

STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

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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**

Wednesday, November 15, 2006

The Chairman called the meeting to order at 1:50 p.m., Wednesday, November 15, 2006 in House Hearing Room 4 and attendance was as follows:

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

Hearing no objections from the members of the Committee, Chairman Tom Boone stated the minutes of September 21, 2006 would stand approved.

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

Mr. Matt Busby, JLBC Staff, provided 2 handouts (*Attachments 1 and 2*) to the Committee members. He explained that the State Lake Improvement Fund (SLIF) monies are available to state agencies, counties and local governments for capital improvement projects on waters where gasoline powered boats are permitted. Last year's Environmental Reconciliation Bill changed the SLIF statutes to require that projects be on lakes that allow gasoline powered boats. SLIF revenues primarily come from an allocation from the gasoline tax attributed to watercraft use, in addition to revenue from the watercraft licenses.

Mr. Busby said the Parks Board is proposing to award \$4 million in FY 2007 to 13 different projects. Of the \$4 million, \$3.8 million is for 12 grants in various cities and counties. The remaining \$250,000 is for 1 State Parks project. While most projects appear to fit the statutory criteria, 3 raise issues. The first is the Town of Buckeye Recreational Lake, which the Parks Board is proposing to award \$560,000 for design and engineering costs. The total project will cost approximately \$3.8 million more to complete. Construction of the lake is consistent with SLIF statutes. The broader policy question is whether or not the Committee would want to devote the large amount of funding from SLIF for 1 specific project.

The next project, which is the Bullhead City Non-Motorized Boat Launch Ramp, does not involve motorized boats and may not be consistent with the intent of SLIF statutes.

The third project is the La Paz County/Buckskin Fire Department Kitchen Remodel located in the Water Rescue and Medical Aid Facility. The facility falls within SLIF statutes; however, the kitchen remodel may not be the consistent intent of the SLIF statutes.

JLBC Staff has provided the Committee with at least 2 options to consider.

Senator Bob Burns asked how much the Town of Buckeye receives in revenue sharing. He noted that the memo states that the Buckeye recreational lake project requires \$4.7 million and only \$560,000 is being awarded for design. He asked what the funding plan is for the rest of the monies.

Mr. Richard Stavneak, Director, JLBC Staff, stated that the Town of Buckeye does want SLIF money to complete most of the project. The original request made to the Parks Board was for \$4.7 million; however, the board only recommended the \$560,000 for design.

Representative Russell Pearce stated that the Buckeye Recreational Lake is a major project. This is a new lake. The statute was meant for major lakes and rivers. This would be a diversion of funds that were meant for other projects throughout the state.

Mr. Jay Ziemann, Assistant Director, State Parks Board, stated that the State Parks Board shares its concerns with the Committee about the construction of the new lake in the Town of Buckeye. The request for \$4.7 million being reduced to \$560,000 demonstrates the concern. The funds are to be used by the city to clarify the scope of the project. At this point, the lake would be 100 acres. In further conversations with the Parks Board, the project would eventually encompass a greater land acquisition to make the lake bigger. This would make the current scope of the project moot because of the possible change. The idea for the grant was to help Buckeye to further study and solidify their land acquisition, cultural resources, and conduct larger feasibility studies. There is no guarantee that SLIF money will be awarded in the future.

Mr. Ziemann also stated that the Bullhead City Non-Motorized Boat Ramp is in Lake Havasu which allows gas powered boats. This is a facility for people that are launching their canoes, which will free up the launches for the larger boats. This project is within the SLIF statute. The La Paz County/Buckskin Fire Department Water Rescue and Medical Aid Facility was originally constructed with SLIF money. This is a dated facility that needs to be upgraded.

Chairman Tom Boone asked if, from the Parks Board's perspective, the Bullhead City and the La Paz County projects meet the criteria of the statute.

Mr. Ziemann said yes and the Town of Buckeye project would also meet the criteria. However, the Town of Buckeye's lake project of \$4.7 million was not going to complete the project. The project would be much bigger with a greater expenditure of funds.

Representative Pearce said that the Buckeye Recreational Lake and Bullhead City projects are outside the scope of the SLIF. He agrees that the La Paz County project falls within the scope of SLIF.

Representative Phil Lopes said that he would like clarification on the position of the Parks Board on the Buckeye Recreational Lake.

Mr. Ziemann replied that a new lake construction project is allowed under SLIF statutes. There were questions about the scope of the project, such as the size of the lake. There were also questions that the Town of Buckeye was unable to answer with regard to their plans. Buckeye had not acquired all the land and they did not know the full extent of the lake. At this stage of the planning, the Board does not know the final outcome of the project. The approval of \$560,000 was to further the planning efforts to clearly define the project.

Representative Lopes asked if it is possible that the Board will approve the project once the plans are complete.

Mr. Ziemann said that the Board does not have any doubts about whether the project is within the criteria of SLIF. Once the project is defined, then Buckeye can process an application for SLIF to compete with other projects. The project would go through the same assessment process for funding.

Representative Pearce said the intent for SLIF is for major waterways and lakes. The funds are not intended for small man-made lakes. He also noted that in 1999, the Town of Buckeye received \$260,000 of SLIF money for the same feasibility study.

Chairman Boone asked Mr. Ziemann if he recalled if \$260,000 was awarded to Buckeye in 1999.

Mr. Ziemann replied that he did not recall. The feasibility study was discussed with the Parks Board. The problem is the scope has changed. The size of the lake has changed, so Buckeye needs additional studies. The funds are to allow Buckeye to get the information to determine if this is a feasible project. The Board is sensitive to the concerns because 2 previous lake construction projects failed.

Senator Burns asked how much revenue sharing money the Town of Buckeye receives. The project is bad use of SLIF money. He noted that there may be a needs assessment added to the statute to direct the board to look into the projects and their need.

Senator Ron Gould asked where the Town of Buckeye is going to get the water for the lake.

Mr. Ziemann replied that he does not know all the intricacies of the project; however, Buckeye has assured the Parks Board that they have adequate water rights to fill a lake. If the lake grows, they will need to assess how much water they have available. The board would not grant millions of dollars to construct a lake if they were not 100% sure there would be water.

Senator Gould stated that this project would be wasteful in water and is fiscally irresponsible.

Senator Burns moved that the Committee give a favorable review as recommended by JLBC Staff to the Parks Board request with the exception of the Town of Buckeye Recreational Lake.

Senator Linda Aguirre asked if the Bullhead City Non-Motorized Boat Launch Ramp is consistent with SLIF statutes.

Chairman Boone replied that he understands that the project is consistent with SLIF statutes.

Representative Pearce replied that it is statutorily consistent; however, it is not the intent of SLIF.

Senator Gould noted the Bullhead City Non-Motorized Boat Launch Ramp would be better funded by the private businesses that rent canoes and arrange canoe launches on the lake.

Senator Aguirre moved to amend the motion to also include the Bullhead City Non-Motorized Boat Launch Ramp as a non-recommended item. The motion carried.

Senator Burns moved that the Committee give a favorable review as amended. The motion carried.

NORTHERN ARIZONA UNIVERSITY – Report on Indirect Debt Financing for Conference/Hotel Center Complex.

Ms. Amy Strauss, JLBC Staff, provided a handout (*Attachment 3*) and presented the Indirect Debt Financing for the Conference/Hotel Complex for Northern Arizona University (NAU). Chapter 352 requires Committee review of any Arizona Board of Regents (ABOR) capital projects that use indirect debt financing, effective September 21, 2006. NAU entered into these agreements before the effective date of legislation. This item is

for information only. Despite the legislation's effective date, NAU could have reasonably submitted this project for review.

Ms. Strauss explained that NAU is establishing 2 partnerships for development of new facilities using indirect financing. The first partnership establishes a limited liability company (LLC) for a conference center and parking structure. The second partnership is with a hotel company for a new hotel on campus. The facilities will be available for NAU's Hotel and Restaurant Management Program. University indirect debt financing projects are now required to seek JCCR review. These projects occur when universities partner with private entities or non-profits and secure a lease or issue bonds for development of a capital project.

NAU is planning a conference center and parking project for \$12.4 million in lease revenue bonds issued by the LLC in September 2006. The conference center will be approximately 41,000 square feet and the parking structure will have approximately 344 parking spaces. The total cost for the conference center is approximately \$305 per square foot and the parking structure is approximately \$17,000 per space. Direct construction cost for the conference center is approximately \$265 per square foot and the parking structure is approximately \$15,000 per space. The LLC will lease both structures to NAU, and NAU will handle the operations and maintenance for the facility and will retain the title once the debt is paid off.

The ground lease for the hotel includes a 30-year term with two 10-year renewal options. The structure will have 150 rooms located on approximately 2 acres directly adjacent to the conference center and parking structure. Drury would pay a percentage of gross receipts of 3% for the first \$3 million, 3.5% for \$3 million to \$5 million, and 4% for any amount in excess of \$5 million. At the end of the lease, NAU could either acquire the hotel or request Drury to raze the site and to return it to its appearance prior to building the hotel.

Ms. Strauss informed the members that this item is for information only, however, in the spirit of Chapter 352, JLBC Staff has provided the Committee with 3 options to consider.

Representative Andy Biggs asked what the contingency is if the revenue does not sum to the computed bond.

Ms. Christy Farley, Director of Government Affairs, NAU, replied that the minimum amount of the ground lease is \$60,000 annually with the remaining based on the gross receipts. That amount was built into the expectation. Should those receipts not come in, the parking fees will also be used from the adjacent parking garage to help finance the debt. The estimated expenditures show that from 2008 until 2012, the university expects to use general university revenue for \$200,000 until it is fully self-sustained and making a profit after 2015. Those are dollars that will help supplement Hotel and Restaurant Management programs.

Senator Burns stated that JLBC Staff mentioned in their presentation that NAU would acquire a building at the end of the lease period. He asked how NAU would acquire the hotel at the end of the lease period.

Ms. Farley said that when the LLC debt is paid off after approximately 30 years, the parking structure and conference center are deeded to NAU. There will be no additional requirement for NAU to make payments. There is no expectation that the hotel will become NAU property, this will be continued as a ground lease. Should a non-renewal of the ground lease occur, the hotel either becomes NAU property, or the property would be razed and returned to its current state; however, it is not expected to occur.

Senator Burns clarified that there are two 10-year options after 30 years. After the 30 years, NAU would anticipate that it would continue to operate as a private hotel. If they decide they do not want to continue the operation then NAU could become the owner of the hotel.

Ms. Farley replied that NAU could become the owner of the hotel or require Drury to raze the site; however, the university does not wish to pursue that option.

Representative Pearce said NAU can take possession of the parking and conference center. He asked what would happen with the hotel since it is designed for smaller conferences.

Ms. Farley replied that the purpose of having the conference center, parking structure, and hotel attached is to accommodate conferences. The hotel will have 150 rooms which was negotiated with the local community knowing that there will be overflow to other hotels since conferences are expected to have 400-500 people. The conference center will partner with the hotel as its primary conference hotel. The conference center will continue serving outside conferences as a university owned facility.

Representative Pearce said it seems that it would create an additional problem for the hotel not having parking. His concern is using public funds to compete with the free market and private investments.

Ms. Farley replied that the hotel has a designated number of spaces in the parking structure and will be assessing a fee for parking. Other spaces will be used for student parking.

Ms. Kathe Shinham, Vice President for Administration and Finance, NAU, said that as part of the lease with Drury Hotels, the university is required to provide both the conference center and parking garage to continue operation.

Senator Burns asked why NAU did not issue bonds as the first party instead of getting another party involved.

Ms. Shinham replied that they were advised that using an LLC structure was the best option for a public-private partnership whereby as a non-profit entity, the LLC, bridges the gap between the public and private.

Senator Burns asked if the new structures count against the university debt limit.

Ms. Shinham replied that structures count against the ABOR debt limits but not the state debt limits. However, in the materials provided by JLBC Staff, it increases the university's debt ratio from 6.2 to 6.5, which is within the state debt limit.

Mr. Stavneak asked for clarification on the difference between the ABOR and the state debt limit.

Ms. Shinham said that the ABOR limit includes indirect financing whereas it is excluded in the state debt limit.

Ms. Farley said they will meet with JLBC Staff to review the ABOR debt limit and the state debt limit.

Mr. David Harris, NAU, said the limit of ABOR and the state does not apply in this situation. The limits are based upon different formulas of expenditures.

Chairman Boone clarified that there is a separate limit for ABOR versus the state, however, neither debt limit applies to this project.

Mr. Harris replied yes. He said that the ABOR limit is smaller than the state limit. ABOR's debt limit is 10% of the expenditure and the state debt limit is 8% of the expenditure. Neither applies to the public/private partnership.

Chairman Boone would like the university to provide all the Committee members the differences between the ABOR and state debt limits.

Representative Pearce stated that it is probably correct that the debt limits do not apply in this situation. This is why the university used creative financing through the LLC to avoid the debt restrictions. It is not in the spirit of limiting debt for Arizona citizens. This creative financing incurs debt that is not called debt because it is outside of the debt limitations. It is a concern.

Senator Gould asked who the officers are of the LLC and their relationship to the university.

Ms. Farley clarified that the members of the LLC board are not NAU employees. They are a separate team of individuals. The university will provide their names for the Committee.

Senator Burns moved that the Committee give an unfavorable review because the process of receiving information was not done within a timely manner. In addition, as recommended by JLBC Staff, NAU submit the following information by December 8:

- 1) Ground lease information that addresses whether the hotel will ever become a state asset.*
- 2) Additional information on the procurement process for selecting a hotel developer; specifically, how NAU determined that Drury was a financially viable partnership.*
- 3) Rationale for issuing system revenue bonds under the LLC instead of the university.*

Senator Aguirre moved a substitute motion to give a favorable review.

Senator Aguirre explained that NAU has to struggle because they do not receive money for infrastructure and building renewal. This is a project that will bring a conference center to the Flagstaff area that would meet a lot of needs. They worked out a situation with the City of Flagstaff for the overflow. The information is adequate.

Senator Burns said the process in which this project is taking place is frustrating. The universities will want to get into the game with cities calling the partnerships private-public when they are actually public-public partnerships. This is not headed in the right direction. There may need to be additional oversight. The limits that are in place do not apply and are troubling.

Senator Gould responded to the point that NAU does not receive money by pointing out that this project will not help NAU make money. He stated that NAU is in the business of education not the business of business. The free market is responsible for making money. The issue of whether the universities need money and whether the universities should be in the hotel-parking lot business are different issues that should not be connected.

Representative Pearce stated that he is opposed to the substitute motion. He agrees with Senator Burns' comments. This may not stop the universities from moving forward, however, this recognizes that the universities presented this project for discussion after-the-fact. There are policies in place for the process.

Representative Brown stated that this is a good project for the university and the community. He supports the substitute motion.

Ms. Farley added that NAU conducted a market analysis in May 2005. There have been conversations with the Board of Regents and the local partners. The statutory change on indirect financing occurred during the last session, which is after the start of this project. This project was submitted to JLBC in good faith as a project that was already approved and moving forward. This may seem like it was submitted late, however, this was a project that started well before the statutory change was in place.

Representative Biggs requested clarification on the motion.

Senator Aguirre replied that the substitute motion is for a favorable review, since the project costs for the conference center and parking structure appear to be reasonable, with the additional information request.

Chairman advised the Committee that Senator Aguirre did clarify the substitute motion.

The substitute motion carried. Division was called and the substitute motion carried by a hand vote of 6 ayes and 3 nays.

ARIZONA STATE UNIVERSITY – Review of New System Revenue Bond Capital Projects.

Ms. Leah Ruggieri, JLBC Staff, provided a handout (*Attachment 4*) to the Committee members and presented the Arizona State University request to issue bonds of \$18.5 million. The bond would finance preparing future sites for 2 projects on campus, which are the Barrett College Dorm and the South Campus Academic Village housing facility. Of the \$18.5 million, \$12.5 million will be used for the ASU police department facility. The new facility will be 38,000 square feet with a total cost per square foot of \$328 and a direct construction cost of \$229 per square foot. The remaining amount of \$6 million will be for additional site preparation on the proposed site and includes hazardous material abatement, demolition, waste removal, and a building acquisition.

Ms. Ruggieri continued by stating that the ground lease agreement ASU is proposing is with American Campus Communities (ACC). ACC has engaged in approximately 40 other facilities similar to this project across the country. The proposed Barrett College dorm will be 490,000 square feet of housing for 1,700 freshmen through upper-class honor students. The South Campus Academic Village will be 570,000 square feet apartment style housing for 1,900 upper-class and graduate students. In addition, there will be 240,000 square feet of retail space. The agreement with ACC is that ACC will provide \$230 million for the construction of the 2 housing developments and will transfer title to ASU once they are constructed. In exchange, ASU would enter into a 65-year operating agreement with ACC. ASU would receive a percent of room and board revenue proportionate to the annual payment for the bonds on the site preparation project. If ASU had to debt finance these facilities on their own, their debt ratio would have risen from 5.3% to 6.6%.

Ms. Ruggieri advised the Committee that in regards to the \$18.5 million bond issuance, the JLBC Staff recommends a favorable review of the request with the standard university finance provisions. In addition, the Higher Education Budget Reconciliation Bill passed during the last requires that all indirect financing projects that universities engage in have to come before the Committee for formal review. ASU does not believe that the arrangement with ACC qualifies as indirect debt financing. Should the Committee choose to review this particular project, they can grant either a favorable or unfavorable review. Alternatively, the Committee could take no action as this option would demonstrate that the reasonableness of ASU financial agreement with ACC cannot be fully assessed without the expertise of a third party with a background in these types of arrangements. There are 2 additional questions and reporting of information for ASU for follow up to the Committee.

Mr. Stavneak clarified for the Committee that there are 2 pieces to the recommendation, with the first being the building of the Police Department and the site preparation. JLBC Staff gives a favorable recommendation for this first piece. The second is the arrangement on building the dorms, which is questionable as to whether it would fall under the indirect financing provisions, JLBC Staff has provided a few different options for the Committee.

Senator Burns asked what would happen if the revenues from the dorm are not enough to pay off the debt on the site preparation bond.

Ms. Carol Campbell, Executive Vice President and CFO, ASU, replied that the annual debt payment for the \$6 million for site preparation is \$435,000 per year which is figured generously. ASU anticipates that under the agreement with ACC they will be receiving a percentage of the gross revenue about \$2 million per year to start and working up to \$4.5 million on the South Campus project. Also, \$250,000 fixed for the first 10 years on the Barrett College. These are 2 separate projects on 2 separate agreements, however, they are dependent on each other. Either both will be entered into or neither will occur.

Senator Burns asked what protection ASU has if ACC does not meet minimum operating standards for the dorms.

Ms. Campbell said that should the minimum operating standards fail it would end in default of the agreement. Under an event of default, there will be no financing on the Barrett project; ACC has committed \$110 million of cash payment on that project. In regard to the South Campus project, ACC has a lease-hold interest on the project limited to at least one-quarter of the budget of \$130 million in cash investment. If they do not perform under the lease, to the extent there is a mortgager, the mortgager will replace them.

Senator Burns asked why the Legislature or this Committee shouldn't have the authorization to formally review ahead of time, any transactions that result in the state acquiring new assets.

Mr. Scott Smith, Director of State Relations, ASU, replied that ASU appreciates the Legislative prerogative and desire to be informed of financial activities the university is pursuing. The university has willingly presented this project even though it is unclear whether the indirect financing statute applied to make sure there was Legislative oversight. The Legislature is a critical partner in the advancement of the university and will do anything possible to ensure the process is open and available.

Senator Burns stated that the neighborhood was objecting to having a parking garage around the area in the past. He asked if the issues have been resolved.

Ms. Campbell replied that they have recently met with the neighborhood and working to resolve the issues.

Mr. Paul Berumen, Director for Local Government Relations, ASU, stated that there have been meetings with the neighborhood on a continuing basis. There have been 3 large meetings and working group meetings to accommodate some concerns. To satisfy the issues, an agreement has been made to lower the parking garage, remove western facing balconies, and increase the amount of landscaping surrounding the project.

Senator Burns asked how the dorm fees will compare to other on-campus housing fees.

Ms. Campbell said that ACC retains the right to set the housing rate. There is an advisory committee at each of the residence halls with 3 members from ACC and 3 members from ASU. In the event of a voting tie, ASU has the tie-breaker vote on all matters that have to do with student discipline and programming. In the event of a voting tie on financial issues, ACC has the tie-breaker vote because they are the investor taking the financial risk. ASU does have a full review of the ACC capital budget, operating budget, and proposed student rates. There will be plenty of time for the university and students to comment on rates; however, ACC does retain the ability to set student rate. In order for the projects to be financially successful they would have to be no more than market rate. The South Campus project were built and designed for upper-class students, it is a high amenity and cannot charge more than comparable high amenity complexes in the area. Chairman summarized that ACC has the final say of the fee structure, however, because of the market place it would be kept in-line.

Mr. Stavneak added that if there are not enough students to occupy the housing, non-students can also occupy the space.

Ms. Campbell stated that Mr. Stavneak is correct; she added that there is a pecking order where non-students are at the bottom of the list and require approval from ASU and the Board of Regents.

Senator Burns moved that the Committee give a favorable review as recommended by JLBC Staff including any caveats. The motion carried.

UNIVERSITY OF ARIZONA – Review of Law Commons Bond Project.

Ms. Amy Strauss, JLBC Staff, presented the University of Arizona (UA) request for review of \$21 million for Law Commons Bond Project. The project will be funded by \$14 million in gifts received before ground breaking and \$7 million in system revenue bonds. This project includes renovations of 71,000 square feet of existing library, student organization, faculty office, and instructional space. UA also plans to expand the second floor of the Law Building, providing an additional 5,000 square feet for new office space. JLBC Staff recommends the Committee give a favorable of the request with the provisions that the project receive project approval from the Arizona Board of Regents at their November 30 – December 1 meeting and the standard university financing provisions.

Senator Burns asked if the university will have the full \$14 million in gift revenues before the bonds are issued.

Mr. Dick Roberts, Budget Director, University of Arizona, replied that the university has \$2.7 million cash in-hand with a firm pledge from Mr. Rogers that on ground breaking day, a \$4 million revenue flow will follow the construction time period of 15 months. There are pledges that have created an internal loan to recognize the cash to do the construction. Those pledges will repay the internal loan. The third part of the project consists of a \$7 million system revenue bond.

Senator Burns asked how the university would make up the difference if the full \$14 million in gifts is not received.

Mr. Roberts replied that the university is comfortable with the loan responsibility of the project. The university is confident in the College of Law track record of raising money.

Senator Burns moved that the Committee give a favorable review as recommended by JLBC Staff including any caveats. The motion carried.

UNIVERSITY OF ARIZONA – Review of Intercollegiate Athletics Facilities Bond Projects.

Ms. Leah Ruggieri, JLBC Staff, presented the University of Arizona (UA) request to review the proposed \$20 million Intercollegiate Athletics (ICA) Facilities Additions and Renovations Project. This project would be funded by \$19 million in system revenue bonds and \$1 million in gift revenues. The ICA projects are for the construction of an indoor practice facility, the expansion of the gymnastics training facility, and construction of a new diving pool. The JLBC Staff recommends a favorable review of UA's request with the standard university financing provisions.

Senator Burns moved the Committee give a favorable review as recommended by JLBC Staff with the additional provisions. The motion carried.

ARIZONA DEPARTMENT OF TRANSPORTATION – Report on Modular Buildings on Capitol Mall.

Mr. Bob Hull, JLBC Staff, presented the Arizona Department of Transportation (ADOT) proposal to install 2 modular office buildings southeast of their engineering building in the parking lot at 1600 West Jackson. ADOT says there will be sufficient parking available for personnel occupying the modular office buildings. ADOT plans to use \$725,700 of operating budget money to install the buildings and lease them for \$360,000 per year for 5 years beginning in FY 2008. The modulares would have 26,000 square feet and house 167 personnel. They would replace a current lease at 2828 North Central Avenue with 18,000 square feet for 86 personnel. This would allow ADOT to have additional space to relocate and add new positions closer to the engineering building. The lease for the Central Avenue facility is to be \$402,000 in FY 2008 with the lease ending in FY 2007, there is a \$42,000 annual lease savings on the lease of the modulares. The \$42,000 annual lease savings would have a 17.3 year payback on the \$725,700 installation cost of the modulares. ADOT expects to also have savings from not having to lease additional office space for additional personnel and

reduce travel time due to centralizing the engineering staff. The Governmental Mall Commission has agreed to allow ADOT's modular project. This item is for information only, no Committee action is required. However, since ADOT proposes using the operating budget monies for a capital project, the Committee could give a favorable with the provision that no MVD monies be spent for the project.

Mr. Stavneak said that the thought behind the review with no monies being spent from MVD for this project was the discussions in the JLBC Committee about the use of monies that have not been available to hire MVD clerks.

Senator Burns asked what would happen with the buildings at the end of the lease.

Mr. Terry Trost, Budget Director, ADOT, replied that the modulars will have a 30-40 year life. They will be used until there is an economic crossover. ADOT plans to return to the Committee to get approval to purchase the modulars so they can be moved to where there will be needs around the state, such as maintenance yards or highway construction sites.

Representative Pearce asked if the modulars were moveable.

Mr. Trost replied by saying the modulars are trucked in on wheels like a trailer, however, they are more substantially built. They have a long life with 26,000 square feet composed of 19 sections. The modulars are built for office quality rather than residential quality.

Senator Paula Aboud asked why ADOT would lease rather than purchase the modulars, and if the lease money was going to be applied to the purchase.

Mr. Trost said the state currently does not have a contract with a vendor for the purchase of modular units. This would not be a lease-purchase, to the extent that the money for the lease gets applied to the purchase of the modular. They can be purchased during the lease period.

Chairman asked if there will be any credit given in the lease for a purchase option.

Mr. Trost said there is not credit applied to the purchase.

Representative Pearce asked how long the lease period is for the modulars.

Mr. Trost said this is a 5-year lease.

Representative Pearce asked what the cost is to purchase a modular.

Mr. Trost replied that the cost is \$2.1 million to purchase. There is no contract; it would need to be put up for bid in the short timeline for the end of the current lease space. The current private lease is \$402,000 annually and will go up 20% with escalators built into the lease contract. ADOT felt the option of leasing the modulars was the best available given the short time period.

Representative Pearce said there is no equity in leasing modulars. He pointed out that there should have been more negotiation to try to use the cost savings to purchase the modulars, which may have been more fiscally responsible.

Mr. Trost said that when ADOT looked at the project benefits, it was broken into several pieces such as the lease savings and a series of cost avoidances. Over a 5 year period, the net savings to ADOT would be \$1.4 million.

Representative Pearce said that his issue is there will be a lease on modular buildings that ADOT intends to purchase. He wondered why the arrangement was not made to purchase the modulars rather than lease the modulars. An outright purchase would save money.

Mr. Trost replied that over a long period of time there would be more of a savings. ADOT would be willing to place this as a purchase request in the FY 2008 budget, however, the opportunity to move forward is now because of the time it would take to get the process in place. The plan is to place personnel into the modulars by July 1 when the lease expires.

Chairman asked if the lease structure with the purchase option is taken at the end of the year or after 5 years.

Mr. Trost said he understands it to be an arrangement where the leaser agreed to a lease, however, would rather have a sale as opposed to a lease.

Mr. Stavneak said that he understood from a previous statement that it was not an option because of the way the current state contract was set up.

Mr. Trost replied that there is no contract to purchase, there is a lease. He understands there is an option provision in the lease to purchase. He believed that ADOT could work with the vendor to exercise the option early.

Chairman asked if the intent would be to return to the Committee to request to purchase in the next session.

Mr. Trost agreed with Chairman. He added that ADOT is in a time crunch with the project.

Senator Aboud said that spending \$360,000 to lease this year, then ADOT returning with a FY 2008 budget request to purchase, would result in a loss of \$360,000. She asked if there can be a purchase option with a payment credit toward the final purchase cost.

Mr. Trost replied that if ADOT stays at their current location, they would lose the normal lease payment that will increase 20% after July 1.

Representative Pearce agreed with Senator Aboud that ADOT needs to make an arrangement to apply the \$360,000 to the purchase price of the modular buildings.

Mr. Trost replied that ADOT will work with the vendor.

Chairman Boone summarized that ADOT will make the request to purchase the modular buildings in the next session and attempt to negotiate with the vendor to apply the lease payment to the purchase price.

Chairman moved the Committee to give a favorable review as recommended by JLBC Staff.

Mr. Stavneak clarified the motion for the Committee that this would be a favorable review with the provisions that no monies be spent from MVD for the project, ADOT will negotiate with the vendor to count the lease payment toward the purchase cost, and ADOT would provide the Committee with firm cost estimate for the direct purchase for consideration in the FY 2008 budget.

The motion carried.

SCHOOL FACILITIES BOARD – Review of FY 2008 New School Construction Report and New School Facilities Fund Litigation Account.

Ms. Leatta McLaughlin, JLBC Staff, presented the Review of the School Facilities Board (SFB) FY 2008 New School Construction Report and the Fund Litigation Account. This review includes SFB's demographic assumptions, proposed construction schedule, and new school construction cost estimates for FY 2008, along with the report on the litigation account.

JLBC Staff recommends a favorable review of SFB's report on the new school facilities fund litigation account since there has been no activity in this account. JLBC Staff recommends deferring action on the FY 2008 new construction report item until May 1, 2007 when SFB can report proposed construction schedule and cost estimates by project, since SFB will not complete its new construction approval process for the current fiscal year until the spring. This item was included in the agenda in order to provide the Committee of SFB's current estimate for the new construction spending of \$401.8 million in FY 2008. SFB is requesting \$399 million from the General Fund, which would be a \$150 million increase above FY 2007. SFB expects enrollment to be at a higher rate in FY 2007 and FY 2008 than it was in FY 2006. The biggest growth is in the districts in the northern edge of the Phoenix metro area and Pinal County; however, SFB expects housing permits to decline, which is the reason for lower approvals in the FY 2007 approval cycle compared to FY 2006. One reason SFB approved more new construction in FY 2006 compared to FY 2005 is because there were twice as many high schools approved in FY 2006, which added \$130 million in FY 2006 alone.

Senator Burns asked if SFB has taken the reductions relative to the decline in housing permits.

Mr. John Arnold, Acting Executive Director, SFB, replied that yes, housing permits across the state, especially Maricopa and Yuma Counties are down 25% to 30%. However, the population continues to grow at the same rate as it has over the last several years. The projects and awards from last year were based on the inflated residential construction numbers, therefore, the conceptual plans from last year were downgraded by 25%. There has been a review of 13 school districts this year and of the 13, 3 had projects that were thought to be approved this year and were not approved.

Senator Burns asked if the number of schools approved will not be as high as last year.

Mr. Arnold said Senator Burns is correct. Last year SFB approved \$422 million in new facilities and in FY 2007 they are projecting the number to drop to approximately \$350 million, which includes the 12% inflation increase approved by JLBC.

Senator Burns asked about the statement that housing permits were down and the population is still growing.

Mr. Arnold said that it was his understanding that the population continues to grow at the same rate as the last several years. They expect to see growth in ADM across the state, especially in the west valley, northwest valley, Pinal County, Pima County, and Yuma County regions.

Chairman clarified that action on the new school construction report will be deferred and no action will be taken.

Senator Burns moved the Committee give a favorable review to the New School Facilities Fund Litigation Account as recommended by JLBC Staff. The motion carried.

SCHOOL FACILITIES BOARD – Review of FY 2007 Building Renewal Distributions.

Ms. Leatta McLaughlin, JLBC Staff, presented the Review of SFB's FY 2007 Building Renewal Distributions. JLBC Staff recommends a favorable review of the FY 2007 Build Renewal Distribution as it complies with statutory requirements. According to statute, SFB must obtain Committee approval before awarding the 2

equal installments of current year \$86.3 million building renewal money. Half the money is awarded this month and the other half in May 2007. Each district must have submitted their building renewal plan to SFB before they can receive any building renewal money. SFB has received plans from 134 districts and approved 49 of the plans for a November distribution of \$8.4 million. The remaining \$35 million of the November distribution will be distributed as more 3-year plans are received and approved.

On October 3, the Arizona Superior Court issued a summary judgment in favor of the state considering the K-12 building renewal lawsuit, which was filed in October 1999. The court held that school districts had not made an effort to obtain all available sources of state funding to maintain their facilities at the minimum guidelines and their claim was found premature.

Senator Burns said that SFB has received the 3-year plans from 134 districts and asked why SFB has only approved 49 of those plans.

Mr. Arnold replied that the due date for the 3-year plan was October 15; however, they trickle in over time. They are reviewed to ensure that the spending is on building renewal appropriate items. The remaining plans are still being worked on with the districts for clarification on some plans.

Chairman asked what square footage percentage they make up of the total.

Mr. Arnold replied that he does not know that percentage. He said that building renewal attached to the set of plans that went to the Board was \$17 million of the \$86 million that will be distributed, which is about 25%.

Senator Burns moved that the Committee give a favorable review as recommended by JLBC Staff. The motion carried.

ARIZONA STATE LOTTERY COMMISSION – Review of FY 2007 Building Renewal Allocation.

Ms. Leatta McLaughlin, JLBC Staff, presented the Review of the Arizona Lottery Commission Building Renewal Allocation. The building renewal appropriation for FY 2007 is \$53,600. The appropriated monies will be used to repair the warehouse roof and paint the interior of the building at the Phoenix location. JLBC Staff recommends the Committee give a favorable review of the request.

Representative Pearce said that the contingencies are over half of the amount and asked what the unexpected contingencies may be.

Ms. Patricia Phillips, Arizona State Lottery Commission, replied that the building is 20 years old and the air conditioner and other systems are past their life expectancy. There has been an increase in water leaks and broken pipes which are going into the plan.

Representative Pearce said that there should be a known assessment itemizing the list of things that need to be repaired. There should have been bids for this project with an exact amount of the cost.

Mr. Stavneak said that the Lottery Commission can report on the use of the \$18,000 contingency.

Senator Burns moved that the Committee give a favorable review as recommended by JLBC Staff including a report on the use of the contingency money.

Senator Gould noted that this would not be a roof replacement, it is a roof repair. He asked what the cost would be for a roof replacement.

Ms. Phillips replied that the ADOA construction services stated that it would cost an additional \$30,000 to \$50,000 to replace the roof.

Senator Gould asked how much time the \$15,000 would add until the next repair.

Ms. Phillips replied that it would be about 15 years.

The motion carried.

Without objection the Committee meeting adjourned at 3:45 p.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.

Arizona State Parks Board – Review of State Lake Improvement Fund Projects

JCCR Meeting

November 15, 2006

JLBC

State Lake Improvement Fund

- Provides funding to state agencies, counties, and local governments for capital and land acquisition projects on waters where gasoline-powered boats are permitted.
- 2 main sources of revenue:
 - Percentage of gasoline tax
 - Percentage of watercraft license fees
- Parks Board plans to use \$4 million in FY 07 for 13 projects.

While Most Proposed Projects Appear to Fit Statutory Criteria, 3 Raise Several Issues

- Town of Buckeye Recreational Lake - \$560,000
 - Funding is for engineering, design, and site preparation only.
 - Buckeye requested another \$3.8 million to create the lake.
- Bullhead City Non-Motorized Boat Launch Ramp - \$342,000
 - Projects involving non-motorized boats may not be consistent with the intent of the SLIF statutes.
- La Paz County/Buckskin Fire Department Water Rescue and Medical Aid Facility Kitchen Remodel - \$39,500 of \$67,600 grant
 - Remodeling a kitchen may not be consistent with the intent of the SLIF statutes.

Town of Buckeye

Buckeye Lake Recreation Area, Phase I



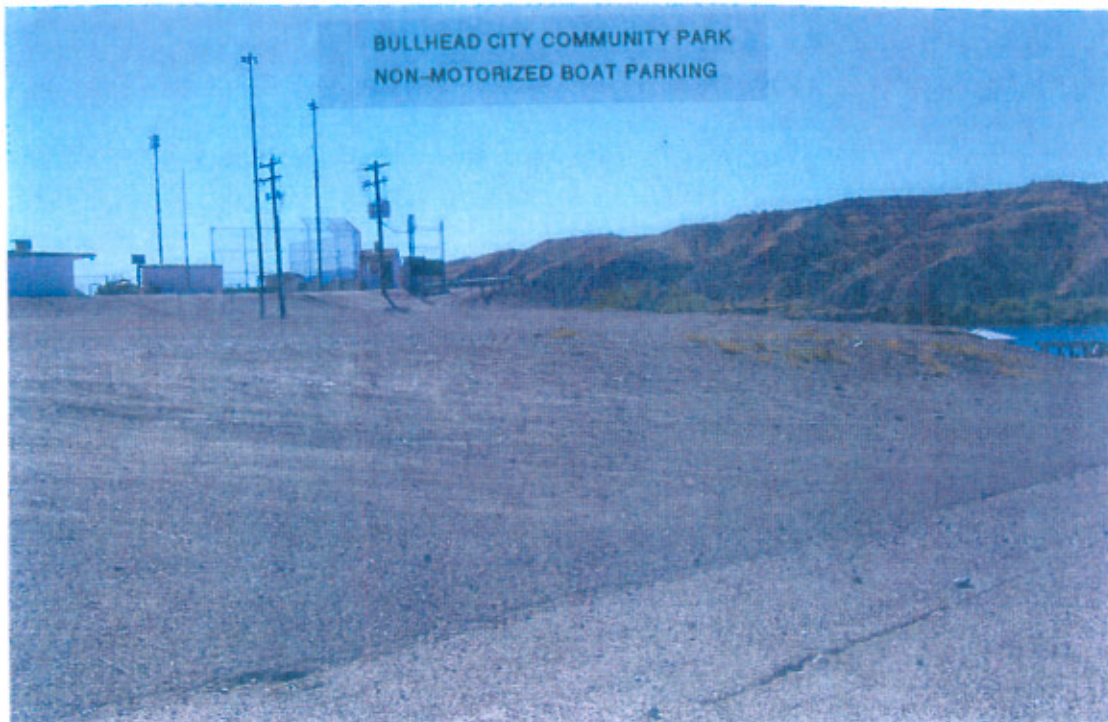
Proposed development area



Proposed development area



View of proposed launch site



View of proposed parking area



View of proposed sewer improvements



View of proposed sewer improvements



Current Watercrafts (replacements would be similar)



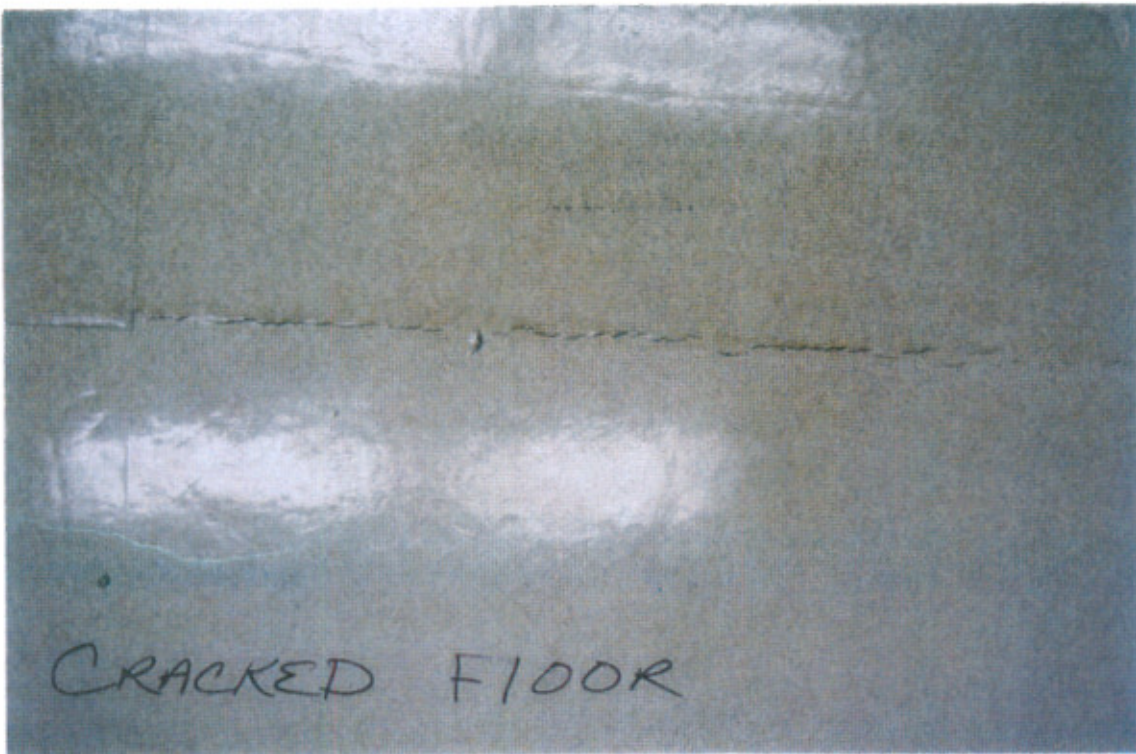
Jet skies are easier to approach other watercrafts



View of proposed improvement area



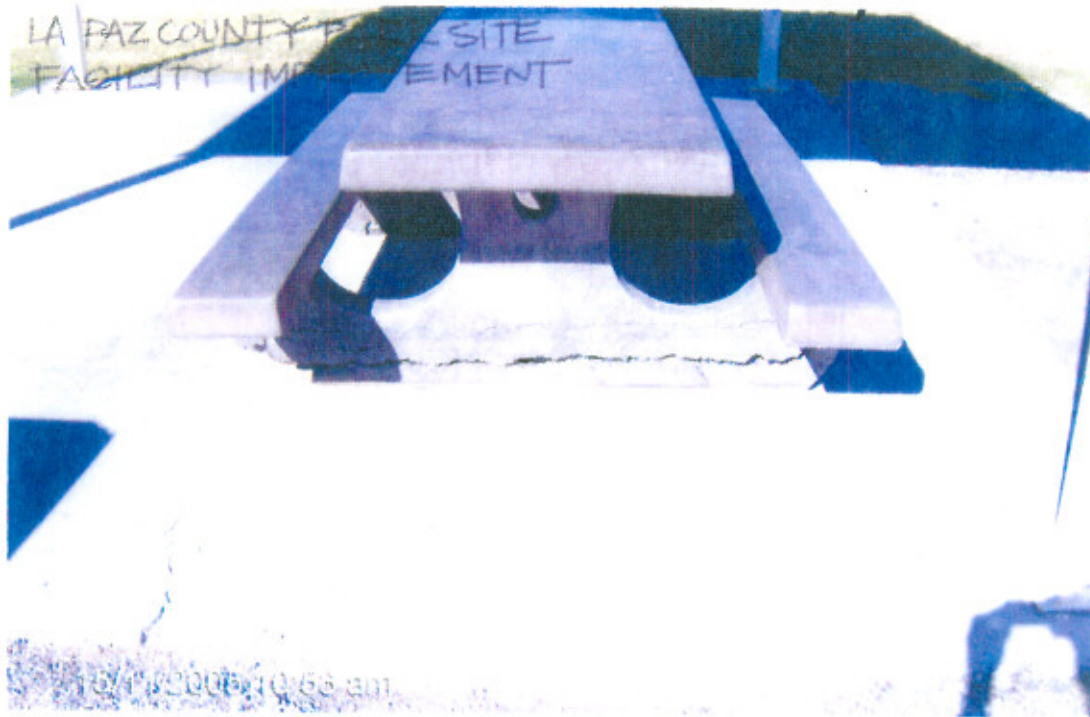
View of proposed improvement area



View of proposed improvement area



Equipment replacement



View of proposed improvement concrete picnic tables



View of proposed improvement area



View of proposed improvement area



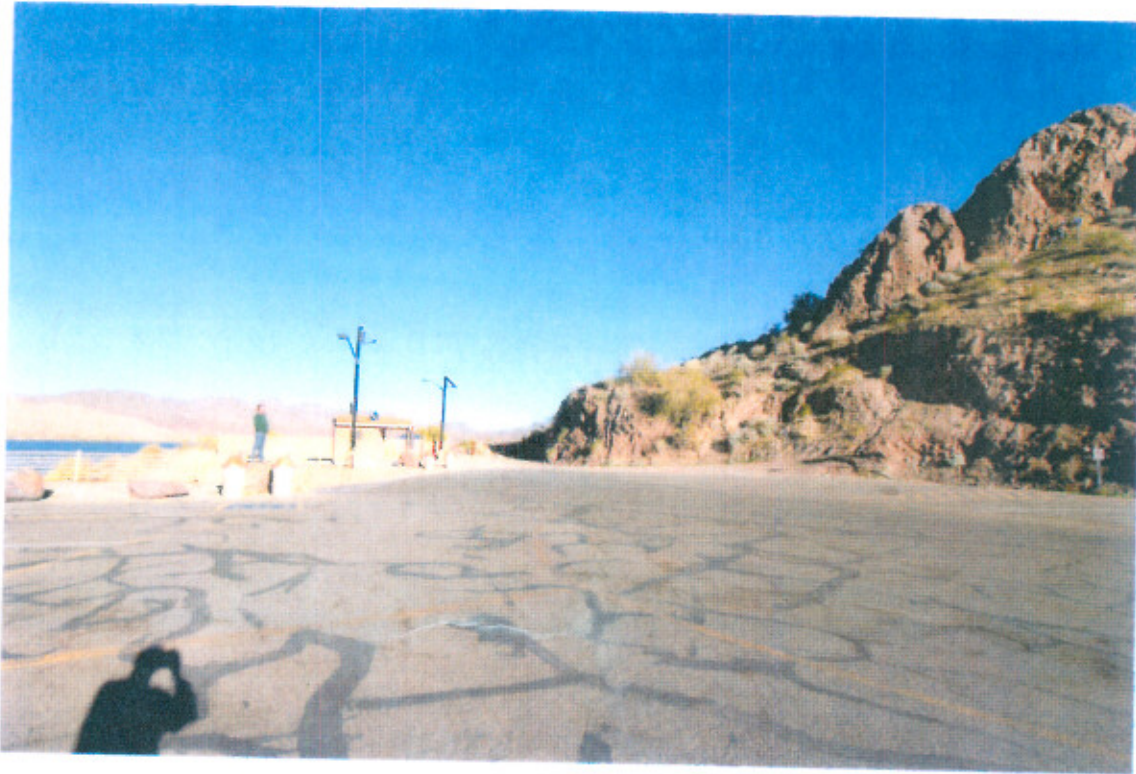
View of proposed improvement area



View of proposed improvement area



View of proposed improvement area



View of proposed improvement area



View of proposed improvement area



Proposed boat to be replaced



Proposed boat to be replaced

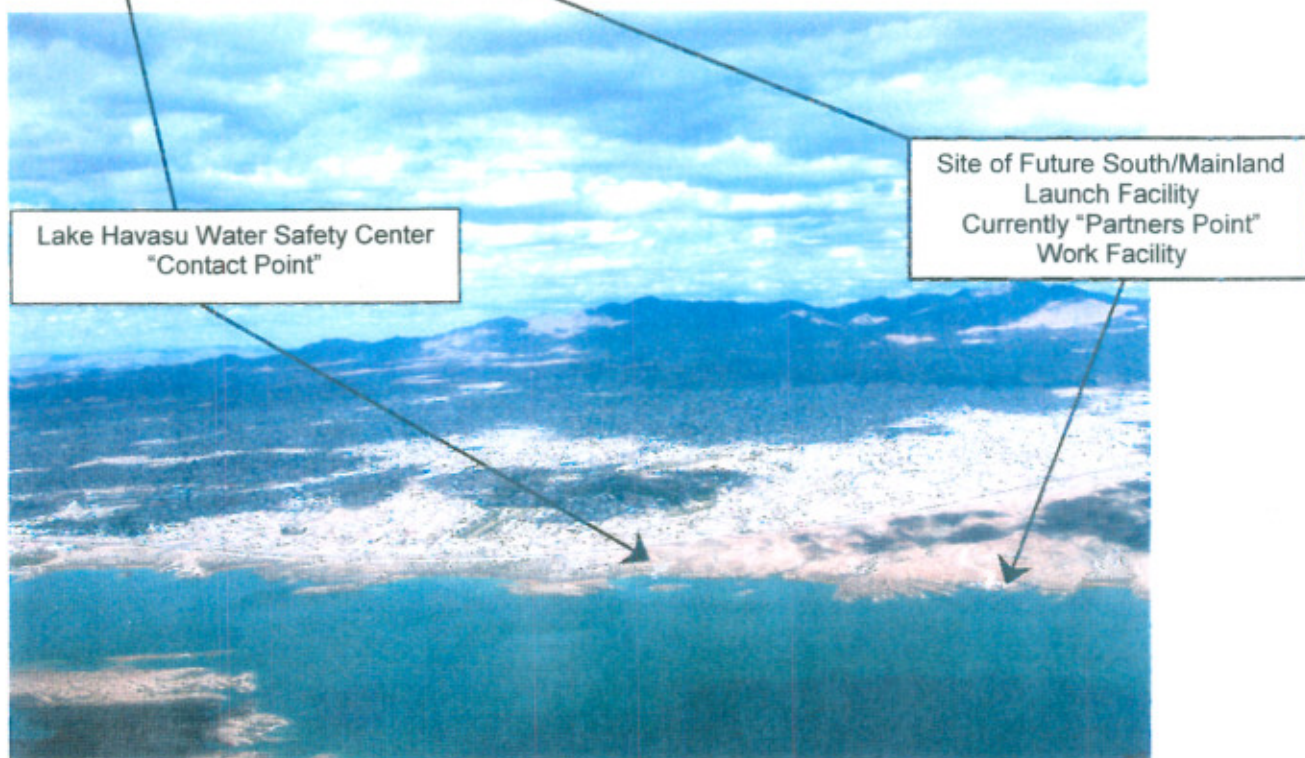


Proposed boat to be replaced



Proposed boat to be replaced

6. Project Photographs





Air Quality Advisory Board used to inform visitors



View of the Bridgewater Channel on a high use day

**Maricopa County Sheriff's Office
FY2006 State Lake Improvement Fund Application
Lake Patrol Airboat Replacement**



**LP50
Airboat to be replaced**



Watercraft to be replaced



View of proposed improvement area



View of proposed improvement area



View of proposed improvement area



Example of proposed restroom and fish cleaning station (picture taken at Fool Hollow)

Report on Indirect Debt Financing for NAU Conference/Hotel Complex

JCCR Meeting

November 2006

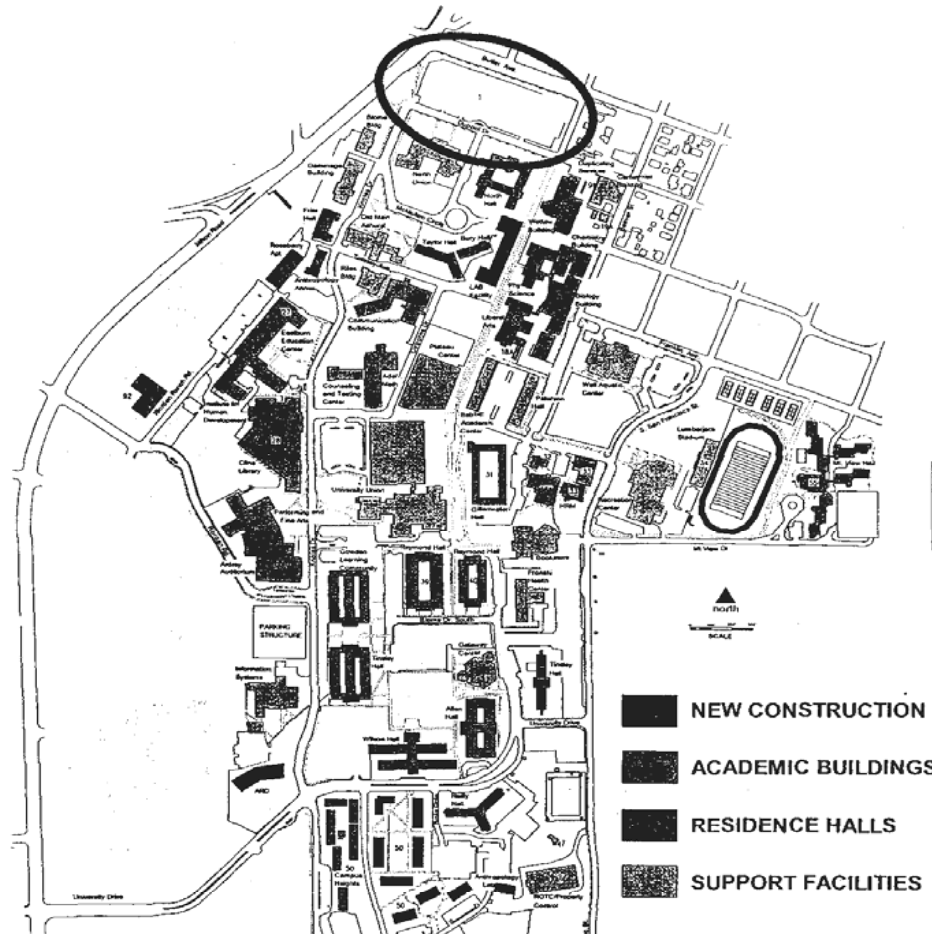
JLBC

\$12.4 Million Bond Issuance

New Conference Center and Parking Structure \$12.4 Million

- Formation of LLC to issue bonds
- 41,000 square foot conference center and 344 space parking structure
 - Total Cost- \$305/sq ft and \$17,440/space
 - Direct Construction Cost- \$265/sq ft and \$15,000/space
- LLC will lease facilities to NAU for operation
- NAU will retain title after debt is retired

EXECUTIVE SUMMARY



Ground Lease Agreement with Drury

Proposed Hotel

- 30-year term, with two 10-year renewal options
- 150-room hotel on 1.76 acres

Highlights of the Agreement

- Drury would pay a percentage of gross receipts of 3% for the first \$3 million, 3.5% for \$3 million to \$5 million, and 4% of any amount in excess of \$5 million
- NAU would use these revenues to pay debt service on LLC bonds
- It is not clear what happens with the hotel at the end of the ground lease

Committee Options

- Favorable review – Project costs for the conference center and parking structure appear to be reasonable
- Unfavorable review – As Chapter 352 was enacted in June 2006, NAU may have been expected to seek the Committee's input prior to entering into this transaction
- No action – NAU entered into this transaction prior to the effective date of the act requiring review of indirect debt financing

ASU Site Preparation and Lease Agreement

JCCR Meeting

November 2006

JLBC

\$18.5 Million Bond Issuance

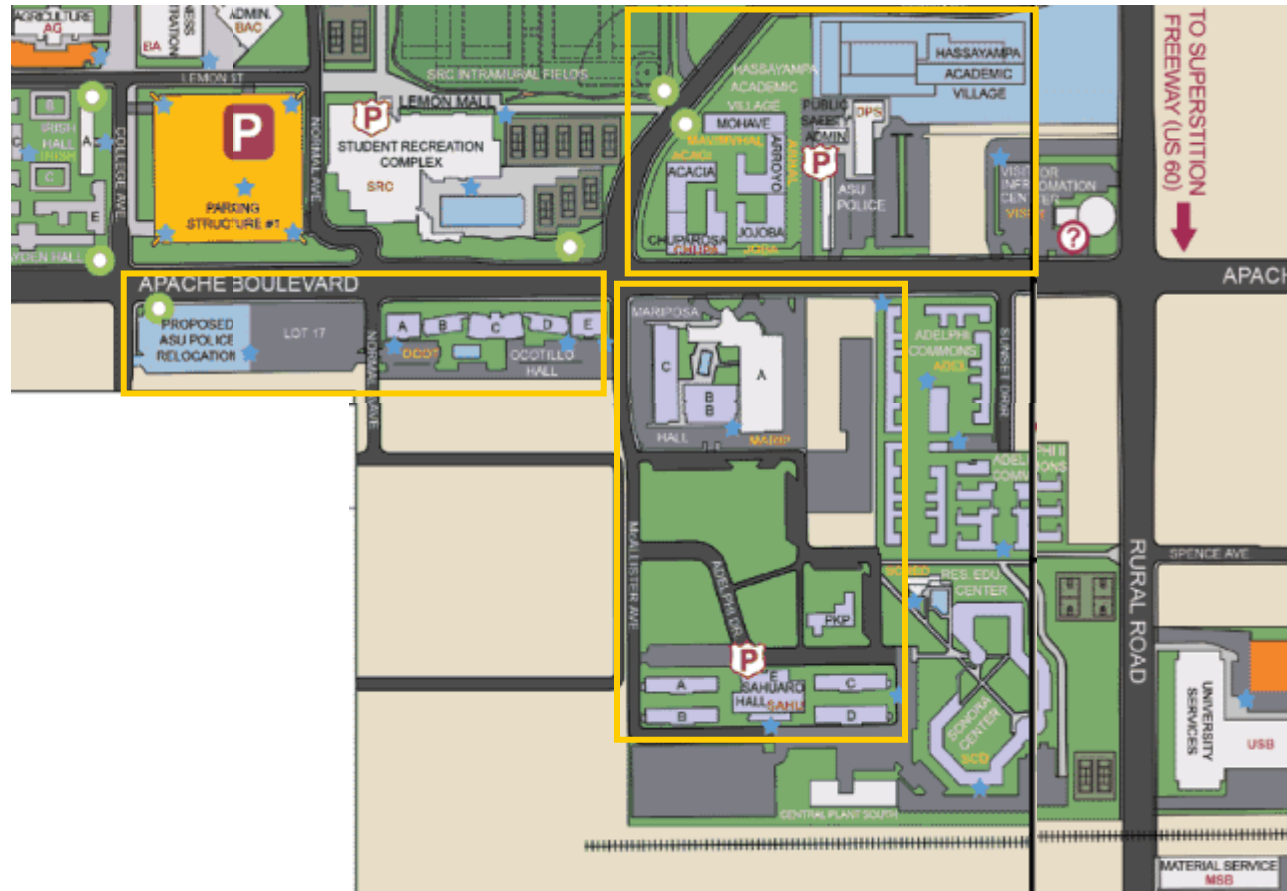
ASU Police Department Facility \$12.5 Million

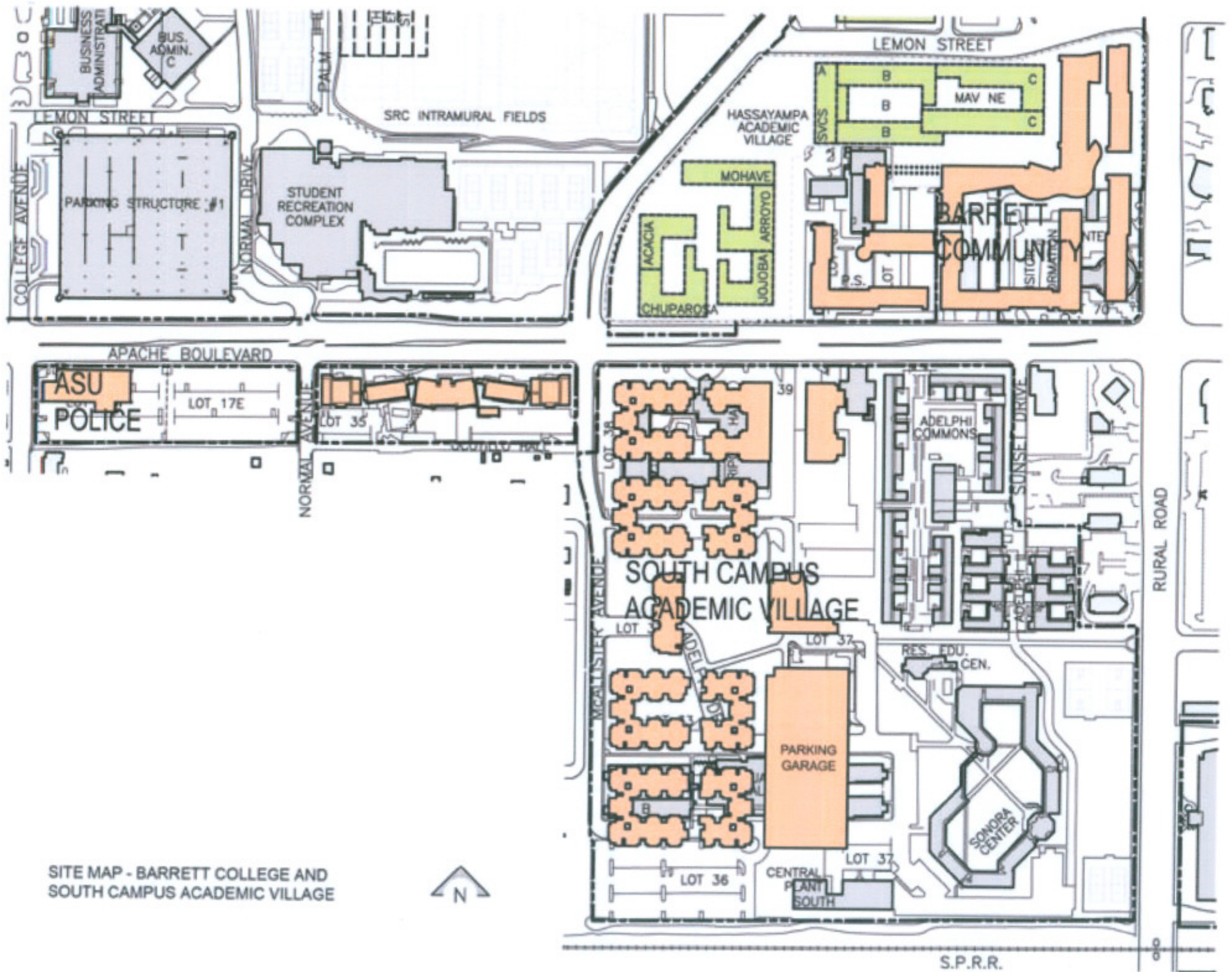
- Current facility is overcrowded and located on proposed dorm sites
- New facility would be 38,000 SF
 - Total Cost/SF - \$328
 - Direct Construction Cost/SF - \$229

Site Preparation \$6 Million

- Bond proceeds would be used to clear the sites proposed for the Barrett College and South Campus Academic Village dorms
- Site preparation includes hazardous material abatement, demolition, waste removal, and a building acquisition

Site Map – Barrett College and South Campus Academic Village





SITE MAP - BARRETT COLLEGE AND
SOUTH CAMPUS ACADEMIC VILLAGE

Ground Lease Agreement with ACC

Proposed Dorms

- **Barrett College** – 490,000 sq-ft of housing for 1,700 freshmen through upper-class honors students; includes academic space
- **South Campus Academic Village** – 570,000 sq-ft of apartment-style housing for 1,850 upperclassmen and graduate students; includes 240,000 sq-ft of retail space

Highlights of the Agreement

- ACC will provide \$230 million for the construction of two housing developments and will transfer title to ASU once the developments are completed.
- In exchange, ASU enters into a 65 year operating agreement with ACC.
- ASU will receive a percent of room and board revenue, a portion of which will be used to make the annual payment for the site preparation project.
- If ASU had to debt finance these facilities, their debt ratio would have risen from 5.3% to 6.6%.

JLBC Recommendation

ASU PD Facility and Site Preparation Bond

- JLBC Staff recommends a favorable review with the standard university financing provisions

ASU and ACC Agreement

- The ASU/ACC agreement may qualify as indirect debt financing, thereby requiring Committee review
- Should the Committee review these indirect construction projects if the state eventually acquires the asset?
- What are the provisions for addressing contractor non-conformance in a 65-year lease?