damages for correcting deficiencies that were a result of design or construction defects. To date there has been no activity in the account. However, errors, omissions, and other claims were pursued to decrease project expenditure payouts for architectural and contractor re-work that were considered the responsibility of architects or contractors during the Deficiency Corrections program.

Analysis

New School Construction Report

Demographic Assumptions

The SFB bases its demographic assumptions on its analysis of the school district forecasts of Average Daily Membership (ADM) included in the Capital Plans submitted by districts to the board. To conduct the analysis, SFB uses state population data, grade progression estimates, historical ADM growth, and, if applicable, residential housing growth. Analysis of student enrollment growth is performed on a district-by-district basis.

For districts that submitted a Capital Plan to the board, SFB expects enrollment to grow at a higher rate in FY 2007 and FY 2008 than in FY 2006 in all areas of the state except Northern Maricopa County. The board expects statewide enrollment growth to be 8.1% in FY 2007 and 8.4% in FY 2008. Actual enrollment growth was 6.7% in FY 2006.

For FY 2008 within Maricopa County, SFB expects growth of approximately 5.0% in the southeastern portion of the county, including the cities of Chandler and Gilbert. In the northern part of the county, including Cave Creek, Deer Valley, and Dysart, the board expects growth of about 9.1%. In the western and southern districts of Phoenix, including Tolleson, the board expects growth of 6.7%. In the districts outlying the western edge of the Phoenix metro area, including Agua Fria, Avondale, Buckeye, Litchfield, and Saddle Mountain, SFB expects growth of 13.7%.

In the other areas of the state, the board expects growth of 18.2% in Pinal County, 3.9% in Yuma and La Paz Counties, 9.7% in Southern Arizona, and 4.4% in Northern Arizona for FY 2008.

Even though SFB expects a higher rate of statewide growth in FY 2007 and FY 2008 than in FY 2006, their estimates for FY 2007 and FY 2008 new construction approvals are lower than actual FY 2006 approvals. They are estimating lower approvals in the current and upcoming fiscal year due to the slowdown in statewide housing permits.

Construction Schedule

SFB has not provided a detailed construction schedule for FY 2008. Once the board has completed its FY 2007 approval process, a detailed construction schedule should be available.

Cost Estimates

The board estimates spending a total of \$401.8 million in FY 2008, including:

- \$35 million for land. The estimate is based on prior year expenditures.
- \$366.8 million for construction projects. The estimate is based on prior year expenditures and includes:
 - \$250.8 million for projects approved prior to FY 2007.
 - \$97.4 million for projects approved in FY 2007. The board expects to approve a total of \$357.9 million of projects in FY 2007. Based on prior year trends, the board expects to spend 27.2% of the total amount, or \$97.4 million, in FY 2007.

(Continued)

- \$18.6 million for architecture and engineering fees. Once the board approves a project, it immediately distributes 5% of the total cost of the project to the school district. Based on an estimate of \$372.2 million of approvals in FY 2008, the board would distribute \$18.6 million for these fees.

SFB did not submit information on how the \$401.8 million is to be allocated among projects.

To finance the projected \$401.8 million in expenditures, the board expects to use new cash funding. In prior years, the board was able to use lease-purchase proceeds from prior year lease-purchase agreements, which were all spent in FY 2007. SFB is projecting they will incur a small FY 2007 shortfall of \$(6.5) million. Given the uncertainty of the estimates surrounding new approvals and project expenditures, it is not clear at this time if a supplemental is needed. Of the FY 2008 total \$401.8 million amount, the board expects to allocate funding from the following revenue sources:

- \$399 million in cash provided in FY 2008. This is the amount the board has requested from the General Fund for FY 2008. The actual amount will depend on what the Legislature appropriates. SFB received \$250 million in FY 2007.
- \$10 million in lease revenues from the State Land Department. The State Land Department leases land to school districts. Any monies the State Land Department receives from school district leases, however, are deposited in the New School Facilities Fund.

Table 1 lists the amounts of new construction approvals in FY 2002 through FY 2006 and estimates for FY 2007 and FY 2008. In FY 2006, about \$200 million more of new construction projects were approved than in FY 2005. A portion of this increase was due to a greater level of high school approvals in FY 2006. Since high schools require more square feet under the new construction formula, they cost more to construct than an elementary or junior high school. Nine high schools, at an average of \$21.3 million, were approved in FY 2006 compared to 4 high schools at an average of \$15.2 million in FY 2005. This alone added \$130 million in FY 2006 approvals.

Table 1	
New School Construction Approvals	
<u>FY</u>	<u>New School Approvals</u>
FY 2002	\$203,847,292
FY 2003	\$226,984,873
FY 2004	\$293,447,904
FY 2005	\$239,188,847
FY 2006	\$436,968,131
FY 2007	\$357,918,000
FY 2008	\$372,234,720

New School Facilities Fund Litigation Account

A.R.S. § 15-2041 establishes a Litigation Account within the New School Facilities Fund to be used for litigation expenses associated with the recovery of damages for correcting deficiencies that were due to defects in the original design or construction of the facility. Any monies recovered as damages are to be used to offset the debt service on bonds issued to pay for the costs of the Deficiencies Correction Program. To date SFB has not made any expenditure from the account and there is currently no money in the account.

RS/LMc:ym



STATE OF ARIZONA
SCHOOL FACILITIES BOARD

Governor of Arizona
Janet Napolitano

Acting Executive Director
John Arnold

October 16, 2006

Representative Tom Boone, Chairman
Joint Committee on Capital Review
1716 West Adams
Phoenix, Arizona 85007



Dear Representative Boone:

As required by §15-2002, subsection A, paragraph 13, Arizona Revised Statutes, attached is the School Facilities Board (SFB) report to the Joint Committee on Capital Review regarding demographic assumptions, construction schedules, and cost estimates for the new construction program. The projections in this report are generally based on staff's analysis of the district-submitted FY 2006 Capital Plans. We began addressing the new FY 2007 Capital Plans at our October Board meeting and expect to continue addressing FY 2007 Capital Plans into the spring of 2007. As ADM projections change, so will projected costs and construction schedules.

Included in this report are:

- **Demographic Assumptions**

SFB staff hired a demographer in the summer of 2006. Over the past several months, he has been researching the housing market and population trends, and their impact on the construction of new schools in Arizona. This section includes a summary of the new construction climate and its projected impact on the SFB.

- **Projected Schedules of Projects that are Under Construction or Board Approved**

Schedules are provided for all new construction projects that have been approved by the SFB that are not yet completed.

- **New Construction Revenue and Cost Estimates by Fiscal Year**

This is a schedule of SFB's New School Facilities Fund revenues and expenditures for FY 2006, and projected revenues and expenditures for FY 2007 and FY 2008. It is based on projects that were approved or conceptually approved in the FY 2006 Capital Plan cycle and prior years.

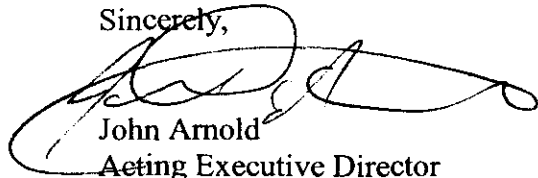
- **Backup Information used in FY 2006 Capital Plan Cycle**

Based on the SFB review of the FY 2006 Capital Plans, staff developed ADM projections for the districts that applied to the SFB for new construction. This section contains the ADM projections done by SFB staff as well as those provided by the districts. This section also contains other information that was used in the analyses, including residential development information and other backup information provided by the districts. The information is divided into the following geographic regions:

Maricopa County – East Valley
Maricopa County – North Valley
Maricopa County – Central/South/West Valley
Pinal County
Yuma/La Paz Counties
Southern Arizona
Northern Arizona

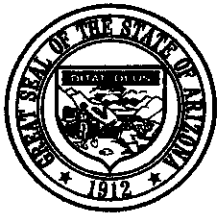
Please feel free to contact me if you have questions or would like to discuss the report.

Sincerely,

A handwritten signature in black ink, appearing to read 'John Arnold', is written over a horizontal line.

John Arnold
Acting Executive Director

cc: Janet Napolitano, Governor
Gary Yaquinto, OSPB Director
Senator Burns, JLBC Chairman
Richard Stavneak, JLBC Director
Members of the School Facilities Board
SFB Senior Staff

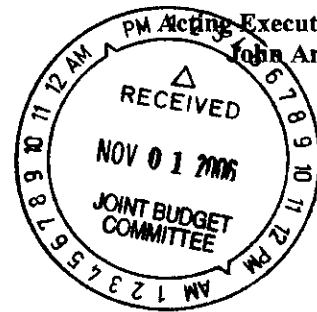


STATE OF ARIZONA
SCHOOL FACILITIES BOARD

Governor of Arizona
Janet Napolitano

October 20, 2006

The Honorable Tom Boone
Arizona House of Representatives
1700 W. Washington
Phoenix, AZ 85007



Acting Executive Director
John Arnold

Dear Representative Boone,

A.R.S. §15-2041 L requires that the Joint Committee on Capital Review conduct an annual review of the litigation account, including the cost associated with current and potential litigation.

The statute requires that the School Facilities Board establish a separate account in the New School Facilities Fund designated as a litigation account to pay attorney fees, expert witness fees and other costs associated with litigation in which the School Facilities Board pursues the recovery of damages for deficiency corrections that resulted from alleged construction defects or design defects that the School Facilities Board believes caused or contributed to a failure of the school building to conform to minimum school facility adequacy requirements. Any monies recovered as damages are to be used to offset the debt service on bonds issued to pay for the costs of the Deficiencies Correction Program.

There has been no activity in this account since the Board has not pursued redress against contractors or architects for this purpose. However, during the course of the Deficiency Corrections program, errors and omissions and other claims were pursued to reduce the payout of project expenditures for architectural and contractor re-work that were deemed the responsibility of architects or contractors. The information necessary to successfully recover State monies was more readily available to the Board and the authority to collect was clear since the State procured and held the contracts more so than for the older situations which gave rise to the Deficiency Corrections program in the first place.

Respectfully,

John Arnold
Acting Executive Director

xc: Richard Stavneak, JLBC
Gary Yaquinto, OSPB

STATE OF ARIZONA

Joint Committee on Capital Review

STATE
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HOUSE OF
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TOM BOONE
CHAIRMAN 2006
AMANDA AGUIRRE
ANDY BIGGS
JACK A. BROWN
PHIL LOPES
RUSSELL K. PEARCE
STEPHEN TULLY

DATE: November 8, 2006

TO: Representative Tom Boone, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Leatta McLaughlin, Fiscal Analyst

SUBJECT: School Facilities Board – Review of FY 2007 Building Renewal Distributions

Request

The School Facilities Board (SFB) requests Committee review of its plan to distribute \$86.3 million of Building Renewal Fund monies in FY 2007 pursuant to A.R.S. § 15-2031.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the proposed distribution of monies as the allocation complies with statutory requirements.

The Board is required to distribute building renewal money to districts in 2 equal installments of \$43.1 million in November 2006 and May 2007. Upon approving 3-year building renewal plans for 49 districts at their November board meeting, SFB plans on distributing \$8.4 million in building renewal monies this month. Each district must submit a 3-year building renewal plan before the district can be awarded any of their building renewal distribution. The remaining \$34.7 million of the November distribution will be distributed as district 3-year plans are submitted and approved.

While the formula calculation generated \$161.5 million, the board was actually appropriated \$86.3 million for building renewal in FY 2007. The appropriated amount was based on changes to the building renewal formula. The Governor vetoed the formula changes, but not the appropriation.

Analysis

The Building Renewal Fund is established by A.R.S. § 15-2031 to provide funding for school districts to maintain the adequacy of existing school facilities. Building renewal monies are intended for major renovations and repairs, systems upgrades to extend the life of a building, infrastructure, and relocation and placement of portable buildings. Statute requires the Committee to review the Board's plan for distributing Building Renewal Funds to school districts prior to their being allocated. A.R.S. § 15-2031E

(Continued)

requires these amounts be distributed in 2 equal installments in November and May, after Committee review.

Statute provides a calculation to determine the amount of building renewal monies for each school building. The main components of the formula are the school building's square footage, age, and prior renovations. The formula is updated annually and reflects the JLBC adopted inflation adjustment. Based on the current formula calculation, the building renewal amount is \$161.5 million. This amount was then reduced by a uniform percentage to achieve the \$86.3 million appropriation level. The distributions are divided evenly between November and May. SFB will begin to make these allocations available to districts in November but will withhold a district's allocation until a 3-year building renewal plan is approved. At the November 2nd board meeting, SFB received 3-year building renewal plans from 134 districts and approved 49 of these plans for a total November distribution of \$8.4 million.

Recent Court Findings

On October 3, 2006, the Arizona Superior Court issued a summary judgment in favor of the state in the K-12 Building Renewal lawsuit. (*See Attachment 1*) The suit, which was originally filed by 4 school districts in October 1999, alleged that the state's underfunding of the statutory Building Renewal formula was unconstitutional as it resulted in districts being unable to meet the minimum facility guidelines. The state began providing school districts with Building Renewal funding in FY 1999. Except for FY 2001, the formula has never been fully funded.

The Court found that the school districts had not made an effort to obtain all available sources of state funding to maintain their facilities at the minimum guidelines, and therefore, their claim was premature. Other sources of funding available to school districts include Capital Outlay Revenue Limit (CORL), monies provided by the Arizona Department of Education, and Emergency Deficiencies Correction funds provided by SFB. The Court noted that if the plaintiff school districts are denied Emergency Deficiencies Correction monies when they have used all other available funding, their claim may be reinstated.

Sierra Vista Unified School District, one of the plaintiff districts, recently applied to SFB for emergency funding for several items. The board has not made a decision as to whether or not these items qualify for emergency funds.

RS/LMc:ym
Attachment

SUPERIOR COURT OF ARIZONA
MARICOPA COUNTY

CV 1999-019062

10/03/2006

HONORABLE RUTH H. HILLIARD

CLERK OF THE COURT
L. Gilbert
Deputy

ROOSEVELT ELEMENTARY SCHOOL
DISTRICT #6, et al.

TIMOTHY M HOGAN

v.

JANE D HULL, et al.

SUSAN PLIMPTON SEGAL

WILLIAM A RICHARDS

MINUTE ENTRY

Defendant State of Arizona's Motion for Summary Judgment has been under advisement. The Court, having considered all memoranda submitted and the arguments of counsel, finds and orders as follows.

At issue in this motion for summary judgment is whether plaintiffs' claim is ripe at this time, whether plaintiffs must prove that the Students FIRST system is unconstitutional as applied to every public school district or only as applied to them and whether the Students FIRST system has caused any facility needs related to academic performance to be unmet.

Initially the Court notes that Hull v. Albrecht, 192 Ariz. 34, 960 P.2d 634 (1998) requires that the funding for a "general and uniform public school system" under Article XI, Section 1 of the Constitution requires that "... 1) the state must establish minimum adequate facility standards and provide funding to ensure that no district falls below them;" and 2) "the funding mechanism chosen by the state must not itself cause substantial disparities between districts." 192 Ariz. at 37, 960 P.2d at 637. The minimum facility standards that must be established and funded are those "... facilities and equipment necessary and appropriate to enable students to master the

SUPERIOR COURT OF ARIZONA
MARICOPA COUNTY

CV 1999-019062

10/03/2006

educational goals set by the legislature or by the State Board of Education pursuant to the power delegated by the legislature.” Hull v. Albrecht, 190 Ariz. 520, 524, 950 P.2d 1141, 1145 (1997).

The Legislature has declared that “...the facilities and equipment necessary and appropriate to enable students to achieve academic standards...are exclusively the facilities and equipment addressed by the “Facilities Board in its Minimum Guidelines”. 2002 Ariz. Sess. Laws (2d Reg. Sess.), ch. 330, §61(C).

Plaintiffs argue that the state’s formula for funding Students FIRST is unconstitutional because the state has failed to fund the statutory formula as mandated by the legislature and, as a result, the plaintiff public school districts are unable to meet the minimum guidelines for facilities needed to allow the public school students to meet the academic guidelines set for them.

Initially this Court will address the issue of whether plaintiffs must prove that every public school district is harmed by the manner in which the state has funded the Students FIRST system or whether plaintiffs’ evidence as to their own problems due to insufficient funding is enough to allow this case to proceed further. Plaintiffs have argued that Judge Downie has already ruled on this issue and her ruling is the law of the case.

The Court finds that there has not been a binding ruling by Judge Downie on this issue, as her comments were made in passing in response to a discovery issue. Even if Judge Downie had ruled on the issue, this Court would be obligated to review the ruling in order to assure that there would not be fundamental unfairness in following the decision.

This Court finds that plaintiffs are not required to prove that all 226 public school districts are unable to meet minimum facility standards due to the funding scheme in place. Instead, the Court finds that plaintiffs may rely on their own funding issues in order to proceed and to attack the constitutionality of the Students FIRST funding scheme.

Defendant State of Arizona has urged that its Motion for Summary Judgment must be granted at this time since plaintiffs have not depleted all available sources of funding available from the State. In fact, plaintiff Sierra Vista applied for emergency funding from the state and, to date, no response to this application for additional funding has been made known to this Court.

Plaintiffs urged, in their response to the Motion for Summary Judgment, that the only source of funding to meet the Minimum Guidelines is the Building Renewal Fund. Defendant denies this, however, and asserts that the State provides school districts with Maintenance and Operation monies and certain capital funds which can be used, in part, to meet Minimum facility Guidelines. In addition, the Students FIRST legislation provides for emergency funds through

SUPERIOR COURT OF ARIZONA
MARICOPA COUNTY

CV 1999-019062

10/03/2006

the Emergency Deficiency Correction Fund, A.R.S. §15-2022, that can be used to meet facility costs in order to meet Minimum Guidelines.

The Court finds that only Sierra Vista has applied for additional funds under available sources of funding to allow each school district to meet the Minimum Guidelines. The Court finds that until each plaintiff has attempted to obtain all available funds from the State their claim is premature and not yet ripe.

For this reason, the Court finds that at this time defendant is entitled to summary judgment; however, if plaintiffs are denied emergency funds and when they have exhausted all available sources of funding through the State, the Court finds that their claims may be reinstated. Accordingly,

IT IS ORDERED granting defendant's Motion for Summary Judgment.

IT IS FURTHER ORDERED vacating the Trial Management Conference set for October 13, 2006 and the trial date of October 30, 2006.



STATE OF ARIZONA
SCHOOL FACILITIES BOARD

Governor of Arizona
Janet Napolitano

October 18, 2006

Honorable Tom Boone
House of Representatives
1700 W. Washington
Phoenix, AZ 85007



Interim Director
John Arnold

Dear Representative Boone:

A.R.S. §15-2031 subsection E requires that the School Facilities Board submit an annual report to the President of the Senate, the Speaker of the House of Representatives, the Arizona State Library, Archives and Public Records and the Governor by October 1 that includes the computation of the amount of monies to be distributed from the Building Renewal Fund for the current fiscal year. The Joint Committee on Capital Review is required to review the School Facilities Board's calculation of the Building Renewal Fund distributions. After the Joint Committee on Capital review reviews the distributions computed by the School Facilities Board, the School Facilities Board shall distribute the monies from the Building Renewal Fund to school districts in two equal installments in November and May of each year.

Laws 2006, Chapter 353, §28 (HB 2874) appropriated \$86,283,500 from the General Fund to the Building Renewal Fund for fiscal year 2007. Attached is a district-by-district distribution.

Please feel free to contact me should you or any members of the committee have questions.

Respectfully,

John Arnold
Interim Director

xc: Janet Napolitano, Governor
Ken Bennett, President of the Senate
Jim Weiers, Speaker of the House
GladysAnn Wells, Library and Archives and Public Records
Richard Stavneak, JLBC Director
Gary Yaquinto, OSPB Director
Becky Hill, Office of the Governor
George Cunningham, Office of the Governor

FY 2007 BUILDING RENEWAL DISTRIBUTION

District	Current Formula	Adopted
Agua Fria Union High School District	\$711,522	\$380,238
Aguila Elementary District	\$9,417	\$5,032
Ajo Unified District	\$252,956	\$135,174
Alhambra Elementary District	\$1,553,847	\$830,342
Alpine Elementary District	\$0	\$0
Altar Valley Elementary District	\$81,936	\$43,785
Amphitheater Unified District	\$4,115,909	\$2,199,450
Antelope Union High School District	\$180,136	\$96,261
Apache Elementary District	\$4,265	\$2,279
Apache Junction Unified District	\$754,283	\$403,072
Arlington Elementary District	\$1,711	\$914
Ash Creek Elementary District	\$23,456	\$12,534
Ash Fork Unified District	\$34,775	\$18,583
Avondale Elementary District	\$386,520	\$206,548
Bagdad Unified District	\$134,259	\$71,745
Balsz Elementary District	\$375,123	\$200,457
Beaver Creek Elementary District	\$64,646	\$34,545
Benson Unified District	\$307,227	\$164,175
Bicentennial Union High School District	\$100,201	\$53,545
Bisbee Unified District	\$799,529	\$427,251
Blue Elementary District	\$1,651	\$882
Blue Ridge Unified District	\$742,068	\$396,544
Bonita Elementary District	\$33,572	\$17,940
Bouse Elementary District	\$0	\$0
Bowie Unified District	\$140,013	\$74,820
Buckeye Elementary District	\$105,289	\$56,264
Buckeye Union High School District	\$92,492	\$49,426
Bullhead City Elementary District	\$473,080	\$252,803
Camp Verde Unified District	\$171,329	\$91,554
Canon Elementary District	\$21,068	\$11,258
Cartwright Elementary District	\$1,890,624	\$1,010,308
Casa Grande Elementary District	\$757,999	\$405,058
Casa Grande Union High School District	\$272,303	\$145,512
Catalina Foothills Unified District	\$744,963	\$398,092
Cave Creek Unified District	\$544,573	\$291,008
Cedar Unified District	\$145,069	\$77,521
Champie Elementary District	\$0	\$0
Chandler Unified District	\$3,010,097	\$1,608,529
Chevelon Butte School District	\$0	\$0
Chinle Unified District	\$855,026	\$456,907
Chino Valley Unified District	\$374,482	\$200,115
Chloride Elementary District	\$63,312	\$33,833

District	Current Formula	Adopted
Clarkdale-Jerome Elementary District	\$50,223	\$26,838
Clifton Unified District	\$188,144	\$100,540
Cochise Elementary District	\$63,441	\$33,901
Coconino Accommodation District	\$0	\$0
Colorado City Unified District	\$8,765	\$4,684
Colorado River Union High School District	\$461,073	\$246,387
Concho Elementary District	\$1,499	\$801
Congress Elementary District	\$6,203	\$3,315
Continental Elementary District	\$60,377	\$32,264
Coolidge Unified District	\$624,126	\$333,519
Cottonwood-Oak Creek Elementary District	\$331,982	\$177,404
Crane Elementary District	\$452,992	\$242,069
Creighton Elementary District	\$1,125,766	\$601,584
Crown King Elementary District	\$9,510	\$5,082
Deer Valley Unified District	\$3,522,410	\$1,882,298
Double Adobe Elementary District	\$0	\$0
Douglas Unified District	\$1,324,951	\$708,024
Duncan Unified District	\$232,163	\$124,063
Dysart Unified District	\$897,918	\$479,828
Eagle Elementary District	\$0	\$0
Elfrida Elementary District	\$48,040	\$25,671
Eloy Elementary District	\$345,116	\$184,422
Empire Elementary District	\$0	\$0
Flagstaff Unified District	\$3,219,110	\$1,720,221
Florence Unified School District	\$351,211	\$187,680
Flowing Wells Unified District	\$1,548,991	\$827,747
Forrest Elementary District	\$0	\$0
Fountain Hills Unified District	\$295,997	\$158,174
Fowler Elementary District	\$201,195	\$107,514
Fredonia-Moccasin Unified District	\$171,153	\$91,460
Ft Huachuca Accommodation District	\$0	\$0
Ft Thomas Unified District	\$162,386	\$86,776
Gadsden Elementary District	\$188,789	\$100,885
Ganado Unified District	\$332,109	\$177,472
Gila Bend Unified District	\$220,980	\$118,087
Gilbert Unified District	\$3,297,935	\$1,762,344
Glendale Elementary District	\$1,549,231	\$827,874
Glendale Union High School District	\$4,610,787	\$2,463,902
Globe Unified District	\$885,658	\$473,276
Graham County Special Services	\$1,794	\$958
Grand Canyon Unified District	\$154,123	\$82,360
Greenlee Alternative School District	\$583	\$312
Greenlee County Accommodation District	\$0	\$0
Hackberry School District	\$4,181	\$2,234

District	Current Formula	Adopted
Hayden-Winkelman Unified District	\$357,904	\$191,256
Heber-Overgaard Unified District	\$158,610	\$84,758
Higley Unified District	\$185,887	\$99,334
Hillside Elementary District	\$11,350	\$6,065
Holbrook Unified District	\$598,762	\$319,965
Humboldt Unified District	\$576,172	\$307,894
Hyder Elementary District	\$17,097	\$9,136
Indian Oasis-Baboquivari Unified District	\$336,739	\$179,946
Isaac Elementary District	\$1,001,120	\$534,976
J O Combs Elementary District	\$49,666	\$26,540
Joseph City Unified District	\$426,983	\$228,170
Kayenta Unified District	\$630,820	\$337,096
Kingman Elementary District	\$1,007,403	\$538,334
Kirkland Elementary District	\$14,479	\$7,737
Klondyke Elementary District	\$0	\$0
Kyrene Elementary District	\$2,341,321	\$1,251,150
Lake Havasu Unified District	\$977,180	\$522,183
Laveen Elementary District	\$213,875	\$114,290
Liberty Elementary District	\$181,652	\$97,071
Litchfield Elementary District	\$524,561	\$280,314
Littlefield Elementary District	\$22,306	\$11,920
Littleton Elementary District	\$229,656	\$122,723
Madison Elementary District	\$1,095,121	\$585,208
Maine Consolidated District	\$36,127	\$19,305
Mammoth-San Manuel Unified District	\$787,111	\$420,615
Marana Unified District	\$2,073,755	\$1,108,169
Maricopa County Regional District	\$180,793	\$96,612
Maricopa County Regional Special Services District	\$0	\$0
Maricopa Unified School District	\$402,819	\$215,258
Mary C O'Brien Accommodation District	\$61,774	\$33,010
Mayer Unified District	\$135,319	\$72,311
McNary Elementary District	\$6,040	\$3,228
McNeal Elementary District	\$537	\$287
Mesa Unified District	\$14,475,425	\$7,735,346
Miami Unified District	\$422,151	\$225,588
Mingus Union High School District	\$302,509	\$161,654
Mobile Elementary District	\$48,361	\$25,843
Mohave County Accommodation District	\$0	\$0
Mohave Union High School District	\$771,361	\$412,198
Mohave Valley Elementary District	\$232,755	\$124,379
Mohawk Valley Elementary District	\$55,352	\$29,579
Morenci Unified District	\$392,612	\$209,803
Morristown Elementary District	\$4,641	\$2,480

District	Current Formula	Adopted
Murphy Elementary District	\$415,283	\$221,918
Naco Elementary District	\$27,944	\$14,933
Nadaburg Elementary District	\$59,332	\$31,706
Navajo County Accommodation District	\$1,409	\$753
Nogales Unified District	\$1,325,107	\$708,108
Oracle Elementary District	\$117,418	\$62,745
Osborn Elementary District	\$555,824	\$297,020
Owens-Whitney Elementary District	\$37,525	\$20,052
Page Unified District	\$1,116,438	\$596,599
Palo Verde Elementary District	\$33,012	\$17,641
Paloma Elementary District	\$18,021	\$9,630
Palominas Elementary District	\$113,854	\$60,841
Paradise Valley Unified District	\$5,274,915	\$2,818,798
Parker Unified School District	\$921,009	\$492,167
Patagonia Elementary District	\$28,998	\$15,496
Patagonia Union High School District	\$0	\$0
Payson Unified District	\$570,236	\$304,721
Peach Springs Unified District	\$114,031	\$60,936
Pearce Elementary District	\$54,860	\$29,316
Pendergast Elementary District	\$726,140	\$388,033
Peoria Unified District	\$4,169,712	\$2,228,202
Phoenix Elementary District	\$1,341,857	\$717,059
Phoenix Union High School District	\$6,881,322	\$3,677,226
Picacho Elementary District	\$33,359	\$17,826
Pima Accommodation District	\$4,270	\$2,282
Pima Unified District	\$185,456	\$99,104
Pinal County Special Education Program	\$0	\$0
Pine Strawberry Elementary District	\$42,773	\$22,857
Pinon Unified District	\$107,467	\$57,428
Pomerene Elementary District	\$32,104	\$17,156
Prescott Unified District	\$1,516,042	\$810,139
Quartzsite Elementary District	\$119,789	\$64,013
Queen Creek Unified District	\$247,197	\$132,096
Ray Unified District	\$223,538	\$119,454
Red Mesa Unified District	\$291,457	\$155,748
Red Rock Elementary District	\$24,453	\$13,067
Redington Elementary District	\$0	\$0
Riverside Elementary District	\$52,123	\$27,853
Roosevelt Elementary District	\$2,031,481	\$1,085,578
Round Valley Unified District	\$695,809	\$371,825
Rucker Elementary District	\$0	\$0
Sacaton Elementary District	\$145,191	\$77,587
Saddle Mountain Unified District	\$96,511	\$51,573
Safford Unified District	\$598,710	\$319,937

District	Current Formula	Adopted
Sahuarita Unified District	\$505,611	\$270,188
Salome Consolidated Elementary District	\$13,401	\$7,161
San Carlos Unified District	\$341,309	\$182,388
San Fernando Elementary District	\$0	\$0
San Simon Unified District	\$136,796	\$73,101
Sanders Unified District	\$271,452	\$145,058
Santa Cruz Elementary District	\$61,542	\$32,887
Santa Cruz Valley Unified District	\$343,181	\$183,388
Santa Cruz Valley Union High School District	\$355,950	\$190,212
Scottsdale Unified District	\$5,163,167	\$2,759,082
Sedona-Oak Creek Joint Unified District	\$258,015	\$137,878
Seligman Unified District	\$184,615	\$98,654
Sentinel Elementary District	\$1,598	\$854
Show Low Unified District	\$572,249	\$305,797
Sierra Vista Unified District	\$1,082,354	\$578,386
Skull Valley Elementary District	\$1,755	\$938
Snowflake Unified District	\$503,419	\$269,016
Solomon Elementary District	\$136,950	\$73,183
Somerton Elementary District	\$173,644	\$92,792
Sonoita Elementary District	\$14,894	\$7,959
St David Unified District	\$114,925	\$61,414
St Johns Unified District	\$397,358	\$212,339
Stanfield Elementary District	\$171,447	\$91,618
Sunnyside Unified District	\$2,561,604	\$1,368,864
Superior Unified District	\$77,653	\$41,496
Tanque Verde Unified District	\$185,934	\$99,359
Tempe Elementary District	\$2,985,229	\$1,595,240
Tempe Union High School District	\$3,480,122	\$1,859,700
Thatcher Unified District	\$197,767	\$105,682
Tolleson Elementary District	\$116,811	\$62,421
Tolleson Union High School District	\$805,255	\$430,311
Toltec Elementary District	\$115,611	\$61,780
Tombstone Unified District	\$159,719	\$85,350
Tonto Basin Elementary District	\$17,857	\$9,543
Topock Elementary District	\$12,070	\$6,450
Tuba City Unified District	\$1,015,194	\$542,497
Tucson Unified District	\$17,233,672	\$9,209,292
Union Elementary District	\$6,390	\$3,415
Vail Unified District	\$412,736	\$220,557
Valentine Elementary District	\$10,628	\$5,679
Valley Union High School District	\$141,637	\$75,688
Vernon Elementary District	\$2,090	\$1,117
Walnut Grove Elementary District	\$0	\$0
Washington Elementary District	\$5,353,336	\$2,860,704

Elementary District	Elementary District	Approved
Wellton Elementary District	\$128,033	\$68,418
Wenden Elementary District	\$72,120	\$38,539
Whiteriver Unified District	\$412,370	\$220,361
Wickenburg Unified District	\$247,604	\$132,314
Willcox Unified District	\$525,848	\$281,001
Williams Unified District	\$182,434	\$97,489
Williamson Valley Elementary District	\$0	\$0
Wilson Elementary District	\$390,778	\$208,823
Window Rock Unified District	\$1,145,478	\$612,118
Winslow Unified District	\$612,432	\$327,270
Yarnell Elementary District	\$0	\$0
Yavapai Accommodation District	\$0	\$0
Young Elementary District	\$10,893	\$5,821
Yucca Elementary District	\$18,599	\$9,939
Yuma County Accommodation District	\$0	\$0
Yuma Elementary District	\$1,570,123	\$839,039
Yuma Union High School District	\$1,469,936	\$785,501
TOTAL	\$161,465,349	\$86,283,500

STATE OF ARIZONA

Joint Committee on Capital Review

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PHIL LOPES
RUSSELL K. PEARCE
STEPHEN TULLY

DATE: November 8, 2006

TO: Representative Tom Boone, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Leatta McLaughlin, Fiscal Analyst

SUBJECT: Arizona Lottery Commission – Review of FY 2007 Building Renewal Allocation Plan

Request

The Arizona Lottery Commission requests Committee review of its FY 2007 Building Renewal allocation plan of \$53,600 from the State Lottery Fund. The plan allocates \$35,000 for roof repairs and interior painting, and \$18,600 for unexpected contingencies.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the FY 2007 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 2006, Chapter 345 appropriated a total of \$53,600 in FY 2007 from the State 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 2007 plan is submitted for formal review.

The Lottery Commission operates out of 2 facilities; a 38,600 square foot state-owned building 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

(Continued)

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 Lottery Commission plans to use its \$53,600 FY 2007 allocation on the following projects:

Warehouse roof repair	\$15,000
Paint building interior	20,000
Contingency	<u>18,600</u>
Total	\$53,600

These cost estimates were obtained from vendor quotes solicited by the Arizona Department of Administration's construction services and historical data. According to the Commission, many of their building systems are past their expected life cycle, which is why the remaining \$18,600 is available for unexpected contingencies.

Warehouse Roof Repair

The warehouse is connected to the facility and is about 12,000 square feet. It is mainly used for the storage of files, supplies, and promotional items and houses 3 employees in the mailroom portion of the building. The current roof is tar paper with a white roof coating, which was recoated in 1996. The roof will be repaired by recoating it with new tar and sheeting, which will help in preventing the need for roof replacement.

Paint Building Interior

Portions of the building's interior, which mainly includes offices, have been repainted a few times by Lottery staff, but the entire building has not been professionally painted in over 10 years. The Commission plans to have public areas and the steel frame work in the lobby area painted, which requires a special protection coating and special paint.

RS/LMc:ym

Janet Napolitano
Governor



J. Art Macias, Jr.
Executive Director



October 3, 2006

Representative Tom Boone, Chairman JCCR
Arizona House of Representatives
1700 West Washington St.
Phoenix, AZ 85007

**Re: Request for Placement on Joint Committee on Capital Review Agenda
November 2006**

Dear Representative Boone:

The Arizona Lottery respectfully requests placement on the November 2006 agenda of the Joint Committee on Capital Review to present the FY 2007 Building Renewal expenditure plan. A.R.S. § 41-1252 requires Committee review of expenditure plans for building renewal monies.

Information for this item is attached.

Sincerely,

J. Art Macias, Jr.
Executive Director

Attachment

cc: Senator Robert Burns, Co-Chairman, JCCR
Richard Stavneak, Director, JLBC
Leatta McLaughlin, Lottery Budget Analyst, JLBC
Matt Kennedy, Lottery Budget Analyst, OSPB

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The Arizona Lottery Building Renewal Funds Fiscal Year 2007 Allocations Plan

Background

The Arizona Lottery operates out of two facilities – a 38,600 sq. ft. building constructed in 1987, 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 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.

As part of the FY2007 Approved Budget, the Arizona Lottery received a Capital Outlay Appropriation of \$53,600 from the State Lottery Fund to the Arizona Lottery Commission for building renewal.

Total FY2007 Capital Expenditure Budget Allocation:	\$53,600
Proposed FY2007 Expenditures:	<u>\$35,000</u>
	\$18,600

Remaining: The remaining funds are for unexpected contingencies associated with an aging facility. Many of the building systems are past their expected life cycle.

FY2007 Allocation Plan

The Arizona Lottery proposes the following capital expenditures in FY2007. The cost estimates were obtained from vendor quotes solicited by the ADOA construction services and historical data.

Description

• Warehouse roof repair	\$15,000
• Paint the building interior.	<u>\$20,000</u>
	\$35,000

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STEPHEN TULLY

DATE: November 8, 2006

TO: Representative Tom Boone, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Matt Busby, Fiscal Analyst

SUBJECT: Arizona State Parks Board – Review of State Lake Improvement Fund Projects

Request

Pursuant to A.R.S. § 5-382 the Arizona State Parks Board requests Committee review of State Lake Improvement Fund (SLIF) capital grants and projects totaling \$4,015,800.

Recommendation

The Committee has at least the following 2 options:

- 1) A favorable review of the Parks Board request for 13 SLIF grants and projects totaling \$4,015,800 (*see Parks Board attachment*).
- 2) A favorable review of the Parks Board request with the exception of any or all of the following projects:
 - Town of Buckeye Recreational Lake – Though the construction of new lakes is consistent with SLIF statutes, there is a broader policy question of whether or not committing large levels of funding for the creation of a new lake is the most efficient use of SLIF funds. Tempe Town Lake previously received \$5 million of SLIF grants. At least 2 projects besides Tempe Town Lake also received funding from SLIF grants but never were completed due to land and water acquisition issues. The Parks Board is proposing to award \$560,000 in design and engineering grants to the Town of Buckeye. The full project, however, would cost another \$3.8 million to complete.
 - Bullhead City Non-Motorized Boat Launch Ramp – Statute limits funding to projects on lakes where gasoline boats are permitted. Since this project involves non-motorized boats it may not be consistent with the intent of the SLIF statutes.

(Continued)

- La Paz County/Buckskin Fire Department Water Rescue and Medical Aid Facility Kitchen Remodel – Though safety facilities are included in the SLIF statutes, the kitchen remodel for this facility may not fit the intent of the projects allowed by statute.

Analysis

Recent SLIF History and the Current Request

SLIF receives its revenue from a portion of watercraft license fees and an allocation of gasoline tax attributable to watercraft use. Monies in the fund are available to state agencies, counties, and local governments for capital improvement projects and acquisitions of real property on waters where boats are permitted. Laws 2006, Chapter 349 modified A.R.S. § 5-382 by restricting the use of SLIF monies to waters where gasoline powered boats are permitted. SLIF collects revenue primarily from a transfer from the Highway User Revenue Fund, based on a formula that estimates state gasoline taxes paid for boating purposes.

The Arizona Outdoor Recreation Coordinating Commission (AORCC), established under A.R.S. § 41-511, reviews eligible projects and presents a list of recommendations to the Arizona State Parks Board. The Parks Board then submits proposed capital projects to the Committee for review, as required by A.R.S. § 5-382. Outside grants are evaluated based on several factors, including project design, community involvement, conditions of current infrastructure, and history with the Parks Department grant programs. In addition to awarding grants to localities, however, the Parks Department is also eligible to receive funds for capital improvement projects and real property acquisitions at parks with boating facilities.

Current AORCC guidelines establish that no more than 30% of grant/project allocations may go to the Parks Department, and that no other applicant may receive more than 20% of available grant resources in a given grant cycle. Using the evaluation criteria, AORCC and the Parks Board have approved 13 projects/grants for funding in FY 2007 at a total cost of \$4,015,800. These awards include 12 grants totaling \$3,765,800 to 1 town, 3 cities and 4 counties for purposes such as the purchase of law enforcement watercraft, the development of currently owned properties, and the purchase and development of new property. In addition, the proposal includes 1 State Parks project with a grant of \$250,000.

Unless otherwise noted, all projects have received the full amount of funding requested. The awards are listed in further detail below.

Boat Purchases and Maintenance

- Coconino County Sheriff's Office: 2 personal watercraft (jet skis) for Sheriff's Office to patrol on county water ways including Lake Powell and the Colorado River - \$28,500.
- La Paz County: Replacement of 3 patrol/rescue watercraft for Sheriff's Office - \$237,900. This grant includes 2 rescue boats: One 20 ft. boat for \$93,000 and one 18 ft. boat for \$84,000. The grant also includes 1 pontoon boat at a cost of \$43,000 and additional equipment for all 3 boats.
- La Paz County: Replacement of engine and outdrive and upgrade steering system in water rescue watercraft; remodel kitchen and floor coverings in Buckskin Water Rescue and Medical Aid facility - \$67,600. Of that amount, \$39,500, or 58% is for the kitchen remodel and floor coverings. As mentioned above, the kitchen remodel for this facility may not fit the intent of the projects allowed by statute.

(Continued)

- Maricopa County: Replacement of lake patrol air boat and motor - \$47,300.
- Mohave County: Replacement of 3 law enforcement watercraft for Sheriff's Office - \$360,000. Of the grant amount, the 3 boats are estimated to cost \$99,000 each plus \$21,000 each for equipment and trailers.

Boating Area Renovations and Improvements

- Bullhead City: Develop a non-motorized boat launch facility in community park, including a restroom, parking lot, and sewer renovation - \$1,232,000. As discussed above, this non-motorized boat project may not be consistent with the intent of the SLIF statutes.
- Lake Havasu City Fire Department: Requested \$175,800 to develop an automatic data collection and notification system for carbon monoxide levels in Bridgewater Channel - received \$167,400.
- Lake Havasu City: Requested \$726,000 to extend water and sewer lines and construct sewer lift station to serve newly proposed launch facilities. The amount was reduced with matching funds - received \$425,700.
- La Paz County: Install gangway and courtesy dock compliant with the Americans with Disabilities Act (ADA), a safety dock, refurbish and stripe existing parking area, create new parking area, and install an ADA-compliant walkway between gangway and parking. For this project, ADA-compliant refers to wheelchair accessibility to these areas - \$265,000.
- La Paz County: Improve community park with 6 new beachfront ramadas, replacement of broken concrete picnic tables and barbeques, and new trash cans - \$124,400.
- City of Show Low: Renovate restroom and install new fish cleaning station - \$250,000.

Lake Construction

- Town of Buckeye: Design and engineering costs for new recreational lake - \$560,000. The grant is split into 2 purposes: \$210,000 will be used for the site preparation before excavation, while the remaining \$350,000 will be used for design and engineering costs. Total cost of the project is approximately \$4.7 million and Buckeye requested \$4.4 million in SLIF grants. However, the board only approved \$560,000 with a condition that Buckeye report back to the board with a more detailed plan for the lake. The Parks Board stated that most of the land has been acquired and was privately owned, although there is a small portion that is state trust land and has not been acquired yet. The Town of Buckeye did receive \$260,000 in SLIF funding in 1999 for a feasibility study which concluded that the project was feasible. A follow up study in 2005, not funded through SLIF, confirmed that the project was still feasible.

Though the construction of new lakes is consistent with SLIF statutes, there exists a broader policy question of whether or not committing large levels of funding for the creation of a new lake is the most efficient use of SLIF funds. At least 2 projects besides Tempe Town Lake have received funding from SLIF grants but never were completed due to land and water acquisition issues. Navajo County was awarded \$2.1 million in FY 1990 for the development of Mogollon Lake and Pinal County was awarded \$3.9 million in FY 1997 and FY 1998 for the Picacho Lake project. The Parks Board has awarded \$560,000 in grants to the Town of Buckeye. Buckeye had originally requested \$4.4 million for the project.

As a point of reference, Tempe Town Lake received approximately \$5,000,000 total from SLIF in FY 1997 and FY 1998. Tempe Town Lake does not allow gasoline powered boats but does allow electric powered boats. Only 3 types of boats are allowed: manually driven, wind-driven, and single electric motor boats. Though the Buckeye grant request was submitted to the Parks Board before the statutory change discussed above took place, the Parks Board has received a

(Continued)

letter from Buckeye confirming that gasoline powered boats would be allowed on the proposed lake.

State Parks Funding

- A State Parks project totaling \$250,000 to provide water for fire prevention at Lake Havasu State Park. The project includes installing a fire suppression main for fire prevention and protection and 3 fire hose cabinets in remote areas of the lake to provide water to areas in the park that are not accessible by Lake Havasu City fire trucks.

SLIF Administrative Funding

In addition to the above grants and projects, the parks department may use SLIF funds to administer the grant program. Based on an agreement with AORCC, the agency is allowed to use up to 11.8% of the available revenues to administer the SLIF program. Due to reduction in other funding sources, however, the Parks Board approved the use of SLIF monies for operating costs in excess of 11.8% in FY 2004 through FY 2007.

In FY 2004 the Parks Board approved an additional \$700,000 to offset the loss of funding due to the Governor's veto of a \$700,000 appropriation from the Land Conservation Fund (LCF) Administration Account, which consists of interest earned on the Public Conservation Account (Growing Smarter). This \$700,000 shift was again authorized by the Parks Board in FY 2005 and FY 2006, though the actual amounts in FY 2005 and FY 2006 were \$535,000 and \$671,300, respectively. In FY 2007, the budget included \$700,000 from the General Fund to pay for this expense. Therefore, the Parks Board will no longer show a SLIF offset for this purpose.

In addition, SLIF funds were used in FY 2005 and in FY 2006 to offset losses in Heritage Fund interest earnings that have occurred since FY 2001. According to the Parks Board, the Heritage Fund is not an appropriate source of funding for these operating costs. As a result, these costs have been permanently been moved to SLIF.

In FY 2006, the Parks Board originally intended to expend \$4.0 million on administration, but ultimately only spent \$3.6 million. The Board is proposing to spend \$3 million in FY 2007. This decrease in funding is partially a result of a shift of operating expenses of \$700,000 to the General Fund for FY 2007. This shift made an additional \$700,000 available for SLIF capital grants.

Table 1			
SLIF Used for Parks Operation			
	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
SLIF Administration	\$1,652,700	\$1,947,600	\$3,000,000
LCF Offset	535,000	671,300	0
Heritage Shift	934,700	934,700	0
Total	\$3,095,400	\$3,553,600	\$3,000,000

Status of the Fund

At the end of FY 2006, SLIF had cash balances of approximately \$19.1 million though the majority of these funds are committed. Of the \$19.1 million, \$5.2 million is obligated to grants awarded in prior years and \$2.7 million is obligated for State Parks projects that have received Committee review in previous years. After taking these obligations into account, SLIF has approximately \$11.2 million in unobligated funds, prior to the realization of any FY 2007 revenue. Of this amount, the Parks Board has approved grants and projects totaling \$4 million, which would leave \$7.2 million

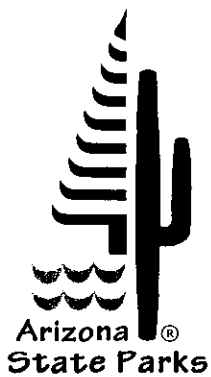
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unobligated in the fund. As discussed above, the agency is expecting to use \$3 million in SLIF funds for operating costs in FY 2007.

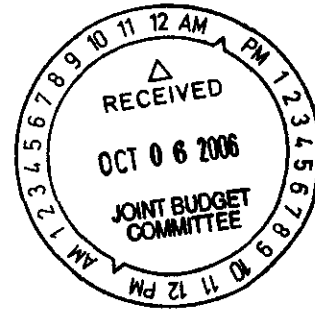
Table 2 below summarizes the current status of SLIF, including an estimated FY 2007 ending balance of \$13.9 million that would be available for operating expenditures and grants and projects in FY 2008.

Table 2	
State Lake Improvement Fund	
FY 2006 Ending Balance	\$19,060,000
Prior Year Obligations	(7,882,800)
Current Grant/Projects Request	(4,015,800)
FY 2007 Operating Expenditures	(3,000,000)
Estimated FY 2007 Revenue	<u>9,500,000</u>
Estimated FY 2007 Ending Balance	\$13,661,400

RS/MB:ym



October 5, 2006



Representative Tom Boone, Chair
Joint Committee on Capital Review
Arizona House of Representatives
1700 West Washington
Phoenix, Arizona 85007

Janet Napolitano
Governor

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Arizona State Parks
1300 W. Washington
Phoenix, AZ 85007

Tel & TTY: 602.542.4174
www.azstateparks.com

800.285.3703 from
(520 & 928) area codes

General Fax:
602.542.4180

Director's Office Fax:
602.542.4189

RE: State Lake Improvement Fund Project List Submission

Dear Representative Boone:

On behalf of the Arizona State Parks Board, I submit the attached list of State Lake Improvement Fund (SLIF) projects per A.R.S. §5-382 to the Joint Committee on Capital Review. Funding for these projects comes from a portion of the fuel sales tax attributable to watercraft, and watercraft registration fees. The list includes the applying entity and project title, cost, and description for twelve (12) projects totaling \$3,765,750.

In addition to the grant projects, \$250,000 of FY 2006 revenues for a fire/water main at Lake Havasu State Park is also submitted for review.

Should you have any questions on the State Lake Improvement Fund grants to outside entities, please contact Jay Ziemann, Assistant Director, at (602) 542-7104.

Sincerely,

Kenneth E. Travous
Executive Director

KET/ds

Enclosures

cc: Senator Bob Burns, Vice-Chair, Joint Committee on Capital Review
Richard Stavneak, Director, Joint Legislative Budget Committee
Matt Busby, Fiscal Analyst, Joint Legislative Budget Committee
David Jankofsky, Director, Office of Strategic Planning and Budgeting
Patrick Makin, Fiscal Analyst, Office of Strategic Planning and Budgeting

**Arizona State Parks
Grants to Outside Entities
State Lake Improvement Fund
FY 2006 Monies**

1. Town of Buckeye

Project Cost: \$ 783,500

SLIF Grant: \$560,000

Project Description: Town of Buckeye proposes to development at new recreation lake, using the funds for design and engineering cost and beginning stages of clearing the land.

2. Coconino County Sheriff's Office

Project Cost: \$ 28,496

SLIF Grant: \$ 28,496

Project Description: Coconino County Sheriff's Office proposes to purchase two personal watercraft for patrol on county waterways including Lake Powell and Colorado River.

3. La Paz County Sheriff's Office

Project Cost: \$ 237,850

SLIF Grant: \$ 237,850

Project Description: La Paz County Sheriff's Office proposes to replace three (3) obsolete patrol/rescue watercraft.

4. La Paz County – Community Park

Project Cost: \$ 124,400

SLIF Grant: \$ 124,400

Project Description: La Paz County proposes to build six (6) additional beachfront ramadas, replace broken concrete picnic tables and barbeques, new trash cans.

5. Bullhead City

Project Cost: \$ 1,432,000

SLIF Grant: \$ 1,232,000

Project Description: City of Bullhead City proposes to development of a non-motorized boat launch facility in Community Park, including a restroom, parking lot and sewer renovation/improvement.

6. Mohave County Sheriff's Office

Project Cost: \$ 360,000

SLIF Grant: \$ 360,000

Project Description: Mohave County Sheriff's Office proposes to replace three (3) obsolete watercraft used for law enforcement patrol.

7. Maricopa County Sheriff's Office

Project Cost: \$ 47,325

SLIF Grant: \$ 47,325

Project Description: Maricopa County Sheriff's Office proposes to replacement of lake patrol air boat and motor.

8. La Paz County – Take-off Point

Project Cost: \$ 345,000

SLIF Grant: \$ 265,000

Project Description: La Paz County proposes to purchase and install ADA-compliant gangway and 8' x 40' courtesy dock; Purchase and install 5' x 20' safety dock; Refurbish and stripe existing parking area; Create new parking area-surface and stripe; Install ADA-compliant walkway between gangway and parking.

9. La Paz County/Buckskin Fire Department

Project Cost: \$ 70,500

SLIF Grant: \$ 67,595

Project Description: La Paz County/Buckskin Fire Department proposes to replacement of existing engine and out drive & upgrade steering system in water rescue watercraft; remodel Buckskin Water Rescue and Medical Aid facility-specifically remodel kitchen and replace floor coverings.

10. City of Show Low

Project Cost: \$ 250,000

SLIF Grant: \$ 250,000

Project Description: City of Show Low proposes to renovate restroom and install new fish cleaning station.

11. Lake Havasu City Fire Department

Project Cost: \$ 167,432

SLIF Grant: \$ 167,432

Project Description: Lake Havasu City Fire Department proposes to provide automatic data and notification for carbon monoxide levels in Bridgewater Channel. Data would provide information to determine when to close the Channel to protect public health.

12. Lake Havasu City

Project Cost: \$ 1,022,152

SLIF Grant: \$ 425,652

Project Description: Lake Havasu City proposes to extend water and sewer lines and construct sewer lift station to serve new proposed South/Mainland Launch Facility.

13. Arizona State Parks

Project Cost: \$ 475,000

FY 2006 SLIF Funding: \$250,000

Prior Year SLIF Funding for Statewide Improvements: \$225,000

Project Description: Water for fire prevention at Lake Havasu State Park is not available at this time. A Fire Suppression Main is needed for fire prevention and protection as required by the Fire Marshal. Work to include installation of approximately 4400 L.F. of 8" ductile iron pipe through the South campgrounds with eight (8) fire hydrants and three (3) new water meters. The fire water system also includes three (3) fire hose cabinets fed from 6" ductile iron pipe in remote areas that are currently not accessible by the Lake Havasu City fire department trucks. All work has been designed in accordance with ADEQ Standards and Lake Havasu City Fire and Water Standards.

STATE OF ARIZONA

Joint Committee on Capital Review

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DATE: November 8, 2006

TO: Representative Tom Boone, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Amy Strauss, Fiscal Analyst

SUBJECT: Northern Arizona University (NAU) – Report on Indirect Debt Financing for
Conference/Hotel Complex

Request

Laws 2006, Chapter 352 requires the Joint Committee of Capital Review (JCCR) review any Arizona Board of Regents (ABOR) capital projects using indirect debt financing. NAU has executed partnerships with a newly formed limited liability company (LLC), the City of Flagstaff, and a private hotel developer for 3 structures: an on-campus hotel, a conference center, and a parking structure.

Chapter 352 was effective September 21, 2006. As NAU entered into these agreements before the effective date of this legislation, this item is submitted for information only. The Committee, however, still has the option of reviewing the proposal under the spirit of Chapter 352.

Summary

- Northern Arizona Capital Facilities Finance Corporation, the newly formed LLC, issued \$12.4 million in lease revenue bonds in September 2006 for the conference complex and parking structure. The hotel is being developed in a separate partnership with Drury Hotels Inc., which is responsible for the financing of that part of the project.
- The total project cost for the parking and conference center is \$16 million. Including building fees, contingency and other costs, total funds for this project are \$18.5 million; this includes the \$11.7 million from bond proceeds, \$2.8 million from General University Funds, \$2 million from the City of Flagstaff, and \$2 million from the Technology and Research Infrastructure Fund (Proposition 301 sales tax revenues for education).
- Debt service payments on the bonds will be made from the operation revenues from the parking and conference center, as well as proceeds from a \$5 room surcharge from the hotel, and revenues generated from the ground lease. Project revenues will not exceed debt service costs until 2015; until that time NAU plans to use monies from their General Fund as a supplemental revenue source.

(Continued)

- The LLC will lease the conference center and parking facilities to NAU for the financing term under a master lease agreement. NAU will at that time provide the operation and maintenance of the facilities. NAU will retain the title to these structures when the debt is retired.
- NAU entered into a 30-year ground lease with Drury Hotels with two 10-year renewal options. The status of the hotel as a state asset at the end of that lease remains unclear.

Recommendation

As these transactions have already taken place, this item is for information only and no Committee action is required. However, in the spirit of Chapter 352 the Committee may still act, and has at least the following options:

- 1) Favorable review – Project costs for the conference center and parking structure appear to be reasonable.
- 2) Unfavorable review – As Chapter 352 was enacted in June 2006, NAU may have been expected to seek the Committee's input prior to entering into this transaction.

Additionally, the Committee requests that NAU submit the following information by November 30:

1) ground lease information that addresses whether the hotel will ever become a state asset, 2) additional information on the procurement process for selecting a hotel developer, and 3) rationale for issuing system revenue bonds under the LLC instead of the university.

Analysis

NAU is establishing 2 partnerships for development of new facilities using indirect financing. The first partnership establishes an LLC for a conference center and parking structure. The second partnership is with a hotel company for a new hotel on campus. The facilities will be available for NAU's Hotel and Restaurant Management program.

Conference Complex/Parking Structure

Using Construction Manager at Risk procurement process, NAU plans to develop a 41,000 square foot conference center and 344 space parking structure located on the North end of campus at the intersection of Milton Road and Butler Avenue. In order to finance the cost of design, construction, and operation of the conference center and parking structure, the Northern Arizona Capital Facilities Finance Corporation (NACFFC) was created as a non-profit LLC to support university initiatives. NACFFC will enter into a ground lease with NAU for the site in order to construct the conference center and associated parking structure. The facility will then be leased back to the university, which will also operate the facilities.

NACFFC issued \$12.4 million in lease revenue bonds with a Standard and Poor's AAA credit rating, for a term of 30 years, at an estimated interest rate of 4.9%. The average estimated annual debt payment is \$822,750. The funding source of debt service is revenues generated from the operations of the conference and parking structures, a portion of ground lease revenues from the hotel project, and a \$5 surcharge on hotel room rates. The revenues available for debt service will be insufficient until the 8th year of operation, and NAU will fund the deficits from NAU's General Fund and reserves. Upon retirement of debt, the 30-year ground lease will terminate and the title will be transferred to NAU.

The total project cost for the parking and conference center is \$16 million. Total funds for this project are \$18.5 million; this includes the \$11.7 million from bond proceeds, \$2.8 million from General University Funds, \$2 million from the City of Flagstaff, and \$2 million from the Technology and Research Infrastructure Fund (Proposition 301 sales tax revenues for education). Of the \$18.5 million,

(Continued)

\$17.3 million is for project construction and design costs, \$700,000 is for contingency funding, and \$500,000 is for other costs (cost of issuance, bond insurance premium, etc).

A.R.S. § 15-1683 allows each state university to incur projected annual debt service for bonds and certificates of participation of up to 8% of each institution's total projected annual expenditures. This calculation is known as the debt ratio. As these bonds were not issued by the university, they are not reported under the debt ratio. If this project did impact NAU's debt ratio, it would increase from 6.2% to 6.5%. NAU estimates new operating and maintenance costs of \$213,400 for the conference center and parking structure. NAU plans to use operating revenues to support these expenses.

Table 1 displays the total project costs for the projects. These are \$12.5 million for the conference center and \$6 million for the parking structure. The total cost per square foot for the conference complex is \$305 and \$17,440 per space for the parking structure. The direct construction cost per square foot is \$265 for the conference center and \$15,000 for the parking structures. There are currently no comparable university projects for the conference center; however, quarterly construction cost reports from construction consultants Rider Hunt Levett & Bailey show the cost per square foot is in the middle range of square footage costs for a university building, therefore, we believe the costs are reasonable. The per space cost for the parking structure is comparable to previous parking projects; therefore, these costs are also reasonable.

Table 1			
Northern Arizona University Indirect Financing Projects			
<u>Project</u>	<u>Total Project Cost</u>	<u>Total Cost Per Square Foot</u>	<u>Direct Construction Cost Per Square Foot</u>
Parking Structure	\$ 6,000,000	\$17,440/space	\$15,000/space
Conference Center	\$12,500,000	\$305/sf	\$265/sf

Hotel

Drury Hotels, Inc. is to build a 150-room hotel on 1.76 acres of the 4.8 acre site that will also house the conference and parking facilities. The ground lease granted to Drury is for a 30-year term, with two 10-year renewal options. Drury would pay a percentage of gross receipts of 3% for the first \$3 million, 3.5% for \$3 million to \$5 million, and 4% of any amount in excess of \$5 million. Drury's first year gross receipts are estimated at \$2.9 million, which would generate revenue payments of \$88,000 to the university and gross receipts in the next 3 years of \$3.8 million, which would generate \$120,500 in annual revenues to the University. Revenues from both the \$5 surcharge and percentage of receipts would be used by NAU to pay a portion of the debt service for the conference and parking project. It is not clear what the university obligation would be if Drury does not honor their 30-year ground lease.

Universities have begun to finance capital projects indirectly through university foundations or through the formation of LLCs, primarily to avoid having liability for those projects on university financial reports. As these types of arrangements became more frequent, credit rating agencies began to take these indirect financing agreements into account. In May 2002, the Government Accounting Standards Board (GASB) issued Statement 39, clarifying that universities should financially account for their legally separate nonprofit foundations.

A recent development for securing indirect financing is for universities to partner with private developers. University reporting on these agreements with private developers is not required by GASB. It is not clear if credit rating agencies have begun to incorporate these arrangements in their analyses of universities.



**NORTHERN
ARIZONA
UNIVERSITY**

Administration and Finance

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September 26, 2006

Mr. Lorenzo Martinez
Joint Committee on Capital Review
1716 West Adams
Phoenix, Arizona 85007

Dear Mr. Martinez:

While not required by statute to undergo JCCR review, Northern Arizona University and the Arizona Board of Regents want you to have background on one of our key capital projects which is under way and for which bonds were issued through third-party financing on September 12, 2006.

Northern Arizona University has been in the planning phase for the development of an on-campus hotel and conference center complex for several years in partnership with the City of Flagstaff. Our first step was to select a hotel developer for the site, who, under a ground lease from the University, would develop a hotel on the site and remit a percentage of gross receipts to the University as an annual rent payment. This was accomplished through a public procurement process. In April 2006 the Board of Regents authorized a ground lease with Drury Hotels Inc. to construct and operate a 150 room hotel at no risk to the University.

Concurrently, the University began negotiations with the Northern Arizona Capital Facilities Finance Corporation (a non-profit limited liability corporation created to support University initiatives) to ground lease the remainder of the site, construct a conference center and associated parking structure and lease the facility back to the university. This project is partially funded by a \$2.0 million contribution from the City of Flagstaff.

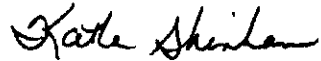
On June 22, 2006 the Board of Regents authorized this project to proceed. Time was of the essence in this matter as our construction schedule needs to be compatible with that of Drury Hotels so that both facilities open at the same time. With this in mind, foundation work commenced this month (September 2006) in order to complete concrete work prior to the onset of winter conditions.

I have written this letter as an information item. I understand that new legislation became effective September 21, 2006 which will require JCCR review of future agreements of this type.

Page two

Northern Arizona University would be happy to provide additional information upon request. If you have any questions, please call me (928-523-6104) or Christy Farley, Director of Government Affairs for NAU (602-776-4633).

Sincerely,

A handwritten signature in cursive script, appearing to read "Kathe Shinham".

Kathe Shinham

Vice President for Administration & Finance

Cc: John Haeger, President
Christy Farley, Director of Government Affairs
Dave Harris, Associate Vice President
Fred Boice, Chair, ABOR Capital Committee
Joel Sideman, Executive Director, ABOR

OVERVIEW OF NORTHERN ARIZONA UNIVERSITY CONFERENCE CENTER PROJECT INFORMATIONAL ITEM JCCR OCTOBER 2006 MEETING

Summary:

Northern Arizona University has been in the planning phase for the development of an on-campus hotel and conference center complex for several years in partnership with the City of Flagstaff. The hotel and conference center will provide practical education opportunities and internships for students in NAU's nationally recognized Hotel and Restaurant Management program as well as attract visitors to the NAU campus and serve as a regional economic engine.

The first action step was to select a hotel developer for the site on the north campus of NAU, who, under a ground lease from the University, would develop a hotel on the site and remit a percentage of gross receipts to the University as an annual rent payment. This was accomplished through a public procurement process. In April 2006 the Board of Regents authorized a ground lease with Drury Hotels Inc. to construct and operate a 150 room hotel at no risk to the University.

In June 2006 the Board approved (i) the formation of an Arizona limited liability company (L.L.C.) by Northern Arizona Capital Facilities Finance Corporation for constructing and financing a new Conference Center and Parking Facility on the north campus of NAU, (ii) a ground lease from NAU to the L.L.C. (iii) the issuance by the L.L.C. of not to exceed \$12,400,000 of Lease Revenue Bonds for the purpose of financing the design, construction and equipping of the Conference Center and Parking Facility, (iv) a lease of the Conference Center and Parking Facility from the L.L.C. to NAU, and (v) a preliminary budget of \$14 million. The budget was subsequently finalized at \$18.5 million at the September 7, 2006 ABOR Capital Committee Meeting.

The financing structure is similar to that used on many other enterprise related projects by Arizona's universities and other public entities.

Background:

This project has been a delicate balancing act between many partners and Northern Arizona University is extremely pleased with the cooperation between the university, the City of Flagstaff and Drury Southwest which will bring this important addition to the community to fruition. While such partnerships are common in other metropolitan areas, this is a monumental step in Flagstaff to integrate community and university resources, interests and aspirations for the benefit of the northern Arizona region and hopefully the entire state. The interests and timelines of multiple partners have added to the project complexity.

- To effectuate the financing of the conference center and parking facility, Northern Arizona Capital Facilities Finance Corporation formed the L.L.C. of which the Corporation is the sole member. The L.L.C. has ground leased the site for the project from NAU and will own the

project during the financing term.

- The L.L.C. will provide or contract for the design and construction of the project using a construction management at risk process. In order to finance the cost of designing, constructing and equipping the Project, the L.L.C. issued Lease Revenue Bonds with a par amount of \$12,400,000.
- The L.L.C. will lease the conference center and parking facilities to NAU for the financing term under a master lease agreement. NAU, in turn, will provide for the operation and maintenance of the facilities, either directly or through third-party providers. The revenues derived from leasing the conference center and from use of the parking facility are intended to provide the primary source of funds to the University to make the payments under the Lease Agreement.
- Upon retirement of the L.L.C.'s debt, the Ground Lease will terminate and title to the buildings and all improvements will become the property of NAU at no additional cost.
- The project is being built as an economic development initiative in collaboration with the City of Flagstaff. The project entails construction of a 41,000 gross square foot conference center and 344 space parking facility on a north campus site located at the intersection of Milton Road and Butler Avenue. Estimated construction costs are \$265/ sf for the conference center and \$15,000 per parking space. Given its expected economic impact, the City is contributing \$2,000,000 toward construction of the conference center.
- Drury Southwest has a 30 year ground lease from the university that pays a minimum of \$60,000 against percentage of gross receipts of 3% for the first \$3.0 million, 3.5% for \$3.0 to \$5.0 million, and 4% of any amount in excess of \$5.0 million. Based on these rates, the university projects rents from Drury of approximately \$120,000 in year 2010, which is the third year of operation.

Fiscal Impact:

The attached Schedule of Operating Results projects cash flow versus operating expenses within the first 10 years of operation.

Estimated Uses of Funds:

Deposits to Project Construction Funds	\$11,663,000
Deposits to Debt Service Funds	\$30,000
Deposits to Capitalized Interest Funds	\$707,000
Costs of Issuance	\$147,000
Gross Bond Insurance Premium	\$144,000
Total Underwriters Discount	\$186,000
Total Uses	\$12,877,000

Estimated Project Development Costs and Funding Sources:**Estimated Development Costs:**

Project Construction Cost	\$16,035,000
Architect/Engineering Fees	\$1,300,000
Other costs	\$485,000
Contingency	\$680,000
Total Estimated Development Cost	\$18,500,000

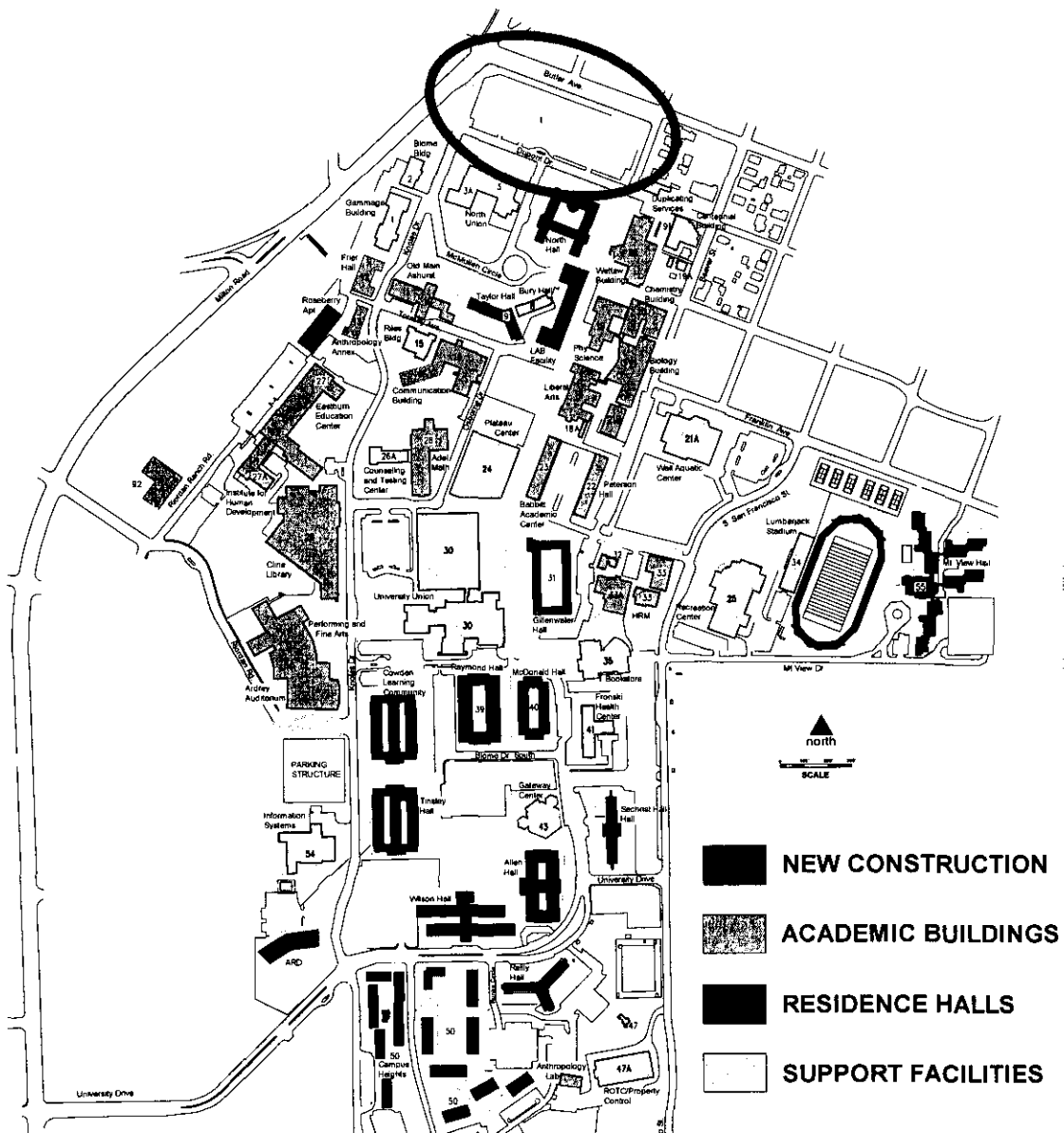
Sources of Funds for Development Cost:

Construction Proceeds from L.L.C. Bonds	\$11,663,000
Previously Approved Proceeds from Prop. 301	\$2,000,000
General University Funds	\$2,837,000
City of Flagstaff Contribution	\$2,000,000
Total Funds Available	\$18,500,000

Project Schedule:

Capital Committee approval of the revised budget	September 7, 2006
Completion of Design	September 8, 2006
Sale of Bonds	September 12, 2006
Groundbreaking	October 16, 2006
Completion and Occupancy	Winter 2008

Location Map:



PROJECTED SCHEDULE OF OPERATING RESULTS
PROPOSED NAU CONFERENCE CENTER / PARKING STRUCTURE

Assume 01/01/2008 Opening	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Operating Income										
Facility Rental	\$249,475	\$337,875	\$390,788	\$402,512	\$414,587	\$427,025	\$439,835	\$453,030	\$466,621	\$480,620
Food and Beverage	\$505,650	\$751,300	\$878,450	\$904,804	\$931,948	\$959,906	\$988,703	\$1,018,364	\$1,048,915	\$1,080,383
Building Services	\$30,000	\$38,000	\$41,000	\$42,230	\$43,497	\$44,802	\$46,146	\$47,530	\$48,956	\$50,425
Parking	\$327,725	\$408,163	\$456,425	\$470,118	\$484,221	\$498,748	\$513,710	\$529,122	\$544,995	\$561,345
Total Income	\$1,112,850	\$1,535,338	\$1,766,663	\$1,819,663	\$1,874,253	\$1,930,480	\$1,988,395	\$2,048,047	\$2,109,488	\$2,172,773
Operating Expenses										
Food and Beverage	\$379,238	\$563,475	\$658,838	\$678,603	\$698,961	\$719,930	\$741,527	\$763,773	\$786,686	\$810,287
Wages	\$283,000	\$295,000	\$306,000	\$315,180	\$324,635	\$334,374	\$344,406	\$354,738	\$365,380	\$376,341
Utilities - Conf and Parking	\$82,000	\$84,460	\$92,150	\$94,915	\$97,762	\$100,695	\$103,716	\$106,827	\$110,032	\$113,333
Repair and Maintenance	\$20,000	\$25,000	\$40,330	\$41,540	\$42,786	\$44,070	\$45,392	\$46,754	\$48,156	\$49,601
Materials and Supplies	\$15,000	\$20,000	\$28,120	\$28,964	\$29,833	\$30,727	\$31,649	\$32,599	\$33,577	\$34,584
Marketing and Promotion	\$32,000	\$34,000	\$36,000	\$37,080	\$38,192	\$39,338	\$40,518	\$41,734	\$42,986	\$44,275
Insurance	\$36,000	\$37,000	\$37,000	\$38,110	\$39,253	\$40,431	\$41,644	\$42,893	\$44,180	\$45,505
Parking M&O, Capital Reserves	\$20,000	\$40,000	\$52,800	\$54,384	\$56,016	\$57,696	\$59,427	\$61,210	\$63,046	\$64,937
Total Expenses	\$867,238	\$1,098,935	\$1,251,238	\$1,288,775	\$1,327,438	\$1,367,261	\$1,408,279	\$1,450,527	\$1,494,043	\$1,538,864
Cash Flow from Operations										
Principal and Interest Payments	\$595,804	\$822,000	\$822,000	\$822,000	\$822,000	\$822,000	\$822,000	\$822,000	\$822,000	\$822,000
Plus Drury Gournrd Lease	\$88,100	\$120,100	\$123,703	\$127,414	\$131,237	\$135,174	\$139,229	\$143,406	\$147,708	\$152,139
Plus Hotel Surcharge @ \$5.00 / room night	\$60,000	\$77,000	\$80,000	\$82,400	\$84,872	\$87,418	\$90,041	\$92,742	\$95,524	\$98,390
Net Subsidy	-\$202,092	-\$188,497	-\$102,872	-\$81,298	-\$59,077	-\$36,189	-\$12,615	\$11,667	\$36,677	\$62,437

Northern Arizona University
HOTEL FINANCIAL PROFORMA

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
# OF KEYS	148	148	148	148	148	148	148	148	148	148
ROOMS AVAILABLE	54,385	54,385	54,385	54,385	54,385	54,385	54,385	54,385	54,385	54,385
PERCENTAGE OF OCCUPANCY	58%	65%	72%	72%	72%	72%	72%	72%	72%	72%
ROOMS OCCUPIED	31,543	35,350	39,157	39,157	39,157	39,157	39,157	39,157	39,157	39,157
AVERAGE ROOM RATE	\$ 84.28	\$ 87.05	\$ 89.86	\$ 91.45	\$ 93.28	\$ 95.15	\$ 97.05	\$ 98.99	\$ 100.97	\$ 102.99
REVENUES:										
ROOM	\$ 2,658,464	90.6% \$ 3,077,146	90.6% \$ 3,510,787	90.7% \$ 3,581,003	90.7% \$ 3,652,823	90.6% \$ 3,725,675	90.6% \$ 3,800,189	90.6% \$ 3,876,192	90.5% \$ 3,953,716	90.5% \$ 4,032,790
TELEPHONE	\$ 78,642	2.7% \$ 89,259	2.6% \$ 99,861	2.6% \$ 100,859	2.6% \$ 101,868	2.5% \$ 102,867	2.5% \$ 103,915	2.5% \$ 104,955	2.5% \$ 106,004	2.4% \$ 107,054
CATERING	\$ -	0.0% \$ -	0.0% \$ -	0.0% \$ -	0.0% \$ -	0.0% \$ -	0.0% \$ -	0.0% \$ -	0.0% \$ -	0.0% \$ -
MISCELLANEOUS	\$ 188,597	6.8% \$ 229,288	6.8% \$ 281,011	6.7% \$ 268,439	6.8% \$ 275,834	6.8% \$ 283,644	6.8% \$ 291,675	6.9% \$ 299,733	7.0% \$ 308,125	7.1% \$ 316,759
TOTAL	\$ 2,935,723	100.0% \$ 3,395,694	100.0% \$ 3,871,658	100.0% \$ 3,950,301	100.0% \$ 4,030,425	100.0% \$ 4,112,295	100.0% \$ 4,195,679	100.0% \$ 4,280,880	100.0% \$ 4,367,846	100.0% \$ 4,456,613
DIRECT OPERATING EXPENSES:										
ROOM	\$ 871,490	29.7% \$ 954,984	28.1% \$ 1,041,870	26.9% \$ 1,073,126	27.2% \$ 1,105,320	27.4% \$ 1,138,480	27.7% \$ 1,172,634	27.9% \$ 1,207,813	28.2% \$ 1,244,048	28.5% \$ 1,281,369
CATERING	\$ -	0.0% \$ -	0.0% \$ -	0.0% \$ -	0.0% \$ -	0.0% \$ -	0.0% \$ -	0.0% \$ -	0.0% \$ -	0.0% \$ -
TELEPHONE AND MISC.	\$ 183,481	5.6% \$ 187,371	5.5% \$ 211,711	5.5% \$ 218,065	5.5% \$ 220,629	5.5% \$ 226,108	5.5% \$ 229,803	5.5% \$ 234,619	5.5% \$ 239,559	5.5% \$ 244,525
TOTAL	\$ 1,054,971	38.3% \$ 1,142,355	33.6% \$ 1,253,581	32.4% \$ 1,289,191	32.6% \$ 1,325,850	32.9% \$ 1,363,588	33.2% \$ 1,402,438	33.4% \$ 1,442,432	33.7% \$ 1,483,608	34.0% \$ 1,525,894
DEPARTMENTAL PROFIT	\$ 1,900,752	64.7% \$ 2,253,338	66.4% \$ 2,618,078	67.8% \$ 2,661,110	67.4% \$ 2,704,575	67.1% \$ 2,748,618	66.8% \$ 2,793,241	66.6% \$ 2,838,447	66.3% \$ 2,884,239	65.8% \$ 2,930,619
UNDISTRIBUTED OPERATING EXPENSES:										
ADMINISTRATIVE AND GENERAL	\$ 332,033	11.3% \$ 334,766	9.9% \$ 358,759	9.3% \$ 369,522	9.4% \$ 380,607	9.4% \$ 392,028	9.5% \$ 403,786	9.6% \$ 415,900	9.7% \$ 428,377	9.8% \$ 441,228
SALES AND MARKETING	\$ 116,618	4.0% \$ 122,826	3.6% \$ 128,909	3.3% \$ 130,717	3.3% \$ 134,638	3.3% \$ 138,677	3.4% \$ 142,838	3.4% \$ 147,123	3.4% \$ 151,536	3.5% \$ 156,082
REPAIRS & MAINTENANCE	\$ 143,603	4.9% \$ 159,823	4.7% \$ 175,243	4.6% \$ 181,531	4.6% \$ 188,978	4.6% \$ 192,586	4.7% \$ 198,363	4.7% \$ 204,314	4.8% \$ 210,444	4.8% \$ 216,757
UTILITIES	\$ 115,875	3.9% \$ 132,296	3.9% \$ 149,244	3.9% \$ 152,596	3.9% \$ 155,611	3.9% \$ 159,709	3.9% \$ 162,880	3.9% \$ 166,118	3.9% \$ 169,422	3.9% \$ 172,796
TOTAL	\$ 708,129	24.1% \$ 749,871	22.1% \$ 811,156	21.0% \$ 834,365	21.1% \$ 857,833	21.3% \$ 882,997	21.5% \$ 907,867	21.8% \$ 933,454	21.8% \$ 959,779	22.0% \$ 986,884
CASH FLOW FROM OPERATIONS BEFORE FIXED CHARGES, RESERVE FOR REPLACEMENT OF FIXED ASSETS, DEBT SERVICE AND TAXES ON INCOME	\$ 1,192,623	40.8% \$ 1,503,688	44.3% \$ 1,806,922	46.7% \$ 1,826,745	46.2% \$ 1,846,742	45.8% \$ 1,865,620	45.4% \$ 1,885,373	44.9% \$ 1,904,993	44.5% \$ 1,924,460	44.1% \$ 1,943,755
FIXED CHARGES:										
MANAGEMENT FEE	\$ 68,072	3.0% \$ 101,871	3.0% \$ 116,150	3.0% \$ 118,509	3.0% \$ 120,513	3.0% \$ 123,366	3.0% \$ 125,870	3.0% \$ 128,426	3.0% \$ 131,035	3.0% \$ 133,698
INSURANCE	\$ 29,357	1.0% \$ 33,957	1.0% \$ 38,717	1.0% \$ 39,503	1.0% \$ 40,304	1.0% \$ 41,122	1.0% \$ 41,957	1.0% \$ 42,809	1.0% \$ 43,678	1.0% \$ 44,556
PROPERTY TAXES	\$ 61,969	2.1% \$ 70,852	2.1% \$ 79,952	2.1% \$ 81,748	2.1% \$ 83,363	2.1% \$ 85,558	2.1% \$ 87,257	2.1% \$ 88,992	2.1% \$ 90,762	2.1% \$ 92,569
TOTAL	\$ 179,398	6.1% \$ 206,679	6.1% \$ 234,819	6.1% \$ 238,760	6.1% \$ 244,589	6.1% \$ 250,047	6.1% \$ 255,084	6.1% \$ 260,227	6.1% \$ 265,476	6.1% \$ 270,834
CASH FLOW FROM OPERATIONS BEFORE RESERVE FOR REPLACEMENT OF FIXED ASSETS, DEBT SERVICE AND TAXES ON INCOME	\$ 1,013,225	34.5% \$ 1,296,987	38.2% \$ 1,572,103	40.6% \$ 1,588,985	40.2% \$ 1,602,163	39.8% \$ 1,615,574	39.3% \$ 1,630,289	38.9% \$ 1,644,766	38.4% \$ 1,658,984	38.0% \$ 1,672,922
RESERVE FOR REPLACEMENT OF FIXED ASSETS	\$ 58,714	2.0% \$ 101,871	3.0% \$ 135,508	3.5% \$ 158,012	4.0% \$ 181,217	4.0% \$ 184,488	4.0% \$ 187,827	4.0% \$ 171,235	4.0% \$ 174,714	4.0% \$ 178,285
CASH FLOW FROM OPERATIONS BEFORE DEBT SERVICE AND TAXES ON INCOME	\$ 954,511	32.5% \$ 1,195,116	35.2% \$ 1,436,595	37.1% \$ 1,428,973	36.2% \$ 1,440,946	35.8% \$ 1,451,088	35.3% \$ 1,462,462	34.9% \$ 1,473,531	34.4% \$ 1,484,270	34.0% \$ 1,494,637

STATE OF ARIZONA

Joint Committee on Capital Review

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SENATE

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STEPHEN TULLY

DATE: November 7, 2006

TO: Representative Tom Boone, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Leah Ruggieri, Fiscal Analyst

SUBJECT: Arizona State University – Review of New System Revenue Bond Capital Projects

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 a new \$12.5 million ASU Police Department (PD) Facility, and \$6 million for the Barrett College and South Campus Academic Village Site Preparation. ASU would finance these projects with a total new revenue bond issuance of \$18.5 million.

ASU is currently negotiating with a third-party developer, American Campus Communities (ACC) to construct the Barrett College and South Campus Academic Village student residence development at a cost of \$230 million. ASU does not believe that the ACC portion of the proposal requires Committee review.

Recommendation

ASU Police Department and Site Preparation Projects

The JLBC Staff recommends that the Committee give a favorable review of the request with the following standard university financing provisions:

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

(Continued)

- A favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any revenues that may be required for debt service, or any operations and maintenance costs when the project is complete.

ASU and ACC Agreement

ASU does not believe that the agreement with ACC requires Committee review. Their arrangement with ACC may qualify as indirect debt financing, which requires Committee review. The Committee has at least the following options:

- 1) A favorable review. While ASU would be responsible for the site preparation, ACC would pay for the construction of the dorms and give title to ASU once they are finished. ACC will operate the dorms for a period of 65 years and share revenue generated from room and board fees with ASU.
- 2) An unfavorable review. ASU has not provided room and board fees for the new dorms, and it is therefore difficult to assess the extent to which ASU's share of room and board fee revenue will cover their additional costs, which include additional student program expenses and annual payments for the site preparation bond issuance.
- 3) No action. This option would reflect ASU's opinion that this agreement is not subject to legislative oversight. Alternatively, this option may reflect the belief that the reasonableness of ASU's financial agreement with ACC cannot be fully assessed without the expertise of a third party with a background in these types of arrangements.

Additional Reporting

The JLBC Staff additionally recommends that ASU report back to the Committee by December 15, 2006 on the following questions posed by Staff:

- ASU's options if ACC did not meet minimum operating standards for the residential facilities.
- Room and board fees for the South Campus Academic Village and Barrett College.
- An explanation of additional annual operating and maintenance expenses for the ASU PD estimated at \$288,000.

Analysis

ASU would contract the Police Department Facility and Site Preparation bond projects using Construction Manager at Risk (CMAR). In CMAR, the university competitively selects a General Contractor according to quality and experience. The General Contractor manages a construction project, including the associated architect and other subcontractors, from design to completion. The General Contractor chooses a qualified subcontractor for each trade based on qualifications alone or on a combination of qualifications and price.

Additionally, CMAR defines a guaranteed maximum price, after which the General Contractor must absorb almost all cost increases, except those caused by scope changes or unknown site conditions.

Police Department Facility

ASU is proposing to construct a new ASU PD facility on the southeast corner of Apache Boulevard and College Avenue, as the current PD facility is located on the sites proposed for the new Barrett College and South Campus Academic Village residential developments. Additionally, the existing ASU PD Facility is comprised of buildings that are both overcrowded and nearing the end of their useful life. The

(Continued)

new facility would be 38,000 square-feet and include spaces for administrative offices, conference rooms, central dispatching, centralized electronic security facilities, police training rooms, prisoner processing and detention, and evidence storage. It would be secured with appropriately designed fencing and electronic gates. The new facility would be constructed prior to the demolition of the old facility to avoid disruptions in service to ASU.

The total cost per-square-foot for the project is \$328 and the direct construction cost per-square foot is \$229. The \$12.5 million construction cost includes:

- \$8.7 million for direct construction
- \$1.6 million for consultant fees
- \$856,000 for contingencies

The new facility is not entirely comparable to prior university projects due to its inclusion of centralized electronic security facilities and enhanced security needs. JLBC Staff is currently researching possible methods to assess the reasonableness of the cost submitted by ASU.

The new facility will meet LEED Certified standards. LEED Certification is achieved when buildings are designed to maintain specified energy efficiencies. While the LEED Certification is expected to cost \$175,000, it is anticipated that the savings generated through greater efficiencies will be \$58,000 per year in utilities and other costs.

Site Preparation

ASU has made the development of additional on-campus student housing a high priority in their future development plans. Research demonstrates that undergraduate student success and retention rates improve when students live on campus. Final construction of the Barrett College and South Campus Academic Village residential facilities would allow an additional 3,550 students to live on campus. ASU has indicated that the Barrett College site is the only site available on campus that will adequately accommodate a fully integrated living/learning experience for Barrett Honors College students.

Site preparation for the residential facilities will include hazardous materials abatement, demolition, and waste removal for Mariposa Hall and its associated buildings, the Timberwolf Restaurant, Sahuaro Hall, the current ASU PD facility and the acquisition and demolition of Phi Kappa Psi. The \$6 million site preparation cost includes:

- \$2.7 million for demolition costs
- \$1.9 million for hazardous material abatement
- \$520,000 for contingencies

The site preparation project is not comparable to any prior university projects, and therefore there is no basis for determining the reasonableness of the cost.

Since 2004, ASU has been acquiring property on the sites proposed for both developments in their Master Development Plan, approved by ABOR in 2005. It should be noted that as part of these acquisitions, ASU has borrowed \$2.7 million from the ASU Bookstore to acquire the Timberwolf restaurant. Since this acquisition is not being externally debt financed, JCCR review is not required. ASU will repay this amount plus interest to the Bookstore with ground lease revenue received from the developer.

Proposed Financing

To finance the new ASU PD Facility and Barrett College and Academic Village Site Preparation project, ASU anticipates issuing the system revenue bonds in February 2007 with a Standard & Poor's AAA credit rating and a term of 30 years. The estimated interest rate is 6.0%. Total annual debt service would be approximately \$1.3 million, paid from tuition collections and a share of rent revenues received from the Barrett College and South Campus Housing developer ACC. The total 30-year debt service would be \$40.3 million. Tuition collections used for debt service would be unavailable to support operating expenses and may, therefore, impact the General Fund in the future.

ASU estimates that, upon completion, the new ASU PD would require new operating and maintenance costs totaling \$288,000 annually. ASU intends to request legislative appropriations to support these new costs. There are no new operating and maintenance costs associated with the Barrett College and South Campus Academic Village Site Preparation that would require additional state appropriations.

Table 1 summarizes both projects and their associated capital and operational costs.

Table 1			
ASU Revenue Bond Project Financing Costs			
<u>Project</u>	<u>ASU PD</u>	<u>Site Preparation</u>	<u>Total</u>
Project Financing			
System Revenue Bonds	12,500,000	6,000,000	18,500,000
Annual Debt Service			
Tuition Collections	908,100	0	908,100
Rent Revenues	-	435,900	435,900
Total Annual Debt Service	\$908,100	\$435,900	\$1,344,000
Total Debt Payments	27,243,000	13,077,000	40,320,000
New Operations & Maintenance	288,000	0	288,000

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 8.0% of each institution's total projected annual expenditures. This calculation is known as the debt ratio. The \$18.5 million system revenue bond issuance would increase the ASU debt ratio from 5.3% to 5.4%. If ASU were to issue system revenue bonds to finance the Barrett College and South Campus Academic Village facilities that ACC has agreed to cash finance, the ASU debt ratio would increase to 6.64%.

Ground Lease Agreement with ACC

ASU is currently negotiating a ground lease agreement with a third-party developer, American Campus Communities (ACC), to construct two new student residence developments. ACC is a publicly traded company that develops, owns and manages student housing communities. To date, ACC has developed 40 on-campus projects across the country. ACC will provide \$230 million for the construction of two housing developments on the ASU campus and will transfer title of the facilities to ASU once they are completed. In exchange, ACC will maintain and operate the new facilities and make lease payments to ASU. The student residence developments include:

(Continued)

- **The Barrett College** – This 490,000 square-foot development will provide student housing for 1,700 freshmen through upper-class honor students. The development will also integrate academic space for the Barrett Honors College, including 11 classrooms, the Dean's Office, and 26 faculty offices. Additionally, ASU will sublease back and operate a dining facility located within this complex. The estimated project cost is \$110 million.
- **The South Campus Academic Village** – This 570,000 square-foot development will provide student housing for 1,850 upperclassmen and graduate students. Non-students may also live in the development, but only with special approval from the university. The units will be apartment-style and will provide amenities such as a pool and community center, parking garage, and retail space for a total project of over 810,000 square-feet. The estimate project cost is \$130 million.

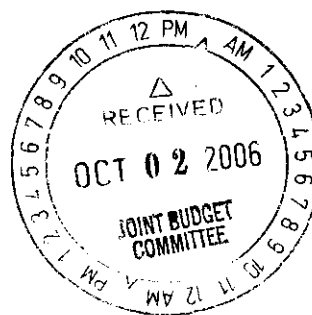
The ground lease agreement between ACC and ASU is for a period of 65 years with two 10-year options to renew. ASU will receive approximately 8% of gross revenues from the South Campus Academic Village operations for the first five years and 8.7% thereafter. ASU will receive a fixed payment of \$250,000 per year from the Barrett College operations for the first 10 years and 2.3% of gross revenue thereafter. ASU will use these revenues for the debt service on the PD facility and site preparation bond issuance.

According to the ground lease agreement, ASU will approve all design standards, exterior building elevations, exterior and structural building materials, and site and landscaping plans. ACC has agreed to operate the facilities according to minimum standards of operation. ACC and ASU will jointly establish an Advisory Committee responsible for the daily operations of the facilities and reviewing proposed rental rates, though ACC will have final authority to establish rates.

The Committee has the option to review ASU's proposed arrangement with ACC to construct and operate Barrett College and the South Campus Academic Village. The Higher Education Budget Reconciliation Bill (Laws 2006, Chapter 352) approved during the last legislative session includes a provision that requires ABOR to receive Committee review for any projects using indirect debt financing. Laws 2006, Chapter 352 specifies that indirect debt financing occurs when ABOR or a state university enters into an agreement with a tax-exempt non-profit organization or a private developer in which the non-profit organization or private developer executes bonds or enters into lease or lease-purchase agreement for capital projects that meets at least one of the following three criteria: 1) are located on the property of a state university, 2) are intended to house university activity, or 3) are capital projects in which ABOR or a state university guarantee revenue to the developer or debt service payments on behalf of the non-profit or developer. ASU's proposed arrangement with ACC could be considered an indirect debt financing agreement as it grants ACC a ground lease for a capital project that is both located on university property and will house university activity.

RS/LR:dt

October 2, 2006



The Honorable Tom Boone, Chair
Joint Committee on Capital Review
1700 W. Washington
Phoenix, AZ 85007

Dear Representative Boone:

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:

Police Department Facility and Barrett College and
South Campus Academic Village Site Preparation

Enclosed is pertinent information relating to this project.

We had previously submitted this project for the September meeting, but asked that it be withdrawn in order to incorporate a recommendation by the Arizona Board of Regents. This project was approved for project implementation at the Regents' September 27, 2006 meeting.

If you have any questions or desire any clarification on the enclosed material, please contact me at (480) 727-9920.

Sincerely,

Carol Campbell
Executive Vice President and CFO

Enclosures

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
Richard Stanley, Senior Vice President and University Planner
Virgil Renzulli, Vice President for Public Affairs
Scott Cole, Deputy Executive Vice President, University Services
Steve Miller, Deputy Vice President, Public Affairs
Lisa Frace, Associate Vice President for Budget and Planning
Gerald Snyder, Associate Vice President for Finance and Treasurer
James Sliwicki, Director, Budget Planning and Management
Scott Smith, Director, State Relations

EXECUTIVE SUMMARY

ACTION ITEM:

Arizona State University Police Department (ASU PD) Facility and Barrett College and South Campus Academic Village Site Preparation, Project Implementation, Arizona State University Tempe campus

ISSUE:

ASU requests Project Implementation for: (i) the ASU PD Facility and (ii) the Barrett College and South Campus Academic Village Site Preparation.

PREVIOUS BOARD ACTION:

- Revised Capital Development Plan - January 2004
- Capital Development Plan – June 2005
- Revised Capital Development Plan - February 2006
- Capital Development Plan - June 2006

BACKGROUND:

ASU has been in negotiations with a third-party developer, American Campus Communities (ACC), to construct two large, new student residence developments, Barrett College and the South Campus Academic Village. The sites for these projects were included in the Master Development Plan that was approved by the Board in 2005. ASU has been acquiring property to complete these sites since 2004. The projects included in this action item are the remaining steps necessary to acquire, relocate, or demolish existing structures on the sites in order to begin construction of the residential developments. Approval of the ground lease to the developer is contained in a separate Board Action Item.

The ASU PD Facility Project last appeared before the Board in June 2006 as one of the critical components of the overall South Campus Academic Village. Current ASU PD facilities are located on the sites of the proposed Barrett College and the South Campus Academic Village. These buildings are outmoded, overcrowded, and at the end of their useful lives. A new ASU PD Facility must be constructed prior to demolition of the existing structures in order to provide continuous service to the University.

PROJECT DESCRIPTION:

The site for the new ASU PD Facility will be on Lot 17, on the southeast corner of Apache Boulevard and College Avenue.

EXECUTIVE SUMMARY

The ASU PD portion of this project will relocate the facilities in the current ASU PD compound into a single facility. The project will construct a 38,000 gross square foot building which will include spaces for administrative offices, conference rooms, central dispatching, centralized electronic security facilities, police training rooms, prisoner processing and detention, and evidence storage. The entire complex will be secured with appropriately designed fencing and electronic gates. Campus security and video surveillance is currently performed by multiple parties and this facility will provide the appropriate facilities to control these high liability areas centrally. The facility is estimated to cost \$12.5 million.

The several facilities to be demolished on the Barrett College and South Campus Academic Village sites are: Sahuaro Hall (east of McAllister Ave. and at the southern terminus of Adelphi Dr.), Mariposa Hall and associated buildings (on the southwest corner of Apache Blvd. and McAllister Ave.), the Timberwolf Restaurant (north of Apache Blvd.), and current ASU Police facilities (north of Apache Blvd.), and the acquisition and demolition of Phi Kappa Psi (a fraternity house east of Adelphi Dr. and north of Sahuaro Hall). The project must abate asbestos and other hazardous materials before the buildings are demolished.

At the Capital Committee meeting held on September 7, 2006, the Committee authorized ASU to proceed with this project subject to the limitation that site preparation work not include demolition of the Visitors Information Center (VIC) and with an understanding that there was to be further consultation with representatives of the historic preservation community regarding possible options for the VIC. Subsequent to the Capital Committee meeting ASU and ABOR representatives met with representatives of the historic preservation community and offered the option of disassembling the roof portion of the VIC for possible adaptive reuse on the ASU Tempe campus. Based upon the very positive response of those attending the meeting, this offer has also been formally communicated to the State Historic Preservation Office (SHPO). It is anticipated that a resolution of this issue will be presented for Board discussion at the September ABOR meeting, at which point ASU would ask that the Capital Committee's recommendation be revised to include authorization to move forward with all necessary elements of site preparation.

Estimated project costs for the Barrett College and South Campus Academic Village site preparation is \$6.0 million.

PROPOSED SCHEDULE:

• Capital Development Plan	June 2006
• Project Implementation	September 2006
• Project Approval	November 2006
• Construction Start	December 2006
• Occupancy	October 2007 (ASU PD)

PROJECT JUSTIFICATION:

Arizona State University's Comprehensive Development Plan identified development of additional on-campus student housing as a high priority for ASU at the Tempe campus. The Plan addresses the dramatic increase in demand for on-campus housing and will eventually add as many as 5,500 beds to the university's residential capacity. Barrett College and South Campus Academic Village further the goal to increase student retention by providing a more supportive environment for undergraduate students.

EXECUTIVE SUMMARY

The Barrett College site, north of Apache Blvd. and east of McAllister Ave, is the only site available on campus that will adequately accommodate a fully integrated living/learning experience that is expected to become a hallmark of the Barrett Honors College. Before construction can begin on Barrett College, the existing ASU police facilities must be relocated. The relocation of ASU PD will create a more centralized, efficient ASU PD to better service our community of students and thus, the community as a whole.

Development of the South Campus Academic Village requires site preparation including demolition of several outdated residential facilities. These residence halls will be replaced with new facilities that increase the diversity of on-campus housing and are designed specifically to attract upper-class students who prefer apartment-style living.

FISCAL IMPACT AND FINANCING PLAN:

The ASU PD Facility project was included in the ASU 2007 Capital Development Plan, submitted in June 2006, which shows that ASU debt service on all outstanding debt would be 6.2% of ASU total projected expenditures (State Law basis, max 8%) and 7.7% of ASU projected unrestricted expenditures (ABOR Policy basis, max 10%). The addition of the Barrett College and South Campus Academic Village site preparation costs will not change the debt service percentages previously reported in the CDP. The debt service for this project is .09% (9/100th of 1%) of ASU total projected expenditures (State Law basis) and .11% (11/100th of 1%) of ASU projected unrestricted expenditures (ABOR Policy basis).

RECOMMENDATION:

That the Board grant Project Implementation to Arizona State University at the Tempe campus for (i) Arizona State University Police Department (ASU PD) Facility and (ii) approve the expenditure of those above referenced funds necessary to prepare clean sites for the Barrett College and South Campus Academic Village.

EXECUTIVE SUMMARY

Capital Project Information Summary

University: Arizona State University at the Tempe campus

Project Name: Arizona State University Police Department Facility

Project Description/Location:

The ASU PD Facility project will construct a 38,000 square foot, \$12,500,000 facility. The facility will be situated on Lot 17, south of Parking Structure 1 on Apache Boulevard at the Arizona State University at the Tempe campus (see attached site diagram).

Project Schedule (Beginning Month/Year):

Planning	November 2003
Design	August 2006
Construction	December 2006
Occupancy	October 2007

Project Budget:

Total Project Cost	\$ 12,500,000
Direct Construction Cost	\$ 8,732,900
Total Project cost per GSF	\$ 312
Construction Cost per GSF	\$ 218

Change in Annual Oper. /Main. Cost:

Utilities	\$ 96,000
Personnel	\$ 53,000
All Other Operating	\$ 139,000
Subtotal	\$ 288,000

Funding Sources:

Capital

A. System Revenue Bonds	\$ 12,500,000
(Funding Source for Debt Service: Tuition)	

Operation/Maintenance

A. General Fund Appropriation	\$ 288,000
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EXECUTIVE SUMMARY

Capital Project Information Summary

University: Arizona State University
at the Tempe campus

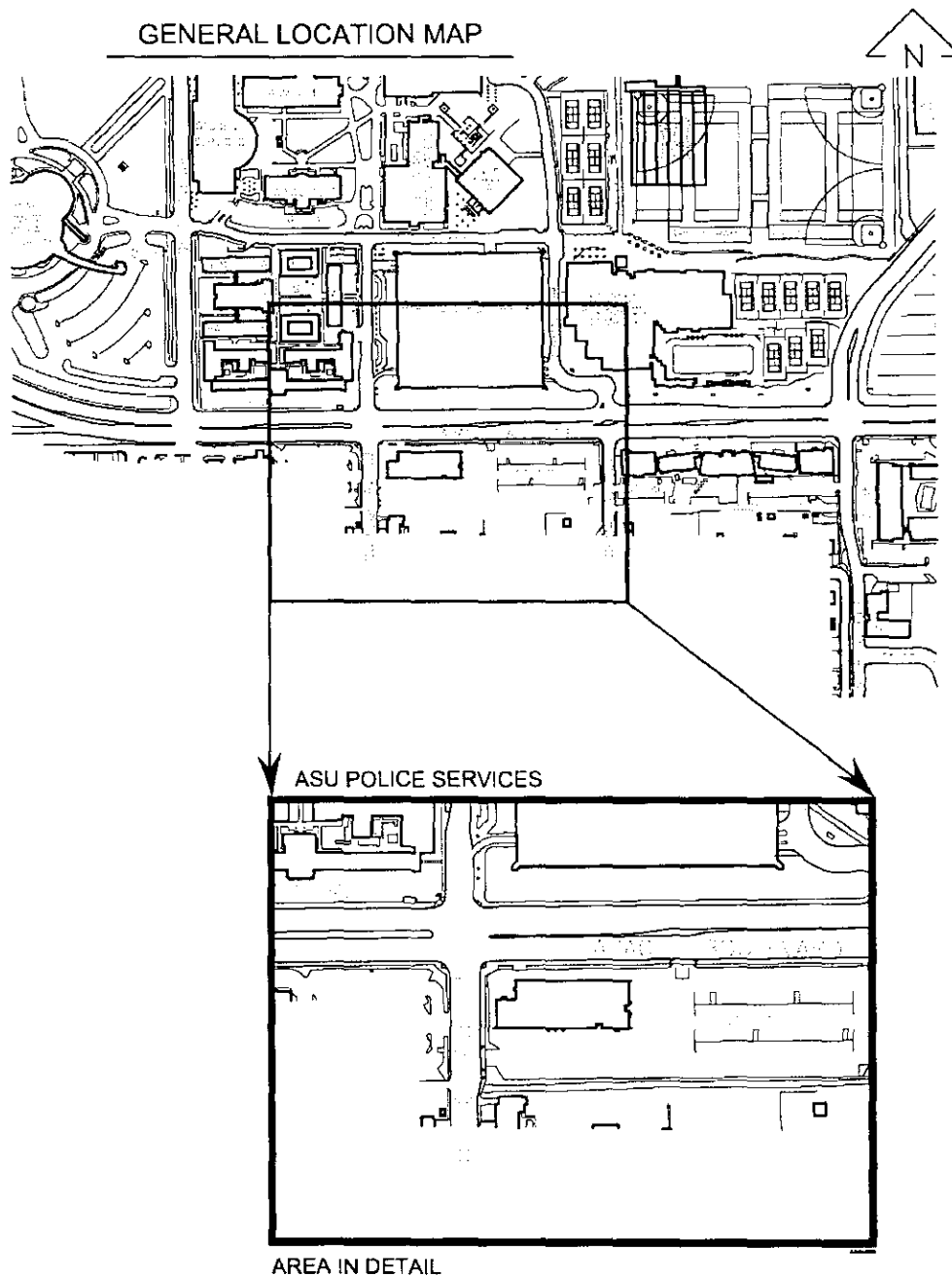
Project Name: ASU Police Department
Facility

	<u>CDP Estimate</u>	<u>Project Implementation</u>	<u>Project Approval</u>
Capital Costs			
1. Land Acquisition			
2. Construction Cost			
A. New Construction Shell / Core	\$ 8,138,165	\$ 8,138,165	\$ -
B. New Construction Tenant Improvements	-	-	-
C. Special Fixed Equipment	-	-	-
D. Site Development (excl. 2.E.)	594,735	594,735	-
E. Parking and Landscaping	-	-	-
F. Utilities Extensions	-	-	-
G. Other* (Demolition, Haz Mat Abatement)	-	-	-
H. Inflation Adjustment Construction Midpoint)	-	-	-
Subtotal Construction Cost	<u>\$ 8,732,900</u>	<u>\$ 8,732,900</u>	<u>\$ -</u>
3. Fees (% of Construction Cost)			
A. Pre-construction Services	\$ 460,000	\$ 460,000	\$ -
B. Architect/Engineer	1,000,000	1,000,000	-
C. Other (Interior Design, Special Consultant)	125,000	125,000	-
Subtotal Consultant Fees	<u>\$ 1,585,000</u>	<u>\$ 1,585,000</u>	<u>\$ -</u>
4. FF&E	\$ 575,405	\$ 575,405	\$ -
5. Contingency, Design Phase	428,000	428,000	-
6. Contingency, Constr. Phase	428,000	428,000	-
7. Parking Replacement/Reserve	-	-	-
8. Telecommunications Equipment	250,000	250,000	-
Subtotal Items 4-8	<u>\$ 1,681,405</u>	<u>\$ 1,681,405</u>	<u>\$ -</u>
9. Additional University Costs			
A. Surveys and Tests	\$ 59,070	\$ 59,070	\$ -
B. Move-in Costs	41,000	41,000	-
C. Printing Advertisement	20,000	20,000	-
D. Project Management Cost (2.07%)	258,750	258,750	-
E. Other (keylocks, key system)	40,000	40,000	-
F. Other (sign shop)	49,775	49,775	-
G. State Risk Mgt. Ins. (.0034)	32,100	32,100	-
Subtotal Addl. Univ. Costs	<u>\$ 500,695</u>	<u>\$ 500,695</u>	<u>\$ -</u>
TOTAL CAPITAL COST	<u>\$ 12,500,000</u>	<u>\$ 12,500,000</u>	<u>\$ -</u>

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

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

EXECUTIVE SUMMARY



EXECUTIVE SUMMARY

Capital Project Information Summary

University: Arizona State University at the Tempe campus

Project Name: Barrett College and South Campus Academic Village Site Preparation

Project Description/Location:

Barrett College and South Campus Academic Village Site Preparation will include site preparation planning and design, hazardous materials abatement, demolition, and waste removal for the following buildings: Mariposa Hall and associated buildings (on the southeast corner of Apache Blvd. and McAllister Ave)., the Timberwolf Restaurant (north of Apache Blvd.), Sahuaro Hall (east of McAllister Ave. and at the southern terminus of Adelphi Dr.), and the acquisition and demolition of Phi Kappa Psi (a fraternity house east of Adelphi Dr. and north of Sahuaro Hall).

Project Schedule (Beginning Month/Year):

Planning	N/A
Design	N/A
Construction	N/A
Occupancy	N/A

Project Budget:

Total Project Cost	\$ 6,000,000
Direct Construction Cost	\$ 2,700,000
Total Project cost per GSF	\$ N/A
Demolition Cost per GSF	\$ N/A

Change in Annual Oper. /Main. Cost:

Utilities	\$ N/A
Personnel	\$ N/A
All Other Operating	\$ N/A
Subtotal	\$ N/A

Funding Sources:

Capital

A. System Revenue Bonds	\$ 6,000,000
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(Funding Source for Debt Service: Revenues Generated from Barrett College and South Campus Housing)

Operation/Maintenance

B. N/A	\$ N/A
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EXECUTIVE SUMMARY

Capital Project Information Summary

University: Arizona State University
at the Tempe campus

Project Name: Barrett College and South Campus
Academic Village Site Preparation

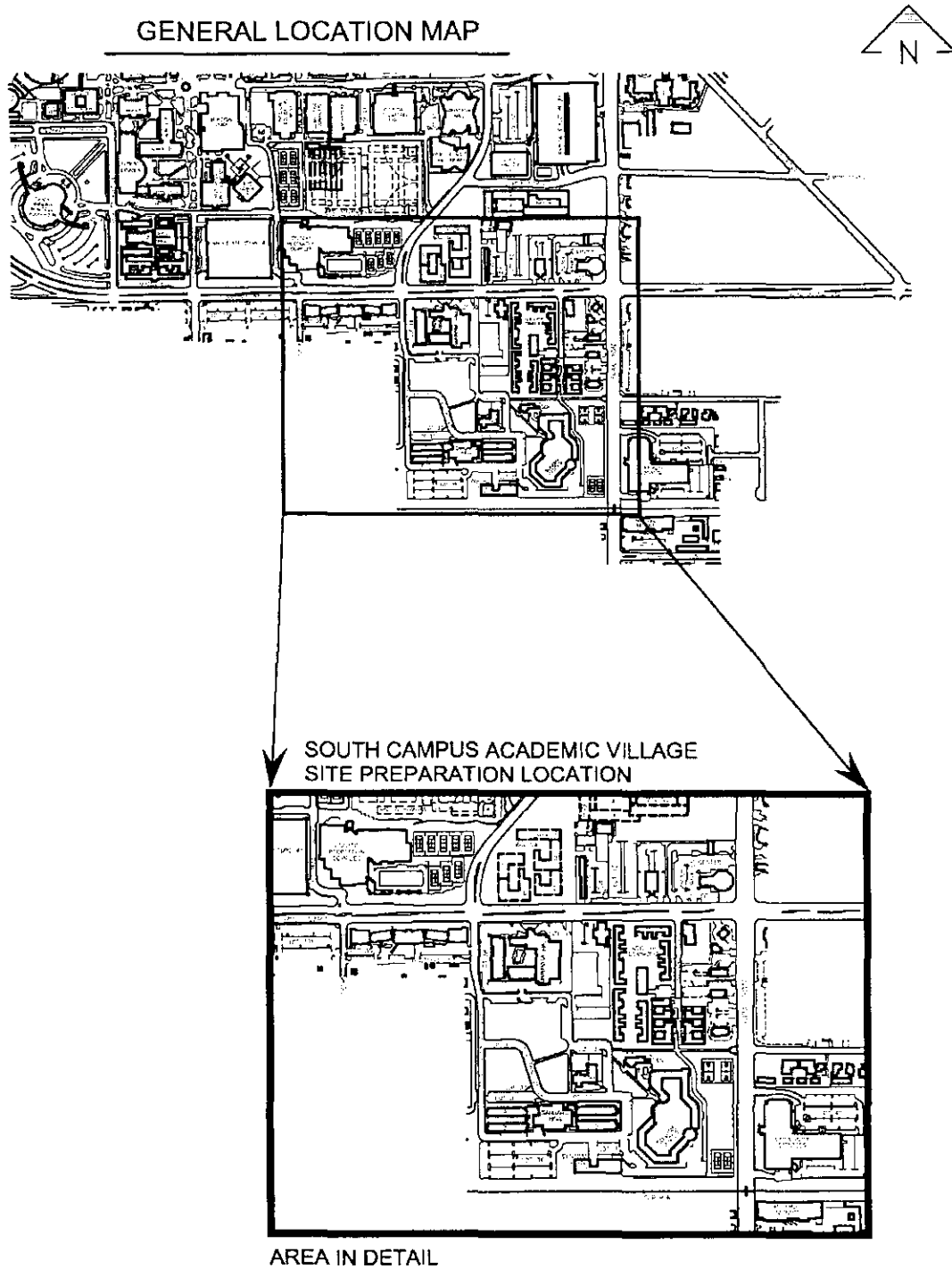
	<u>CDP Estimate</u>	<u>Project Implementation</u>	<u>Project Approval</u>
Capital Costs			
1. Land Acquisition	\$ -	\$ 800,000	
2. Construction Cost	-	-	
A. New Construction Shell / Core	-		\$ -
B. New Construction Tenant Improvements	-	-	-
C. Special Fixed Equipment	-	-	-
D. Site Development (excl. 2.E.)	-	-	-
E. Parking and Landscaping	-	-	-
F. Utilities Extensions	-	-	-
G. Other (i) (Demolition)	-	2,680,000	-
H. Other (ii) (Haz Mat Abatement)	-	1,888,865	-
I. Inflation Adjustment Construction Midpoint)	-	-	-
Subtotal Construction Cost	<u>\$ -</u>	<u>\$ 5,368,865</u>	<u>\$ -</u>
3. Fees (% of Construction Cost)			
A. Pre-construction Services	\$ -		\$ -
B. Architect/Engineer	-		-
C. Other (Interior Design, Special Consultant)	-		-
Subtotal Consultant Fees	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
4. FF&E	\$ -		\$ -
5. Contingency, Design Phase	-		-
6. Contingency, Constr. Phase	-	520,000	-
7. Parking Replacement Reserve	-	-	-
8. Telecommunications Equipment	-		-
Subtotal Items 4-8	<u>\$ -</u>	<u>\$ 520,000</u>	<u>\$ -</u>
9. Additional University Costs			
A. Surveys and Tests	\$ -		\$ -
B. Move-in Costs	-		-
C. Printing Advertisement	-		-
D. Project Management Cost (2.07%)	-	111,135	-
E. Other (keylocks, key system)	-		-
F. Other (sign shop)	-		-
G. State Risk Mgt. Ins. (iii) (.0034)	-		-
Subtotal Addl. Univ. Costs	<u>\$ -</u>	<u>\$ 111,135</u>	<u>\$ -</u>
TOTAL CAPITAL COST	<u><u>\$ -</u></u>	<u><u>\$ 6,000,000</u></u>	<u><u>\$ -</u></u>

(i) Universities shall identify items included in this category: Line item 9G "Other" includes demolition

(ii) Line Item 9H includes signage, alarm and detection systems, Campus Entry.

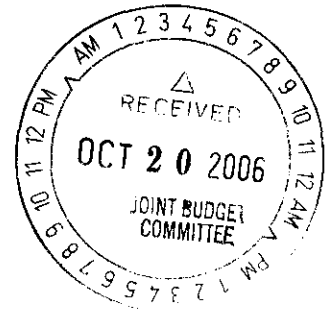
(iii) State Risk Management Insurance factor is calculated on construction contract and architect/engineer fees if applicable.

EXECUTIVE SUMMARY



October 19, 2006

The Honorable Tom Boone, Chair
Joint Committee on Capital Review
1700 W. Washington
Phoenix, AZ 85007



Dear Representative Boone:

We are submitting to the Joint Committee on Capital Review an informational report on the arrangement in process with American Campus Communities (ACC) to construct and operate student housing on the ASU Tempe campus. Enclosed is a copy of a recent agenda item for the Arizona Board of Regents on this student housing arrangement.

We are not submitting this item for review by JCCR because it is not indirect debt financing as specified in state statutes. The developer (ACC) is not issuing bonds or entering into a lease or lease/purchase arrangement for acquisition of the capital project on the property of ASU. There are no bonds being issued by the developer and ASU is not guaranteeing revenues to the developer or debt service payments on behalf of the developer. Upon construction completion of the student housing projects, ACC will transfer title to the facilities to ASU. ASU will own the buildings outright, free and clear of any debt. There will be no mortgage on the property. Significant equity capital is being invested by ACC.

If you have any questions or desire any clarification on the enclosed material, please contact me at (480) 727-9920.

Sincerely,

A handwritten signature in black ink, appearing to read 'Carol Campbell'.

Carol Campbell
Executive Vice President and CFO

Enclosures

C: Lorenzo Martinez, Assistant Director, JCCR
Joel Sideman, Executive Director, Arizona Board of Regents
Richard Stanley, Senior Vice President and University Planner
Virgil Renzulli, Vice President for Public Affairs
Scott Cole, Deputy Executive Vice President, University Services
Steve Miller, Deputy Vice President, Public Affairs
Lisa Frace, Associate Vice President for Budget and Planning
Gerald Snyder, Associate Vice President for Finance and Treasurer
James Sliwicki, Director, Budget Planning and Management
Scott Smith, Director, State Relations
Leah Ruggieri, Fiscal Analyst, JCCR

EXECUTIVE SUMMARY

ACTION ITEM:

Request for Authority to Enter into one or two Ground Lease Agreement(s) with American Campus Communities (ACC), a private developer, to construct and operate Student Housing on the Tempe campus.

ISSUE:

Pursuant to ABOR Policy 7-207, Arizona State University (ASU) requests Board approval to negotiate and enter into one or two Ground Lease Agreement(s) with ACC, a private developer, for the construction and operation of student housing on the ASU Tempe campus.

PREVIOUS BOARD ACTION:

Approval to acquire Oasis site	November 2004
Approval of the Comprehensive Development Plan	June 2005
Approval to acquire Timberwolf site	June 2005
Capital Development Plan (South Campus Academic Village)	June 2005, June 2006
2007 Capital Development Plan (DPS Facility)	June 2006

BACKGROUND:

If no further development occurs by fall 2007, ASU Tempe will have about 8,000 beds available to house an estimated 33,000 undergraduate students. Undergraduate student success and student retention rates improve significantly when students reside on campus since students who live on campus are supported in their transition to college and its continuing demands. Among first-time full-time freshmen, 81% of those who live on campus return the following year as compared to 76% of those who reside elsewhere.

Barrett College, home to the Barrett Honors program, currently has both insufficient and inadequate student housing, classroom, and faculty office space. It is highly desirable for this nationally prominent honors college to become a fully residential program, seamlessly integrating housing, dining, and academic studies within a single complex.

Several of the residence halls currently in use are beyond their useful lives and need to be replaced or undergo complete interior and exterior renovation. This project contemplates demolition and replacement of Mariposa and Sahuaro Residence Halls.

ASU has determined that, given the priority of other academic facility needs, and the existence of a private market industry for student housing, it can best meet the housing needs of the campus through a relationship with a private developer. In 2004, ASU conducted a rigorous RFP process to select a private developer possessing a demonstrated track record of successful student housing projects and the financial strength to meet the phased needs of the residential student population on the Tempe Campus. American Campus Communities (ACC) met or exceeded all selection criteria. A Memorandum of Understanding

EXECUTIVE SUMMARY

was negotiated between ACC and ASU in February 2006 and has served as the basis to determine the financial feasibility of the project.

The housing project to be developed by ACC will be located on land owned by the University that will be ground leased to ACC. Upon the completion of the projects, ACC will transfer title to the facilities to ASU subject to a leasehold interest under which ACC will maintain and operate the facilities, which consist of the following:

Phase I (South Campus) consists of housing for upperclassmen and graduate students and will be located generally on the southernmost boundary of the Tempe campus, south of Apache Boulevard. The units will be apartment-style and the student programming will be directed to a more mature, independent, residential population. All residents of the complex will be required to adhere to the ASU Student Code of Conduct as a condition of their lease.

The order of permitted occupancy in South Campus is currently will be:

1. ASU Students (continuing students given priority)
2. Students of other universities or colleges, *(only with ASU approval)*
3. ASU faculty and staff, *(only with ASU approval)*
4. Other non students, *(only with ASU President's approval with concurrence of ABOR acting through its president)*

Phase I will comprise approximately 1,850 beds in apartment style buildings with individual kitchens and no central dining facilities. This residential complex will include 570,000 gsf of apartment-style units plus amenities such as a pool and community center, parking garage, and retail space for a total project of over 810,000 gsf. Estimated project cost is approximately \$130,000,000. This project will be completed for occupancy in fiscal 2009.

Phase II (Barrett College) will provide student housing and academic space for the Barrett Honors College and will be located generally in the south portion of the Tempe campus (directly north of Apache Boulevard), along the eastern boundary of the campus. Phase II will comprise approximately 1,700 beds to house freshman through upperclass honor students in residence halls with a central dining facility. Major components of the total 490,000 gsf are 431,000 gsf of residential space and over 22,000 gsf of academic space for the Honors College, including 11 classrooms, the Dean's Office and 26 faculty offices. ASU will sublease back and operate a dining facility located within this complex in order to integrate this facility into the dining program offered elsewhere on campus. Estimated project cost is \$110,000,000. This project would open fall 2009.

Additional Phases are contemplated upon the successful completion of Phases I and II and will be brought to ABOR for approval as they are deemed to be financially feasible and ready to proceed. ACC has been granted exclusive student housing development rights on the Tempe Campus for a three-year period.

With the exception of the dining hall to be located within Barrett College, the projects will be constructed, financed, operated and maintained by ACC.

EXECUTIVE SUMMARY

SUMMARY OF BUSINESS TERMS PROPOSED FOR THE LEASE:

1. **Master Lease Agreement** – Each project is to be administered by a Ground Lease Agreement between the University and ACC. The Ground Lease is for a period of 65 years with two 10-year options to renew.
2. **Lease Payments**– ASU will receive annual rent approximating 8% of gross revenues for South Campus for the first five years and 8.7% thereafter. ASU will receive a fixed payment of \$250,000 per year for the first 10 years and thereafter 2.3% of gross revenue for Barrett College.
3. **Project Funding** – ACC will provide approximately \$230 million for construction of the project. Barrett College will be 100% equity (\$ 110,000,000 cash) financed by ACC while South Campus may be financed up to, but not to exceed, 75% of the project cost. There will be no legal recourse to ASU in the event of a default by ACC on any financing and, except for the obligations noted below, the University has no obligation to support the facilities financially or to guarantee occupancy.

ASU is responsible for the site acquisition and preparation costs that are described below, and has committed to lease back the Barrett Dining Hall space.

4. **Improvements** – ASU will approve all design standards, exterior building elevations, exterior and structural building materials, site and landscaping plans. Title to improvements, equipment, furniture and fixtures will transfer to ASU, subject to a leasehold interest, upon project completion. At the end of the lease term, ASU may either take possession of the improvements at no cost, or may direct ACC to clear the leased land of all improvements at their sole cost.
5. **Operating Expenses** – Except for the Barrett Dining Hall, ACC is responsible for all costs and expenses of operating and maintaining the facilities, including reasonable reserve deposits. Minimum Standards of Operation (both maintenance and staffing) are defined as equal to “Class A” privatized student housing.
6. **Management** – ACC and ASU will jointly establish an Advisory Committee responsible for the day-to-day operations of the Facilities, including review and approval of the annual operating budget, capital budget, and staffing plan and any proposed changes in programs, policies, and procedures. ACC retains ultimate control of those decisions that result in a material economic consequence to ACC, provided that Minimum Standards of Operations have been satisfied.
7. **Pricing** - The Advisory Committee will review proposed rental rates, however ACC will have final authority to establish rates.
8. **Non-compete** – The University will agree that it will not enter into any additional competing student housing development on the Tempe Campus unless it can demonstrate, through a market study, that adequate demand exists for additional housing.

EXECUTIVE SUMMARY

FISCAL IMPACT AND FINANCING PLAN:

In anticipation of this project, ASU previously incurred \$5.7 million to acquire the Oasis site and will soon acquire the Timberwolf site for an estimated \$2.7 million. ASU will also fund \$6.0 million of additional site acquisition and preparation costs, primarily demolition. Total cumulative land acquisition, demolition, and ancillary costs for which ASU is responsible is therefore \$14.4 million, of which \$8.4 million has already been approved, and authority to proceed with the remaining \$6.0 million is contained in another Board Action Item.

In addition, and in accordance with the Master Plan, construction of Barrett College will require relocation of the ASU Department of Public Service Facility. The estimated cost of a new DPS Facility is \$12.5 million. The Request for approval to construct the DPS Facility is contained in another Board Action Item.

Revenue to ASU will be generated primarily as a percentage of gross rental income. Expenses incurred by ASU consist of Student Affairs programming costs for the additional on-campus students attending Barrett Honors College and debt service for costs incurred for land acquisition and site preparation and for a newly constructed DPS Facility, as well as. The attached pro-forma estimates provide a summary of the anticipated revenue and costs to ASU.

As shown in the proforma, the debt service costs that ASU will pay to fund the construction of the DPS Building and other site acquisition and preparation costs are less than the anticipated ground lease revenue. However, ASU will gain a badly-needed new 40,000 gsf Department of Public Safety Facility and approximately 22,000 gsf of classroom and office space within the Barret College complex, as well as additional student housing.

RECOMMENDATION:

RESOLVED: Arizona State University is hereby authorized to enter into one or two Ground Lease(s) with American Campus Communities to develop Student Housing on the ASU at Tempe campus according to the terms and conditions set forth in this executive summary, subject to review by Board and University counsel of the final document.

RESOLVED FURTHER: That the President of the University or the Executive Vice President and CFO shall take such actions as may be necessary and proper to negotiate and execute the Ground Lease(s) on behalf of ASU.

EXECUTIVE SUMMARY

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
PROJECT COSTS:								
Annual Debt Service on \$26.9 million @ 6% (1)	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000
Additional Student Programming Expense	397,000	408,910	421,177	433,813	446,827	460,232	474,039	486,260
Total Uses	2,297,000	2,308,910	2,321,177	2,333,813	2,346,827	2,360,232	2,374,039	2,388,260

SOURCE OF FUNDS:

Projected Ground Lease Revenue:								
South Campus Apartments	1,131,538	1,181,117	1,232,680	1,286,305	1,342,075	1,508,026	1,568,347	1,631,081
Barrett College		250,000	250,000	250,000	250,000	250,000	250,000	250,000
Total Projected Ground Lease Revenue	1,131,538	1,431,117	1,482,680	1,536,305	1,592,075	1,758,026	1,818,347	1,881,081
Tuition and Fees	1,165,462	877,793	838,497	797,508	754,752	602,206	555,692	507,179
Total Sources	2,297,000	2,308,910	2,321,177	2,333,813	2,346,827	2,360,232	2,374,039	2,388,260

EXCESS SOURCES OVER USES:

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
PROJECT COSTS:								
Annual Debt Service on \$26.9 million @ 6% (1)	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000
Additional Student Programming Expense	502,908	517,995	533,535	549,541	566,027	583,008	600,498	618,513
Total Uses	2,402,908	2,417,995	2,433,535	2,449,541	2,466,027	2,483,008	2,500,498	2,518,513

SOURCE OF FUNDS:

Projected Ground Lease Revenue:								
South Campus Apartments	1,696,324	1,764,177	1,834,744	1,908,134	1,984,459	2,063,838	2,146,391	2,232,247
Barrett College	250,000	250,000	250,000	376,806	391,878	407,553	423,855	440,809
Total Projected Ground Lease Revenue	1,946,324	2,014,177	2,084,744	2,284,940	2,376,337	2,471,391	2,570,246	2,673,056
Tuition and Fees	456,584	403,816	348,791	164,601	89,690	11,617	-	-
Total Sources	2,402,908	2,417,995	2,433,535	2,449,541	2,466,027	2,483,008	2,570,246	2,673,056

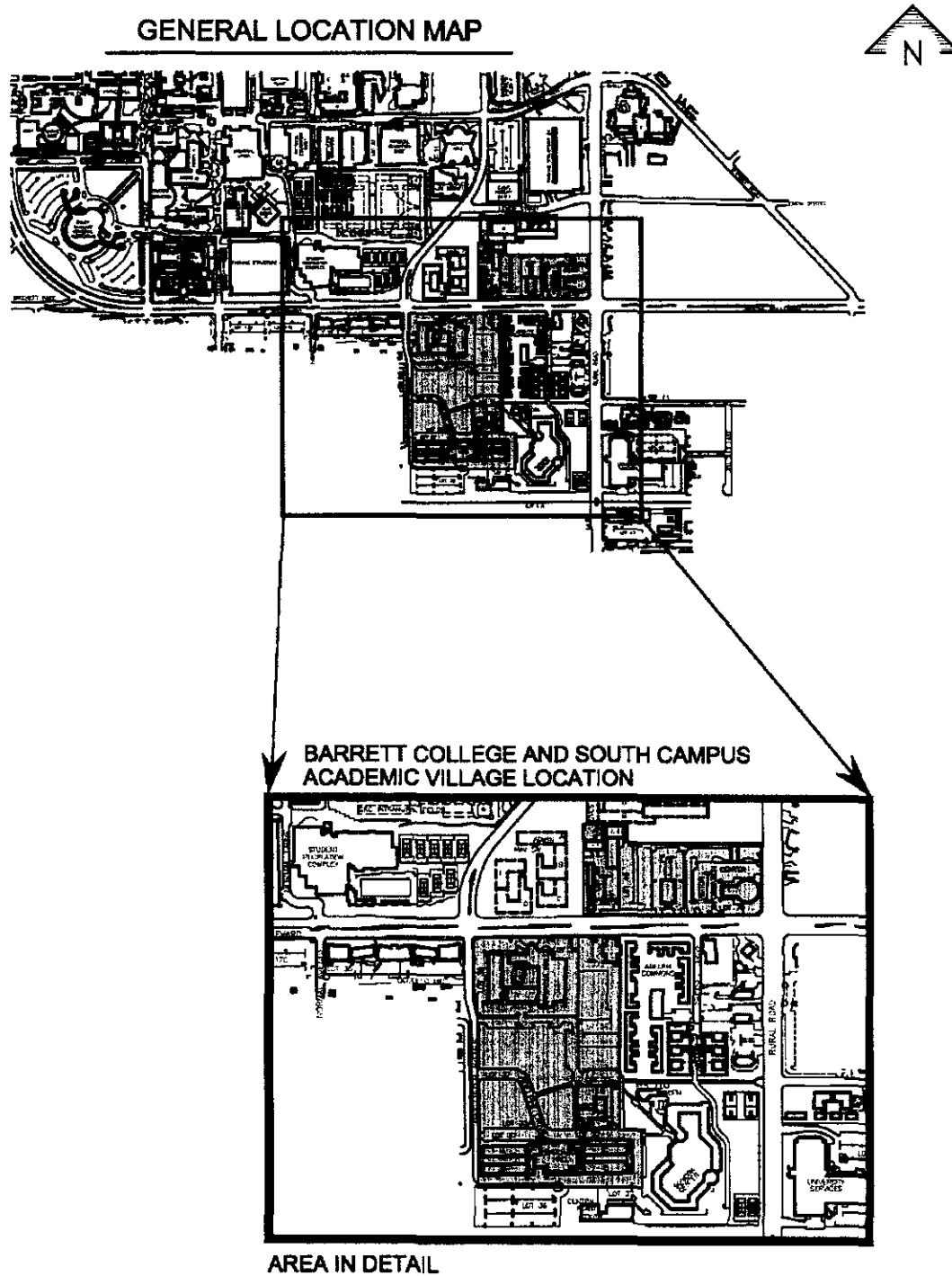
EXCESS SOURCES OVER USES:

	-	-	-	-	-	-	69,748	154,543
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(1) Debt Components:

DPS Facility Cost	12,500,000
Site Acquisition & Preparation:	
Current request	6,000,000
Previously approved	8,400,000
Total	26,900,000

EXECUTIVE SUMMARY



STATE OF ARIZONA

Joint Committee on Capital Review

STATE
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STEPHEN TULLY

DATE: November 8, 2006

TO: Representative Tom Boone
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Amy Strauss, Fiscal Analyst

SUBJECT: University of Arizona – Review of Law Commons Bond Project

Request

A.R.S. § 15-1683 requires Committee review of any university projects financed with system revenue bonds. The University of Arizona (UA) requests Committee review of \$21 million for a Law School expansion and renovation project. The project will be funded by \$14 million in gifts and \$7 million in system revenue bonds. The project includes renovations of 71,000 square feet of existing library, student organization, faculty office, and instructional space. Additionally, UA plans to expand the second floor of the Law building, providing additional square footage of 4,900 for new office space.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the request, with the provision that the project receive project approval from the Arizona Board of Regents (ABOR) at their November 30-December 1 meeting, and with the following standard university financing provisions:

- UA shall report to the Committee before expenditure of any allocations that exceed the greater of \$100,000 or 10% of the reported contingency amount total for add-alternates that do not expand the scope of the project. UA shall also report to the Committee before any reallocation exceeding \$100,000 among the individual planned renovations, renewals, or extensions.
- UA shall submit for Committee review any allocations that exceed the greater of \$100,000 or 10% of the reported contingency amount total for add-alternates that expand the scope of the project. In case of an emergency, UA may immediately report on the scope and estimated cost of the emergency rather than submit the item for review. JLBC Staff will inform the university if they do not concur with the emergency nature of the change in scope.
- A favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any revenues that may be required for debt service, or any operations and maintenance costs when the project is complete.

(Continued)

Analysis

The James E. Rogers Collection of Law is housed in 2 facilities at the northwest corner of Speedway Boulevard and Mountain Avenue. The building was constructed in the 1970's and was expanded in 1996 to provide additional office space. Adjacent Roundtree Hall was recently converted into an office, clinic, and classroom facility in support of the Law School. UA believes the renovation and expansion of the school will provide instructional and support space for the students and professors. Currently, the Law School offers a Jurist Doctorate program, which enrolls approximately 450 students, and 2 post Jurist Doctorate programs: a Masters of Law and a Doctorate of Juridical Sciences, which annually enroll about 30 to 40 students.

Key renovations include updating the Law Library with relevant technology and adding student group study space, providing additional and improved spaces for student work activities, increasing space for faculty and updating instructional space with technology improvements. The expansion component will increase the second floor of the Law building, providing new office space for faculty.

UA anticipates the Law Commons project will have a direct construction cost of \$14.9 million. This includes \$11.8 million for the renovation, \$1.4 million for new construction, and \$1.7 million in other costs. Extensive renovations will take place on 71,000 of the 111,700 existing square footage. The expansion project will add 4,900 square feet to the Law School, bringing the total project square footage to 116,600. *Table 1* below illustrates the construction and project costs associated with the renovation and expansion of the Law Commons project, as well as previous comparable projects. The total cost per square foot for the Law Commons project is \$180, in the middle range of comparable projects; therefore, we believe the costs are reasonable.

UA would contract this bond project using Construction Manager at Risk (CMAR). In CMAR, the university competitively selects a general contractor according to quality and experience. The general contractor manages a construction project, including the associated architect and other subcontractors, from design to completion. The general contractor chooses a qualified subcontractor for each trade based on price competition, selecting the lowest bid. Additionally, CMAR defines a guaranteed maximum price, after which the general contractor must absorb almost all cost increases except those caused by scope changes or unknown site conditions. Occasionally, in the case of substantial materials price inflation, a university will partially cover higher costs to maintain good contractor relations.

Table 1			
University of Arizona			
Law Commons Project Costs			
Project	<u>Total Project Cost</u>	<u>Total Cost Per Square Foot</u>	<u>Direct Construction Cost Per Square Foot</u>
Law Commons Renovation/Expansion	\$21,000,000	\$180	\$127/sf
Architecture Renovation	\$3,000,000	\$191	\$140/sf
Old Main Renovation	\$3,250,000	\$213	\$119/sf
Park Student Union Renovation/Expansion	\$6,040,000	\$137	\$114/sf

Financing

Total project cost for the Law Commons project is \$21 million, \$14 million of which will be funded by gifts received before groundbreaking. The remaining \$7 million in system revenue bonds will be repaid with tuition. UA anticipates issuing the \$7 million in AAA rated system revenue bonds later this spring with a 6.0% annual interest rate and a term of 25 years.

(Continued)

The university estimates an annual debt service of \$547,600, with a 25-year total of \$13.7 million. UA anticipates operating and maintenance costs of \$38,486 when the project is completed, and will cover these expenses from the universities' General Fund. The debt service will be paid from tuition collections. Even though UA plans to use those sources for debt service, system revenue bonds are backed by all revenues generated by the university.

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 8.0% of each institution's total projected annual expenditures. This calculation is known as the debt ratio. The \$7 million system revenue bond issuance would increase the UA debt ratio from 5.42% to 5.44%.

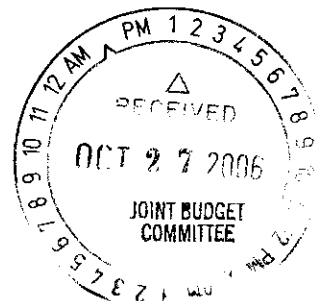
RS/AS:ss

Senior Vice President
for Business Affairs

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TUCSON ARIZONA

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Tucson, Arizona 85721
(520) 621-5977
FAX: (520) 621-7714

October 24, 2006



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

Dear Chairman Boone:

Subject: University of Arizona, Law Commons Project

On behalf of the Arizona Board of Regents (ABOR), I respectfully request that the Law Commons project for the University of Arizona be placed on the next available agenda for the Joint Committee on Capital Review.

The Arizona Board of Regents approved this project in the Capital Development Plan in March 2006. ABOR will be concurrently reviewing the Project Implementation Approval and Project Approval submittal at their November 30, 2006 meeting. This submittal, together with the Project Justification reports, is attached.

The Law Commons project budget is \$21.0 million which will be funded by \$7.0 million in gifts received prior to ground breaking and \$14.0 million in System Revenue Bonds, of which \$7.0 million will be supported by tuition and \$7.0 million will be supported by gifts.

The Law Commons project is primarily a renovation project with a modest expansion. Together these efforts will address significant deficiencies while transforming and modernizing the experiential character of the facility. The total project construction cost per square foot of \$127 is well within the range of costs experienced on projects of similar nature when adjusted for inflation and scope. See below.

Architecture Renovation	16,960 gsf	\$140
Old Main Renovation	15,882 gsf	\$118
Park Student Union Renovation & Exp	50,814 gsf	\$126

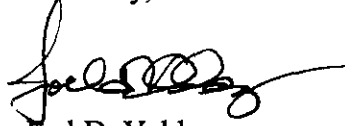


Page 2
October 24, 2006
The Honorable Tom Boone, Chairman
University of Arizona, Law Commons Project

In light of significant and continuing construction cost escalations, the University has aggressively sought cost reductions through value engineering and careful scope analysis, and is endeavoring to award the construction contract as soon as possible. Following concurrent review by ABOR and JCCR the design will be completed, and a Guaranteed Maximum Price (GMP) established, and bonds sold for an anticipated construction start in early May.

If you require additional information, please don't hesitate to call me at (520) 621-5977. Thank you for your assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "Joel D. Valdez", with a long horizontal flourish extending to the right.

Joel D. Valdez
Sr. Vice President for Business Affairs

/jc

Attachment

cc: President Robert Shelton
Joel Sideman
Greg Fahey
Lorenzo Martinez
Charles Ingram
Ted Gates
Bob Smith

EXECUTIVE SUMMARY

ACTION ITEM: **The Law Commons: Combined Project Implementation
Approval and Project Approval**

ISSUE: The University of Arizona requests combined Project Implementation Approval and Project Approval to renovate and expand the law building to create the Law Commons.

PREVIOUS BOARD ACTIONS: Capital Improvement Plan September 2004
Capital Development Plan March 2006

PROJECT STATUS:

- This project is part of the James E. Rogers College of Law's long-range plan to enhance its national reputation as a top-tier law school. The project seeks to fundamentally transform the experiential character of the facility, and refocus what can be viewed as a commuter school into a vibrant educational community. Critical elements of this plan include: modernizing the Law Library to meet current group study and technology requirements; providing additional and improved spaces for student work activities (law journals publication and student government offices); increasing space for visiting faculty and scholars; and modernizing instructional space while integrating technology.
- As a result of an extensive planning process for the Law Commons project, a program has been developed, which addresses current qualitative and quantitative space needs within the present total project budget and establishes a plan for future expansion to address identified long-term space requirements. Several different combinations of renovation and new construction were considered to achieve the school's goals. The final program for the current Law Commons project calls for a modest expansion of the second floor, providing 3,800 net assignable square feet (nasf) of new office space (in 4,900 new gross square feet (gsf); plus extensive renovations of 71,000 nasf of existing library, student organizations, faculty office, and instructional space (out of the existing total of 111,700 gsf).
- The University is concurrently submitting this project for the November 15th review of the Joint Committee for Capital Review (JCCR) as required to sell System Revenue Bonds for construction in spring of 2007. With construction costs continuing to escalate, the University intends to minimize the effect of these rising costs by beginning construction as soon as possible.
- The approved total project budget is \$21.0 million. The project will be funded by \$14.0 million in gifts to be received prior to groundbreaking; \$7.0 million in System Revenue Bonds to be supported by tuition.
- Debt Ratio Impact: The projected highest debt ratio in the FY 2008-2010 Capital Improvement Plan submitted to the Board was: State (ARS) 5.4%, and ABOR 8.1%. The increment impact of the annual debt service for this project is: State (ARS) 0.02%, and ABOR 0.03%.

Contact: Joel D. Valdez (520) 621-5977
Sr. Vice President for Business Affairs
jvaldez@u.arizona.edu

EXECUTIVE SUMMARY

PROJECT JUSTIFICATION:

- The James E. Rogers College of Law is located at the northwest corner of Speedway Boulevard and Mountain Avenue, and is housed in two facilities. The Law Building was designed and constructed in the 1970's, and was expanded in 1996 to address office space deficiencies. To meet additional space needs, Rountree Hall was recently converted from a sorority house into an office, clinic, and classroom facility. Completion of this project will extend the useful life of the Law Building and provide the necessary instructional and support space required for a nationally-recognized law college.
- The College of Law is the oldest law school in the State of Arizona and has achieved a national reputation for the study of law. The College offers three degree programs. The three-year professional degree (J.D.) program currently enrolls approximately 450 students and seeks to prepare them for the practice of law on a local, national, and global level.
- The academic Masters of Law (LL.M.) and Doctor of Juridical Sciences (S.J.D.) programs currently enroll 30 to 40 students who have already received a law degree from a U.S. or foreign law school, and are seeking advanced specialized degrees in one of two distinct subject areas: Indigenous Peoples Law and Policy, and International Trade Law. A majority of the students in these programs are from Latin America, Europe, and Asia. The multinational student body provides new perspectives, which enrich the College of Law community. The College anticipates the creation of a third LL.M. program in the next five years, which will add an additional 15 to 20 students.
- Consistent with the educational aims and responsibilities of a public university school of law, the College supports a strong community service program. The clinical programs offer students opportunities for practical experience in law under the guidance and supervision of law faculty and practicing attorneys.
- The James E. Rogers College of Law is an immensely valuable local, national, and international asset, deeply committed to interdisciplinary scholarship, teaching, and service. The College is uniquely placed to make significant contributions in areas such as: arid lands, indigenous people's law and policy issues, and cross-border issues, with an emphasis on international trade and business transactions.

ADDITIONAL CONSIDERATIONS:

- The project will be delivered utilizing the Construction Manager at Risk method. The Design Architect is Gould Evans Associates, L.C. The Construction Manager at Risk is Hensel Phelps Construction.
- There is no release space associated with project.

RECOMMENDATION/CONCLUSIONS:

RESOLVED: That the Board grant Project Implementation Approval and Project Approval to The University of Arizona for The Law Commons project.

EXECUTIVE SUMMARY

Capital Project Information Summary

University: The University of Arizona

Project Name: The Law Commons

Project Description/Location: Renovation and expansion of the existing Law Building to support library, student organizations, faculty, and instructional needs. The project is located at the northwest corner of Speedway Boulevard and Mountain Avenue.

Date of Board Action:

Project
Implementation and
Project Approval
November 2006

Project Scope:

Gross Square Feet (GSF) (new plus existing)	116,600
Net Assignable Square Feet (NASF) (new plus existing)	89,100
Efficiency Ratio [NASF/GSF]	76%
NASF by Space Type (new plus existing)	
Law Library	39,400
Student Organizations	7,300
Faculty and Administrative Offices	14,800
Instructional Space	13,300
Un-Renovated	14,300

Project Schedule (Beginning Month/Year):

Planning	September 2004
Design	September 2005
Construction	May 2007
Occupancy	August 2009

Project Budget:

Total Project Cost	\$21,000,000
Direct Construction Cost	\$14,856,000
Total Project Cost per GSF	\$180.10
Construction Cost per GSF	\$127.41
Change in Annual Oper./Main. Cost	\$38,486

Funding Sources:

Capital:	
Gifts	\$14,000,000
System Revenue Bonds / Tuition	<u>\$ 7,000,000</u>
TOTAL	\$21,000,000

Operation/Maintenance:

General Fund Appropriation	\$38,486
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EXECUTIVE SUMMARY

Capital Project Budget Summary

University: The University of Arizona

Project Name: The Law Commons

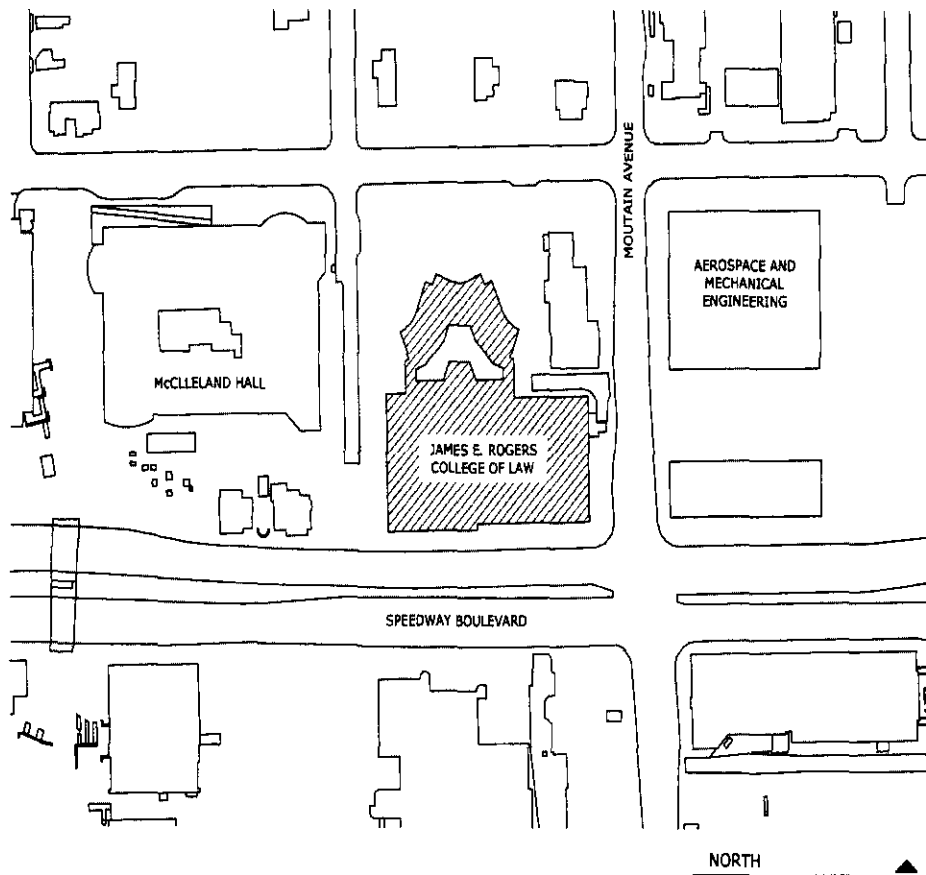
	Project Implementation and Project Approval <u>Estimate</u> August 2006
Date of Budget Estimate	
1. Land Acquisition	\$ 0
2. Construction Cost	
A. New Construction	1,361,000
B. Renovation	11,790,000
C. Fixed Equipment	1,000,000
D. Site Development (exclude 2E)	0
E. Parking & Landscaping	0
F. Utilities Extensions	0
G. Other	50,000
H. Inflation Adjustment	655,000
Subtotal Construction Cost	\$ 14,856,000
3. Consultant Fees	
A. Construction Manager	120,000
B. Architect/Engineering Fees	1,398,000
C. Other (Indep. Cost Est., Programming)	202,000
Subtotal Consultant Fees	\$ 1,720,000
4. Furniture, Fixtures & Equipment- Movable	1,600,000
5. Contingency, Design Phase	900,000
6. Contingency, Construction Phase	950,000
7. Parking Reserve	44,000
8. Telecommunications Equipment	280,000
Subtotal Items 4-8	\$ 3,774,000
9. Additional University Costs	
A. Surveys and Tests	30,000
B. Move-in Costs	30,000
C. Public Art	0
D. Printing/Advertisement	20,000
E. Other (1)	460,000
F. State Risk Mgt. Ins.	110,000
Subtotal Additional University Costs	\$ 650,000
TOTAL CAPITAL COST	\$ 21,000,000

(1) Line 9E includes Project Management and Facilities Management costs

EXECUTIVE SUMMARY

The Law Commons

Project Location Map



STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

ROBERT L. BURNS
CHAIRMAN 2005
PAULA ABOUD
LINDA AGUIRRE
TIMOTHY S. BEE
ROBERT CANNELL
RON GOULD
KAREN S. JOHNSON

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HOUSE OF
REPRESENTATIVES

TOM BOONE
CHAIRMAN 2006
AMANDA AGUIRRE
ANDY BIGGS
JACK A. BROWN
PHIL LOPES
RUSSELL K. PEARCE
STEPHEN TULLY

DATE: November 8, 2006

TO: Representative Tom Boone, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Leah Ruggieri, Fiscal Analyst

SUBJECT: University of Arizona – Review of Intercollegiate Athletic Facilities Bond Projects

Request

A.R.S. § 15-1683 requires Committee review of any university projects financed with system revenue bonds. The University of Arizona (UA), on behalf of the Arizona Board of Regents (ABOR), requests Committee review of the \$20 million Intercollegiate Athletics (ICA) Facilities Additions and Renovations project. UA would finance these projects with a total new revenue bond issuance of \$19 million and \$1 million in current gifts to the university.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the request with the following standard university financing provisions:

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

(Continued)

Analysis

Project Description and Costs

UA is proposing the ICA Facilities Additions and Renovations project to enhance the quality of training and competition facilities as well as remain competitive in recruiting student athletes and coaches to the school. Construction is scheduled to start in February 2007 and occupancy is planned for March 2008. The project consists of 3 elements:

- A new 18,389 square-foot indoor practice facility primarily for basketball and volleyball to reduce over-scheduling at the McKale Arena and demand on student recreation facilities;
- A 1,930 square-foot expansion of the gymnastics training facility to allow the gymnastics program to train on apparatus similar to those used in competition;
- A new 8,210 square-foot diving pool at the Hillenbrand Aquatic Center that will allow the diving program to train and compete in facilities that meet National Collegiate Athletic Association (NCAA) Championship requirements.

Of the \$20 million total project cost, \$13.4 million is for the construction of the indoor practice facility and gymnastic training facility expansion and \$6.6 million is for the construction of the diving pool. The total cost per-square-foot for the indoor practice facility and gymnastic training facility is \$476 and the direct construction cost per-square foot is \$366. The \$20 million construction cost includes:

- \$15.6 million for direct construction
- \$1.6 million for consultant fees
- \$1.8 million contingencies

The direct construction cost per-square-foot of \$366 for the indoor practice and gymnastic training facilities is just slightly higher than the inflation adjusted cost per-square-foot of \$328 for the McKale Athletic Performance Center and Heritage Hall expansion project, which is a similar project involving facility expansion to accommodate athletic training. Therefore, the JLBC Staff finds that the per-square-foot cost is reasonable. The diving pool project is not comparable to any prior university projects, and therefore there is no basis for determining the reasonableness of the cost.

Contracting Method

ASU would contract the bond projects using Construction Manager at Risk (CMAR). In CMAR, the university competitively selects a General Contractor according to quality and experience. The General Contractor manages a construction project, including the associated architect and other subcontractors, from design to completion. The General Contractor chooses a qualified subcontractor for each trade based on qualifications alone or on a combination of qualifications and price.

Additionally, CMAR defines a guaranteed maximum price, after which the General Contractor must absorb almost all cost increases, except those caused by scope changes or unknown site conditions.

Proposed Financing

To finance the ICA Facility Additions and Renovations project, UA anticipates issuing the system revenue bonds in the early 2007 with a Standard & Poor's AAA credit rating and a term of 25 years. The estimated interest rate is 6%. Total annual debt service would be approximately \$1.5 million, paid from gift revenues. The total 25-year debt service would be \$37.5 million.

(Continued)

It should be noted that even though the intent is to use gift revenue for the debt service, system revenue bonds are backed by all revenue sources of the university, including tuition collections. For the past 15 years, the UA Department of Intercollegiate Athletics has received on average \$3 to \$4 million in gifts for facilities annually. If gift revenues were insufficient to cover the debt service at some point in the future, however, the university would be required to use a different revenue source.

UA estimates that, upon completion, the ICA Facility Additions and Renovations project would require new operating and maintenance costs totaling \$317,800 annually. The additional operating and maintenance costs would be funded with the ICA Facility's auxiliary revenue.

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 8.0% of each institution's total projected annual expenditures. This calculation is known as the debt ratio. The \$19 million system revenue bond issuance would increase the UA debt ratio from 5.31% to 5.4%.

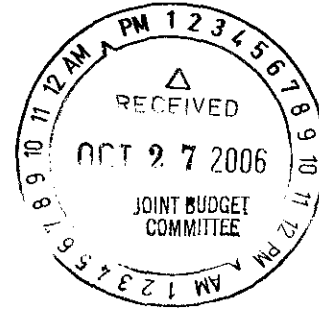
RS/LR:dt

Senior Vice President
for Business Affairs

THE UNIVERSITY OF
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(520) 621-5977
FAX: (520) 621-7714

October 24, 2006



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

Dear Chairman Boone:

Subject: University of Arizona, Intercollegiate Athletics Facilities Additions and Renovations project

On behalf of the Arizona Board of Regents (ABOR), I respectfully request that the Intercollegiate Athletics (ICA) Facilities Additions and Renovations project for the University of Arizona be placed on the next available agenda for the Joint Committee on Capital Review.

The Arizona Board of Regents approved this project in the Capital Development Plan in February 2006. ABOR will be concurrently reviewing the Project Implementation Approval and Project Approval submittal at their November 30, 2006 meeting. This submittal, together with the Project Justification reports, is attached.

The ICA Facilities Additions and Renovations project budget is \$20.0 million which will be funded by \$1.0 million in gifts in hand, and \$19.0 million in System Revenue Bonds, which will be supported by gifts. The project does not require any State funds.

The ICA Facilities Additions and Renovations are required to enhance the quality of training and competition facilities to meet current NCAA requirements and to remain competitive in recruiting top level student athletes and coaches.

The project consists of three primary elements:

- A new indoor practice facility primarily for Basketball and Volleyball
- An expansion to the Gymnastics training facility
- A new competition diving pool in conformance with NCAA requirements



The total project construction cost per square foot of \$366 (new square footage excludes diving pool) is well within the range of costs experienced on projects of similar nature when adjusted for inflation and scope. See below:

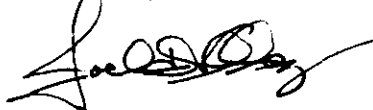
McKale Athletic Performance Center and Heritage Hall	52,910 gsf	\$329*
Integrated Learning Center	85,944 gsf	\$381
Gittings Complex Expansion	25,600 gsf	\$434

* Includes a 15% adjustment for economy of scale and scope.

In light of significant and continuing construction cost escalations, the University has aggressively sought cost reductions through value engineering and careful scope analysis, and is endeavoring to award the construction contract as soon as possible. Following concurrent review by ABOR and JCCR the design will be completed, and a Guaranteed Maximum Price (GMP) established, for an anticipated construction start in February/March 2007.

If you require additional information, please don't hesitate to call me at (520) 621-5977. Thank you for your assistance.

Sincerely,



Joel D. Valdez
Sr. Vice President for Business Affairs

/jc

Attachment

cc: President Robert Shelton
Joel Sideman
Greg Fahey
Lorenzo Martinez
Charles Ingram
Ted Gates
Bob Smith

EXECUTIVE SUMMARY

ACTION ITEM: **Intercollegiate Athletics Facilities Additions and Renovations:
Combined Project Implementation Approval and Project Approval
and Budget Increase**

ISSUE: The University of Arizona requests combined Project Implementation Approval and Project Approval and a Budget Increase for the Intercollegiate Athletics Facilities Additions and Renovations.

PREVIOUS BOARD ACTIONS: Capital Development Plan approval (CDP): February 2006

PROJECT STATUS:

- The Intercollegiate Athletics (ICA) Facilities project is comprised of three distinct elements that will greatly enhance the quality of training and competition facilities for a number of athletic programs. It is part of the ICA long-term plan to upgrade facilities as donor funding becomes available. The project's goals include enhancing training facilities and improving the University's ability to recruit top level student athletes and coaches.
- The three elements that constitute this project are:
 - *Indoor Practice Facility* will alleviate over scheduling of McKale Arena by basketball and volleyball teams and summer camps and reduce the demand on student recreation facilities.
 - *Gymnastics Training Facility Expansion* will allow the ICA gymnastics program to train on apparatus that are consistent with those used in competition.
 - *Hillenbrand Aquatic Center Diving Pool* will allow the ICA dive program to train and compete in facilities that meet National Collegiate Athletic Association (NCAA) Championship requirements.
- The University is concurrently submitting this project for the November 15th review of the Joint Committee for Capital Review (JCCR), as required to sell System Revenue Bonds for construction in spring of 2007. With construction costs continuing to escalate, the University intends to minimize the effect of these rising costs by beginning construction as soon as possible.

Contact: Joel D. Valdez (520) 621-5977
Sr. Vice President for Business Affairs
jvaldez@u.arizona.edu

EXECUTIVE SUMMARY

- The project budget has been increased by \$2.8 million, from \$17.2 million to \$20 million, to address continuing construction market cost increases. Following estimates by the Construction Manager at Risk and an independent estimator, and numerous cost reduction reviews, significant design changes were incorporated, which resulted in a reduction to the project cost without significantly impacting the ICA Department's program. However, it was determined that further reductions would seriously impact the intended use and benefit of the project.
- This project will be funded by \$1 million of current gifts and \$19 million financed with System Revenue Bonds. The annual debt service, projected to be \$1.5 million, will be paid with gift revenues. Operations and Maintenance costs will be funded by ICA's auxiliary funds.
- Debt Ratio Impact: The estimated annual debt service increases the University's debt ratios by .09% State (A.R.S) and .14% ABOR. The projected highest debt ratio is 5.4% State and 8.00% ABOR.
- Design for the project began in March 2006. Construction is anticipated to start in February 2007. Occupancy is anticipated in March 2008.

PROJECT JUSTIFICATION:

- These projects have a direct positive impact on the student athlete experience at The University of Arizona. The project will ease overcrowding and improve the training environment for the swimming and gymnastics programs, and furnish needed training facilities for men's and women's basketball, and women's volleyball. The project will enhance the recruiting of the highest level of student athletes, while eliminating overcrowding and overbooking of other student recreation facilities.

RECOMMENDATION/CONCLUSIONS:

RESOLVED: That the Board grant Project Implementation Approval and Project Approval and a Budget Increase of \$1.8 million to The University of Arizona for the Intercollegiate Athletics Facilities Additions and Renovations project.

EXECUTIVE SUMMARY

Capital Project Information Summary

University: The University of Arizona

Project Name: Intercollegiate Athletics Facilities
Additions and Renovations

Project Description/Location: Renovations to the existing Gymnastics Training Facility, the addition of a new diving well for the Hillenbrand Aquatic Center and the construction of a new practice facility to be located adjacent to the Hillenbrand Aquatic Center.

Date of Board Action:

Project
Implementation
Approval
September 2006

Project Scope:

Gross Square Feet (GSF) (1)	28,104
Net Assignable Square Feet (NASF) (1)	20,319
Efficiency Ratio [NASF/GSF] (1)	.72
NASF by Space Type (1)	
Indoor Practice Facility	18,389
Gymnastics Training Expansion	1,930

Project Schedule (Beginning Month/Year):

Planning	8/05
Design	3/06
Construction	2/07
Occupancy	3/08

Project Budget:

Total Project Cost	\$20,000,000
Direct Construction Cost	\$15,563,000
Total Project Cost per GSF (1)	\$476
Construction Cost per GSF (1)	\$366
Change in Annual Operation/Maintenance Cost	0
Utilities	\$118,311
Personnel	\$124,586
Other	\$74,919

Funding Sources:

Capital:	
Certificates of Participation/debt service paid by gifts	\$19,000,000
Operation/Maintenance:	\$317,816

(1) Square foot quantities and costs per GSF relate to the Practice and Gymnastics facilities, and do not include cost of Hillenbrand Center Diving Pool

EXECUTIVE SUMMARY

Capital Project Budget Summary

University: The University of Arizona

Project Name: Intercollegiate Athletics Facilities
Additions and Renovations

	Project Implementation & Project Approval <u>Estimate</u>
Date of Budget Estimate	04/24/06
1. Land Acquisition	
2. Construction Cost	
A. New Construction	7,824,000
B. Renovation	60,000
C. Fixed Equipment	3,912,000
D. Site Development (exclude 2.E.)	100,000
E. Parking & Landscaping	220,000
F. Utilities Extensions	1,537,000
G. Demolition	43,000
H. Inflation Adjustment	706,000
H. Market Conditions	1,161,000
Subtotal Construction Cost	\$ 15,563,000
3. Consultant Fees	
A. Construction Manager	255,000
B. Architect/Engineering Fees	1,261,000
C. Other (Independent Cost Est., Programming)	127,000
Subtotal Consultant Fees	\$ 1,643,000
4. Furniture, Fixtures,& Equipment-Movable	238,000
5. Contingency, Design Phase	530,000
6. Contingency, Construction Phase	1,276,000
7. Parking Reserve	0
8. Telecommunications Equipment	54,000
Subtotal Items 4-8	\$ 2,098,000
9. Additional University Costs	
A. Surveys and Tests	112,000
B. Move-in Costs	19,000
C. Public Art	65,000
D. Printing/Advertisement	29,000
E. Other ¹	376,000
F. State Risk Management Insurance.	95,000
Subtotal Additional University Costs	\$ 696,000
TOTAL CAPITAL COST	\$ 20,000,000

¹ Line 9E includes Project Management and Facilities Management costs

EXECUTIVE SUMMARY

Intercollegiate Athletics Facilities Additions and Renovations

Project Location Map

