

STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

ROBERT L. BURNS
CHAIRMAN 2005
PAULA ABOUD
LINDA AGUIRRE
TIMOTHY S. BEE
ROBERT CANNELL
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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

JOINT COMMITTEE ON CAPITAL REVIEW

Tuesday, May 9, 2006

9:30 a.m.

House Hearing Room 4

MEETING NOTICE

- Call to Order
- [Approval of Minutes of April 18, 2006.](#)
- DIRECTOR'S REPORT (if necessary).
- 1. [NORTHERN ARIZONA UNIVERSITY - Review of Research Laboratory Lease-Purchase Project at NAU-Yuma.](#)
- 2. [UNIVERSITY OF ARIZONA - Review of Residence Life Building Renewal Phase 2A.](#)
- 3. [ARIZONA EXPOSITION AND STATE FAIR BOARD - Review of Revised FY 2006 Building Renewal Allocation Plan.](#)
- 4. [ARIZONA DEPARTMENT OF TRANSPORTATION - Review of Oil Storage Tanks Project.](#)

The Chairman reserves the right to set the order of the agenda.
05/04/06

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MINUTES OF THE MEETING JOINT COMMITTEE ON CAPITAL REVIEW

Tuesday, April 18, 2006

The Chairman called the meeting to order at 8:20 a.m., Tuesday, April 18, 2006 in House Hearing Room 5 and attendance was as follows:

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

Senator Burns moved the Committee approve the minutes of February 23, 2006, as presented. The motion carried.

ARIZONA GAME AND FISH DEPARTMENT – Review of Scope, Purpose, and Estimated Cost of Headquarters Relocation Project.

Mr. Jeremy Olsen, JLBC Staff, presented the review of the relocation of the Game and Fish headquarters. The new headquarters will be located on the Ben Avery property at I-17 and Carefree Highway. The elevations, floor plans, and site plans were completed on January 9, 2006. It is expected that the department will sign a lease by mid July 2006. They are expected to break ground for the project on August 1, 2006, with completion by April 2007. The project will have 80,000 square feet of office space, 25,000 square feet of storage space, and 8,000 square feet for a vehicle and maintenance facility. The site will have room for additional office space as needed. The cost of the project will be \$16.5 million which is a cost of \$150 per square foot. The project will be financed through a Privatized Lease-To-Own (PLTO) agreement for a length of 25 years with payments starting at \$1.5 million for the first years and the final year will be \$1.9 million. Funding for the project will be from the Wildlife Conservation Fund, which receives revenue from the tribal gaming proceeds. The department estimates that the fund will receive \$5.5 million in 2006. The payment of \$1.5 million for this project will be 27% of the fund.

Senator Robert Burns asked what the source is for the Wildlife Conservation Fund.

Mr. Olsen replied that the Wildlife Conservation Fund receives revenue from tribal gaming proceeds. As part of the state's share of tribal revenue, each year a portion of the revenue is allocated to the fund.

Senator Burns asked if there were any other sources considered other than the Wildlife Conservation Fund.

Mr. Steve Ferrell, Deputy Director, Arizona Game and Fish Department, disclosed that all fund sources were considered. The Wildlife Conservation Fund was chosen because legislation for the fund mirrors the department's mission almost in its entirety, with the exception of watercraft. It allows the use of the funds for all the components of the expenses of the department. The Game and Fish Commission also favored the use of this fund because they expect it to grow over the life of the project.

Senator Burns observed that the projected square footage cost is lower than those seen in the past. In the event that the cost does not come in at the projected rate, he asked if there was another plan to continue the project.

Mr. Ferrell responded that the Game and Fish Commission has authorized up to \$16.5 million. If that amount should be exceeded, they would have to re-approach the Commission for authority to build with the increase.

Representative Tom Boone questioned whether the budget of \$146 per square foot was an adequate amount.

Mr. Ferrell replied that it is an adequate amount.

Senator Karen Johnson noted that the total building cost for construction is \$16.5 million, yet when financed for 25 years, the total will be \$42.5 million.

Mr. Ferrell explained that the total of \$42.5 million is accurate, but it also includes costs for the leasor to operate the building and provide security and maintenance.

Senator Johnson clarified that the \$42.5 million is not for just the cost of the building with the payment over the 25 year period, it also includes something in addition to the payment.

Mr. Ferrell replied that it is the cost of the payment, but in return, as part of the agreement the leasor maintains, operates, and provides security for the building.

Senator Johnson inquired about the yearly cost to operate the building if the one-time cost of \$16.5 million was to be paid. She wondered if the cost could be funded through the Wildlife Conservation Fund.

Mr. Richard Rico, Assistant Director, Arizona Game and Fish Department, explained that the operations and maintenance portion starts at \$360,000 per year, with annual percentage increases, which would reach \$650,000 at the end of the 25 year term. Included is a maintenance reserve which is for long term maintenance.

Senator Johnson suggested that this should be a one-time endeavor to pay the \$16.5 million then allow the department to fund the maintenance and operations out of the Wildlife Conservation Fund each year rather than pay \$42.5 million over a 25-year period.

Representative Russell Pearce pointed out that the department does not receive General Fund monies, so the issue would be that they would not have the money. He agrees with Senator Johnson's concept in paying cash.

Representative Boone reiterated that the recommended method would be based upon the cash flow to get the facility built in a timely manner.

Senator Burns moved option 1, a favorable review to relocate the Arizona Game and Fish Department headquarters to the Ben Avery property and that the department report to the Committee concerning the future of the Deer Valley parcel when plans for the property are finalized.

Senator Johnson asked how much the Deer Valley parcel is worth.

Mr. Ferrell replied that the department anticipates \$3.5 million to \$4 million.

There was no further discussion. The motion carried.

YUMA-LA PAZ COMMUNITY COLLEGE DISTRICT – Review of General Obligation Bond Issuance.

Ms. Amy Strauss, JLBC Staff, presented the review of the Yuma-LaPaz Community College District proposed \$53.9 million General Obligation bond issuance. This is the final issuance from an authorized 2004 bond election to issue a total of about \$74 million in bonds, which was reviewed by the Committee in August 2004. The Committee also reviewed the first issuance of \$20 million in May of 2005. The \$74 million from the bond proceeds would be combined with approximately \$5 million from other sources for a total of \$79 million. The issue will be over a 25-year period, and with an estimated interest rate of 5%, total interest payments would equal about \$43 million. The first annual payment for this issuance is about \$3 million. The payment on the \$20 million issuance is about \$1 million. She referred to Tables 1 and 2 of the JLBC recommendation memo that provide a summary of the new projects and renovation projects, which will be funded by the bond proceeds. The Committee favorably reviewed the Main Campus projects listed under Table 1 in May 2005. The projects would add approximately 300,000 new square feet to the district with an estimated average cost per square foot of \$262. Debt service is paid from property taxes, which will result in an increase of about \$30 dollars for every \$100,000 of house value.

Representative Biggs recalled that 2 or 3 years ago, the Committee provided the universities money for their biotech labs with part of it going to the Yuma campus for a new lab. He asked if this is for a different campus and if the Science and Agricultural Complex has received any of that money.

Mr. Dan Hann, Vice President for Business and Administrative Services, Arizona Western College, responded that the projects do not include the Northern Arizona University (NAU) project.

Senator Linda Aguirre expressed her support for this project.

Senator Burns asked if the college has any plans for other long term capital projects that would be funded from sources other than this bond.

Mr. Hann acknowledged that the college has a multi-year master plan that goes through 2015. These projects go through 2010. He expects that the district will go back to the public and request consideration of additional improvement bonds as the district continues to grow in the future.

Representative Boone noted that the projects are to go out to bid May 1, 2006.

Mr. Hann replied that the bids will be released on May 1 with bids due May 31. On June 13, the recommendation will go before the Board and a contract will be awarded by July 1.

Representative Boone stated his interest in the method of procurement for construction projects. He asked what type of bidding will occur for this project.

Mr. Hann responded that it will be a design-bid-build project.

Representative Boone mentioned that most construction projects presented to the Committee in the past have been the Construction Manager at Risk method which is not a sealed competitive pricing bid. He expressed his appreciation for using the sealed bid concept.

Senator Burns moved the Committee give a favorable review as recommended by JLBC Staff to issue the remaining \$53.9 million General Obligation bond. The motion carried.

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

Ms. Leah Ruggieri, JLBC Staff, presented the review of State Lake Improvement Fund Projects (SLIF). She summarized the February 23, 2006 meeting where the Committee favorably approved capital grants and projects funded by SLIF. At the meeting, the Committee requested that the Parks Board provide additional information on its specific proposal to allocate \$150,000 to State Parks projects and the use of pricing guidelines to ensure that local governments receive comparable grants for comparable equipment. This information can be found in the meeting packets. The Committee also requested that the Parks Board report back on the appropriate level of administrative expenditures from SLIF in FY 2006.

Representative Boone asked for clarification on whether in FY 2006, the Parks Board anticipates spending \$3.7 million for administrative costs. Ms. Ruggieri stated that it is the maximum amount of expenditure anticipated by the Board.

Mr. Jay Ziemann, Assistant Director, Arizona State Parks, stated that the recommendation misses the most important point that the money should not be spent on operating state parks. The money should be used for capital projects in state parks that have boats. Operating funds for the agency have been reduced in past budget cycles, so there is no way to meet operating demands. Other operating funds, General Fund, revenue and interest on the Heritage Fund have all been reduced to the point that there is no way to maintain operations other than using SLIF to make ends meet. He informed the Committee that these are the last funds available in the agency. The \$4 million was budgeted by the Board for administrative expenses, but they do not expect to expend any more than \$ 3.7 million. The SLIF grant program is for local communities and that component has been fully funded.

Representative Boone asked what the adjusted amount would be in 2007 from the \$3.7 million for administrative costs for the salary increases that were given.

Mr. Ziemann replied that he does not have the information available.

Representative Pearce said he has been concerned about SLIF for a long time. There are cities with small lake projects asking for SLIF money when they were never intended to be eligible. The SLIF money comes from gas taxes and boat registrations, and has always been intended for major lakes that allow gas powered boats, not small city or man-made lakes. He would like to see legislation stating the funds are only used for major lakes that allow gas powered watercraft. He asked if the agency has a list of all the grant receipts of the SLIF and Boating and Safety Law Enforcement Fund (BSLF).

Mr. Ziemann stated that he does have the list and will be able to send copies. He noted that the department tries to administer the fund as the statute dictates.

Representative Pearce said he would like to limit the use of the funds for what they are intended for through a motion. There are agencies that use 100% of their funds through the BSLF for enforcement activities in small counties for lakes and rivers which has never been the intent. He would like to have included in the motion the intent to stay with the original legislation that the funds are to be used for major lakes and law enforcement purposes for major lakes.

Senator Burns asked how much SLIF money will be used for administrative costs in 2007.

Mr. Ziemann replied that the expenditures will be the same. The revenues are flat and the interest earned on the Heritage Fund is not going to change a great deal, so it would be up to the Legislature to determine whether the General Fund will increase. If the General Fund increases, there would be less need to rely on revenue and SLIF. If the budget does not change it would be at \$4 million for administrative cost to operate state parks out of SLIF.

Senator Gould asked if the state park system operates at a loss, where the revenue cannot support the operation.

Mr. Ziemann said that it is the case.

Senator Gould questioned why services could not be priced on the user fees rather than being a net drain on the General Fund.

Mr. Ziemann replied that the parks have become increasingly self-sufficient. In 1989 the Legislature allowed the department to hold on to the revenue collected. In 1989 the parks system generated about \$11.5 million in revenue compared to last year's revenue of \$9 million. Kartchner Caverns generates the most at \$2.5 million compared to the rest of the parks system which has become more entrepreneurial. The parks fees are amongst the highest in the country and need to be affordable so people will be able to come to the parks.

Senator Gould inquired as to the percentage loss for parks operations.

Mr. Ziemann stated that some parks do well although Kartchner Caverns helps sustain many of the other parks that do not generate much revenue. The historic parks cost a lot to operate and maintain, and do not generate a large number of visitors, but they are important places of Arizona history that need to be available to the public.

Senator Gould would like to know how much fees would have to be raised based upon the loss percentage of park operations.

Mr. Ziemann did not have the numbers available and cannot speculate the amounts. He will be able to provide the information at a later time.

Senator Gould suggested that fees should increase to where the parks break even and not be a burden on the taxpayers. There are people that do not visit the parks because they can barely get by on their income and yet they are subsidizing the enjoyment of other people that have expendable income that can afford to travel.

Mr. Ziemann replied that the General Fund provides \$2.3 million for the entire state parks system, and revenue generated within the system is \$9 million, which is largely unheard of for a state parks system anywhere in the country.

Representative Pearce recommended that if the fees were increased a little, there would be better use of SLIF money that ought to be going to grants and capital projects for major lakes.

Mr. Ziemann mentioned that this discussion on what is appropriate, what the fees are and a comparison of our parks to other state parks had occurred 2 to 3 years ago. He will provide the information from those discussions.

Representative Jack Brown commented that parks is an area where you put money into, and do not expect to get money out of it. Parks are a quality of life component that some people never see, but that does not mean they should not be subsidized. We have a good parks system, but it needs to improve and we need to make it better.

Representative Phil Lopes clarified that SLIF was originally for capital projects in boating lakes. He asked who gives the authority.

Mr. Ziemann replied that authority is from statute.

Representative Lopes pointed out that there is no question that the intention of SLIF was for capital projects in boating lakes. He recalled that money has been taken from SLIF. He questioned why the parks board continued to fund the grants if the money was needed for administrative costs and other purposes.

Mr. Ziemann remarked that SLIF revenue comes from a percentage of gas tax and boating licensing. From that, 11.8% is used for state parks and administrative purposes, the remainder is split 70% to the local communities for their projects and 30% to state parks for capital projects in lake parks. The 70/30 split came into agreement when

10 to 15 years ago State Parks was rating the SLIF grant applications, and at the same time the State Parks own development section was applying for SLIF grants. This turned out to not be a good system. It is the 30% that the Parks Board has put in place for operating. It does not make sense to lay off people and close state parks throughout the state and yet build lake amenities when the budget was cut. There was also session laws that stated parks could not be closed. There was no other place to go for the operating funds.

Representative Lopes asked if the reason there was no cut back on the local SLIF grants was because there were statutory reasons.

Mr. Ziemann stated that to some degree they did not want to violate the 70/30 split which was made by agreement. They also did not want to penalize the grant recipients around the state if there was a potential to solve a problem that was not of their making.

Representative Lopes acknowledge their point that they do not want to penalize grant recipients. He stated that it may be an opportunity to penalize recipients because the penalty is not coming from the parks board, it is coming from the Legislature. Tax payers need to know the reason why they are not receiving a SLIF grant.

Representative Boone proposed the Committee take motion #2 in the JLBC recommendation but make a modification in terms of the original intent and adjust the \$3.7 million to \$3.8 million for the salary increase approved earlier in the session.

Mr. Richard Stavneak clarified that at the last meeting, the Committee favorably reviewed all projects which included the \$150,000, however more information was requested on how the money was going to be spent. The response to the information was there is no specific plan other than for emergencies. The money will be spent on facility and site repair work that needs to be done as circumstances arise and not on 1 big emergency.

Senator Burns moved the Committee adopt JLBC recommendation #2 that the Parks Board limit SLIF funding for administrative expenses to \$3.7 million to make an additional \$300,000 available for SLIF grants and projects, with a change of \$3.7 million to \$3.8 million and change \$300,000 to \$200,000. In addition, the State Parks Board use future SLIF monies to meet the original intent that grants be used for major lakes and rivers that allow gas powered boats. The motion carried.

Without objection the Committee meeting adjourned at 9:17 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.

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DATE: May 4, 2006

TO: Representative Tom Boone, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Amy Strauss, Fiscal Analyst

SUBJECT: Northern Arizona University – Review of Research Laboratory Lease-Purchase Project at
NAU-Yuma

Request

A.R.S. § 15-1682.01 requires Committee review of any university projects financed with Certificates of Participation (COP), also known as lease-purchase agreements. Northern Arizona University (NAU), requests Committee review of an Applied Research Facility to be sited on the campus of Arizona Western College in Yuma, Arizona. NAU would finance this project with a COP issuance not to exceed \$4 million. The facility is part of the university research infrastructure lease-purchase plan authorized by the Legislature in 2003. This research lab is built in conjunction with planned Arizona Western College (AWC) projects funded from a total \$73.9 million bond package, which the Committee favorably reviewed in August 2004.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the request 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.

(Continued)

The estimated annual debt payment, based on an assumed 4.9% interest rate, is \$300,000. The funding source of debt service is General Fund appropriations starting on July 1, 2007. Until that time, there will be financial assistance through the state sales tax exemption for the contractor of this project, and the capitalization of interest payments. NAU anticipates selling the COP in June 2006, with a Standard and Poor's A credit rating, for a term of 25 years, at an estimated interest rate of 4.9%.

A.R.S. § 15-1683 allows each state university to incur projected annual debt service for bonds and certificates of participation of up to 8% of each institution's total projected annual expenditures. This calculation is known as the debt ratio. These projects would increase the NAU debt ratio from 5.76% to 5.85%.

NAU estimates new operating and maintenance costs of \$85,000 for the project. NAU plans to request General Fund monies to support these expenses.

NAU would contract for the construction of the Applied Research Facility in combination with AWC, which plans to use the Design-Bid-Build contracting process for its approximately \$70 million in capital projects. NAU is seeking economies of scale by partnering with the larger AWC projects.

The cost for this project is below that of a comparable research facility, the ASU-Interdisciplinary Science and Technology Building (see *Table 1*). Both projects' costs are above the average for other university projects, as research labs tend to have a higher cost per square foot. Additionally, construction in rural communities generates higher construction costs than in urban districts, which have additional construction resources. Recent increases in construction inflation also impacts the project cost.

Analysis

NAU submitted the Applied Research Facility as a research infrastructure project. A.R.S. § 15-1670 defines research infrastructure as "installations and facilities for continuance and growth of scientific and technological research activities at the university." Laws 2003, Chapter 267 amended A.R.S. § 42-5075 to confer tax-exempt status on the proceeds and income of research-infrastructure-related construction contracts, with the intent of lowering project costs.

Chapter 267 also appropriates debt service payments from the General Fund between FY 2008 and FY 2031 to support research infrastructure lease-purchases. In exchange, Chapter 267 requires the universities, starting in FY 2008, to deposit into the General Fund a portion of licensing, royalty, and intellectual property income.

Chapter 267 makes an annual General Fund appropriation, from FY 2008 through FY 2031, of \$5,900,000 to NAU for debt service payments. Given previously reviewed projects and assuming this COP issuance takes place, NAU has essentially used all of its research infrastructure capacity.

Applied Research Facility

NAU would construct a 10,000 square foot applied research facility on the campus of AWC. NAU will enter into a long-term ground lease with AWC for the site, which will exceed the debt service term. NAU operates a 2+2 partnership with AWC, and has been a presence on the campus since 1996. The 2+2 partnerships enable students to take lower division courses at 2-year community colleges and complete their baccalaureate degrees at a participating university. The NAU-AWC partnership is unique in that they share both infrastructure and campus space. NAU pays a fixed administrative fee to AWC for

(Continued)

operational costs instead of rent. The new facility will incorporate Biosafety Level 2 (BSL2) laboratories, to be used for collaborate research and teaching activities in environmental fields such as soils and renewable energy.

This project will expand NAU’s 2+2 programs to include degrees that require science courses, which is enabled by the addition of NAU lab facilities. NAU expects students from all class levels to utilize the facility, which is a separate stand-alone building located adjacent to the AWC science complex. NAU expects to provide lab space to AWC as it becomes available.

The total cost per square foot for the building would be approximately \$400 and the direct construction cost \$340. *Table 1* compares the costs of university research infrastructure projects. Both total cost per square foot and direct construction cost per square foot are above the averages for similar research infrastructure projects. This is due to the higher construction cost per square foot for research facilities, higher costs of construction in rural areas, and recent increases in construction inflation.

Project	Total Project Cost	Total Cost Per Square Foot	Direct Construction Cost Per Square Foot
ASU-Interdisciplinary Science and Technology Building ^{1/}	\$18,000,000	\$300	\$217
ASU-Interdisciplinary Science and Technology Building ^{2/}	12,000,000	305	228
UA/ASU- Biomedical Research Collaborative Building	29,600,000	345	264
NAU-Applied Research and Development Facility	20,500,000 ^{1/}	342	275
AVERAGE		\$385	\$299
UA-Thomas W. Keating Bioresearch Building	65,652,000 ^{2/}	389	306
UA-Medical Research Building	54,350,000	392	317
NAU- Yuma Applied Research Facility	4,000,000	400	340
ASU-Interdisciplinary Science and Technology Building ^{3/}	74,000,000	412	285
NAU-New Laboratory Facility	33,000,000	413	335
ASU-Biodesign Institute, Building B	73,000,000	425	307
UA-Chemistry Building Expansion	46,100,000 ^{3/}	507	415

^{1/} Includes \$5.7 million in Federal Funds.
^{2/} Includes \$1.1 million from indirect cost recovery and donations.
^{3/} Includes a \$2.5 million U.S. Department of Commerce grant.

University Research Infrastructure Projects

Laws 2003, Chapter 267 appropriated a total of \$34,625,000 annually to the 3 state universities from the General Fund beginning in FY 2008 and continuing through FY 2031 for the debt service on lease-purchase financing for research infrastructure projects. *Table 2* is a summary of NAU’s research infrastructure projects.

NAU Projects	Total Project Finance Cost	Annual Debt Service	Total Debt Payments
College of Engineering and Technology Renovation	\$15,000,000	\$1,239,000	\$ 31,077,700
Applied Research and Development Facility	18,000,000	1,482,800	37,266,200
New Laboratory Facility	33,000,000	2,472,800	60,428,500
NAU Yuma Applied Research Facility	4,000,000	302,000	7,340,700
North Campus Research Infrastructure	<u>5,000,000</u>	<u>374,800</u>	<u>9,151,200</u>
Total	\$75,000,000	\$5,871,400	\$145,264,300

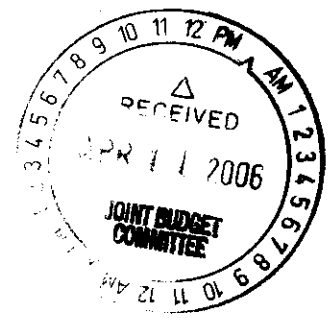


**NORTHERN
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April 5, 2006

The Honorable Tom Boone, Chairman
Joint Committee on Capital Review
1716 West Adams
Phoenix, Arizona 85007

RE: Project Review

Dear Representative Boone:

The Arizona Board of Regents for and on behalf of Northern Arizona University (NAU) is seeking favorable review at the next session from the Joint Committee on Capital Review. Northern Arizona University received Capital Development Approval (CDP) and we expect Project Implementation Approval (PIA) by the Arizona Board of Regents.

PROJECT	ABOR APPROVAL	EXPENDITURE
NAU Research Lab at Arizona Western College/NAU Campus in Yuma	CDP 1/28/05, PIA expected 4/28/06	\$4 M

We appreciate your consideration of our request. If you have any questions, please contact me at (928) 523-6104.

Sincerely,

John D. Haeger, President
Northern Arizona University

Kathe M. Shinham, Vice President
Northern Arizona University

Cc: Joel Sideman, Executive Director, Arizona Board of Regents
Ted Gates, Asst. Exec. Director for Capital Resources, Arizona Board of Regents
Lorenzo Martinez, Assistant Director, Joint Legislative Budget Committee
M.J. McMahon, Executive Vice President, Northern Arizona University
Christy Farley, Director, Government Affairs, Northern Arizona University
Amy Strauss, Fiscal Analyst, Joint Legislative Budget Committee

EXECUTIVE SUMMARY

ACTION ITEM: Request Project Implementation Approval, Arizona Western – NAU Yuma

ISSUE: Northern Arizona University seeks Project Implementation Approval for an applied research facility to be sited on the campus of Arizona Western College in Yuma, Arizona

PREVIOUS BOARD ACTION: Capital Development Approval January 2005

PROJECT DESCRIPTION:

- NAU proposes construction of a new 10,000 square foot applied research facility on the campus of Arizona Western College (AWC) in Yuma, Arizona. NAU will enter into a long-term ground lease with AWC for the site. The lease term will exceed the debt service term. NAU has had a physical presence on the AWC campus since 1996, and the partnership between AWC and NAU extends even longer.
- Working collaboratively, NAU and AWC have completed programming and preliminary design. The proposed location on campus is specified in the new AWC master plan and is congruent with the campus development strategy. NAU elected to use the same design firm, Gould Evans, that AWC selected for design of their new Agricultural Sciences Complex. Utilizing the same architect facilitated programming and an integrated design within the AWC complex.
- The AWC /NAU partnership is regarded as a learning hub for southwestern Arizona. It is anticipated the NAU applied research building will be a critical complement to Arizona Western's agricultural, plant and biological science activities that are scheduled for their new 130,000 square foot building.
- The new facility will incorporate BSL2 laboratories. It will allow collaborative research and teaching activities between NAU and University of Arizona researchers in environmental fields such as soils, renewable energy, and other related fields.
- The total project budget is \$4 million funded by Certificates of Participation supported by Research Infrastructure funds appropriated by the legislature under House Bill 2529. The debt service will be funded through interest capitalization until July 1, 2007 when appropriations for Research Infrastructure are to begin.

FISCAL IMPACT AND FINANCING PLAN:

The debt ratio previously approved by the Board in NAU's Capital Improvement Plan, in conjunction with the annual Debt Capacity Study for FY 2007-2009, was State (A.R.S.) 4.7% and ABOR 5.8 %. The debt ratios for the 2006 CDP are 5.95% of total projected expenditures and mandatory transfers (State Law Basis, max 8%) and 8.55% of projected unrestricted expenditures and mandatory transfers (ABOR Policy basis, max 10%). The incremental debt service for the Arizona Western – NAU Yuma research project is State (A.R.S.) 0.09 % and ABOR 0.11 %.

CONTACT: Dr. Kathe Shinham, VP for Administration & Finance, (928) 523-6515, kathe.shinham@nau.edu
Richard Bowen, Associate VP of Administration & Finance, (928) 523.8831, richard.bowen@nau.edu

EXECUTIVE SUMMARY

PROJECT JUSTIFICATION:

- Defined goals within NAU's Strategic Plan include recruitment and retention of students, investment in academic buildings, inclusion of advanced technology and improved access to instructional technology. NAU's presence at Arizona Western College in Yuma is clearly identified as part of that strategic plan. This project will expand collaborative research as well as training opportunities in environmental disciplines.
- Arizona Western College has embarked on an aggressive construction plan to expand student learning opportunities and environments on their campus. NAU is an active partner in the accomplishment of the AWC mission and vision. Arizona Western College and Northern Arizona University share common campus and delivery sites in a cost-effective manner to provide seamless degree programs. This partnership is recognized as a model community college/university partnership. In addition, the AWC / NAU Yuma partnership provides accessible training and learning opportunities for the City of Yuma and La Paz County residents.

RECOMMENDATION:

Resolved, that Northern Arizona University be granted Project Implementation Approval for the Arizona Western - NAU Yuma research facility and is authorized to proceed to complete design and construction documentation.

EXECUTIVE SUMMARY

Capital Project Information Summary

University: Northern Arizona University

Project Name: Arizona Western – NAU Yuma
Research Facility

Project Description / Location:

The project is a new 10,000 square foot NAU research facility constructed on the campus of Arizona Western College in Yuma, Arizona. The facility will provide for collaborative research and learning activities between NAU and University of Arizona faculty in areas such as soils, environmental domains, and renewable energy.

Project Schedule (Beginning Month/Year):

Planning	FY05
Design	03/06
Construction	Fall 2006
Occupancy	Fall 2007

Project Budget:

Total Project Cost	\$4,000,000
Direct Construction Cost	\$3,403,145
Total Project Cost per GSF	\$400
Construction Cost per GSF	\$340
Change in Annual O&M Costs	\$85,075
Utilities	\$35,075
Personnel	\$15,000
All Other Operating	\$35,000

Funding Sources:

Capital

A. Certificates of Participation \$4,000,000

(The debt service will be funded through interest capitalization until July 1, 2007 when appropriations for House Bill 2529 Research Infrastructure are to commence.)

Operation / Maintenance

A. General Funds \$85,075

EXECUTIVE SUMMARY

Capital Project Budget Summary

University: Northern Arizona University

Project Name: Arizona Western - NAU Yuma
 Research Facility

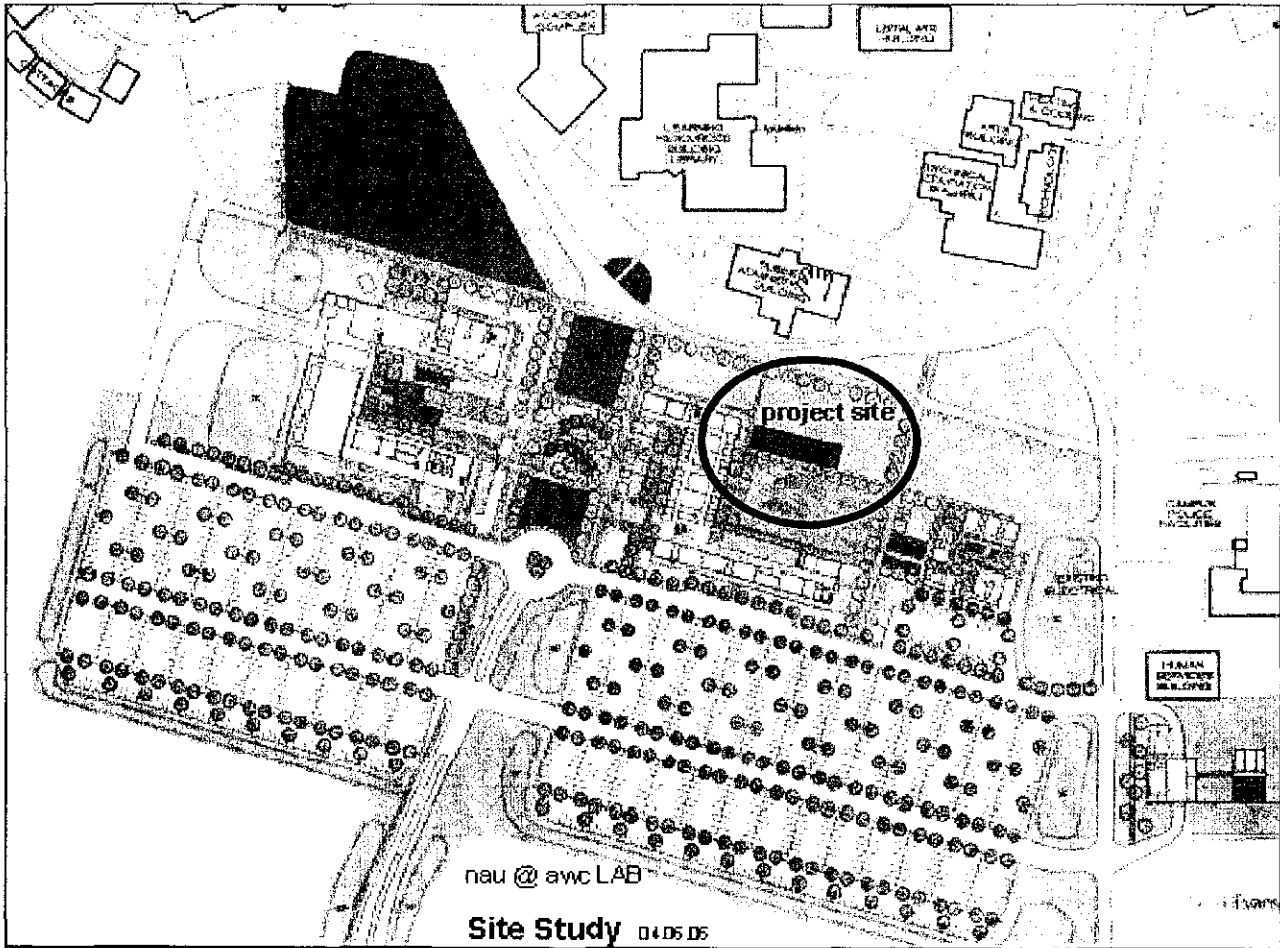
	<u>CDP Estimate</u>	<u>Project Implementation Approval</u>
Capital Costs		
1. Land Acquisition		
2. Construction Cost		
A. New Construction / Precon		\$2,784,391
B. Renovation		
C. Special Fixed Equipment/Bridge		
D. Site Development		
E. Parking and Landscaping		
F. Utilities Extensions		
G. Demolition / Asbestos		
H. Inflation Adjustment		\$309,377
Subtotal Construction Cost		<u>\$3,093,768</u>
3. Fees (% of Construction Cost)		
A. Construction Manager		
B. Engineer / Architect		\$340,314
C. Other:		
Lab/Telecom/Commissioning		
Subtotal Consultant Fees		<u>\$340,314</u>
4. FF&E Moveable		\$0
5. Contingency, Design Phase		\$6,806
6. Contingency, Construction Phase		\$300,377
7. Parking Reserve/Special Equipment		
8. Telecommunications Equipment		\$9,000
Subtotal Items 4 – 8		<u>\$316,183</u>
9. Additional University Costs		
A. Surveys and Tests		\$20,000
B. Physical Plant SWO's		\$18,000
C. Public Art / Other		
D. Printing Advertising		\$8,508
E. Asbestos		
F. Project Management Cost		\$190,476
H. State Risk Mgmt Insurance		\$12,751
Subtotal Additional University Costs		<u>\$249,735</u>
TOTAL CAPITAL COST		<u><u>\$4,000,000</u></u>

EXECUTIVE SUMMARY

Arizona Western College's New Agricultural Sciences Complex

And

Arizona Western - NAU Yuma Applied Research Facility proposed location



STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

ROBERT L. BURNS
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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

DATE: May 4, 2006

TO: Representative Tom Boone, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Shelli Carol, Fiscal Analyst

SUBJECT: University of Arizona – Review of Residence Life Building Renewal Phase 2A

Request

A.R.S. § 15-1683 requires Committee review of any university projects financed with system revenue bonds. The University of Arizona (UA) requests Committee review of the \$3.9 million Residence Life Building Renewal Phase 2A. This project would replace plumbing systems in Manzanita/Mohave Hall and the fire sprinkler system in Cochise Hall. Replacing mechanical systems would extend the useful life of these residential facilities, minimize the risk of disruptive failures, and improve building safety.

The Committee has favorably reviewed previous phases of Residence Life Building Renewal. The Committee heard the \$8.6 million Phase 1 in March 2004 and the first 2 buildings of Phase 2, costing \$6.5 million, in July 2005. UA anticipates that the entirety of Residence Life Building Renewal would consist of 5 phases totaling \$40.2 million.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the request 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.

(Continued)

- 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 direct construction costs of the plumbing installations for Manzanita/Mohave Hall fall within the range UA has experienced in previous phases of Residence Life Building Renewal. Meanwhile, per-square-foot costs for the \$0.5 million fire sprinkler system replacement in Cochise Hall are significantly higher than those of similar projects. However, UA explains that the configuration of this particular residence would require partial demolitions within the building, leading to higher costs.

Analysis

UA anticipates issuing system revenue bonds later this spring with an AAA credit rating and a term of 25 years. Depending on market conditions and advice from bond counsel, UA will select an appropriate balance of fixed rate bonds with an annual interest rate under 7.5% and variable rate bonds with an initial interest rate under 6.0%. Auxiliary revenues, generated from student housing fees, would service the debt. Usually, system revenue bonds serviced by auxiliary funds must offer a higher interest rate than those serviced by tuition collections because the bond market views auxiliary fees as a less stable revenue source than tuition receipts.

UA does not anticipate any new operating and maintenance costs for the project. The university estimates an annual debt service of \$313,000, with a 25-year total of \$7.8 million. A.R.S. § 15-1683 allows each state university to incur a projected annual debt service for bonds and certificates of participation of up to 8.0% of each institution's total projected annual expenditures. This calculation is known as the debt ratio. The \$3.9 million system revenue bond issuance would increase the UA debt ratio from 5.0% to 5.3%.

UA would contract this bond project using Construction Manager at Risk (CMAR). In CMAR, the university competitively selects a General Contractor according to quality and experience. The General Contractor manages a construction project, including the associated architect and other subcontractors, from design to completion. The General Contractor chooses a qualified subcontractor for each trade based on price competition, selecting the lowest bid.

Additionally, CMAR defines a guaranteed maximum price, after which the General Contractor must absorb almost all cost increases, except those caused by scope changes or unknown site conditions. Occasionally, in the case of substantial materials price inflation, a university will partially cover higher costs to maintain good contractor relations.

State agencies normally fund ongoing routine maintenance and minor repairs to existing facilities through their operating budgets. Arizona Board of Regents policy requires the universities to request legislative appropriations for building renewal. The university system has not received any state funding for building renewal since FY 2001. However, in February the Committee adopted a recommendation providing \$20 million from the General Fund for university building renewal in FY 2007, including \$10.9 million for UA. These figures would fund 29% of the university building renewal formula amount in FY 2007.

UA anticipates Phase 2A of Residence Life Building Renewal would have a design cost of \$0.6 million, a direct construction cost of \$3.1 million, and a \$0.2 million contingency fund. The direct construction amount consists of \$2.6 million for plumbing and \$0.5 million for fire sprinklers. The university's preliminary estimate is that replacements would occur during summer 2006, when students are not present. Any project delays might carry over to other academic recesses.

(Continued)

Since the expense of replacing plumbing in residences depends on many variables, including student density, disability access, and original system configuration, it is difficult to make meaningful comparisons among projects. However, as *Table 1* below illustrates, the \$34 per square foot direct construction cost of the plumbing installations for Manzanita/Mohave Hall falls within the range UA has experienced in previous phases of Residence Life Building Renewal. Therefore, JLBC Staff believes these costs are reasonable.

<u>Phase</u>	<u>Review Date</u>	<u>Affected Halls</u>	<u>Direct Costs per Square Foot</u>
1	March 2004	Gila, Yuma, Arizona	\$26
2A		Manzanita/Mohave	\$34
2	July 2005	Maricopa, Sonora	\$66

Meanwhile, fire sprinkler system expenses can also vary substantially based on the functions and original configurations of the affected buildings. However, as *Table 2* below illustrates, per-square-foot costs for fire sprinkler system replacement in Cochise Hall are significantly higher than those of similar projects.

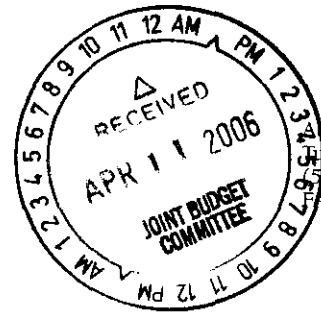
The university explains that the configuration of the fire sprinkler system in Cochise Hall would require partial demolitions of the building. Special care must be taken to preserve the building's structural integrity and outside façade during the upgrades, driving the higher costs. Therefore, JLBC Staff believes these costs are reasonable.

<u>Project</u>	<u>Review Date</u>	<u>Affected Buildings</u>	<u>Direct Costs per Square Foot</u>
UA Residence Life Building Renewal Phase 2	July 2005	Gila, Yuma, Arizona Halls	\$0.38
<i>Average</i>			\$1.46
NAU Building System Repair and Replacement	October 2004	33 Buildings of Differing Functions	\$1.61
ASU Academic Renovations and Deferred Maintenance Phase 1	September 2005	Social Sciences	\$2.38
UA Residence Life Building Renewal Phase 2A		Cochise Hall	\$12.29

RS/SC:ss

Senior Vice President
for Business Affairs

THE UNIVERSITY OF
ARIZONA[®]
TUCSON ARIZONA
April 7, 2006



Administration Building
Tucson, Arizona 85721
(520) 621-5977
FAX: (520) 621-7714

The Honorable Tom Boone, Chairman
Joint Committee on Capital Review
1716 W. Adams
Phoenix, AZ 85007

Dear Chairman Boone:

Subject: University of Arizona Residence Life Building Renewal Project

On behalf of the Arizona Board of Regents (ABOR) (The University of Arizona), I respectfully request that the University of Arizona be placed on the next available agenda of the Joint Committee on Capital Review (JCCR) for the Residence Life Building Renewal Phase II Part A Project.

You may be aware that this project must be completed during the summer months. Due to various delays we missed last summer and it appears we will be unable to construct this summer because the project lacks JCCR review. Therefore we are requesting review as soon as possible to insure the ability to finance and construct the project at the next available opportunity.

The ABOR Executive Summary for the project is enclosed for your review. It contains the following information:

- Primary Purpose of the Project
- Proposed Plan
- Debt Service Funding
- Project Justification/Schedule Update
- Capital Project Information
- And Capital Project Budget.

The Residence Life Building Renewal Phase II Part A Project has received project approval by ABOR. The University has submitted the financing request to ABOR for its approval at its April meeting. If you require additional information, please don't hesitate to call me at (520) 621-5977. Thank you for your assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "Joel D. Valdez".

Joel D. Valdez
Senior Vice President for Business Affairs

JDV/dm

Enclosure

cc: President Likins
Joel Sideman
Greg Fahey
Lorenzo Martinez
Charlie Ingram
Ted Gates
Bob Smith



EXECUTIVE SUMMARY

ACTION ITEM: The University of Arizona (UA) requests authority to sell System Revenue Bonds (SRBs) not to exceed \$3.9 million for the purpose of financing the acquisition and construction of Phase 2, Part A of the Residence Life Building Renewal Project and pay the costs of issuance of the SRBs and to take related actions to enter into necessary agreements and to execute necessary documents. The authority to sell SRBs to finance this project is contingent upon favorable review from the Joint Committee on Capital Review (JCCR).

ISSUE

The UA seeks Board authorization to sell one or more series of SRBs sufficient to finance (a) Phase 2, Part A of the Residence Life Building Renewal Project, and (b) the costs of issuance related to the SRBs, and to take related actions, to enter into necessary agreements, and to execute related documents, including bond insurance, reserve fund surety bonds and bond purchase, liquidity, interest rate swap, and continuing disclosure agreements.

BACKGROUND

The Residence Life Building Renewal Project is a five-phase, long-term project which will extend the useful life of aging residential facilities and reduce the risk of disruptive system failures that would affect both the health and safety of the occupants. Areas addressed by the Residence Life Building Renewal Project include: replacement of mechanical, electrical, and plumbing systems and renovation of bathrooms in Apache-Santa Cruz, Arizona, Sonora, Cochise, Coronado, Colonia de la Paz, Manzanita/Mohave, Maricopa, Gila and Yuma Halls. The total cost to complete the five-phase project is anticipated to be \$40.17 million.

Phase 2 of the Residence Life Building Renewal Project originally encompassed five buildings when it received Capital Development Plan approval in January 2004. The size of Phase 2 was subsequently reduced to two buildings (Maricopa and Sonora Halls) for both Project Implementation Approval (January 2005) and Project Approval (February 2005). Limiting the scope of Phase 2 occurred to address the scheduling challenges experienced in Phase 1 due to the shortened summer construction period. Phase 2-A completes two additional buildings originally listed in Phase 2 during the summer 2006 by replacing the

Contact: Joel D. Valdez (520) 621-5977
Sr. Vice President for Business Affairs
jvaldez@u.arizona.edu

EXECUTIVE SUMMARY

plumbing system in Manzanita/Mohave Hall and the fire sprinkler system in Cochise Hall. No additional gross square footage (gsf) will be added.

The UA is seeking authorization to finance \$3.9 million for Phase 2-A from SRBs and will seek authority to finance the remaining Residence Life Building Renewal Project in the future as the project progresses through its remaining phases. The UA anticipates funding debt service and operation and maintenance costs from auxiliary funds.

Previous Board Actions:

2004 Capital Development Plan Amendment (Long Range Plan)	January 2004
Project Implementation Approval	December 2005
Project Approval (Capital Committee Approval)	February 2006

The UA will present Phase 2-A to JCCR for review.

FINANCING PLAN

The UA intends to finance Phase 2-A of the Residence Life Building Renewal Project by selling SRBs to produce sufficient proceeds to finance (a) the Phase 2-A project budget not exceeding \$3.9 million, and (b) costs of issuance of the SRBs. The UA expects that the SRBs would mature over a period ending not later than June 2036.

Depending upon market conditions at the time of sale, the UA may issue the entire financing, or some, or all of the portion allocable to Phase 2-A, through variable rate or adjustable rate SRBs. Although the UA has benefited in recent years from low fixed interest rates on its borrowings, it also has had favorable experience with the variable rate borrowings for various projects. The UA also may consider entering into interest rate exchange (swap) agreements simultaneously with the issuance of variable rate SRBs or at a later date, producing a "synthetic fixed rate" obligation for the UA at a debt service cost that may be lower than directly issuing fixed-rate SRBs to the market. Any SRBs not issued as variable rate would be issued as fixed rate obligation instruments.

The UA will be called upon to enter into various agreements in connection with the SRBs, such as bond insurance for the SRBs, reserve fund surety bonds and bond purchase agreements, and if UA decided to issue variable rate SRBs, liquidity and possibly interest rate swap agreements.

EXECUTIVE SUMMARY

Debt Ratio Impact: The SRBs, when issued, would bring the UA's debt ratios to 5.3% under the State's statutory debt ratio limit (leaving 2.7% or \$37.0 million of debt service capacity), and 8.4% under the ABOR debt ratio (leaving 1.6% or \$14.9 million of debt service capacity).

Marketing of SRBs; Timing: All SRBs would be sold at current market rates at the time of pricing. Fixed rate SRBs would not exceed a yield of 7.5% per annum and initial rates on variable rate SRBs would not exceed 6.0% per annum. The UA expects that the SRBs will be marketed and sold during the calendar year 2006 in order to meet the construction and acquisition schedules.

The UA intends to utilize its current bond counsel, Squire, Sanders & Dempsey L.L.P., and its current financial advisor, RBC Capital Markets, in conjunction with the proposed financing. The SRBs would be marketed and sold on a negotiated basis to one or more of the investment banking firms previously selected by the UA through a competitive process.

The action being requested would authorize the UA to execute this financing within the parameters set by the Board.

RECOMMENDATION/CONCLUSION:

That The University of Arizona be, and hereby is, authorized to sell one or more series of SRBs to produce sufficient proceeds to finance not exceeding \$3.9 million for the acquisition and construction of Phase 2, Part A of the Residence Life Building Renewal Project, to pay the costs of issuance of the SRBs, to take related actions, to enter into necessary agreements, and to execute documents -- contingent upon JCCR favorable review of the project as provided in a resolution approved by Board counsel and staff.

EXECUTIVE SUMMARY

Capital Project Budget Summary

University: The University of Arizona

Project Name: Residence Life
Building Renewal, Phase 2, Part A

Date of Budget Estimate	Project Implementation <u>Estimate</u> 10/05	Project Approval <u>Estimate</u> 10/05
1. Land Acquisition	0	0
2. Construction Cost		
A. New Construction	0	0
B. Renovation	\$2,818,000	\$2,818,000
C. Fixed Equipment	0	0
D. Site Development (exclude 2.E.)	0	0
E. Parking & Landscaping	0	0
F. Utilities Extensions	0	0
G. Other (Asbestos Abatement)	\$90,000	\$90,000
H. Inflation Adjustment	\$220,000	\$220,000
Subtotal Construction Cost	<u>\$3,128,000</u>	<u>\$3,128,000</u>
3. Consultant Fees		
A. Construction Manager	\$35,000	\$35,000
B. Architect/Engineering	\$390,000	\$390,000
C. Other (Asbestos Survey)	\$35,000	\$35,000
Subtotal Consultant Fees	<u>\$460,000</u>	<u>\$460,000</u>
4. FF& E Movable	0	0
5. Contingency, Design Phase	\$30,000	\$30,000
6. Contingency, Construction Phase	\$120,000	\$120,000
7. Parking Reserve	0	0
8. Telecommunications Equipment	0	0
Subtotal Items 4-8	<u>\$150,000</u>	<u>\$150,000</u>
9. Additional University Costs		
A. Surveys and Tests	\$10,000	\$10,000
B. Move-in Costs	\$12,000	\$12,000
C. Public Art	0	0
D. Printing/Advertisement	\$4,000	\$4,000
E. Other (Project & Facilities Management)	\$111,000	\$111,000
F. State Risk Management Insurance	\$25,000	\$25,000
Subtotal Additional University Costs	<u>\$162,000</u>	<u>\$162,000</u>
TOTAL CAPITAL COST	\$3,900,000	\$3,900,000

STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

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HOUSE OF
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STEPHEN TULLY

DATE: May 2, 2006

TO: Representative Tom Boone, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Tyler Palmer, Fiscal Analyst

SUBJECT: Arizona Exposition & State Fair Board - Review of Revised FY 2006 Building Renewal Allocation Plan.

Request

A.R.S. § 41-1252 requires the Joint Committee on Capital Review (JCCR) review of building renewal expenditure plans. For FY 2006, the Arizona Exposition and State Fair (AESF) was appropriated \$1,386,800 from the Arizona Exposition and State Fair Fund for building renewal. During the February 23, 2006 meeting the Committee favorably reviewed \$859,000 of the appropriation, leaving \$527,800 for future review. The AESF requests the Committee favorably review its revised FY 2006 building renewal plan for the remaining \$527,800.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the request with the provision that AESF report back to JLBC Staff regarding the use of the \$44,800 of unallocated funds. JLBC Staff will notify the Committee of any significant use of the money.

Based on recent bids for some of the previously reviewed projects, AESF has increased the allocations for 5 projects (*See Table 1*).

Analysis

Laws 2005, Chapter 298 appropriated a total of \$1,386,800 in FY 2006 from the Arizona Exposition and State Fair Fund to AESF to fully fund the building renewal formula.

The agency has proposed a revised building renewal plan of \$1,342,000 in FY 2006. The revised plan consists of an increase of \$255,000 for the 4 previously reviewed FY 2006 projects and \$228,000 for 1 previously reviewed FY 2005 project, for a total increase of \$483,000. The increased project costs are attributed to increased construction costs. *Table 1* displays the requested allocation for each project:

(Continued)

<u>Project</u>	<u>February 2006 Allocations</u>	<u>Revised Allocations</u>
Block Wall (FY 2005 Building Renewal Plan)	\$ -	\$ 228,000
Exhibit Building Coolers & Ducting	550,000	675,000
Agriculture Building Coolers	237,000	300,000
Administration Building Cooling Tower	32,000	76,000
Avenue of Flags Design	<u>40,000</u>	<u>63,000</u>
Total	\$ 859,000	\$ 1,342,000
Unallocated	\$ 527,800	\$ 44,800

Based on the information provided by the agency and similar projects reviewed by the Committee in the past, the cost estimates appear reasonable.

Block Wall (FY 2005 Building Renewal Plan)

As part of the FY 2005 building renewal plan, the agency had \$347,000 allocated to replace the steel and chain link fences along the northwest corner of the property with a concrete block wall. However, due to increased costs of cement, the FY 2005 appropriation is inadequate to complete the project. In order to finish the project under the current construction bid, an additional \$228,000 would be required; for a total cost of \$575,000.

Exhibit Building Coolers & Ducting

Since the February 23 review of \$550,000 to replace the exhibit building coolers, the AESF has received 6 bids for the project. All 6 of the bids exceed the cost estimate used in February. In order to complete the project under the current construction bids, an additional \$125,000 would be required; for a total cost of \$675,000.

Agriculture Building Coolers

Based on the higher-than-expected bids to replace the exhibit building coolers, the AESF expects the costs to replace the agriculture building coolers to increase as well. With the help of the Arizona Department of Administration (ADOA), General Services Division, which manages building renewal projects for the AESF, a revised estimate to replace the agriculture building coolers was calculated. The ADOA, General Services Division estimates an additional \$63,000 would be required to replace the agriculture building coolers; for a total cost of \$300,000.

Administration Building Cooling Tower

In light of rising construction costs, the ADOA, General Services Division estimates that the cost to replace the administration building cooling tower has increased by \$44,000; for a total cost of \$76,000.

Avenue of Flags Design

The ADOA, General Services Division estimates that the cost for the Avenue of Flags Design project has increased by \$23,000; for a total cost of \$63,000. The redesign of the Avenue of Flags area will establish one surface grade over the 278,000 square foot area. By establishing one surface grade, the AESF hopes to reduce the pedestrian tripping hazard, and provide an improved area for concessions and exhibits.

RS/TP:ss



April 25, 2006

The Honorable Tom Boone
Joint Committee on Capital Review
Arizona House of Representatives
1700 West Washington
Phoenix, Arizona 85007

RE: Request for expenditure approval from the Joint Committee on Capital Review (JCCR).

Dear Representative Boone:


The Arizona Exposition and State Fair (AESF) respectfully requests an increased expenditure allowance for previously approved and appropriated capital improvements or related building renewal projects.

At the February 2006 JCCR meeting, AESF was approved to expend \$859,000 for capital/building renewal projects. The requested budget was based upon contractor and engineering estimates. Following committee approval, AESF issued the first project for bid and experienced a significant increase in material costs. In consultation with ADOA – General Services Division, AESF anticipates a 20 – 30% increase in construction costs for the projects previously approved.

To proceed and complete the projects, AESF is seeking the release of the remaining funds within the annual appropriation, for an amount not to exceed \$527,800. Expenditure of this money shall be limited solely to authorized projects. As with previous requests, AESF understands committee approval is required for any new project expenditures.

If you have any questions or require additional information concerning this request, please contact me at telephone number 602-257-7177.

Sincerely,


Don B. West
Deputy Director

CC: The Honorable Robert Burns
The Honorable Russell K. Pearce
Bill Greeney, OSPB
Lorenzo Martinez, JLBC
Tyler Palmer, JLBC

ARIZONA DEPARTMENT of ADMINISTRATION		CONSTRUCTION SERVICES											
PROJECT: Budgets - AZ Exhibition & State Fair		DATE PREPARED: February 6, 2006		Project No.		Original JCCR Estimate		Current Estimate at Completion		Project Shortfall			
PROJECT NUMBER: #3001 thru #3007		REVISID: April 24, 2006		#3001		\$347,000		\$676,144		(\$228,144)			
SENIOR PROJECT MANAGER: Mike Rank				#3003		\$550,183		\$675,251		(\$125,068)			
GENERAL MANAGER: Bruce Ringwald				#3004		\$236,771		\$299,425		(\$62,654)			
				#3005		\$32,353		\$76,485		(\$44,132)			
				#3007		\$39,637		\$62,755		\$23,118			
						\$1,205,944		\$1,689,060		(\$436,880)			
DESCRIPTION		INDEX		AMOUNT									
Project AESF Transfer in:													
#3001	CMU - Block Wall	20624		\$347,000									
#3003	HVAC Modification	20624		\$550,183									
#3004	Replace AG coolers	20624		\$236,771									
#3005	Cooling Tower For Executive Offices	20624		\$32,353									
#3007	Master Plan/Design Avenue of Flags	20624		\$39,637									
TOTAL FUNDING for AZ State Fair Campus				\$1,205,944									
		Original JCCR Estimate		Current Estimate @Completion		Original JCCR Estimate		Current Estimate @Completion		Original JCCR Estimate		Current Estimate @Completion	
		Cost Codes		HVAC Modification #3003		Current Bid Prices 4/19/06		Replace AG Bldg. Coolers #3004		Executive Office Cooling Towers #3005		20th Ave Lot CMU Wall #3001	
												Master Plan/Design Ave. #3007	
Professional Services:													
1. Base A/E Fees				\$49,000		\$69,325		\$19,500		\$19,500		\$2,665	
2. Reimbursables (Est.)				\$0		\$2,500		\$0		\$2,500		\$12,000	
Subtotal				\$49,000		\$71,825		\$19,500		\$22,000		\$2,665	
Construction Services (GC):				1700									
1. HVAC Modification				\$450,000		\$541,748							
2. Replace AG coolers								\$195,091		\$250,000			
3. Cooling Towers										\$26,656		\$55,000	
4. CMU - Block Wall												\$335,000	
5. Master Plan Design												\$486,254	
Subtotal				\$450,000		\$541,748		\$195,091		\$250,000		\$26,656	
Separate Contracts:													
				\$0		\$0		\$0		\$0		\$0	
Subtotal				\$0		\$0		\$0		\$0		\$0	
Project Support:													
1. ADOA Project Management		1200		\$4,500		\$5,417		\$1,950		\$5,000		\$267	
2. Risk Management at .34%		1314		\$1,683		\$2,086		\$730		\$925		\$100	
Subtotal				\$6,183		\$7,503		\$2,680		\$5,925		\$367	
Contingency Allowance:				0		\$45,000		\$54,175		\$19,500		\$21,500	
TOTAL PROJECT COST				\$550,183		\$675,251		\$236,771		\$299,425		\$32,353	
Funds Remaining/ (Additional Funds Required)				\$0		(\$125,068)		\$0		(\$62,654)		\$0	
NOTES:													
Bids completed on #3001, #3003 only													
CMU Wall base bid (\$355,454) covered under 05 Monies - Additional (\$130,800) for completion													

Arizona Exposition and State Fair
Capital Improvement Projects
Bid Pricing Overview

The following information is a display of the construction market pricing volatility encountered with AESF Capital Improvement Projects.

CMU – Block Wall (20th Avenue Parking Lot).

Engineering Estimate for Completion (Apr 05) \$347,000

Invitation for Bids – Pricing Offered (low bid).

1 st Bid Process	\$460,000 (Jul 05)	+32%
2 nd Bid Process	\$680,000 (Aug 05)	+95%
3 rd Bid Process	\$608,144 (Apr 06)	+75%

(Revised plans for block size and steel used during 3rd bid process to reduce costs).

HVAC – Exhibit Building Coolers.

Engineering Estimates – cost of construction (Feb 06) \$450,000

Invitation for Bids – Pricing Offered (Apr 06)

Offeror 1	No Bid	
Offeror 2	\$541,748	+20%
Offeror 3	\$654,202	+45%
Offeror 4	\$865,038	+92%
Offeror 5	\$887,584	+97%
Offeror 6	\$986,465	+119%

STATE OF ARIZONA

Joint Committee on Capital Review

STATE
SENATE

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LINDA AGUIRRE
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HOUSE OF
REPRESENTATIVES

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STEPHEN TULLY

DATE: May 4, 2006

TO: Representative Tom Boone, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: Arizona Department of Transportation – Review of Oil Storage Tanks Project

Request

In compliance with A.R.S. § 41-1252, the Arizona Department of Transportation (ADOT) requests Committee review of the Oil Storage Tanks project.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the project 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 JLBC Staff would notify the Committee of any substantial change, including the number of oil storage tanks and concrete containment basins to be installed. The cost projections are within the \$637,600 appropriated budget for the project.

Analysis

Laws 2005, Chapter 298 appropriated \$637,600 from the State Highway Fund to the department to install replacement 10,000-gallon oil storage tanks, concrete containment basins and dispose of existing tanks at 4 locations (Globe, Superior, Show Low, and Springerville). A.R.S. § 41-1252 requires that the Committee review the scope, purpose and estimated cost, before the release of monies for construction of a new capital project costing over \$250,000.

ADOT eventually plans to install up to six 10,000-gallon oil storage tanks and concrete containment basins at a total estimated cost of \$1.3 million at Globe, Superior, Indian Pine,

(Continued)

Springerville, St. Johns and Show Low, in that order. ADOT has advertised the project and bid opening is scheduled for May 16, 2006. ADOT expects to award the contract June 14, 2006 and to complete construction within 6 months. The new tanks would replace existing deteriorated tanks at Globe, Superior, Springerville and Show Low, while Indian Pine and St. Johns would be new installations. The new tanks would help ADOT comply with an environmental agreement with the Arizona Department of Environmental Quality regarding storm water/waste water.

Each new oil storage tank and containment basin will cost an estimated average of \$200,400. Sites with existing tanks will cost an additional average of \$16,300 to dispose of the existing tanks. At those dollar levels per tank, ADOT now expects to be able to replace tanks at Globe and Superior, and install a new tank at Indian Pine. The expenditures are as follows:

ADOT's Estimated Expenditures for Globe, Superior and Indian Pine	
Architect & Engineering ^{1/}	\$ 30,000
Tank & Installation	293,500
Concrete Containment Basin	57,000
Electrical & Controls	135,000
Disposal of Existing Tanks	30,000
Contractor ^{2/}	<u>109,800</u>
Total Expenditures	\$ 655,300

^{1/} Prorated to 3 sites from ADOT's estimate of \$59,900 for all 6 locations.
^{2/} Bond, overhead and profit.

ADOT reports that the last 10,000-gallon oil storage tank and concrete containment basin was installed at the Tec Nos Pos Maintenance Yard for a cost of \$100,000 in FY 2003. Tec Nos Pos did not have an existing tank to dispose of. The cost of both concrete and steel has increased significantly in the past 2 years. The U.S. Department of Transportation, Federal Highway Administration's report "Price Trends for Federal-Aid Highway Construction" indicates that their price index increased 41% for structural steel and 33% for structural concrete from 2003 to the third quarter of 2005. The \$637,600 appropriation in FY 2006 for 4 locations was based on ADOT's estimated cost a year ago of \$159,400 per location for new tanks, containment basins and disposal of existing tanks. The current capital bill includes \$1,587,600 in FY 2007 for new tanks, containment basins, and disposing of existing tanks for 6 locations at an ADOT estimated cost of \$264,600 per location.

Because the proposal appears consistent with the statutory intent for the project as established in Chapter 298 and the cost estimate is within the established limits, JLBC Staff recommends a favorable review of the project 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 JLBC Staff would notify the Committee members of any substantial change, including the number of oil storage tank and concrete containment basins to be constructed.

RS/BH:ym



Arizona Department of Transportation

Office of the Director

206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

Janet Napolitano
Governor

Victor M. Mendez
Director

David P. Jankofsky
Deputy Director

April 25, 2006



The Honorable Tom Boone, Chairman
Joint Committee on Capital Review
Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007

Dear Representative Boone:

We respectfully request that the release of \$637,600 from ADOT's FY 2006 capital outlay appropriation to purchase and install new oil storage tanks be placed on the agenda of the next JCCR meeting for Committee consideration.

The \$637,600 appropriated to ADOT for this statewide project will be used to purchase and install new oil storage tanks to replace 4 old deteriorating and leaking tanks in Globe, Superior, Springerville and Show Low and to build 2 new storage tanks in Indian Pine and St. Johns. Installation of these tanks will provide the necessary storage needs for oil products used by district maintenance staff. These new tanks will provide cost savings from bulk purchases, provide for the safer handling of these hazardous products, and provide environmental protection from leakage and contamination.

The consulting engineer's estimate for these 6 tanks is \$1.2 million. This project was advertised April 20, 2006. We are seeking bids for the replacement of the worst tanks at Globe and Superior. The vendors must include bids for each of the remaining projects in the following order, Indian Pine, Springerville, St. Johns and Show Low. We will award as many projects as we can, not to exceed \$637,600.

A favorable review by the Committee is respectfully requested so we may move forward with this project

Sincerely,

Victor M. Mendez

cc: Richard Stavneak, Director, JLBC
Gary Yaquinto, Director, OSPB
Bob Hull, Principal Research/Fiscal Analyst, JLBC
Marcel Benberou, Principal Analyst, OSPB



2001 Award Recipient