



**Douglas A. Ducey**  
Governor

**Craig C. Brown**  
Director

**ARIZONA DEPARTMENT OF ADMINISTRATION**

OFFICE OF THE DIRECTOR

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October 16, 2017

The Honorable Douglas A. Ducey  
Governor of Arizona  
1700 West Washington Street, Ninth Floor  
Phoenix, Arizona 85007

Dear Governor Ducey:

Pursuant to A.R.S. § 41-793, the Arizona Department of Administration (ADOA) is submitting the FY 2019 ADOA Building System Capital Improvement Plan (CIP).

ADOA prepares the CIP on behalf of the ADOA Building System agencies and identifies and recommends proposals for new capital outlay, including fire and life safety, infrastructure, building shell and services, land acquisition, as well as forecasts two-year's full funding building renewal requirements.

ADOA prioritizes and makes CIP recommendations in the following order: (1) fire and life safety; (2) mission-critical to existing programs and services; and (3) preservation of State assets.

With an accrual of over \$500,000,000 of deferred major maintenance requirements in the State's aging infrastructure, ADOA has recommended full funding of the FY 2019 building renewal formula and put forth the most critical capital recommendations. While recent years' increased appropriations and new funds source strategies are useful in resolving critical capital issues, the appropriations are still well below the need.

If you have questions or require further information, please contact Nola Barnes, Assistant Director, General Services Division, at (602) 542-1954 or [nola.barnes@azdoa.gov](mailto:nola.barnes@azdoa.gov).

Sincerely,

Craig C. Brown  
Director

ADOA Building System  
Capital Improvement Plan FY 2019  
October 16, 2017  
Page 2 of 2

Attachment

cc: Matthew Gress, Director, OSPB  
Bill Greeney, Assistant Director, OSPB  
Ashley Beason, Budget Analyst, OSPB  
Richard Stavneak, Director, JLBC Staff  
Rebecca Perrera, Fiscal Analyst, JLBC Staff  
Kevin Donnellan, Deputy Director, ADOA  
Derik Leavitt, Assistant Director, ADOA  
Nola Barnes, Assistant Director, ADOA  
John Hauptman, General Manager, ADOA



# **ADOA BUILDING SYSTEM CAPITAL IMPROVEMENT PLAN**

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**FISCAL YEAR 2019**

DOUGLAS A. DUCEY  
GOVERNOR

CRAIG C. BROWN  
DIRECTOR

PREPARED BY

Arizona Department of Administration  
General Services Division  
Planning and Construction Services

# EXECUTIVE SUMMARY

## FY 2019 CAPITAL IMPROVEMENT PLAN

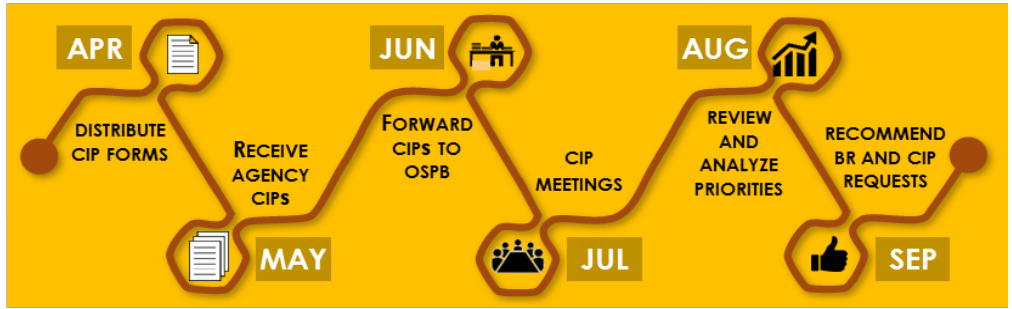
The Arizona Department of Administration (ADOA) prepares the ADOA Building System Capital Improvement Plan (CIP) and identifies

key recommendations for building renovations, replacement of core building components, and facilities construction.

### PRIORITIES

### CIP PROCESS

-  **Fire & Life Safety**
-  **Mission Critical Services**
-  **Asset Preservation**



### FY 2019 BUILDING RENEWAL

Total Requests=\$374 million



### FY 2019 CAPITAL IMPROVEMENT PROJECTS







### THE COSF DILEMMA

COSF (Capital Outlay Stabilization Fund) is in a state of perpetual crisis. The methodology to establish rents and the funds available to support facilities operations are unsustainable.

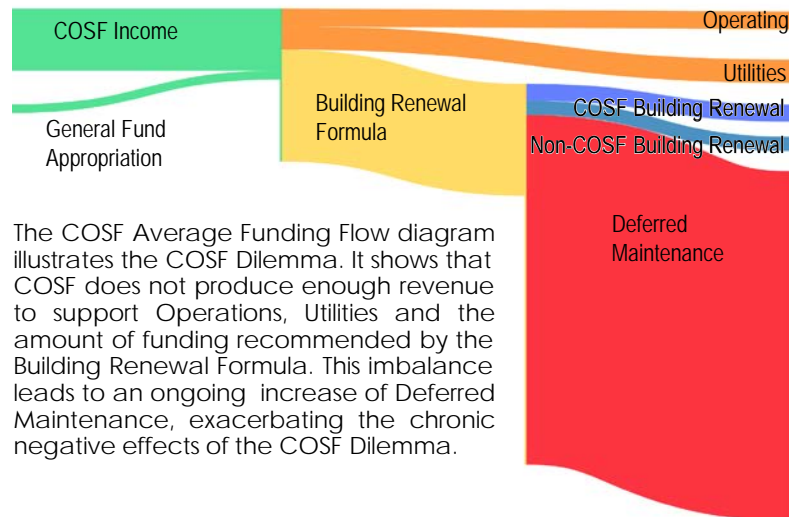


#### COSF BY THE NUMBERS (FY 12-18)

-  59.3% Percent of facilities supported by COSF that do not contribute to COSF
-  41.1% Percent COSF rental rates are below market average
-  24.2% Percent of average annual COSF revenue appropriated to Building Renewal
-  21.6% Percent of the average annual Building Renewal Formula that is appropriated

It is necessary to re-evaluate COSF appropriations, as the present approach does not support full-service operations and maintenance, fully fund a given fiscal year's Building System Building Renewal Formula, or address deferred maintenance and other unsupported appropriations.

#### COSF FUNDING FLOW (% AVERAGE FY 12-18)



The COSF Average Funding Flow diagram illustrates the COSF Dilemma. It shows that COSF does not produce enough revenue to support Operations, Utilities and the amount of funding recommended by the Building Renewal Formula. This imbalance leads to an ongoing increase of Deferred Maintenance, exacerbating the chronic negative effects of the COSF Dilemma.

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## ADOA BUILDING SYSTEM AND CAPITAL IMPROVEMENT PLAN

The Arizona Department of Administration (ADOA) Building System was established pursuant to A.R.S. § 41-793, concurrent with the Arizona Board of Regents (ABOR) Building System and the Arizona Department of Transportation (ADOT) Building System. The ADOA Building System is the largest of the three and includes buildings occupied by 24 State agencies, boards, and commissions. Each Building System is responsible for submitting a Capital Improvement Plan (CIP) to the Governor no later than October 15 of each year. The CIP includes proposals for State spending on land acquisition, capital projects, energy systems, energy management systems, and building renewal.

### **New Capital Project and Building Renewal Funds Sources**

All agencies in the ADOA Building System are directed by A.R.S. § 41-793 to provide an annual agency CIP to ADOA regardless of an agency's appropriated or non-appropriated monies sources, including dedicated or non-dedicated capital and building renewal funds sources. ADOA does not usually make specific recommendations for capital or building renewal requests for the dedicated funds sources agencies the Arizona Department of Game and Fish and Arizona Lottery Commission. As a significant change, 2011 Session Law authorized a dedicated building renewal funds source The Department of Corrections Building Renewal Fund for the Arizona Department of Corrections. ADOA does make new capital recommendations for the Arizona Department of Corrections.

### **Building System Inventory**

As of June 30, 2017, the Building System has an inventory of 4,357 structures comprised of approximately 23.6 million Gross Square Feet (GSF) and an estimated replacement value of \$4.7 billion (*see Table 1: ADOA Building System Inventory–FY 2017*). ADOA revises its Building System Inventory each year to include structure acquisitions and deletions as reported by Building System agencies, escalations or de-escalations of structure replacement values, and two fiscal years of forecasted building renewal requirements. The inventory also provides Marshall & Swift Construction Class, Construction Year, fire suppression/sprinkler system status, Facility Occupancy Category, and other allied information.

ADOA inspects structures and reports their status to the Governor's Office and to the Legislature once every four fiscal years. ADOA General Services Division, Planning & Construction Services section reports on the condition, maintenance, and utilization of buildings inspected during the prior fiscal year on an approximate schedule of 50% of buildings within the first two years and 50% of buildings in the following two years of the four-year cycle pursuant to A.R.S. § 41-793. After the FY 2009 budget reductions, ADOA suspended its quadrennial inspections of the Building System. As of FY 2013, ADOA resumed inspections and is incrementally carrying out its statutory obligation to inspect building system structures as staffing and new capital projects inspections permit.

Many of the Building System's structures and major building components have exceeded their useful lives or succumbed to the effects of deferred maintenance. There are widespread deficiencies in fire and life safety systems, roofs, HVAC, electrical, plumbing, control systems, parking lots, and interior finishes. A chronic lack of funding for basic routine and capital maintenance is the genesis of the poor condition of the Building System structures.

*Building inspection reports are available for review by contacting ADOA Planning & Construction Services at 602-542-4438.*

**Table 1–ADOA Building System Inventory**

*Fiscal Year Ending June 30, 2017*

Agency	No of Structures	FY 2017 Replacement Value	Two-Year Forecast		Gross Square Feet
			FY 2019 Renewal Formula	FY 2020 Renewal Formula	
Administration, Arizona Department of	68	\$927,237,255	\$13,150,202	\$13,509,392	5,042,304
ADOA, Legislature	7	\$77,513,563	\$1,907,781	\$1,959,891	303,388
ADOA, Secretary of State	1	\$2,661,663	\$47,370	\$48,663	20,663
Agriculture, Arizona Department of	5	\$683,307	\$12,289	\$12,625	10,154
AHCCCS	3	\$33,712,811	\$540,134	\$554,887	164,080
Corrections, State Department of <sup>1/2</sup>	1,488	\$1,800,191,441	\$22,283,225	\$22,891,905	8,006,555
Deaf and the Blind, Arizona State Schools for the	50	\$114,641,994	\$1,681,100	\$1,727,018	509,799
Economic Security, Department of	129	\$139,831,318	\$3,078,223	\$3,162,303	779,970
Emergency and Military Affairs,	526	\$537,959,095	\$7,851,164	\$8,065,614	3,694,758
Environmental Quality,	7	\$4,633,893	\$98,356	\$101,043	19,614
Exposition & State Fair Board, Arizona	26	\$107,899,667	\$2,658,644	\$2,731,264	681,147
Forester, State	5	\$1,942,213	\$33,109	\$34,014	13,646
Game and Fish Department, Arizona <sup>1</sup>	473	\$87,465,987	\$978,078	\$1,004,794	837,231
Health Services, Department of	57	\$255,829,858	\$3,436,917	\$3,530,794	812,004
Historical Society, Arizona	23	\$50,964,596	\$1,019,928	\$1,047,786	208,572
Historical Society of Arizona, Prescott	20	\$12,315,471	\$251,815	\$258,694	54,083
Judiciary, Arizona Supreme Court	1	\$67,851,685	\$897,040	\$921,543	257,207
Juvenile Corrections, Department of	51	\$54,849,753	\$922,077	\$947,263	225,334
Lottery Commission, Arizona State <sup>1</sup>	2	\$8,281,692	\$126,333	\$129,784	47,600
Parks Board, Arizona State	870	\$127,540,504	\$2,011,379	\$2,065,474	737,850
Pioneers' Home, Arizona	10	\$13,375,513	\$319,349	\$328,072	66,140
Power Authority	3	\$8,241,377	\$54,949	\$56,450	12,324
Public Safety, Department of	384	\$133,017,814	\$2,049,626	\$2,105,610	647,792
Veterans' Services, Department of	39	\$117,494,857	\$774,443	\$795,596	407,193
<b>Grand Total:</b>	<b>4,357</b>	<b>\$4,686,137,326</b>	<b>\$66,183,531</b>	<b>\$67,990,478</b>	<b>23,559,407</b>

<sup>1</sup> Dedicated funds source agency

<sup>2</sup> Effective FY 2012 Department of Corrections is a dedicated funds source agency for Building Renewal

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## BUILDING RENEWAL & CAPITAL OUTLAY STABILIZATION FUND

A.R.S. § 41-790 defines building renewal as “...major activities that involve the repair or reworking of a building and the supporting infrastructure that will result in maintaining a building’s expected useful life. Building renewal does not include new building additions, new infrastructure additions, landscaping and area beautification, routine preventative maintenance except as provided in section 41-793.01, subsection D, or demolition and removal of a building....” A.R.S. § 41-793.01(D) directs that ADOA may use up to 8% of the amount appropriated for routine preventative maintenance. Given the years of deferred major maintenance in the Building System, ADOA prioritizes building renewal projects over routine preventative maintenance issues, which are normally a routine operations function and expense.

### Building Renewal Formula

A.R.S. § 41-793 directs ADOA to: 1) determine the amount of appropriation required to fund building renewal on an annual basis according to a formula approved by the legislature; and 2) allocate appropriated building renewal monies to agencies of the Building System.

The building renewal formula approved by the Legislature is the Sherman-Dergis Formula developed in 1981 at the University of Michigan. In simple terms, the Sherman-Dergis Formula estimates at a high level the funding requirements for major maintenance over time. The basic premises are:

The formula to determine the annual appropriation required for building renewal for each building is based on construction costs and calculated as follows: Two-Thirds Building Value (BV) multiplied by the Building Age (BA), then divided by the Life Expectancy of the structure (n) or otherwise expressed as

$$\frac{2/3(BV)BA}{n}$$

The formula reflects the current year building replacement value by updating the original construction cost, using a national building cost index. ADOA uses the Marshall & Swift Valuation Service’s building cost index to reflect its current year building replacement value.

The Age Factor = Building Age/Life Expectancy of the building (n). For example, the ADOA Life Expectancy is 50 years, therefore  $n=1,275$ , which is derived by progressively compounding by addition,  $1+2+3+4+5...49+50$ . Building renewal, on average, should cost no more than two-thirds of the cost of new construction, thus creating the building renewal constant multiplier of  $2/3$ .

The formula recognizes that building renewal should cost less than building replacement and that older buildings require more building renewal (capital funding) than newer buildings. To accomplish this, ADOA incorporates a building’s life expectancy of 50 years into its age factor. The annual formula does not consider accrued deferred maintenance.

### Building Renewal Funding and Deferred Maintenance

The Legislature fully funded the Building System’s Building Renewal Formula in only two of the last 30 fiscal years (FY 1988 and 1999). Full funding of the Building Renewal Formula is a reference to the cumulative amount of annual appropriation required to sustain a given year’s *current* facilities conditions, assuming all prior annual major maintenance requirements are completed. The utility of the Building Renewal Formula is limited because chronic underfunding results in an annual accrual of its unfunded portion, which the following year’s formula does not consider.

As a result of nearly 30 years of funding shortfalls carried forward year after year, the ADOA Building System has amassed **\$583 million** (adjusted for inflation) of deferred capital maintenance.

*(See Table 2: ADOA Building System Building Renewal Allocation History & Deferred Maintenance Accrual)*

The real significance of the Building System’s deferred maintenance is not its estimated value; it is its potential liability. Major equipment breakdowns, system failures, physical plant shutdowns, building finishes and contents damage are increasingly more common. The difficulty in predicting and preventing a major equipment or system failure in the ADOA Building System’s aging facilities without proper funding is surpassed only by the difficulty in dealing



**The COSF Dilemma**

COSF is in a state of perpetual crisis generated by an array of problems, including:

- 1) ADOA collects COSF rent for only approximately 2.2 million square feet—far less square footage than COSF is supporting;
- 2) tenants in approximately 334,000 RSF directly benefit from COSF facilities operations services but are exempt from payment of COSF rents or even basic operating and maintenance costs;
- 3) 19 State agencies owning and operating structures separately from ADOA that benefit from COSF appropriations for building renewal and new capital yet do not contribute to COSF revenues;
- 4) the methodology to establish COSF rent rates does not reflect standard building management practices – it merely supports a cash flow requirement;
- 5) appropriations exclusively from COSF will not stave off the negative effects of deferred maintenance;
- 6) some building’s lease-purchase debt service payments are appropriated from COSF even though the building is not a COSF contributor; and
- 7) COSF appropriations for building renewal are budgeted only after other expenditures are obligated, further promoting the vicious cycle of deferred maintenance.

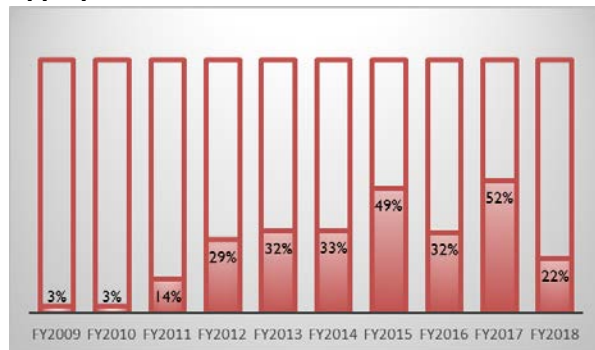
with these occurrences both physically and financially once they have occurred. Failure to address these issues with appropriate funding creates scenarios for undesirable environmental exposures, causes losses of productivity and inventory, increases expenditures in labor and mobilization fees, and further broadens the spectrum of accountability.

Arizona is facing the inevitable long-term consequences of neglecting its facilities’ major maintenance requirements. In June 2016, Abacus in conjunction with the Parsons Corporation, conducted a facility condition analysis of 3 million GSF of ADOA owned and/or managed buildings. This analysis indicated that over 1.5 million GSF (36%) of the structures it assessed were in “below average,” “poor,” or “replacement” condition.

ADOA’s statutory role as the steward of the State’s building assets is a nearly unattainable expectation with each passing year. ADOA is recommending full funding of the Building Renewal Formula for Fiscal Year 2019. The average percentage of the building renewal formula funded in the past ten fiscal years (non-dedicated fund source agencies) is 26.9% (see Chart 1–Percent of Building Renewal Formula Appropriated FY09-FY18). In spite of the trending increase in building renewal appropriations from 2011 through 2017, the appropriations were still well below the need. Subsequently, the Fiscal Year 2018 appropriation of 21.7% of the formula was a decrease of 42.4% from the previous fiscal year. This reduction has increased the ongoing deferment of major maintenance requirements that continue to create highly disproportionate and expensive utility, repair, maintenance, and replacement expenditures in deteriorating and poorly performing facilities. The prolonged accrual of neglected building renewal has resulted in

comprehensive multi-year phased scopes-of-work that are too expensive to allocate from insufficient building renewal appropriations and too lengthy to complete in a two-year lapsing appropriations period. Increasingly, major maintenance projects ADOA might otherwise allocate from building renewal appropriations are appearing in the CIP as large individual capital outlay requests.

**Chart 1–Percent of Building Renewal Formula Appropriated FY 09-FY 18**



**Capital Outlay Stabilization Fund**

Pursuant to A.R.S. § 41-791, ADOA manages or provides some type of operational support services to approximately 5.4 million GSF in the Capitol Mall, Phoenix Metro, Tucson, and Kingman areas, including office space, parking garages, mechanical structures, laboratories, and computer data centers. ADOA depends on appropriations of Capital Outlay Stabilization Fund (COSF) monies to cover the operating costs of ADOA managed, State-owned buildings, including utilities, routine maintenance, grounds services, operating supplies, janitorial services, operations staff salaries, and building renewal.

# Building Renewal & Capital Outlay Stabilization Fund

A.R.S. § 41-792.01 establishes the COSF and allows ADOA to collect rents and tenant improvement charges from State agencies occupying State-owned space. The legislative budget process determines the COSF rent rate ADOA charges to State agencies. COSF monies are subject to appropriation and exempt from the provisions of A.R.S. § 35-190 relating to lapsing of appropriations. Aggressive competition for limited General Fund (GF) monies has led to shifting the burden of funding the operating costs of ADOA managed State-owned buildings *and* building renewal almost exclusively with COSF. Since FY 2000, COSF is the exclusive source of 59% of building renewal appropriations for non-dedicated fund source agencies.

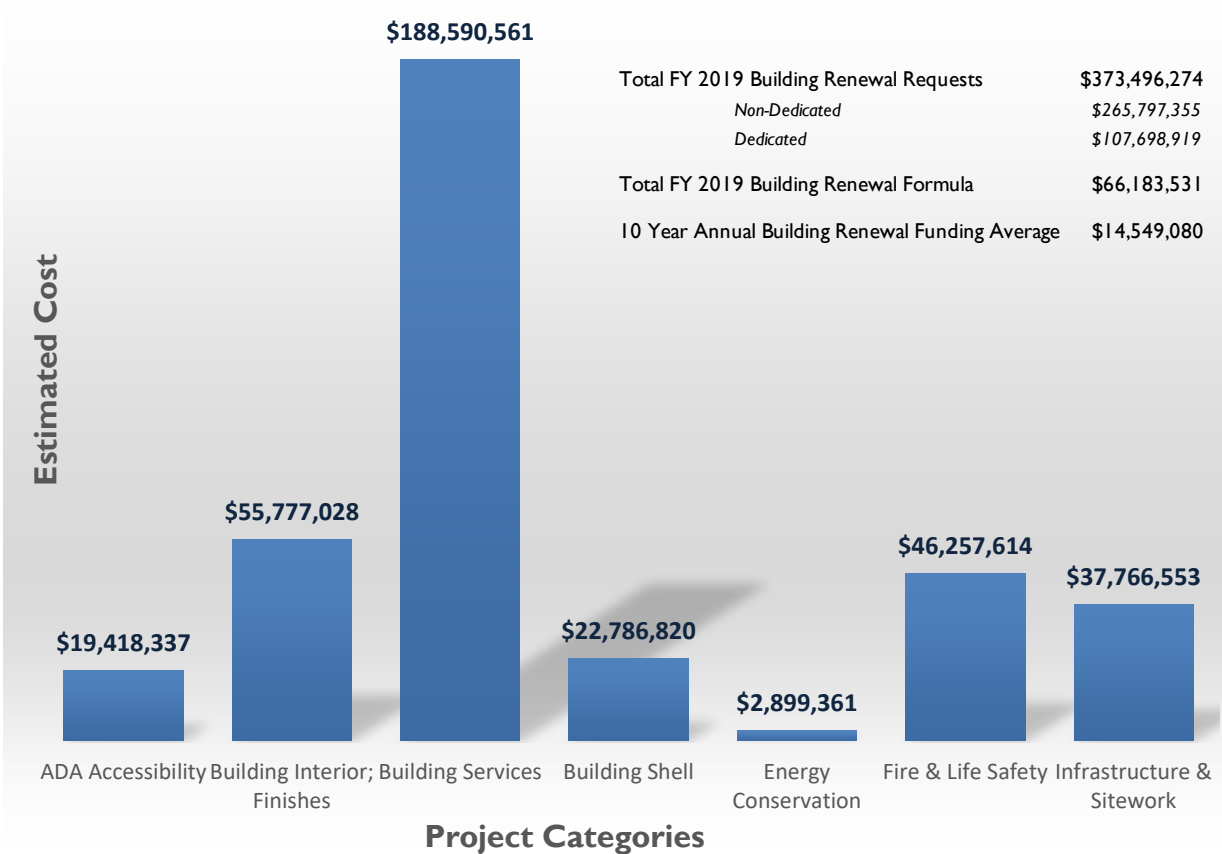
It is necessary to re-evaluate COSF appropriations, as the present approach does not support full-service operations and maintenance, fully fund a given fiscal year's Building System Building Renewal Formula, or address deferred maintenance and other unsupported appropriations.

## FY 2019 ADOA Building Renewal Recommendation

ADOA recommends full funding for the FY 2019 Building Renewal Formula, which is forecast to be \$66.2 million.

ADOA recognizes its recommendation will not fully achieve the goals of the Building Renewal Program nor forestall increasing deterioration of the Building System's aging infrastructure due to the \$583 million of deferred maintenance. ADOA is using its existing appropriations to gradually rectify some of the most severe detrimental consequences of deferred maintenance neglect through targeted infrastructure repair, replacement and renovation projects. An adverse policy decision for Fiscal Year 2019 will further exacerbate Arizona's legacy of persistent infrastructure failures, costly crisis mode expenses and the liabilities associated with a run-to-fail major maintenance program.

**Chart 2—ADOA Building System Renewal Request Summary**



**Table 2–Building Renewal Allocation History**

(Excludes Dedicated Funds Source Agencies; Game & Fish and Lottery)

Fiscal Year	Building Renewal Formula	Appropriation	% of Formula Appropriated	Deferred Costs	Inflation Adjusted Deferred Costs
FY 1988	\$5,476,500	\$5,491,800	100.3%	-\$15,300	
FY 1989	\$6,119,300	\$3,002,000	49.1%	\$3,117,300	\$5,950,926
FY 1990	\$6,226,100	\$3,184,000	51.1%	\$3,042,100	\$5,711,543
FY 1991	\$6,238,263	\$459,100	7.4%	\$5,779,163	\$10,668,335
FY 1992	\$6,804,200	\$807,334	11.9%	\$5,996,866	\$11,058,221
FY 1993	\$8,273,745	\$2,194,500	26.5%	\$6,079,245	\$11,197,969
FY 1994	\$8,607,379	\$3,051,600	35.5%	\$5,555,779	\$9,972,623
FY 1995	\$8,675,374	\$5,372,458	61.9%	\$3,302,916	\$5,773,497
FY 1996	\$9,079,255	\$8,171,400	90.0%	\$907,855	\$1,524,742
FY 1997	\$9,857,406	\$4,911,300	49.8%	\$4,946,106	\$7,968,177
FY 1998	\$12,598,637	\$6,210,700	49.3%	\$6,387,937	\$10,067,389
FY 1999	\$13,707,938	\$13,628,000	99.4%	\$79,938	\$123,184
FY 2000	\$15,925,783	\$3,403,400	21.4%	\$12,522,383	\$17,756,739
FY 2001	\$17,209,530	\$3,682,900	21.4%	\$13,526,630	\$18,964,335
FY 2002	\$18,100,303	\$6,464,400	35.7%	\$11,635,903	\$15,883,008
FY 2003	\$18,175,137	\$3,068,300	16.9%	\$15,106,837	\$20,092,093
FY 2004	\$19,252,520	\$3,500,000	18.2%	\$15,752,520	\$20,084,463
FY 2005	\$19,852,990	\$3,500,000	17.6%	\$16,352,990	\$19,116,645
FY 2006	\$22,864,835	\$3,400,000	14.9%	\$19,464,835	\$21,878,475
FY 2007	\$25,391,389	\$7,249,200	28.5%	\$18,142,189	\$18,632,028
FY 2008	\$27,584,100	\$7,257,100	26.3%	\$20,327,000	\$20,306,673
FY 2009	\$31,042,588	\$899,300	2.9%	\$30,143,288	\$30,143,288
FY 2010	\$33,056,002	\$1,000,000	3.0%	\$32,056,002	\$32,056,002
FY 2011	\$36,763,663	\$5,000,000	13.6%	\$31,763,663	\$31,852,601
FY 2012 <sup>1</sup>	\$38,109,130	\$11,100,000	29.1%	\$27,009,130	\$27,846,413
FY 2013 <sup>1/2</sup>	\$41,020,965	\$13,303,100	32.4%	\$27,717,865	\$28,189,069
FY 2014 <sup>1</sup>	\$43,036,312	\$14,000,000	32.5%	\$29,036,312	\$30,110,656
FY 2015 <sup>1</sup>	\$53,665,760	\$26,464,300	49.3%	\$27,201,460	\$27,854,295
FY 2016 <sup>1</sup>	\$60,833,327	\$19,464,300	32.0%	\$41,369,027	\$41,824,086
FY 2017 <sup>1/3</sup>	\$61,843,644	\$32,464,300	52.5%	\$29,379,344	\$29,351,140
FY 2018 <sup>1</sup>	\$63,400,007	\$13,764,300	13.1%	\$49,635,707	\$50,991,476
	<b>\$748,792,082</b>	<b>\$235,469,092</b>		<b>\$513,322,990</b>	<b>\$582,950,091</b>

<sup>1</sup> Includes a separate dedicated Building Renewal appropriation for the Department of Corrections as follows: (\$4.6 million in FY12 & FY13, \$5.0 million in FY14, \$8.5 million in FY 15, \$5.5 million in FY 16, FY 17 & FY 18)

<sup>2</sup> Excludes \$1.7 million allocated to Arizona Department of Health Services from building renewal appropriation for new capital.

<sup>3</sup> Excludes \$1.1 million allocated to the Department of Juvenile Corrections from the Criminal Justice Enhancement Fund.

## Building Renewal & Capital Outlay Stabilization Fund

Table 3–Two-Year Building Renewal Formula Forecast

Agency	Two-Year Forecast	
	FY 2019 Renewal Formula	FY 2020 Renewal Formula
<b>Game and Fish Department, Arizona<sup>1</sup></b>	\$978,078	\$1,004,794
<b>Lottery Commission, Arizona State<sup>1</sup></b>	\$126,333	\$129,784
<b>Corrections, State Department of<sup>2</sup></b>	\$22,283,225	\$22,891,905
<b>Sub-Total Dedicated Funds Source Agencies:</b>	<b>\$23,387,636</b>	<b>\$24,026,483</b>
<b>Administration, Arizona Department of</b>	\$13,150,202	\$13,509,392
<b>ADOA, Legislature</b>	\$1,907,781	\$1,959,891
<b>ADOA, Secretary of State</b>	\$47,370	\$48,663
<b>Agriculture, Arizona Department of</b>	\$12,289	\$12,625
<b>AHCCCS</b>	\$540,134	\$554,887
<b>Deaf and the Blind, Arizona State Schools for the</b>	\$1,681,100	\$1,727,018
<b>Economic Security, Department of</b>	\$3,078,223	\$3,162,303
<b>Emergency and Military Affairs, Department of</b>	\$7,851,164	\$8,065,614
<b>Environmental Quality, Arizona Department of</b>	\$98,356	\$101,043
<b>Exposition &amp; State Fair Board, Arizona</b>	\$2,658,644	\$2,731,264
<b>Forestry &amp; Fire Management, AZ Department of</b>	\$33,109	\$34,014
<b>Health Services, Department of</b>	\$3,436,917	\$3,530,794
<b>Historical Society, Arizona</b>	\$1,019,928	\$1,047,786
<b>Historical Society of Arizona, Prescott</b>	\$251,815	\$258,694
<b>Judiciary, Arizona Supreme Court</b>	\$897,040	\$921,543
<b>Juvenile Corrections, Department of</b>	\$922,077	\$947,263
<b>Parks Board, Arizona State</b>	\$2,011,379	\$2,065,474
<b>Pioneers' Home, Arizona</b>	\$319,349	\$328,072
<b>Power Authority</b>	\$54,949	\$56,450
<b>Public Safety, Department of</b>	\$2,049,626	\$2,105,610
<b>Veterans' Services, Department of</b>	\$774,443	\$795,596
<b>Sub-Total Non-Dedicated Funds Source Agencies:</b>	<b>\$42,795,897</b>	<b>\$43,963,995</b>
<b>Grand Total:</b>	<b>\$66,183,533</b>	<b>\$67,990,478</b>

<sup>1</sup> Dedicated funds source agency

<sup>2</sup> Effective FY 2012 Department of Corrections is a dedicated funds source agency for Building Renewal

## FY2019 CAPITAL PROJECT RECOMMENDATIONS

### ADDITIONS; RENOVATIONS; NEW CONSTRUCTION

#### ARIZONA DEPARTMENT OF ADMINISTRATION

##### *Request for Proposal for New Building at 1275 W. Washington*

The current funding mechanism to maintain Capitol Mall buildings is not sustainable. Due to the advanced age and decades of deferred maintenance, even if there were appropriate funding from the legislature, at this point capital investment is not a cost-effective approach. The Arizona Department of Administration (ADOA), working in conjunction with the Executive's Accountable and Efficient Government Goal Council 5 (GC5), has created a model to build one or more new state office buildings using a public-private-partnership (P3) model.

The P3 model will use lease consolidation, real property divestitures, and the application of uniform space standards to create a repeatable financial mechanism to design, build, operate, and maintain new state office buildings. This model will not require any new appropriations, provided the State maintains the overall rental appropriation for all agencies selected to occupy the new office building(s).

ADOA proposes to issue a Request for Proposal (RFP) to fully manage, design, build and/or finance one or more new office buildings. The RFP could result in a contract if the terms are advantageous to the State. If this model does not deliver a cost neutral cashflow then the State would not be under any obligation to proceed.

Revitalizing or rebuilding facilities will enhance the efficiency of state property as well as creating quality workspace to help attract and maintain a high-quality workforce. Investment toward revitalization of the Capitol Mall will eliminate the accrual of deferred maintenance and promote higher utilization of space.

##### *1400 W. Washington Office Renovations* **\$10.5 million**

The Arizona Department of Administration (ADOA) requests a capital appropriation of \$10.5 million for a major building renovation and backfill of 1400 West Washington. The appropriation is anticipated to be offset approximately 100% by the disposition of a State building asset beginning FY 2019.

The proposed renovation of 1400 W. Washington will support a backfill plan to help keep the Capital Outlay Stabilization Fund (COSF) wholly funded at current levels. With each passing year, ADOA's statutory role as the steward of the State's building assets becomes an increasingly unattainable expectation. While recent increased appropriations and new funds source strategies are helpful in resolving critical capital maintenance issues, the appropriations are still well below the need. In 2016, ADOA procured an engineering firm to perform condition assessments of several buildings in the Capitol Mall. The analysis of the overall conditions of ADOA's Capitol Mall buildings indicate that even though the ADOA buildings are not as old as most of the buildings assessed by the engineering firm, the ADOA buildings are in worse overall condition because of the higher than normal percentage of deferred maintenance. Most, if not all, renewable building system components have exceeded their statistical life cycle after 20-30 years of service, in some cases by 15 years.

This proposal includes offsetting the partial cost of renovating and backfilling 1400 W. Washington through the sale of the State-owned facility at 2910 N. 44th St. in Phoenix. The renovated space at 1400 W. Washington would be backfilled through lease reversions identified through the efforts of GC5.

In the FY 2017 Capital Outlay Bill, ADOA received a COSF appropriation of \$4.2 million for the renovation of 1740 W. Adams. The renovation will be complete by January 1, 2018 and will be backfilled by tenants currently occupying 1400 W. Washington and private sector office space; therefore, 1400 W. Washington is expected to become and available to start the proposed renovation project at the outset of FY 2019.

#### DEPT. OF EMERGENCY AND MILITARY AFFAIRS

##### *Southeast Regional MILCON Readiness Center* **\$4.5 million**

The federal government has approved funding for 75% of the \$18.1 million design and construction cost for the Safford MILCON Readiness Center. A matching appropriation of \$4.5 million is required to fund the remaining 25% of project costs.

Due to the federal procurement and contracting process, construction is not expected to be completed prior to FY 2022; therefore, the state funding is requested to be a non-lapsing appropriation. Commitment of the state matching funds in FY19 will allow

design to begin during the 2019 fiscal year and will also ensure the federal government that the state is committed to providing its 25% cost share.

This project is critical to the state of AZ. The 222 Transportation Company currently resides in modular trailers at the Florence Military Reservation that are in severe disrepair and are not cost effective to fix. The inadequate and substandard facility creates unacceptable and declining training and mobilization readiness standards. The lack of proper facilities negatively influences troop morale, readiness, and retention. The current facilities do not allow the units to properly train and equip its personnel, causing a major threat to the safety and well-being of the Soldiers in the AZARNG. The current facilities do not comply with National Guard Regulations (NG Pam 415-12 dated 25 Jan 2015) criteria, current code requirements, Americans with Disabilities Act (ADA), or Anti-Terrorism Force Protection (ATFP) requirements. The facility lacks adequate training areas, administrative space, supply room space, arms vault, kitchen space, toilets/showers, physical fitness space, locker room space, privately owned vehicle parking, military parking, and unheated storage space.

At 80,000 square feet, this project is programmed to meet the full requirements for the 168 soldiers of the 222 Transportation Company. The new facility will enhance readiness by supporting individual and collective training through improved administration, automation, communications, and logistical facilities. It serves as a headquarters for the Detachment and as a mobilization platform during Federal and State activation of AZARNG troops as well as providing support to the community. Functional areas will include assembly space, classrooms, locker rooms, physical fitness area, kitchen, weapons and protective masks storage, other storage, enclosed areas to support training with simulation, operator-level maintenance on assigned equipment, and use of NBC (Nuclear, Biological, Chemical) equipment.

The current armory would be eligible for disposal providing the option to sell the current state owned site to offset costs to the General Fund

## ARIZONA DEPARTMENT OF FORESTRY AND FIRE MANAGEMENT

### *Interagency Wildland Fire Dispatch Center* **\$6.1 million**

The Arizona Department of Forestry and Fire Management (DFFM) provides resources for the prevention and suppression of wildland fires on approximately 22 million acres of State Trust Land and private property located outside incorporated communities. The Deer Valley office, located off I-17 and Pinnacle Peak Road houses the DFFM Phoenix District Office as well as the Arizona Interagency Dispatch Center (AIDC), which dispatches for wildland fire incidents for the northern two-thirds of the State (Yuma, La Paz, Yavapai, Northern Pinal, Mohave, Coconino, Apache, and Navajo Counties). Currently, the DFFM Phoenix District Office is operating out of a 24' x 60' modular building installed in 1997 at the Deer Valley location (the age of the modular building is unknown as it appears it was not installed new). The Phoenix District Office houses the Phoenix District Forester, Assistant Fire Manager, Globe Fire Crew Coordinator, Perryville Fire Crew Coordinator, Fuels Manager, Division Safety Officer, and other State fire staff. These positions support wildland fire suppression, all-risk activities (i.e. flooding), and wildland fire training outreach to fire departments in Maricopa, Yavapai, Yuma, La Paz, Gila, and the northern half of Pinal Counties.

The current AIDC facility—a vital component of the state and national emergency response framework—does not meet national standards for reliability and survivability. The current building is not sufficient to support a major emergency operation. It was designed to serve a dual function as general office space for administrative personnel as well as statewide wildland interagency dispatch responsibilities. Although it was originally constructed to standards for office use, the function of this facility has changed due to updated AIDC requirements. Now it is solely configured and utilized as a dispatch center. Not only are the electrical, mechanical, plumbing, and security systems well past their expected useful life, they were not designed to support the demands of 21<sup>st</sup> century communication and data infrastructure. The building does not provide a secure environment to house the critical communication and IT equipment necessary to reliably dispatch personnel in the face of threats to the public safety.

A properly designed and constructed center will provide the required security and redundancy lacking in the current facility. The proposed 4,500 square foot

## FY2019 Capital Project Recommendations

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AIDC will be designed and constructed to nationally recognized standards for security and continuation of operations. It will provide safe and adequate space for emergency managers and dispatchers.

The new AIDC will allow DFFM and Fire Management personnel to provide safe mobilization of aircraft, equipment and personnel. The critical improvements provided by the new AIDC will allow the effective and timely dispatch of emergency responders and will better provide for the security of responders and the safety of the public.

### GAME AND FISH DEPARTMENT

The Game and Fish Fund is comprised of Federal, State, and transactional sources that are primarily derived from voluntary purchases. While the Game and Fish Fund does not draw from the State General Fund, the monies are appropriated by the legislature for specific purposes, including capital improvements and building renewal projects. For the Game and Fish Department to use the funds, the money must be appropriated by inclusion in the annual Capital Outlay Bill.

#### *AGFD Building Renewal Appropriation* **\$981,400**

The Department's Engineering Section takes a proactive approach to effectively inventory and document the condition of its real property assets and develop maintenance priorities consistent with life cycle asset management principals. The Building Renewal Formula returns a value of \$981,400 for Game and Fish for FY 2019. Therefore, the Department is requesting a Building Renewal appropriation of \$981,400 from the Game and Fish fund to maintain mission critical assets and reduce deferred maintenance.

#### *AGFD Infrastructure Appropriation* **\$300,000**

The Game and Fish Department is requesting \$300,000 in Fiscal Year 2019 from the Department's Capital Improvement Fund for supplemental operation and maintenance of infrastructure on Game and Fish properties statewide. The intent of this request is to establish dedicated funding to achieve restoration objectives on existing properties.

#### *AGFD Dam Safety Appropriation* **\$150,000**

AGFD is also requesting \$150,000 in Fiscal Year 2019 for operation and maintenance activities of Commission owned or operated dams. The intent of this request is to establish supplemental funding for maintenance and repair projects which maintain the safety and integrity of AGFD dams. This funding will support compliance with dam safety regulations, which can often require costly modifications in addition to routine operation and maintenance activities. These activities are critical in assuring public safety, preventing potential loss of life and property, and preserving the ongoing availability of numerous fishery and recreational resources for the citizens of Arizona.

Game and Fish has determined a need for a total appropriation of \$1,431,400 for FY 2019.

### DEPARTMENT OF PUBLIC SAFETY

#### *Statewide Office Modular and Remote Housing Replacement* **\$2 million**

To support Arizona's vast highway system (improving highway safety and providing emergency response), DPS Highway Patrol officers are stationed at reasonable travel intervals throughout the State. With great distances between Arizona's populations centers, remote housing compounds are necessary. The most cost effective solution at these remote locations is modular housing. This request is part of an ongoing plan to improve existing remote housing units in rural Arizona. Newer units are far more energy efficient and cost less to operate and maintain. Better living conditions offer more incentive for Highway Patrol officers and their families to relocate to rural areas of the State.

DPS has approximately 60 units across the State. With a useful life of 20-25 years, approximately three units require replacement each year. Due to budget limitations, numerous units far exceed their useful life, with some units exceeding 50 years old. Older units are poorly insulated, no longer code compliant, and have rapidly deteriorating building systems. The burden for continuous "Band-Aid" fixes to these units is not cost effective and immediate replacement is required. Below are the most critical remote housing locations:

- Dateland P-043 (1,344SF, 50+ years old)
- Gila Bend M-059 (1,080SF, 39+ years old)
- Wikieup T-221 (780SF, 42+ years old)
- Kayenta T-086 (1,344SF, 42+ years old)

This is part of an ongoing plan to improve existing remote housing and provide additional housing units in rural Arizona. Newer units are far more energy efficient, costing less to operate and maintain. Better living conditions offer more incentive for Troopers and their families to relocate to rural areas of the State.

Like the remote housing needs, DPS requires office space throughout the state to satisfy operational needs. These units have also exceeded their useful life as the six units below are 34 plus years old and require complete replacement. Below are the most critical remote office locations:

- Payson (40 years old)
- Wikieup (40 years old)
- Buckeye (40 years old)
- Sanders (40 years old)
- Wickenburg (34+ years old)

Purchase and installation of new office units will provide adequate space for proper operation, improve efficiencies, address code compliance concerns and reduce energy consumption.

### **FIRE & LIFE SAFETY/INFRASTRUCTURE**

#### ARIZONA DEPARTMENT OF CORRECTIONS

*Replace Obsolete and Unsupported Fire Alarm Systems; ASPC Florence; Phase I*  
**\$6.3 million**

Some of ADC's highest priorities for capital improvements include requests totaling over \$31.2 million to replace and/or repair fire alarm systems in ADC prison complexes throughout the State. Properly working fire alarms are a basic and mandatory requirement for occupied spaces, and particularly so in a confined and secure environment. Fire alarm systems in numerous prison complexes are not Class A fully addressable, as well as inoperable, malfunctioning, unsupported and obsolete. When fire alarm systems are out of commission for extended times, ADC must employ 24-hour fire watch personnel, usually on an overtime basis, to achieve fire and life safety standards. The existing situation is unacceptable and creates a threat to life and safety for staff and inmates throughout the ADC system.

ADOA recommends a phased approach to comprehensive multi-complex life safety projects coupled with a funding commitment spanning several fiscal years. Phase I of a multi-year funding proposal includes fire alarm systems at the Douglas State Prison Complex and all units at the Eyman State Prison Complex. Existing systems throughout the Douglas State Prison Complex are obsolete, with approximately 85% in a non-operational condition. These units are currently conducting 24-hour fire watches. The fire alarm systems at the Eyman complex serve five individual units. Connectivity and operational problems have led to a non-operable system for all units. Phases II, III, and IV include, but are not limited to, prioritization of fire alarm systems at Florence, Lewis, Phoenix, Tucson, and other complexes. Replacement priorities and phasing would be subject to change upon further intensive evaluation of system components.

#### ARIZONA DEPARTMENT OF CORRECTIONS

*Replace and Upgrade Cell Doors and Locks; Restore Appropriations Phase II*  
**\$7.0 million**

The Legislature made appropriations for this multi-year capital project in FY 2006 (\$5.2 million) and FY 2007 (\$5.2 million) and ex-appropriated the monies in FY 2008 (\$2.0 million) and FY 2009 (\$3.2 million), reducing the total cumulative funding to \$5.2 million. ADOA completed a single \$4.9 million project at the ASPC Tucson Rincon Unit. The ex-appropriation of \$5.2 million resulted in ADOA cancelling a second project, the ASPC Florence SMU II Unit Security Upgrades, during the contract award phase.

Since FY 2012, when ADC began receiving building renewal funding directly, ADC has completed locking projects at prison complexes across the state at the cost of \$6.94 million and currently has \$1.87 million dollars in locking projects in its FY 2018 building renewal plan. Estimates for the remaining scope of this funding issue are currently in the range of \$36.2 million to upgrade or replace locking systems at all ADC prison complexes.

ADOA recommends several years of funding commitment to a phased construction approach for multi-complex lock and cell door projects. Replacement priorities are subject to change upon further intensive evaluation of existing system components.



**BUILDING SERVICES**

ARIZONA DEPARTMENT OF ADMINISTRATION

*Elevator Modernization for Executive Tower, House and Senate*  
**\$9.66 million**

The ADOA is requesting a \$9.66 million capital appropriation to fund elevator modernization at the Executive Tower, and the House and Senate buildings at the Capitol Mall complex. The various elevators in these facilities are generally over 20-years old and beyond their expected useful service life. In addition to aged and outdated machinery, controls and cabs, the elevators should be renovated or replaced because they are not ADA compliant, do not provide code compliant elevator lobby enclosures and do not have backup generators.

Aging elevator equipment has an ongoing decrease in reliability with an associated increase maintenance and operations costs. Elevator failures not only cause inconvenience to employees and visitors, but can also present life safety concerns.

*Elevator Modernization for 1616 W Adams and 1200 W Washington*  
**\$3.24 million**

The elevators at 1616 W Adams are beyond their expected service life. The 1980's era controls need to be modernized. In addition to the aging elevator equipment, the elevator lobbies do not meet current life safety codes. The construction of fire resistant barriers with automatically closing fired doors is needed to provide the required protection to building occupants in the event of an emergency.

The passenger elevator at 1200 W Washington is also beyond its expected service life and needs to be updated to meet current codes with a fully accessible control panel, hands-free, two-way communication system, and audible/visual jingles and gongs at each stop.

*Elevator Modernization for 1601, 1645 W. Jefferson*  
**\$2.93 million**

In the event the public-private-partnership strategy to build a new state office at 1275 W. Washington building is not implemented, ADOA will request a \$2.93 million capital appropriation to fund elevator modernization at 1601 and 1645 W. Jefferson at the Capitol Mall complex. These elevators need to be replaced and upgraded because they are beyond their expected service life, are not ADA compliant, have obsolete controllers and do not have generators.

ARIZONA DEPARTMENT OF ADMINISTRATION

*Air Handler Upgrades*  
**\$4.95 million**

The ADOA is requesting a \$4.95 million capital appropriation to fund major upgrades to the air handler units at the Capitol Mall complex. A number of the air handler units at the Capitol Mall complex are well over 20-years old, far surpassing their expected useful service life. Many of the failing air handler units are original to building construction and no longer meet the air handling demands of the structures they support. Deteriorated air handler units are currently unpredictable and imminent failure conditions threaten mission critical functions. In Arizona's extreme environment, a lack of cooling in facilities presents health and life safety concerns.

The ADOA is currently completing a multiyear project to upgrade various central plants at the Capital Mall complex. An efficient and reliable HVAC system requires both the central plant and the corresponding air handler units to provide adequate cooling. The central plants supply tempered water to the air-handling units. These units then use the tempered water to circulate cool or warm air as necessary to the occupants of the buildings. The central plants and the air handler units require upgrading to adequately cool these facilities.

ADOA proposes the installation of air handler units comprised of heat exchangers, blowers, filters, humidifiers, vibration isolators, sensors, switches, actuators and control systems as well as rental of portable air handler units during construction as necessary.

Sites, in order of priority, include:

#	Address	Approx. Cost
1	1300/1400 W. Washington	\$1,230,000
2	1616 W. Adams	\$1,130,000
3	1700 Executive Tower, W. Washington (2 AHU)	\$1,040,000
4	1700 W. Washington Senate/House	\$980,000
5	1200 W. Washington	\$570,000
<b>Grand Total:</b>		<b>\$4,950,000</b>

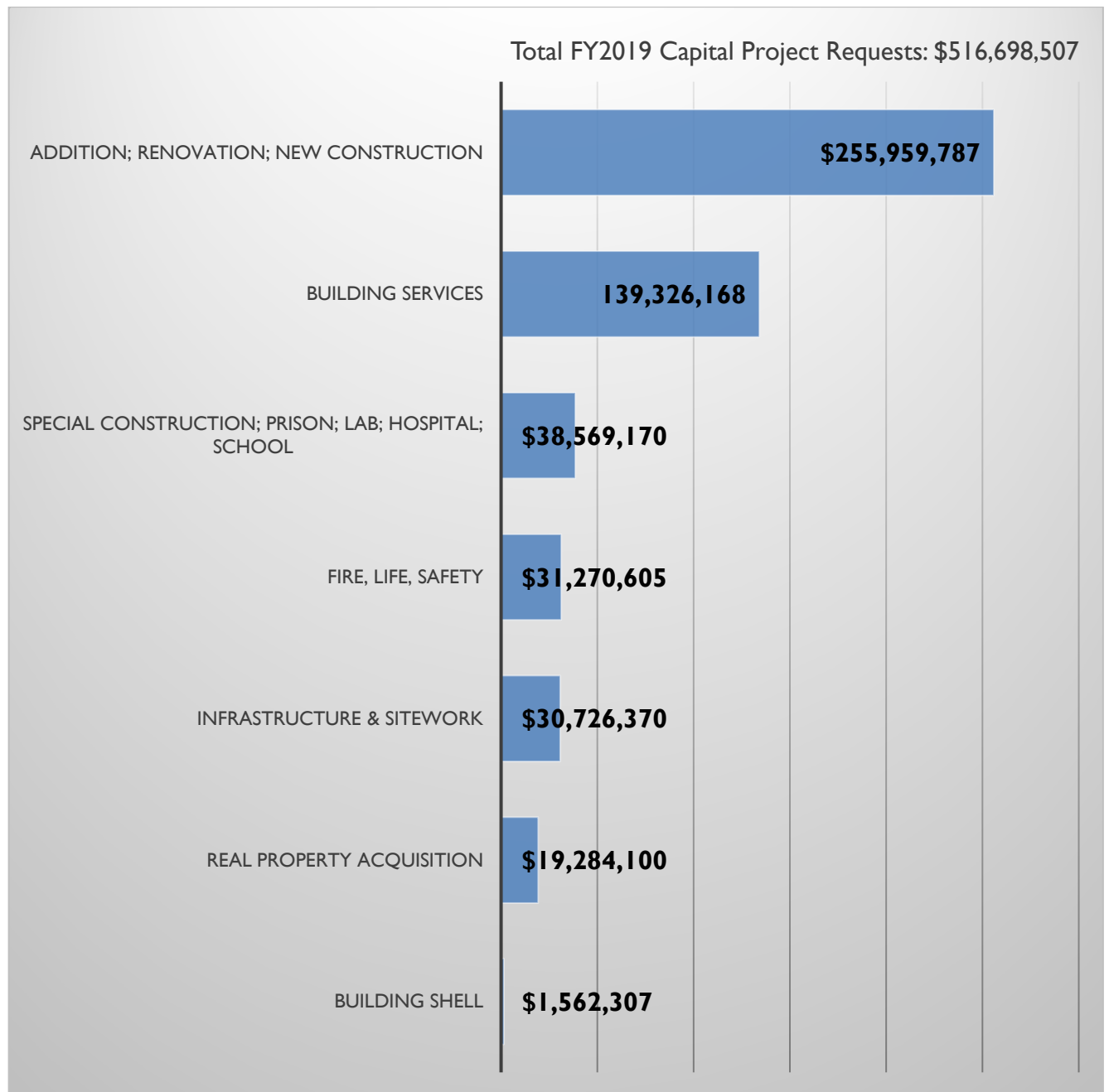
The ongoing replacement of aged and inefficient systems with new and more efficient systems will generate energy savings, protect assets, and provide a climate controlled environment for staff supporting mission critical functions.

## FY 2019 Capital Project Recommendations

In recent years, ADOA has attempted to fund individual air handler upgrades with limited Building Renewal funding. This piecemeal approach to replace obsolete and aging equipment has led to continued

failures and can take many years for completion. Complete HVAC system failures during the summer months requires emergency-based procurements that increase expenses and out of service times.

**Chart 3–ADOA Building System Capital Request Summary**



**Table 4–ADOA Capital Project Recommendations**

Agency	Location	Project Name	Project Category	Funds Source	FY 2019
<b>ADOA</b>	Capitol Mall	RFP for New Building at 1275 W. Washington	New Construction		
<b>ADOA</b>	Capitol Mall	Elevator Modernization for Executive Tower, House and Senate	Building Services	General Fund	\$ 9,663,000
<b>ADOA</b>	Capitol Mall	Elevator Modernization for 1616 W Adams and 1200 W. Washington	Building Services	General Fund	\$ 3,240,000
<b>ADOA</b>	Capitol Mall	Elevator Modernization for 1601 and 1645 W. Jefferson	Building Services	General Fund	\$ 2,930,000
<b>ADOA</b>	Capitol Mall	Replace Air Handler Units	Building Services	General Fund	\$ 4,950,000
<b>ADOA</b>	Capitol Mall	1400 W. Washington Office Renovations	Interior Construction	General Fund	\$ 10,100,000
<b>Corrections</b>	ASPC Florence	Repair and Replace Fire Alarm Systems	Fire & Life Safety	General Fund	\$ 6,300,000
<b>Corrections</b>	Multiple Facilities	Replace and Upgrade Locking and Door Control Systems	Fire & Life Safety	General Fund	\$ 7,000,000
<b>Emergency &amp; Military Affairs</b>	Tucson	Southeast MILCON Readiness Center	New Construction	General Fund	\$ 4,500,000
<b>Forestry and Fire Management</b>	Deer Valley	Interagency Wildland Dispatch Center	New Construction	General Fund	\$ 6,100,000
<b>Game and Fish</b>	Multiple Facilities	Game and Fish Fund Annual Appropriation	Renovations	General Fund	\$ 1,431,400
<b>Public Safety</b>	Multiple Facilities	Officer Remote Housing for Wikieup, Dateland, Gila Bend and Office Modular Units for Payson, Wikieup and Buck-eye, Sanders and Wickenburg	New Construction	General Fund	\$ 2,000,000
<b>Grand Total Recommendations</b>					<b>\$58,214,400</b>