

EXECUTIVE SUMMARY

ITEM NAME: Project Re-Approval for Deferred Maintenance and Building Renewal (SPEED) Projects, including Waiver of Board Policy Requiring Final Project Cost Estimate (UA)

Action Item Discussion Item Information Item

Issue: The University of Arizona requests project re-approval of Deferred Maintenance and Building Renewal (SPEED) projects that received project approval in September 2008. Board policy requires project approval re-submittal if construction is not initiated within 12 months. Final cost estimates will be submitted to the Capital Committee when developed.

Previous Board Actions:

| | |
|----------------------------|----------------|
| Capital Development Plan: | June 2008 |
| SPEED Projects Allocation: | July 2008 |
| Combined PIA/PA | September 2008 |

Statutory/Policy Requirements:

- Board Policy 7-109.B.3 requires Capital Committee review and Board approval of projects with a total project cost over \$20 million.
- Board Policy 7-109.D.3 requires projects be resubmitted for Capital Committee review and Board approval if construction is not initiated within 12 months.
- Board Policy 7-109 requires GMP at Project Approval.

Project Re-Approval:

- The UA requests re-approval of the SPEED BR projects previously receiving ABOR Project Approval. In conjunction with this request, the UA also requests waiver of ABOR policy 7-109, requiring a guaranteed maximum price as a part of the Project Approval request. The UA SPEED projects are made up of numerous small renovations and repairs across the entire campus, that will be conducted with a variety of project delivery methods and schedules. Each of these small projects have their own budgets and costs, at different stages of development, and therefore no single guaranteed maximum price is available. Under no circumstances, however, will the aggregate cost of these smaller projects exceed the overall ABOR-approved project budget. The final project costs will be submitted to the Capital Committee when finalized.
- The UA has been working to finalize the costs related to the many elements of work included in its SPEED project package, which relate to health, and life and fire safety issues. For the \$68 million total SPEED project allocations previously approved, the

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UA is pleased to note that it anticipates a savings of roughly \$6.8 million (10%) from favorable market conditions that have occurred over the past year. However, due to the University's considerable building renewal needs, and the previous reductions in the funding amounts available to complete those renovations, the university intends to apply the estimated \$6.8 million in market savings for the completion of additional work within the previously approved categories of work. Any reallocations will be included in the final estimates submitted to the Capital Committee.

Project Justification/Strategic Implications:

- The Stimulus Plan for Economic and Education Development (SPEED) initiative will provide an important economic stimulus to our State economy in a time of great need, while also providing urgently needed facilities improvements at each of the State's Universities that will help to meet the education needs of the future. The University of Arizona developed a plan to best utilize the approved SPEED funds allocated for its use to best address its greatest facilities-related priorities. This plan was then adjusted to reflect the reduced amount of SPEED funding approved.

Project Description and Scope:

- The initial proposed list of requested SPEED projects reflected the great demand for Deferred Maintenance and Building Renewal projects most urgently needed and included fire and life safety improvements across the entire campus. These projects are also relatively small and can be constructed relatively quickly, once the fiscal circumstances allow the university to proceed.

Project Costs:

- With the lack of State funding for Deferred Maintenance and Building Renewal improvements over recent years, many of the University's existing facilities have fallen into a serious state of disrepair, reducing their safety and effectiveness, and risking the considerable investments made in these facilities. The University has identified the critical Deferred Maintenance and Building Renewal projects that are needed at this time. These improvements, which total \$68 million in cost, will address the majority of the University's serious repair and renovation needs across the entire campus.
- The UA BR projects involve various building system improvements throughout many buildings across the campus. It has been determined that it is most efficient for this work to be organized and contracted by the type of work, rather than by building. For example, a single contract for fire alarm work can accommodate fire alarm improvements in several buildings in the most efficient and consistent manner. Therefore, these renovation projects are listed in improvement type categories rather than by building. This approach also allows for efficient use of specialty contractors when appropriate through the UA Job Order Contracting process.

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- Following is a breakdown of categories of individual renovation projects throughout the campus, their respective budgets, and the proposed reallocations of anticipated market-related savings. These renovation projects have been analyzed and estimated for each of the building locations where they will occur, to arrive at the specific cost breakdowns shown for each of the ten categories. However, due to uncertain existing conditions in these buildings that will not be confirmed until the work actually starts, the actual costs of the various renovation projects may vary, and some funds may need to be shifted from one project to another to assure that all of the required work is appropriately completed. The overall budget of the Deferred Maintenance & Building Renewal projects, however, will not be exceeded, and final cost estimates will be submitted to the Capital Committee.

| SPEED DEFERRED MAINTENANCE & BUILDING RENEWAL PROJECTS | | | | |
|---|---|-----------------------|-----------------------|------------------|
| | | Sept 08 Allocation | Revised Allocation | Est. Savings |
| 1 | Fire Alarm and Fire Sprinkler Systems | 6,980,000 | 7,180,000 | 877,229 |
| | New, replaced & repaired systems in twelve or more buildings across campus | | | |
| 2. | Electrical Code Upgrades | 2,534,248 | 2,734,248 | 486,963 |
| | Replacements and upgrades of critical switchboards, switches, battery systems & emergency generator systems throughout the campus | | | |
| 3. | Elevator/Code Compliance Upgrades | 1,928,000 | 2,071,000 | 666,265 |
| | Repair & replacements of shafts, hydraulics, fire alarms & control systems of elevators throughout campus | | | |
| 4. | Interior & Exterior Building Components | 19,600,000 | 19,600,000 | 1,252,832 |
| | Utility hook-ups & transformer installations | | | |
| 5. | Heating, Ventilation & Air Conditioning (HVAC) | 14,820,000 | 14,820,000 | 947,294 |
| | HVAC equipment replacements and critical duct work repairs around the campus | | | |
| 6. | Mechanical System Repairs & Replacements | 5,510,000 | 5,510,000 | 352,199 |
| | Mechanical & plumbing improvements in various locations, including public restrooms | | | |
| 7. | Critical Roofing Repairs | 4,959,460 | 5,560,000 | 1,544,475 |
| | Critical roofing repairs and replacements on numerous buildings around the campus | | | |
| 8. | Building Structural Components | 3,150,000 | 3,150,000 | 201,348 |
| | Critical structural repairs to existing buildings across the campus | | | |
| 9. | Football Stadium Structural Repairs | 2,400,000 | 2,400,000 | 153,408 |
| | Structural repairs as needed to preserve the Stadium's structural integrity | | | |
| 10. | Arizona Health Sciences Critical Improvements | 6,118,292 | 4,974,752 | 317,986 |
| | Fire alarms/sprinklers, elevators, electrical, mechanical/ HVAC, roofing and structural components critical to AHSC facilities | | | |
| TOTAL | | 68,000,000 | 68,000,000 | 6,800,000 |

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Additional Project Considerations:

- To maximize the long-term investment in these important core campus facilities, these projects will be renovated to extend the useful lives of these existing facilities by 20 to 50 years. The UA Design & Specifications Standards will be utilized, and new construction will be of high quality, durable, maintainable materials and building systems to maximize energy efficiency and minimize operational, repair and replacement costs.
- These Deferred Maintenance and Building Renewal projects will not seek a LEED certification.

Project Delivery Method and Process:

- The sizes and types of projects included in this Deferred Maintenance & Building Renewal package vary considerably, and require the use of specific project delivery methods that best fit each individual project. Most of the projects will be completed with the use of the University's very successful Job Order Contracting process, which utilizes contractors from the local community to complete small projects quickly and efficiently. These contractors will be supported by the University's in-house maintenance forces as needed to maintain an efficient flow of work that meets the needs of the facility users.

Fiscal Impact and Financing Plan:

- System Revenue Bonds (SRBs) will be issued to finance the project. The bonds will be repaid over a period of approximately 20 years and would mature not later than June 2030. This Building Renewal Project is part of the SPEED program authorized by HB-2211 to stimulate the State economy through State University construction projects. Annual debt payments on SPEED projects will be funded 80% by state lottery revenue allocations, and the universities are responsible for 20% of the debt service. Based on projections of the Lottery Revenue Fund, the UA anticipates structuring interest payments only in the early years of the debt. Assuming a 5% average interest rate, the debt service is estimated to be \$3.4 million. The cost of issuance for the SRBs is estimated to be \$566,000. While this estimate is designed to be conservative and the expectation is that the actual amount of the debt service and issuance cost will be less than the estimate, it is possible that they could be higher given recent market volatility.
- Debt Ratio Impact. The incremental debt ratio from annual debt service for this project is 0.2%. The projected highest debt ratio including this project is 6.3%. The maximum debt ratio established by ABOR policy and state statute is 8%. The UA's current total lease payments associated with capital leases as a percentage of total university expenses is .006%.

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Project Status & Schedule:

- The Deferred Maintenance and Building Renewal projects will be expedited to improve campus facilities and provide an economic stimulus as quickly as reasonably possible. Although project schedules are still in review, it is anticipated that most of the construction work will be completed within the next two years.
- Each of the various renovation projects have been analyzed and estimated, and many are ready for work to begin upon authorization. Some of the more complex renovation work will require some additional design work before construction can begin, and some projects must wait for breaks in the academic schedule for construction work to occur in vacated spaces.

Committee Review and Recommendation:

The Capital Committee recommended review and re-approval of SPEED projects at its September 9, 2009 meeting.

Recommendation:

That the Board grant Project Approval (re-approval) for the UA SPEED Deferred Maintenance and Building Renewal Projects, including approval to shift monies among the projects once the final building or project assessment is developed, provided that the bottom line budget will not be exceeded, and that the final cost estimates, and the addition or removal of any projects be submitted to the Capital Committee.