STATE OF ARIZONA

Joint Committee on Capital Review

STATE SENATE

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MINUTES OF THE MEETING
JOINT COMMITTEE ON CAPITAL REVIEW3

Wednesday, February 9, and Thursday, February 10, 2005

The Chairman called the meeting to order at 8:05 a.m. Wednesday, February 9, 2005 in Senate Appropriations Room 109 and attendance was as follows:.

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

Representative Pearce moved the Committee approve the minutes of December 20, 2004 as presented. The motion carried.

ADOPTION OF COMMITTEE RULES AND REGULATIONS –

Representative Pearce moved the Committee adopt the Rules and Regulations as presented.

Representative Lopes questioned the use of the word "approve" and in reply, Richard Stavneak, JLBC Staff stated that current statute uses the word approve.

The motion carried.

MARICOPA COMMUNITY COLLEGE DISTRICT – Review of General Obligation Bond Issuance

Mr. Jake Corey presented the Maricopa Community College District (MCCD) request that the Committee review its proposed $190.3 million General Obligation (GO) bond issuance. This will be the first of five that the district plans to issue. In the fall, the district approved $950 million total in bonds. JCCR did review the program with the provision that the district return prior to each individual bond issuance. At this time, the district has not fully defined some of its projects. They have identified approximately $316 million in potential projects with which to spend money on with this first bond issuance.

Dr. Rufus Glasper, Chancellor, Maricopa Community Colleges, stated that the Governing Board is authorizing them to proceed with the first of five series to begin to issue bonds in the first week of March. Mr. Glasper proceeded to briefly summarize the Capital Development Program to the Committee. The bond program provides the district with the resources to expand, upgrade and replace equipment. The General Obligation bonds that are issued will be repaid with secondary property taxes. It is estimated that the average tax rate will be approximately 16 cents per hundred dollars of assessed valuation.

Consistent with prior years, the district will repay those bonds in no more than 15 years and on an average it would be 12 years.

In response to Representative Boone, Dr. Glasper stated that he would provide the Committee a list of projects that total to the $190.3 million issuance.

In response to Representative Boone, Mr. Arlen Solochek, MCCD stated that the programs with the cost of $19 million are part of an extended program of major maintenance which includes roofing, paving, and ADA energy programs.

Representative Pearce moved the Committee give a favorable review to the proposed $190.3 million General Obligation bond issuance, with the provision that Maricopa County Community College District report to the Committee on actual project costs of the first bond issuance when the district returns for review of its second issuance. The motion carried.

SCHOOL FACILITIES BOARD – Review of Lease-Purchase Refinancing

Mr. Jake Corey presented the School Facilities Board request that the Committee review its plans to revise its existing new school construction lease-purchase agreements to restructure its debt obligations. The restructuring involves skipping one payment on some of its outstanding debt. The board estimates the restructuring will result in a one-time debt service reduction of $22.2 million in FY 2006 and an annual increase in the debt service of $1.6 million from FY 2007 to FY 2020.

In response to questions, Mr. Corey stated the savings under an alternative plan would be more of a typical refinancing. Under both plans you could take advantage of lower interest rates and under the alternative you simply take advantage of those lower interest rates and restructure your debt so you would have an annual savings. Mr. Corey referenced Attachment 2, which compares the existing debt service with the SFB plan and the alternative plan. The bond rating is not affected.

Representative Pearce expressed concern of skipping a payment vs. paying a bill.

Mr. Jamison Feeley, City Group Global Markets, mentioned that there are savings under either approach. It is a difference of taking your savings over time or taking $20 million of savings in the first year. The restructuring has been utilized by many governments and states across the country. Ratings were confirmed from Moody's at A1 and Standard & Poor's at AA- which is the current existing ratings the state has on its leased debt with a stable outlook. The debt itself is not being extended, it is simply a trade off between taking your money earlier today vs. taking your savings out over time.

In response to Senator Johnson, Mr. Feeley stated that under the proposed SFB structure, the savings in the first year is approximately $22 million.

Further discussion pursued regarding the pros and cons on refinancing.

Chairman Burns asked for a motion.

Representative Pearce moved the Committee give an unfavorable review of the proposal to refinance and restructure outstanding lease-purchase agreements to generate a one-time debt service reduction. The Committee also recommended that the board pursue an alternative plan, such as restructuring its existing debt to take advantage of lower interest rates to lower annual debt service payments, thereby resulting in a total estimated savings of $7.2 million over the life of the payment term. The motion carried.

The meeting recessed to the sound of the gavel at 8:40 a.m., Wednesday, February 9, 2005.

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Thursday, February 10, 2005

Representative Pearce moved that the Committee reconvene into open session. The motion carried.

At 8:05 on Thursday, February 10, 2005 the Committee reconvened into open session. Attendance was as follows:

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

Report on FY 2006 Instructions to the Treasurer

Mr. Jake Corey presented the School Facilities Board report to the Committee on the estimated amounts necessary in FY 2006 for the Deficiencies Correction Fund, Emergency Deficiencies Correction Fund, Building Renewal Fund, and New School Facilities Fund. The board also reported the estimated amounts necessary for these funds for FY 2007. The board has instructed the Treasurer to transfer a total of $150 million to the School Facilities Board. This includes $20 million for the Deficiencies Correction Fund, $130 million for Building Renewal, and no funding for new school construction.

Representative Boone asked if the $130 million for building renewal is based on the existing formula. Mr. Corey stated that was correct.

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

ARIZONA DEPARTMENT OF ADMINISTRATION – Review of the State Treasurer's Office Tenant Improvements

Mr. Nick Klingerman, JLBC Staff presented the Arizona Department of Administration (ADOA) request that the Committee review the State Treasurer's Office Tenant Improvements project. The project includes the renovation of the heating, ventilation, air conditioning system, new wiring, new ceiling grid and general renovations. Total project costs are estimated to be $371,800.

In response to Senator Gould, Lorenzo Martinez stated that typically ADOA develops an initial scope for the project. Many times when the work is started, they find additional items that need to be done, and the scope of the project gets expanded. In this case, ADOA is taking the opportunity to undertake some code compliance renovations.

Mr. Roger Berna, Arizona Department of Administration, General Manager, Building Planning Services, explained that the fire marshal has new rules that need to be submitted to the City of Phoenix for their fire code. Their code requires that if an area of a certain size is being worked on, the bulk of that area must be brought into compliance.

The restroom requirements in the l970's do not meet the requirements of today. This was not a cost overrun, the upgrades were not included in the original budget or scope, but do not require additional funding.

Representative Pearce moved the Committee give a favorable review to the State Treasurer's Office Tenant Improvements Project. The motion carried.

ARIZONA GAME AND FISH DEPARTMENT – Review of FY 2005 Building Renewal Allocation Plan

Mr. Jeremy Olsen, JLBC Staff presented the Arizona Game and Fish Department request that the Committee review the FY 2005 Building Renewal Allocation Plan of $350,500 from the Game and Fish Fund. The department has recently begun the process of researching the feasibility of relocating its headquarters to property it owns at 4000 W. Black Canyon Road. The department anticipates constructing new buildings at the site and selling its current headquarters property to offset some of the costs of the new facility.

In response to Representative Pearce, Mr. Richard Rico, Assistant Director, ADOA/Special Services Division stated that it is premature to put a limitation on the building renewal. The department has been researching the Ben Avery shooting range and a RFP has not been issued. The department would request JLBC approval after receiving approval from the Game and Fish Commission, which is expected to review the proposal in September, 2005.

Representative Pearce moved the Committee give a favorable review to the FY 2005 Building Renewal allocation plan of $350,500 from the Game and Fish Fund.

Representative Pearce amended his motion to include that the department also report on capital projects that are in progress if the department makes a decision to seek approval to relocate the headquarters. The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION/DEPARTMENT OF JUVENILE CORRECTIONS – Review of Operating Monies for Department of Juvenile Corrections Space Conversions

Ms. Kim Chelberg, JLBC Staff presented the Department of Juvenile Corrections (DJC) request that the Committee review its operating monies for the DJC space conversions. Due to a lower than projected juvenile population, the DJC has identified $1,213,000 in FY 2005 operating savings. The DJC has proposed converting an existing Adobe Mountain housing unit to a health unit at a cost of $646,000, and to convert an existing Black Canyon housing unit to a vocational education unit at a cost of $567,000.

Debra Peterson, Department of Juvenile Corrections mentioned there are two DJC proposals, one is the Adobe Health Unit and the other is a building used for a boot camp back in the 1990's. The Adobe Health Unit was a trailer installed initially in 1983 as a temporary solution. The maximum expected life was 15 years and it is in the 22nd year of operation. It is in very bad condition. The building has continued to deteriorate and basically leading to the sanitation, safety and security issues. To renovate the trailer would cost approximately $250,000. It was then considered to take a housing unit that wasn't occupied and converting it into a health unit. This request is still in the Capital Budget plan. To convert a housing unit into a health unit would cost approximately $650,000.

Representative Pearce asked if some of this related to the settlement with the Department of Justice. Ms. Peterson said the Department of Justice has been in the trailer and are aware of the conditions. There was a need in FY 2002 before the Department of Justice came in and the request was approved along with the new building, but funding was subsequently eliminated. This would be a long-term fix and would meet the criteria that was in the plan for the $1.2 million building.

In response to Senator Johnson, Ms. Petersen said the bed capacity is approximately 1,228 with 617 clients today.

Representative Pearce moved *that the Committee refer to the full Legislature the Department of Juvenile Corrections request to use FY 2005 operational savings to convert 2 housing units to a health unit and a vocational educational unit.* The motion carried.

CITY OF PHOENIX – Report on Civic Plaza Expansion

Mr. Tim Everill, JLBC Staff presented the report from the City of Phoenix referencing the Civic Plaza Convention Center and the construction of the new downtown hotel. Laws 2003, Chapter 266 authorized the state to participate financially in projects that qualify under the terms of the legislation. One of the requirements for the qualified projects under Chapter 266 is that the progress of the project be reported twice annually to the Committee. The City issued its first report on the project to the Committee in August 2004 and this is their second report.

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

The 2003 legislation provides that the state subsidize half of the estimated $600 million construction costs of the Civic Plaza by paying the debt service and other related costs on $300 million of bonds for the project. The state's total dollar obligation is unclear at this time because of the uncertainty of the future bond rates and sales. Based on estimates provided when the legislation was being considered, the cost could be approximately $625 million, including $300 million of principal and $325 million in related debt service and other costs.

The first bonds are to be issued during this first quarter of calendar 2005. The estimated amount will be $150 to $200 million. The state's obligation does not commence until a year after the completion of the project which is estimated to be in 2009.

The downtown hotel is a separate project, with construction anticipated to begin in early 2006, and completion scheduled for the end of 2008. The construction cost of the hotel is estimated to be $220 million, and will be financed by the city through a nonprofit corporation with $350 million worth of bonds, and contributions from the hotel operator and city reserves.

Mr. Jay Green, Director of Civic Plaza Department for the City of Phoenix said that Phase I of the West Conference Center Building is well underway. Phase I is projected to be completed in 2006 at which time Phase II will be started and will be completed by the end of 2008. Phase III is a renovation of the existing South Civic Plaza and will be completed in mid 2009.

In response to questions, Mr. Green stated that the City of Phoenix is a very proven destination market. The hospitality and tourism business is over a billion dollar industry for the state. The problem that we have is the limitation in the package that is provided to conventions. We also have had inadequate supply of convention quality hotel rooms. Limited convention space and quality hotel rooms are both being addressed. The City of Phoenix is the 5th largest city and has one of the finest airports in the country. The convention season is January through May which have the best climate conditions. The worst time is June, July and August for convention meetings. Mr. Green indicated that they feel they will be very successful with the package.

Representative Pearce stated that he would like to see a white paper on the return on investment to the people in Bullhead City and Kingman and other parts of the state in terms of how they benefit from paying for the Phoenix Civic Plaza. He mentioned that the Civic Plaza is a tremendous economic burden to citizens even though they do provide some benefit to the tourism industry, but overall they are a burden to the taxpayer.

Mr. Green stated that private financing for hotels have not worked, the hotels that have been built over the recent years used the tax exempt financing approach. The bonds are to be paid by the operating revenues generated from the hotel operation. There is no cash outlay required by the city up front. With conventional financing, you would have to lay out substantial equity up front. The hotel is not just tied to the convention center project, it is an important piece for all the other development projects in the downtown area such as the Biomedical Science Center and the ASU Campus. The hotel will help all of those projects.

In response to Representative Tully, Mr. Green stated that there is a mixed client base. With the new facility, they will be able to go after the corporate meeting market with the new west building. There are a number of local shows, consumer shows, civic events, etc. The Civic Plaza is set up as an Enterprise Fund in the city, and the charge from city management is to run it like a business. Convention Centers do not make a profit, they are an economic development tool for the community to bring outside guests into the community. National spending average for a tourist is approximately $1,500-$1,600 per visit and that add millions of dollars to the economy.

In response to Representative Tully, <u>Mr. Jeff DeWitt, Assistant Finance Director, City of Phoenix</u> stated that there has been a board appointed that will be overseeing the financing and operations of the hotel. The board is a non-profit entity charged with seeing that the hotel is operated in an efficient and financially responsible manner. The debt service on the hotel will be totally financed from hotel revenues. If there were insufficient funds to cover the debt service, it would be backed with reserve funds from the city. The expectation is that the risk is relatively low. The tax exempt status of the hotel provides more competitive financing opportunities, which will help ensure the success of the project. The hotel will be city owned, and as such, will be exempt from property taxes.

In response to Senator Johnson, Mr. DeWitt stated that the oversight board serves without compensation.

Mr. DeWitt mentioned that the hotel will pay the same sales taxes that other hotels pay, i.e. bed tax.

Representative Boone requested that the Committee receive a copy of the projections and assumptions that were made. Mr. DeWitt stated that they have a city council report that was developed that shows the projections. Mr. Dewitt also mentioned tax exempt financing is typically about 31% cheaper than taxable debt financing. He also mentioned that he would have to do an analysis of the percentage of the operating expense at a typical private hotel would incur in the area of property tax and public financing.

Without objection the Committee meeting adjourned at 9:00 a.m.

Respectfully submitted:

Jan Belisle, Secretary

Lorenzo Martinez, Assistant Director

Senator Bob Burns, Chairman

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