

STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

DON SHOOTER
CHAIRMAN 2011
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ANDY BIGGS
RICH CRANDALL
LORI KLEIN
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HOUSE OF
REPRESENTATIVES

JOHN KAVANAGH
CHAIRMAN 2012
LELA ALSTON
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STEVE COURT
NANCY MCLAIN
JUSTIN OLSON
ANNA TOVAR

**** REVISED ****

JOINT COMMITTEE ON CAPITAL REVIEW

Tuesday, December 18, 2012

11:00 A.M.

Senate Appropriations, Room 109

MEETING NOTICE

- Call to Order
- [Approval of Minutes of October 4, 2012.](#)
- DIRECTOR'S REPORT (if necessary).
- 1. [ARIZONA STATE UNIVERSITY - Review of Building Infrastructure and Renovations Bond Projects.](#)
- 2. [UNIVERSITY OF ARIZONA - Review of Environment and Natural Resources Building Project.](#)
- 3. [ARIZONA DEPARTMENT OF TRANSPORTATION - Review of FY 2013 Building Renewal Allocation Plan.](#)
- 4. [ARIZONA DEPARTMENT OF ADMINISTRATION - Consider Recommending FY 2013 Rent Exemptions.](#)
- 5. [UNIVERSITY OF ARIZONA - Review of Cancer Center Project.](#)

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

~~12/11/12~~

12/13/12

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People with disabilities may request accommodations such as interpreters, alternative formats, or assistance with physical accessibility. Requests for accommodations must be made with 72 hours prior notice. If you require accommodations, please contact the JLBC Office at (602) 926-5491.

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MINUTES OF THE MEETING

JOINT COMMITTEE ON CAPITAL REVIEW

October 4, 2012

The Chairman called the meeting to order at 2:30 p.m., Thursday, October 4, 2012, in Senate Appropriations Room 109. The following were present:

Members:	Representative Kavanagh, Chairman	Senator Shooter, Vice-Chairman
	Representative Alston	Senator Biggs
	Representative Court	Senator Crandall
	Representative McLain	Senator Murphy
	Representative Olson	Senator Schapira
	Representative Tovar	
Absent:	Representative Campbell	Senator Aboud
		Senator Klein

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of June 26, 2012, Chairman John Kavanagh stated the minutes would stand approved.

DIRECTOR'S REPORT

Richard Stavneak, JLBC Staff Director, acknowledged that this would be Leatta McLaughlin's last meeting as JLBC's Capital Analyst. Leatta has accepted a position as an associate director at the Department of Agriculture. Committee members thanked Leatta for her service.

ARIZONA STATE LOTTERY COMMISSION - Review of FY 2013 Building Renewal Allocation Plan.

Mr. Jon Stall, JLBC Staff, stated that this item is a review of the Arizona State Lottery Commission's FY 2013 Building Renewal Allocation Plan totaling \$85,200. The JLBC Staff recommends that the Committee give a favorable review to the Lottery Commission's FY 2013 Building Renewal Allocation Plan.

Mr. Jeff Hatch-Miller, Executive Director, Arizona Lottery Commission, responded to member questions.

(Continued)

Ms. Patricia Phillips, Deputy Director, Arizona Lottery Commission, responded to member questions.

Senator Shooter moved that the Committee give a favorable review to the request for Arizona State Lottery Commission's FY 2103 Building Renewal Allocation Plan totaling \$85,200. The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION

A. Review of Remaining FY 2013 Building Renewal Allocation Plan.

Ms. Leatta McLaughlin, JLBC Staff, stated that this item is a review of the Arizona Department of Administration's (ADOA) FY 2013 Building Renewal Allocation Plan totaling \$6,525,000. They were originally appropriated \$10,372,600 from the Capital Outlay Stabilization Fund (COSF) in FY 2013. At its June 26, 2012 meeting, the Committee favorably reviewed the safety-related projects as agreed to by the Chairman, which totaled \$3,847,600. This request addresses the review of the remaining building renewal projects.

The JLBC Staff presented options to the Committee.

Senator Shooter moved that the Committee give a favorable review to the request for ADOA's FY 2013 Building Renewal Allocation Plan totaling \$6,525,000 with the provision that ADOA shall report any change in the building renewal spending plan to the JLBC Staff, including reallocations between projects. If there is significant change of scope in the reallocation reported by ADOA, the JLBC Staff shall recommend ADOA to request Committee review of the reallocation. The motion carried.

B. Review and Consider Approval of Bond Refinancing.

Mr. Art Smith, JLBC Staff, presented ADOA's request for review of its Bond Refinancing of \$62 million in outstanding principal obligations for 3 projects: Department of Health Services building, state Health Laboratory, and various prison beds throughout the state. The JLBC Staff recommended that the Committee favorably review and approve the refinancing of the PLTO and COP issuances with the provision that ADOA report back to the Committee on the final estimates for interest rate, debt service schedules, costs, and estimated savings of the refinances after the issuance.

Mr. Clark Partridge, State Comptroller, General Accounting Office, ADOA, responded to member questions.

Senator Shooter moved that the Committee give a favorable review and approval to ADOA's request to refinance its 2001 PLTO agreement and COP issuances from 2002 and 2004 with the provision that ADOA report back to the Committee on the final estimates for interest rate, debt service schedules, costs, and estimated savings of the reissuance. The motion carried.

C. Review and Consider Recommending FY 2013 Rent Exemptions.

Mr. Ben Beutler, JLBC Staff, presented the ADOA's request that the Committee recommend to grant a full or partial exemption from the payment of state-owned rental fees totaling \$42,100 for ADOA and Arizona Department of Education (ADE). The vacated space will be occupied by other agencies for no net loss of rent. The JLBC Staff recommends that the Committee recommend exemptions of \$28,500 for ADOA and \$13,600 for ADE. As a result of these exemptions, there are corresponding rent increases of \$28,500 for the Department of Economic Security (DES) and \$13,600 for the Department of Health Services (DHS).

Mr. Beutler responded to member questions.

Senator Shooter moved that the Committee recommend to the Arizona Department of Administration a rent exemption for FY 2013 of \$28,500 for ADOA and \$13,600 for ADE. The motion carried.

(Continued)

ARIZONA STATE UNIVERSITY – Review of 4 Bond Projects.

Ms. Leatta McLaughlin, JLBC Staff, presented Arizona State University's (ASU) \$59.9 million bond project to construct a new multi-use facility at the Tempe Campus, Information Technology (IT) infrastructure improvements at all campuses, library renovations at the Tempe Campus, and refunding a student housing bond at the Tempe Campus.

The JLBC Staff presented options to the Committee.

Ms. McLaughlin responded to member questions.

Senator Shooter moved that the Committee give a favorable review for ASU's request for the 4 projects with the following provisions: 1) projects are ultimately approved by the Arizona Board of Regents, and 2) the following Standard University Financing Provisions:

Standard University Financing Provisions

- 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 shall provide the final debt service schedule for the projects as soon as they are available.

The motion carried.

ARIZONA CORPORATION COMMISSION – Review of FY 2013 Tenant Improvements.

Mr. Jon Stall, JLBC Staff, presented the Arizona Corporation Commission's request for review of its FY 2013 tenant improvements at an estimated cost of \$351,100 to construct a new hearing room.

The JLBC Staff presented options to the Committee

Ms. Laurie Lustig, Legislative Liason, Arizona Corporation Commission, responded to member questions.

Senator Shooter moved that the Committee give a favorable review to Arizona Corporation Commission's request for tenant improvements totaling \$351,100 to construct a hearing room. The motion carried.

Without objection, the meeting adjourned at 3:13 p.m.

Respectfully submitted:

Tera Scherer, Secretary

Art Smith, Senior Fiscal Analyst

Representative John Kavanagh, Chairman

NOTE: A full audio recording of this meeting is available at the JLBC Staff Office, 1716 W. Adams. A full video recording of this meeting is available at <http://www.azleg.gov/jlbc/meeting.htm>.

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DATE: December 11, 2012

TO: Representative John Kavanagh, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Marge Zylla, Senior Fiscal Analyst

SUBJECT: Arizona State University - Review of Building Infrastructure and Renovations Bond Projects

Request

A.R.S. § 15-1683 requires Committee review of any university projects financed with University Lottery revenue bonds. Arizona State University (ASU) requests Committee review of \$35 million in bond issuances to fund 3 projects. The 3 projects include infrastructure improvements, classroom renovations and research laboratory renovations.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the 3 projects.
2. An unfavorable review of the 3 projects.

Under either option, the JLBC Staff recommends the following standard university financing provisions:

Standard University Financing Provisions

- 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 shall provide the final debt service schedules for the projects as soon as they are available.

(Continued)

Analysis

The \$35 million in bond issuances includes upgrades and renovations on all ASU campuses. Of this amount, \$15 million will be for infrastructure upgrades, \$10 million will be for classroom renovations, and \$10 million will be for research laboratory renovations.

Financing

The total \$35 million for the 3 projects would be financed with a University Lottery revenue bond issuance. This amount includes estimated issuance costs of \$570,000 and is expected to be issued in early 2013 with a rating of A1 (Moody's)/AA-(S&P) at an estimated 3.68% interest rate for a term of 20 years. The university plans interest-only annual debt service payments of \$1.6 million in FY 2014 and \$1.3 million in FY 2015. Annual debt service payments, including principal, will increase to \$2.9 million beginning in FY 2016 for a 20-year total cost of \$51.5 million. Under permanent law, the annual Lottery bond debt service payments are to be paid from up to 80% Lottery revenues and at least 20% state university system revenues.

Permanent law authorizes ABOR to enter into lease-to-own and bond transactions up to a maximum of \$800.0 million to pay for building renewal projects and new facilities. Apart from the ASU School of Construction, ASU has been allocated \$136.0 million. At this time, ASU has \$51.7 million of its \$136.0 million building renewal/new facilities allocation remaining and is now requesting to issue \$35.0 million for the 3 projects under review.

Construction Costs

Total project construction costs are estimated at \$24.3 million, which does not include issuance costs. *Table 1* provides a brief description of each project along with the project's total cost, direct construction cost, square footage, and direct construction cost per square foot.

ASU Bond Projects				
<u>Project</u>	<u>Total Cost</u>	<u>Direct Cost</u>	<u>Sq. Ft.</u>	<u>Direct Cost/ Sq. Ft.</u>
Infrastructure Upgrades – all campuses	\$15,000,000	\$11,276,600	N/A	N/A
Classroom Renovations – all campuses	10,000,000	6,000,000	50,000	\$120
Research Lab Renovations – all campuses	<u>10,000,000</u>	<u>7,000,000</u>	<u>28,600</u>	<u>236</u>
Total	\$35,000,000	\$24,276,600	78,600	\$356

Building Infrastructure Upgrades – All Campuses

ASU plans to upgrade building infrastructure such as fire sprinklers and alarms, heating, ventilation and air-conditioning (HVAC), electrical systems and building exteriors at all of its campuses for a cost of \$15.0 million. ASU did not provide a direct construction cost per square foot for this project because this project would not affect square footage.

Classroom and Academic Renovations – All Campuses

ASU is planning to renovate approximately 90,000 gross square feet of classrooms and academic space on all of its campuses, at a cost of \$10.0 million. The renovations would affect approximately 25 buildings and would include new large classrooms, smaller instructional centers, and student and faculty spaces. In addition, the renovations would include enhancements to electrical, HVAC and plumbing systems, fire prevention, and building exteriors.

The direct construction cost per square foot of this project is \$120. At its September 2012 meeting, the Committee most recently reviewed an ASU renovation project with a comparable cost per square foot.

(Continued)

Research Laboratory Renovations – All Campuses

ASU is planning to renovate approximately 28,600 gross square feet of laboratory space on all of its campuses, with the majority of renovations on the Tempe campus, at a cost of \$10.0 million. The renovations would affect approximately 20 buildings and would include upgraded wet and dry lab space, along with enhancements to electrical, HVAC and mechanical systems, gas lines and life safety.

At its September 2011 meeting, the Committee reviewed a renovation project for ASU laboratory space that had a direct construction cost per square foot of \$212. The direct construction cost per square foot of this project is \$236.

RS:MZ:ts

ASU
ARIZONA STATE UNIVERSITY

November 28, 2012



The Honorable John Kavanagh, Chairman
Joint Committee on Capital Review
House of Representatives
1700 West Washington
Phoenix, AZ 85007

Dear Representative Kavanagh:

In accordance with ARS 15-1683, the Arizona Board of Regents requests that the following bond-financed items for Arizona State University be placed on the next Joint Committee on Capital Review agenda for review:

- Building and Infrastructure Enhancements and Modifications
- Classroom and Academic Renovations
- Research Laboratory/Faculty Startup

Enclosed is pertinent information relating to these items.

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 'Morgan R. Olsen'.

Morgan R. Olsen
Executive Vice President, Treasurer and CFO

Enclosures

c: Richard Stavneak, Director, JCCR
Tom Anderes, President, Arizona Board of Regents, ABOR
Lorenzo Martinez, Assist. Executive Director for Capital Resources, ABOR
Steve Miller, Deputy Vice President, Public Affairs, ASU
Lisa Frace, Associate Vice President for Budget and Planning, ASU
David Brixen, Associate Vice President, Facilities Development and Management, ASU
Joanne Wamsley, Senior Associate Vice President for Finance and Deputy Treasurer, ASU
Marge Zylla, Senior Fiscal Analyst, JCCR

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**Joint Committee on Capital Review
Arizona State University
December 2012 JCCR Meeting**

RE: On behalf of the Arizona Board of Regents, ASU requests JCCR review the following items as required by ABOR policy and ARS § 15-1683:

- Building and Infrastructure Enhancements and Modifications
- Classroom and Academic Renovations
- Research Laboratory/Faculty Startup

BACKGROUND

ASU plans to undertake bond-financed projects to enhance campus and building infrastructure, and to renovate classrooms, academic spaces, and laboratories. Additional information regarding the projects is shown on the following pages.

**Joint Committee on Capital Review
Arizona State University
December 2012 JCCR Meeting**

1. BUILDING AND INFRASTRUCTURE ENHANCEMENTS AND MODIFICATIONS

Project Description

Many campus infrastructure, building life safety and system capacities are inadequate and cannot meet current research, laboratory or academic requirements. Infrastructure improvement projects preserve University assets and ensure that critical systems supporting academic and research initiatives continue without interruption.

The project's building enhancements and modifications will upgrade, install and replace building systems and infrastructure such as fire sprinklers and alarms, HVAC, electrical systems (including reliability and redundancy upgrades), exhaust, chilled water and steam systems, exterior building skin, roofs, windows and building joints.

Campus infrastructure enhancements and modifications will include projects such as site and safety improvements for malls, lighting, street repair and realignment, parking, site drainage and retention.

This debt-financed project will be funded from \$15,000,000 in SPEED Lottery Revenue Bonds.

Debt service will be funded with Lottery Revenue Proceeds and Tuition.

An Arizona Board of Regents executive summary is attached for this project, which outlines the project description and other relevant information. This project was granted Capital Development Plan approval by ABOR at its December 6, 2012 meeting.

Project Costs

Total Project Cost	\$ 15,000,000
Total Project Construction Cost	\$ 11,276,560
Total Project Cost per GSF	n/a*
Construction Cost per GSF	n/a*

*This project will affect infrastructure and building systems; therefore, a cost per square foot is not definable.

Operations and maintenance costs are not expected to change with the project.

Project Delivery Method

Components of this project will be delivered by the Construction Manager at Risk (CMAR) and Job Order Contracting (JOC) methods, as deemed appropriate by the University.

**Joint Committee on Capital Review
Arizona State University
December 2012 JCCR Meeting**

2. CLASSROOM AND ACADEMIC RENOVATIONS

Project Description

ASU intends to renovate existing classrooms, create new classrooms of various sizes and add smaller instructional spaces at all campuses. Plans call for the renovation of approximately 50,000 gross square feet of classrooms and academic space, including faculty and student space.

Building components such as HVAC, plumbing, electrical systems, flooring, ceilings, interior and exterior paint, roofs, windows, doors, internal walls and partitions, elevators, and fire prevention equipment may be upgraded in this project as part of the renovations. The Classroom and Academic Renovations project will comprise multiple components at each ASU campus.

This debt-financed project will be funded from \$10,000,000 in SPEED Lottery Revenue Bonds.

Debt service will be funded with Lottery Revenue Proceeds and Tuition.

An Arizona Board of Regents executive summary is attached for this project, which outlines the project description and other relevant information. This project was granted Capital Development Plan approval by ABOR at its December 6, 2012 meeting.

Project Costs

Total Project Cost	\$ 10,000,000
Total Project Construction Cost	\$ 6,000,000
Total Project Cost per GSF	\$ 200
Construction Cost per GSF	\$ 120

Operations and maintenance costs are not expected to change with the project.

Project Delivery Method

Components of this project will be delivered by the Construction Manager at Risk (CMAR) and Job Order Contracting (JOC) methods, as deemed appropriate by the University.

**Joint Committee on Capital Review
Arizona State University
December 2012 JCCR Meeting**

3. RESEARCH LABORATORY/FACULTY STARTUP

Many existing University laboratories and building systems are inadequate. The poor condition of the spaces and age of the building systems constrain the development of these strategically important areas. This project will ensure facility systems can meet research demands and will bring areas into code compliance where required. It will convert inadequate classroom laboratories, research laboratories and research building systems to state-of-the-art research facilities.

Research Laboratory/Faculty Startup projects will involve the renovation of approximately 28,570 gross square feet of laboratories to meet the needs of new and current research requirements within existing facilities.

Multiple wet and dry lab space will be upgraded, as well as infrastructure and building systems, in order to maximize adaptable and flexible technologies. Renovation activities will involve building systems such as HVAC, mechanical, fume hoods, lab gas lines, electrical, and code required life safety upgrades.

This debt-financed project will be funded from \$10,000,000 in SPEED Lottery Revenue Bonds.

Debt service will be funded with Lottery Revenue Proceeds and Tuition.

An Arizona Board of Regents executive summary is attached for this project, which outlines the project description and other relevant information. This project was granted Capital Development Plan approval by ABOR at its December 6, 2012 meeting.

Project Costs

Total Project Cost	\$ 10,000,000
Total Project Construction Cost	\$ 7,000,000
Total Project Cost per GSF	\$ 350
Construction Cost per GSF	\$ 236

Operations and maintenance costs are not expected to change with the project.

Project Delivery Method

This project may utilize Construction Manager at Risk (CMAR) or Job Order Contracting (JOC) project delivery methods, as deemed appropriate by the University.

**Joint Committee on Capital Review
Arizona State University
December 2012 JCCR Meeting**

PROJECT SUMMARY – Lottery Revenue Bonds

<u>Renovation and Improvements:</u>	<u>Funding Sources:</u>	<u>Amount:</u>
Building and Infrastructure Enhancements and Modifications	80% State Lottery/ 20% Tuition	\$ 15,000,000
Classroom and Academic Renovations	80% State Lottery/ 20% Tuition	10,000,000
Research Laboratory/Faculty Startup	80% State Lottery/ 20% Tuition	10,000,000
		<hr/> <u>\$ 35,000,000</u>

FINANCING INFORMATION

Lottery Revenue Bonds:

Project Costs	\$ 35,000,000
Estimated Costs of Issuance	\$ 570,000
Anticipated Bond Rating	A1 (Moody's) and AA- (S&P)
Assumed Interest Rate	3.68%
Term	20 years

Debt Service Information:

Estimated Debt Service For 2014 (interest only)	\$ 1,636,220
Estimated Annual Debt Service For 2015 (interest only)	\$ 1,308,976
Estimated Annual Debt Service For 2016-2032	\$ 2,858,029
Total Estimated Debt Service Costs	\$ 51,531,689

DEBT RATIO

Debt Ratio on Existing Debt	5.50
Incremental Debt Ratio	0.14
Projected Debt Ratio	5.64

**Joint Committee on Capital Review
Arizona State University
December 2012 JCCR Meeting**

Arizona State University
Lottery Revenue Bonds

Building and Infrastructure Enhancements and Modifications

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$	\$ 701,500	\$ 701,500
2015		561,200	561,200
2016	660,000	563,224	1,223,224
2017	685,000	539,013	1,224,013
2018	710,000	513,881	1,223,881
2019	740,000	487,845	1,227,845
2020	765,000	460,690	1,225,690
2021	795,000	432,630	1,227,630
2022	820,000	403,451	1,223,451
2023	850,000	373,367	1,223,367
2024	885,000	342,194	1,227,194
2025	915,000	309,718	1,224,718
2026	950,000	276,153	1,226,153
2027	985,000	241,301	1,226,301
2028	1,020,000	205,160	1,225,160
2029	1,060,000	167,747	1,227,747
2030	1,095,000	128,846	1,223,846
2031	1,135,000	88,673	1,223,673
2032	1,180,000	47,039	1,227,039
	<u>\$ 15,250,000</u>	<u>\$ 6,843,631</u>	<u>\$22,093,631</u>

**Joint Committee on Capital Review
Arizona State University
December 2012 JCCR Meeting**

Arizona State University
Lottery Revenue Bonds

Classroom and Academic Renovations

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$	\$ 467,360	\$ 467,360
2015		373,888	373,888
2016	440,000	375,237	815,237
2017	455,000	359,091	814,091
2018	475,000	342,409	817,409
2019	490,000	324,975	814,975
2020	510,000	307,004	817,004
2021	530,000	288,297	818,297
2022	545,000	268,839	813,839
2023	570,000	248,860	818,860
2024	590,000	227,945	817,945
2025	610,000	206,295	816,295
2026	635,000	183,923	818,923
2027	655,000	160,617	815,617
2028	680,000	136,589	816,589
2029	705,000	111,642	816,642
2030	730,000	85,775	815,775
2031	755,000	58,987	813,987
2032	785,000	31,295	816,295
	\$ 10,160,000	\$ 4,559,029	\$ 14,719,029

**Joint Committee on Capital Review
Arizona State University
December 2012 JCCR Meeting**

Arizona State University
Lottery Revenue Bonds

Research Laboratory/Faculty Startup

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$	\$ 467,360	\$ 467,360
2015		373,888	373,888
2016	440,000	375,237	815,237
2017	455,000	359,091	814,091
2018	475,000	342,409	817,409
2019	490,000	324,975	814,975
2020	510,000	307,004	817,004
2021	530,000	288,297	818,297
2022	545,000	268,839	813,839
2023	570,000	248,860	818,860
2024	590,000	227,945	817,945
2025	610,000	206,295	816,295
2026	635,000	183,923	818,923
2027	655,000	160,617	815,617
2028	680,000	136,589	816,589
2029	705,000	111,642	816,642
2030	730,000	85,775	815,775
2031	755,000	58,987	813,987
2032	785,000	31,295	816,295
	<u>\$ 10,160,000</u>	<u>\$ 4,559,029</u>	<u>\$ 14,719,029</u>

EXECUTIVE SUMMARY

**Arizona Board of Regents
Arizona State University
Capital Development Plan Project Justification Report
Building and Infrastructure Enhancements and Modifications**

Previous Board Action:

- FY 2014-2016 Capital Improvement Plan September 2012
- FY 2013-2015 Capital Improvement Plan September 2011

Statutory / Policy Requirements

- Pursuant to Arizona Board of Regents Policy Chapter 7-102, all renovation and infrastructure capital projects with an estimated total project cost of \$5 million or more shall be brought to the Business and Finance Committee for approval, regardless of funding source or financing.
- Board Policy 7-102C.2 states that if the Board grants Capital Development Plan Approval for a group of related projects, Project Approval is necessary for any phase that exceeds \$5,000,000. At this conceptual stage of the project, ASU does not anticipate that any of the individual project components will exceed \$5,000,000.

Project Justification/Strategic Implications/Project Compliance with Mission, Strategic Plan, Master Plan and Community Input Process

- The Building and Infrastructure Enhancements and Modifications project will advance the goals and priorities of the University outlined in the ASU Strategic Business Framework. The project will support the safe and uninterrupted use of vital classroom, academic and research space by students and staff. Many components of the ASU built environment are not capable of supporting additional functions required by the University to carry out its mission of research and academic excellence without incremental investment. Campus infrastructure requires renovation to ensure the preservation of University assets. The primary institutional priorities supported by this project include:
- **Key ABOR enterprise metrics: Achieve a 50 percent increase in degree production and expand research performance to \$700 million in annual research expenditures.** Many campus infrastructure and building life safety

EXECUTIVE SUMMARY

and system capacities are inadequate and cannot meet current research, laboratory or academic requirements. Infrastructure improvement projects ensure that critical systems supporting academic and research initiatives continue without interruption.

- **Campus Operations & Infrastructure Priorities:** ASU facilities must be kept in a safe, operational, attractive and maintainable condition. These projects will ensure campus buildings and utility systems are efficient and cost-effective, and maximize the use of operational funds. Infrastructure improvements will take advantage of economies of scale and potential cost savings. The projects will serve to protect University investment in facilities, and are essential in allowing the University to reach its goals, without State support for building renewal.
- **Life Safety and Code Compliance:** Life safety and code compliance matters take highest priority in the Building and Infrastructure Enhancements and Modifications project. The project will help ensure the safety of students, staff and visitors, and will address safety and code compliance issues as needed.

Project Description/Scope/Project Compliance with Space Standards:

- Building enhancements and modifications will upgrade, install and replace building systems and infrastructure such as fire sprinklers and alarms; HVAC, electrical systems (including reliability and redundancy upgrades), exhaust, chilled water and steam systems; repair exterior building skins and roofs; and re-caulk windows and building joints.
- Campus infrastructure enhancements and modifications will include projects such as site and safety improvements for malls, lighting, street repair and realignment, parking, site drainage and retention.

Project Delivery Method and Process:

- Depending on the nature of the work required, components of this project may be delivered through either the CMAR or Job Order Contracting (JOC) method.
- ASU has not yet selected a CMAR, JOC contractor or design professional firm for any components of this project at this time. CMAR or JOC contractors and design professionals will be selected according to ABOR policy and Arizona law.

EXECUTIVE SUMMARY

Project Costs:

- The budget for this project is \$15,000,000.
- For this Capital Development Plan phase, no preliminary external cost estimates have been provided by third-party consultants. DP and CMAR or JOC contractor teams have not yet been selected for this project. Independent cost estimates will be provided by the DP, CMAR or JOC contractor after these selections are complete.
- Comparable costs for these projects cannot be determined at this conceptual stage. Costs have been determined based on preliminary estimates using a combination of recent ASU construction projects and the nationally-recognized estimating program RS Means.
- For project components selected to use the CMAR delivery method, the CMARs, when selected, will be at risk to provide the completed project components within the agreed upon Guaranteed Maximum Price (GMP). A final report on project control procedures such as change orders and contingency use will be provided at project completion.

Project Status and Schedule:

- Design Professionals (DPs) will be selected after CDP approval. Design will be complete approximately six to nine months after the DP contract is awarded.
- General construction is scheduled to begin when design is complete and after all approvals are in place. Construction on all project components will be completed September 2015.

Fiscal Impact and Financing Plan:

- The project will be funded with SPEED lottery revenue bonds. Debt service will be paid from lottery revenues committed by the state legislature as part of the SPEED authorization and existing tuition that is available for reallocation due to bond refunding savings and retirement of existing debt.
- There are no expected increases in operation and maintenance costs for this project.

EXECUTIVE SUMMARY

Debt Ratio Impact:

SPEED lottery revenue bond debt service is excluded by statute from the debt ratio, but if included the ratio impact is 0.06 percent.

Occupancy Plan:

- This project will not affect occupancy or programs, but will renew building and campus infrastructure and life/safety systems.

Backfill Plan:

- There is no backfill associated with this project.

Alternatives:

- There is no alternative to maintaining vital building and campus infrastructure, and life safety systems.

Description of Other Related Projects Including Infrastructure Improvements:

- All infrastructure costs have been included in the project budget.

EXECUTIVE SUMMARY

Capital Project Information Summary**University:** Arizona State University**Project Name:** Building and Infrastructure
Enhancements and
Modifications**Project Description and Location:**

This project is planned to upgrade, install and replace building systems and infrastructure at all ASU campuses.

Project Schedule:

Planning	January	2012
Design	December	2012
Construction	September	2013
Occupancy	September	2015

Project Budget:

Total Project Cost	\$	15,000,000
Total Project Construction Cost	\$	11,276,560
Total Project Cost per GSF	\$	n/a
Construction Cost per GSF	\$	n/a

Change in Annual O & M Cost:

Utilities	\$	0
Personnel		0
All Other Operating		0
Subtotal	\$	0

Funding Sources:**Capital**

A. Lottery Revenue Bonds	\$	15,000,000
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Funding Source for Debt Service: Lottery Revenues and Tuition

Operation/Maintenance	\$	0
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Funding Sources: Not applicable

EXECUTIVE SUMMARY**Capital Project Budget Summary****University:** ASU at the Tempe campus**Project:** Building and Infrastructure
Enhancements and
Modifications

	Capital Development Plan	Project Approval
Capital Costs		
1. Land Acquisition	\$ -	\$ -
2. Construction Cost	-	-
A. New Construction	351,060	
B. Renovation	7,234,000	
C. Special Fixed Equipment	113,000	-
D. Site Development (excl. 2.E.)	523,000	
E. Parking and Landscaping	1,650,000	
F. Utilities Extensions	1,405,500	
G. Other*(Demolition)		
Subtotal Construction Cost	<u>\$ 11,276,560</u>	<u>\$ -</u>
3. Fees		
A. Construction Mgr	\$ 166,000	
B. Architect/Engineer	1,140,000	
C. Other		-
Subtotal Consultant Fees	<u>\$ 1,306,000</u>	<u>\$ -</u>
4. FF&E Movable	\$ 42,854	
5. Contingency, Design Phase	428,000	
6. Contingency, Constr. Phase	600,000	
7. Parking Reserve		-
8. Telecommunications Equipment	684,500	
Subtotal Items 4-8	<u>\$ 1,755,354</u>	<u>\$ -</u>
9. Additional University Costs		
A. Surveys, Tests, Haz. Mat. Abatement	\$ 110,000	
B. Move-in Costs	2,000	
C. Printing Advertisement		
D. Keying, signage, facilities support	77,000	
E. Project Management Cost (3%)	450,000	
F. State Risk Mgt. Ins. (.0034 **)	23,086	
Subtotal Addl. Univ. Costs	<u>\$ 662,086</u>	<u>\$ -</u>
Total Capital Cost	<u>\$ 15,000,000</u>	<u>\$ -</u>

* Universities shall identify items included in this category

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

EXECUTIVE SUMMARY

**Arizona Board of Regents
Arizona State University
Capital Development Plan Project Justification Report
Classroom and Academic Renovations**

Previous Board Action:

- FY 2014-2016 Capital Improvement Plan September 2012

Statutory / Policy Requirements

- Pursuant to Arizona Board of Regents Policy Chapter 7-102, all renovation and infrastructure capital projects with an estimated total project cost of \$5 million or more, or \$10 million or more for new construction or information technology projects shall be brought to the Business and Finance Committee for approval, regardless of funding source or financing.
- Board Policy 7-102C.2 states that if the Board grants Capital Development Plan Approval for a group of related projects, Project Approval is necessary for any phase that exceeds \$5,000,000. At this conceptual stage of the project, ASU does not anticipate that any of the individual project components will exceed \$5,000,000.

Project Justification/Strategic Implications/Project Compliance with Mission, Strategic Plan, Master Plan and Community Input Process

- The Classroom and Academic Renovations project will advance the goals and priorities of the University outlined in the ASU Strategic Business Framework, by providing vital classroom and academic space to students, faculty, staff and community. University enterprise strategies are intrinsic to the program and design of this project, as follows.
- **Establishing national standing in academic quality and impact of colleges and schools in every field.** These projects will enhance the quality of the buildings with improved space for faculty and better classroom experiences for students. Project components will bring the University in compliance with code requirements for safety and address ABOR directives to reduce deferred maintenance. Project components essential for life safety/code compliance and University strategic initiatives have been given top priority.

EXECUTIVE SUMMARY

- **Maintaining and Improving Cost Effectiveness.** These renovation projects will play a significant role in the ASU goal of improving university cost effectiveness, by allowing the consolidation of administrative operations in academic units and by encouraging innovation and the use of technology in classrooms and in other areas.
- **Key ABOR enterprise metric: Achieve a 50 percent increase in degree production.** The ASU Strategic Business Framework identifies several imperatives in reaching this goal, including improving retention and graduation performance, curricula reform, and improved student outcomes. Resources needed to achieve these ends include continued investment in faculty as well as space renovations to support teaching innovations. These projects will provide renovated space and growth space for academic programs, allowing better student/faculty interaction and learning experiences. The work will create attractive spaces for student learning, and renovate worn areas that distract from learning and teaching, resulting in improved and updated space for new faculty hires.

Project Description/Scope/Project Compliance with Space Standards:

- ASU intends to renovate existing classrooms, create new classrooms of various sizes and add smaller instructional spaces at all campuses. Plans call for the renovation of approximately 50,000 gross square feet of classrooms and academic space, including faculty and student space.
- Building components such as HVAC, plumbing, electrical systems, flooring, ceilings, interior and exterior paint, roofs, windows, doors, internal walls and partitions, elevators, and fire prevention equipment may be upgraded in this project. The Classroom and Academic Renovations project will comprise multiple components at each ASU campus.

Project Delivery Method and Process:

- Depending on the nature of the projects, components of this project may be delivered through either the CMAR or Job Order Contracting (JOC) method.
- ASU has not yet selected a CMAR, JOC contractor or design professional firm for any components of the project at this time. CMAR or JOC contractors and design professionals will be selected according to ABOR policy and Arizona law.

EXECUTIVE SUMMARY

Project Costs:

- The budget for this project is \$10,000,000.
- For this Capital Development Plan phase, no preliminary external cost estimates have been provided by third-party consultants. DP and CMAR or JOC contractor teams have not yet been selected for this project. Independent cost estimates will be provided by the DP, CMAR or JOC contractor after these selections are complete.
- Comparable costs for these projects cannot be determined at this conceptual stage. Costs have been determined based on preliminary estimates using a combination of recent ASU construction projects and the nationally-recognized estimating program RS Means.
- For projects selected to use the CMAR delivery method, the CMARs, when selected, will be at risk to provide the completed projects within the agreed upon Guaranteed Maximum Price (GMP). A final report on project control procedures such as change orders and contingency use will be provided at project completion.

Project Status and Schedule:

- Design Professionals (DPs) will be selected after CDP approval. Design will be complete approximately six to nine months after the DP contract is awarded.
- General construction is scheduled to begin when design is complete and after all approvals are in place. Construction on all projects will be completed September 2015.

Fiscal Impact and Financing Plan:

- The project will be funded with SPEED lottery revenue bonds. Debt service will be paid from lottery revenues committed by the state legislature as part of the SPEED authorization and existing tuition that is available for reallocation due to bond refunding savings and retirement of existing debt.
- There are no expected increases in operation and maintenance costs for this project.

EXECUTIVE SUMMARY

- **Debt Ratio Impact:** SPEED lottery revenue bond debt service is excluded by statute from the debt ratio, but if included, the ratio impact is 0.04 percent.

Occupancy Plan:

- This project will affect occupancy or programs, but will renew classroom and academic areas.

Backfill Plan:

- There is no backfill associated with this project.

Alternatives:

- There are few alternatives available that will fully accomplish the goals and objectives of this project. Renovating existing space at all ASU campuses was determined to be the most economic and desirable option.

Description of Other Related Projects Including Infrastructure Improvements:

- All infrastructure costs have been included in the project budget.

EXECUTIVE SUMMARY

Capital Project Information Summary

University: Arizona State University

Project Name: Classroom and Academic
Renovations

Project Description and Location:

This project will include the renovation of approximately 50,000 square feet of various academic spaces at all ASU campuses. It will include upgrading building systems to maximize adaptable and flexible technologies.

Project Schedule:

Planning	June	2012
Design	January	2013
Construction	June	2013
Occupancy	March	2015

Project Budget:

Total Project Cost	\$	10,000,000
Total Project Construction Cost	\$	6,000,000
Total Project Cost per GSF	\$	200
Construction Cost per GSF	\$	120

Change in Annual O & M Cost:

Utilities	\$	0
Personnel		0
All Other Operating		0
Subtotal	\$	0

Funding Sources:

Capital

A. Lottery Revenue Bonds \$ 10,000,000

Funding Source for Debt Service: Lottery Revenues and Tuition.

Operation/Maintenance \$ 0

Funding Sources: Not applicable

EXECUTIVE SUMMARY**Capital Project Budget Summary****University:** ASU at the Tempe campus**Project:** Classroom and Academic
Renovations

	Capital Development Plan	Project Approval
Capital Costs		
1. Land Acquisition	\$ -	\$ -
2. Construction Cost	-	-
A. New Construction		
B. Renovation	6,000,000	
C. Special Fixed Equipment		-
D. Site Development (excl. 2.E.)		
E. Parking and Landscaping		
F. Utilities Extensions		
G. Other*(Demolition)		
Subtotal Construction Cost	<u>\$ 6,000,000</u>	<u>\$ -</u>
3. Fees		
A. Construction Mgr	\$ 105,000	
B. Architect/Engineer	600,000	
C. Other		-
Subtotal Consultant Fees	<u>\$ 705,000</u>	<u>\$ -</u>
4. FF&E Movable	\$ 1,321,676	
5. Contingency, Design Phase	110,000	
6. Contingency, Constr. Phase	670,000	
7. Parking Reserve		-
8. Telecommunications Equipment	785,000	
Subtotal Items 4-8	<u>\$ 2,886,676</u>	<u>\$ -</u>
9. Additional University Costs		
A. Surveys, Tests, Haz. Mat. Abatement	\$ 20,000	
B. Move-in Costs	40,000	
C. Printing Advertisement		
D. Keying, signage, facilities support	25,000	
E. Project Management Cost (3%)	300,000	
F. State Risk Mgt. Ins. (.0034 **)	23,324	
Subtotal Addl. Univ. Costs	<u>\$ 408,324</u>	<u>\$ -</u>
Total Capital Cost	<u><u>\$ 10,000,000</u></u>	<u><u>\$ -</u></u>

* Universities shall identify items included in this category

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

EXECUTIVE SUMMARY

**Arizona Board of Regents
Arizona State University
Capital Development Plan Project Justification Report
Research Laboratory/Faculty Startup**

Previous Board Action:

- FY 2014-2016 Capital Improvement Plan September 2012

Statutory / Policy Requirements

- Pursuant to Arizona Board of Regents Policy Chapter 7-102, all renovation and infrastructure capital projects with an estimated total project cost of \$5 million or more shall be brought to the Business and Finance Committee for approval, regardless of funding source or financing.
- Board Policy 7-102C.2 states that if the Board grants Capital Development Plan Approval for a group of related projects, Project Approval is necessary for any phase that exceeds \$5,000,000. At this conceptual stage of the project, ASU does not anticipate that any of the individual project components will exceed \$5,000,000.

Project Justification/Strategic Implications/Project Compliance with Mission, Strategic Plan, Master Plan and Community Input Process

- Many existing University laboratories and building systems are inadequate. The poor condition of the spaces and age of the building systems constrain the development of these strategically important facilities. This project will ensure facility systems can meet research demands and will bring areas into code compliance where required. It will convert inadequate classroom laboratories, research laboratories and research building systems to state-of-the-art research facilities.

The primary institutional priorities supported by this project include:

- **Positioning ASU as a national comprehensive university and establishing national standing in academic quality and impact of colleges and schools in every field.** Specific strategic targets include (1) doubling of research to \$700 million annually, and (2) integration of the teaching, learning and discovery mission into the Phoenix urban fabric and outstate Arizona.

EXECUTIVE SUMMARY

- **Increasing research activity.** The arrival of new faculty as part of the initiative to achieve the expanded research priority continues to make laboratory renovation projects an imperative. Spaces must be updated and renovated for the needs of incoming researchers and following successful grant applications. These laboratories will provide the core infrastructure from which faculty and students can compete in the global marketplace of ideas, stimulating not only advances in science and human health needs, but potentially stimulating the regional economy.

Project Description/Scope/Project Compliance with Space Standards:

- Research Laboratory/Faculty Startup projects will involve the renovation of approximately 28,570 gross square feet of laboratories to meet the needs of new and current research requirements within existing facilities.
- Multiple wet and dry lab spaces will be upgraded, as well as infrastructure and building systems, in order to maximize adaptable and flexible technologies. Renovation activities will involve building systems such as HVAC, mechanical and electrical systems, fume hoods, lab gas lines, , and code-required life/safety upgrades.

Project Delivery Method and Process:

- Depending on the nature of the work, components of this project may be delivered through either the CMAR or Job Order Contracting (JOC) method.
- ASU has not yet selected a CMAR, JOC contractor or design professional firm for any components of this project at this time. Contractors, and design professionals will be selected according to ABOR policy and Arizona law.

Project Costs:

- The budget for this project is \$10,000,000.
- For this Capital Development Plan phase, no preliminary external cost estimates have been provided by third-party consultants. DP and CMAR or JOC contractor teams have not yet been selected for this project. Independent cost estimates will be provided by the DP, CMAR or JOC contractor after these selections are complete.

EXECUTIVE SUMMARY

- Comparable costs for these projects cannot be determined at this conceptual stage. Costs have been determined based on preliminary estimates, using a combination of recent ASU construction projects and the nationally-recognized estimating program RS Means.
- For projects selected to use the CMAR delivery method, the CMARs, when selected, will be at risk to provide the completed projects within the agreed upon Guaranteed Maximum Price (GMP). A final report on project control procedures such as change orders and contingency use will be provided at project completion.

Project Status and Schedule:

- Design Professionals (DPs) will be selected after CDP approval. Design will be complete approximately six to nine months after the DP contract is awarded.
- General construction is scheduled to begin when design is complete and after all approvals are in place. Construction on all project components will be completed by September 2015.

Fiscal Impact and Financing Plan:

- The project will be funded with SPEED lottery revenue bonds. Debt service will be paid from available lottery revenues committed by the state legislature as part of the SPEED authorization and existing tuition that is available for reallocation due to bond refunding savings and retirement of existing debt.
- There are no expected increases in operation and maintenance costs for this project.
- **Debt Ratio Impact:** SPEED lottery revenue bond debt service is excluded by statute from the debt ratio, but if included, the ratio impact is 0.04 percent.

Occupancy Plan:

- This project will not affect occupancy or programs, but will renew research spaces.

EXECUTIVE SUMMARY

Backfill Plan:

- There is no backfill associated with this project.

Alternatives:

- There are few alternatives available that will fully accomplish the goals and objectives of this project. Renovating existing space at all ASU campuses was determined to be the most economic and desirable option.

Description of Other Related Projects Including Infrastructure Improvements:

- All infrastructure costs have been included in the project budget.

EXECUTIVE SUMMARY

Capital Project Information Summary

University: Arizona State University

Project Name: Research Laboratory/
Faculty Startup

Project Description and Location:

This project will convert approximately 28,570 gross square feet of inadequate classroom laboratories, research laboratories and research building systems to state-of-the-art research facilities.

Project Schedule:

Planning	June	2012
Design	January	2013
Construction	June	2013
Occupancy	September	2015

Project Budget:

Total Project Cost	\$	10,000,000
Total Project Construction Cost	\$	7,000,000
Total Project Cost per GSF	\$	350
Construction Cost per GSF	\$	236

Change in Annual O & M Cost:

Utilities	\$	0
Personnel		0
All Other Operating		0
Subtotal	\$	0

Funding Sources:

Capital

A. Lottery Revenue Bonds \$ 10,000,000

Funding Source for Debt Service: Lottery Revenues and Tuition

Operation/Maintenance \$ 0

Funding Sources: Not applicable

EXECUTIVE SUMMARY

Capital Project Budget Summary

University: ASU at the Tempe Campus

Project: Research Laboratory/
Faculty Startup

	<u>Capital Development Plan</u>	<u>Project Approval</u>
Capital Costs		
1. Land Acquisition	\$ -	\$ -
2. Construction Cost	-	-
A. New Construction		
B. Renovation	6,437,805	
C. Special Fixed Equipment	350,000	-
D. Site Development (excl. 2.E.)		
E. Parking and Landscaping		
F. Utilities Extensions		
G. Other* (Demolition)		
Subtotal Construction Cost	<u>\$ 6,787,805</u>	<u>\$ -</u>
3. Fees		
A. Construction Mgr	\$ 94,875	
B. Architect/Engineer	633,000	
C. Other		-
Subtotal Consultant Fees	<u>\$ 727,875</u>	<u>\$ -</u>
4. FF&E Movable	\$ 220,000	
5. Contingency, Design Phase	275,000	
6. Contingency, Constr. Phase	620,000	
7. Parking Reserve		-
8. Telecommunications Equipment	750,000	
Subtotal Items 4-8	<u>\$ 1,865,000</u>	<u>\$ -</u>
9. Additional University Costs		
A. Surveys, Tests, Haz. Mat. Abatement	\$ 170,000	
B. Move-in Costs	36,000	
C. Printing Advertisement	5,000	
D. Keying, signage, facilities support	75,000	
E. Project Management Cost (3%)	300,000	
F. State Risk Mgt. Ins. (.0034 **)	33,320	
Subtotal Addl. Univ. Costs	<u>\$ 619,320</u>	<u>\$ -</u>
Total Capital Cost	<u><u>\$ 10,000,000</u></u>	<u><u>\$ -</u></u>

* Universities shall identify items included in this category

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

STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

DON SHOOTER
CHAIRMAN 2011
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ANDY BIGGS
RICH CRANDALL
LORI KLEIN
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1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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HOUSE OF
REPRESENTATIVES

JOHN KAVANAGH
CHAIRMAN 2012
LELA ALSTON
CHAD CAMPBELL
STEVE COURT
NANCY MCLAIN
JUSTIN OLSON
ANNA TOVAR

DATE: December 11, 2012

TO: Representative John Kavanagh, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Marge Zylla, Senior Fiscal Analyst

SUBJECT: University of Arizona - Review of Environment and Natural Resources Building Project

Request

A.R.S. § 15-1683 requires Committee review of any university projects financed with revenue bonds. The University of Arizona (UA) requests Committee review of \$73.5 million in bond issuances to fund construction of an Environment and Natural Resources classroom and research building (ENR2). This amount includes a \$66.5 million University Lottery revenue bond and a \$7.0 million system revenue bond.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the ENR2 project.
2. An unfavorable review of the ENR2 project.

Under either option, the JLBC Staff recommends the following standard university financing provisions:

Standard University Financing Provisions

- 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.
- UA shall provide the final debt service schedules for the projects as soon as they are available.

(Continued)

Analysis

The \$73.5 million in bond issuances includes new construction of a 150,954 gross square foot building to house research laboratories for Earth Science and environmental programs, 600 classroom seats and office and support spaces.

Financing

The total \$73.5 million for the project will be issued in 2 separate bonds in February 2013. Of this amount, \$66.5 million will be issued as a University Lottery revenue bond, which does not include estimated issuance costs of \$600,000. The remaining \$7.0 million will be issued as a system revenue bond, which does not include issuance costs. In addition, a \$1.5 million grant from the US Department of Energy has been received by UA and used for planning and design costs.

The projected repayment of both bond issuances is expected to cost \$137.2 million. The debt service will be paid with \$99.7 million from Lottery revenues and \$37.5 million from tuition. *(See Table 1 for a summary of each bond's financing terms.)*

Table 1		
UA Bonding Financing Terms		
	\$66.5 Million Issuance (University Lottery Bond Projects)	\$7.0 Million Issuance (System Revenue Bond)
Issuance Date:	February 2013	February 2013
Rating:	A1 (Moody's)/AA- (S&P)	Aa2 (Moody's)/AA (S&P)
Interest Rate:	3.85%	3.65%
Term:	35 years	35 years
Total Debt Costs:	\$124.6 million, including \$600,000 issuance costs	\$12.6 million, including issuance costs that have not yet been provided by UA
Debt Service		
Payments:	\$1.1 million in FY13 & \$2.8 million in FY14 (interest only), \$3.6 million in FY15-FY48	\$134,300 in FY13, approximately \$357,000 in FY14-FY48
Payment Source:	\$99.7 million, or 80%, from Lottery revenues and \$24.9 million, or 20%, from tuition; Laws 2009, Chapter 289 requires the debt service to be paid with up to 80% Lottery revenues and at least 20% university revenues.	\$12.6 million from tuition
Debt Ratio	0.14% – from approximately 5.4% to 5.54%	0.03-0.05% – from approximately 5.4% to 5.43-5.45%
Increase:	(exact values have not yet been provided by UA)	(exact values have not yet been provided by UA)

Construction Costs

Direct construction costs are \$47.3 million, or \$314 per square foot. No new construction research laboratory buildings have come before the Committee for review recently. At its May 2008 meeting, the Committee reviewed an NAU project for new laboratory space that had a direct construction cost per square foot of \$393.

University Lottery Bond Projects

The \$66.5 million of the ENR2 project will be financed with University Lottery revenue bonds. Permanent law authorizes ABOR to enter into lease-to-own and bond transactions up to a maximum of \$800.0 million to pay for building renewal projects and new facilities. Apart from the Phoenix Medical Campus, UA has been allocated \$136.0 million. At this time, UA has \$71.2 million of its \$136.0 million building renewal/new facilities allocation remaining and is now requesting to issue \$66.5 million to construct ENR2.

Under permanent law, the annual Lottery bond debt service payments are to be paid from up to 80% Lottery revenues and at least 20% state university system revenues. The annual Lottery bond debt service payment will be \$3.6 million once fully implemented in FY 2016. Payments will be made until FY 2048.

RS:MZ:ts

November 29, 2012

The Honorable John Kavanagh, Chairman
Joint Committee on Capital Review
House of Representatives
1700 West Washington
Phoenix, AZ 85007



Dear Representative Kavanagh,

In accordance with ARS 15-1683, the Arizona Board of Regents (ABOR) requests that the following bond-financed items for the University of Arizona be placed on the next Joint Committee on Capital Review agenda for review.

The University of Arizona Cancer Center-Phoenix (UACC)

Phoenix is the largest city in the U.S. without a National Cancer Institute (NCI) designated comprehensive cancer center. This project will establish a premier NCI designated comprehensive care center in Downtown Phoenix. The project will be partially funded by \$34M in gifts. The remaining budget will be funded by System Revenue Bonds, and debt service for those bonds will be funded by lease and operation revenues from our clinical partner who is managing the clinical programs.

Project Cost Summary – UACC

Gift Revenue	\$	34M
System Revenue Bonds	\$	66M
Total Project Cost	\$	100M

Environment & Natural Resources Phase 2 (ENR2)

This facility promotes interdisciplinary research and product development for critical Earth Science and Natural Resources issues impacting the State of Arizona. The project is partially funded by a \$1.5M federal grant. The remaining budget will be funded by SPEED and System Revenue Bonds.

Project Cost Summary – ENR2

SPEED Revenue Bonds	\$	66.5M
Federal Grant	\$	1.5M
System Revenue Bonds	\$	7.0M
Total Project Cost	\$	75.0M

Bond Summary

SPEED Revenue Bonds

ENR2 Project	\$	66.5M
Bond Issuance	\$.6M
Total SPEED Bonds	\$	67.1M

System Revenue Bonds

UACC Project	\$	66.0M
ENR2 Project	\$	7.0M
Capitalized Interest	\$	7.2M
Bond Issuance	\$.7M
Total System Revenue Bonds	\$	80.9M

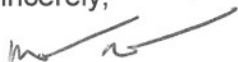


The Honorable John Kavanagh, Chairman
Joint Committee on Capital Review
November 29, 2012
Page Two

Enclosed are the detailed ABOR Project Approval submittals (2), Bond debt service schedules and financing information summaries.

If you have any questions or desire any clarification on the enclosed material, please contact me at (520) 621-5977.

Sincerely,



Milton M. Castillo
Senior Vice President and Chief Financial Officer

Attachment: ABOR Project Approval submittals (2), Bond debt service schedules and financing information summaries.

xc: Richard Stavneak, Director, JCCR
Tom Anderes, President, Arizona Board of Regents
Lorenzo Martinez, Assistant Executive Director for Capital Resources, ABOR
Dr. Ann Weaver Hart, President, UA
Suzanne Ornelas, Chief of Staff, UA
Tim Bee, Associate Vice President for State Relations, UA
Robert Smith, Vice President for Business Affairs, UA
Mark McGurk, Associate Vice President/Comptroller, UA
Marge Zylla, Senior Fiscal Analyst, JCCR

EXECUTIVE SUMMARY

Item Name: Environment & Natural Resources Phase 2 - Project Approval (UA)

☒ Action Item ☐ Discussion Item ☐ Information Item

Issue: The University of Arizona requests Project Approval of the Environment & Natural Resources Phase 2 (ENR2) project. The 150,954 square feet, \$75 million capital project will be financed with SPEED Revenue Bonds of \$66.5 million, federal funds of \$1.5 million, and System Revenue Bonds of \$7 million. The debt service will be paid over approximately 35 years from State lottery funds, tuition funds and indirect cost recovery funds.

Previous Board Action:

Project Implementation Approval – December 2011
FY 2012 UA Capital Development Plan – June 2011
FY 2013-2015 Capital Improvement Plan – Sept. 2011

Statutory/Policy Requirements:

- Board Policy 7-102 requires Committee approval of new construction projects with a total project cost of \$10 million or more before contracts can be executed and construction can begin.
- Given that the project will be financed with System Revenue Bonds, separate committee review and Board approval will be required before the debt issuance can occur.

Project Justification/Strategic Implications/Project Compliance with Mission, Strategic Plan, Master Plan and Community Input Process:

- ENR2 is a part of the University of Arizona's long-term effort to promote interdisciplinary research that focuses on Earth Science and Environmental Programs. A key goal of this facility is to establish an atmosphere for collaboration of scientific and interdisciplinary research. The units to be located here are: Institute of the Environment, School of Geography & Development, and School of Natural Resources and the Environment. Space will also be allocated, on an interim basis, to a portion of the Department of Mathematics.
- Capitalizing on existing core disciplinary strengths will further establish the University of Arizona as a preeminent institution in basic earth sciences and environmental programs research. The units housed within ENR2 will engage in interdisciplinary research and product development.
- The new ENR2 building project is in direct alignment with the UA Campus Master Plan.
- The following institutional priorities and critical capital development related elements of the *Arizona Higher Education Enterprise Plan Goals* supported by this project are:

Contact Information:

Milton Castillo, Senior VP and CFO, (520) 621-5977, mcastillo@email.arizona.edu

EXECUTIVE SUMMARY

- **Academic & Research Needs:** The UA educational and research programs contribute greatly to the quality of life and economic vitality of our state. However, it must continue to increase operational efficiencies and the number of degrees awarded while improving student success, retention and graduation rates. Research revenues must almost double in the next eight years to offset other funding cuts and meet the goals of the ABOR 2020 Vision Plan. ENR2 will provide a much needed home for a number of premiere environmental science departments currently scattered across the campus in substandard facilities. This facility has been needed for some time to meet the academic, research and federal funding demands of the leading-edge work undertaken by these units. The development of this facility will complete an important environmental sciences district that will provide new collaboration opportunities.
- **Community Service Opportunities:** Community service is a vital aspect of the UA mission, and is integral with most of the University's programs. This ENR2 project strongly supports the UA Land Grant mission, increasing the breadth of the University's community service.
- **Student Support Requirements:** The large high-tech classroom will accommodate approximately 600 students, allowing an increasing student enrollment to receive a higher quality education from a reduced number of faculty in these economically challenging times.
- **Construction Market Conditions:** This project now has the opportunity to take advantage of the favorable construction market to maximize what can be built within the budget.
- **Funding Sources & Financing Options:** This project effectively utilizes a \$1.5 million grant from the U.S. Department of Energy and \$66.5 million of SPEED revenue bonds to minimize impacts on tuition rates and maintain the University's financial strength.

Project Description/Scope/Compliance with Space Standards:

- The estimated \$75 million facility will provide approximately 89,965 net assignable square feet (NASF), and 150,954 gross square feet (GSF), in the southwest campus sciences district. The major functional areas include office space, research space, common program support space and 600 seats of classroom/auditorium space.
- In an effort to demonstrate the on-going UA commitment to responsible and sustainable design, this project will be designed and conform to the standard United States Green Building Council (USGBC) Leadership in Energy and Environmental Design (LEED) Silver Certification at a minimum.

EXECUTIVE SUMMARY

Project Delivery Method and Process:

- This project is being delivered through the Construction Manager at Risk (CMAR) method. This approach was selected for the project because it can save time through fast-track project scheduling, provides contractor design input and coordination throughout the project, improves potentially adversarial project environments, and allows for the selection of the most qualified contractor leadership team for each individual project. With the use of two independent cost estimates at each phase, and low-bid subcontractor pricing for the actual construction work, this method also provides a high level of cost and quality control.
- The CMAR was selected through the capital project selection committee process prescribed by the ABOR Procurement Code. Seven responses to the project Request for Qualifications (RFQ) were received and four of the responding teams were short-listed for interview. A licensed contractor from the community was included on the selection committee as required by Board Policy. The design team was selected through a similar ABOR process, and four teams were interviewed out of fifteen RFQ responses received.

Project Status and Schedule:

- The ENR2 project construction is scheduled to start in early 2013.
- Project construction would be completed in spring 2015 with building occupancy to occur in summer 2015.

Project Cost:

- The total project budget is \$75 million with a construction cost of \$47,346,000.

Fiscal Impact and Financing Plan:

- The project budget for ENR2 is \$75 million. The University has received a \$1.5 million grant from the Department of Energy to assist with funding the design for this project. The remaining project budget of \$73.5 million will be funded by SPEED revenue bonds (\$66.5 million) and system revenue bonds (\$7 million). The annual debt service is estimated to be \$2.8 million for the SPEED revenue bonds and \$0.4 million for the System Revenue Bonds (SRBs) for a total of \$3.2 million. The annual debt service for SPEED revenue bonds is interest payment only through FY2015. Principal repayment will occur in FY2016 at which time annual debt service would increase to \$3.6 million for SPEED bonds. The annual debt service estimates are based on anticipated market interest rate of 3.85% for an approximately 35-year maturity on the SPEED revenue bonds and 3.65% on the SBRs. The debt service on the SPEED revenue bonds will be funded up to 80% (\$2.2 million through FY2015 and \$2.9 million from FY2016 through maturity) by the state lottery revenue allocations and not less than 20% (\$560 thousand through FY2015 and \$720 thousand from FY2016 through maturity) by university indirect cost recovery funds. When the bonds are issued for the project, the University estimated outstanding debt will be \$1.25 billion at the

EXECUTIVE SUMMARY

end of the fiscal year. At the same time, the University would have retired \$46.6 million in debt principal. The operations and maintenance (O&M) cost for this facility is estimated to be \$1.6 million. The University anticipates using Tuition and Indirect Cost Recovery funds to fund the O&M cost.

- **Debt Ratio Impact:** The debt service associated with this project will increase the debt ratio by .05% excluding SPEED projects, and .14% including SPEED projects. The projected highest debt ratio is 5.53% excluding SPEED and 6.12% including SPEED. The projected highest debt ratio of 5.53% excluding SPEED remains well below the 8 percent ratio limit established by ABOR policy and state statute.

Occupancy Plan:

- The following programs will be relocated to the new facility: Institute of the Environment, School of Geography & Development, and School of Natural Resources and the Environment. Space will also be allocated, on an interim basis, to a portion of the Department of Mathematics.
- Both reallocated existing resources and new/increased resource capacity will be used to cover capital/debt/operation & maintenance costs. ENR2 will include a reallocation of existing programs that have been in need of more and better facilities because of historic program expansion and growth, as well as anticipated future growth. The Environment and Natural Resource area is one of the UA's strategic emphasis areas. This area has demonstrated increased revenue generation in recent years and has high potential for additional new revenue.
- ENR2 enables the following: (1) co-location of certain key environmental programs for greater interdisciplinary collaboration, (2) associated increased research award potential, (3) space that was previously nonexistent that enables the attraction of major new revenue (e.g., large research grant proposals must demonstrate that adequate space and facilities are available in order to be eligible and/or favored for funding), and 5) it provides space for some of the new people recruited via the University's interdisciplinary environmental hiring initiative.

Recommendation:

That the Business and Finance Committee provide Project Approval for the Environment & Natural Resources Phase 2 project, as presented in this Executive Summary.

EXECUTIVE SUMMARY**Capital Project Information Summary**

University: The University of Arizona **Project Name:** Environment & Natural Resources Phase 2 (ENR2)

Project Description/Location: The ENR2 is located near the northwest corner of Sixth Street and Fremont Avenue, on the existing lot directly east of ENR1 at the University of Arizona, Tucson.

Project Approval**Project Schedule (Beginning Month/Year):**

Planning	01/09
Design	07/10
Construction	01/13
Occupancy	04/15

Project Budget:

Total Project Cost	\$75,000,000
Total Project Cost per GSF (including utility augmentation)	\$497
Direct Construction Cost	47,346,000
Construction Cost per GSF	\$342

Change in Annual Oper./Maint. Cost

Utilities	\$804,000
Personnel	\$425,600
Other	\$320,800

Funding Sources:**Capital:**

A. State Appropriation/SRBs	\$7,000,000
B. Federal Grants	\$1,495,545
C. Lottery Revenue/Tuition	\$66,504,455

Operation/Maintenance:

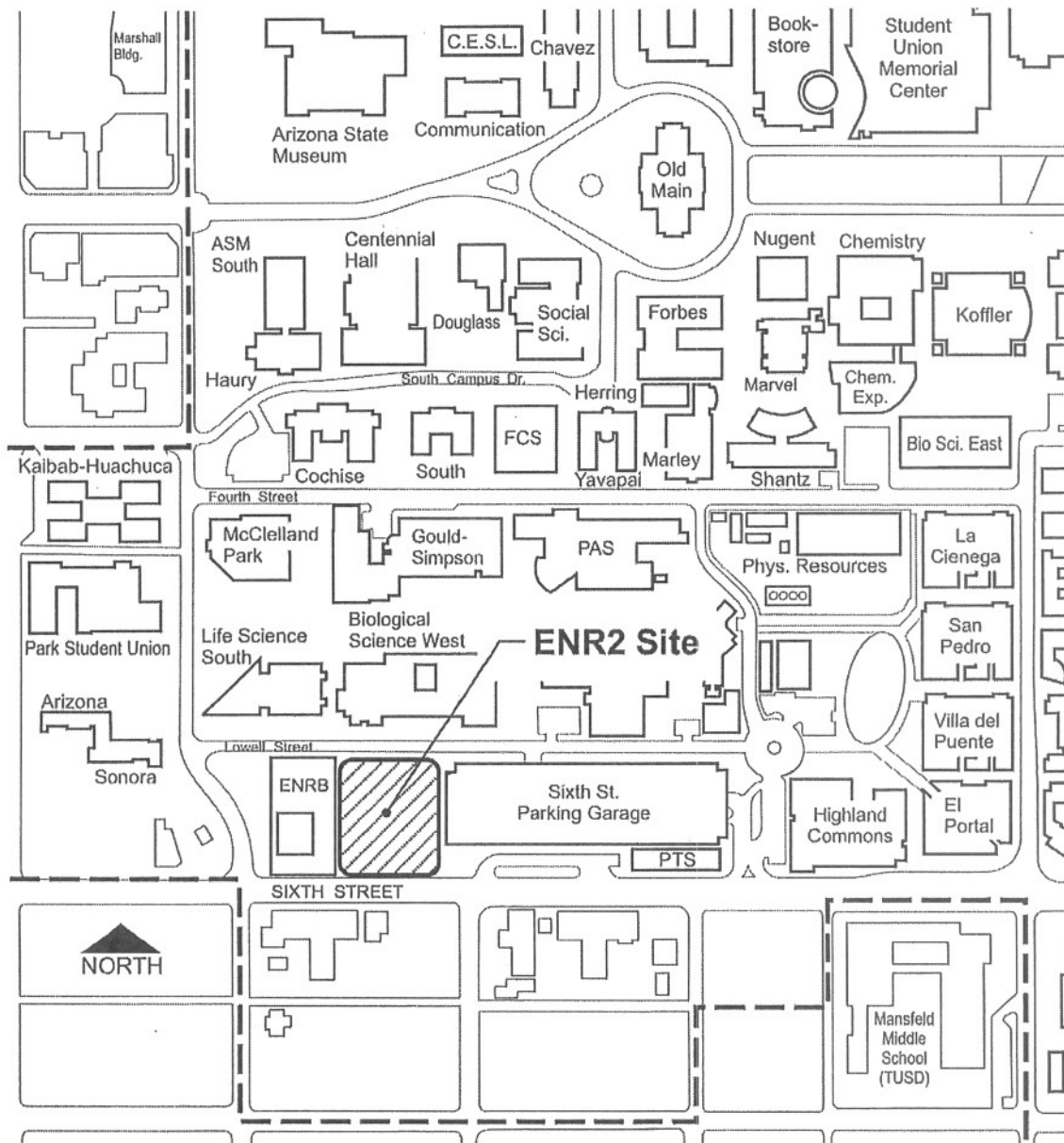
• To be paid by Tuition & Indirect Cost Recovery	\$1,550,400
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EXECUTIVE SUMMARYCapital Project Budget Summary**University:** The University of Arizona**Project Name:** Environment & Natural Resources Phase 2 (ENR2)

<u>Date of Budget Estimate</u>	<u>Project Approval</u>
	December 2012
1. Utility Augmentation	\$ 8,014,860
2. Construction Cost	
A. New Construction	47,038,000
B. Renovation	0
C. Fixed Equipment (Owner-Furnished)	308,000
D. Site Development (exclude 2.E.) (in 2A)	0
E. Parking & Landscaping (in 2A)	0
F. Utilities Extensions (in 2A)	0
G. Other (asbestos)	0
Subtotal Construction Cost	\$ 47,346,000
3. Consultant Fees	
A. Construction Manager	481,736
B. Architect/Engineering Fees	4,719,249
C. Other (Programming, Special Conslt.)	737,711
Subtotal Consultant Fees	\$ 5,938,696
4. Furniture Fixtures and Equipment	4,888,444
5. Contingency, Design Phase	2,300,000
6. Contingency, Construction Phase	2,367,000
7. Parking Reserve	1,600,000
8. Telecommunications Equipment	820,000
Subtotal Items 4-8	\$ 11,975,444
9. Additional University Costs	
A. Surveys and Tests	250,000
B. Move-in Costs	80,000
C. Public Art	0
D. Printing/Advertisement	30,000
E. Univ. Facilities & Project Management	1,025,000
F. State Risk Mgt. Ins	340,000
Subtotal Additional University Costs	\$ 1,725,000
TOTAL CAPITAL COST	\$ 75,000,000

EXECUTIVE SUMMARY

Project Site Location Map



**Joint Committee on Capital Review
December 2012 JCCR Meeting
University of Arizona Projects Submission**

**Environmental Natural Resources Phase II
System Revenue Bonds**

Period Ending	Principal	Interest	Annual Debt Service
6/1/2013	\$25,000	\$109,310	\$134,310
6/1/2014	70,000	288,350	358,350
6/1/2015	70,000	285,550	355,550
6/1/2016	75,000	282,750	357,750
6/1/2017	75,000	279,000	354,000
6/1/2018	80,000	275,250	355,250
6/1/2019	85,000	272,050	357,050
6/1/2020	85,000	268,650	353,650
6/1/2021	90,000	265,250	355,250
6/1/2022	95,000	260,750	355,750
6/1/2023	100,000	256,000	356,000
6/1/2024	105,000	251,000	356,000
6/1/2025	110,000	245,750	355,750
6/1/2026	115,000	240,250	355,250
6/1/2027	120,000	234,500	354,500
6/1/2028	125,000	228,500	353,500
6/1/2029	135,000	222,250	357,250
6/1/2030	140,000	215,500	355,500
6/1/2031	150,000	208,500	358,500
6/1/2032	155,000	201,000	356,000
6/1/2033	165,000	193,250	358,250
6/1/2034	170,000	185,000	355,000
6/1/2035	180,000	176,500	356,500
6/1/2036	190,000	167,500	357,500
6/1/2037	200,000	158,000	358,000
6/1/2038	210,000	148,000	358,000
6/1/2039	220,000	137,500	357,500
6/1/2040	230,000	126,500	356,500
6/1/2041	240,000	115,000	355,000
6/1/2042	255,000	103,000	358,000
6/1/2043	265,000	90,250	355,250
6/1/2044	280,000	77,000	357,000
6/1/2045	295,000	63,000	358,000
6/1/2046	305,000	48,250	353,250
6/1/2047	320,000	33,000	353,000
6/1/2048	340,000	17,000	357,000
	5,870,000	6,728,910	12,598,910

**Joint Committee on Capital Review
December 2012 JCCR Meeting
University of Arizona Projects Submission**

**Enviromental Natural Resources Phase II
SPEED Revenue Bonds**

Period Ending	Principal	Interest	Annual Debt Service
6/1/2013		\$1,071,661	\$1,071,661
6/1/2014		2,836,750	2,836,750
6/1/2015		2,836,750	2,836,750
6/1/2016	\$735,000	2,836,750	3,571,750
6/1/2017	770,000	2,800,000	3,570,000
6/1/2018	810,000	2,761,500	3,571,500
6/1/2019	840,000	2,729,100	3,569,100
6/1/2020	875,000	2,695,500	3,570,500
6/1/2021	910,000	2,660,500	3,570,500
6/1/2022	955,000	2,615,000	3,570,000
6/1/2023	1,005,000	2,567,250	3,572,250
6/1/2024	1,055,000	2,517,000	3,572,000
6/1/2025	1,105,000	2,464,250	3,569,250
6/1/2026	1,160,000	2,409,000	3,569,000
6/1/2027	1,220,000	2,351,000	3,571,000
6/1/2028	1,280,000	2,290,000	3,570,000
6/1/2029	1,345,000	2,226,000	3,571,000
6/1/2030	1,415,000	2,158,750	3,573,750
6/1/2031	1,485,000	2,088,000	3,573,000
6/1/2032	1,560,000	2,013,750	3,573,750
6/1/2033	1,635,000	1,935,750	3,570,750
6/1/2034	1,720,000	1,854,000	3,574,000
6/1/2035	1,805,000	1,768,000	3,573,000
6/1/2036	1,895,000	1,677,750	3,572,750
6/1/2037	1,990,000	1,583,000	3,573,000
6/1/2038	2,090,000	1,483,500	3,573,500
6/1/2039	2,195,000	1,379,000	3,574,000
6/1/2040	2,300,000	1,269,250	3,569,250
6/1/2041	2,415,000	1,154,250	3,569,250
6/1/2042	2,540,000	1,033,500	3,573,500
6/1/2043	2,665,000	906,500	3,571,500
6/1/2044	2,800,000	773,250	3,573,250
6/1/2045	2,940,000	633,250	3,573,250
6/1/2046	3,085,000	486,250	3,571,250
6/1/2047	3,240,000	332,000	3,572,000
6/1/2048	3,400,000	170,000	3,570,000
	57,240,000	67,367,761	124,607,761

**Joint Committee on Capital Review
December 2012 JCCR Meeting
University of Arizona Projects Submission**

FINANCING INFORMATION:

Environment Natural Resource Phase II project SPEED Revenue Bonds

Issuance amount (anticipated)	\$57,240,000
Bond Premium (anticipated)	\$ 9,860,000
Estimated Cost of Issuance	\$ 600,000
Assumed interest rate	3.85%
Payment term:	35 years

Fund Source for debt payment	State Lottery	80%
	Indirect cost recovery	20%

Annual debt service (by fund source):

Interest only FY2013	State Lottery	\$ 857,329
	Indirect cost Recovery	\$ 214,332

Interest only FY2014 and FY2015	State Lottery	\$ 2,269,400
	Indirect cost Recovery	\$ 567,350

Principal and interest FY2016-FY2048	State Lottery	\$ 2,857,400
	Indirect cost Recovery	\$ 714,350

Total debt service (by fund source)	State Lottery	\$99,686,209
	Indirect Cost Recovery	\$24,921,552

Anticipate date of issuance	February 2013
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Expected bond rating	AA- (S & P) and A1 (Moody's)
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DEBT RATIO INFORMATION:

Current projected debt ratio	5.98%
Increment debt ratio	0.14%
Projected highest debt ratio	6.12%

STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

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HOUSE OF
REPRESENTATIVES

JOHN KAVANAGH
CHAIRMAN 2012
LELA ALSTON
CHAD CAMPBELL
STEVE COURT
NANCY MCLAIN
JUSTIN OLSON
ANNA TOVAR

DATE: December 11, 2012

TO: Representative John Kavanagh, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Benjamin Beutler, Fiscal Analyst

SUBJECT: Arizona Department of Transportation - Review of FY 2013 Building Renewal
Allocation Plan

Request

A.R.S. § 41-1252 requires Committee review of expenditure plans for building renewal monies prior to expenditure. The Arizona Department of Transportation (ADOT) requests that the Committee review its \$1,050,000 FY 2013 Building Renewal Allocation Plan, including \$1,000,000 from the State Highway Fund and \$50,000 from the State Aviation Fund.

ADOT has allocated \$1,000,000 from the State Highway Fund among 46 projects, leaving a contingency balance of \$16,700 and \$80,000 for project management support. ADOT has also allocated \$50,000 from the State Aviation Fund for 3 projects.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review.
2. An unfavorable review.

The proposed expenditure plan is consistent with building renewal guidelines and appropriations.

Under either option, the JLBC Staff recommends the provision that ADOT report any project reallocations above \$100,000.

(Continued)

Analysis

The FY 2013 Capital Outlay Bill (Laws 2012, Chapter 295) appropriated a total of \$1,050,000 for building renewal in FY 2013, including \$1,000,000 from the State Highway Fund and \$50,000 from the State Aviation Fund. The FY 2013 Building Renewal appropriation represents 9.9% of the amount generated by the revised building renewal formula for the ADOT Building System and 28.4% for the Grand Canyon Airport for FY 2013. The formula is based on the square footage and replacement cost of existing buildings.

ADOT expects to allocate the Building Renewal monies from the State Highway Fund in the following categories for 46 projects:

<u>Category</u>	<u>Projects</u>	<u>State Highway Fund</u>	<u>% of Total</u>
Roof Repairs/Replacement	21	\$ 467,800	46.7%
Building Systems (HVAC, Electrical, Plumbing)	16	189,500	19.0%
Infrastructure (Sewers, Wells)	3	155,000	15.5%
Exterior Preservation (Doors, Windows, Siding)	4	81,000	8.1%
Americans with Disabilities Act	1	5,000	0.5%
Fire/Life Safety	1	5,000	0.5%
Project Management Support	NA	80,000	8.0%
Contingency	<u>NA</u>	<u>16,700</u>	<u>1.7%</u>
Total	46	\$1,000,000	100.0%

Of the 46 State Highway Fund projects, the following 5 projects require \$50,000 or more:

<u>Project</u>	<u>Allocation</u>
Roof Repairs/Replacement Mesa Regional Enforcement and Compliance Division Building (South Office) - Replace roof and repair parapet walls	\$100,000
Roof Repairs/Replacement Little Antelope Storage/Equipment Building (on I-17 in Sedona area) - Replace failing roof	82,600
Infrastructure (Sewers, Wells) North Phoenix Maintenance Yard - Connect existing buildings to city sewer system and remove septic tank	75,000
Infrastructure (Sewers, Wells) North Phoenix Maintenance Yard - Connect existing buildings to city water system and remove fire pump	75,000
Exterior Preservation (Doors, Windows, Siding) Claypool MVD building - Abate asbestos containing material in windows and replace with energy efficient type	<u>50,000</u>
Total	\$382,600

(Continued)

ADOT expects to allocate the Building Renewal monies from the State Aviation Fund in the following categories for 3 projects:

<u>Category</u>	<u>Projects</u>	<u>State Aviation Fund</u>	<u>% of Total</u>
Infrastructure (Water Systems, Sidewalks)	2	42,000	84.0%
Interior Building Finishes (Flooring)	<u>1</u>	<u>8,000</u>	<u>16.0%</u>
Total	3	\$50,000	100.0%

The attached material submitted by ADOT lists each project and its estimated cost.

RS/BB:ts



Arizona Department of Transportation

Office of the Director

206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

Janice K. Brewer
Governor

John S. Halikowski
Director

November 21, 2012

John A. Bogert
Deputy Director
for Operations

Floyd Roehrich, Jr.
Deputy Director
for Policy

The Honorable John Kavanagh, Chairman
Joint Committee on Capital Review
Arizona House of Representatives
1700 W. Washington
Phoenix, Arizona 85007

Dear Chairman Kavanagh:

We respectfully request that ADOT's planned FY2013 Building Renewal projects be placed on the next JCCR meeting agenda for review and approval.

The following summary outlines the scope of work:

Renewal Projects – State Highway Fund:

Category 1- Fire/Live/Safety	\$ 5,000
Category 2- Roof Repairs/Replacement	467,801
Category 3- Preservation of Asset	81,000
Category 4- Major Building Systems	189,500
Category 7- ADA Compliance	5,000
Category 8- Infrastructure	155,000
Project Management Support	80,000
Contingency	<u>16,699</u>
Subtotal	\$ <u>1,000,000</u>

Renewal Projects – State Aviation Fund:

Category 5- Interior Building Finishes	8,000
Category 8- Infrastructure	<u>42,000</u>
Subtotal	<u>50,000</u>

FY2013 Total \$ 1,050,000

Project details are attached. Your favorable review and approval of our request is appreciated.

Sincerely,

John S. Halikowski

c: Richard Stavneak, JLBC
Ben Beutler, JLBC
Leah Koestner, OSPB
John Hetzel, ADOT



STATE OF ARIZONA
FY 2013 CAPITAL IMPROVEMENT PLAN
DEPARTMENT OF TRANSPORTATION FY 2013 FINAL BUILDING RENEWAL PROJECT LIST - BY CATEGORY

Project Description	Estimated Cost
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STATE HIGHWAY FUND

CATEGORY 1 - FIRE/LIFE SAFETY

ADOT Statewide - Asbestos and lead paint abatement	\$ 5,000
TOTAL	\$ 5,000

CATEGORY 2 - ROOFS

Mesa Regional ECD (South Office) Bldg 1351 - Replace roof and repair parapet walls	\$ 100,000
Globe District Lab Bldg 2078 - Replace failing roof	\$ 15,000
Douglas Maintenance Office Bldg 2120 - Repair/replace roof and fascia	\$ 10,000
Globe Facilities Office/Shop Bldg 2080 - Replace failing roof	\$ 4,500
Grey Peak Rock House Residence Bldg 2145 - Replace failing roof	\$ 12,000
Yuma Maintenance Truck Barn Bldg 2031 - Recoat foam roof	\$ 30,000
Yuma Traffic Signals Bldg 2029 - Repair leaking roof	\$ 8,000
Yuma Equipment Services Shop Bldg 2034 - Recoat foam roof	\$ 28,000
Douglas MVD Bldg 2124 - Replace failing roof	\$ 30,000
Little Antelope Storage Bldg 3142 - Replace failing roof	\$ 13,550
Little Antelope Storage/Equipment Bldg 3140 - Replace failing roof	\$ 82,595
Little Antelope Residence Bldg 3430 - Replace failing roof	\$ 10,295
Little Antelope Office/Mobile Bldg 3143 - Replace failing roof	\$ 8,750
Oak Creek Equipment/Storage Bldg 3128 - Repair failing roof	\$ 47,950
Oak Creek Water System/Well House Bldg 3129 - Replace failing roof	\$ 2,550
Camp Verde Storage/Sign Bldg 3104 - Replace failing roof	\$ 10,175
Camp Verde Deicer/Storage Bldg 3102 - Repair failing roof	\$ 7,495
Camp Verde Office/Facilities Bldg 3101 - Replace failing roof	\$ 10,250
Camp Verde Office/Mobile Bldg 3099 - Repair failing roof	\$ 18,591
Camp Verde Office/Mobile Bldg 3100 - Repair failing roof	\$ 13,100
ADOT Statewide - Repair roofs	\$ 5,000
TOTAL	\$ 467,801

CATEGORY 3 - PRESERVATION OF ASSET

Wilcox Truck Barn Tool Room Bldg 2107 - Repair/replace damaged siding	\$ 20,000
Claypool MVD Bldg 2076 - Abate ACM windows and replace with energy efficient type	\$ 50,000
Gray Mountain Residence Bldgs 3198, 3199, 3200, 3201, & 3202 - Repaint all fascia trim	\$ 5,000
Gray Mountain Bldgs 3205, 3206, 3207, 3209, 3195, & 3445 - Repaint all fascia trim	\$ 6,000
TOTAL	\$ 81,000

CATEGORY 4 - MAJOR BUILDING SYSTEMS

Engineering Bldg 1004 - Design for replacement of unserviceable electrical switchgear & motor controls	\$ 20,000
Douglas Maintenance Office Bldg 2120 - Assess and repair failing electrical panels	\$ 35,000
Tucson Grant Rd Fuel Island 2554 - Replace failing air/water assemblies	\$ 5,000
Tucson District Office Bldg 2178 - Replace failing HVAC units (lobby & DE Office)	\$ 16,000
Tucson District Environmental Modular Office Bldg 2182 - Replace failing HVAC	\$ 12,500
Tucson District Permits/Annex Bldg 2184 - Replace failing HVAC	\$ 12,500
Tucson Utilities & Railroad Office Bldg 2156 - Replace HVAC, repair ducting & add insulation	\$ 14,000
Yuma Traffic Signals Bldg 2029 - Replace failing evap. cooler	\$ 10,000
Globe Equipment Services Shop Bldg 2082 - Replace failing, unsafe parts room HVAC	\$ 15,000
Douglas NAFTA POE Bldg 2127 - Replace failing HVAC unit	\$ 9,000
Yuma I-8 POE WB Bldg 2017 - Replace HVAC unit	\$ 12,500
Fredonia Maintenance Bldg 3219 - Replace failing heating system with heat pump unit	\$ 8,000
ADOT Statewide - Repair HVAC systems	\$ 5,000
ADOT Statewide - Repair plumbing systems	\$ 5,000

STATE OF ARIZONA
FY 2013 CAPITAL IMPROVEMENT PLAN
DEPARTMENT OF TRANSPORTATION FY 2013 FINAL BUILDING RENEWAL PROJECT LIST - BY CATEGORY

Project Description	Estimated Cost
ADOT Statewide - Repair electrical systems	\$ 5,000
ADOT Statewide - Retrofit unserviceable light fixtures	\$ 5,000
TOTAL	\$ 189,500

CATEGORY 7 - ADA COMPLIANCE	
ADOT Statewide - Repair ADA bldg. features	\$ 5,000
TOTAL	\$ 5,000

CATEGORY 8 - INFRASTRUCTURE	
North Phoenix Maint Yard Site 23 - Connect existing buildings to city sewer system & remove septic tanks	\$ 75,000
North Phoenix Maint Yard Site 23 - Connect existing buildings to city water system & remove fire pump	\$ 75,000
ADOT Statewide - Repair well systems	\$ 5,000
TOTAL	\$ 155,000

TOTAL OF ALL PROJECTS REQUESTED	\$ 903,301
PROJECT MANAGEMENT SUPPORT	\$ 80,000
CONTINGENCY	\$ 16,699
TOTAL AUTHORIZED FUNDS	\$ 1,000,000

RECAP	
CATEGORY 1 - FIRE/LIFE/SAFETY	\$ 5,000
CATEGORY 2 - ROOFS	\$ 467,801
CATEGORY 3 - PRESERVATION OF ASSET	\$ 81,000
CATEGORY 4 - MAJOR BUILDING SYSTEMS	\$ 189,500
CATEGORY 5 - INTERIOR BUILDING FINISHES	\$ -
CATEGORY 6 - RECONFIGURE OR REMODEL	\$ -
CATEGORY 7 - ADA COMPLIANCE	\$ 5,000
CATEGORY 8 - INFRASTRUCTURE	\$ 155,000
PROJECT MANAGEMENT SUPPORT	\$ 80,000
CONTINGENCY	\$ 16,699
TOTAL	\$ 1,000,000

<p style="text-align: center;">STATE OF ARIZONA FY 2013 CAPITAL IMPROVEMENT PLAN DEPARTMENT OF TRANSPORTATION FY 2013 FINAL BUILDING RENEWAL PROJECT LIST - BY CATEGORY</p>

Project Description	Estimated Cost
---------------------	----------------

STATE AVIATION FUND

CATEGORY 5 - INTERIOR BUILDING FINISHES	
Grand Canyon Airport Bldgs 3557, 3558, 3587, 3564, & 3560 - Replace unserviceable flooring	\$ 8,000
TOTAL	\$ 8,000

CATEGORY 8 - INFRASTRUCTURE	
Grand Canyon Airport Site 463 - Repair water and wastewater systems	\$ 27,000
Grand Canyon Airport Site 463 - Repair sidewalks and curbs	\$ 15,000
TOTAL	\$ 42,000

TOTAL OF ALL PROJECTS REQUESTED	\$ 50,000
CONTINGENCY	\$ -
TOTAL AUTHORIZED FUNDS	\$ 50,000

RECAP	
CATEGORY 5 - INTERIOR BUILDING FINISHES	\$ 8,000
CATEGORY 8 - INFRASTRUCTURE	\$ 42,000
TOTAL	\$ 50,000

STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

DON SHOOTER
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ANDY BIGGS
RICH CRANDALL
LORI KLEIN
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1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

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<http://www.azleg.gov/jlbc.htm>

HOUSE OF
REPRESENTATIVES

JOHN KAVANAGH
CHAIRMAN 2012
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ANNA TOVAR

DATE: December 11, 2012

TO: Representative John Kavanagh, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Andrew Hartsig, Fiscal Analyst

SUBJECT: Arizona Department of Administration - Consider Recommending FY 2013 Rent Exemptions

Request

A.R.S. § 41-792.01D authorizes the Director of the Arizona Department of Administration (ADOA), on recommendation from the Joint Committee on Capital Review, to grant a full or partial exemption from the payment of state-owned rental fees if the agency has vacated its space or if an agency does not have the financial resources to make the payment. ADOA requests the Committee recommend 3 FY 2013 rent exemptions totaling \$24,600 for the Arizona Department of Real Estate, the Arizona Commission for the Deaf and the Hard of Hearing, and the Arizona Geological Survey. The vacated space will be occupied by other agencies for no net loss of rent.

Recommendation

The JLBC Staff recommends that the Committee recommend the exemptions of \$9,500 for the Arizona Commission for the Deaf and the Hard of Hearing, \$9,000 for the Arizona Department of Real Estate, and \$6,100 for the Arizona Geological Survey. As a result of these exemptions, there are corresponding rent increases of \$15,600 for the Arizona Department of Economic Security and \$9,000 for the Arizona Department of Insurance.

Analysis

Effective February 1, 2012, 653 square feet of space at 2910 North 44th Street, Phoenix, Arizona was reallocated from the Arizona Department of Real Estate to the Arizona Department of Insurance.

Effective January 1, 2013, 3,502 square feet of space at 1400 West Washington, Phoenix, Arizona will be reallocated from the Arizona Commission for the Deaf and the Hard of Hearing and the Arizona Geological Survey to the Arizona Department of Economic Security.

RS/AH:lm

Janice K. Brewer
Governor



Brian C. McNeil
Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

100 NORTH FIFTEENTH AVENUE • SUITE 401
PHOENIX, ARIZONA 85007
(602) 542-1500



November 6, 2012

The Honorable John Kavanagh, Chairman
Joint Committee on Capital Review
Arizona House of Representatives
1700 West Washington
Phoenix, Arizona 85007

Dear Representative Kavanagh:

A.R.S. § 41-792.01.D. provides that the Arizona Department of Administration (ADOA) Director, on recommendation of the Joint Committee on Capital Review (JCCR), may authorize a whole or partial exemption from payment of Capital Outlay Stabilization Fund (COSF) rent if an agency does not occupy or vacates state-owned space after the beginning of the fiscal year.

On February 7, 2012, the JCCR favorably reviewed an FY 2012 COSF rent exemption of \$4,100 for the Arizona Department of Real Estate (ADRE) for a pro rata five-months decreased occupancy of approximately 653 square feet of office space at 2910 North 44th Street, Phoenix, AZ. ADOA reallocated the office space to the Department of Insurance and invoiced it \$4,100 for FY 2012 pro rata five-months increased occupancy.

As a result of an administrative error, the Joint Legislative Budget Committee (JLBC) Staff budgeted amounts of FY 2013 COSF rents to each agency did not reflect the annualized changes.

ADOA requests JCCR favorable review of a FY 2013 COSF rent exemption for ADRE of \$9,000 for the annualized value of FY 2013 COSF rent associated with decreased occupancy. ADOA will invoice ADI \$9,000 for the annualized value of FY 2013 COSF rent associated with increased occupancy.

The Honorable John Kavanagh
Real Estate Rent Exemption
November 6, 2012
Page 2 of 2

If you have any questions regarding the proposed COSF rent exemption, please contact William G. Hernandez, Assistant Director, ADOA General Services Division (GSD), at 602-364-2872.

Sincerely,

A handwritten signature in black ink, appearing to read 'Brian C. McNeil', with a stylized flourish at the end.

Brian C. McNeil
Director

Attachments

cc: The Honorable Don Shooter, Vice-Chairman, JCCR
✓ Richard Stavneak, Director, JLBC Staff
Andrew Hartsig, Fiscal Analyst, JLBC Staff
John Arnold, Director, OSPB
Ken Matthews, Fiscal Analyst, OSPB
Judy Lowe, Commissioner, ADRE
Germaine L. Marks, Acting Director, ADI
Jeff Grant, Deputy Director, ADOA
Paul Shannon, Assistant Director, ADOA
William G. Hernandez, Assistant Director, ADOA
Nola Barnes, General Manager, ADOA

Janice K. Brewer
Governor



Brian C. McNeil
Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

100 NORTH FIFTEENTH AVENUE • SUITE 401
PHOENIX, ARIZONA 85007
(602) 542-1500

November 27, 2012

The Honorable John Kavanagh, Chairman
Joint Committee on Capital Review
Arizona House of Representatives
1700 West Washington
Phoenix, Arizona 85007



Dear Representative Kavanagh:

A.R.S. § 41-792.01.D. provides that the Arizona Department of Administration (ADOA) Director, on recommendation of the Joint Committee on Capital Review (JCCR), may authorize a whole or partial exemption from payment of Capital Outlay Stabilization Fund (COSF) rent if an agency does not occupy or vacates state-owned space after the beginning of the fiscal year.

ADOA requests JCCR's favorable review of a proposed FY 2013 six-months pro rata rent exemption for the Arizona Geological Survey (AGS) of \$6,100 and the Arizona Commission for the Deaf and Hard of Hearing (ACDHH) of \$9,500 for decreased occupancy at 1400 West Washington, Phoenix, AZ, effective January 1, 2013.

ADOA is reallocating approximately 3,090 RSF of Office space and 412 RSF of Storage space from the AGS and the ACDHH to the Arizona Department of Economic Security (ADES). ACDHH will retain approximately 642 RSF of its existing space allocation until backfilled. ADOA will invoice ADES for FY 2013 six-months pro rata COSF occupancy as offset to the foregoing rent exemptions and include the annualized value of ADES' increased space allocation in its future fiscal year's COSF rent invoices.

If you have any questions regarding ADOA's proposed COSF rent exemption, please contact William G. Hernandez, Assistant Director, ADOA General Services Division (GSD), at 602-364-2872.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian C. McNeil".
Brian C. McNeil
Director

The Honorable John Kavanagh
FY 2013 Rent Exemption
November 27, 2012
Page 2 of 2

cc: The Honorable Don Shooter, Vice-Chairman, JCCR
Richard Stavneak, Director, JLBC Staff ✓
Andrew Hartsig, Fiscal Analyst, JLBC Staff
John Arnold, Director, OSPB
Ken Matthews, Fiscal Analyst, OSPB
Jill Hall, Fiscal Analyst, OSPB
Dr. Lee Allison, Director and State Geologist, AGS
Sherri Collins, Executive Director, ACDHH
Clarence Carter, Director, ADES
Jeff Grant, Deputy Director, ADOA
Paul Shannon, Assistant Director, ADOA
William G. Hernandez, Assistant Director, ADOA
Nola Barnes, General Manager, ADOA

STATE OF ARIZONA

Joint Committee on Capital Review

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HOUSE OF
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JUSTIN OLSON
ANNA TOVAR

DATE: December 13, 2012

TO: Representative John Kavanagh, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Marge Zylla, Senior Fiscal Analyst

SUBJECT: University of Arizona - Review of Cancer Center Project

Request

A.R.S. § 15-1683 requires Committee review of any university projects financed with revenue bonds. The University of Arizona (UA) requests Committee review of a \$73.2 million bond issuance to fund a \$100 million cancer center on the Phoenix Biomedical Campus. The cancer center will include an outpatient clinic and research space.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the cancer center project.
2. An unfavorable review of the cancer center project.

Under either option, the JLBC Staff recommends the following provisions: 1) all projects are ultimately approved by the Arizona Board of Regents (ABOR), and 2) the following standard university financing provisions:

Standard University Financing Provisions

- 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.
- UA shall provide the final debt service schedules for the projects as soon as they are available.

(Continued)

Analysis

This \$73.2 million revenue bond project would contribute to the funding for a 6-story, 230,000 square foot cancer center located at the northwest corner of Fillmore and Seventh Streets on the Phoenix Biomedical Campus. UA has stated the total project cost is \$100 million, of which \$34 million is gift revenue and \$66 million is a revenue bond. UA plans to issue \$7.2 million in capitalized interest with the \$66 million, bringing the total issuance to \$73.2 million. The capitalized interest portion of the bond will give UA up-front funding to pay the interest-only debt service payments for the first 3 years of bond payments.

Floors 1 through 4 of the cancer center would be built for clinical and research space, including oncology radiation, diagnostic and endoscopic radiology, specialized cancer treatment, and prevention/health clinics, as well as a patient wellness center. The fifth floor would be shell space that would be converted to research space at a later date, and the sixth floor would house medical equipment. The center would eventually treat approximately 60,000 patients annually.

UA plans to enter into a 20-year facility lease with St. Joseph's Hospital and Medical Center (SJHMC) to operate the center. In addition to the 20 years, there would be two 5-year optional renewals. SJHMC is owned by Dignity Health. Any inpatient care would occur at St. Joseph's main hospital facility.

SJHMC would pay the University \$3.9 million per year in rent beginning in FY 2016. These payments would be used to finance the annual debt service payment. SJHMC would also pay UA one-third of the net income from outpatient oncology services above SJHMC's baseline net income calculated as of June 30, 2012. These payments would be used to finance the annual debt service payments. UA estimates they would receive an average of \$5 million in annual revenue from the cancer center operations over the first 20 years of operation. SJHMC would also be responsible for any operating losses associated with the operations of the clinic. *(See Financing section for more information on debt service payments.)*

Direct construction costs for the project are \$76.3 million, giving the project a direct cost of \$332 per square foot.

The center would be built on land owned by the City of Phoenix which would be leased by UA at no cost for the first 10 years of a 60-year lease contract. UA would make lease payments that they describe as minimal for the remaining 50 years. At the end of the 60-year contract, UA would own the land. The building has an anticipated life of 50 to 75 years.

UA has decided to use the design-build procurement method for the construction of the cancer center.

Financing

The project cost is \$100 million plus \$7.2 million in capitalized interest. UA plans on issuing the \$73.2 million revenue bond, which includes estimated issuance costs of \$700,000 and \$7.2 million in capitalized interest, in February 2013. The bond rating is expected to be Aa2 (Moody's)/AA (S&P) at an estimated average 3.65% interest rate for a term of 35 years. The university expects interest-only debt service payments of about \$1.1 million in FY 2013 and \$3.0 million in FY 2014 and FY 2015 followed by annual payments of about \$3.8 million over the remaining 33 years of the bond's term. The total cost over the 35-year term for the issuance is expected to be \$133.2 million. As noted above, the debt service payments will be paid from annual lease payments from SJHMC.

If SJHMC was to default on either the lease or the agreement, UA is ultimately responsible for the debt service payments on the revenue bond. UA has stated that if a default were to occur, UA could seek breach of contract damages in court and accelerate the remaining rent payments due until the end of the lease term, subject to its duty to mitigate damages by re-letting the space to another party.

(Continued)

The City of Phoenix has designated \$14 million in funding to the center. UA has already received \$4 million, which was used for planning and design, and anticipates receiving \$2 million in December 2012 and \$2 million annually for the next 4 years.

UA has not yet identified the source(s) of the remaining \$20 million of the total \$34 million in gift revenue or the timeline for the receipt of those monies. UA has not stated what payment source would be used if they do not receive the full amount of the anticipated gift revenues. According to an Arizona Republic article published December 10, 2012, UA has received \$5 million of the remaining \$20 million in gift revenue.

Since the bond would not be issued until February 2013 and UA plans to begin construction 4 days following the JCCR meeting to meet a City of Phoenix deadline that construction start before the end of CY 2012. Construction of the center would be completed in April 2015, occupancy would occur in fall 2015, and the center would accept outpatients beginning in late 2015.

A.R.S. § 15-1683 allows each state university to incur a projected annual debt service for bonds and certificates of participation of up to 8% of each institution's total projected annual expenditures. This calculation is known as the debt ratio. This revenue bond would increase the UA debt ratio by 0.14%, from approximately 5.4% to 5.54%.

RS/MZ:ts

November 29, 2012

The Honorable John Kavanagh, Chairman
Joint Committee on Capital Review
House of Representatives
1700 West Washington
Phoenix, AZ 85007



Dear Representative Kavanagh,

In accordance with ARS 15-1683, the Arizona Board of Regents (ABOR) requests that the following bond-financed items for the University of Arizona be placed on the next Joint Committee on Capital Review agenda for review.

The University of Arizona Cancer Center-Phoenix (UACC)

Phoenix is the largest city in the U.S. without a National Cancer Institute (NCI) designated comprehensive cancer center. This project will establish a premier NCI designated comprehensive care center in Downtown Phoenix. The project will be partially funded by \$34M in gifts. The remaining budget will be funded by System Revenue Bonds, and debt service for those bonds will be funded by lease and operation revenues from our clinical partner who is managing the clinical programs.

Project Cost Summary – UACC

Gift Revenue	\$	34M
System Revenue Bonds	\$	66M
Total Project Cost	\$	100M

Environment & Natural Resources Phase 2 (ENR2)

This facility promotes interdisciplinary research and product development for critical Earth Science and Natural Resources issues impacting the State of Arizona. The project is partially funded by a \$1.5M federal grant. The remaining budget will be funded by SPEED and System Revenue Bonds.

Project Cost Summary – ENR2

SPEED Revenue Bonds	\$	66.5M
Federal Grant	\$	1.5M
System Revenue Bonds	\$	7.0M
Total Project Cost	\$	75.0M

Bond Summary

SPEED Revenue Bonds

ENR2 Project	\$	66.5M
Bond Issuance	\$.6M
Total SPEED Bonds	\$	67.1M

System Revenue Bonds

UACC Project	\$	66.0M
ENR2 Project	\$	7.0M
Capitalized Interest	\$	7.2M
Bond Issuance	\$.7M
Total System Revenue Bonds	\$	80.9M

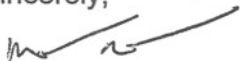


The Honorable John Kavanagh, Chairman
Joint Committee on Capital Review
November 29, 2012
Page Two

Enclosed are the detailed ABOR Project Approval submittals (2), Bond debt service schedules and financing information summaries.

If you have any questions or desire any clarification on the enclosed material, please contact me at (520) 621-5977.

Sincerely,



Milton M. Castillo
Senior Vice President and Chief Financial Officer

Attachment: ABOR Project Approval submittals (2), Bond debt service schedules and financing information summaries.

xc: Richard Stavneak, Director, JCCR
Tom Anderes, President, Arizona Board of Regents
Lorenzo Martinez, Assistant Executive Director for Capital Resources, ABOR
Dr. Ann Weaver Hart, President, UA
Suzanne Ornelas, Chief of Staff, UA
Tim Bee, Associate Vice President for State Relations, UA
Robert Smith, Vice President for Business Affairs, UA
Mark McGurk, Associate Vice President/Comptroller, UA
Marge Zylla, Senior Fiscal Analyst, JCCR

EXECUTIVE SUMMARY

Item Name: The University of Arizona Cancer Center-Phoenix Project Approval (UA)

☒ Action Item ☐ Discussion Item ☐ Information Item

Issue: The University of Arizona requests Project Approval of The University of Arizona Cancer Center-Phoenix project. The 230,000 square foot, \$100 million capital project will be financed with System Revenue Bonds and gift funds. The debt service will be paid over approximately 35 years from Cancer Center Phoenix lease revenue funds and operating funds.

Previous Board Action: Project Implementation Approval - December 2011
FY 2012 UA Capital Development Plan - June 2011

Statutory/Policy Requirements:

- Board Policy 7-109 requires Committee approval of new construction projects with a total project cost of \$10 million or more before contracts can be executed and construction can begin.
- Given that the project will be financed by System Revenue Bonds, a separate committee review and Board approval will be required before the debt issuance can occur.

Project Justification/Strategic Implications/Project Compliance with Mission, Strategic Plan, Master Plan and Community Input Process:

- Phoenix is the largest city within the U.S. without a National Cancer Institute (NCI) designated comprehensive cancer center. The University of Arizona Cancer Center (UACC) in Tucson, a premiere UA unit and NCI designated comprehensive cancer center, offers world renowned translational research programs and excellence in patient care. In pursuit of its mission to prevent and cure cancer throughout the state of Arizona, the UACC, in affiliation with St. Joseph's Hospital & Medical Center/Dignity Health (SJHMC/Dignity Health) will establish, manage, and operate a premier NCI designated comprehensive cancer center at the Phoenix Biomedical Campus (PBC) in Downtown Phoenix. This center will be focused on delivering the highest standard of cancer care with an evidence based, multi-disciplinary model, along with the most modern technologies, and a compassionate, patient-centered approach.
- In collaboration with SJHMC/Dignity Health and in response to financial considerations, the project budget and scope have been reduced from 250,000 to approximately 230,000 gross square feet, and from a total project cost of \$135 million to \$100 million.

Contact Information:

Milton Castillo, Senior VP and CFO, (520) 621-5977, mcastillo@email.arizona.edu

EXECUTIVE SUMMARY

- The following institutional priorities and critical capital development related elements of the ***Arizona Higher Education Enterprise Plan Goals*** supported by this project are:
 - **Academic and Research Needs:** The educational and research programs of the UACC contribute greatly to the quality of life and economic vitality of the state. The new UA Cancer Center-Phoenix is in conformance with the UA Cancer Center mission and vision which is to prevent and cure cancer and to be the preeminent leader in achieving freedom from cancer by extending and enhancing the lives of individuals regionally, nationally, and throughout the world.
 - **Community Service Opportunities:** This project will provide much needed comprehensive cancer care to the Phoenix area and provide new collaboration opportunities with other area healthcare operations.
 - **Student Support Requirements:** The UA Cancer Center-Phoenix, in conjunction with The University of Arizona College of Medicine-Phoenix, is poised to better serve critical academic and research programs in support of an increasing number of students in health education.
 - **Community Engagement & Workforce Impact:** As a result of a successful partnership with the City of Phoenix, the Phoenix City Council approved \$14 million of funding to help support The University of Arizona Cancer Center-Phoenix project. This UACC facility will help to enhance the Downtown Phoenix area, in support of the Phoenix Biomedical Campus Comprehensive Development Plan. The UA will continue to coordinate the development of this project with the City of Phoenix, and engage with the downtown Phoenix community.
 - **Construction Market Conditions:** As scheduled, this project will have the opportunity to take advantage of the currently favorable construction market to maximize the University's construction value.
 - **Funding Sources & Financing Options:** Debt service for this building will be covered by the SJHMC/Dignity Health facility lease payments and operational revenues, minimizing financial impacts on the University.

Project Description/Scope/Compliance with Space Standards:

- This new facility consists of six floors of approximately 230,000 gsf, and is located at the northwest corner of Fillmore and Seventh streets on the downtown Phoenix Biomedical Campus. Floors one through four will be built out for immediate use, the fifth floor will be constructed as shell space for future development and use, and the sixth floor will consist of enclosed mechanical equipment space.
- This building will house the highest quality outpatient cancer care and research with an evidence-based, multi-disciplinary, patient-centered model. The Center will house Radiation Oncology, Diagnostic Imaging, a Prevention/Executive Health Clinic, Patient Wellness and

EXECUTIVE SUMMARY

Support Services, Endoscopic/Interventional Radiology, Infusion, Specialized Cancer Clinics, a Breast Center, Clinical Lab space, and other related support spaces.

- The facility is designed in accordance with the UA Design & Specification Standards where applicable, to maximize the University's long-term investment. It will be constructed of high quality, durable materials and building systems to maximize energy efficiency and minimize operations and maintenance costs. Its anticipated lifecycle is from 50 to 75 years.
- In an effort to demonstrate the UA commitment to responsible and sustainable design, this project will be designed and conform to the standard United States Green Building Council (USGBC) Leadership in Energy and Environmental Design (LEED) Silver Certification.

Project Delivery Method and Process:

- This project is being delivered through a Design-Build (DB) delivery method. This approach was selected for this project because it can provide early cost control, save time through fast-track project scheduling, provide contractor design input and coordination throughout the project, improve potentially adversarial project environments and allow for the selection of the most qualified contractor team to provide leadership for the project. With the use of two independent cost estimates at each phase, and low-bid subcontractor pricing for the actual construction work, this method also provides a high level of cost and quality control.
- The Design-Builder will provide a Guaranteed Maximum Price (GMP) based upon the amount previously agreed upon in the Design-Build agreement. The Design-Builder is at risk to provide the completed project within that price. The Design-Builder will use a qualification-based selection process prescribed by the ABOR Procurement Code to select major subcontractors who will participate with design/engineering assistance during the design phase. They will then provide competitive bid pricing for specific portions of their subcontractor construction work where appropriate. All remaining subcontractor work will be awarded on the basis of the lowest responsive and responsible subcontractor bids.
- The Design-Builder was selected through the capital project selection committee process prescribed by the ABOR Procurement Code. Sixteen (16) responses to the project Request for Qualifications (RFQ) were received and five (5) of the responding teams were short-listed for interviews. A licensed contractor from the community was included on the selection committee as required by Board Policy.

Project Status and Schedule:

- This project is being fast tracked, construction documentation is underway and final clinic planning is ongoing. The UACC-Phoenix project would start construction in December 2012.
- Project construction would be completed by April 2015, with building occupancy to occur in fall of 2015 with the opening to patients late in 2015.

EXECUTIVE SUMMARY

Project Cost:

- The total project budget is \$100 million, with a construction cost of \$76.34 million.

Fiscal Impact and Financing Plan:

- The project budget for The University of Arizona Cancer Center Phoenix is \$100 million. The University will utilize \$34 million in gift revenue to fund the project and issue \$73.2 million in System Revenue Bonds (SRBs) to finance the remaining project budget of \$66 million and capitalized interest of \$7.2 million. The annual debt service on the SRBs is estimated to be \$2.9 million based on anticipated market interest rate of 3.65 percent for an approximately 35 year maturity. The annual debt service on the SRBs is interest payment only through FY2015. Principal repayment will occur in FY2016 and the annual debt service would then increase to \$3.8 million. The University will use the Cancer Center Phoenix lease revenue and operating revenues generated to fund the debt service. When the SRB is issued for the project, the University estimates the outstanding debt at the end of the fiscal year will be \$1.25 billion. At the same time, the University would have retired \$46.6 million in debt principal. The operations and maintenance (O&M) cost for this facility is estimated to be \$2.3 million. The University will use Cancer Center operating revenues to fund O&M cost.
- **Debt Ratio Impact:** The debt service associated with this project will increase the debt ratio by .15% excluding SPEED projects, and .15% including SPEED projects. The projected highest debt ratio is 5.35% excluding SPEED and 5.80% including SPEED. The projected highest debt ratio of 5.35% excluding SPEED remains well below the 8 percent ratio limit established by ABOR policy and state statute.

Occupancy Plan:

- The UACC-Phoenix on the Phoenix Biomedical Campus will contain the major outpatient multi-disciplinary cancer clinics for the UACC in Phoenix. No clinics will be relocated from existing UA space in Tucson. Most of the joint clinical activities will be moved to this location from the SJHMC campus in Phoenix.
- The SJHMC/Dignity Health lease agreement and operational revenues will cover the debt service and maintenance costs for the new facility. The facility operation and equipment capital will be the responsibility of SJHMC/Dignity Health, in accordance with the Provider Based Clinical model.

Recommendation to the Board:

It is recommended that the Board provide Project Approval for The University of Arizona Cancer Center-Phoenix project, as presented in this Executive Summary.

EXECUTIVE SUMMARY

Capital Project Information Summary

University: The University of Arizona

Project Name: The University of Arizona Cancer Center -Phoenix

Project Description and Location:

The University of Arizona Cancer Center-Phoenix is located on the northwest corner of 7th Street and Fillmore Street on the University of Arizona Phoenix Biomedical Campus.

Project Schedule (Beginning Month/Year):

Project Approval

Planning	2010
Design	09/10
Construction	12/12
Occupancy	08/15

Project Budget:

Total Project Cost	\$100,000,000
Total Project Cost per GSF	\$435.00
Direct Construction Cost - New	76,341,705
Construction Cost per GSF - New	\$332.00
Change in Annual Oper./Maint. Cost	
Utilities	\$1,211,513
Personnel	\$623,035
Other	\$469,685

Funding Sources:

Capital:	
A. Gifts	\$34,000,000
B. System Revenue Bonds (UACC Revenues)	\$66,000,000
C. Local Funds	

Operation/Maintenance

- O&M to be paid by Cancer Center
Operating Revenues \$2,304,233

EXECUTIVE SUMMARY

Capital Project Budget Summary

University: The University of Arizona

Project Name: The University of Arizona Cancer Center-Phoenix

Project Approval

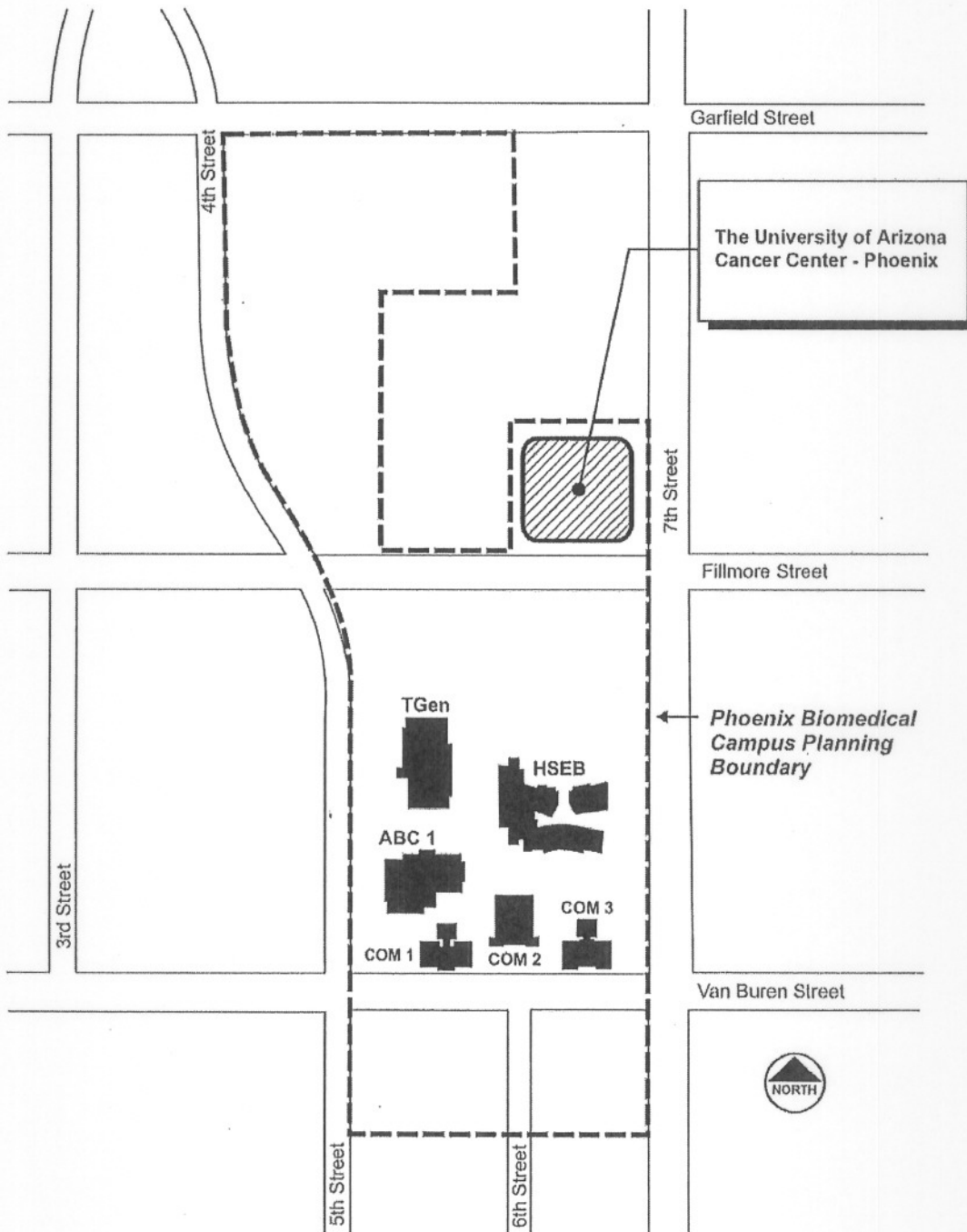
December 2012

Date of Budget Estimate

1. Land Acquisition	\$	
2. Construction Cost		
A. New Construction		75,136,970
B. Renovation		0
C. Fixed Equipment (Owner-Furnished)		204,735
D. Site Development (in 2A.)		0
E. Parking & Landscaping (in 2A)		0
F. Utilities Extensions		1,000,000
G. Other (asbestos)	\$	0
Subtotal Construction Cost		76,341,705
3. Consultant Fees		
A. Construction Manager		111,641
B. Architect/Engineering Fees		12,276,240
C. Other (Programming, Special Conslt.)	\$	2,039,496
Subtotal Consultant Fees		14,427,377
4. Furniture Fixtures and Equipment		500,000
5. Contingency, Design Phase		200,000
6. Contingency, Construction Phase		3,817,000
7. Parking Reserve		0
8. Telecommunications Equipment	\$	950,000
Subtotal Items 4-8		5,467,000
9. Additional University Costs		
A. Surveys and Tests		299,600
B. Move-in Costs		0
C. Public Art		0
D. Printing/Advertisement		8,000
E. Univ. Facilities & Project Management		3,137,318
F. State Risk Mgt. Ins		319,000
Subtotal Additional University Costs	\$	3,763,918
TOTAL CAPITAL COST	\$	100,000,000

EXECUTIVE SUMMARY

Project Site Location Map



**Joint Committee on Capital Review
December 2012 JCCR Meeting
University of Arizona Projects Submission**

**University of Arizona Cancer Center - Phoenix
System Revenue Bonds**

Period Ending	Principal	Interest	Annual Debt Service
6/1/2013		\$1,145,328	\$1,145,328
6/1/2014		3,031,750	3,031,750
6/1/2015		3,031,750	3,031,750
6/1/2016	\$785,000	3,031,750	3,816,750
6/1/2017	825,000	2,992,500	3,817,500
6/1/2018	865,000	2,951,250	3,816,250
6/1/2019	900,000	2,916,650	3,816,650
6/1/2020	935,000	2,880,650	3,815,650
6/1/2021	975,000	2,843,250	3,818,250
6/1/2022	1,020,000	2,794,500	3,814,500
6/1/2023	1,075,000	2,743,500	3,818,500
6/1/2024	1,125,000	2,689,750	3,814,750
6/1/2025	1,185,000	2,633,500	3,818,500
6/1/2026	1,245,000	2,574,250	3,819,250
6/1/2027	1,305,000	2,512,000	3,817,000
6/1/2028	1,370,000	2,446,750	3,816,750
6/1/2029	1,440,000	2,378,250	3,818,250
6/1/2030	1,510,000	2,306,250	3,816,250
6/1/2031	1,585,000	2,230,750	3,815,750
6/1/2032	1,665,000	2,151,500	3,816,500
6/1/2033	1,750,000	2,068,250	3,818,250
6/1/2034	1,835,000	1,980,750	3,815,750
6/1/2035	1,930,000	1,889,000	3,819,000
6/1/2036	2,025,000	1,792,500	3,817,500
6/1/2037	2,125,000	1,691,250	3,816,250
6/1/2038	2,230,000	1,585,000	3,815,000
6/1/2039	2,345,000	1,473,500	3,818,500
6/1/2040	2,460,000	1,356,250	3,816,250
6/1/2041	2,585,000	1,233,250	3,818,250
6/1/2042	2,710,000	1,104,000	3,814,000
6/1/2043	2,850,000	968,500	3,818,500
6/1/2044	2,990,000	826,000	3,816,000
6/1/2045	3,140,000	676,500	3,816,500
6/1/2046	3,295,000	519,500	3,814,500
6/1/2047	3,460,000	354,750	3,814,750
6/1/2048	3,635,000	181,750	3,816,750
	61,175,000	71,986,628	133,161,628

**Joint Committee on Capital Review
December 2012 JCCR Meeting
University of Arizona Projects Submission**

FINANCING INFORMATION:

University of Arizona Cancer Center Phoenix and portion of ENR II System Revenue Bonds

Issuance amount (anticipated)	\$67,045,000
Bond premium (anticipated)	\$13,863,000
Estimated Cost of Issuance	\$ 700,000
Assumed interest rate	3.65%
Capitalized interest from FY2013 through FY2015	\$7,208,000
Payment term	35 years

Fund source for debt payment:

Cancer Center Phoenix project:

Fund Source for debt payment	CCP lease revenue
Est'd annual debt service (interest only) FY2013	\$ 1,145,327
Est'd annual debt service (interest only) FY14-FY15	\$ 3,031,750
Annual debt service (P & P) FY2016-FY2048	\$ 3,816,750
Total debt service	\$133,161,628

Environment Natural Resource Phase II project:

Fund Source for debt payment	Tuition
Est'd annual debt service (P & I) FY2013	\$ 134,310
Est'd annual debt service (P & I) FY2014 – FY2048	\$ 358,350
Total debt service	\$12,598,910

Anticipated date of issuance February 2013

Expected bond rating AA (S & P) and Aa2 (Moody's)

DEBT RATIO INFORMATION:

Current Debt Ratio	5.30%
Increment Debt Ratio	0.18%
Projected highest Debt Ratio	5.48%

