

STATE OF ARIZONA

Joint Committee on Capital Review

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MINUTES OF THE MEETING JOINT COMMITTEE ON CAPITAL REVIEW

Wednesday, May 16, 2007

The Chairman called the meeting to order at 8:06 a.m., Wednesday, May 16, 2007 in Senate Appropriations Room 109. The following were present:

Members:	Senator Burns, Chairman Senator Aguirre Senator Johnson Senator Verschoor Senator Waring	Representative Pearce, Vice-Chairman Representative Groe Representative Lopes Representative Lujan Representative Schapira
Absent:	Senator Aboud Senator Arzberger	Representative Boone Representative Kavanagh

The Chairman rearranged the order of the agenda to hear the School Facilities Board Item 4 first. At the request of the State Parks Board, Item 6 was withdrawn and will be heard at a future Committee meeting.

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee, Chairman Robert Burns stated the minutes of April 5, 2007 would stand approved.

SCHOOL FACILITIES BOARD – Consider Approval of Refinancing Deficiencies Correction Bonds.

Ms. Leatta McLaughlin, JLBC Staff, presented the approval for the School Facilities Board (SFB) to refinance part of the deficiencies correction bonds. In FY 2004, SFB issued \$246.6 million in revenue bonds to pay for the deficiencies corrections program. SFB is requesting to refinance \$88.6 million of the original issuance. Committee approval is sought because the refinance would change principal and interest amounts each year. The current interest rate on the \$88.6 million is 5.75%. SFB is hoping to obtain a 4.09% interest rate on the refinance. *Table 1* of the JLBC recommendation memo compares the current debt service to the possible new debt service payments. Beginning in FY 2008, General Fund savings would be approximately \$1.3 million per year for 7 years, followed by \$2.4 million per year for 3 years, and a final FY 2018 payment of \$9.9 million more than the current scheduled payment. The total aggregated savings would be approximately \$6.6 million. The JLBC Staff recommends that the Committee approve this item.

Discussion ensued on this item.

Mr. John Arnold, Executive Director, School Facilities Board, responded to member questions.

Representative Pearce requested an analysis on possible savings if \$200 million were applied to paying off outstanding debt.

Representative Pearce moved the JLBC Staff recommendation that the Committee approve the request to refinance \$88.6 million of the State School Trust revenue bonds. The motion carried.

ARIZONA STATE UNIVERSITY – Reconsider Review of Indirect Financing for Downtown Campus Student Housing Project.

Ms. Leah Ruggieri, JLBC Staff, presented the review of the Arizona State University (ASU) request to enter into a lease or sub-lease agreement with Capstone Development to construct 2 student housing facilities at the Downtown Phoenix Campus. This item was initially reviewed in January 2007, at which time the Committee gave an unfavorable review. Capstone would construct 2 facilities to serve the Downtown Phoenix Campus to accommodate 1,200 to 1,300 students. The project would be financed with an issuance of \$116.6 million in tax exempt bonds from Capstone Development. At the end of the lease period or the period of the bond indebtedness, whichever occurs first, ASU will become the owner of the land and the facilities.

The Committee previously gave an unfavorable review because the expansion of the Downtown Phoenix Campus facilities was not previously approved by the Legislature. As a result of that action, ASU held off on the construction of this project. Since the January meeting, Senator Burns has worked with the state universities to increase legislative oversight of capital projects. This expanded oversight is included as different versions in the Senate and House Higher Education Budget Reconciliation Bills (BRB). Both the House and Senate Higher Education BRBs would include provisions that would expand oversight of indirect and third party financing projects. In addition, the Senate version of the Higher Education BRB contains a provision that would require JCCR review of any new campuses established at new locations. The universities are in agreement with the new proposal. Senator Burns has requested that the Committee reconsider this item so that ASU could continue with this project.

Discussion ensued on this item.

Mr. Richard Stanley, Senior Vice President and University Planner, ASU, responded to member questions.

Representative Pearce moved the JLBC Staff recommendation that the Committee give a favorable review to the proposal to enter into an indirect financing agreement to develop student housing for the ASU Downtown Phoenix Campus and that ASU submit for review any subsequent phases beyond Phase II of the proposed development. The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION – Consider Approval of FY 2008 and FY 2009 Rental Rates for State-Owned Space.

Mr. Lorenzo Martinez, JLBC Staff, presented the approval of rental rates charged to agencies housed in state-owned buildings. Per statute, the Arizona Department of Administration (ADOA) makes recommendations to the Committee and the Committee then determines the rental rates. For FY 2008, ADOA recommends a \$4 per square foot increase for office space and a \$1 per square foot increase for storage space. The rental charges are deposited into the Capital Outlay Stabilization Fund (COSF). COSF is primarily used to fund the ADOA operating budget. Any remaining monies are then typically applied to building renewal. In aggregate, the recommended increases would require agencies to pay \$2.8 million more out of their General Fund budgets and \$1 million more from their Other Funds budgets. Both Senate and House budget proposals, at this time, fund the increases for agency budgets. The JLBC Staff recommends that the Committee approve the FY 2008 increases contingent on funding in the final budget approval. ADOA also recommended an additional \$0.50 per square foot increase for office space in FY 2009; however, the JLBC Staff recommends that the Committee defer action until the FY 2009 budget is developed next session.

Discussion ensued on this item.

Representative Pearce moved the JLBC Staff recommendation that the Committee increase the rates for FY 2008 to \$19.50 per square foot for office space and \$7 per square foot for storage space contingent upon funding being approved in the final FY 2008 budget. Action on FY 2009 rates would be deferred to the FY 2009 budget. The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION/DEPARTMENT OF JUVENILE CORRECTIONS – Review of DJC Well Renovation Project and ADOA Building Renewal Allocations.

Ms. Kimberly Cordes-Sween, JLBC Staff, presented the ADOA request to reallocate \$200,000 of FY 2007 Building Renewal monies to partially fund the purchase and installation of an arsenic removal system for the Department of Juvenile Corrections (DJC) well renovation project. In FY 2007, the Legislature appropriated \$340,000 to bring the well into compliance with the new federal arsenic regulations. ADOA is requesting to use additional funding to make further modifications and improvements to the well renovation project including automation, 24-hour remote monitoring, and more extensive water treatments. The total project cost is anticipated to be approximately \$588,800. The JLBC Staff recommends that the Committee give a favorable review to the ADOA request with the provision that upon award of the contract, ADOA submit more detail on the cost estimates of the renovation, including separate labor and equipment costs.

Discussion ensued on this item.

Representative Pearce moved the JLBC Staff recommendation that the Committee give a favorable review to the DJC well renovation project including the reallocation of \$200,000 in FY 2007 Building Renewal monies for the project with the provision that, upon award of a contract, ADOA submit more detailed cost estimates, including separate labor and equipment costs. The motion carried.

ARIZONA EXPOSITION AND STATE FAIR BOARD – Review of FY 2007 Building Renewal Allocation Plan.

Mr. Dan Hunting, JLBC Staff, presented the Arizona Exposition and State Fair Board (AESF) Building Renewal Plan. The AESF was allocated \$1.5 million for building renewal in FY 2007, of which the Committee previously reviewed the expenditure of \$430,000 at its September 2006 meeting. The building renewal plan on the agenda for 6 projects totaling an additional \$510,000 include asphalt paving, concrete foundations, parking lot striping, and analysis and repair of the Coliseum roof. Since the distribution of the agenda, it has been realized that the problems with the Coliseum roof are more serious than anticipated. As a result, the AESF is asking to withdraw the request for the 6 projects and is submitting a revised request that focuses on the repair of the Coliseum roof.

Pictures were displayed to illustrate the 2 supporting cables on the Coliseum roof that have lost tension and failed due to corrosion. Engineers have advised that, in its current condition, the facility is unsafe for large public gatherings. AESF is proposing to restore structural integrity to the building by replacing the cables at a cost of \$2.9 million by utilizing the balance of this year's capital funding of \$1 million with the remaining monies coming from the operating budget. AESF would like to begin the project immediately so that the Coliseum is in usable condition by the start of the State Fair in October.

Once the structural repair is complete, AESF would return to the Committee for the review of another \$2.3 million from FY 2008 funding to replace the current membrane covering the roof. The current coating is over 27 years old and has exceeded its life expectancy. The new covering will protect against further structural problems with the roof. The total cost of both projects is estimated at \$5.2 million. Funding for the project would include the remaining \$1 million from the FY 2007 Building Renewal, \$1.9 million from the FY 2007 operating budget, and \$2.3 million from the FY 2008 Building Renewal and operating budgets.

Discussion ensued on this item.

Mr. Don West, Executive Director, AESF, and Mr. Roger Berna, General Manager, General Services Division, Construction Services, ADOA, responded to member questions.

Representative Pearce moved the Committee give a favorable review to the use of \$1,077,800 in remaining FY 2007 Building Renewal monies for the Coliseum roof repair project. The motion carried.

Without objection, the meeting adjourned at 9:06 a.m.

Respectfully submitted:

Yvette Medina, Secretary

Lorenzo Martinez, Assistant Director

Senator Robert Burns, Chairman

NOTE: A full audio recording of this meeting is available at the JLBC Staff Office, 1716 W. Adams. A full video recording of this meeting is available at <http://www.azleg.gov/jlbc/meeting.htm>.