STATE OF ARIZONA

Joint Committee on Capital Review

STATE SENATE

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HOUSE OF REPRESENTATIVES

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JOINT COMMITTEE ON CAPITAL REVIEW
September 25, 2003
1:30 p.m
Senate Appropriations Room 109

AGENDA

- Call to Order
- DIRECTOR'S REPORT (if necessary).
- Approval of Minutes of August 14, 2003

1. MARICOPA COMMUNITY COLLEGE DISTRICT – Review of Performing Arts Center Bond Project Follow Up.
2. ARIZONA DEPARTMENT OF ADMINISTRATION –
   A. Approve Transfer of Miners' Fund Capital Appropriation.
   B. Review of FY 2004 Building Renewal Allocation Plan.
3. UNIVERSITY OF ARIZONA – Review of University Research Infrastructure Lease-Purchase and Health Sciences Center Bond Projects.
4. DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS – Review of Scope, Purpose and Estimated Cost of Classrooms and Operational Support Building Construction at the Project Challenge Campus.
5. ARIZONA DEPARTMENT OF TRANSPORTATION –
   A. Review of Scope, Purpose, and Estimated Cost of Asbestos and Lead Inspections.
   B. Report on Executive Summary of Arizona 5-Year Transportation Facilities Construction Program.
6. GOVERNMENT INFORMATION TECHNOLOGY AGENCY – Report on Telecommunications Privatization.
7. OFFICE OF THE ATTORNEY GENERAL – Report on Status of 1,400 Bed Private Prison Contract.

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

9/19/03

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HOUSE OF REPRESENTATIVES

MINUTES OF THE MEETING
JOINT COMMITTEE ON CAPITAL REVIEW

Thursday, August 14, 2003

The Chairman called the meeting to order at 1:40 p.m. Thursday, August 14, 2003 in Senate Approps Room 109 and attendance was as follows:

Members:	Representative Pearce, Vice Chairman	Senator Burns, Chairman
	Representative Biggs	Senator Bee
	Representative Boone	Senator Brown
	Representative Lopes	Senator Cannell
	Representative Lopez	Senator Mead
		Senator Soltero
		Senator Waring
Absent:	Representative Farnsworth	
	Representative Loredo	
Staff:	Richard Stavneak	Cheryl Kestner, Secretary
	Lorenzo Martinez	Jake Corey
	Steve Schimpp	Paul Shannon
Others:	John Arnold	SFB
	Dick Roberts	U of A
	Greg Fahey	U of A
	Steve Miller	ASU
	Chris Muir	GITA
	Carolyn Atwater	Senate
	Debbie Johnston	Senate
	Jack Lundsford	MCC
	Debra Thompson	MCC
	John Arnold	SFB
	Chuck James	Squires, Sanders & Dempsey
	Terry Trost	ADOT

<u>Senator Burns moved</u> *the Committee approve the minutes of June 12, 2003 as presented.* The motion carried.

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

Jake Corey, JLBC Staff, presented the Maricopa Community College District request that the Committee review the project to be financed with revenue bonds. The project is the Performing Arts Center at Paradise Valley Community College. The total cost of the project is estimated to be $7.8 million and the bond will be repaid over 20 years. The total interest, assuming the rate of 5.1% would be approximately $5.8 million. The total debt service would be $13.5 million. The district will fund the debt service with revenues from additional tuition and fees. The debt service will average $373,000 through FY 2010 and will increase to an average of $760,000 through FY 2023, with a final payment of $1.4 million in FY 2024.

The cost per square foot of the project is approximately $300 per square foot. Last year for a similar project at South Mountain Community College, the cost per square foot was approximately $200 per square foot.

Mr. Jack Lundsford, Director of Government Relations Internal Affairs, Maricopa Community College introduced Ms. Debra Thompson, Acting Vice Chancellor for Business Services at the Maricopa Community Colleges. Ms. Thompson stated that this project is part of a larger plan to develop Performing Art Centers (PACs) at all of the colleges that lack those facilities. It is estimated to be $300 per square foot in total cost. The PACs, by their nature, are more costly as they are much taller buildings than the normal office or classroom. The buildings are more sophisticated buildings and will require more site work. There is approximately a 5% inflation factor. The faculty, staff and community members of the Paradise Valley area have input in the design of this facility. The college did meet the general requirements that the district set for the facility which has 300 seats.

In reply to Chairman Burns, Ms. Thompson stated the site work for the amphitheater was approximately $122,000 - $130,000, the roadway estimate is around $175,000.

Representative Pearce expressed concern in using tuition funds for buildings instead of operations. Ms. Thompson stated that in 1994 there was a bond election that was approved by the voters. Performing Arts were not a part of that program. There is approximately $4.2 million in tuition fees that are supporting total existing debt service. The Governing Board approved tuition increases to pay for the debt service on this facility as well as other facilities. The projects are well supported in the district.

In response to Representative Biggs, Ms. Thompson stated that in FY 2003 the districts had revenues in the form of tuition and fees of $118 million, of that there was $4 million dedicated towards revenue bond debts. The current charge per credit hour is $51 for tuition fees; $12.50 is considered to be a student activity fee and $.35 would go towards debt service on this particular Performing Arts Center.

In response to Senator Soltero, Ms. Thompson said that Performing Art Centers have been built in Chandler/Gilbert Community College which opened about a year ago, South Mountain Community College which will open this October, Paradise Valley Community College, and also looking to develop PACs at Estrella Mountain and Gateway and later to remodel existing PACs at the older colleges.

Senator Soltero also expressed concern regarding the cost per square foot to construct the facility.

In reply to Representative Lopez, Ms. Thompson mentioned that the primary increase in square footage cost is due to site issues which is just one of the reasons.

In response to Senator Waring, Ms. Thompson stated that it is a goal to have a Performing Arts Center at each college. The existing facilities are used very frequently.

Representative Pearce said that many communities have built centers. He also indicated he would like more information before a decision is made. Ms. Thompson said the community does comment at times that they do not have an appropriate facility to provide for a more meaningful cultural experience. This facility will allow the students who are taking Performing Arts courses and programs to actually perform in a real facility to give them the experience they need.

Senator Cannell mentioned that Arizona has a college system that other states envy. It is necessary to strengthen our college system to provide the needs of our students.

The item was held until the next meeting after more information is received.

SCHOOL FACILITIES BOARD –

Review of Lease-Purchase New School Construction Projects and Report on Temporary Fund Transfer.

Jake Corey, JLBC Staff, presented the School Facilities Board (SFB) request to review the list of $215 million in new school construction projects to be financed with lease-purchase agreements. The board will return to the Committee later in the year to review $35 million in additional projects to bring the yearly total to $250 million. SFB also reports their plan to transfer $50 million from the New School Facilities Fund to the Deficiencies Correction Fund for cash flow purposes. The lease purchase agreement would be for a 15 year term with an estimated interest rate of 4.16%. The annual debt service would be approximately $18.4 million. The total debt service would be $280 million, including $200 million in principal and $80 million in interest. SFB also submitted a list of potential projects totaling $215 million to be included in the agreement; however, the actual agreement will be for $200 million in projects.

<u>Representative Pearce moved</u> *the Committee give a favorable review to the School Facilities Board's list of $215 million in potential new school construction projects to be financed with lease-purchase agreements. The favorable review is contingent on the SFB subsequently submitting a list of the actual projects to be included in the planned lease-purchase financing of $200 million. Any additional projects for financing above $200 million will require Committee review.* The motion carried.

Consider Approval of Deficiencies Correction Bond Projects.

Jake Corey, JLBC Staff, presented the School Facilities Board (SFB) request for Committee approval of deficiencies correction bond projects. The Education Omnibus Reconciliation Bill (ORB) requires SFB, prior to the issuance of revenue bonds, to submit the projects, project bids, and the estimated annual principal and interest payments related to the bond agreement to the Committee for approval. SFB requests approval of the projects and project bids associated with its $247.1 million bond issuance and is also requesting approval of the estimated principal and interest payment. At the present time there are uncertainties with the Internal Revenue Service (IRS) over whether the bonds can be issued as tax exempt or if they have to be issued as taxable. The Committee has two options:

1) Approve the issuance of long term fixed rate taxable bonds, the estimated annual debt service assuming a 5.1% interest rate and 15 year repayment period would be $24.4 million. The advantage in issuing under this structure is the state could lock in at a current low interest rate. The disadvantage is the taxable rate of 5.1% is not as low as the current tax exempt rate of 4.2%;
2) Approve the issuance of short-term taxable bonds with a variable interest rate with the understanding that the bonds will be converted to long term fixed rate tax exempt bonds after resolving issues with the IRS. The estimated annual debt service assuming a 4.2% rate would be $22.9 million. The advantage of this option is the state would save $1.5 million a year in debt service, or approximately $22 million over the life of the bond. The disadvantage is interest rates are currently rising, and by

the time the issues are resolved with the IRS, the interest rate on tax exempt bonds may be higher than the current 5.1% rate on taxable bonds.

In response to Chairman Burns, Mr. Corey stated that SFB became aware of the issue with the IRS several weeks ago.

John Arnold, Deputy Director for Finance, School Facilities Board stated the legal issue surrounding whether or not the state can issue tax exempt bonds as opposed to taxable bonds are fairly complex. There is an argument for why these should be tax exempt bonds. The SFB is working with the bond counsel and it was not until the Legislature passed the actual language for the bonds that these tax issues arose.

In reply to Chairman Burns, Mr. Corey stated that the SFB plan to issue taxable short-term bonds and then convert them to tax exempt bonds gives the state the opportunity to generate lower interest rates. There is a risk involved that the negotiations with the IRS take a certain amount of time such that at the time they actually issue the bond, the tax exempt rates are not as good any more as the taxable rates are currently. Also, if you do the short-term and then convert to the long-term you essentially have two issuances costs. The SFB believes you can recoup those costs by getting the lower rate and they are fairly confident negotiations with the IRS will result in a tax exempt status.

In response to questions, Mr. Chuck James, Squires, Sanders and Dempsey stated that it is a tough, legal and complicated tax issue. At the stage the legislation was being developed, the bond counsel did not do a complete analysis of the tax issues. It must be very clear that the interest can be treated as tax exempt at the time the bonds are sold to the market. The problem is not with the wording of the legislation; it is the nature of the source of repayment of the bonds. The board has issued revenue bonds for deficiencies projects for a total of $800 million, those were payable from a different source which was Proposition 301, educational sales tax revenues. This would be the first issuance payable from income from the state school fund (expendable endowment earnings). It is anticipated it will take the IRS approximately 3 months to issue a ruling.

Richard Stavneak, JLBC Staff said there are bills coming in for deficiencies correction projects and they need new money to do that. The concern is the cash flow. The board feels the bills should be paid as they come due.

John Arnold stated they would go forward and approach the IRS to finish the process as soon as possible.

Representative Pearce moved the Committee approve the issuance of $247,135,000 in short-term taxable bonds with a variable interest rate, with the understanding that the bonds would be converted in the future to long-term fixed rate tax-exempt bonds after resolving issues with the Internal Revenue Service and that Committee approval is required prior to converting to long-term fixed rate tax-exempt bonds. The motion carried.

ARIZONA DEPARTMENT OF TRANSPORTATION – Review of FY 2004 Construction Budget Operating Expenditure Plan.

Lorenzo Martinez, JLBC Staff, presented the Arizona Department of Transportation (ADOT) request that the Committee review the FY 2004 operating expenditure plan from the Capital Budget for Professional and Outside Services. ADOT will allocate $105 million for Professional and Outside Services related to highway construction, design and field administration. This represents an estimated increase of $5.5 million from the prior year. The increase is to offset some of the operating budget reductions that occurred in the highway program, as well as to offset the reduction in FTE Positions from the capital construction budget. ADOT also presented Performance Measures for review and adoption. In addition, ADOT indicated they would like to propose some new traffic congestion Performance Measures. Most of the current Performance Measures are an indication of the workload of ADOT's activity and the department is developing efficiency type measures.

In response to Representative Biggs, Terry Trost, Director of Strategic Planning and Budgeting, ADOT stated that ADOT took a reduction of 10% in the operating budget and a 10% reduction in FTE's. At that time, ADOT implemented an agencywide hiring freeze. The hiring freeze was in place until the end of the fiscal year. The number of full-time permanent positions declined; however, temporary seasonals and limited positions were hired to take up the slack, in reality there was no drop in the construction group.

In response to Representative Lopes, Mr. Trost stated that the programs and projects cover multiple years and need to be kept on schedule.

Representative Pearce moved the Committee give a favorable review to the Arizona Department of Transportation's FY 2004 highway construction budget expenditure plan for Professional & Outside Services totaling $105,000,000. The Committee also adopted the Performance Measures and required the department to report on its proposed new traffic congestion measures along with comments on the department's ability to develop unit cost measures by November 1, 2003. The motion carried.

ARIZONA BOARD OF REGENTS/ARIZONA STATE UNIVERSITY –

Review of Bond and Lease-Purchase Projects.

Lorenzo Martinez, JLBC Staff, presented the Arizona Board of Regents (ABOR)/Arizona State University (ASU) request the Committee review of the Grady Gammage Memorial Auditorium Rigging, Infrastructure Improvements, University Services Building Backfill, and Parking Structure bond projects, as well as the Brickyard Tenant Improvements and Land Acquisition for the South Campus Student Group Housing lease-purchase projects.

Before providing a favorable review, it was recommended that:

- ASU report to the Committee before expending any allocations that exceed the greater of $100,000 or 10% of the reported contingency amount total for add alternates that do not expand the scope of the project.
- ASU submit for Committee review allocations that exceed the greater of $100,000 or 10% of the reported contingency amount total for add alternates that expand the scope of the project.
- A favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any tuition collections that may be required for debt service on the repayment of the financing or for operations costs when the projects are complete. These costs should be considered by the entire Legislature through the budget development process.

The 6 projects have a total capital construction cost of $38.5 million. The financing term of the projects varies between 7 and 25 years, while the interest rate is either 4.75% or 5%. The total interest costs are projected to be $25.4 million. There is a statutory limit on the amount of debt that the universities can put towards the capital projects related to total expenditures, that limit is 8%. These projects would put the ASU limit at 4.7%. Of the annual debt service of $3.5 million, $950,000 would be paid from tuition collections and $2.5 million would be paid from auxiliary and other funds.

A majority of the projects use what is known as the construction manager at risk process, which involves both the architect and construction manager working together (and with ASU) to develop the scope, design and a guaranteed maximum price for the project.

Chairman Burns mentioned that there are problems with the Sundome parking lot, which is an ASU facility, and at some time in the future will come before the Committee.

In response to Representative Boone, Mr. Martinez referred to the material in the JCCR book that was submitted by the university which includes information on each project along with the dollar amounts that been allocated for the project. Mr. Martinez also stated the project cost estimates are at various stages of development and until the guaranteed maximum is agreed upon, the estimates are subject to change. That is why the recommendation includes follow-up reporting and submissions on contingency allocations.

Representative Pearce moved the Committee give a favorable review to the Arizona State University (ASU) Grady Gammage Memorial Auditorium Rigging, Infrastructure Improvements, University Services Building Backfill, and Parking Structure bond projects, as well as the Brickyard Tenant Improvements and Land Acquisition for the South Campus Student Group Housing lease-purchase projects with the following stipulations:

- *ASU report to the Committee before expending any allocations that exceed the greater of $100,000 or 10% of the reported contingency amount total for add alternates that do not expand the scope of the project.*
- *ASU submit for Committee review allocations that exceed the greater of $100,000 or 10% of the reported contingency amount total for add alternates that expand the scope of the project.*
- *A favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any tuition collections that may be required for debt service on the repayment of the financing or for operations costs when the projects are complete. These costs should be considered by the entire Legislature through the budget development process.* That motion carried.

Review of Revised Packard Stadium Clubhouse and Playing Field Renovation Project.

Lorenzo Martinez, JLBC Staff, presented the Arizona Board of Regents/Arizona State University (ASU) request that the Committee review the revised Packard Stadium Clubhouse and Playing Field renovation project. The Committee favorably reviewed the scope of this project in March of 2002. Since the last review by the Committee, the estimated cost of the project has increased from $2,000,000 to $2,850,000 and some of the project components have been modified. The increase in cost results from construction market conditions and revising the scope to fit within existing funding. COP proceeds for the Memorial Union renovation and expansion project will be used to cover the cost increase. The Memorial Union project has been deferred.

Representative Pearce moved the Committee give a favorable review to the revised scope and estimated cost of the Packard Stadium Clubhouse and Playing Field Renovation Lease-Purchase Project. The motion carried.

GOVERNMENT INFORMATION TECHNOLOGY AGENCY – Report on Telecommunications Privatization.

Paul Shannon, JLBC Staff, presented the Government Information Technology Agency (GITA) report on telecommunications privatization. GITA, in consultation with the Arizona Department of Administration (ADOA) , are to prepare and submit to the JCCR an actionable request for proposals (RFPs) to privatize the state's telecommunication services. GITA is also required to submit monthly reports on the status of activities and expenditures. GITA has been meeting with the state directors and other stake holders in the project to define what the "roadmap" would be.

In response to Representative Pearce, Chris Muir, Planning Manager, GITA stated that at this time GITA is considering one RFP. Responses from agencies involved in the development of the RFP has generally been favorable.

Senator Dean Martin commended GITA and ADOA for the work that they have done on the project. Senator Martin also offered his assistance to help continue the coordination on making it all happen.

In response to Senator Soltero, Mr. Muir stated that Arizona Telecommunication Services is presently servicing a number of agencies with both voice and data services. Other agencies have their own telephone systems and networks. The goal of the project is to have all players working under the same network and system.

Senator Martin mentioned that some buildings have the existing capabilities now, others will have to be retrofitted.

No Committee action was required.

JOINT LEGISLATIVE BUDGET COMMITTEE STAFF – Report on Refinancing of Board Funding Obligations.

Lorenzo Martinez, JLBC Staff, presented the report on refinancing of Board Funding Obligations. The Transportation Board is in the process of refinancing some Board Funding Obligations, also known as BFOs. BFOs were established in statute to create a mechanism to allow Arizona Department of Transportation (ADOT) to borrow money from the Treasurer and be able to use the monies to loan out to other state entities so they could accelerate road construction.

The amount to be refinanced is $200 million. If the 12-month average General Fund balance falls below $800 million, the Treasurer does not have to finance the BFOs. The $200 million was scheduled to be refinanced in the first half of 2004, however, in order to ensure that the $200 million is secured, the Transportation Board decided to refinance early. Given that current interest rates are lower than the outstanding BFO rates, the General Fund could lose interest earnings ranging from $1.5 million to $2.5 million

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

The meeting adjourned at 3:05 p.m.

Jan Belisle, Secretary

Lorenzo Martinez, Assistant Director

Senator Robert "Bob" Burns, Chairman

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

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DATE: September 19, 2003

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

THRU: Richard Stavneak, Director

FROM: Jake Corey, Fiscal Analyst

SUBJECT: MARICOPA COMMUNITY COLLEGE DISTRICT - REVIEW OF PERFORMING ARTS CENTER BOND PROJECT FOLLOW UP

Request

Pursuant to A.R.S. § 15-1483, Maricopa County Community College District (District) requests Committee review of a district project to be financed by revenue bonds. The Committee previously heard this item at its August 14, 2003 meeting, but did not take action on the item. During the meeting the Committee expressed concerns over the cost of the project and requested JLBC Staff to further research the issue.

Summary

The project is a Performing Arts Center (PAC) at Paradise Valley Community College. The total cost of the PAC is \$8,700,000, of which \$7,785,000 would be financed with revenue bonds and the remaining \$925,000 would be financed with operating funds. Total square footage of the PAC is 26,518, for a total project cost per square foot of \$328. The total cost for building construction, however, is only \$4,909,000, for a building cost per square foot of \$185.

The JLBC Staff also recommends that the District report back to the Committee by December 31, 2003 on efforts to achieve economies of scale in the design of future District PAC's. The District reports total architecture and engineering fees for the Paradise Valley PAC of \$899,600, which is equal to 10.3% of the total project cost. Design fees are typically 5% of the total cost of the project.

Analysis

Project Cost

The Attachment details the \$8,700,000 total project cost. *Table 1* provides a summary of the Attachment.

Table 1

Construction		\$ 6,625,000
Building Construction	*4,909,000*	
Site Considerations	*460,000*	
Theater Equipment	*1,256,000*	
Fees		1,029,000
Furniture & Equipment (Moveable)		400,000
Contingency		304,000
Telecommunications Equipment		50,000
Additional District Costs		292,000
TOTAL		**\$ 8,700,000**

Of the total project cost, $6,625,000 is for construction. This amount further breaks down into three categories: 1) Building Construction 2) Site Factors, and 3) Theater Equipment.

The cost for building construction is $4,909,000, or $185 per square foot. This amount is a higher cost per square foot than another structure with a comparable amount of square footage. (For example, R.S. Means, a national construction cost estimating firm, states that the median cost per square foot in 2001 for an auditorium, which averages approximately 25,000 total square feet, was $95.) Performing arts centers, however, have special needs related to their function, including height and volume, acoustics, and stage rigging and lighting systems, that necessitate more materials and additional labor. In terms of the height requirements, a typical District PAC would have a height for the stage loft of about 68 feet, the auditorium will be about 48 feet, and the scene shop will be about 26 feet. The desired acoustics of a PAC also require, in addition to height and volume, hard reflective wood or plaster surfaces and concrete on the roof to provide sound isolation. Stage rigging and lighting systems require additional structural support due to their added weight.

The $185 building construction cost per square foot for the Paradise Valley PAC is also higher than the building construction cost per square foot for previous PAC's the District has constructed at South Mountain ($152) and Chandler-Gilbert ($156). The total square footage of the Paradise Valley PAC (26,518) is less than either South Mountain (32,640) or Chandler-Gilbert (28,568). For comparable structures, as total square footage increases and the builder is able to achieve economies of scale, construction costs per square foot typically decrease. The reduced square footage has also forced the District to make more of the space within the Paradise Valley PAC available for multiple purposes, which has increased the cost of providing that space. A single room, for example, may have to serve the purposes of both the band and dance programs. Also, due to the location of the Paradise Valley campus at 32nd St. and Union Hills, the PAC is located about a mile south of the Loop 101 freeway and a mile west of the 51 freeway. This close proximity to the freeways has required the District to provide additional sound-proofing materials to the facility.

The total costs for site factors is $460,000, which includes site development ($132,000), parking and landscape ($200,000), and utilities extensions ($128,000). Utilities extension is the cost to connect the utilities of the center with the main campus. Total cost for theater equipment is $1,256,000. Total costs for theater equipment were $1,056,200 at South Mountain and $1,078,900 and Chandler-Gilbert. Specific components of the total theater equipment cost for the Paradise Valley PAC are provided on the Attachment.

Other costs included within the scope of the project as a whole include design and construction management fees, moveable furniture and equipment (pianos, theatrical props and equipment, event furniture, etc.), contingency funding, telecommunications equipment (includes a security system), and miscellaneous costs (site survey, bond issuance, printing, signs).

Debt Service

The total cost of the project is $8,700,000. Of the total, $7,785,000 would be financed with revenue bonds. According to a revised District estimate of the debt service schedule, over a 20-year term and with an assumed interest rate of 4.9%, total interest payments for the project will equal approximately $4,930,200. Total debt service for the project would be approximately $12,715,200. The debt service would be funded through student fees and the District estimates it would equal $0.20 per credit hour. Payments would average $448,400 through FY 2009, then would rise to an average of $716,100 through FY 2023.

RS/JC:jb
Attachment

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HOUSE OF REPRESENTATIVES

DATE: September 17, 2003

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

THRU: Richard Stavneak, Director

FROM: Tony Vidale, Senior Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF ADMINISTRATION – APPROVE TRANSFER OF MINERS' FUND CAPITAL APPROPRIATION

Request

The Arizona Department of Administration (ADOA) requests the Committee approve the transfer of the remaining funds from the Stair Tower/Life Safety Upgrade to the Miners' Hospital Fund for Building Renewal at the Arizona Pioneers' Home in Prescott, Arizona.

Recommendation

The JLBC Staff recommends the Committee approve the transfer of $52,500 from the Stair Tower/Life Safety Upgrade appropriation to refurbish the existing passenger elevator at the Arizona Pioneers' Home to meet Arizona Disabilities Act (ADA) and current life safety code requirements.

Analysis

In August 2001, ADOA evaluated the passenger elevator at the Arizona Pioneers' Home and identified the need to upgrade the elevator to meet ADA and life safety code requirements. Laws 2002, Chapter 343 (Capital Outlay Bill) appropriated $186,100 from the Miners' Hospital Fund to be used for Building Renewal at the Pioneers' Home. Of that amount, ADOA allocated $150,100 for the elevator modernization. ADOA received construction bids in February 2002, however, all the bids exceeded the available funding. ADOA estimates the total cost to refurbish the elevator to be $202,600.

ADOA proposes to use the remaining balance of $52,500 from the completed Stair Tower/Life Safety Upgrade (Laws 2000, Chapter 3) and the allocation of $150,000 from the FY 2003 Building Renewal monies to complete the elevator upgrade project. The elevator upgrade would include new motors, cables, controls, panels, and fire sprinkler and fire alarm work. In addition, the upgrade would include the installation of an Automated External Defibrillator (AED) as required by SB 1070. Construction on the elevator would begin in October 2003 with an estimated completion date of March 2004. The following table displays the elevator upgrade project expenditures.

	Projected Cost
Architectural/Engineering Fees	$ 26,300
Elevator Construction	153,200
Automated External Defibrillator	3,100
ADOA Expenses	5,000
Contingency	15,000
Total	**$ 202,600**

RS/TV:jb

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DATE: September 17, 2003

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

THRU: Richard Stavneak, Director

FROM: Paul Shannon, Senior Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF ADMINISTRATION - REVIEW OF FY 2004 BUILDING RENEWAL ALLOCATION PLAN

Request

The Arizona Department of Administration (ADOA) requests Committee review of its FY 2004 Building Renewal allocation plan of $3,500,000 from the Capital Outlay Stabilization Fund (COSF).

Recommendation

The JLBC Staff recommends a favorable review of the request. The $3,500,000 COSF allocation will fund 24 projects within the ADOA Building System (see Table 1).

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. A.R.S. § 41-1252 requires JCCR review of the expenditure plan for Building Renewal monies.

Consistent with statute and prior year practice, ADOA employed the following priorities for the allocation of FY 2003 Building Renewal monies:

1) Fire and life safety projects.
2) Preservation of assets.
3) Projects critical to the continued operation of existing programs.

ADOA Building Renewal
Laws 2003, Chapter 261 (Capital Outlay Bill) appropriated $3,500,000 from COSF to fund 18.5% of the Building Renewal formula in FY 2003 for the ADOA Building System. The formula was funded at 15% in FY 2003 and 27% in FY 2002. COSF receives revenues from rent charged to state agencies in state-owned buildings. ADOA anticipates that COSF will have $3,500,000 available for building renewal projects. Table 1 shows projects that will be funded from COSF.

ADOA Building System Building Renewal

Table 1

Agency	***Project***	***Allocation***
Health Services	Replace Wick 1 sewer lines and install lift station, State Hospital	$ 550,000
Juvenile Corrections	Replace fire alarm system, Catalina Mt. School	300,000
Corrections	Replace 2 Air handlers, SMU1	252,000
Administration	Construction Services Project Management	205,000
Pioneers Home	Replace roof, Pioneers Home	150,000
Courts Building	Modify HVAC piping & pumps, Courts Building	150,000
Administration	Replace PVC chilled and hot water piping to air handler units Ag. Lab 2422 W Holly	130,000
Juvenile Corrections	Design/Replace Cholla Roof, Catalina Mt. Juvenile Institution	100,000
Pioneers Home	Repair failing exterior concrete dining area & walkway, Pioneers Home	100,000
Administration	Elevator repairs-Drive controls, Car operating panels, Capitol Mall Office Buildings	100,000
Juvenile Corrections	Replace HVAC system, Catalina Mt. School Separation Building	88,000
Emergency & Military Affairs	Replace Nogales Armory Roof	75,900
Economic Security	Replace raised floor & security card access system, Data Center	64,000
Public Safety	Statewide roof replacements- Data Processing Center	34,000
Administration	Emergency Sidewalk Repairs-Capitol Mall	25,000
Juvenile Corrections	Repair Chapel roof, Adobe Mt. School	25,000
Deaf & Blind School	Replace Phoenix cafeteria/evaluation center roof, Phoenix Day School	25,000
Administration	Replace Air handler #5, (bottom is rusted out) at Senate, 1700 W Washington	25,000
Economic Security	Well renovation, Phase I, ATP-Coolidge	25,000
Veterans Affairs	Install resident bathroom exhaust fans	19,000
Public Safety	Statewide HVAC replacements - Fredonia Housing unit, Painted Desert Evap., Hdqts. Controls	16,500
Public Safety	Statewide carpet replacement- Flagstaff District, Data Processing Center	16,500
Health Services	Replace galvanized domestic water lines in Wick utility tunnel, State Hospital	15,000
Veterans Affairs	Inspect and repair fire sprinkler pipes and fittings, Veterans Home	9,000
	COSF Project Allocation Total	**$ 2,499,900**

RS/LM:jb

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DATE: September 18, 2003

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

THRU: Richard Stavneak, Director

FROM: Lorenzo Martinez, Assistant Director

SUBJECT: UNIVERSITY OF ARIZONA – REVIEW OF UNIVERSITY RESEARCH INFRASTRUCTURE LEASE-PURCHASE AND HEALTH SCIENCES CENTER BOND PROJECTS

Request

The University of Arizona (UofA) requests Committee review of the Institute for Biomedical Science and Biotechnology Building (IBSB), Medical Research Building (MRB), and Chemistry Building Expansion university research infrastructure projects. These projects will be financed with the issuance of $187,658,730 in Certificates of Participation (COPs). A.R.S. § 15-1682.01 requires Committee review of any university projects financed with COPs (also known as lease-purchase).

UofA also requests Committee review of the related Arizona Health Sciences Center Drachman Hall and Infrastructure Improvement projects, which will be financed with the issuance of $41,480,620 in revenue bonds. A.R.S. § 15-1683 requires Committee review of any university projects financed with bond proceeds.

Recommendation

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

- UofA report to the Committee before expenditure of any allocations that exceed the greater of $100,000 or 10% of the reported contingency amount total for add alternates that do not expand the scope of the project.
- UofA submit for Committee review any allocations that exceed the greater of $100,000 or 10% of the reported contingency amount total for add alternates that expand the scope of the project.
- A favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any tuition collections that may be required for debt service on the repayment of the financing or for operational costs when the projects are complete. These costs should be considered by the entire Legislature through the budget development process.
- The $6.3 million in parking and landscaping receive further review. We are currently discussing this issue with the UofA and may have an update at the JCCR meeting.

JLBC Staff has requested additional information related to allocations for parking and landscaping. Combined, the IBSB, MRB, Drachman Hall and Infrastructure Improvement projects allocate $6,332,000 for parking and landscaping. These 4 projects will affect the same area of campus adjacent to the Health Sciences Center. The allocations will be used to provide handicap and special needs parking as well as major landscaping for open areas designed to integrate the IBSB, MRB and Drachman Hall facilities. Given the significant amount allocated for these purposes, we have requested more information to determine the extent which these areas will be developed.

In total, the projects allocate $691,000 for public art. The Committee has raised concerns in the past about allocating funding for public art.

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

UofA has submitted the IBSB, MRB and Chemistry Building Expansion as "research infrastructure" projects. Chapter 267 amended A.R.S. § 42-5075 to allow the exemption of the proceeds and income from construction contracts related to research infrastructure projects from being taxed. A.R.S. § 15-1670 defines research infrastructure as "installations and facilities for continuance and growth of scientific and technological research activities at the university." The intent of the tax exemptions provided by Chapter 267 is to lower the cost of the projects and help finance debt service payments until appropriations from Chapter 267 become available in FY 2008.

The 5 projects have a total capital construction cost of $225,800,000. A total of $25,700,000 is available from federal, gift and endowment sources to offset some capital construction costs, however, an additional $29,039,350 is required for issuance costs and to capitalize (borrow) interest payments for the first 4 years of the repayment period. Therefore, $229,139,350 is the required amount to be financed. See *Table 1* for detail on construction costs for each project.

The financing term of the projects varies between 18 and 28 years while the fixed and variable interest rates range from 3.5% to 5.5%. The total interest costs above the financed amount are projected to be $179,035,040. Of the annual debt service of $16,229,200, $14,229,200 would be paid from the General Fund or tuition collections and $2,000,000 would be paid from Proposition 301 funds. See *Table 2* for debt service information on each individual project.

Financing for the $187,658,730 COP issuance for the 3 research infrastructure projects will be structured so that 60% of the financing will be on an estimated 5% fixed interest rate and the remaining 40% will be on an estimated 3.5% variable interest rate. UofA chose this structure based on advice from its financial advisor in order balance fluctuations in the economy that affect revenues and debt payments. Given that debt service for these projects will come from fixed non-lapsing General Fund appropriations, there is the potential the annual appropriations may exceed the annual debt service requirements in some years and be insufficient in other years (depending on fluctuations in the variable interest rate). UofA plans to set aside any excess appropriations in reserve for use in years when appropriations are insufficient to cover debt service requirements.

These projects would increase the university's debt ratio (debt services as a percent of total expenditures) from 3.99% to 5.34%. The statutory cap is 8%.

The estimated requirements for operating and maintenance costs when the projects are complete total $4,394,700. Of the total, $808,000 will be requested from the General Fund and the remaining $3,586,700 will be funded from non-appropriated sources. The Legislature has historically considered funding for operating and maintenance through the budget development process. *Table 3* provides detail on operating and maintenance costs for each project.

Analysis

Table 1 lists the capital project costs and financing related costs for each of the 3 research infrastructure and 2 related Health Sciences Center (HSC) projects. The research infrastructure projects will be financed with a COP issuance and the HSC projects will be financed with a revenue bond issuance.

Table 1

UofA Lease-Purchase/Bond Projects
Capital Construction Costs

	Total Capital Cost	Less Other Funding	Net Capital Cost	Capitalized Interest	Issuance Cost	Total Financing
Institute for Biomedical Science & Biotechnology	65,700,000	(5,700,000)	60,000,000	9,054,400	1,187,310	70,241,710
Medical research Building	54,300,000		54,300,000	8,194,300	1,074,520	63,568,820
Chemistry Building Expansion	45,000,000		45,000,000	7,938,000	910,200	53,848,200
Subtotal-Research Infrastructure	*165,000,000*	*(5,700,000)*	*159,300,000*	*25,186,700*	*3,172,030*	*187,658,730*
Drachman Hall	30,000,000	(12,500,000)	17,500,000	-	280,000	17,780,000
Infrastructure Improvements	30,800,000	(7,500,000)	23,300,000	-	400,620	23,700,620
Subtotal-Related	*60,800,000*	*(20,000,000)*	*40,800,000*	-	*680,620*	*41,480,620*
TOTAL	**225,800,000**	**(25,700,000)**	**200,100,000**	**25,186,700**	**3,852,650**	**229,139,350**

Table 2 lists the annual and total debt service for each project. The amounts for the annual debt service for the 3 research infrastructure projects reflect required payments in FY 2008. UofA will make interest only payments through FY 2007 for these projects.

Table 2

UofA Lease-Purchase/Bond Projects
Debt Service

	Annual Debt Service			Total Debt Service		
	GF/Tuition	Proposition 301	Total	GF/Tuition	Proposition 301	Total
Institute for Biomedical Science & Biotechnology	4,831,800		4,831,800	126,950,000		126,950,000
Medical Research Bldg	4,372,800		4,372,800	114,889,880		114,889,880
Chemistry Building Expansion	3,704,100		3,704,100	97,321,510		97,321,510
Subtotal-Research Infrastructure	*12,908,700*	-	*12,908,700*	*339,161,390*	-	*339,161,390*
Drachman Hall	1,320,500		1,320,500	33,013,000		33,013,000
Infrastructure Improvements		2,000,000	2,000,000		36,000,000	36,000,000
Subtotal-Related	*1,320,500*	*2,000,000*	*3,320,500*	*33,013,000*	*36,000,000*	*69,013,000*
Total	**14,229,200**	**2,000,000**	**16,229,200**	**372,174,390**	**36,000,000**	**408,174,390**

Table 3 lists the estimated on-going operations and maintenance costs that will be incurred when the projects are completed.

Table 3

Operating and Maintenance

	General Fund	Indirect Cost Recovery Fund	Total
Institute for Biomedicine Science and Biotechnology		$1,505,600	$1,505,600
Medical Research Building		1,308,800	1,308,800
Chemistry Building Expansion		772,300	772,300
Subtotal-Research Infrastructure		*3,586,700*	*3,586,700*
Drachman Hall	808,000		808,000
Subtotal-Related	*808,000*	*0*	*808,000*
TOTAL	**$808,000**	**$3,586,700**	**$4,394,700**

University Research Infrastructure Projects

Laws 2003, Chapter 267 appropriated a total of $34,625,000 annually to the 3 state universities from the General Fund beginning in FY 2008 and continuing through FY 2031 for the debt service on lease-purchase financing for research infrastructure projects. *Table 4* lists the annual appropriation to each university.

Table 4 **UNIVERSITY RESEARCH INFRASTRUCTURE DEBT FINANCING FY2008 – FY2031**

	Annual Appropriation
Arizona State University	$14,472,000
Northern Arizona University	5,900,000
University of Arizona	14,253,000
TOTAL	$34,625,000

Chapter 267 also provides a tax exemption on the proceeds and income from construction contracts related to university research infrastructure projects. The UofA has submitted 3 research infrastructure projects requiring financing of $187,658,730. The annual debt service on these projects will increase to $12,908,700 by FY 2008. The UofA will capitalize (borrow) $25,186,700 as part of the COP issuance to make interest only payments on the debt service until FY 2008, when the first $14,253,000 General Fund appropriation to the UofA becomes available. Of the $187,658,730 to be financed and repaid over a 28 year period, 60% will be issued at estimated fixed rate of 5% and 40% will be issued at an estimated variable rate of 3.5%. UofA chose this structure based on advice from their financial advisor.

UofA has another research infrastructure project it plans to submit for Committee review at a later date.

Chapter 267 also requires that a portion of revenues derived from technology transfer activities be deposited in the General Fund beginning in FY 2008.

Based on UofA's historical actual costs for similar buildings and accounting for unique research requirements of some of the buildings, the costs per square foot for these projects appear reasonable.

Institute for Biomedical Science and Biotechnology Building

UofA will construct 170,000 square feet of space dedicated to molecular life sciences research at an estimated cost of $65,700,000. UofA will issue a total of $70,241,710 in COPs to fund $60,000,000 for construction (another $5,700,000 in federal funds will also be used for construction), $1,187,310 for issuance costs, and $9,054,400 for interest only payments through FY 2007. The IBSB will focus on the genetics, detection, prevention and treatment of cancer, asthma, allergies, diabetes, and other diseases, and will work in conjunction with programs in the new Medical Research Building.

The estimated annual debt service will be $4,831,800 by FY 2008. UofA will use $9,054,400 of the COP issuance to make interest only payments on the debt service through FY 2007, after which General Fund appropriations from Chapter 267 will be used to make the payments. The project is estimated to take 28 months from the start of construction to completion. Annual on-going operating and maintenance costs when the project is complete are estimated to be $1,505,600 and will be funded with indirect cost recovery funds.

The cost per square foot for this project is $389 and the direct construction cost per square foot is $289. Based on UofA's historical actual costs for similar buildings and accounting for unique research design and fixed equipment requirements, the costs per square foot for the project appear reasonable.

Medical Research Building
UofA will construct 138,710 square feet of space to provide laboratory, support and office space for programs related to translational research and to alleviate a shortage of wet laboratory space at an estimated cost of $54,300,000. Translational research involves the study of DNA and potential applications from any discoveries. Wet laboratories require the availability of plumbing and drainage systems to accommodate specific research. UofA will issue a total of $63,568,820 in COPs to fund $54,300,000 for construction, $1,074,500 for issuance costs, and $8,194,300 for interest only payments through FY 2007.

The estimated annual debt service will be $4,372,800 by FY 2008. UofA will use $8,194,300 of the COP issuance to make interest only payments on the debt service through FY 2007, after which General Fund appropriations from Chapter 267 will be used to make the payments. The project is estimated to take 26 months from the start of construction to completion. Annual on-going operating and maintenance costs when the project is complete are estimated to be $1,308,800 and will be funded with indirect cost recovery funds.

The cost per square foot for this project is $392 and the direct construction cost per square foot is $287. Based on UofA's historical actual costs for similar buildings and accounting for unique research design and fixed equipment requirements, the costs per square foot for the project appear reasonable.

Chemistry Building Expansion
UofA will construct 88,500 square feet of expansion space in the Chemistry Building at an estimated cost of $45,000,000. UofA will issue a total of $53,848,200 in COPs to fund $45,000,000 for construction, $910,200 for issuance costs, and $7,938,000 for interest only payments through FY 2007. The expansion will add laboratory and office space, and allow the consolidation of the chemistry research and instructional programs in one area. The construction amount also includes $3,000,000 to relocate the insectary and agriculture greenhouses from the chemistry building to another location on campus.

The estimated annual debt service will be $3,704,100 by FY 2008. UofA will use $7,938,000 of the COP issuance to make interest only payments on the debt service through FY 2007, after which General Fund appropriations from Chapter 267 will be used to make the payments. The project is estimated to take 21 months from the start of construction to completion. Annual on-going operating and maintenance costs when the project is complete are estimated to be $772,300 and will be funded with indirect cost recovery funds.

The cost per square foot for this project is $475 and the direct construction cost per square foot is $324. Based on UofA's historical actual costs for similar building expansions, the costs per square foot for the project appear reasonable. Design and construction costs for building expansions are usually higher than new construction.

Related Arizona Health Sciences Center Projects

The following projects have connections to the research infrastructure projects listed above, but are not categorized by UofA as research infrastructure projects. These 2 projects will be financed with the issuance of $41,480,620 in revenue bonds. Revenue bonds are required to be repaid from dedicated revenue streams.

Drachman Hall
UofA will construct 113,000 square feet of expansion space to provide academic building space and consolidate the Colleges of Public Health, Pharmacy and Nursing at the Arizona Health Sciences Center at an estimated cost of $30,000,000. UofA will issue a total of $17,780,000 in revenue bonds to fund $17,500,000 for construction (another $12,500,000 in gift funding will also be used for construction), and $280,000 for issuance costs.

At an estimated interest rate of 5.5% with a repayment period of 25 years, the estimated annual debt service is $1,320,500. UofA will use tuition collections to make the debt service payments. Tuition collections not set aside by ABOR for debt service could be available to offset General Fund appropriations for university operating budgets. The project is estimated to take 22 months from the start of construction to completion. Annual on-going operating and maintenance costs when the project is complete are estimated to be $808,000. A request for a General Fund appropriation will be made through the budget process at that time.

The cost per square foot for this project is $266 and the direct construction cost per square foot is $191. Based on UofA's historical actual costs for similar buildings, the costs per square foot for the project appear reasonable.

Infrastructure Improvements

UofA will provide infrastructure improvements that include extending and increasing capacity of the utility systems to accommodate the IBSB, MRB, and Drachman Hall, as well as future development within the Arizona Health Sciences Center area at an estimated cost of $30,800,000. UofA will issue a total of $23,700,620 in revenue bonds to fund $23,300,000 for individual projects (another $7,500,000 from Agriculture Endowment funds will also be used for the projects), and $400,620 for issuance costs.

The projects involve increasing capacity of and extending steam, water, electrical, sewer and telecommunication distribution systems for the new IBSB, MRB and Drachman Hall facilities. The project also includes improvements to surface drainage and landscaping for open spaces that incorporate pedestrian, bicycle and motor vehicle circulation as well as integrating access to the IBSB, MRB and Drachman Hall.

At an estimated interest rate of 4.5% with a repayment period of 18 years, the estimated annual debt service is $2,000,000. UofA will use Proposition 301 monies to make the debt service payments on the bonds. Proposition 301 monies are derived from a portion of a 0.6% increase to the sales tax that was dedicated for education issues. After annual debt payment for bonds related to K-12 deficiencies correction, the Technology and Research Initiative Fund administered by the Arizona Board of Regents receives 13% of the sales tax increase. Pursuant to Proposition 301, ABOR distributes these monies to the universities for technology and research related projects. The infrastructure projects are estimated to take 26 months from the start of construction to completion. There are no new on-going operating and maintenance costs from these projects.

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HOUSE OF REPRESENTATIVES

DATE: September 18, 2003

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

THRU: Richard Stavneak, Director

FROM: Steve Grunig, Fiscal Analyst

SUBJECT: DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS - REVIEW OF SCOPE, PURPOSE AND ESTIMATED COST OF CLASSROOMS AND OPERATIONAL SUPPORT BUILDING CONSTRUCTION AT THE PROJECT CHALLENGE CAMPUS

Request

Pursuant to A.R.S. § 41-1252(C), the Department of Emergency and Military Affairs (DEMA) requests that the Committee review its plan to spend $250,000 appropriated from the General Fund to DEMA in FY 2002 for construction of classrooms and an operational support building at the Project Challenge campus.

Recommendation

The JLBC Staff recommends a favorable review of the request. Of the $250,000 appropriated, DEMA anticipates a total project cost of $600,000. The remaining $350,000 is provided by a private grant from the Lund Foundation.

Analysis

Laws 2001, Chapter 294, made a FY 2002 appropriation of $250,000 from the General Fund to DEMA for construction of a dormitory and an operational support building at the Project Challenge campus. A.R.S. § 41-1252(C) requires that the Committee review the scope, purpose and estimated cost of this project.

Project Challenge was originally located on land owned by Arizona State University (ASU)-East. In FY 2001, the lease with ASU-East was terminated and Project Challenge relocated to land in Queen Creek.

The appropriation from Chapter 294 is insufficient to construct both an operational support building and additional facilities. During the first phase of campus construction, limited dormitory space was built. DEMA has chosen to construct the operational support building with the appropriated funds because there is a pressing need for support space and the dormitory space is considered adequate at this time. The 3,000 square foot operational support building will provide teacher and other personnel with office space for instructional preparation and counseling of students.

In conjunction with this project, DEMA proposes to construct a 5,000 square foot classroom building adjacent to the operational support building. After the appropriation from Chapter 294 was made, DEMA obtained a private grant from the Lund foundation that is sufficient to construct the classroom building. Although the operational support building and classroom building have separate fund sources, DEMA determined that constructing the two buildings as a joint project would offer substantial savings in all phases of construction.

Under DEMA's proposed construction plan, the department would use the $250,000 appropriation in addition to $350,000 from a Lund Foundation grant. The total of $600,000 is divided into the following categories:

Item	Cost
Engineering Services	$ 50,000
Construction Costs	$ 550,000
Total Project Cost	$ 600,000

The local standard cost per square foot for similar classroom buildings is $94 per square foot, compared to $70 per square foot for this project. The local standard cost per square foot for similar operational support buildings is $93 per square foot, compared to $83 per square foot for this project.

As the proposed project is consistent with the intent of the appropriation and the cost appears reasonable as compared to the average for similar facilities, the JLBC Staff recommends that the Committee give a favorable review.

RS/SG:jb

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DATE: September 18, 2003

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

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF TRANSPORTATION – REVIEW OF SCOPE, PURPOSE, AND ESTIMATED COST OF ASBESTOS AND LEAD INSPECTIONS

Request

The Arizona Department of Transportation (ADOT) requests that the Committee review the scope, purpose, and estimated cost to contract for the testing of ADOT's buildings and structures for asbestos and lead-based paint to comply with OSHA regulations.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review to the request. The project was appropriated a total of $1,300,000 from the State Highway Fund, including $700,000 in FY 2002 and $600,000 in FY 2003. Of the total amount, $96,600 has already been spent, $950,000 is for the remaining work, and $253,400 is for contingencies. The estimated expenditures seem reasonable based on the bid price, and the projected number of buildings, samples and analyses.

JLBC Staff further recommends that ADOT report back to the Committee on what corrective measures they have taken to assure that appropriations are properly tracked and that the requirement of A.R.S. § 41-1252 for JCCR to review capital projects prior to the release of monies for construction is met. In order for the appropriations not to lapse, ADOT had to recode $96,600 in expenditures related to asbestos and lead inspections that were paid from other sources and apply these expenditures to the appropriations for this project. In doing so, ADOT bypassed the requirement that JCCR review capital projects prior to the release of monies for construction.

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. A total of $1,300,000 was appropriated from the State Highway Fund to ADOT for asbestos and lead inspections in 2 separate appropriations which include $700,000 in FY 2002 by Laws 2001, Chapter 3, 2nd Special Session and $600,000 in FY 2003 by Laws 2002, Chapter 343. Both appropriations include the condition that they do

not lapse until the purpose for which the appropriation was made has been accomplished or abandoned, or the appropriation stands for a full fiscal year without an expenditure or an encumbrance.
The Department of Administration's General Accounting Office (GAO) reported that ADOT had neither expended nor encumbered any of the $700,000 appropriation in FY 2002 as of May 16, 2003. We discussed with ADOT that they had not met the statutory requirement to expend or encumber some amount of the $700,000 appropriation in FY 2002 within the first full year. ADOT then identified $96,600 of previous expenditures from remodeling projects, which they could attribute to asbestos or lead inspections, including $28,300 in FY 2002 and $68,300 in FY 2003. GAO then allowed ADOT to recode and charge $28,300 of expenditures against their $700,000 appropriation in FY 2002, and $68,300 of expenditures against their $600,000 appropriation in FY 2003.

ADOT reports that only 1 out of the 4 potential contractors submitted a proposal for asbestos and lead inspections and analysis for the entire state. ADOT projects a total cost of $1,046,600, including the $96,600 already spent and $950,000 for the remainder of the work based on the bid price for inspecting, sampling and analyzing 1,063 buildings. ADOT would hold the remaining $253,400 for contingencies such as additional testing and analyses until the project is completed. ADOT's estimated expenditures seem reasonable based on the bid price, and the projected number of buildings, samples and analyses. The following table summarizes ADOT's estimated expenditures.

Estimated Expenditures	
Already Spent	$ 96,600
Inspection, Sampling and Analysis	950,000
Contingencies	253,400
Total Expenditures	$1,300,000

Given that this is a health and safety related issue and the estimated costs appear reasonable, JLBC staff recommends a favorable review, but would also note that the recoding of $96,600 of expenditures in order for the appropriations not to lapse, did not meet the requirement of A.R.S. § 41-1252 that JCCR review the scope, purpose, and estimated cost of appropriated capital projects prior to the release of monies for construction. Therefore, JLBC Staff also recommends that ADOT report back to the Committee on corrective actions taken to improve tracking of capital appropriations and ensure compliance with JCCR review requirements.

RS/BH:jb

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HOUSE OF
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DATE: September 18, 2003

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

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF TRANSPORTATION - REPORT ON EXECUTIVE SUMMARY OF ARIZONA 5-YEAR TRANSPORTATION FACILITIES CONSTRUCTION PROGRAM

Request

In compliance with a Committee request, the Arizona Department of Transportation (ADOT) has submitted an Executive Summary of their 5-Year Transportation Facilities Construction Program for FY 2004-FY 2008.

Recommendation

This item is for information only, and no Committee action is required. The entire plan costs $3.9 billion. Of this amount, $1.6 billion will be spent on 17 major projects. The plan addresses 13 of the 21 most congested highway segments in the state.

JLBC Staff recommends ADOT provide an Executive Summary of its 5-Year Transportation Facilities Construction Program for FY 2005-FY 2009, when the department requests Committee review of its FY 2005 highway construction budget Professional & Outside Services expenditure plan.

Analysis

ADOT submitted an Executive Summary of their 5-Year Transportation Facilities Construction Program for FY 2004-FY 2008 on September 3, 2003. The State Transportation Board adopted the 5-Year Transportation Facilities Construction Program for FY 2004-FY 2008 on June 20, 2003. The program includes a 5-year total of $3,943,000,000 for the highway program and $609,400,000 for the aviation program. The last page of ADOT's Executive Summary includes a table, which shows the total $3,943,000,000 of estimated highway program expenditures broken out by fiscal year for each county. The submitted material also includes information on project programming and financing for the highway program. The following table shows the estimated revenues and expenditures for the 5-year highway program.

Highway Program			
Revenues		**Expenditures**	
		Statewide Program	
State Highway Fund	$ 1,027,000,000	Preservation	$ 744,000,000
Regional Area Road Fund	282,000,000	Improvements	1,877,000,000
Federal Funds	1,816,000,000	Management	350,000,000
Bonds, Notes, & HELP Loans [1/]	818,000,000	Total Statewide Program	$2,971,000,000
Total	$3,943,000,000		
		MAG Freeway System	$ 972,000,000
		Total	$3,943,000,000

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

The following table lists the estimated expenditures by fiscal year for 17 major highway projects (those over $25,000,000), which total $1,609,273,000 of estimated expenditures for the 5-year program. Only 1 major project, the addition of HOV lanes between Shea and Bell on SR 51, is new to the 5-Year Plan.

MAJOR PROJECTS (Over $25,000,000)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Previous Projects					
US 60/L202 – Traffic Interchange	$46,026		$60,870	$5,634	
Red Mountain Freeway – L202	71,315	$83,440	60,162	5,396	
Santan Freeway – L202	275,934	149,440	7,856	7,208	
South Mountain Freeway – L202	20,294		56,320		
SR 10/16th St.–40th St.–Baseline – Collector Distr.	3,000	5,250	14,000	97,000	
Tucson I-10, Twin Peaks – Traffic Interchange			28,000		
Tucson I-10, Prince Rd to 29th St. – Widening	7,059		122,413	43,000	
US 60, Val Vista – Power Rd. HOV/SOV lanes		6,700		50,000	$35,000
US 60, Florence Jct. – Gonzales Pass widening	3,000		27,000		9,000
SR 85 – Widening projects	35,304	23,895	17,854	16,300	
SR 93 Burrow Creek – Roadway widening/bridge	31,500				
SR 188 Resort Road – Devore Wash – Widen road	40,500				
Sky Harbor Freeway – Superior Ave. to Univ. Dr.	1,539	3,733	21,928	1,019	
SR 93 Wickenburg by-pass		27,000			
I-17, SR101 – SR 74 – Widen roadway/HOV lanes			5,000		26,560
SR 93 Old US 93 to Antelope Wash		26,774			
New Project					
SR 51, Shea Blvd – Bell Rd.– HOV lanes	250			2,800	27,000

ADOT reported on their traffic congestion performance measures at the August 14, 2003 Committee meeting. Congested highway segments are defined as those with traffic volume over 100% of capacity during peak driving periods from 6 a.m. to 9 a.m. and from 3 p.m. to 7 p.m. weekdays in the Phoenix and Tucson metro areas, or over 100% of capacity in the balance of the state. Throughout the state, 21 road segments meet this criteria. ADOT reports that the following congested roadway segments do not have corrective action in their 5-Year Construction Program for FY 2004-FY 2008.

Congested Highway Segments Without Corrective Action

Route	**Segment**
Phoenix Area	
I-17	Greenway-Indian School
I-10	7th St-67 th Ave
Loop 101	Guadalupe-Pima
Loop 202	24th St-Loop 101
Tucson Area	
None	
Balance of the State	
SR 77	Near Show Low (MP 342.7 - 343.3)
SR 84	W. of Casa Grande (MP 177 - 177.6)
SR 92	S. of Sierra Vista (MP 322.7 - 323.7)
US 60	Miami - Globe (MP 242.8 - 243.5)

ADOT's Executive Summary also includes their 5-Year Aviation Program for FY 2004-FY 2008 which totals $609,400,000, including revenues of $480,900,000 from federal grants, $83,600,000 from the state, and $44,900,000 from local governments.

RS/BH:jb

STATE OF ARIZONA

Joint Committee on Capital Review

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

DATE: September 18, 2003

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

THRU: Richard Stavneak, Director

FROM: Paul Shannon, Senior Fiscal Analyst

SUBJECT: GOVERNMENT INFORMATION TECHNOLOGY AGENCY – REPORT ON TELECOMMUNICATIONS PRIVATIZATION

Request

Laws 2003, Chapter 263, Section 101 requires the Government Information Technology Agency (GITA) , in consultation with the Arizona Department of Administration (ADOA), to prepare and submit to the JCCR an actionable request for proposals (RFPs) to privatize the state's telecommunication services. Both agencies are required to submit monthly reports on the status of activities and expenditures related to the act.

Recommendation

This item is for information purposes only and no Committee action is required. GITA and ADOA continue to work toward the October 31, 2003 deadline for submittal of an actionable RFP.

Analysis

GITA and ADOA presented separate monthly reports that detail the activities of both agencies.

GITA hired the Burton Group to assist in the development of a statewide telecommunications "roadmap" and a telecommunications privatization RFP. A draft version of the plan is currently being circulated among stakeholders for comment; a draft of the RFP will be available after September 15, 2003. GITA will continue to meet with stakeholders and continue the process of refining those documents during September and October. The next GITA report will include the draft version of the RFP.

Generally, the "roadmap" defines the goals of privatization to include reducing telecommunications costs, leveraging economies of scale, enhancing telecommunications services and providing converged infrastructure for future public services. Initial efforts for privatization will concentrate on the mandatory participation of Arizona Telecommunication Services (ATS) customers as budget permits. Political subdivisions will also be given the opportunity to participate.

GITA reports expenditures to date totaling $1,400. This includes the costs of a procurement specialist on loan from Arizona State University and temporary clerical help. The Burton Group contract is a fixed price, deliverables-based contract that will total $211,000.

ADOA reports that their telecommunications staff has been working with GITA to define the privatization effort's goals. ADOA is concerned that the RFP will not require vendors to provide up-front cost data for all phases of the project. ADOA is specifically concerned that the cost data necessary to compare various models of privatization are not being developed. Other concerns include the appropriate level of risk sharing with vendors and that the project have specific plans to guarantee the inter-operability of the system across the state. ADOA is also concerned that the rapid timeline for the project may not allow adequate time for any ADOA concerns about the RFP to be properly addressed.

RS/PS:jb

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HOUSE OF REPRESENTATIVES

DATE: September 18, 2003

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

THRU: Richard Stavneak, Director

FROM: Brad Regens, Principal Fiscal Analyst

SUBJECT: OFFICE OF THE ATTORNEY GENERAL - REPORT ON STATUS OF 1,400 BED PRIVATE PRISON CONTRACT

Request

The Chairman has requested that the Office of the Attorney General (AG) report to the Committee on the status of a contract, currently under review by the AG, for the Arizona Department of Corrections (ADC) to purchase 1,400 private prison beds to house Arizona prison inmates.

Recommendation

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

Analysis

Pursuant to A.R.S. § 41-1609, the Arizona Department of Corrections shall submit all private prison contracts to the AG for approval. As noted in the attached memorandum, the Chairman has become aware that a contract to house 1,400 Arizona inmates in a new privately operated prison facility is awaiting final approval by the AG. Since ADC is operating an overcrowded prison system and the Legislature approved additional monies for ADC in FY 2004 to purchase more private prison beds, the Chairman has requested that the AG update the Committee on the current timeline for approval of the contract.

RS/BR:ck