STATE OF ARIZONA

Joint Committee on Capital Review

STATE SENATE

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HERB GUENTHER
DARDEN C. HAMILTON
JOHN VERKAMP

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

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

HOUSE OF REPRESENTATIVES

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MARION L. PICKENS

JOINT COMMITTEE ON CAPITAL REVIEW
December 19, 2002
1:30 p.m.
House Hearing Room 4

AGENDA

- Call to Order

- DIRECTOR'S REPORT (if necessary).

- Approval of Minutes of September 19, 2002

1. ARIZONA DEPARTMENT OF TRANSPORTATION –
   A. Review of FY 2003 Building Renewal Allocation Plan.
   B. Review of Scope, Purpose, and Estimated Cost of West Phoenix Motor Vehicle Division Service Center.

2. ARIZONA DEPARTMENT OF ADMINISTRATION/DEPARTMENT OF CORRECTIONS – Review of Scope, Purpose and Estimated Cost of Ft. Grant Landfill Closure.

3. ARIZONA BOARD OF REGENTS/ARIZONA STATE UNIVERSITY – Review of Arizona Biodesign Institute – Phase I Bond Project.

4. SCHOOL FACILITIES BOARD –
   A. Review of New School Construction Report.
   B. Report on FY 2004 Instructions to the Treasurer.
   C. Review of Lease-to-Own New School Construction Projects.
   D. Report on Lease-to-Own Bundling.

5. ARIZONA DEPARTMENT OF ADMINISTRATION – Report on Active Office Lease Costs.

6. ARIZONA STATE PARKS – Report on Kartchner Caverns Park.

The Chairman reserves the right to set the order of the agenda.
12/13/02

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HOUSE OF REPRESENTATIVES

MINUTES OF THE MEETING
JOINT COMMITTEE ON CAPITAL REVIEW

Thursday, September 19, 2002

The Chairman called the meeting to order at 1:40 p.m. Thursday, September 19, 2002 in House Hearing Room 4 and attendance was as follows:

Members:	Representative Knaperek, Chairman	Senator Solomon, Vice-Chairman
	Representative Cheuvront	Senator Bennett
	Representative Pearce	Senator Brown
	Representative Pickens	Senator Cirillo
		Senator Guenther
		Senator Verkamp
		Senator Hamilton
Absent:	Representative Allen	
	Representative Gray	
	Representative Lopez	
Staff:	Richard Stavneak	Jan Belisle, Secretary
	Lorenzo Martinez	Jake Corey
	Tony Vidale	Gina Guarascio
	Steve Grunig	Jill Young
Others:	Patsy Osmon	Senate
	Debbie Johnston	Senate
	Joy Hicks	House
	Jamie Hogue	House
	Eileen Klein	House
	Ed Boot	SFB
	John Arnold	SFB
	Bret Cloninger	OSPB
	Bill Greeney	OSPB
	Dawn Nazary	OSPB
	Keith Fallstrom	OSPB
	Mike Virgin	DEMA
	Bruce Ringwald	ADOA
	John Sempert	ADOA
	Blake Anderson	UofA
	Dave Harris	ABOR
	Greg Fahey	UofA
	Joel Valdez	UofA
	Terry Issacson	UofA
	Paul Davenport	Press

Senator Solomon moved the Committee approve the minutes of August 22, 2002 as presented. The motion carried.

DIRECTOR'S REPORT

Condemnation of Land
On behalf of Richard Stavneak, Director, Lorenzo Martinez, JLBC Staff mentioned that the filing for the condemnation of land in Tucson for a new prison complex has been terminated and the initial $2.1 million deposit the state made has been returned less attorney fees and other costs associated with the proceedings. The amount returned to the state was $1.9 million.

ASU-East Capital Projects
In June 2001, the Committee gave a favorable review to the issuance of $27.5 million in Certificates of Participation for lease-purchase financing of campus development at ASU-East. The Committee requested a follow-up on project details that was submitted in December 2001. ASU-East reports that the scope of some of the projects has changed as a result of more detailed engineering studies on the projects. However, the total issuance of $27.5 million remains the same and the projects will be reprioritized to remain within the $27.5 million. Repayment of the COPs will come from Proposition 301 monies.

DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS – Review of Scope, Purpose, and Estimated Cost of Yuma Project.

Steve Grunig, JLBC Staff presented the Department of Emergency and Military Affairs (DEMA) request that the Committee review the scope, purpose and estimated cost of the Yuma Armory Project. DEMA received a General Fund appropriation of $371,000 for the state match to construct the building. The total cost of the project is $2,868,900 and involves an exchange of land with the City of Yuma. Yuma will receive the original armory property and DEMA will receive the use of the new 5 acre site where the building will be constructed. In addition to the appropriation of $371,000, the project will be funded with $1.7 million from the Federal Government, $150, 000 from the City of Yuma, $216,775 from the sale of closed armories, and $400,000 from the sale of the original Yuma Armory property. Total state funding from all sources is $987,775.

In response to Senator Cirillo, Mr. Grunig stated that the armory would also serve as a community center and be available to the City of Yuma when not needed by the National Guard.

In response to Representative Pickens, Mike Virgin, Director/Joint Programs, Department of Emergency and Military Affairs stated that the federal portion of monies is construction funding which is designated for construction of military projects.

Senator Solomon moved the Committee give a favorable review to the scope, purpose, and estimated cost of the construction of an Army National Guard training and community center in Yuma. The motion carried.

ARIZONA BOARD OF ADMINISTRATION/DEPARTMENT OF HEALTH SERVICES – Report on Arizona State Hospital Construction Project.

Gina Guarascio, JLBC Staff, presented the Department of Health Services report on the Arizona State Hospital construction project. The adolescent facility is occupied, as is a clinical administration building. Construction activity continues on the new civil hospital, and infrastructure activities are on going. Renovation of Cholla Hall is underway and is scheduled for completion in January of 2003.

In response to Senator Cirillo, Ms. Guarascio said that the original appropriation was $80 million, during the last fall special session the amount was reduced $2.5 million.

No Committee action was required.

SCHOOL FACILITIES BOARD – Continuation of Presentation on Qwest Contract, Lease-to-Own Financing, and Other School Facilities Board Items.

Jake Corey, JLBC Staff, informed the Committee that the School Facilities Board (SFB) was continuing its presentation on the Qwest contract and the current status and future plans for implementing lease-to-own financing for new school construction. In addition, the SFB plans to transfer $113 million from the Deficiencies Correction Fund to the New School Facilities Fund. This transfer will allow the SFB to continue funding new construction projects until the time it receives financing from any lease-to-own agreements. Proceeds from the lease-to-own financing agreements will be used to reimburse the Deficiencies Correction Fund. The SFB is authorized to enter into lease-to-own agreements up to a maximum of $400 million in FY 2003. While the authorized amount is sufficient to cover new construction costs in that year, the agreements will not be completed until January 2003. The new School Facilities Fund currently has a balance of approximately $10 million, and since that fund averages a weekly distribution to school districts of about $7 million, SFB does not have enough cash on hand to fund the costs of new construction over the next 4 months. The transfer will leave the Deficiencies Correction Fund with a balance of approximately $2 million. Once the lease-to-own financing is in place, the SFB will reimburse the Deficiencies Correction Fund.

In response to Chairman Knaperek, Mr. Corey stated that SFB believes the lease-to-own agreements are similar to a lease-purchase agreement.

In response to Senator Cirillo, Mr. Corey stated the SFB also has monies available from the School Improvement Revenue Bond Proceeds Fund.

Ed Boot, Director, School Facilities Board stated the SFB is planning to issue the entire $400 million in one servicing. The monies would be put in a construction fund for lease-to-own projects, which would allow the SFB to negotiate and continue to buy land and do individual projects on a competitive basis, which is significantly less expensive. There would be an annual appropriation required for debt service. The financing also allows the SFB to work with the individual districts in how they would like their buildings and where they would be.

In response to Senator Cirillo, Mr. Boot said that they would not grant title to the developer, the title is granted to a trustee that will be appointed as part of the program.

In response to Senator Bennett, Mr. Boot stated that the trustee would be a suitable financial party that would have title to the property. The funding source could be a group of individuals who have monies invested. However, the individuals would be covered if the state elected not to appropriate monies for a payment by an insurance clause within the lease-to-own agreement.

In answer to Senator Bennett, John Arnold, Deputy Director, School Facilities Board, said the SFB hired a financial advisor and bond counsel to direct the SFB through the transaction. Currently, the SFB is identifying the sites that will be part of the lease-to-own transaction and currently there are 18 sites under construction. Money has been borrowed from the Deficiencies Fund to pay for the 18 sites. There will be several sites that start construction between now and the end of calendar year that will also be part of the lease-to-own transaction. The current timeline is to come before the JCCR Committee in December for final approval to go to market with the lease-to-own. The pricing would be done in late January and the deal closed in February.

Once the lease-to-own agreement is signed the state has a lease agreement with the trustee. The lease payment needs to be appropriated on an annual basis. The school will be built so that the school and the land are not part of the collateral for the lease agreement. This means that the trustee would have no recourse back to the school, only to the insurance policy guaranteeing payment.

In answer to Senator Bennett, Mr. Arnold stated the insurance policy percentage is less than 0.25 %. The effective interest rate of the package will not be known until they go to market in January.

In response to Representative Knaperek, Mr. Arnold stated the interest rate would depend on the length of the lease i.e. for a 15-year lease it is estimated to be under 4%. That is a fully insured transaction. When a bond is purchased, an agreement is signed saying that this amount will be paid over the next 20-years. On a lease-to-own, a lease is signed and you are told what the annual lease payments will be, but SFB does guarantee that the payments will be made on the lease. The lease payment would come from the General Fund from FY 2004 onward.

In response to Representative Knaparek, Mr. Boot stated that many districts have gone to prototypical schools. The bundling concept has not worked. It is difficult in terms of the timing to bundle more than one school at a time.

Representative Knaperek indicated concern and disappointment that a small portion wasn't bundled to get an idea of the plan. Mr. Boot stated that they would have had to find a giant firm that would do the entire state schools on one basis.

In the Deficiency Corrections program there has been a lot of bundling of multi purpose rooms together. In the new school construction program, each individual district is the contracting entity, not the SFB. In deficiencies correction work, SFB is the contracting entity, therefore there is more ability to bring things together. There have been large projects that were bundled into a single bid across districts.

Mr. Boot stated that it is more costly to do the bundling and that they have done an analysis. Representative Knaperek asked to see the analysis.

In response to Representative Cheuvront, Mr. Boot stated that to do a bundling would require two districts to agree on the same architect or use two separate architects and come together at the timing with each step of their project. It would require two separate contracts by the contractor, as each district would be the owner of the facilities that were built. The size of schools vary significantly, from 9,000 square feet to 250,000 square feet, one may have a 6 month construction timeline, another 7 and another 18 months. Schools have been bid as early as May and as late as December.

Representative Knaperek said the school districts understand the fiscal crisis the state is in. They do not want a reduction of other portions of their budget.

With regard to the Qwest contract, Mr. Boot stated that the SFB is no longer wiring bus barns, stadiums, maintenance facilities warehouses, welcome centers, etc. that belong to the district. The district may elect to do those projects that are above the minimum adequacy guidelines with their own funding. SFB has received no complaints regarding the error and the districts have understood the situation. SFB has no authority to collect the money back as it was a state obligation and paid for and contracted by the state. Within the original purchase order there was a 4-year maintenance contract as well as an oversight and monitoring which SFB believes is an M&O responsibility and therefore should not be paid for by the SFB.

In answer to Senator Bennett, Mr. Boot stated that the amount that Qwest had shown to SFB for their cost of the monitoring and maintenance, which was originally believed to be free, was $21 million. The districts can choose to have the maintenance or the monitoring provided as an additional service beyond the manufacture's warranty.

Senator Bennett asked if there was anything done to assure that the districts will within their own M&O funds perform monitoring and maintenance. Mr. Boot stated that the districts would not take the extended warranty from Qwest as part of the contractual obligation. Most of the schools have an individual that is responsible for the monitoring and they will then take most of the maintenance costs out of their annual budget as things break rather than paying for it as an extended warranty service.

Senator Cirillo asked for a list of the districts that actually received money to cable non-educational spaces. Mr. Boot said he would provide a list for the Committee.

No Committee action was required.

ARIZONA BOARD OF REGENTS/UNIVERSITY OF ARIZONA – Review of Proposition 301 Lease-Purchase Project.

Lorenzo Martinez, JLBC Staff, presented the request that the Committee review a lease-purchase project that will expand the Optical Science Center. UofA will issue $17.2 million in Certificates of Participation (COPs). The repayment will come from a combination of Proposition 301 monies and Indirect Cost Recovery Fund monies. When the project is complete, the university plans to look at various options for funding operating expenses that may include a request for a General Fund appropriation. The JLBC Staff recommends a favorable review of the project, and that a stipulation be added that a favorable review from the Committee does not constitute an endorsement of General Fund appropriations for operating costs when the project is complete.

In response to Representative Knaperek, Greg Fahey, University of Arizona said that the university is not asking the Committee to commit General Fund money for operating expenses at this time. In the past there has been a tradition where operating money has come from the General Fund. The university is prepared to also use Proposition 301 or Indirect Cost Fund monies.

Senator Solomon stated that the option for the university to request operating monies when the project is complete should be left open.

In response to Senator Hamilton, Mr. Fahey stated that at the time the building would come on line, the university would review the revenue picture. If they cannot receive General Fund monies in all or part, the university would look at the Indirect Cost Fund monies and the Proposition 301 monies.

In response to Senator Bennett, Mr. Fahey stated that of the Proposition 301 revenues over the first five years would be approximately $16 million and expected to ramp up to $20 million which is for the UofA, not for the university system. The amount the university would be paying in debt service would be approximately $1.2 million per year.

Senator Bennett noted that Proposition 301 allows 20% of the Proposition 301 monies to be used for capital projects. The 20% of the $16 million allocated to UofA would be $3.2 million, which is enough for the debt repayment of this project. Mr. Fahey stated that was correct.

There was discussion regarding the language in the motion. It was decided that a favorable review does not prevent the UofA from returning to the Legislature to request an appropriation for operating expenses.

Senator Solomon moved the Committee give a favorable review of the Meinel Optical Sciences Expansion project with the stipulation that a favorable review does not constitute the Committee's endorsement of General Fund appropriations for operating costs when the project is complete. The motion carried.

The meeting adjourned at 2:50 p.m.

Jan Belisle, Secretary

Lorenzo Martinez, Senior Fiscal Analyst

Representative Laura Knaperek, Chairman

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

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HOUSE OF
REPRESENTATIVES

DATE: December 10, 2002

TO: Representative Laura Knaperek, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: DEPARTMENT OF TRANSPORTATION – REVIEW OF FY 2003 BUILDING RENEWAL ALLOCATION PLAN

Request

The Arizona Department of Transportation (ADOT) requests that the Committee review its FY 2003 Building Renewal allocation plan.

Recommendation

The JLBC Staff recommends a favorable review of the plan. ADOT has allocated $1,634,000 among 58 projects leaving a contingency amount of $120,000. The JLBC Staff further recommends that funding for any new projects not listed in the allocation plan, reallocations between projects, and allocations from the contingency amount be reported to JLBC Staff prior to expenditure. JLBC Staff would report to the Committee on significant changes, typically above $50,000. All of the projects fit within the guidelines for building renewal projects.

Analysis

Laws 1986, Chapter 85 established the Joint Committee on Capital Review and charged it with developing a Building Renewal Formula to guide the Legislature in appropriating monies for the maintenance and repair of state buildings. Pursuant to A.R.S. § 41-1252, the JCCR shall review the expenditure of Building Renewal monies.

The Capital Outlay Bill (Laws 2002, Chapter 343) appropriated a total of $1,634,000 from the State Highway Fund in FY 2003 to ADOT for building renewal. The FY 2003 Building Renewal appropriation represents 58% of the amount generated by the Building Renewal Formula. ADOT expects to allocate the Building Renewal monies in the following categories for 58 projects:

Category	Projects	State Highway Fund	% of Total
Fire/Life Safety	7	$ 97,100	5.9%
Roofs, Walls, Exterior Paint, Structure	16	139,400	8.5
Building Systems (HVAC, Electrical, Plumbing)	18	871,000	53.3
Interior Finishes (Paint, Carpet, Tile)	13	61,500	3.8
Remodel	1	40,000	2.5
Americans with Disabilities Act	1	200,000	12.2
Infrastructure	2	105,000	6.4
Contingencies		120,000	7.4
Total	**58**	**$1,634,000**	**100.0%**

(Continued)

For the Committee's information, the following 8 projects require $50,000 or more:

Project	**Allocation**
HVAC for auditorium – Phoenix Headquarters Building	$ 50,000
Replace chilled water cooling system – Tucson Main MVD Building	165,000
Replace chilled water cooling system – West Phoenix MVD Building [1/]	250,000
Electrical upgrade – Globe Equipment Shop	60,000
Electrical upgrade – St. David Maintenance Yard	70,000
Electrical upgrade – Tucson District Office Headquarters	65,000
ADA compliance – Multiple MVD Locations	200,000
Repave parking lot – Phoenix Engineering Building	100,000
Subtotal	$960,000

1/ ADOT raised the cost for this project to $250,000 from the $165,000 shown in their submitted request, which they accommodated by reducing their contingency amount from $205,000 in their submitted request to $120,000.

The JLBC Staff recommends a favorable review of the FY 2003 expenditure plan. The attached material submitted by ADOT lists each project and its estimated cost. The projects are consistent with Building Renewal guidelines and appropriations.

RS/BH:jb

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HOUSE OF REPRESENTATIVES

DATE: December 10, 2002

TO: Representative Laura Knaperek, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF TRANSPORTATION – REVIEW OF SCOPE, PURPOSE, AND ESTIMATED COST OF WEST PHOENIX MOTOR VEHICLE DIVISION SERVICE CENTER

Request

The Arizona Department of Transportation (ADOT) requests that the Committee review the scope, purpose, and estimated cost to remodel and furnish the West Phoenix Motor Vehicle Division (MVD) Service Center.

Recommendation

The JLBC Staff recommends a favorable review of the request. The project was appropriated $1,331,000 from the State Highway Fund in FY 2002. Of the total amount, $718,600 is for the low bid for construction, $126,000 is for architectural and engineering fees, $403,000 is for furnishings and equipment, and the remaining $83,400 is for contingencies. The average cost of $111 per square foot seems reasonable compared to recent average costs of $150 to $156 per square foot for new MVD service centers. Construction costs tend to fluctuate depending on market conditions and geographic locations.

Analysis

Pursuant to A.R.S. § 41-1252, the Committee shall review the scope, purpose, and estimated cost of appropriated capital projects prior to the release of monies for construction. Laws 2001, Chapter 3, 2nd Special Session appropriated $1,331,000 in FY 2002 from the State Highway Fund to ADOT, to remodel and furnish the 12,000 square foot first floor of the West Phoenix MVD Service Center, which is located at 51st Avenue and Indian School Road. The remodel would expand the lobby waiting area from 3,000 square feet with 50 seats to 6,200 square feet with 300 seats, increase the number of service counters from 24 to 37, update and expand the sanitary facilities and bring the facility into compliance with Americans with Disabilities Act (ADA) requirements. ADOT reports that the office would remain open to serve the public during remodeling, with the contractor working in the evenings and weekends. ADOT reports that the bids are good for 90 days, through December 25, 2002. ADOT expects to sign the contract soon after Committee approval, and the contractor would have 135 calendar days to complete the project.

(Continued)

The department reports that they received 11 bids for construction, which ranged from a low of $718,600 to a high of $1,100,200. ADOT projects spending the $1,331,000 appropriation as shown in following table, for an average total cost of $111 per square foot. We have had no major MVD Service Center remodeling projects in the past few years with which to compare this cost.

On the other hand, new 14,430 square foot MVD Service Centers were completed in Scottsdale ($2,160,000 construction cost) in August 1999 for an average construction cost of $150 per square foot, and in Mesa ($2,250,000 construction cost) in March 2000 for an average construction cost of $156 per square foot. In addition, ADOT has almost finished the new 14,000 square foot Glendale MVD Service Center ($2,133,900 estimated construction cost), and the new 7,000 square foot Cottonwood MVD Service Center ($1,064,700 estimated construction cost) for an average estimated cost of $152 per square foot for each facility. Construction costs tend to fluctuate depending on market conditions and geographic locations.

Estimated Expenditures	
Low Construction Bid	$ 718,600
Architect & Engineering	126,000
Modular Furniture	225,000
Telecommunications, Security & Equipment	178,000
Contingencies	83,400
Total Expenditures	$1,331,000

The request is within the scope, purpose, and monies available for this project. The JLBC Staff recommends that the Committee give a favorable review to the remodel West Phoenix MVD Service Center project. The average cost of $111 per square foot seems reasonable compared to recent average costs of $150 to $156 per square foot for new MVD service centers.

RS/BH:jb

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HOUSE OF REPRESENTATIVES

DATE: December 11, 2002

TO: Representative Laura Knaperek, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Tony Vidale, Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF ADMINISTRATION/ARIZONA DEPARTMENT OF CORRECTIONS — REVIEW OF SCOPE, PURPOSE AND ESTIMATED COST OF FORT GRANT LANDFILL CLOSURE

Request

Pursuant to the requirement of A.R.S. § 41-1252, the Arizona Department of Administration (ADOA) and the Arizona Department of Corrections (ADC) request the Committee review the scope, purpose and estimated cost to close a landfill at the Arizona State Prison Complex Safford – Fort Grant Unit.

Recommendation

The JLBC Staff recommends a favorable review of the request, as it is consistent with the intent of the authorizing legislation.

Analysis

Laws 2001, Chapter 237 as amended by Laws 2001, Chapter 3, 2nd Special Session (Capital Outlay Bill) appropriated $555,300 in FY 2002 from the Corrections Fund to ADOA to close the Fort Grant landfill in compliance with the Arizona Department of Environmental Quality (ADEQ) and federal government requirements.

ADC identified the landfill for closure in 1998, however, during the closure process ADC discovered that the Land Department owned the land and was leasing it to ADC. ADC was unable to proceed with the closure until the State Land Department agreed to a restrictive convenant, which was approved in 2001.

(Continued)

ADC contracted with an environmental engineering firm to create a closure plan for the landfill. The plan, which was approved by ADEQ in November 2001, includes covering the 22-acre site with non-permeable soil, constructing drainage and diversionary structures, and limiting access to the site by constructing a perimeter fence. After Committee review, the project is schedule to be completed within 5 months. The proposed budget is shown in the following table.

ADOA/ADC Budget for Fort Grant Landfill Closure

Phase	Cost Estimate	% of Total Cost
Architectural/Engineering Fees	$ 50,000	9.0
Construction	425,000	76.5
Perimeter Fence	10,000	1.8
Archaeological Survey/Monitoring	10,000	1.8
ADOA Support	20,000	3.6
Contingency	40,300	7.3
TOTAL	**$555,300**	

If the landfill is not closed, the State will be in violation of the law governing solid waste landfills. ADEQ is responsible for enforcing compliance with this law and may request the Attorney General to file an action in superior court to enforce compliance. In addition, statute allows a civil penalty of not more than $1,000 per day, not to exceed $15,000 for each violation. ADEQ has not cited ADC for non-compliance because the department has been attempting to move forward with closure and ADEQ has not established a time frame for closure of the landfill.

As the proposed project is consistent with the intent of the appropriation, the JLBC Staff recommends a favorable review of the ADOA/ADC Fort Grant landfill closure plan.

RS/TV:jb

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DATE: December 13, 2002

TO: Representative Laura Knaperek, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Lorenzo Martinez, Assistant Director

SUBJECT: ARIZONA BOARD OF REGENTS/ARIZONA STATE UNIVERSITY – REVIEW OF ARIZONA BIODESIGN INSTITUTE – PHASE I BOND PROJECT

Request

The Arizona Board of Regents and Arizona State University (ASU) request Committee review of a construction project for Phase I of the Arizona Biodesign Institute to be financed with an issuance of system revenue bonds.

Recommendation

If the Committee favorably reviews the request, it may want to add the same stipulation the Committee has added upon favorably reviewing other bond projects.

- A favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any tuition collections that may be required for debt service on the repayment of the bonds or for operational costs when the project is completed. These costs have historically been considered by the entire Legislature through the budget development process.

The total project cost is $69,000,000. Bonds will be repaid over 15 years at an estimated annual payment of $5,144,000. Debt service will be funded from a variety of sources including tuition collections. JLBC Staff would note that any tuition used to pay debt service reduces the amount of tuition collections that could potentially be used to offset General Fund funding for operating expenses.

Analysis

A.R.S. § 15-1683 requires Committee review of any projects financed with bond proceeds. A.R.S. § 15-1683 also requires that a university's debt ratio (debt service on bonds and Certificates of Participation relative to total university expenditures and mandatory transfers) not exceed 8%. ASU's current debt ratio of 4.2% will increase to 4.7% if bonds are issued to finance this project.

(Continued)

The project involves the construction of a 170,000 square foot building to provide 140,000 square feet of bioengineering, biotechnology, and integrative biomedicine laboratories, as well as 30,000 square feet of faculty, research, and administrative office space. This project is a component of the university's long-range plan to develop a multi-phased biodesign corridor on the eastern side of the main campus. The facility will house the Arizona Biodesign Institute, which is part of ASU's targeted funding for Technology and Research Initiative Fund (Proposition 301) allocations for faculty and program support in these areas. The institute will focus on biotechnology, nanotechnology, and information technology.

The estimated cost of the project is $69,000,000, which ASU reports equates to $311 per square foot for the construction component of the project. Given the type of specialized space, the costs appear reasonable. The following table lists the estimated costs for the project components.

Arizona Biodesign Institute Capital Project	
Construction/Site Development	$52,911,251
A&E and Other Professional Fees	7,284,556
Project Management	1,299,556
Equipment	1,638,635
Other	2,691,326
Contingencies	3,174,676
TOTAL	**$69,000,000**

ASU plans to issue system revenue bonds to finance the project. At an estimated interest rate of 4.11% over a 25-year period, the annual debt payment would be $5,144,000. The fund sources for the debt service are listed in the following table.

Arizona Biodesign Institute		
Fund Source	**Annual Debt Service**	**% of Total**
Tuition	$ 462,200	9%
Proposition 301 Funding	462,200	9%
Indirect Cost Recovery Fund	2,475,200	48%
ASU Research Park	924,400	18%
Federal Grant	820,000	16%
TOTAL	**$5,144,000**	**100%**

ASU estimates that operations (utilities/supplies) and maintenance (personnel) costs required from the General Fund to support the facility will be approximately $1,619,900. Construction is anticipated to be completed in FY 2005.

As noted in the recommendation section, a favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any tuition collections that may be required for debt service on the repayment of the bonds or for operational costs when the project is completed. These costs have historically been considered by the entire Legislature through the budget development process.

RS/LM:jb

STATE OF ARIZONA

Joint Committee on Capital Review

STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

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

HOUSE OF REPRESENTATIVES

DATE: December 12, 2002

TO: Representative Laura Knaperek, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Jake Corey, Fiscal Analyst

SUBJECT: SCHOOL FACILITIES BOARD – REVIEW OF NEW SCHOOL CONSTRUCTION REPORT

Request

Pursuant to A.R.S. § 15-2002, the School Facilities Board (SFB) requests the Committee review its demographic assumptions, proposed construction schedule, and new school construction cost estimates for FY 2004.

Recommendation

The JLBC Staff has the following comments regarding the report:

1) For new school construction projects to be approved in the current fiscal year, the board estimates FY 2004 enrollment growth in those districts to be higher than historical growth. The board estimates growth of 9.8% for grades P-8 and 13.2% for grades 9-12. Historical growth rates in those districts for those grade levels are 6.6% and 6.2%, respectively. The higher projections are likely due to expected residential housing development. Forecasting residential housing development in FY 2004, however, is speculative in nature.

2) The board's estimated new school construction schedule does not correspond to the board's estimated cash flow in funding those projects. Since SFB makes payments only when a district requests reimbursement for construction costs incurred, not upon completion of work, it is difficult for the board to predict cash flow. It is necessary, however, for the Legislature to have a better idea of when projects will need to be funded as the body makes statewide budget decisions.

Analysis

Demographic Assumptions

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

The SFB staff expects to recommend to the board for approval 23 new school construction projects for 20 school districts from December 2002 to March 2003. Only 13 of these districts, however, submitted a Capital Plan to SFB by the September 1 deadline. For the districts that submitted data, SFB estimates FY 2004 enrollment to grow in each district by an average of 9.8% for grades P-8 and by an average of 13.2% for grades 9-12. The 5-year average enrollment growth for these districts is 6.6% for grades K-8 and 6.2% for grades 9-12. The SFB, therefore, expects student enrollment in these districts to increase more rapidly than the historical rates of growth. This is due to SFB often using district enrollment projections, which rely more on projected residential housing development data than historical growth data.

Construction Schedule

The SFB estimates that it will oversee at least 64 new school construction projects in FY 2004. Of the total, SFB estimates that 57 projects will be ongoing from a previous year and 7 projects will begin construction in FY 2004. This estimate, however, only includes projects that have already been given board approval. In addition, SFB staff expects to recommend 23 new projects to the board for approval from December 2002 to March 2003. Though SFB has provided total cost and yearly cash flow estimates for these 23 projects (see Cost Estimates section below), SFB has not provided estimated plan review, bid, construction starting, or construction completion dates.

Cost Estimates

The board estimates it will provide total funding of $229,407,700 for 55 new school construction projects in FY 2004. Of the total, SFB estimates providing $161,071,300 for 35 projects that have already been given board approval and $68,336,400 for 20 projects that SFB staff will recommend to the board for approval from December 2002 to March 2003. Of the $68,334,400 for the 20 projects yet to be approved, $2,188,300 is due to design and architecture fees (5% of the total cost of the project) for 6 projects that SFB estimates will actually begin construction in FY 2005.

The number of projects SFB estimates providing funding for in FY 2004 does not correspond to the number of projects the board estimates will actually be scheduled for new school construction work in that year. For board approved projects, SFB staff estimates construction work on 64 projects, but only estimates providing funding for 55 projects. The reason for this is that SFB has cash flowed all of a project's expenditures in FY 2003 for some projects the board believes will actually be completed within the first few months of FY 2004. JLBC Staff therefore believes either that projects will be finished earlier than the board is currently estimating or that some of the board's estimated FY 2003 expenditures will actually occur in FY 2004.

In addition, the number of projects SFB staff plans to recommend to the board for approval (23) does not correspond to the number of projects SFB estimates providing funding for in FY 2004 (20). This is due to SFB's assumption that 2 of those projects will be completely funded in FY 2003 and 1 project will be funded in FY 2005. JLBC Staff believes that it is unlikely that projects approved in the latter half of FY 2003 could also be completed and funded in the same year. It is more likely that the majority of the $14,161,500 in estimated expenditures for these 2 projects will occur in FY 2004 and FY 2005.

RS/JC:jb

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Joint Committee on Capital Review

STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

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

HOUSE OF REPRESENTATIVES

DATE: December 10, 2002

TO: Representative Laura Knaperek, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Jake Corey, Fiscal Analyst

SUBJECT: SCHOOL FACILITIES BOARD – REPORT ON FY 2004 INSTRUCTIONS TO THE TREASURER

Request

Pursuant to A.R.S. § 15-2002, the School Facilities Board (SFB) is reporting to the Committee the estimated amounts necessary in FY 2004 for the Deficiencies Correction Fund, Emergency Deficiencies Correction Fund, Building Renewal Fund, and New School Facilities Fund. The board is also reporting the estimated amounts necessary for these funds for FY 2005.

Recommendation

This item is for information only and no Committee action is required. The board reports it will instruct the Treasurer to transfer a total of $530 million in FY 2004. This amount includes $280 million for the Deficiencies Correction Fund and $250 million for the New School Facilities Fund. The board reports it will not instruct the Treasurer to transfer any amount to the Building Renewal Fund in FY 2004 as the Building Renewal formula is suspended in that year.

The board estimates a total transfer of $370 million in FY 2005. This amount includes $120 million for the Building Renewal Fund and $250 million for the New School Facilities Fund. No transfer will be required for the Deficiencies Correction Fund as the fund is statutorily scheduled to be repealed at the end of FY 2004.

Analysis

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

(Continued)

The following paragraphs discuss the proposed instructions for each of the funds:

Deficiencies Correction Fund
The Deficiencies Correction Fund is established to correct existing facility and equipment deficiencies at all state public schools. The board estimates the total cost of the program to be $1.3 billion. The SFB will instruct the Treasurer to transfer $280 million in FY 2004. The board has currently been given $1.0 billion in total funding. The additional $280 million will provide the board with all funding needed to complete the program.

Though SFB reports it will be instructing the Treasurer to transfer $280 million, the board has the option to fully fund the program by instructing the Treasurer to transfer $215 million and by issuing $65 million in revenue bonds. A.R.S. § 42-5029 allows the board to issue School Improvement Revenue Bonds in a *principal* amount not to exceed $800 million to help pay for the costs of the Deficiencies Correction program. Though the board has received $800 million in cash from these bond agreements, the principal amount to be repaid is only $735 million. The remaining $65 million is considered premium, a result of the favorable interest rates of the bond issuance. Therefore it is possible for the board to issue $65 million more in revenue bonds with no changes to current law. Issuance of these bonds would carry with it no costs to the General Fund, as repayment of the bonds would be made from Proposition 301 sales tax revenues. Proposition 301 increased the sales tax from 5.0% to 5.6% to fund several education issues.

Since the Deficiencies Correction Fund is repealed at the end of FY 2004, the board will not need to instruct the Treasurer to transfer any funds in FY 2005.

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

The SFB reports it will not instruct the Treasurer to transfer any monies to the Building Renewal Fund in FY 2004. Laws 2002, Chapter 330 suspended the Building Renewal formula in that year.

For FY 2005, the board reports it expects to instruct the Treasurer to transfer $120 million to the fund. The board will report its final FY 2005 estimate to the Committee in December 2003 and will instruct the Treasurer regarding this final amount by January 1, 2004.

New School Facilities Fund
The New School Facilities Fund provides monies to school districts for new school construction. The board reports that it will instruct the Treasurer to transfer $250 million in FY 2004. This amount represents a $(61) million decrease below the board's FY 2003 instructions to the Treasurer. (Laws 2002, Chapter 330, however, directed the Treasurer to disregard the board's FY 2003 New School Facilities Fund instructions. The legislation instead directed SFB to enter into lease-to-own agreements for a maximum of $400 million in FY 2003.) Monies in the fund are distributed to school districts based on enrollment projections, square footage requirements, and construction costs. Monies are only distributed upon invoice of work completed.

For FY 2005, the board reports it expects to instruct the Treasurer to transfer $250 million to the fund. The board will report its final FY 2005 estimate to the Committee in December 2003 and will instruct the Treasurer regarding this final amount by January 1, 2004.

RS/JC:jb

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Joint Committee on Capital Review

STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

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

HOUSE OF REPRESENTATIVES

DATE: December 12, 2002

TO: Representative Laura Knaperek, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Jake Corey, Fiscal Analyst

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

Request

Pursuant to A.R.S. § 15-2004, the School Facilities Board (SFB) requests the Committee review its list of potential new school construction projects to be financed with a lease-to-own agreement.

Recommendation

The JLBC Staff has the following comments regarding the report:

1) The SFB has submitted a list of potential projects to be included in the lease-to-own financing agreement. Of the $553 million total value of these projects, the amount eligible to be lease-to-own financed is $473 million. The legislation authorizing the board to enter into lease-to-own agreements in FY 2003, however, limits those agreements to $400 million. If the Committee decides to favorably review the report, the JLBC Staff recommends that the Committee's $400 million review be contingent on SFB subsequently submitting a list of only $400 million in eligible projects.

2) The board is retroactively making some of its FY 2002 cash expenditures a part of the lease-to-own agreement. The intent of the legislation, however, was to finance FY 2003 new school construction costs. The SFB is including FY 2002 cash expenditures in the agreement so as to free up some of its previously committed cash funds. The board will then use these freed up monies to pay cash for FY 2003 costs, including land purchases, which the board can not include in the agreement. The SFB estimates its FY 2003 cash requirements, including land purchases, at $96 million. As you know, the FY 2003 Education ORB provided only lease-to-own authority for the current year and no new cash deposits to the New School Facilities Fund in FY 2003.

The board is requesting the Committee perform the review in December so that it may receive the financing from the agreement and continue to pay for the costs of new school construction with no delay in payments to the school districts. The board reports it will update the Committee when the list is finalized in January. The Attorney General has reviewed and approved the lease-to-own agreement (see Attachment 1).

Analysis

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

Attachment 2 details the potential lease-to-own projects. The list includes 63 projects, 48 of which are already under construction. The total value of all projects listed is $553 million. The board reports that of the total value of the projects, $473 million could be financed through lease-to-own agreements. Laws 2002, Chapter 330, however, only gives the board authority to enter into lease-to-own agreements for a maximum of $400 million in FY 2003. Therefore, when the board has finalized its list of projects to be included in the lease-to-own agreement, the $473 million amount will be reduced to $400 million.

The difference between the $553 million total value of all projects and the $473 million amount eligible for lease-to-own financing is a result of SFB having already paid for some of the costs of the projects with cash from the New School Facilities Fund. In addition, for individual projects the percent of the project that remains to be completed does not correspond to the amount of the total cost of the project the board plans to lease-to-own finance. For example, Alhambra Elementary has completed 84% of the work on a new K-3 school. Therefore, 16% of the work has not been completed. The amount of the total cost of the project the board will lease-to-own finance, however, is $3.5 million, or 44% of the total cost of the project. The reason for this is that SFB is taking some of the cash expenditures the board has already paid out to the district and making those already incurred expenditures a part of the lease-to-own agreement. The SFB can do this because the Internal Revenue Service (IRS) allows the board, as a public issuer of Certificates of Participation, to recoup any construction expenses made 60 days prior to issuing an Intent to Issue letter. The board issued this letter, which states the intent to issue Certificates, on May 28, 2002. Any payments made to the included districts for construction expenses from and after March 29, 2002, then, are eligible to become part of the lease-to-own financing agreement. In addition, the IRS sets no time limit for design expenditures. Therefore, SFB can include payments to the districts for design expenditures made at any time.

The term of the lease-to-own agreement is 15 years. At a projected interest rate of 4.11%, SFB estimates the annual payments to be $37.0 million. The following table shows the costs associated with the lease-to-own financing.

Construction Proceeds	$ 400,000,000
Issuance Cost	400,000
Underwriting Fee	627,200
Insurance	1,088,100
Total Issuance	$ 402,115,300

In all cases, including those in which SFB is funding a project partly with cash from the New School Facilities Fund and partly with lease-to-own financing, the whole of the school site and the facilities will serve as collateral. Consequently, if the state failed to make a debt service payment, the state would lose its claim on all facilities in the lease-to-own agreement, even those where the state had paid some cash as portion of the total cost.

RS/JC:jb
Attachments (2)

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STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

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

HOUSE OF REPRESENTATIVES

DATE: December 11, 2002

TO: Representative Laura Knaperek, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Jake Corey, Fiscal Analyst

SUBJECT: SCHOOL FACILITIES BOARD – REPORT ON LEASE-TO-OWN BUNDLING

Request

As requested by the Chairman at the September 2002 Committee meeting, the School Facilities Board (SFB) is presenting its research into bundling new school construction projects that are being financed using lease-to-own financing.

Recommendation

This item is for information only and no Committee action is required.

Analysis

Attached is the board's response to the Committee's request for more information on bundling lease-to-own financed new school construction projects. The board believes that, in constructing new schools using lease-to-own agreements, any construction savings generated from any means, including bundling, would still need to be distributed to districts. Therefore, the state could not realize any savings from lease-to-own financing as only the method of paying for new school construction has changed. The SFB believes that the new school construction formula in A.R.S. § 15-2041, which determines the amount of money a district receives when the board approves a new school for the district, still applies.

The SFB plans to continue to allow school districts to have sole authority to determine an architect, select a contractor, and schedule the construction process. The board does not plan to participate in receiving bids, engaging in negotiations, and/or determining the price of constructing a new school under lease-to-own.

The board does not think savings from bundling projects would be great, as each project requires individual planning and management. The SFB, however, will bundle together two new school construction projects in Fowler Elementary School District. The board plans to monitor the process to determine if any savings are achieved.

RS/JC:jb

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Joint Committee on Capital Review

STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

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

HOUSE OF REPRESENTATIVES

DATE: December 9, 2002

TO: Representative Laura Knaperek, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Tony Vidale, Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF ADMINISTRATION – REPORT ON ACTIVE OFFICE LEASE COSTS

Request

The Arizona Department of Administration (ADOA) presents the FY 2002 report of new office leases that exceed $17.50 per square foot. ADOA also reports that the Lease Cost Review Board (LCRB) has estimated the average cost for leasing privately owned space will be $18.25 per square foot in FY 2004.

Recommendation

This item is for information only and no Committee action is required. In FY 2002, ADOA approved 21 new office leases that exceeded $17.50 per square foot.

Analysis

Pursuant to A.R.S. § 41-792, the Director of ADOA is required to report all leases approved during the past fiscal year which exceed the estimated average square foot cost for privately owned space. For FY 2002, the estimated average square foot cost (established by the LCRB) was $17.50. The director reports that there were 21 leases approved in FY 2002 that exceed this level. Each of these leases is shown in the attachment.

The statutory requirement only concerns leases above the estimated average cost approved in the past fiscal year; however, it is useful to understand the larger context. In FY 2002, ADOA approved a total of 92 leases. Of this total, the 21 mentioned above (22.8%) exceed $17.50. Altogether, there are 391 active leases that have been approved by ADOA. Of these, 78 leases (19.9%) exceed $17.50. The 391 leases represent 3,226,744 square feet of space and $49,185,600 in annual rent ($15.24 per square foot).

The 21 leases exceeding $17.50 generally reflect the lack of available space in non-metropolitan areas or the special terms of the lease. The following lists the 6 highest per square foot lease costs approved in FY 2002:

(Continued)

Department of Economic Security	Prescott Valley	$21.05/sq. ft.
Department of Economic Security	Prescott	$20.90/sq. ft.
Department of Health Services	Flagstaff	$20.68/sq. ft.
Department of Economic Security	Page	$20.59/sq. ft.
Department of Water Resources	Casa Grande	$19.50/sq. ft.
Department of Economic Security	Phoenix	$19.46/sq. ft.

The LCRB has estimated that the cost of new state leases for private office space will average $18.25 per square foot in FY 2004. This represents no change over the estimated average per square foot cost in FY 2003. The actual average of new leases signed in FY 2002 was $16.21.

RS/TV:jb

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1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

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

DATE: December 11, 2002

TO: Representative Laura Knaperek, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Timothy Sweeney, Fiscal Analyst

SUBJECT: ARIZONA STATE PARKS – REPORT ON KARTCHNER CAVERNS STATE PARK

Request

Pursuant to Laws 1998, Chapter 297 the Arizona State Parks Board is providing the quarterly project status and financial reports on Kartchner Caverns State Park for the quarters ending June 30, 2002 and September 30, 2002.

Recommendation

This report is for information only and no Committee action is required. Between April 1, 2002 and September 30, 2002 approximately 70,000 visitors attended the park, and total park revenues were approximately $1.0 million. Revenues are deposited in the State Parks Enhancement Fund (SPEF) for park operating and development costs.

Analysis

The Arizona State Parks Board is required to report to the committee on the status of the development of Kartchner Caverns State Park at the end of each calendar quarter. The report must include details of the actual and projected costs, quarterly expenditures and source of monies, and a project development timetable.

Financial Summary
As of the quarter ending September 30, 2002, a total of $34,116,000 has been allocated to the park's development from 5 fund sources. Of this amount, $1,001,300, or 2.9%, remains unobligated. The following table summarizes these amounts by fund source and percentage allocations:

(Continued)

Kartchner Caverns Construction Development Funding
(As of September 30, 2002)

Fund Source	Approved Amount	Percent	Unobligated Balance
General Fund	$ 3,500,000	10.2%	$ 0
Enhancement Fund	22,435,900	65.8%	585,100
Heritage Fund	5,353,300	16.7%	416,200
State Highway Fund	2,445,700	7.2%	0
National Recreational Trails Fund	381,100	1.1%	0
TOTAL	**$34,116,000**	**100.0%**	**$1,001,300**

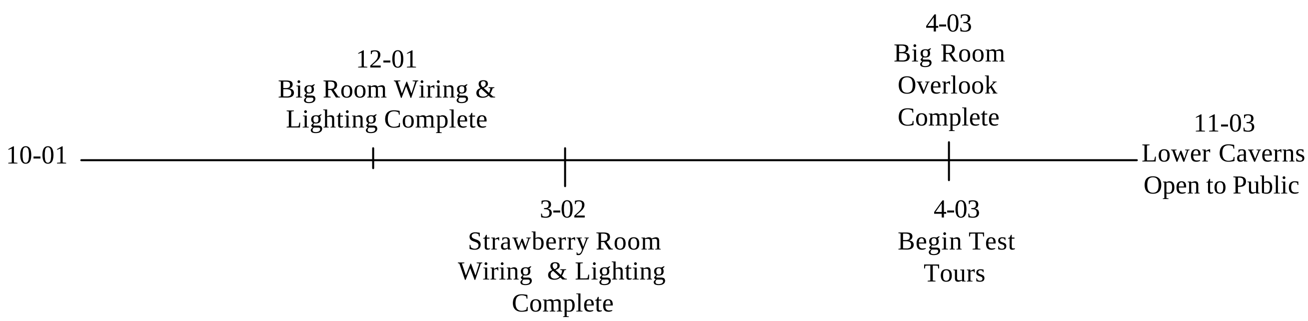
Project Timetable

A project timeline is required as a part of the quarterly updates on Kartchner development. The original timeline planned for a November 2003 opening of the lower caves, however, in the spring of 2002, the agency was anticipating an opening as early as November 2002. While the capital budget for Kartchner Caverns development was not changed, operating budget reductions, and uncertainty surrounding possible future operating budget adjustments have caused the Parks Board to revise the opening date back to the original November 2003 date.

Trail construction in the lower caves is complete, as are the lighting design and construction. Crews were unable to work in the cave from May through September due to the return of the bats to nest during the summer. Crews were able to work on other projects outside of the cave during the summer, such as security gates and an enlarged group area to accommodate bus tours.

Due the expected early opening of the Big Room, the State Parks Department was given an additional $650,000 in SPEF authority for additional staff to accommodate more tours. While the lower caves are unlikely to open in FY 2003, eliminating this $650,000 does not reflect any budgetary savings, as this is money that would only have been generated by additional tour revenue from the opening of the lower caves.

The timeline below displays the original project timeline, reflecting a November 2003 opening.



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