

STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

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CHAIRMAN 2005
PAULA ABOUD
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TIMOTHY S. BEE
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HOUSE OF
REPRESENTATIVES

TOM BOONE
CHAIRMAN 2006
AMANDA AGUIRRE
ANDY BIGGS
JACK A. BROWN
PHIL LOPES
RUSSELL K. PEARCE
STEPHEN TULLY

**MINUTES OF THE MEETING
JOINT COMMITTEE ON CAPITAL REVIEW**

Thursday, February 23, 2006

The Chairman called the meeting to order at 8:18 a.m., Thursday, February 23, 2006 in House Hearing Room 5 and attendance was as follows:

Members:	Senator Burns, Vice-Chairman	Representative Boone, Chairman
	Senator Aboud	Representative Biggs
	Senator Bee	Representative Brown
	Senator Cannell	Representative Lopes
	Senator Gould	Representative Pearce
	Senator Johnson	

Absent:	Senator L. Aguirre	Representative A. Aguirre
		Representative Tully

Senator Burns moved the Committee approve the minutes of December 20, 2005, as presented. The motion carried.

ARIZONA STATE PARKS BOARD – Review of State Lake Improvement Fund Projects.

Mr. Lorenzo Martinez, JLBC Staff, presented the review of State Lake Improvement Funds (SLIF) from the Parks Board. There were 11 projects submitted, totaling \$2,581,500.

Senator Robert Cannell asked if funds have been swept from the fund in the past.

Mr. Martinez replied that this is the first time there have been SLIF grant monies available since FY 2001. There have been deposits made into the General Fund from this fund, and, in addition, any available monies have been used to off-set operating costs for the Parks Board.

Mr. Jay Ziemann, Assistant Director, Arizona State Parks, stated they would like a favorable review as recommended in option 1 of the JLBC recommendation memo. The budget has an operating deficit that was created by reductions to the General Fund operating budget which was over \$8 million 2 years ago and is now \$2.3 million. To continue operating, the agency has been using 30% of its SLIF funds. SLIF monies are usually set aside for capital improvements on boating parks. The Board decided not to have capital projects and use the fund for operating the agency.

Senator Bob Burns asked what would happen if the Committee were to adopt the second option in the JLBC recommendation memo and a supplemental request was not given.

Mr. Ziemann stated that the agency would be looking at reductions in positions and closing state parks. This is an option the agency does not want to pursue.

Mr. Richard Stavneak, Director, JLBC Staff, stated that the Parks Board would need to provide more information on the need for additional administrative expenses to better understand the appropriate level.

Mr. Ziemann stated \$3.1 million is more than the agency wants to spend on operating. Those monies would normally be set aside to do capital projects at state parks. Of the \$900,000 savings last year, over \$640,000 was in vacancy savings and the remainder was for computer information technology items that were not implemented yet. The rest of the money was from marketing efforts.

Representative Russell Pearce asked why money is being used from SLIF for projects that qualify for Heritage Fund money. He also asked if boating law enforcement was being funded out of the Boating Safety Law Enforcement Fund (BSLF) or SLIF.

Mr. Ziemann replied that the BSLF funds are fully expended and these SLIF grants are additional law enforcement requests for state lake improvement. In statute, these projects are eligible items for being funded out of SLIF.

Representative Pearce stated that SLIF was intended for capital projects, not boats and enforcement.

Mr. Ziemann stated that the Parks Board position has been that these projects have been identified as appropriate projects under the SLIF statutes. When changes are discussed, the Board is willing to do whatever is in the statute and what the SLIF fund requires. If the Legislature and the Governor want to make changes, the Board will comply and run the program according to the statutes. The Heritage Fund interest earnings have been reduced as interest rates have gone down, those interest funds are fully expended.

Representative Pearce stated that those funds ought to be restricted to what they were intended for and there are broad interpretations of what can be done with the funds.

Mr. Ziemann replied that the fund was structured to be utilized the way that it is being used. Funds have been a catch all for the agency to keep things running when there has been no other funding available.

Senator Burns moved the Committee give a favorable review of the Parks Board request for 11 SLIF grants and projects totaling \$2,581,500 and that the Parks Board report on the following:

- *Its specific proposal to allocate the \$150,000 for State Parks projects.*
- *The use of pricing guidelines for equipment to ensure that local governments receive comparable grants for comparable equipment.*
- *A delineation of the increased administrative expenses from FY 2005 to FY 2006 to be funded from SLIF.*

The motion carried.

SCHOOL FACILITIES BOARD – Review of FY 2006 Building Renewal Distributions.

Mr. Lorenzo Martinez, JLBC Staff, presented the review of Building Renewal distributions by the School Facilities Board (SFB). SFB has \$70 million to distribute for Building Renewal in FY 2006 that requires review by the Committee. Statute says distribution of the money should occur in 2 equal payments, the first in November and the second in May. In the SFB letter dated February 15, the agency acknowledged that it did not request Committee review even though they distributed the November payment. That initial distribution was \$25 million as opposed to \$35 million because not all school districts submitted their capital plans as required. SFB will comply with future requirements to have a review by JCCR.

Representative Tom Boone asked why the school districts would not comply and submit their plan if the money was available.

Mr. Martinez replied that he did not know the answer, however, before districts can receive any building renewal monies, they have to submit a 3 year capital plan, and not all districts, as of November, had submitted their plan.

Representative Boone stated he understands that school districts have to turn in their plans on how they are going to use the money, but there has been concern on their being enough money in the building renewal appropriations.

Senator Burns moved the Committee give a favorable review to the distribution of the Building Renewal Fund monies. The motion carried.

ARIZONA EXPOSITION AND STATE FAIR BOARD – Review of FY 2006 Building Renewal Allocation Plan.

Mr. Lorenzo Martinez, JLBC Staff, presented the review of the State Fair Board Building Renewal Allocation Plan for FY 2006. The review of \$859,000 is for 4 projects, leaving \$527,800 unallocated from the appropriation.

Senator Burns moved the Committee give a favorable review to the \$859,000 for the 4 submitted projects with the provision that the Arizona Exposition and State Fair Board submit for Committee review an allocation plan for the remaining \$527,800 if monies are to be used for additional projects. The motion carried.

ARIZONA DEPARTMENT OF TRANSPORTATION – Review of De-Icer Building Projects.

Mr. Lorenzo Martinez, JLBC Staff, presented the review of approximately \$1.1 million for the construction of 4 buildings that store road de-icing materials. The allocation is an estimate based on previous bids for similar projects. ADOT should report back once bids for the project are reviewed.

Senator Burns moved the Committee give a favorable review of the project with the condition that ADOT report back to JLBC Staff with their new cost estimate after the contract is awarded. The motion carried.

ARIZONA GAME AND FISH DEPARTMENT – Report on Relocation of Game and Fish Headquarters.

Mr. Lorenzo Martinez, JLBC Staff, presented the report on the relocation of the Arizona Game and Fish Department (AGFD) Headquarters. In July 2005, the Committee reviewed some AGFD projects and was notified that the department was considering relocating its headquarters. They have since decided to relocate and as a result, they are providing information to the Committee. The AGFD plans to relocate from its existing site on Greenway and I-17 to the Ben Avery Shooting Range at I-17 and Carefree Highway. It would build an 80,000 square foot facility compared to the current 71,000 square foot facility at an estimated cost of approximately \$15 million to \$16 million. They would finance through a Privatized Lease-To-Own (PLTO) agreement plus allocate the potential proceeds from the sale of land from the existing site.

Senator Karen Johnson asked about the effect of the relocation if the Ben Avery range were to go into the hands of the City of Phoenix.

Mr. Martinez replied that JLBC Staff is not aware of that issue but can research that information. The Ben Avery property is currently owned by the department and some of the operations are contracted out.

Senator Timothy Bee asked what the department is going to do with the current facility and if it will be sold.

Mr. Martinez replied that the current site is split between the north and south side of Greenway Road. The north portion is owned by the department, and that parcel would be sold. The southern portion is leased from the City of Phoenix, so that will be returned to the city.

Senator Burns moved the Committee request that the Arizona Game and Fish Department (AGFD) submit the scope, purpose, and estimated cost of the headquarters relocation project to the Committee before the department executes any financing agreement. The motion carried.

FY 2007 CAPITAL OUTLAY BUDGETS

Mr. Lorenzo Martinez, JLBC Staff, presented the FY 2007 Capital Outlay Budget as explained in a separate handout (see attachment). He also explained the proposed motion.

Senator Bee asked if funds were appropriated for the Department of Corrections lock replacement prior to this appropriation.

Mr. Martinez replied that in FY 2000, there was an appropriation in the capital budget for lock replacement. When the economic downturn occurred, the budget was revised to take the money out for lock replacement. There was \$100,000 left for ADOA to do an assessment of the prison system to see what the needs were relative to locks. That assessment estimated a \$40 million need.

Mr. Roger Vanderpool, Director, Department of Public Safety, stated that he is here to ask for support for the Southern Region Crime Lab. This project is important for the criminal justice community in Arizona as well as the victims. Today, the Southern Region Crime Lab is housed in a 5,000 square foot warehouse built in 1977, with 25 criminalists and technicians. Standards are 1,000 square feet per criminalist. The building has been outgrown, and technology used to process DNA cannot be put into the building because the electrical system and ventilation is inadequate. The land is available for the building, so it does not require purchasing land. Congressman James Kolbe has secured funds to allow the plans to be drawn up.

Senator Burns moved the JLBC recommendation for the Capital Outlay Budget in FY 2007, including footnotes, format, performance measures, and statutory changes if applicable, be included in the proposed budget legislation with the following changes:

- *Add \$20,000,000 from the General Fund in FY 2007 to the Arizona Board of Regents to fund 29% of the Building Renewal Formula for the University Building System. This amount includes \$6,451,900 for ASU, \$2,647,200 for NAU, and \$10,900,900 for UofA.*
- *Add \$3,849,200 from the General Fund in FY 2007 to the Arizona Department of Administration (ADOA) for Building Renewal. This would provide a total of \$7,249,200 to fund 29% of the Building Renewal Formula for the ADOA Building System.*
- *Add the following footnote:*
 - *The building renewal expenditure plans submitted by agencies for review by the Joint Committee on Capital Review shall identify the components for each project that incorporate energy efficient systems.*
- *Add \$5,200,000 from the General Fund in FY 2007 to the Arizona Department of Administration for replacement of cell locks and cell doors at state prisons.*
- *Add \$2,189,000 from the Corrections Fund in FY 2007 to the Arizona Department of Administration to upgrade a water treatment plant at the Arizona State Prison Complex in Yuma.*
- *Add \$200,000 from the State Aviation Fund in FY 2007 to the Arizona Department of Transportation for Civil Air Patrol infrastructure improvements at the Glendale Municipal Airport.*
- *Revise session law from FY 2006 to allow the Department of Economic Security (DES) to convey, instead of exchange, property with the City of Prescott, and to retain any proceeds from the conveyance for moving costs and to acquire office space.*

Note: The total FY 2007 increase above the JLBC Baseline is: \$29,049,200 from the General Fund, \$2,189,000 from the Corrections Fund, and \$200,000 from the State Aviation Fund.

Representative Boone stated that there are other things that need to be funded in Capital Outlay. There will be further discussions on Capital Outlay as the budget moves forward.

Representative Lopes made a substitute motion to the JLBC recommendation for the Capital Outlay Budget in FY 2007, including footnotes, format, performance measures, and statutory changes if applicable, be included in the proposed budget legislation with the following changes:

- Add \$20,000,000 from the General Fund in FY 2007 to the Arizona Board of Regents to fund 29% of the Building Renewal Formula for the University Building System. This amount includes \$6,451,900 for ASU, \$2,647,200 for NAU, and \$10,900,900 for UofA.
- Add \$10,037,500 from the General Fund in FY 2007 to the Arizona Department of Administration (ADOA) for Building Renewal.
- Add the following footnote:
 - The building renewal expenditure plans submitted by agencies for review by the Joint Committee on Capital Review shall identify the components for each project that incorporate energy efficient systems.
- Add \$1,400,000 from the Capital Outlay Stabilization Fund in FY 2007 to bring COSF to a total of \$4,800,000.
- Add \$5,200,000 from the General Fund in FY 2007 to the Arizona Department of Administration for replacement of cell locks and cell doors at state prisons.
- Add \$2,189,000 from the Corrections Fund in FY 2007 to the Arizona Department of Administration to upgrade a water treatment plant at the Arizona State Prison Complex in Yuma.
- Add \$200,000 from the State Aviation Fund in FY 2007 to the Arizona Department of Transportation for Civil Air Patrol infrastructure improvements at the Glendale Municipal Airport.
- Revise session law from FY 2006 to allow the Department of Economic Security (DES) to convey, instead of exchange, property with the City of Prescott, and to retain any proceeds from the conveyance for moving costs and to acquire office space.
- Add \$5,500,000 General Fund for annual debt service payments for a Southern Arizona Veteran Home, DPS Regional Crime Laboratory in Tucson, and the Forensic Unit at the Arizona State Hospital.

Representative Lopes stated that his substitute motion has 3 differences: 1) bullet #2 adds additional funding to ADOA for Building Renewal, 2) bullet #4 is also for Building Renewal, 3) the last bullet is added for projects not in the original motion and annual debt service that is not included in the FY 2007 Capital Outlay Budget handout.

Representative Boone stated that Capital Outlay will be revisited as the budget process moves along. In reference to the last bullet point, they are all lease-purchase arrangements and he does not think it is wise to move into a debt arrangement. He is in discussion with Department of Health Services on the Arizona State Hospital because there are other options for the state. He would like to move forward with the original motion and opposes the substitute motion.

Representative Lopes asked if the funding would be included if debt service will be required. It was implied there may be other discussions on how the projects might be funded.

Representative Boone replied that the last bullet substitute motion finances the lease purchase arrangement. On these projects, there is some leaning toward funding a portion or all of those that are ongoing. Specifically with Arizona State Hospital, it could potentially be done by private contractors with no cost to the state. There are other alternatives to funding this project. He would suggest moving forward with the original motion knowing there is still discussion taking place on this project.

Senator Bee stated that he would like to continue working on the projects.

The substitute motion from Representative Lopes failed.

The original motion carried.

Without objection the Committee meeting adjourned at 9:12 a.m.

Respectfully submitted:

Yvette Medina, Secretary

Lorenzo Martinez, Assistant Director

Representative Tom Boone, Chairman

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

FY 2007 Capital Outlay

State Building Systems

Arizona Department of Administration

- 2,874 facilities
- 20.2 million square feet
- \$2.6 billion replacement value

Arizona Board of Regents

- 911 facilities
- 19.9 million square feet
- \$5.1 billion replacement value

Arizona Department of Transportation

- 1,578 facilities
- 3.5 million square feet
- \$286.3/\$565.8 million replacement value

Capital Budget Components

Building Renewal

- For major maintenance and repair of buildings
- Formula funding requirement based on building age, replacement value and 50-year useful life
- Funded based on available fund sources
- JCCR review of expenditure plans

Individual Capital Projects

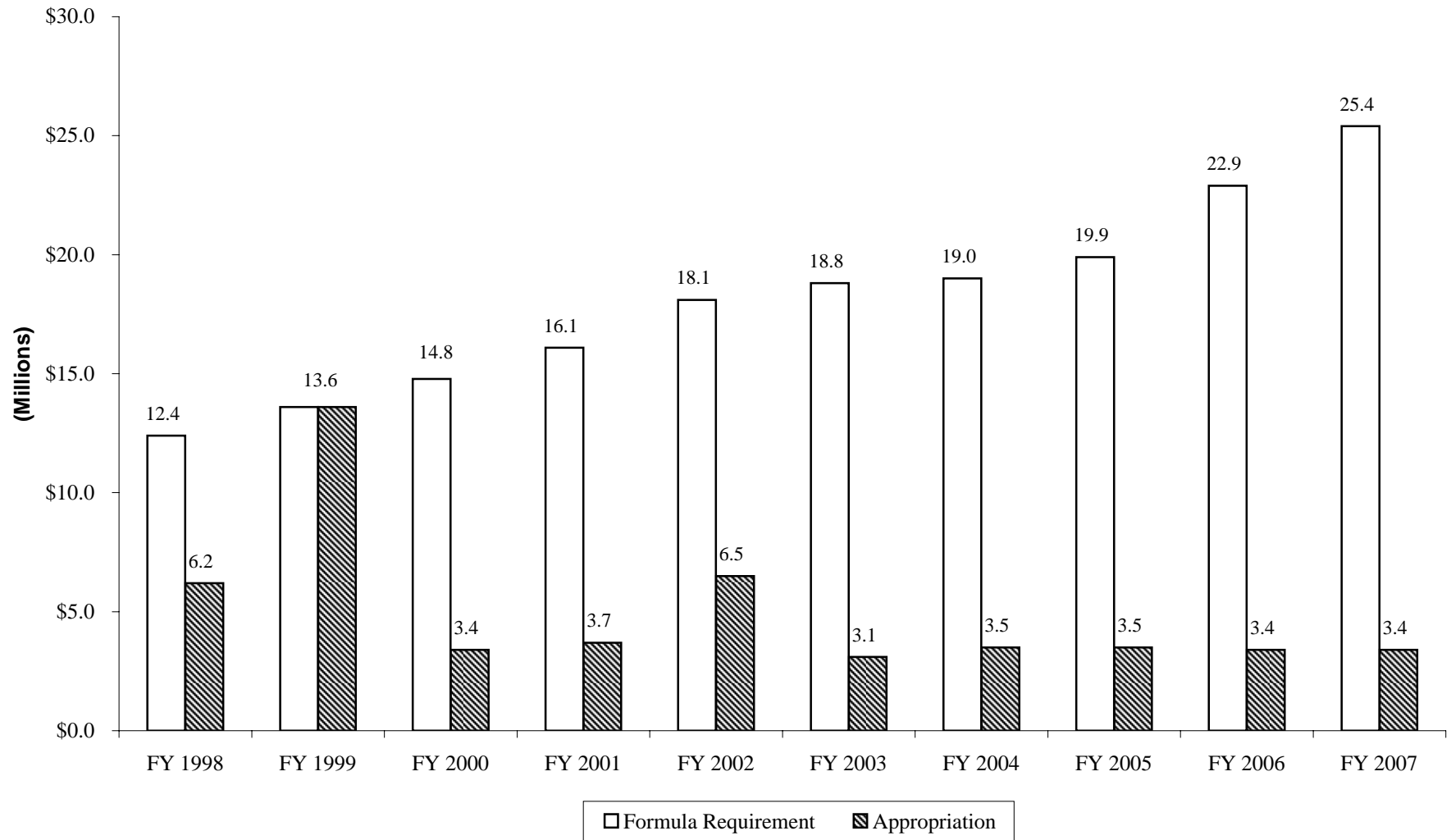
- Funded on case-by-case basis
- JCCR review of projects over \$250,000

FY 2007 Building Renewal

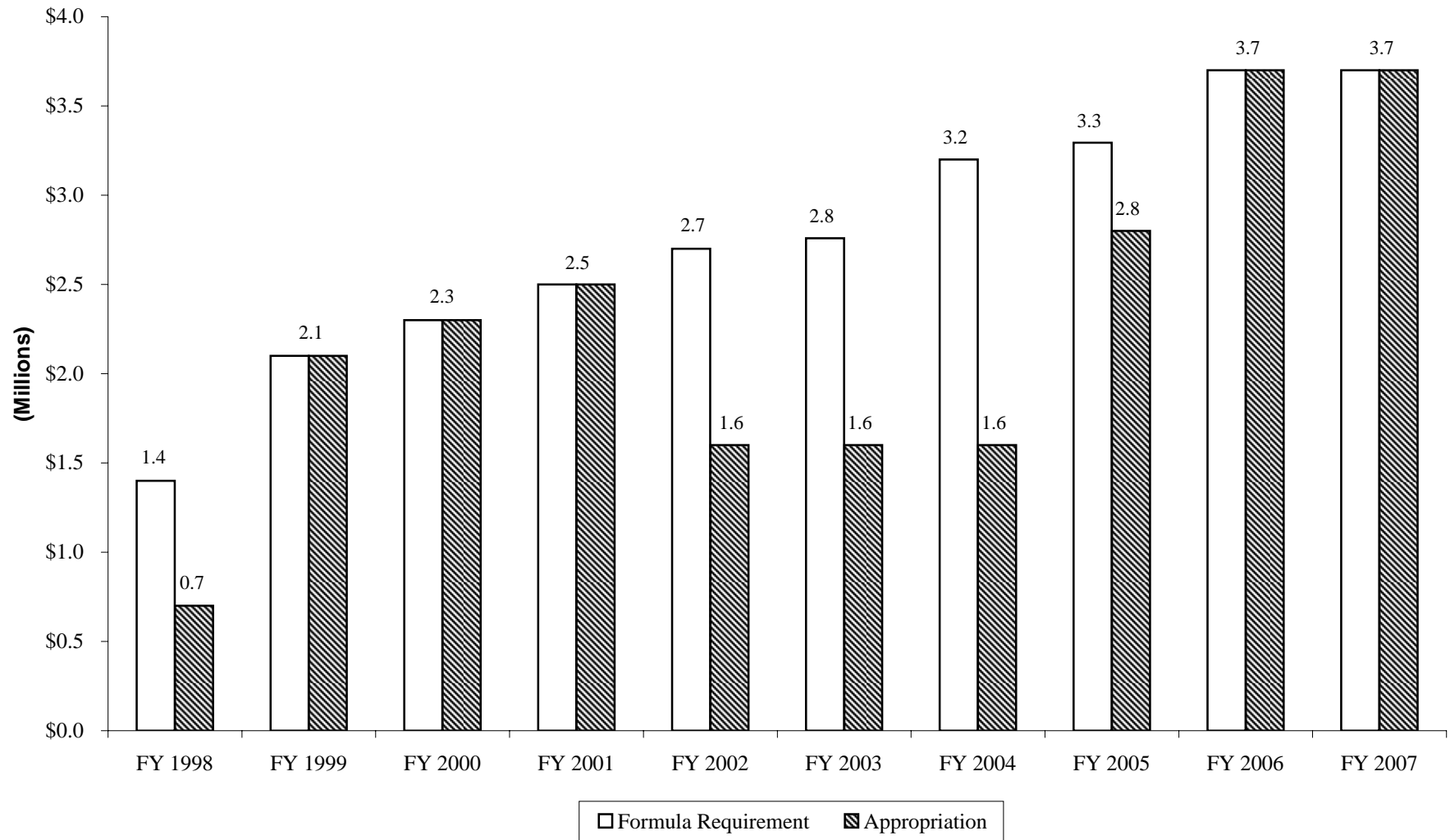
<u>Agency</u>	<u>Formula Requirement</u>	<u>JLBC Baseline</u>	<u>% of Formula</u>	<u>Executive</u>	<u>% of Formula</u>
Department of Administration	\$25,440,700	\$3,400,000	13%	\$14,837,500	58%
Exposition & State Fair Board	\$1,508,400	\$1,508,400	100%	\$1,508,400	100%
Game & Fish Department	\$430,800	\$430,800	100%	\$393,000	91%
Lottery Commission	\$53,600	\$53,600	100%	\$53,600	100%
Department of Transportation	\$3,702,900	\$3,702,900	100%	\$4,719,100	127%
	\$7,198,500		51%		65%
Board of Regents <u>1/</u>	\$70,188,900				

1/ Executive recommends \$2M in ASU and \$2M in NAU operating budgets for building renewal.

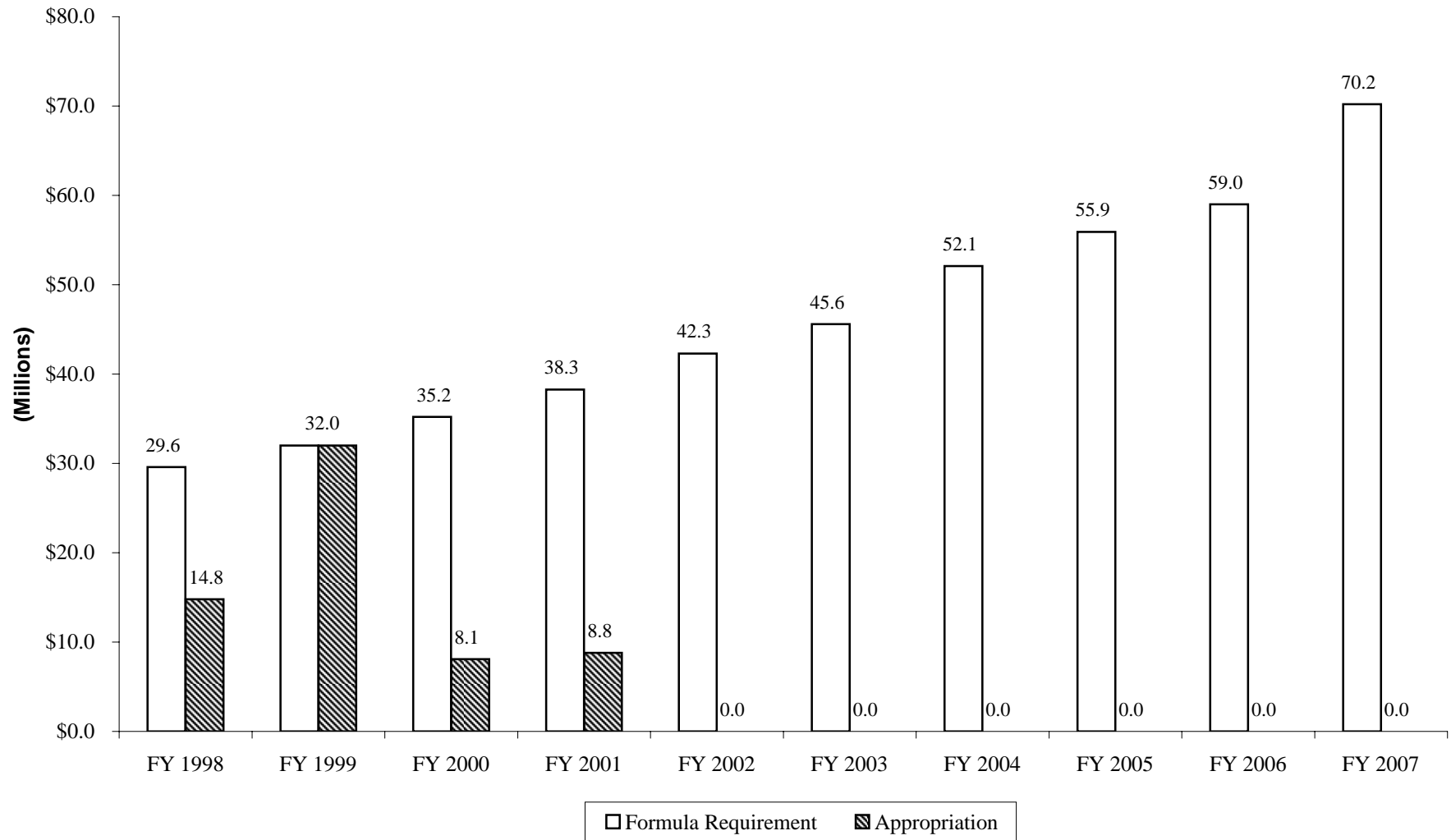
Arizona Department of Administration Building Renewal History



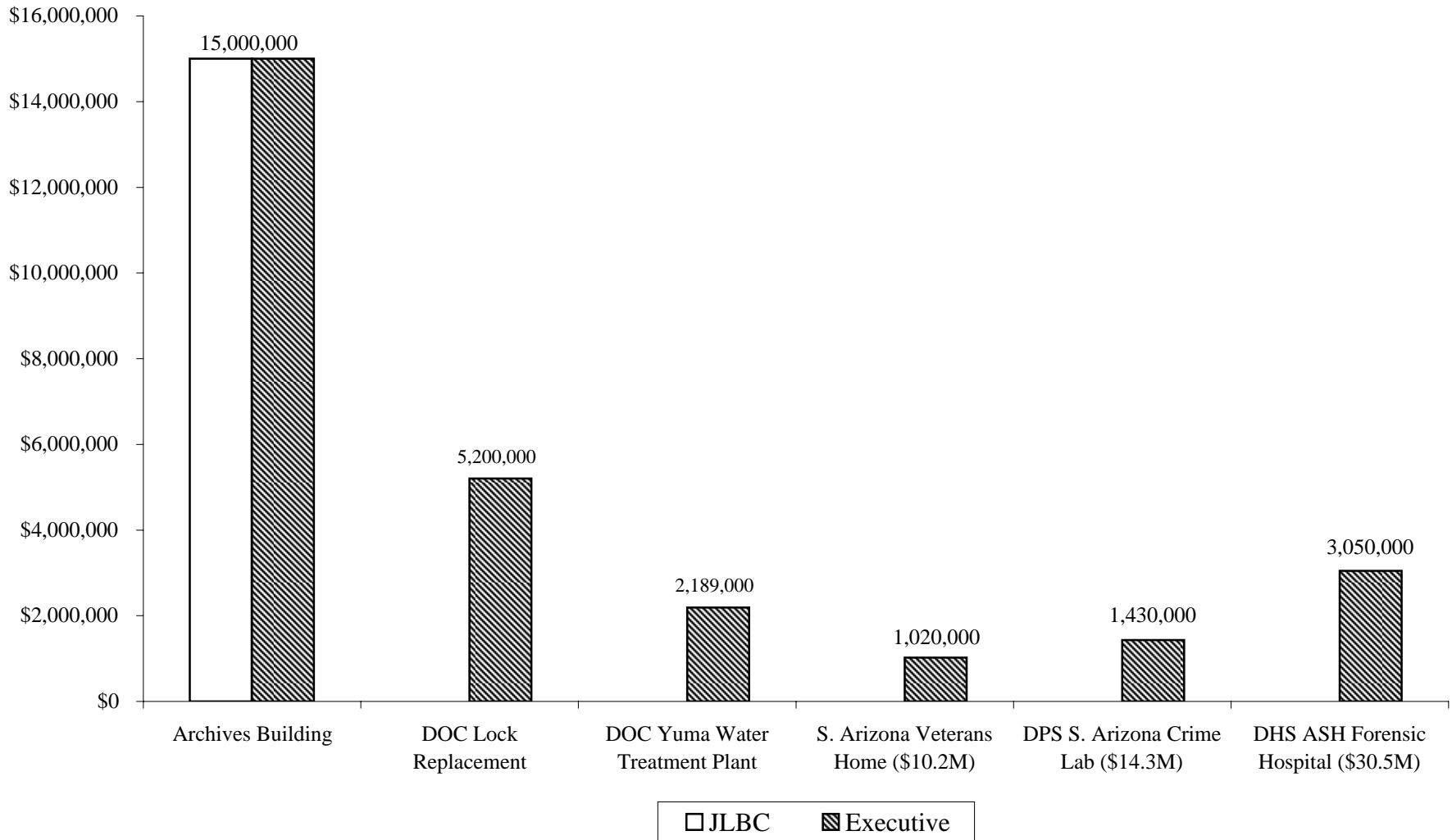
Arizona Department of Transportation Building Renewal History



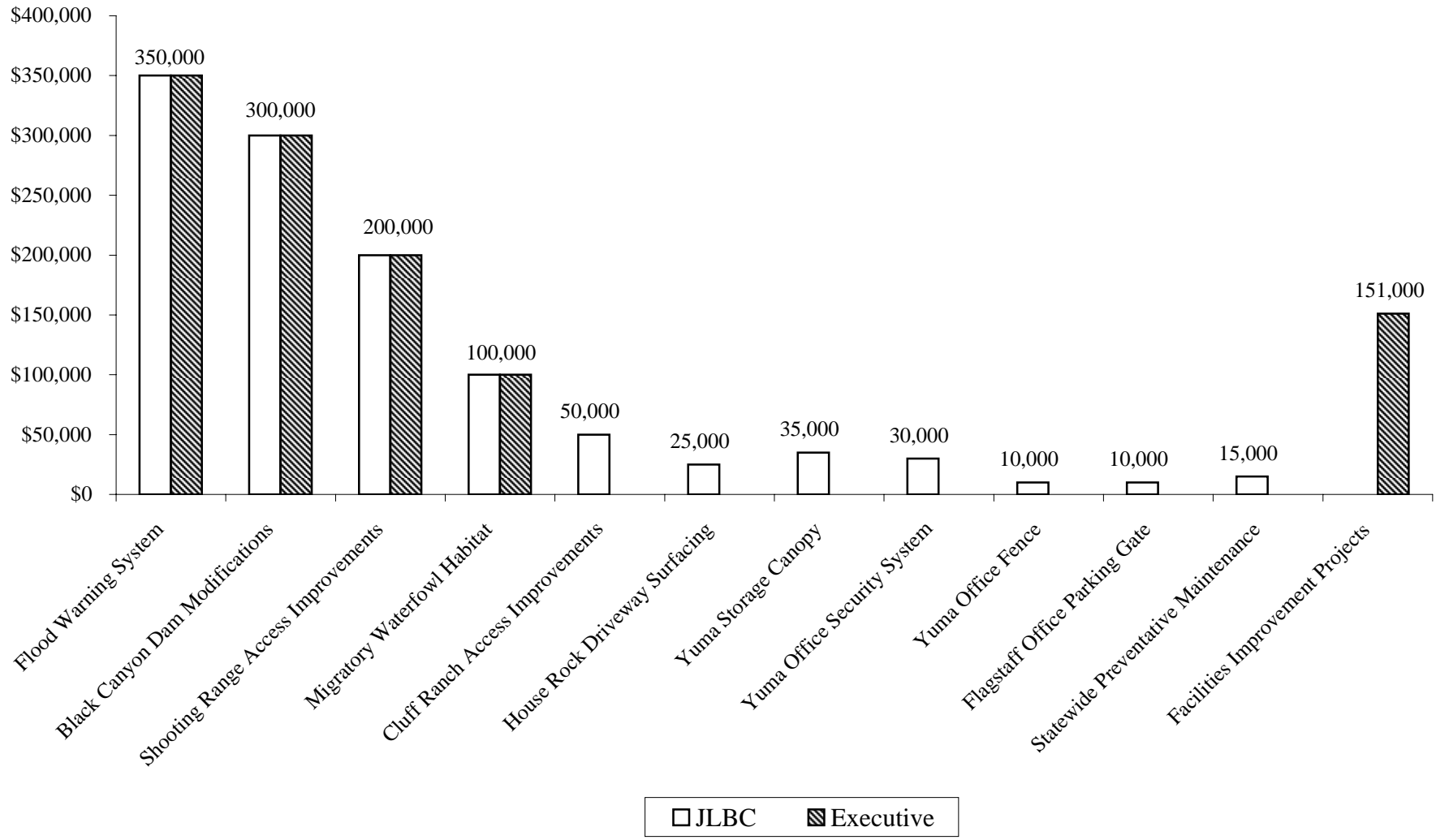
Arizona Board of Regents Building Renewal History



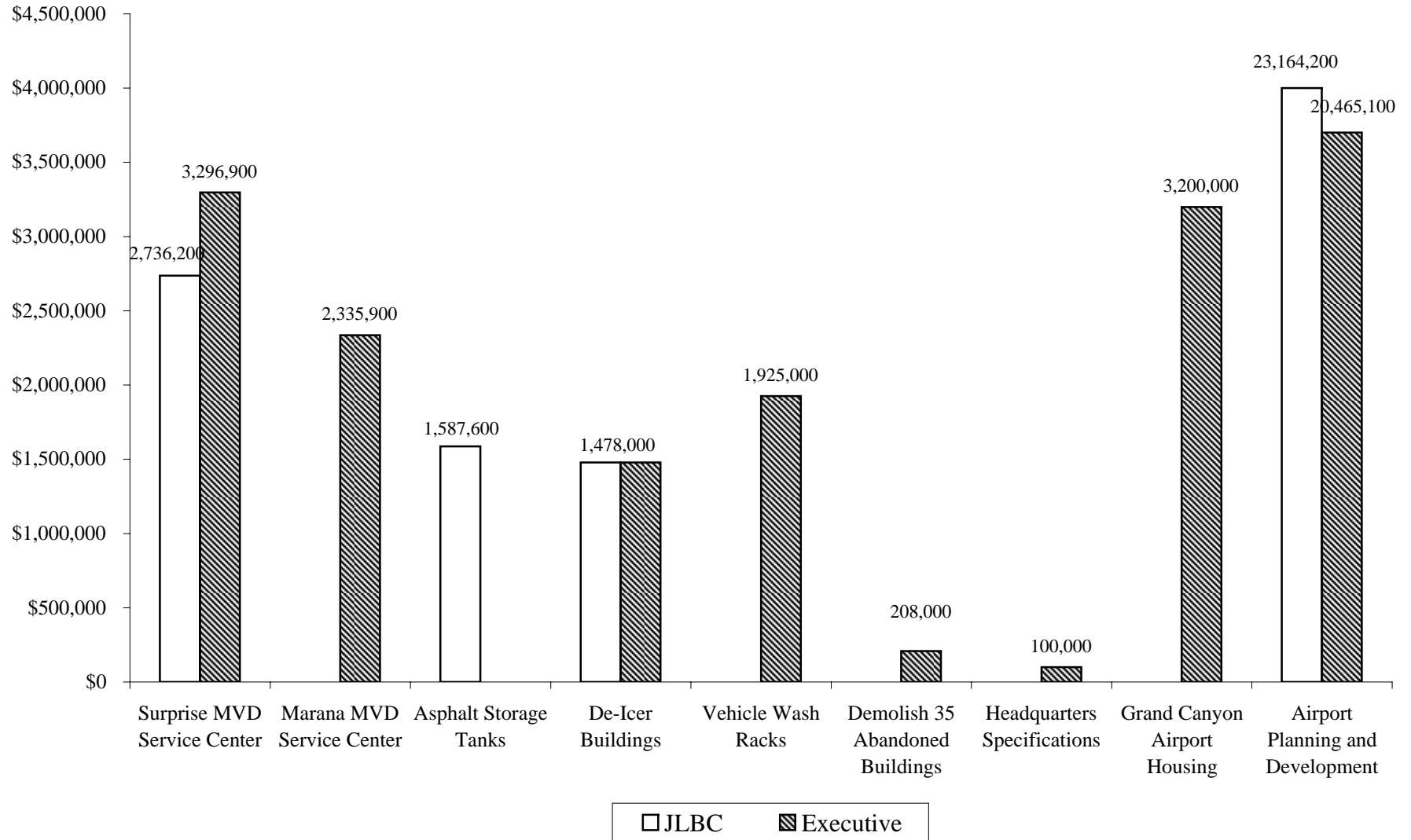
**ADOA Building System
Capital Projects
General Fund**



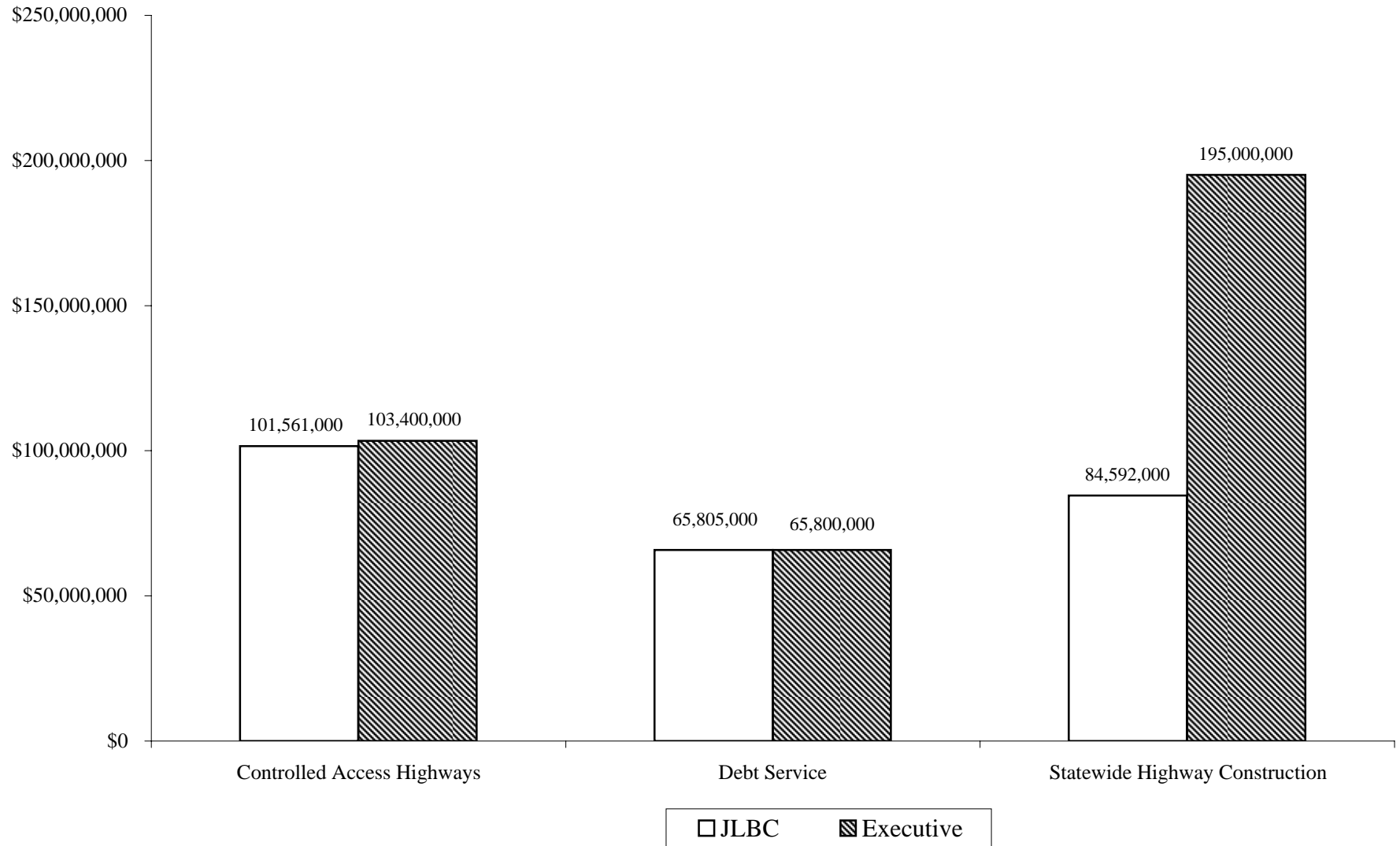
**ADOA Building System
Capital Projects
Other Funds**



ADOT Building System Capital Projects



ADOT Highway Funding



Enhanced Oversight

- Require Building Renewal Appropriations to revert after 18 months, instead of 27 months.
 - Encourages expedited identification of projects and use of appropriations.
 - Limits number of new projects that can be started with left over monies.
 - Reverted monies would be available for re-appropriation in next fiscal year.
- Require ADOA to contract with consultant to conduct assessment and prioritization of Building Renewal projects.