

STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

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REPRESENTATIVES

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ANDY BIGGS
JACK A. BROWN
PHIL LOPES
RUSSELL K. PEARCE
STEPHEN TULLY

MINUTES OF THE MEETING JOINT COMMITTEE ON CAPITAL REVIEW

Tuesday, May 9, 2006

The Chairman called the meeting to order at 10:43 a.m., Tuesday, May 9, 2006 in House Hearing Room 4 and attendance was as follows:

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

Absent: Senator L. Aguirre
 Senator Bee

Senator Burns moved the Committee approve the minutes of April 18, 2006, as presented. The motion carried.

NORTHERN ARIZONA UNIVERSITY - Review of Research Laboratory Lease-Purchase Project at NAU-Yuma.

Ms. Amy Strauss, JLBC Staff, presented the review of the Northern Arizona University (NAU) research laboratory lease-purchase project at NAU-Yuma, which is at the Arizona Western College (AWC) Campus. Arizona statute requires that the Committee review any university projects financed with Certificates of Participation (COP), also known as lease-purchase agreements. NAU would finance this project with a COP issuance not to exceed \$4 million. The research lab is built in conjunction with planned AWC projects funded fully from a \$74 million bond package, which the Committee favorably reviewed in August 2004. NAU anticipates selling the COP in June 2006, with an A credit rating. The annual debt payment will be approximately \$300,000 for a term of 25 years with an estimated interest rate at 5%. The 10,000 square foot applied research facility will be located adjacent to the AWC science complex and would provide laboratory space to be used for collaborative research and teaching activities. The cost per square foot associated with this project is about \$400. With this building NAU has exhausted its available financing for research infrastructure projects.

There was no discussion on this item.

Senator Burns moved the Committee give a favorable review as recommended by JLBC Staff to the Applied Research Facility to be sited on the campus of Arizona Western College in Yuma, Arizona with the following standard university financing provisions:

- *NAU shall 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.*
- *NAU shall 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. In the case of an emergency, the University of Arizona (UA) and Arizona State University (ASU) may report immediately on the scope and estimated cost of the emergency rather than submit the item for review. JLBC Staff will inform the university if they do not concur with the emergency nature of the change in scope.*
- *A favorable review by the Committee does not constitute endorsement of General Fund appropriations for operational costs when the project is complete. These costs should be considered by the entire Legislature through the budget development process.*

The motion carried.

UNIVERSITY OF ARIZONA - Review of Residence Life Building Renewal Phase 2A.

Ms. Shelli Carol, JLBC Staff, presented the review for the Residence Life Building Renewal Phase 2A project. This would replace plumbing systems in the Manzanita/Mohave Hall and the fire sprinkler system in Cochise Hall. This will be contracted through the Construction Manager at Risk method and financed with \$3.9 million in system revenue bonds with a term of 25 years, anticipated to be sold with a combination of fixed rate bonds under 7.5% and variable rate bonds under 6%. Student housing fees would pay the approximate \$313,000 of annual debt service. The direct construction costs with the plumbing upgrade are within the range of previous projects. The fire sprinkler system cost is significantly higher than previous experience, however, this particular residence will require partial demolition in order to remove the current fire sprinkler.

Senator Ron Gould asked if this was a fire sprinkler replacement project.

Ms. Carol replied that it is half fire sprinkler replacement in one hall and a plumbing upgrade in the other hall.

Senator Gould what type of plumbing upgrade will be made.

Mr. Peter Dourlein, Associate Director of Facilities Design and Construction, University of Arizona, replied that the renovations include complete gutting of the restrooms, supply, sanitary sewer, finishes, fixtures, and ADA access.

Senator Gould asked if there have been troubles with the plumbing system.

Mr. Dourlein acknowledged there have been systematic failures in the buildings. The Cochise Hall is 80 years old and the Manzanita/Mohave Hall was built in the early 60's and they have had systematic failures on a regular basis.

Senator Karen Johnson asked if the renovations will be good for the 25-year commitment.

Mr. Dourlein replied that the renovations in these buildings will exceed the 25 years.

Senator Gould expressed his concern for financing these types of repairs with bonds, since they should be budgeted. The life span should be estimated so the repairs can be budgeted instead of bonded. There is currently poor planning for financing repairs.

Representative Phil Lopes asked if the repairs could have been foreseen and budgeted or if there is another reason why the repairs are being bonded.

Mr. Dourlein replied that these are typical building renewal type of repairs. They are predictable and probably would be budgeted as part of a building renewal cycle.

Representative Lopes asked why they are not being budgeted for as opposed to being part of the capital budget.

Mr. Dourlein replied that there has been no building renewal money to the university for this type of repair.

Representative Lopes clarified there has not been a budget into which the repairs could be included.

Senator Burns moved the Committee give a favorable review as recommended by JLBC Staff to the Life Building Renewal Phase 2A with the following standard university financing provisions:

- *UA shall 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. UA shall also report to the Committee before any reallocation exceeding \$100,000 among the individual planned renovations, renewals, or extensions.*
- *UA shall 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. In case of an emergency, UA may immediately report on the scope and estimated cost of the emergency rather than submit the item for review. JLBC Staff will inform the university if they do not concur with the emergency nature of the change in scope.*
- *A favorable review by the Committee does not constitute endorsement of General Fund appropriations to offset any auxiliary revenues that may be required for debt service, or any operations and maintenance costs when the project is complete. Auxiliary funds derive from substantially self-supporting university activities, including student housing.*

The motion carried.

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

Mr. Tyler Palmer, JLBC Staff, presented the review of the revised building renewal plan for the Arizona Exposition and State Fair (AESF). AESF was appropriated \$1.4 million for building renewal for FY 2006. During the February meeting the Committee favorably reviewed 4 projects for \$859,000 leaving \$527,800 for Committee review. The revised allocation plan is to allocate an increased cost for the 4 projects and it also adds increased funding for 1 project previously reviewed in FY 2005. He provided a handout with a new table (attached) and noted that Table 1 in the agenda book has been revised due to a bid for a project that fell through. The cost increased to about \$112,000 with the second lowest bid. As can also be seen in the table, the allocation plan exceeds the appropriation by \$48,200; however, the allocation plan has building contingencies of \$133,000 all of which may not be used.

Senator Gould asked if AESF generates enough money to pay its own expenses or if the money comes out of the General Fund.

Mr. Palmer replied that AESF does generate enough revenue to be self-supporting.

Senator Burns moved the Committee give a favorable review as recommended by JLBC Staff to the revised FY 2006 building renewal plan with the provision that AESF report back to JLBC Staff regarding any reallocation of project contingencies. The motion carried.

ARIZONA DEPARTMENT OF TRANSPORTATION - Review of Oil Storage Tanks Project.

Mr. Bob Hull, JLBC Staff, presented the review of the Oil Storage Tanks Project for Arizona Department of Transportation (ADOT). ADOT was appropriated \$637,600 for 4 oil storage tanks, concrete containment bases and removing existing tanks. Due to increased costs of concrete and steel, ADOT will be able to install 3 tanks at 3 of those sites. The bid is out and the contract is to be awarded June 14, 2006.

There was no discussion on this item.

Senator Burns moved the Committee give a favorable review as recommended by JLBC Staff to install 3 oil storage tanks, concrete containment basins and dispose of existing tanks, with the condition that ADOT report back to JLBC Staff with their new cost estimate after the contract is awarded. The motion carried.

Representative Russell Pearce expressed his appreciation for the comments made by Senator Gould regarding the poor planning of financing repairs. Part of the problem was that there was not enough money put toward building renewal over the years. The effort needs to be concentrated on moving away from bonding and use cash for repairs, instead of sending surplus to growing and new programs. The money should be directed to the tax rate or to the issues of maintaining what we already own.

Representative Boone concurred with Representative Pearce.

Without objection the Committee meeting adjourned at 11:00 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.