

STATE OF ARIZONA

## Joint Committee on Capital Review

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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, December 20, 2005

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The Chairman called the meeting to order at 1:38 p.m., Tuesday, December 20, 2005 in Senate Appropriations Room 109 and attendance was as follows:

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

*Senator Burns moved the Committee approve the minutes of November 29, as presented. The motion carried.*

#### **ARIZONA STATE UNIVERSITY/CITY OF PHOENIX – Report on ASU Downtown Campus.**

Ms. Shelly Carol, JLBC Staff, introduced the Arizona State University (ASU) and the City of Phoenix presentation on their plans for an expanded Downtown Phoenix Campus. The general presentation is in the agenda packet along with Attachment A addressing specific questions the university is prepared to answer.

Mr. Michael Crow, President, Arizona State University, gave an overview and the logic behind what is happening in Phoenix. He also provided an additional handout that answers the specific questions in details.

He stated that ASU is the institution within the system that is taking on the majority of growth within the university system. Of the 3,300 net new students in the university system, 3,100 are attending ASU. In the master planning process there have been struggles on how to advance the university to meet demands not only by population, but also by demographic shifts. The university is moving with the approval of the Board of Regents to an institution with schools operating in a distributed modality. Some schools will operate in the Tempe Campus, Polytechnic Campus, West Campus, and the Downtown Phoenix Center. Schools will be expanded through the intergovernmental agreement between the university and the City of Phoenix.

The objective is to try to slowly and incrementally expand the university's present enrollment capacity. Over the next 15-20 years the university is looking to have the capacity of 30,000 additional undergraduate points of access to the institution spread out between all the campuses of the university. Of these campuses, 3 are in existence and 1 is planned (the Downtown Phoenix Campus).

The City of Phoenix approached the university through a number of discussions to expand the downtown center. The university indicated to the city that they would like to expand, but would need help getting the campus initiated. In the case of the ASU Polytechnic (East) Campus, the initial investment came from the federal government. The initial elements of the Tempe Campus were offered by private citizens, the territory, and ultimately the state worked with private citizens and others to build the campus. The West Campus started with a state land transfer. Each campus has evolved with various levels of state and private investment and support. In the Tempe Campus, the municipality has covered almost all of the cost of urban infrastructure, streets, sewers, and other things associated with the campus.

The university will continue to reach out to various partners to advance its enterprise. In advancing the enterprise with the City of Phoenix, the university is excited about the possibility of consolidating educational activities to a single location and the 5 schools that will be moving downtown through the facilities and land that the city is making available. In the context of the university, the Tempe Campus is over capacity with 51,500 students. Because the university is continuing to grow at a dramatic rate, the university is looking for ways to accommodate the growth with private, corporate, and municipal partnerships. The City of Phoenix is deeply committed to enhancing its educational infrastructure. Through as many as 15 formal interactions with publicly appointed officers or the City Council, the university has a partnership with the city. There have been precautions made so the advancement of this expansion of the university is with the present model for investment that the state is the principal investor in. The demand for services offered by the university is increasing dramatically. The academic enrollment growth is at a 5% increase between the last academic year and this academic year. The demands on the university are being made only by qualified students coming to the university. The response may seem dramatic with having a partnership of \$223 million investment with the City of Phoenix. Building a new campus is not being done in anticipation of what the university might face, but this would be catch up from the enrollment growth.

Senator Robert Burns asked where the \$50 million for ASU is going to coming from.

Mr. Crow answered that in the financial operating estimate of the campus, fully built out between 2007 and 2009, the operating budget would be \$53,750,000. The basis comes from the base budget that would be moved, the additional enrollment growth, and other internal adjustments. If enrollment growth and costs are related to each other, the bulk of the base of the budget would be taken out of the Tempe budget and moved to the downtown budget.

Senator Burns stated that it would be temporary because what is taken out of ASU would be filled back. Mr. Crow responded that if things continue to grow, new students will come to ASU, so the cost will go with those students. Through the partnership with the city, the university is securing a new location in improved facilities 9 miles from the present location for 5 schools. This is a way for the university to shift growth from the Tempe Campus.

Representative Russell Pearce stated in reference to the partnership with Scottsdale, there seems to be a plan of no city left behind for an ASU campus.

Mr. Crow stated that the Scottsdale effort is a technology/knowledge park development relationship between the city, the university, and a private developer that has already put \$350 million into the project. The first buildings will begin construction on January 20, 2006. The university will lease a fraction of 1 of the buildings. That is the extent of the current plan, there is no intention for a university campus. There are no plans for anything beyond the 4 campuses in the universities comprehensive development plan.

Representative Pearce stated that there are challenges ahead for infrastructure needs for the Polytechnic Campus (ASU East) and ASU West. There will be more demands with adding another campus. The bottom line for education is accessibility and affordability for students. One area of concern is, in the plan, there is an intent clause to turn over the Mercado to the City of Phoenix once it is paid off. The transfer of property cannot be made without delegated authority or legislative action.

Mr. Crow stated that the university is conscience about cost issues and is working hard to offer a high value at a modest cost and modest expense. The facilities provided on the Phoenix Campus will be superior to the facilities the university already has on the Tempe Campus. Many of the facilities in the Tempe Campus, 25%, have been underinvested in repairs and are problematic. The relationship with the City of Phoenix is financially in the best interest of the university.

In concerns to the Mercado, the university has a multi-part relationship with the city. The university is building with the University of Arizona (UA) a new research facility that will closely collaborate with TGen, which will be successful down the road. The Legislature is still debating the medical school issues. The Mercado is a site that the city is evolving as the Phoenix Bioscience Campus, which will house facilities from ASU, UA, TGen, and other institutions. It seemed to the university, and the Arizona Board of Regents (ABOR) which approved the intergovernmental agreement, that the property was of potential great value to that part of the university that is going into downtown Phoenix, so it has been set aside for planning purposes. It is not the case that the university would dispose of the property inconsistent with public or regents policy.

Representative Pearce asked what would happen if the Phoenix bond issue were to fail. Mr. Crow responded that if the Phoenix bond issue were to be defeated the university would have to proceed more slowly. The challenges are with the design of the system that take alternative strategies. The Legislature has built a model with no capital budget for universities. ABOR has a policy to admit every student that meets the qualifications for admission to the university. The funding model is based on enrollment. The university is being built through partnerships and right now, the principal partner is the City of Phoenix.

Representative Andy Biggs asked for clarification on what the other internal adjustments are in the \$53 million estimated operating budget. Mr. Crow stated that the \$53 million was for FY 2007 – FY 2009. The internal adjustments in FY 2006 – FY 2007 are \$1,650,000 of the \$41,100,000 for the Downtown Phoenix Campus. The internal adjustments are where the university takes dollars available, moving them from reserve funds or private funds to help start the campus.

Representative Biggs stated that as the campus is developed and the university is moving students, schools, and programs to Phoenix, the operating budget will increase. He asked how the university anticipates funding the growth, how much funding of the growth will be made with the tuition increases, and if the increases will be made annually to help fund the new campus. Mr. Crow replied that any institution such as the university does anticipate adjustments in its revenue going forward. The university is near the end of a 3 year process of adjusting the position of tuition of the university from the 50<sup>th</sup> position to the 34<sup>th</sup> in the nation. The university is anticipating tuition increase dramatically below what had occurred the last 3 years, but some additional tuition adjustments will still be considered for 2 to 3 additional years. Those plans for tuition adjustments are built into the university model. They are not dramatic as far as the 39% tuition increase that occurred 3 cycles ago, they are more 7% or 8%. An adjustment of 7% tuition on an annual basis is not the means by which the campus will be successful. The campus will be successful when it absorbs growth coming into the university.

Representative Biggs stated that the Phoenix bond package is \$188 million to pay for the campus infrastructure and an additional \$31 million for an additional infrastructure.

In response to Representative Biggs, Mr. David Cavazos, Acting Deputy City Manager, City of Phoenix, stated that the \$188 million for the ASU capital development, \$30 million for the city space and \$5 million for associated street improvements. Total of \$223 million. Mr. Crow added that it would be in 3 different elements of the bond election. There are 7 propositions and the projects associated with the university are in 3 of the projects.

Representative Biggs asked if there will be a \$15 million soft capital budget.

Mr. Richard Stanley, Senior Vice President and University Planner, ASU, stated the current estimate for cost associated with furniture, fixtures, equipment, in its 2 phases will be represented with the money from the bond package and will be in the range of \$15-\$17 million.

Representative Biggs asked where the money would come from. Mr. Crow stated that the university has multiple sources of revenue, such as private gifts, fund raising, reserve funds, and other funds.

Representative Lopes asked how many years of tuition increases will be needed.

Mr. Crow stated the university is anticipating that it will be about 3 years before reaching the Board of Regent's policy of being in the 34<sup>th</sup> position for tuition. Then they will level off to the Higher Education Price Index, which is then the driver to the tuition adjustments. The university will have increased the cost of tuition and greatly expanded the success and access of the institution.

Mr. Cavazos stated that this project is part of the strategic plan to be an education, science, and technology center for the valley. The city is moving forward based on the Bond Committee recommendation. In addition to the academic advantages, there are also huge economic benefits to the City of Phoenix. Less than 20% of the property was acquired through eminent domain.

Senator Burns asked how much property was part of the 20% acquired through eminent domain and if the access of the property is complete. Mr. Cavazos stated that the total acreage acquired is 17 acres, so it is about 1/6 of the total. All property has been acquired for Phase I of the project that will open in 2006. An agreement has not been reached in all cases, but it is going through the process.

Senator Burns asked when property acquisition for Phase II is to begin. Mr. Cavazos stated that Phase II is contingent upon the bond election. If the bond election is successful, the city will work with ASU and fully employ assets that are required to acquire additional property or buildings. If the bond election is not successful, then the city will look at alternative funding mechanisms yet to be determined.

Senator Burns asked how much additional property would be needed if the bond election was successful. Mr. Cavazos answered that 2 acres would be needed.

Senator Burns asked how much interest ASU is paying for the temporary financing taken out by the city. Mr. Cavazos stated that it is approximately \$100 million, the city is in a partnership of 50% paid by ASU and 50% paid by the City of Phoenix for approximately \$3 million from each party.

Senator Ron Gould asked if the bonds will be repaid through the property tax. Mr. Cavazos answered yes, it is a secondary property tax, currently \$1.83, all the bonds passed will be part of the property tax and there will be no increase.

Senator Gould asked if other bonds are being paid off to keep the tax rate the same while incurring additional debt. Mr. Cavazos stated that there are a limited amount of bonds that are unexpended from the 2001 bond, so those that will expire plus the new ones will all be at the same rate.

Representative Steve Tully asked if the estimate for full build-out will be in 2009. Mr. Stanley replied that the campus will be completed during the 2008-2009 academic year. The campus population estimate is 7,500 – 8,000 students. Additional growth will occur and additional facilities will be required to reach the 15,000 target level for the campus, but will be worked out in the 2009-2015 time frame.

Representative Tully asked if the \$170 million per year is for 2009. Mr. Cavazos stated that the \$170 million is the fully built-out campus. The amount through 2009 would be half. The economics is based on a fully built out campus.

Representative Tully asked how much property was purchased by the City of Phoenix for the campus and if it was private property. Mr. Cavazos answered that most of the 17 acres was acquired from private owners, and a trade between the federal government and the city to acquire the postal property.

Representative Tully asked if the 17 acres were taken off the tax rolls. Mr. Cavazos stated that the 17 acres is owned by the City of Phoenix and certain property taxes are no longer payable.

Representative Tully asked if the \$180 million would be the cost for year 1 or paid over 2 years if the state were to pay build out for the universities. Mr. Cavazos stated the cost of \$180 million is what is needed to be operational in 2006. The debt will be paid as needed for interim financing. With a successful bond election, bonds will then be sold over a 7 year time period. Mr. Crow added that bond are sold over a 7 year period and amortized over 25 years and paid back over 25 years.

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

*Senator Burns moved the Committee break for recess before hearing item 2 on the agenda. The motion carried.*

At 2:35 p.m. the Joint Committee on Capital Review went into recess.

The Chairman called the meeting back to order at 2:40 p.m.

#### **LEGISLATIVE COUNCIL – Review of Procurement Method and Scope, Purpose and estimated Cost of State Archives and History Building.**

Mr. Lorenzo Martinez, JLBC Staff, presented the review of the procurement method and the scope, purpose and estimated cost for a new State Archives Building. In FY 2005 the Arizona Department of Administration (ADOA) was appropriated \$2 million to design a new State Archives and History Building. To date, design is approximately 65% complete. Last session Legislative Council was appropriated \$15 million in each FY 2006 and FY 2007 for a total of \$30 million to construct the building. Pursuant to that authorizing legislation and before any construction activity is undertaken, JCCR is required to review to scope, purpose and estimated cost, as well as the procurement methods to be used for services related to the project. The scope of the building, as currently designed, is to be a 2-story facility approximately 124,000 square feet. It will include receiving and processing areas, storage space, and public service areas including meeting rooms. Legislative Council met to discuss the project and authorize the Director of Legislative Council to work with the current architect to complete the design of the building. It also included the elimination of an overflow parking associated with a meeting room.

The second review requirement of JCCR relates to procurement methods for services on the project. Legislative Council also provided guidance to the Director at its meeting and authorized the Director to enter into 3 contracts related to services: 1) contract with an independent consultant to provide expert assistance on project management services and construction services, 2) project management services, and 3) Construction Manager at Risk (CM@R) contract for construction services. In every instance relative to this project, Legislative Council retains full control and responsibility for the project.

President Ken Bennett, Legislative Council Chairman, stated that Legislative Council met on this issue and recommended both a procurement method and a recommendation related to the scope, purpose, and did not include a specific dollar amount associated with the estimated cost which has been \$35.7 million and the appropriation is \$30 million. One issue favorably considered was a request from Representative Tom Boone that an independent consultant be hired to assist and provide oversight in the management and construction services, in doing so there would be expertise looking at the project. The recommendation included the requirement that all the sub-contracts done under the CM@R contract would be publicly bid on a competitive bid basis in accordance with the methods typically used by ADOA even though Legislative Council and the Legislature is retaining ultimate authority.

Public testimony was heard.

*Senator Timothy Bee moved the Committee give a favorable review of the scope, purpose and estimated cost consistent with Legislative Council direction to the Director of Legislative Council to complete design of the project and a favorable review of the proposed plan for procurement of services related to the project.*

Representative Boone asked if the procurement method contracts with an independent consultant and project management services were under the same contract. Mr. Michael Braun, Legislative Council, stated that the contracts do not have to be different or the same. It was formulated that there would have been a more active participation by ADOA and an independent consultant would have to work with him. If the project manager is someone other than ADOA, then the consultant and the project manager jobs could be rolled into 1 contract.

The motion carried.

Without objection the Committee meeting adjourned at 3:05 p.m.

Respectfully submitted:

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Yvette Medina, Secretary

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Lorenzo Martinez, Assistant Director

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Senator Bob Burns, Chairman

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