STATE OF ARIZONA

Joint Committee on Capital Review

STATE SENATE

ROBERT "BOB" BURNS
CHAIRMAN 2003
TIMOTHY S. BEE
JACK A. BROWN
ROBERT CANNELL, M.D.
SLADE MEAD
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HOUSE OF REPRESENTATIVES

RUSSELL K. PEARCE
CHAIRMAN 2004
ANDY BIGGS
TOM BOONE
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PHIL LOPES
LINDA J. LOPEZ
JOHN LOREDO

JOINT COMMITTEE ON CAPITAL REVIEW
Thursday, December 18, 2003
1:30 p.m
Senate Appropriations Room 109

MEETING NOTICE

- Call to Order
- Approval of Minutes of September 25, 2003 and November 6, 2003.
- DIRECTOR'S REPORT (if necessary).

1. ARIZONA STATE UNIVERSITY –
   A. Review of Revised Parking Structure Bond Project and Packard Stadium Lease-Purchase Project.
   B. Review of Lease-Purchase and Bond Projects.
2. SCHOOL FACILITIES BOARD –
   A. Review of New School Construction Report and New School Facilities Fund Litigation Account.
   B. Report on FY 2005 Instructions to the Treasurer.
   C. Review of Lease - Purchase New School Construction Projects.
3. ARIZONA DEPARTMENT OF TRANSPORTATION – Report on FY 2004 Construction Budget Traffic Congestion Performance Measures and Unit Cost Measures.
4. Other Business

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

12/11/03

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MINUTES OF THE MEETING
JOINT COMMITTEE ON CAPITAL REVIEW

Thursday, September 25, 2003

The Chairman called the meeting to order at 1:35 p.m. Thursday, September 25, 2003 in Senate Appropriations Room 109 and attendance was as follows:

Members:	Representative Pearce, Vice Chairman	Senator Burns, Chairman		
	Representative Biggs	Senator Bee		
	Representative Boone	Senator Brown		
	Representative Lopes	Senator Cannell		
	Representative Lopez	Senator Mead		
	Representative Loredo	Senator Waring		
Absent:	Representative Farnsworth	Senator Soltero (Excused)		
Staff:	Richard Stavneak	Jan Belisle, Secretary		
	Lorenzo Martinez	Jake Corey		
	Tony Vidale	Steve Grunig		
	Paul Shannon	Bob Hull		
Others:	Joel Valdez	U of A	Mark Swenson	Senate
	Debra Thompson	MCC	Debbie Johnston	Senate
	Michael Hunter	ATRA	Kim Baker	Senate
	Charles McCarty	DEMA	Steve Miller	ASU
	Lynn Goss	DEMA	Chris Muir	GITA
	Dick Davis	U of A		
	Dick Roberts	U of A		
	Greg Fahey	U of A		
	Charlene Ledett	U of A		
	Dave Harris	NAU		
	Dave Lorenz	NAU		
	Bruce Ringwald	ADOA		
	John Webster	ADOA		
	Bruce Meyers	ADOA		
	Jack Jones	ADOA		
	Jayne Long	ADOA		
	Joy Hicks	House		
	Jamie Hogue	House		
	Jack Lundsford	MCC		

Senator Burns moved *the Committee approve the minutes of August 14, 2003 as presented.* The motion carried.

MARICOPA COMMUNITY COLLEGE DISTRICT – Review of Performing Arts Center Bond Project.

Jake Corey, JLBC Staff, presented the Maricopa Community College District request that the Committee review the Performing Arts Center (PAC) bond project. The PAC will be constructed on the Paradise Valley Community College campus. This project was held from the last Committee meeting so that more information could be obtained. Mr. Corey said the cost per square foot for building construction is approximately $185 per square foot as opposed to cost reported at the prior meeting of $328. The total project cost of $328 per square foot also included infrastructure costs.

Of the total $8.7 million cost of the project, $7.8 million will be financed with revenue bonds. To pay for the debt service on the bonds, of the $51 per credit hour that the district charges, it is estimated that $.20 will go towards the debt service.

JLBC Staff recommends that the district report back to the Committee by December 31, 2003 on efforts to achieve economies of scale in the design of future district PAC's.

Michael Hunter, Vice-President of the Arizona Tax Research Association (ATRA) stated that ATRA has monitored the use of revenue bonding at the Community College level and expressed concerns about its impact on taxpayers to the State Board of Directors of Community Colleges and JCCR. The primary concern has been that revenue bonding lacks the voters' scrutiny on debt obligations that ultimately have a direct impact on property taxpayers. Increases in tuition and fees and property taxes are deposited into the colleges General Fund. There is no real distinction between the two major revenue sources as they flow into the colleges General Fund. JCCR should be asking if the request under review is an appropriate use of the college district's revenue bonding authority under Title 15, Article 5 "Issuance of Bonds for Revenue Producing Buildings." An example of a revenue producing building would be a dormitory. The fees derived from students who reside in such a facility would be the revenue, which in turn would be used for the debt service on those revenue bonds. As of 1981, "projects" considered "revenue producing" included "student or faculty residence halls, dormitories, dining halls, student union buildings, field houses, and other revenue producing buildings." In 1988, the statute was expanded to include classroom construction. Revenue bonding authority should not be used as a substitute for the public debate that should take place when a government entity undertakes a sizeable capital project. Mr. Hunter provided a letter to the Committee that included his statements and other comments.

In reply to Senator Mead, Mr. Jack Lundsford, Director of Government Relations Internal Affairs, Maricopa Community College stated that the project does fit the statutory definition. This is part of a 5-year master plan that the Governing Board adopted. There was a hearing held on tuition as prescribed in statute. The Governing Board reaffirmed this position in a public meeting.

Debra Thompson stated that bond counsel does review the bond issuance.

Representative Pearce moved *the Committee give a favorable review to the Performing Arts Center Project at Paradise Valley Community College and that the district report back to the Committee by December 31, 2003 on the feasibility of achieving economies of scale in the design of future district performing arts centers.* The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION – Approve Transfer of Miners' Fund Capital Appropriation.

Tony Vidale, JLBC Staff, presented the Arizona Department of Administration (ADOA) request to approve the transfer of $52,500 of remaining funds from the Stair Tower/Life Safety Upgrade project to Building Renewal at the Arizona Pioneers' Home in Prescott, Arizona. The transferred monies would be used to refurbish the existing passenger elevator at the Arizona Pioneers' Home to meet Arizona Disabilities Act and current life safety code requirements. Laws 2002, Chapter 343 appropriated $186,100 from the Miners' Hospital Fund to be used for Building Renewal at the Pioneers' Home. Of that amount, ADOA allocated $150,100 for the elevator modernization. However, when ADOA received the bids , all the bids exceeded the available funding. ADOA estimates the total cost to refurbish the elevator to be $202,600.

There was no discussion on this item.

Representative Pearce moved *the Committee approve the transfer of $52,500 from the Stair Tower/Life Safety Upgrade appropriation to refurbish the existing passenger elevator at the Arizona Pioneers' Home to meet Arizona Disabilities Act and current life safety code requirements.* The motion carried.

Review of FY 2004 Building Renewal Allocation Plan.

Paul Shannon, JLBC Staff, presented the Arizona Department of Administration request that the Committee review the FY 2004 Building Renewal allocation plan of $3,500,000 from the Capital Outlay Stabilization Fund (COSF). The COSF allocation will fund 24 projects within the ADOA Building System. ADOA employed the following priorities for the allocation of FY 2003 Building Renewal monies: 1) Fire and life safety projects, 2) Preservation of assets, and 3) Projects critical to the continued operation of existing programs.

There was no discussion on this item.

Representative Pearce moved *the Committee give a favorable review to the Arizona Department of Administration FY 2004 Building Renewal Allocation Plan of $3,500,000 from the Capital Outlay Stabilization Fund.* The motion carried.

UNIVERSITY OF ARIZONA – Review of University Research Infrastructure Lease-Purchase and Health Sciences Center Bond Projects.

Lorenzo Martinez, JLBC Staff, presented the Arizona State University (ASU) request that the Committee review the Institute for Biomedical Science and Biotechnology Building (IBSB), Medical Research Building (MRB), and Chemistry Building Expansion university research infrastructure projects. These projects will be financed with the issuance of $187,658,730 in Certificates of Participation (COPs).

ASU also requests review of the Drachman Hall and Infrastructure Improvement projects. These projects will be financed with a revenue bond issuance of $41,480,620.

Before providing a favorable review, it was recommended that the Committee also stipulate that ASU submit information to the Committee if contingency allocations to other project components exceeded the greater of $100,000 or 10% of the reported contingency amount.

Four of the projects listed do allocate $6.3 million for landscaping and parking. Of the $6.3 million, approximately 10-15% is for actual landscaping related to grass, shrubbery, etc. The other components deal with drainage issues and more involved items such as utility infrastructure, lighting, paving to create pedestrian walkways, as well as drainage issues which require major excavating and grading to control the water flow in the area. In total, the projects allocate $691,000 for public art. In the past, the committee has raised concerns about allocating funding for public art. Mr. Martinez reviewed the Lease-Purchase/Bond Projects.

Mr. Martinez explained that the university pointed out that they have a concern with the stipulation in the recommendation related to reporting to the Committee any contingencies that change the scope of the project. The concern is that if they come across any emergencies where they have to immediately start expending monies, they would need to come before the Committee first. They are requesting that they be allowed to report emergencies as opposed to having to wait for Committee review. JLBC Staff recommends ASU be required to report those emergencies immediately so that it can be determined whether it constitutes an emergency and to what extent it changes the scope of the project. Staff would then inform ASU and the Committee if they believe the change requires Committee review.

In response to Representative Biggs, Mr. Martinez stated that the Board of Regents guidelines do allow allocations for public art. The art is mainly outdoor art.

In response to Representative Boone, Mr. Martinez stated that each of the projects listed will be using the Construction Manager at Risk process. Because of the timing of the JCCR review process, the cost estimates that are submitted to the Committee are not the guaranteed maximum price amounts. The estimates that have been submitted have been developed in conjunction with some outside estimators and programming entities that determine how the facilities will be used and what the requirements are. The cost estimator then looks at the programming and develops a cost which then the university compares against the cost estimates they have developed based on their own experiences. Once the guaranteed maximum price is agreed upon, the Construction Manager at Risk is responsible for bringing in the project at the agreed scope and cost. If they bring it in at a lower price, they receive the profit and if it costs more than the guaranteed maximum price, they are responsible for the additional cost. Any amount left over between the financed amount and guaranteed maximum price is typically applied to contingencies for emergencies and debt service payments.

Representative Boone suggested that it may be a good idea that an independent firm be consulted for review of project guaranteed maximum price guaranteed maximum price.

<u>Representative Pearce moved</u> the Committee give a favorable review to the Institute for Biomedical Science and Biotechnology Building, Medical Research Building, and Chemistry Building Expansion lease-purchase university research infrastructure projects, as well as the Drachman Hall and Infrastructure Improvement bond projects with the following stipulations:

- *The University report to the Committee before expenditure of any allocations that exceed the greater of $100,000 or 10% of the reported contingency amount total for add alternates that <u>do not expand</u> the scope of the project.*
- *The University submit for Committee review any allocations that exceed the greater of $100,000 or 10% of the reported contingency amount total for add alternates that <u>expand</u> the scope of the project. In case of an emergency, the University 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 tuition collections that may be required for debt service on the repayment of the financing or for operational costs when the projects are complete. These costs should be considered by the entire Legislature through the budget development process.*

The motion carried.

Mr. Stavneak, JLBC Staff clarified that the recommendation of the Committee does not include a provision for the public art issue.

Greg Fahey, UofA stated that they have not developed a plan for the expenditures for public art. The Board of Regents allows a certain percentage to be allocated for art.

Representative Biggs made a motion that $691,000 not be allocated for public art.

Representative Lopes asked for clarification on whether the motion was specific to the $691,000 amount or whether the motion was to not allow any funding for public art.

Representative Biggs restated the motion to stipulate that no monies be allocated for public art. With a show of hands: 6 ayes, 6 nayes and 2 not voting, the motion failed.

Representative Biggs asked for a roll call vote on the motion. With a roll call vote of 6 ayes, 6 nays and 2 not voting. The motion failed.

DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS – Review of Scope, Purpose and Estimated Cost of Classrooms and Operational Support Building Construction at the Project Challenge Campus.

Steve Grunig, JLBC Staff, presented the Department of Emergency and Military Affairs (DEMA) request that the Committee review its plan to spend $250,000 appropriated from the General Fund to DEMA in FY 2002 for construction of classrooms and an operational support building at the Project Challenge campus. The amount will be combined with $350,000 from a private grant to complete the project.

There was no discussion on this item.

Representative Pearce moved the Committee give a favorable review of the scope, purpose and estimated cost of construction of an operational and a classroom building at the Project Challenge campus. The state appropriation of $250,000 for the project will be combined with a $350,000 grant received by the department. The motion carried.

ARIZONA DEPARTMENT OF TRANSPORTATION Review of Scope, Purpose, and Estimated Cost of Asbestos and Lead Inspections.

Bob Hull, JLBC Staff, presented the Arizona Department of Transportation request that the Committee review the scope, purpose and estimated cost of asbestos and lead inspections. The project was appropriated a total of $1,300,000 from the State Highway Fund, including $700,000 in FY 2002 and $600,000 in FY 2003. Of the total amount, $96,600 has already been spent, $950,000 is for the remaining work, and $253,400 is for contingencies. The estimated expenditures seem reasonable based on the bid price and the projected number of buildings, samples and analyses. ADOT did not spend or encumber any of the money in FY 2002 or FY 2003. Statute requires any capital appropriation that remains unused for a full year to revert. In order to save that appropriation ADOT subsequently recoded asbestos or lead related work from other remodeling projects and charged it back against these 2 appropriations so they could show that they had some monies expended against them. This is contrary to statute in that it bypassed the requirement that the JCCR review capital projects prior to the release of monies for construction. JLBC Staff recommends a favorable review with the stipulation that ADOT report back to the Committee on corrective measures they have taken to assure that appropriations are properly tracked and that the requirement of A.R.S. § 41-1252 for JCCR to review capital projects prior to the release of monies for construction is met.

There was no discussion on this item

Representative Pearce moved the Committee give a favorable review of the scope, purpose and estimated cost to contract for the testing of ADOT's building and structures for asbestos and lead-based paint. The Committee also requests that ADOT report back on corrective measures taken to assure that appropriations are properly tracked and that the requirement of A.R.S. § 41-1252 for the Committee to review capital projects prior to the release of monies for construction is met. The motion carried.

Report on Executive Summary of Arizona 5-Year Transportation Facilities Construction Program.

Bob Hull, JLBC Staff, presented the Executive Summary 5-year Transportation Facilities Construction Program. The entire plan costs $3.9 billion. Of this amount, $1.6 billion will be spent on 17 major projects. The plan addresses 13 of the 21 most congested highway segments in the state. It is recommended that ADOT provide an

Executive Summary of its 5-Year Transportation Facilities Construction Program for FY 2005-FY 2009, when the department requests Committee review of its FY 2005 highway construction budget for Professional & Outside expenditure plan

There was no discussion on this item and no Committee action was required.

GOVERNMENT INFORMATION TECHNOLOGY AGENCY Report on Telecommunications Privatization.

Paul Shannon, JLBC Staff, presented the Government Information Technology Agency (GITA) report on Telecommunications Privatization. GITA in consultation with ADOA must prepare and submit to the JCCR an actionable request for proposals (RFPs) to privatize the state's telecommunication services. Both agencies are required to submit monthly reports on the status of related activities and expenditures. GITA is preparing the RFP and plans to submit it to JCCR by October 31, 2003 for review.

There was no discussion on this item and no Committee action was required.

OFFICE OF THE ATTORNEY GENERAL Report on Status of 1,400 Bed Private Prison Contract.

Chairman Burns mentioned that he had met with the parties involved and this issue was no longer necessary.

The meeting adjourned at 2:35 p.m.

Jan Belisle, Secretary

Lorenzo Martinez, Assistant Director

Senator Robert "Bob" Burns, Chairman

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

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MINUTES OF THE MEETING
JOINT COMMITTEE ON CAPITAL REVIEW

Thursday, November 6, 2003

The Chairman called the meeting to order at 1:40 p.m. Thursday, November 6, 2003 in Senate Appropriations Room 109 and attendance was as follows:

Members:	Representative Pearce, Vice Chairman	Senator Burns, Chairman
	Representative Biggs	Senator Bee
	Representative Boone	Senator Brown
	Representative Lopes	Senator Cannell
	Representative Lopez	Senator Mead
	Representative Loredo	Senator Waring
		Senator Soltero
Absent:	Representative Farnsworth	
Staff:	Richard Stavneak	Jan Belisle, Secretary
	Lorenzo Martinez	Jake Corey
	Tony Vidale	Steve Grunig
	Bethany Nicholas	Bob Hull
	Jason Hampton	
Others:	Bruce Ringwald	ADOA
	Joy Hicks	House
	Jamie Hogue	House
	Kim Baker	Senate
	Mark Swenson	Senate
	Ann Barton	NAU
	Sam Polito	NAU
	Dave Harris	NAU
	M.J. McMahon	NAU
	Dave Lorenz	NAU
	Kurt Freund	Dain Rauscher
	Richard Rico	Game & Fish
	Fred Bloom	Game & Fish
	Don West	Exposition & State Fair
	Terry Trost	ADOT
	Helen Gouvert	DOC
	Terry Calaway	Pinal CC
	John White	
	Kristin Bolini	

Senator Burns deferred the approval of the September 25, 2003, minutes until the December meeting.

DIRECTORS REPORT

Richard Stavneak mentioned the statutory responsibilities of JLBC and JCCR. Documents detailing the responsibilities are on the JLBC Website. The JCCR Committee has approximately 54 statutory responsibilities.

NORTHERN ARIZONA UNIVERSITY – Consider Approval of Scope, Purpose and Estimated Cost of Bond Projects.

Lorenzo Martinez, JLBC Staff, presented the Northern Arizona University request that the Committee consider approval of the Scope, Purpose and Estimated Cost of projects to be financed with revenue bonds. NAU currently has bonding authority of $31.3 million and proposes issuing the bonds to finance 5 projects. Total cost for the projects is $31,000,000 and they will be paid back over a 30-year period which equates to a total repayment of approximately $61 million. It is recommended that the Committee approve the bonds with some stipulations.

In response to Senator Soltero, Mr. Martinez stated that there is an existing statute that allows universities to issue bonds as long as their debt ratio is below 8%. Universities may issue bonds if the debt ratio is below that 8% limit, however, the Committee does need to review the projects. If the current projects are approved by the Committee, the debt ratio would be 5.1% which is below the statutory cap of 8%.

<u>*Representative Pearce moved*</u> *the Committee* approve *the issuance of $31,000,000 in revenue bonds for the New College of Business, College of Business Stabilization, Infrastructure Upgrades, Modular Swing Space and the School of Communication Renovations with the following stipulations:*

- *The University report to the Committee before expenditure of any allocations that exceed the greater of $100,000 or 10% of the reported contingency amount total for add alternates that <u>do not expand</u> the scope of the project.*
- *The University submit for Committee review any allocations that exceed the greater of $100,000 or 10% of the reported contingency amount total for add alternates that <u>expand</u> the scope of the project. In case of an emergency, the university 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 for operational costs when the projects are complete. These costs should be considered by the entire Legislature through the budget development process.*

The motion carried.

PINAL COMMUNITY COLLEGE DISTRICT – Review of Revenue Bond Refinancing for Central Arizona College.

Jake Corey, JLBC Staff, presented the Pinal Community College District request that the Committee review 2 projects to be funded with revenue bonds. The district plans to refinance existing bonds and Certificates of Participation (COPs) which will generate $5 million in proceeds to fund the 2 projects. The first project is the University Center which will be a 35,000 square foot facility. The total cost of the project is estimated to be $6,000,000. The district plans to use $1,500,000 in donations and the remaining $4,500,000 will come from the proceeds associated with the refinancing.

The second project is the renovation to the Pence Theater Center to make the restrooms compliant with the requirements of the Americans with Disabilities Act (ADA). The total cost for the restroom renovation would be $500,000 which equates to $667 per square foot, however, the project also includes entrance area expansions that have unique construction considerations.

Dr., Terry Calaway, President/Chief Executive Officer, Pinal Community College District, stated the projects are supported by the local community, as well as the business interest within Pinal County. The community leaders developed a local foundation and received donations from a number of business entities and private donors throughout the county and state. The college has agreed that they would provide the land for the project and the 3rd partner was Northern Arizona University (NAU). NAU was to go before the Legislature and request 3 years of funding, approximately $1.5 million to match the privately raised funds. The $1.5 million was reduced to $1.2 million and spread across 3 years. SB 1148 was passed in 1999 which allocated $1.2 million over 3 years for the project. At the signing of SB1148, Governor Hull vetoed the 3rd year of funding for the project. NAU, the Foundation and the District designed a facility and went to bid in August 2001. Bids were opened on September 13, 2001, and based upon state budget shortfalls, NAU President Cargol informed all participants that as part of NAU's budget reductions, the funds were no longer available for this project. The community has been working to raise extra funds to make the project work. Enrollment at the college has increased 5.1%. The College Elective Board from Pinal County has tried to look at how they could restructure some of the debt that occurred in the mid 90's. Through the refinancing of the revenue bonds and Certificates of Participation, they would be able to generate $5 million of funds to put towards the project. The funding is also realized by extending the payments out 4 years beyond the original period.

In response to Representative Biggs, Mr. Kurt Freund, Managing Director, RBC Dain Rauscher stated that if the new debt was added on, tuition would have to be raised by 30% to make the payments. By refinancing and extending the repayment period, annual debt service is kept flat and tuition is not affected. The future value of cost is in the range of $3.5 to $4 million range, the present value basis is $1.3 to $1.4 million.

Dr. Calaway stated the students that would participate in the programs would pay the tuition at exactly the same rate as they would if they were on campus or at one of the off campus facilities. There would not be an added burden to the university students.

Representative Pearce expressed concern over the future debt obligation. Dr. Calaway stated they are in conversation with their corporate partners with the type of needs they feel they would have in reference to furniture, lab equipment, etc.. The goal is to keep the expense below the budget that is allowed.

Representative Lopez stated that she felt the board has been very diligent in their work and efforts to make sure they stay within their budget level and commends the fine work that has been done.

Representative Pearce moved the Committee accept the plan of refinancing existing revenue bonds (and Certificates of Participation) to generate $5,000,000 in proceeds to finance construction of a University Center at Central Arizona College and renovations to the Pence Theater Center.

Senator Brown amended the motion that the Committee give a favorable review to the plan as presented. The motion carried.

ARIZONA DEPARTMENT OF MINES AND MINERAL RESOURCES – Consider Recommending Partial Rent Exemption.

Richard Stavneak, JLBC Staff, presented the Arizona Department of Mines and Mineral Resources request the Committee consider recommending a partial rent exemption for the department. The Committee's responsibility is to recommend to Arizona Department of Administration whether or not a rent exemption be provided. The department employs 7 employees with a budget of approximately $650,000. A partial rent exemption was granted in 2003. Their overall rent constitutes about 57% of their budget. The department is faced with the same issue for 2004. There are three options for consideration:

1) Recommend that ADOA authorize a General Fund partial FY 2004 rent exemption of $136,400;
2) Recommend a FY 2004 rent exemption of $106,000, the same amount exempted in FY 2003; and
3) Do not recommend the request. Without an exemption, the department could either a) transfer funds from Personal Services and Employee Related Expenses thereby necessitating a reduction of 3 or 4 FTE Positions or b) make a one-time expenditure of funds from the Mines and Mineral Resources Fund, a non-appropriated fund which receives monies from sales in the museum's gift shop.

Senator Mead asked if the museum has done anything to generate money, such as charging admission, grant writing, and charging for the use of publications that are currently free, as discussed in budget hearings last session.

Mr. Douglas Sawyer, Director, Department of Mines and Minerals stated that they are charging for admission to the museum and they charge for publications. They have contacted the industry to see if there is an interest in donating.

Senator Mead asked about splitting the 2 functions of the agency, such as having the museum separate and the research division go to the Historical Society or the Geological Society. Mr. Sawyer stated that there has been no discussion.

Senator Mead asked questions about the positions within the department and the organization of the department.

Chairman Burns stated that the question before the Committee is whether or not to approve this rent exemption.

Senator Mead stated with that being said, he strongly urges that the 3rd recommendation be considered and that Committee members need to appreciate a little of the history. Other state agencies have had to tighten their belts, and possibly reduce their FTE's. This agency has not had to do that.

Senator Cannell expressed concerns about the resources in Arizona. The museum needs to be kept going and it needs to have staff that can respond to companies coming into this state that may want to develop mineral resources.

Chairman Burns stated that if a significant cut was made today, it would do some harm to the museum. If we are going to reorganize the museum, it needs to be done in the regular session and he would not favor option #3.

Representative Lopez asked if there would be a problem in delaying a decision of this issue.

Representative Pearce moved the Committee adopt Option 1 which recommends that the Arizona Department of Administration authorize a General Fund partial FY 2004 rent exemption of $136,400 for the Arizona Department of Mines and Mineral Resources.

Senator Mead made a substitute motion and moved the Committee adopt Option #3. The motion failed.

The original Pearce motion carried.

ARIZONA DEPARTMENT OF TRANSPORTATION – Review of FY 2004 Building Renewal Allocation Plan.

Bob Hull, JLBC Staff, presented the Department of Transportation (ADOT) request that the Committee review its FY 2004 Building Renewal Allocation Plan. There are 87 projects in the State Highway Fund portion of the plan which is approximately $1.5 million and 4 of the projects are over $50,000 each. There are 3 projects in the State Aviation Fund portion which is $32,000. Funding for any new projects not listed in the allocation plan, reallocations between projects, and allocations from the contingency amount must be reported to JLBC Staff prior to expenditure. The JLBC Staff would report to the Committee on significant changes, typically about $50,000.

There was no discussion on this item.

Representative Pearce moved the Committee give a favorable review to the Arizona Department of Transportation FY 2004 Building Renewal Allocation Plan of $1,560,500 from the State Highway Fund and $32,000 from the State Aviation Fund. The motion carried.

ARIZONA GAME AND FISH DEPARTMENT

Review of FY 2004 Building Renewal Allocation Plan.

Jason Hampton, JLBC Staff, presented the Arizona Game and Fish Department request that the Committee review the FY 2004 Building Renewal Allocation Plan. The plan totals $323,000 from the Game and Fish Fund. Expenditures for the plan is consistent with building renewal guidelines and appropriations.

There was no discussion on this item.

Representative Pearce moved the Committee give a favorable review to the Arizona Game and Fish Department FY 2004 Building Renewal Allocation Plan of $323,000 from the Game & Fish Fund. The motion carried.

Review of Capital Improvement Projects.

Jason Hampton, JLBC Staff, presented the 3 capital improvement projects. The projects include a Security System at the department headquarters, a warehouse and road paving at the Pinetop Regional Office and initial development of a Tri-State Shooting Range. Additional information was provided by the department and it was found that all project costs are consistent and reasonable. The total cost for the three projects is estimated to be $810,000 from the Capital Improvement Fund.

In response to Senator Soltero, Mr. Fred Bloom, Engineering Manager, Game & Fish Department stated the 1st phase for the Tri-State Shooting Range will be to grade the site area for the facilities. They will grade an access roadway, a parking lot and will clear out the area. It is being planned as a multi-phase range. Many ranges are ultimately operated and managed by groups that use the facilities.

In response to Representative Lopez, Mr. Bloom stated that other groups from California and Nevada would have the opportunity to use the facilities. There will be fees charged for the use of the facilities, but at the present time he is not aware of any contribution from other states for the facilities.

Representative Pearce moved the Committee give a favorable review to the Security System, Pinetop Regional Office and Tri-State Shooting Range projects totaling $810,000 from the Arizona Game & Fish Department Capital Improvement Fund. The motion carried.

ARIZONA EXPOSITION AND STATE FAIR BOARD Review of FY 2004 Building Renewal Allocation Plan.

Jason Hampton, JLBC Staff, presented the Arizona Exposition and State Fair Board request that the Committee review the FY 2004 Building Renewal Allocation Plan totaling $947,500. The Committee had two options: 1) Give a favorable review to the FY 2004 Building Renewal Allocation plan to expend $947,500 for parking lot improvements or 2) Hold any expenditures for these projects pending further discussion on the future of the Coliseum.

There was no discussion on this item.

Representative Pearce moved the Committee on Capital Review give a favorable review to the Arizona Exposition and State Fair (AESF) FY 2004 Building Renewal allocation plan of $947,500 from the AESF Fund for parking lot improvements. The motion carried.

DEPARTMENT OF CORRECTIONS Report on Status of 1,400 Bed Private Prison Contract.

Chairman Burns expressed concerns with the status of the 1,400 Private Bed Prison Contract. The final execution of the contract is not happening and this project has been in the works for well over a year. Legislative intent was very clear and the executive has failed to execute the contract. At the present time, there is nothing the Committee can do with this item. In addition, there is also Legislative intent relative to 3,200 beds for female prisoners. The RFP for this project is on the Department of Corrections Director's desk. When the Legislature is clear on their intent and a bill is signed by the Governor, then the Executive has the responsibility to move forward on the project.

The meeting adjourned at 2:55 p.m.

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Jan Belisle, Secretary

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Lorenzo Martinez, Assistant Director

____

Senator Robert "Bob" Burns, Chairman

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

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Joint Committee on Capital Review

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HOUSE OF REPRESENTATIVES

DATE: December 10, 2003

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

THRU: Richard Stavneak, Director

FROM: Lorenzo Martinez, Assistant Director

SUBJECT: ARIZONA STATE UNIVERSITY – REVIEW OF REVISED PARKING STRUCTURE BOND PROJECT AND PACKARD STADIUM LEASE-PURCHASE PROJECT

Request

A.R.S. § 15-1683 requires Committee review of any projects financed with bond proceeds and A.R.S. § 15-1682.01 requires Committee review of any projects financed with Certificates of Participation (also known as COPs or lease-purchase).

Arizona State University (ASU) requests Committee review of the change in scope and estimated costs for a Parking Structure bond project and the Packard Stadium Clubhouse and Field Renovation lease-purchase project.

Recommendation

The JLBC Staff recommends a favorable review of the request.

Since last reviewed by the Committee in August 2003, the estimated cost of the Parking Structure project has increased from $15,000,000 to $16,300,000 to construct 1,635 parking spaces instead of 1,500 spaces. The increased cost of $1,300,000 will be funded from Parking Reserve funds.

Since last reviewed by the Committee in August 2003, the estimated cost of renovations to the Packard Stadium Clubhouse and Playing Field has increased from $2,850,000 to $3,050,000 to upgrade elevator equipment, add a canopy to the batting facility, install athletic flooring, and add an office. The increased cost of $200,000 will be funded from gift donations.

(Continued)

Analysis

Parking Structure
At its August 2003 meeting, the Committee gave a favorable review to the issuance of $15,000,000 in revenue bonds for ASU to construct a 1,500 space 5-level parking garage on the northeastern portion of campus (east of Sun Devil Stadium) to address parking shortages. After review of preliminary design and space efficiencies, it was determined that a 5-story garage would yield 1,399 spaces, which the university considers to be insufficient for projected parking needs. A 6-story garage would yield 1,635 spaces. Expanding the scope to a 6-story garage would increase the cost by $1,300,000. The average cost per parking space is $9,969, which is within the range of costs typical for multi-level parking facilities. The increased cost will be funded from Parking Reserve Fund monies and will not affect the university's debt ratio which is statutorily capped at 8%.

The $15,000,000 in revenue bonds has been issued and will be repaid over a 30-year period. The annual debt service of $976,000 would be funded from university auxiliary funds. Auxiliary fund revenues are generated from self-supporting activities such as parking garages and dining services. The estimated costs of $143,000 for operating and maintenance when the project is complete will also be funded from university auxiliary funds.

Packard Stadium Renovations
At its August 2003 meeting, the Committee gave a favorable review to the issuance of $2,850,000 in COPs for the revised scope of renovations to the Packard Stadium Clubhouse and Playing Field. The scope reviewed at the August meeting included renovations to the clubhouse, plaza area, coaching facilities and playing field, as well as an upgrade of the electrical system. The expanded scope for the project would upgrade elevator equipment, add a canopy to the batting facility, install athletic flooring, and add an office. Based on bids already received, the increased cost is estimated to be $200,000, which would be paid from existing gift funding.

The $2,805,000 in COPs has been issued and will be repaid over a 25-year period. The annual debt service of $202,000 will be funded from proceeds from the university's intercollegiate athletics capital fund raising campaign. The increased cost will be funded from existing gift funding and will not affect the university's debt ratio which is statutorily capped at 8%.

RS/LM:jb

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HOUSE OF REPRESENTATIVES

DATE: December 11, 2003

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

THRU: Richard Stavneak, Director

FROM: Lorenzo Martinez, Assistant Director

SUBJECT: ARIZONA STATE UNIVERSITY – REVIEW OF UNIVERSITY RESEARCH INFRASTRUCTURE LEASE-PURCHASE AND RENOVATION AND CAMPUS INFRASTRUCTURE BOND PROJECTS

Request

Arizona State University (ASU) requests Committee review of Phase 2 of the Arizona Biodesign Institute university research infrastructure project to be financed with an issuance of $73,000,000 in Certificates of Participation (COPs). A.R.S. § 15-1682.01 requires Committee review of any university projects financed with COPs (also known as lease-purchase).

ASU also requests Committee review of Phase 1 of Instruction and Research related renovations on the Main Campus, and infrastructure upgrades at the East and West Campuses. These projects will be financed with a bond issuance totaling $17,000,000. A.R.S. § 15-1683 requires Committee review of any university projects financed with bond proceeds.

Recommendation

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

- ASU report to the Committee before expenditure of any allocations that exceed the greater of $100,000 or 10% of the reported contingency amount total for add alternates that <u>do not expand</u> the scope of the project.
- ASU submit for Committee review any allocations that exceed the greater of $100,000 or 10% of the reported contingency amount total for add alternates that <u>expand</u> the scope of the project. In case of an emergency, ASU may immediately report on the scope and estimated cost of the emergency rather than submit the item for review. The JLBC Staff will inform the university if they do not agree with the change of scope as an emergency.
- ASU report to the Committee on the scope of work and estimated cost for each building prior to starting any construction on the Instruction and Research Space Renovations.
- ASU report to the Committee on the scope of work and estimated cost for each project prior to starting any construction on the East and West campus infrastructure upgrades.
- A favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any tuition collections that may be required for debt service.

JLBC Staff also has the following observations about the proposed projects:

ASU has submitted the Biodesign Institute as a "research infrastructure" project. Laws 2003, Chapter 267 amended A.R.S. § 42-5075 to allow the exemption of the proceeds and income from construction contracts related to research infrastructure projects from being taxed. A.R.S. § 15-1670 defines research infrastructure as "installations and facilities for continuance and growth of scientific and technological research activities at the university." The intent of the tax exemptions provided by Chapter 267 is to lower the cost of the projects and help finance debt service payments until General Fund appropriations from Chapter 267 become available in FY 2008. Chapter 267 makes an annual General Fund appropriation of $14,472,000 to ASU for debt service payments from FY 2008 through FY 2031.

The 3 projects have a total capital cost of $90,000,000. The financing term for the Biodesign Institute is 25 years with an estimated interest rate of 6%. The financing term for the renovation and infrastructure projects is 30 years with an estimated interest rate of 6%. The total interest costs above the financed amounts are projected to be $89,855,000. Of the annual debt service of $6,947,000, $5,711,000 would be paid from the General Fund, $872,000 from tuition collections and $364,000 would be paid from the Indirect Cost Recovery Fund and other sources. The General Fund portion would be paid from the Chapter 267 appropriations beginning in FY 2008. See *Table 1* for capital costs and debt service information on each individual project.

These projects would increase the university's debt ratio (debt services as a percent of total expenditures) from 4.2% to 4.8%. The statutory cap is 8%.

The estimated requirement for operating and maintenance costs when the Biodesign Institute project is complete totals $1,700,000. ASU plans to fund these operating costs from the Indirect Cost Recovery Fund and revenue from leased space to non-ASU entities working on collaborative projects. The renovation and infrastructure projects do not have any additional operating and maintenance costs.

Analysis

Table 1 lists the capital project costs and financing related costs for each of the 3 projects. The Biodesign Institute will be financed with a COP issuance and the renovation and infrastructure projects will be financed with a revenue bond issuance.

Table 1

ASU Lease-Purchase and Bond Projects

Project	Issuance Amount	Annual Debt Service	Total Payments	Debt Service Fund Source
Arizona Biodesign Institute	$73,000,000	$5,711,000	$142,775,000	General Fund
Main Campus Renovations	10,000,000	727,000	21,810,000	Tuition (50%); Indirect Cost Recovery (50%)
East & West Campus Infrastructure	7,000,000	509,000	15,270,000	Tuition
TOTAL	**$90,000,000**	**$6,947,000**	**$179,855,000**	

Arizona Biodesign Institute Phase 2

ASU will construct 174,000 square feet to provide 142,000 square feet of bioengineering, biotechnology, and integrative biomedicine laboratories, including an animal care facility, as well as 30,000 square feet of faculty, research, and administrative office space. This project is a component of the university's long-range plan to develop a multi-phased biodesign corridor on the eastern side of the main campus. The facility will expand Phase 1, which was favorably reviewed by the Committee in December 2002, to house the Arizona Biodesign Institute. The Institute is part of ASU's targeted funding for Technology and Research Initiative Fund (Proposition 301) allocations for faculty and program support (operating funding) in these areas. The institute will focus on biotechnology, nanotechnology, and information technology. Approximately 25% of the Phase 2 space will be available for lease by non-ASU entities working on collaborative projects. Lease revenue will be used for operation and maintenance costs of the facility. ASU will issue a total of $73,000,000 in COPs to fund construction and interest only payments through FY 2007. The COPs will be repaid over a 25-year period.

The estimated annual debt service will be $5,711,000 by FY 2008. ASU will use COP proceeds to make interest only payments on the debt service through FY 2007, after which General Fund appropriations from Chapter 267 will be used to make the payments. Beginning in FY 2008, Chapter 267 appropriates $14,472,000 from the General Fund annually to ASU for debt service payments on research infrastructure projects. The appropriations are made through FY 2031. ASU will be submitting additional research infrastructure projects in the future.

The project is estimated to take 21 months from the start of construction to completion. Annual on-going operating and maintenance costs when the project is complete are estimated to be $1,700,000 and will be funded with indirect cost recovery funds and lease revenue.

The cost per square foot for Phase 2 is $425 and the direct construction cost per square foot is $307. As reviewed by the Committee at its December 2002 meeting, the cost per square foot for Phase 1 was $406 and the direct construction cost per square foot is $311.

Project costs for Phase 1 are estimated to be $69,000,000 and project costs for Phase 2 are estimated to be $73,000,000. Compared to Phase 1, Phase 2 requirements for moveable equipment and furniture is estimated to be $4.7 million higher. This higher cost is primarily due to equipment for the animal care facility. Phase 2 of the project will also be displacing a greater number parking spaces and requires an allocation to the Parking Replacement Reserve that is $1.6 million more than Phase 1. These greater costs are partially offset by lower allocations of approximately $(1.9) million for special fees and contingencies in Phase 2.

The Committee reviewed 2 University of Arizona biotechnology/medical research related facilities at its September 2003 meeting. As another comparison, the costs per square foot for the Institute for Biomedical Science and Biotechnology Building and the Medical Research Building were $389 and $392, respectively. The direct construction costs per square foot were $289 and $287, respectively.

<u>Instruction/Research Space Renovations</u>
ASU plans to renovate at least 33,000 square feet of instruction and research laboratory space in 10 buildings on the main campus. The buildings range in age from 12-47 years and have a combined square footage of 1,325,000 square feet. The estimated deferred maintenance on these buildings is $11,516,500 and replacement value is $257,500,000. *Table 2* shows detail for each building.

Table 2

Building	Year	Square Feet	Replacement Value	Building Renewal	Deferred Maintenance
Life Sciences Center A-Wing	1959	84,355	$ 18,600,000	$ 429,100	$ 909,900
Life Sciences Center C-Wing	1971	109,095	24,000,000	401,200	1,200,000
Engineering Research Center	1983	128,669	23,900,000	249,900	529,600
Bateman Physical Sciences Center Complex	1970-91	589,069	116,500,000	1,439,400	4,874,100
Psychology Building	1972	74,821	15,300,000	249,500	912,300
Murdock Lecture Hall	1987	21,135	2,800,000	23,600	128,600
Physical Education Building East	1968	82,060	9,600,000	176,500	666,900
Anthropology Building	1970	49,078	13,300,000	230,100	470,300
Schwada Classroom Office Building	1979	113,216	20,900,000	262,100	597,100
Matthews Center	1956	73,489	12,600,000	308,900	1,227,700
TOTALS		1,324,987	$257,500,000	$3,770,300	$11,516,500

ASU will issue $10,000,000 in revenue bonds to fund the project costs. The estimated annual debt service will be $727,000 and will be paid from tuition collections (50%) and the Indirect Cost Recovery Fund (50%). The use of tuition collections for debt service means that these tuition amounts would not be available for operating costs. As noted in the recommendation section, JLBC Staff recommends the Committee stipulate that a favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any tuition collections that may be required for debt service. The bonds will be repaid over a 30-year period.

Based on 33,000 square feet, the cost per square foot is $303 and the direct construction cost per square foot is $236. These costs appear to be on the high end, however, ASU is anticipating that renovations will require significant infrastructure improvements to mechanical systems to meet code and laboratory requirements. ASU has not finalized the scope or estimated cost of work required for each building. *JLBC Staff recommends that ASU report back to the Committee on the scope of work and estimated cost for each building prior to starting any construction.*

As a comparison, the School of Communication on the Northern Arizona University campus is undergoing significant renovations. The NAU project cost per square foot is $154 and the direct construction cost per square foot is $131. We would acknowledge, however, that the ASU renovations will include a significant amount of renovations for lab space, which tend to be substantially higher than general classroom space renovations. The renovations will be completed over a 35-month period.

East and West Campus Infrastructure Upgrades
ASU plans to initiate infrastructure improvement projects at the ASU-East and ASU-West campuses. The projects primarily include road and sidewalk construction, lighting and landscaping improvements, utility upgrades and building demolition. *Table 3* lists the preliminary projects for each campus.

Table 3

ASU Extended Campus Infrastructure Projects	
ASU-East	ASU-West
Road/Sidewalk/Curb/Gutter Replacement	Road Construction
Underground Utilities	Underground Utilities
Lighting and Emergency Phones	
Pedestrian Malls and Pathways	
Recreation Field and Lighting	
Building Demolition/Abatement (5 buildings)	

ASU will issue $7,000,000 in revenue bonds to fund the project costs. The estimated annual debt service will be $509,000 and ASU plans to use tuition collections for debt service. The use of tuition collections for debt service means that these tuition amounts would not be available for operating costs. As noted in the recommendation section, JLBC Staff recommends the Committee stipulate that a favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any tuition collections that may be required for debt service. The bonds will be repaid over a 30-year period.

ASU has not finalized the scope or estimated cost for each project. *JLBC Staff recommends that ASU report back to the Committee on the scope of work and estimated cost for each project prior to starting any construction.*

RS/LM:jb

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HOUSE OF REPRESENTATIVES

DATE: December 10, 2003

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

THRU: Richard Stavneak, Director

FROM: Jake Corey, Fiscal Analyst

SUBJECT: SCHOOL FACILITIES BOARD – REVIEW OF 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 2005. 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

The JLBC Staff can not make a recommendation on the new construction report at this time. The board did not provide any information on cost estimates in the report. The board indicated cost estimate information would be provided after SFB has met with the Executive to discuss budget and cash flow issues. A.R.S. § 15-2002, however, requires the board to submit the report to the Committee by October 15.

The JLBC Staff recommends a favorable review of the board report on the Litigation Account. The account is to be used to pay the expenses associated with any litigation in which SFB pursues the recovery of damages for correcting deficiencies that were a result of design or construction defects. To date the board has not made any expenditures from the account. The board is currently identifying projects that are eligible for litigation and will return to the Committee once the board has met with legal counsel and determined which projects will be pursued.

(Continued)

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 2004 and FY 2005 than in FY 2003. The board expects enrollment growth to be 6.3% in FY 2004 and 7.5% in FY 2005. Actual enrollment growth for the same districts in FY 2003 was 5.6%.

For FY 2005, within Maricopa County SFB expects growth of approximately 9.0% in the southeastern portion of the county, including the cities of Chandler and Gilbert. In the northern part of the county, including Peoria, Deer Valley, and Cave Creek, the board expects growth of about 6.2%. In the western and southern districts of Phoenix, including Tolleson, the board expects growth of 5.7%. In the districts outlying the western edge of Phoenix, including Dysart, Litchfield, Avondale, Agua Fria, Buckeye, and Saddle Mountain, SFB expects growth of 18.3%.

In the other areas of the state, the board expects growth of 9.8% in Pinal County, 4.0% in Yuma County, 7.9% in the southern edges of Tucson, and 2.3% in various northern regions, including the Prescott and Lake Havasu areas.

Construction Schedule

The board estimates that it will oversee 42 new school construction projects in FY 2005. Of the total, SFB estimates that 35 projects will be ongoing from a previous year and 7 projects will begin construction in FY 2005. This estimate, however, only includes projects that have already been given board approval. The board may also approve some projects in FY 2004 that begin construction in FY 2005.

Cost Estimates

The board did not submit any cost estimate information with the report.

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 expenditures from the account and there is currently no money in the account. The board, however, is in the process of identifying potential litigation and will report back to the Committee once it determines which cases to pursue. The board will place New School Facilities Fund monies into the account as expenses arise.

RS/JC:jb

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HOUSE OF REPRESENTATIVES

DATE:	December 10, 2003
TO:	Senator Bob Burns, Chairman Members, Joint Committee on Capital Review
THRU:	Richard Stavneak, Director
FROM:	Jake Corey, Fiscal Analyst
SUBJECT:	SCHOOL FACILITIES BOARD – REPORT ON FY 2005 INSTRUCTIONS TO THE TREASURER

Request

Pursuant to A.R.S. § 15-2002, the School Facilities Board (SFB) is reporting to the Committee the estimated amounts necessary in FY 2005 for the Deficiencies Correction Fund, Emergency Deficiencies Correction Fund, Building Renewal Fund, and New School Facilities Fund. The board is also reporting the estimated amounts necessary for these funds for FY 2006.

Recommendation

This item is for information only and no Committee action is required. The board reports it will instruct the Treasurer to transfer a total of $134.9 million in FY 2005. This amount represents monies to be transferred to the Building Renewal Fund based on a formula calculation.

The board will not instruct the Treasurer to transfer any amount to the New School Facilities Fund in FY 2005 as the board plans to enter into $250 million in lease-to-own agreements to finance new school construction costs.

The board will not instruct the Treasurer to transfer any amount to the Deficiencies Correction Fund in FY 2005 as Laws 2003, Chapter 2, 1st Special Session already appropriates $100 million to the fund in that year. In addition, SFB plans to transfer $5 million from the New School Facilities Fund to the Emergency Deficiencies Correction Fund in FY 2005.

For FY 2006, the board estimates it will require $391.0 million. This amount includes $141.0 million for the Building Renewal Fund and $250 million for the New School Facilities Fund. No monies will be required for the Deficiencies Correction Fund as the fund is statutorily scheduled to be repealed at the end of FY 2005.

(Continued)

Analysis

A.R.S. § 15-2002 requires SFB to instruct the State Treasurer by January 1 of each year the amounts from the Transaction Privilege Tax (TPT) to be credited to the Deficiencies Correction Fund, Building Renewal Fund, and New School Facilities Fund in the following fiscal year. Prior to reporting its transfer instructions to the Treasurer, the statute requires the board to report these amounts. The transfers are done without appropriation. The amounts credited to the funds are budgeted as General Fund expenditures because TPT revenues would otherwise be deposited into the General Fund.

In addition, though the board does not have authorization to instruct the Treasurer to transfer monies to the Emergency Deficiencies Correction Fund, statute requires the board to report to the Committee the amount required by the fund.

The following paragraphs discuss the required amounts for each of the funds:

Building Renewal Fund
The Building Renewal Fund provides funding to school districts to maintain the condition of existing schools. Building renewal monies are used for major renovations and repairs, upgrades to extend the life of the building, infrastructure, and relocation and placement of portable buildings. The amount distributed to each school district is based on a statutory formula. The formula components are building age, prior renovations, square footage, and cost per square foot. Monies are distributed in equal installments in November and May of each fiscal year.

The SFB reports it will instruct the Treasurer to transfer $134.9 million to the Building Renewal Fund in FY 2005.

For FY 2006, the board reports it expects to instruct the Treasurer to transfer $141.0 million to the fund. The board will report its final FY 2006 estimate to the Committee in December 2004 and will instruct the Treasurer regarding this final amount by January 1, 2005.

The SFB estimates for the Building Renewal Fund are based on the current statutory formula. The Legislature proposed a number of changes to the formula in the FY 2004 Education Omnibus Reconciliation Bill that would have reduced annual building renewal costs to roughly $70 million. The Governor vetoed the changes to the formula.

New School Facilities Fund
The New School Facilities Fund provides monies to school districts for new school construction. Monies in the fund are distributed to school districts based on enrollment projections, square footage requirements, and construction costs. Monies are only distributed upon invoice of work completed. The board reports that it will not instruct the Treasurer to transfer any monies in FY 2005. The board, however, estimates it will require $250 million for the New School Facilities Fund in FY 2005. Instead of paying cash for new school construction in that year, SFB plans to enter into lease-to-own agreements to finance new school construction costs. A.R.S. 15-2006 allows SFB to enter into a maximum of $200 million in lease-to-own agreements in any fiscal year. The board, therefore, plans to request an additional $50 million in lease-to-own authority.

For FY 2006, the board reports it will require $250 million in funding. The board will report its final FY 2006 estimate to the Committee in December 2004 and will instruct the Treasurer regarding this final amount by January 1, 2005.

(Continued)

Deficiencies Correction Fund
The Deficiencies Correction Fund is established to correct existing facility and equipment deficiencies at all state public schools. The board estimates the total cost of the program to be $1.3 billion. The SFB reports it will not instruct the Treasurer to transfer any funds in FY 2005. The board has currently been given $1.2 billion in total funding. Laws 2003, Chapter 2, 1st Special Session appropriates $100 million to the fund in FY 2005. The $100 million appropriation will provide the board with all funding needed to complete the program.

Since the Deficiencies Correction Fund is repealed at the end of FY 2005, the board will not need to instruct the Treasurer to transfer any funds in FY 2006.

Emergency Deficiencies Correction Fund
The Emergency Deficiencies Correction Fund is established to provide funding for school districts emergencies that threaten the functioning of the school district, the preservation or protection of property, or public health, welfare, or safety. The fund consists of monies transferred from the Deficiencies Correction Fund or the New School Facilities Fund. The board plans to transfer $5 million to the Emergency Deficiencies Correction Fund from the New School Facilities Fund in FY 2005. In FY 2004 the board plans to transfer $4.2 million. The transferred amounts will be used to provide $127,400 for a mold remediation project in Payson Unified School District and to provide $7.3 million to replace classroom and vocational space in Tuba City Unified School District. The replacement of space in Tuba City was necessitated by the deteriorating condition of the roof and the building structure. The board determined that it would be more cost effective to replace the existing space than repair the roof and building structure. The remaining balance of $1.8 million in the Emergency Deficiencies Correction Fund will be used for future emergency situations.

RS/JC:jb

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HOUSE OF REPRESENTATIVES

DATE: December 10, 2003

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

THRU: Richard Stavneak, Director

FROM: Jake Corey, Fiscal Analyst

SUBJECT: SCHOOL FACILITIES BOARD – REVIEW OF LEASE-PURCHASE NEW SCHOOL CONSTRUCTION PROJECTS

Request

Pursuant to A.R.S. § 15-2004, the School Facilities Board (SFB) requests the Committee review its list of $57.2 million in potential new school construction projects to be financed with lease-purchase agreements.

The board is also reporting its finalized list of projects to be included in its $200 million lease-purchase agreement. At the August 2003 Committee meeting SFB submitted for review $215 million in potential lease-purchase projects for Committee review. The board received a favorable review contingent upon their returning to the Committee to report the actual projects included in the $200 million agreement. The report on the finalized list of projects is for information only and no Committee action is required.

Recommendation

The JLBC Staff recommends a favorable review of the request with the stipulation that SFB subsequently submit a list of actual projects to be funded.

The board has submitted for review 7 projects in 6 school districts. The total value of these projects is $57.2 million. The term of the lease-purchase agreement will be 15 years. At a projected interest rate of 4.06%, SFB estimates a FY 2005 payment of $2.3 million and remaining annual payments of $4.7 million. Total debt service is estimated to be about $67.9 million, which includes $47.4 million in principal and $20.5 million in interest. The following table shows the estimated costs associated with the lease-purchase financing agreement.

Construction Proceeds	$ 50,000,000
Issuance Cost	200,200
Underwriting Fee	107,100
Insurance	135,700
Total Issuance	$ 50,443,000

(Continued)

The JLBC Staff notes that SFB has submitted a list of *potential* projects to be included in the lease-purchase financing agreement. The total value of these projects is $57.2 million. The board only plans to enter into an agreement, however, for $50 million in lease-purchase financing. Therefore, when the board has finalized its list of projects to be included in the lease-to-own agreement, the $57.2 million amount will be reduced to $50 million. If the Committee decides to favorably review the report, JLBC Staff recommends that the Committee's review be contingent on SFB subsequently submitting a list of the *actual* projects included in the agreement.

Analysis

A.R.S. § 15-2004 grants SFB the authority to enter into lease-purchase agreements to pay for the costs of new school construction. Before any agreement takes effect, the statute requires the board to submit for Committee review the projects related to the agreement.

The potential lease-purchase projects are detailed in SFB Attachment 1. There are a total of 7 projects. Among the highlights:

- Approximately 5,800 students will be housed in the space provided by these projects.
- Of the total number of projects, 4 are for new schools and 3 are for additional space at existing schools.
- Four of the projects are for K-8 space and 3 are for high school space.
- All of the projects are currently in the design phase.
- Geographically, 5 of the projects are located in the West Valley of Phoenix, 1 project is located in Yuma County, and 1 project is located in Pinal County.

Including the previous $200 million agreement, the board plans to enter into a total of $250 million in lease-purchase agreements in FY 2004.

The $200 million agreement will fund 31 projects. The list of projects is shown in SFB's Attachment 2.

RS/JC:jb
Attachments (2)

SFB Attachment 1

Potential Lease To Own III Projects

December 8, 2003

District/Project Number	Description	Status	Project Total	District Share	SFB Contribution	Land	Total Lease Purchase
Agua Fria Union High School							
070516000-9999-001	HS Buildout	Design	8,697,480	-	8,697,480	-	8,697,480
Buckeye Union							
070501000-9999-001	HS Buildout	Design	7,461,743	-	7,461,743	-	7,461,743
Dysart							
070289000-9999-007	K-8	Design	9,175,320	-	9,175,320	-	9,175,320
070289000-9999-008	K-8	Design	9,175,320	-	9,175,320	255,000	9,430,320
Florence							
110201000-9999-004	K-8	Design	10,092,852	-	10,092,852	-	10,092,852
Union Elementary District							
070462000-9999-002	K-8 Core	Design	4,771,166	-	4,771,166	-	4,771,166
Yuma Union							
140570000-9999-001	HS Buildout	Design	7,533,383		7,533,383		7,533,383
Totals			**$56,907,264**	**$0**	**$56,907,264**	**$255,000**	**$57,162,264**

SFB Attachment 2

Lease To Own 2 Projects

August 25, 2003

Sublessee School District	Project Description	Cost of Facilities Being Paid for by the Board	Project Costs Being Paid by or Reimbursed From 2003B Certificate Proceeds	Facilities Completion Percentage (As of 8/1/03)	District Funds Contribution for Facilities
Avondale Elementary					
070444000-9999-211	K-6	7,437,562	7,437,562	50%	1,136,749
Cartwright Elementary					
070483000-9999-214	K-6	931,500	931,500	0%	-
070483000-9999-004	K-6	3,126,596	3,126,596	0%	-
070483000-9999-005	K-6	3,179,836	3,179,836	0%	-
070483000-9999-006	K-6	1,612,054	1,612,054	0%	-
Cave Creek					
070293000-9999-004	K-5	5,733,585	7,216,958	5%	-
Chandler					
070280000-9999-003	K-6	2,991,853	2,991,853	10%	-
070280000-9999-007	K-6	2,991,853	2,991,853	0%	-
Cottonwood					
130406000-9999-002	K-8	4,799,728	4,799,728	4%	481,442
Crane					
1404113000-9999-001	K-6	5,733,585	5,733,585	5%	-
Dysart					
070289000-9999-006	K-8	9,175,320	9,175,320	9%	-
Gadsden Elementary					
140432000-9999-005	7-8	8,228,000	8,228,000	30%	653,850
140432000-9999-007	K-6	3,726,829	3,726,829	6%	284,541
Gilbert					
070241000-9999-010	7-8	9,805,852	9,805,852	5%	-
Isaac Elementary					
070405000-9999-002	6-8	3,174,367	4,798,689	19%	-
J. O. Combs Elementary					
110344000-9999-002	K-8	6,836,951	6,611,834	77%	-
Liberty Elementary					
070425000-9999-211	K-8	6,383,493	6,383,493	0%	-
070425000-9999-002	K-8	921,047	921,047	0%	29,364
Litchfield					
070479000-9999-003	6-8	5,748,511	5,748,511	5%	-
070479000-9999-002	K-5	7,056,720	7,056,720	5%	-
Littleton					
070465000-9999-211	K-8	7,567,956	7,567,956	0%	1,308,316
Maricopa County					
070199000-9999-001	K-6	2,205,225	2,205,225	5%	-

Patagonia					
120520000-9999-001	High School	6,981,093	6,981,093	0%	-
Pendergast					
070409200-9999-003	K-8	6,885,123	6,885,123	5%	-
Peoria Unified					
070211000-9999-001	High School	26,795,250	26,795,250	7%	3,088,720
Ray					
110203000-9999-001	K-8, 9-12	9,547,993	9,547,993	35%	-
Somerton					
140411000-9999-001	6-8	2,531,934	2,531,934	75%	193,817
Tolleson Union					
070514000-9999-211	High School	26,794,599	26,794,599	0%	-
Tombstone					
020201000-9999-002	High School	7,211,171	7,211,171	0%	-
Union					
070462000-9999-001	K-8	2,005,860	2,005,860	0%	-
Vernon Elementary					
010309000-9999-201	K-8	2,149,236	988,159	100%	218,000
Totals		**$200,270,682**	**$201,992,183**		**$7,394,799**
Total Districts:	**24**				
Number of Projects:	**31**				

STATE OF ARIZONA

Joint Committee on Capital Review

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DATE: December 10, 2003

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

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF TRANSPORTATION – REPORT ON FY 2004 CONSTRUCTION BUDGET TRAFFIC CONGESTION PERFORMANCE MEASURES AND UNIT COST MEASURES

Request

This is a follow-up report on the Arizona Department of Transportation's (ADOT) traffic congestion performance measures and the department's comment on their ability to develop unit cost measures.

Recommendation

This item is for information only and no Committee action is required. ADOT has decided not to propose new traffic congestion performance measures, and has added one congested highway segment for the Tucson area.

ADOT reports having 3 unit cost measures for construction of the Maricopa regional freeway system and 1 for light vehicle maintenance. The department has data and could calculate unit cost measures for highway construction in the rest of the state, highway maintenance landscaping and litter pick up, and Motor Vehicle Division transactions.

Analysis

At the August 14, 2003 meeting of the Committee, the Committee adopted Performance Measures for the construction operating budget. However, ADOT had not addressed the question of whether any new highway segments should be added to the department's list of highway congestion performance measures. Instead, ADOT had verbally reported prior to the meeting that they would like to propose some new traffic congestion performance measures in the near future. As a result, the Committee adopted the Performance Measures presented and required the department to report on its proposed new traffic congestion performance measures along with comments on the department's ability to develop unit cost

(Continued)

measures by November 1, 2003. The department's original letter on this subject, dated October 31, 2003, was unresponsive to either of the Committee's concerns. The Chairman in a November 12, 2003 letter again asked ADOT to reply to the questions by November 24, 2003.

Traffic Congestion Performance Measures

ADOT responded in a letter dated November 24, 2003 that they do not want to propose new traffic congestion performance measures. The department did add one new highway segment to the department's list of congested highway segments for the Tucson area. Tables 1, 2 and 3 list some of the state's most crowded roadways and how ADOT's 5-year plan addresses them. The new highway segment for the Tucson area appears in bold type in Table 2.

Table 1

PERFORMANCE MEASURES – PHOENIX AREA	FY 2002 Est./Actual	FY 2003 Estimate	FY 2004 Estimate
• Percent of state highway system with traffic volume over 100% of capacity during peak driving periods in Phoenix Metro area 1/	12/12	12	14

1/ Peak driving periods means from 6 a.m. to 9 a.m. and from 3 p.m. to 7 p.m., Monday through Friday.

Phoenix Metro Area Highway Segments Over 100% of Capacity During Peak Driving Periods

Action in 5-Year Plan	**Route**	**Segment**	**ADOT Action**
Yes	US 60	I-10-Loop 101	8 intersection grade separations; 25% done; 6/06 completion.
Yes	I-10	Baseline-40th St	Design report to be done fall 2003.
Yes	I-10	40th St-24th St	Environmental study to be done fall 2003.
Yes	SR 51	Northern-Thomas	HOV lanes; 10% done; fall 2004 completion.
No	I-17	Greenway-Indian School	No plan.
No	I-10	7th St-67th Ave	Probable spot studies in the future.
No	Loop 101	Guadalupe-Pima	Future HOV lanes.
No	Loop 202	24th St-Loop 101	Future HOV lanes.

HOV lanes - High Occupancy Vehicle lanes.

Table 2

PERFORMANCE MEASURES – TUCSON AREA	FY 2002 Est./Actual	FY 2003 Estimate	FY 2004 Estimate
• Percent of state highway system with traffic volume over 100% of capacity during peak driving periods in Tucson Metro area 1/	6/6	6	10

1/ Peak driving periods means from 6 a.m. to 9 a.m. and from 3 p.m. to 7 p.m., Monday through Friday.

Tucson Metro Area Highway Segments Over 100% of Capacity During Peak Driving Periods

Action in 5-Year Plan	**Route**	**Segment**	**ADOT Action**
Yes	I-10	Ina Rd – Contaro Rd	Widening project; 90% done; fall 2003 completion.
Yes	I-10	Prince Rd - 22nd Ave	Widening project and frontage roads; 2006 completion.
Yes	Oracle Rd	Calle Concordia - 1st Ave	Widen from 4 to 6 lanes; fall 2004 completion.
Yes	Oracle Rd	Magee Rd - River Rd	Add shoulders; fall 2004 completion.
Yes	**I-10**	**Ina Rd – Traffic**	**Grade separation project; 2009 completion.**

(Continued)

Table 3

PERFORMANCE MEASURES – BALANCE OF STATE	FY 2002 Est./Actual	FY 2003 Estimate	FY 2004 Estimate
• Percent of state highway system with traffic volume over 100% of capacity in balance of state	1/1	1	1

State Highway Segments Over 100% of Capacity in Balance of State

Action in 5-Year Plan	Route	Segment	ADOT Action
Yes	SR 95	S. of Bullhead City (MP 236.2 - 242.8)	Bought right-of-way; 2006 completion.
Yes	SB 8	Yuma (MP 12 - 12.9)	Design area service highway; 2008 completion.
Yes	US 93	Hoover Dam Bypass (MP 0 – 1.7)	South bridge approach being constructed.
Yes	US 93	Hoover Dam Bypass (MP 1.7 - 16.1)	Begin construction in FY 06.
No	SR 77	Near Show Low (MP 342.7 - 343.3)	---
No	SR 84	W. of Casa Grande (MP 177 - 177.6)	---
No	SR 92	S. of Sierra Vista (MP 322.7 - 323.7)	---
Yes	SR 179	I-17 - Sedona (MP 306.2 - 307)	Needs study; to be done 2004.
No	US 60	Miami - Globe (MP 242.8 - 243.5)	Engineering and environmental study; done 2004.

MP - Mile post. SA – Alternate route. SR - State route. SB - Business route.

Unit Cost Measures

ADOT reports that they currently produce some unit cost measures and have the ability to produce others. Table 4 summarizes the information that ADOT submitted on their unit cost measures.

Table 4

ADOT's Unit Cost Measures

Highway Construction	**Available**
A) Maricopa Regional Freeway System	
Design cost per mile	Yes
Right-of-way cost per mile	Yes
Construction cost per mile	Yes
B) Rest of State	Data is available. Would need to calculate.
Highway Maintenance	
Landscaping in-house cost per center line mile	Data is available. Would need to calculate.
Landscaping contract cost per center line mile	Data is available. Would need to calculate.
Litter pick up in-house cost per center line mile	Data is available. Would need to calculate.
Litter pick up contract cost per center line mile	Data is available. Would need to calculate.
Litter pick up prison labor cost per center line mile	Data is available. Would need to calculate.
Litter pick up volunteer cost per center line mile	Data is available. Would need to calculate.
Vehicle Maintenance	
Light vehicle maintenance cost per mile	Yes
Motor Vehicle Division	
Service Arizona (Internet) cost by type of transaction	Data is available. Would need to calculate.
Renew by mail cost by type of transaction	Data is available. Would need to calculate.
Field office visit cost by type of transaction	Data is available. Would need to calculate.

RS/bh:JB