

In The Matter Of:
State of Nevada - Public Works Division
Videoconferenced Board Meeting

Friday
March 13, 2015

Capitol Reporters
208 N. Curry Street

Carson City, Nevada 89703

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STATE OF NEVADA

PUBLIC WORKS DIVISION VIDEO CONFERENCE BOARD MEETING

FRIDAY, MARCH 13, 2015

CARSON CITY, NEVADA

THE BOARD: TOM METCALF, Chairman
SEAN STEWART, Vice-Chairman
GUS NUNEZ, Administrator
CHRIS CHIMITS,
Deputy Administrator
JAMES WELLS, CPA, Director,
Department of Administration
TITO TIBERTI, Member
ROY WALKER, Member
BRYCE CLUTTS, Member
STEVEN KWON, Member

FOR THE BOARD: SUSAN STEWART,
Construction Law Counsel

KEVIN BENSON,
Construction Law Counsel

HEATHER FATZER,
Administrative Assistant

REPORTED BY: CAPITOL REPORTERS
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Carson City, Nevada 89703

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1 CARSON CITY, NEVADA, FRIDAY, MARCH 13, 2015,
2 1:00 P.M.
3 -oOo-

4 CHAIRMAN METCALF: Item Number 1, roll call.
5 Heather?

6 MS. FATZER: Chairperson Tom Metcalf?

7 CHAIRMAN METCALF: Present. And, Mr. Wells,
8 I'm a 22-year resident of Northern Nevada and a 20-year
9 contractor in Northern Nevada and been serving at the
10 pleasure of the Governor since about '06 and currently
11 the Chairman of the Board.

12 MS. FATZER: Vice-Chairperson Sean Stewart?

13 VICE-CHAIRPERSON STEWART: Here. I'm 22.

14 COUNSEL STEWART: And not my brother.

15 VICE-CHAIRPERSON STEWART: Just kidding.

16 MS. FATZER: Member Bryce Clutts?

17 MEMBER CLUTTS: Present. Mr. Wells, I'm the
18 president of DC Building Group. It's a pleasure to meet
19 you.

20 MEMBER WELLS: Nice to meet you.

21 MS. FATZER: Member Steven Kwon?

22 MEMBER KWON: Here. I live in Las Vegas 41
23 years.

24 MS. FATZER: Member Tito Tiberti?

25 MEMBER TIBERTI: Present. I'm 23 and just
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1 older than Sean. I was born in Las Vegas, and I was
2 president of Tiberti Construction for 25 years and
3 retired and been on the board about six years, maybe
4 five, six years.

5 ADMINISTRATOR NUNEZ: Six years, I think,
6 now.

7 MEMBER TIBERTI: Good to meet you.

8 MS. FATZER: Member Roy Walker?

9 MEMBER WALKER: Here. I'm a member on the --
10 Well, first, I'm quite a bit younger than Tito. I've
11 been on the board about the same time as he and Tom, and
12 I can't tell you what year that was.

13 CHAIRMAN METCALF: We had money back then.

14 MEMBER WALKER: Why don't we start on that.
15 That was the year that we had \$800 million in our budget,
16 and we have now digressed substantially. So your
17 position on the board is to get us back to a significant
18 place. How is that, Tito?

19 MEMBER TIBERTI: Very good.

20 MS. FATZER: Member, Director of the
21 Department of Administration, Mr. Jim Wells?

22 MEMBER WELLS: Present. So I'm the interim
23 Director of Administration. I grew up here in Carson
24 City and came from the State's Public Employee Benefits
25 Program. I ran the health insurance program for the last
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1 four and a half years, and I've been a state employee now
2 for almost 23 years.

3 CHAIRMAN METCALF: Thank you.

4 MS. FATZER: Chairman Metcalf, we have met
5 quorum.

6 CHAIRMAN METCALF: Thank you very much,
7 Heather. Next on the agenda is Item Number 2: Public
8 Comment. Is there any public comment at this time? And
9 I will start with the south. Is there anybody down
10 there, Tito?

11 MEMBER TIBERTI: No, sir.

12 CHAIRMAN METCALF: Okay. Anybody up north
13 that would like to have any public comment?

14 Let's go to Item Number 3. This is for
15 possible action: Acceptance and Approval of Public Works
16 Board Meeting Minutes, December 18th, 2014. I'm looking
17 for a motion.

18 MEMBER CLUTTS: So move, Mr. Chairman.

19 CHAIRMAN METCALF: Member Clutts moved. I'm
20 looking for a second.

21 VICE-CHAIRPERSON STEWART: Sean Stewart, for
22 the record. Second.

23 CHAIRMAN METCALF: Okay. Moved and seconded.
24 All in favor, signify by saying aye.

25 THE BOARD: Aye.
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1 CHAIRMAN METCALF: Opposed? Motion carries.
2 Thank you.

3 Okay. Next is Item Number 4 for Possible
4 Action. This is: A Presentation of the Feasibility
5 Study for the Design and Construction of Public
6 Facilities.

7 And, Mr. Gus Nunez, could you please start
8 out.

9 ADMINISTRATOR NUNEZ: Sure, Mr. Chairman.
10 For the record, my name is Gus Nunez. I'm the
11 Administrator of Public Works, and a few months ago, we
12 contracted with -- We went out for an RFP and ended up
13 selecting Governmental Facilities Development Services,
14 and we've been working with this group now for a few
15 months and analyzing and developing -- they developed
16 this report, and the concept is in the prior years, we
17 have always looked at the option of should we be owning
18 or leasing for the State of Nevada.

19 And what we decided this time was to
20 actually, instead of doing the work in-house, we decided
21 to go out for an RPF and have someone from the outside
22 look at all of the options. And actually, this was quite
23 relieving to us here at Public Works, the outcome of this
24 report, and I'm really looking forward to the
25 presentation here now, and especially what the reaction

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1 may be from the board on this matter.

2 So at this time, I'd like to introduce Steve
3 Nielsen, who is going to proceed with the presentation.

4 MR. NIELSEN: Where should I stand so that
5 the camera picks it up? If this works okay. My name is
6 Steve Nielsen. I'm the Senior Vice-President for a
7 company called Government Facilities Development
8 Services. I think a little bit of history just to let
9 you know is that our company has 75 years of governmental
10 and developmental experience.

11 I particularly come from first with the City
12 of Tempe, Arizona, so community development director, so
13 24 years of government experience; then went over to
14 Arizona State University, the largest public university
15 today in the country, to lead their master planning and
16 development efforts, so a lot of governmental experience.

17 And so my partner and I formed Government
18 Facilities Development Services with the sole purpose of
19 lessening the burden of government and providing social
20 good. That was the intent of this effort. And so I'm
21 pleased to take you through this study effort. And
22 fortunately, if you can follow along in your -- we gave
23 you a handout because the presentation is in that screen
24 over in the corner there.

25 COUNSEL STEWART: Can you dim the lights?
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1 Would that help a little bit?

2 ADMINISTRATOR NUNEZ: The button is
3 underneath. See the one that goes up and down?

4 MEMBER TIBERTI: Gus, if I might interrupt
5 this high-tech meeting, Tito Tiberti, for the record.
6 Chairman Metcalf asked me if there was any guests, and
7 there is a guest sitting here. He has nothing to say,
8 John Busby, the mechanical contract associate. He just
9 wants to know if we're going to spend some money. So I
10 want to let you know he's sitting here.

11 MR. BUSBY: Give me some good news, fellows.
12 Give me some good news.

13 MEMBER TIBERTI: He just wants a yes vote on
14 \$800,000,000.

15 MR. NIELSEN: So we went through a public
16 procurement process. We put together a team to help with
17 this feasibility study and the potential development of
18 some buildings for the State of Nevada. We assembled a
19 team, TSK Architects, so a local Nevada company; Core
20 Construction, again, a local Nevada company; and then
21 from there, we brought in some additional partners.
22 Provident Resources is a co-developer, and they are a
23 non-profit foundation that helps us with financing.
24 They've built -- They own \$1.8 billion dollars worth of
25 governmental facilities through a tax-exempt bond

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1 financing.

2 We partnered with City Corp. They are the
3 largest public finance underwriter in the State of Nevada
4 by 400 percent. So if you take them, you got to bring
5 everybody else, and they're still number one. So we
6 brought them into play. And then across the bottom, you
7 can see some of the consultants that we brought in as
8 well.

9 The work that you asked us to do was to take
10 a look at the feasibility of owning versus leasing, but
11 using private capital to build facilities under a lease
12 leaseback structure where the State would ultimately own
13 the facilities. You'd control them from day one but own
14 them once the debt is retired. We went back and we took
15 a look at the planning efforts that has been done dating
16 back to as far as 1987 with the conceptualization of a
17 capital campus development.

18 Those studies were updated throughout the
19 years, but there were a series of objectives that we
20 found that were really germane in how our planning would
21 come together. They talked about centralization, talked
22 about reducing state dependency on leased space, a
23 quality work environment, attracting attractive State
24 Capital Complex, efficient and functional.

25 I can tell you that while I was with Arizona
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1 State University, when I formed a development -- real
2 estate development division for them, we were leasing 3
3 million square feet of development. One of the first
4 tasks that I organized the department was to take a look
5 at that leasing scenario and did it make sense. And I
6 can tell you from experience that there is an opportunity
7 just by colocation, the efficiencies. When we talk about
8 budget issues and things like this, we believe that from
9 my experiences, we were able to save two to five percent
10 in certain departments of their operational budget just
11 because we could co-locate administrative functions,
12 admin functions, equipment functions, and things like
13 that.

14 So I'm going to today talk about a lease
15 rate, but keep in mind that there is also an operational
16 efficiency that's got real dollars and benefit to you. A
17 number of current conditions. The State SPWD currently
18 leases 1.6 million square feet of commercial office space
19 in Nevada at an annual average expenditure last year of
20 \$34 million dollars, but here's where we get into some of
21 the things that we take a look at.

22 So over the last 30 years, and inflation is a
23 good guide for what's going to happen to your lease rates
24 because on the commercial sector is they inflate leases
25 based on inflation rates. And so we looked back 30

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1 years. It's in your report. But the average -- there
2 are ups and downs through economic cycles. And today,
3 we've had the benefit of some pretty low inflation rates,
4 but we've seen inflation rates on an annual basis over
5 five and a half percent. So when you look back at 30
6 years, the average is 2.9 percent. So I want you to keep
7 that fact in mind.

8 We also take a look and this again, from my
9 experience at ASU, is we took a look at if you were going
10 to build buildings, do you have the tenants that could
11 fill them immediately without having to break up leases
12 because that's costly, and that wouldn't be good
13 planning. So we took a look at your current leases, and
14 you have, just within Southern and Northern Nevada,
15 680,000 square feet of leases that will expire by January
16 1st of 2018. So we set that as the delivery date
17 potential for new buildings, and so we coincide that.

18 We also take a look at the financing for
19 this. I mentioned that our approach is to use a
20 non-profit foundation, so we take the profit motive out
21 of this. We use 100 percent tax-exempt financing, and
22 those bond interest rates are at an all-time low. And
23 I've got some charts to kind of show you what's been
24 happening, but we're sitting there at below the average
25 inflation rate right now just in financing, and so I'll

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1 talk a little bit about that. So we jump right into
2 here. So this slide is why now? And despite asking us
3 to do it, this is one of the real questions is why should
4 you do now?

5 The Bryant Building is a great example. You
6 built a building. You've got favorable conditions. It's
7 a great off-credit, off-balance sheet financing, and it
8 created a good work environment. But when you take a
9 look at what's happened in the last 30 years again, in
10 this case, the last 20 years, you can see what's
11 happening with financing rates in the tax-exempt bond
12 market, and so we want to take advantage of that.

13 Go back to -- this is just kind of recap
14 here. So when you take a look at -- We went and looked
15 at by sector where lease space is and what does it cost
16 you. So in 2014, you leased 1,000,006 square feet, but
17 the markets were different. And so in Carson City, the
18 average commercial lease rate was \$1.42, Las Vegas,
19 \$2.16, and in Reno, in the middle there at \$1.68. But we
20 go to the average. And so for this analysis purposes, we
21 went to what's the average lease rate that the State pays
22 for 1,000,006 square feet, and that's \$1.78 a square foot
23 per month. These are full-service leases. That's good
24 and bad news.

25 The good news is that you know what your
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1 price is and you can budget for that. The bad news is
2 because you're leasing from the commercial sector, you're
3 paying property taxes. You wouldn't if this was a
4 government facility. You're paying higher costs of
5 utilities than your rate, and so your operating costs are
6 higher than if you owned the building yourself.

7 For the purposes of our study -- so we talked
8 about the inflation rate being 2.9 percent annually. We
9 used a number of 2.8 percent. We're really trying to
10 make sure that this is a conservative look at what are
11 the opportunities and how that might impact. This is the
12 bad news. This is the slide that really is if you
13 continue to go down this path, and you take a look at a
14 2.9 percent inflation factor, and the line won't be this
15 perfect. It's going to have spikes and valleys depending
16 on the economy, but this is based on that 2.8 percent --
17 2.9 percent annual inflation. I'm sorry. We used 2.8 in
18 here.

19 And what this means that is in ten years, you
20 spend \$34 million dollars now, if we stayed on that pure
21 2.9 percent curve, the cost of leasing that same amount
22 of space in year ten would be \$44,000,000. So there is
23 an out of your control what the commercial market is
24 going to charge. But again, looking at taking historical
25 numbers, projecting them forward, this is what could

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1 happen.

2 So in order to do a true analysis and to take
3 this forward, we retained the services of TSK Architects.
4 We developed a prototype building that follows very
5 similar to the Bryant Building in that it's got large
6 open floor plates, 130,000 square foot of space, four to
7 five stories, 50 plus-year buildings. And so we use that
8 as the basis for this.

9 We looked at according to the offering
10 solicitation, we were asked to take a look at building
11 two buildings on the Capital Complex for HH&S, and that
12 was selected because of programming work that had been
13 done by SPWD, and so we had the benefit of knowing what
14 units were there, what were thought of so we could take a
15 look at how we could put them in a building from a
16 preliminary programming standpoint and make sense out of
17 that.

18 This slide right here, Chris, so I don't --
19 so we've overlaid that two prototype buildings right
20 here. Here is the Bryant Building, and then here is so
21 the beginnings of a Capital Complex with two prototype
22 buildings. We are also tasked to take a look at putting
23 a building in Las Vegas. This is the Bradley Campus.
24 We're showing that prototype building there. And for the
25 purposes of this analysis, we used Business and Industry,
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1 and because again some programming had been done for
2 consolidation, and so that gave us an opportunity to put
3 that into the model.

4 We took a look at financing. And I'm showing
5 you how the bond financing is dropping, has for the last
6 20 years, but we wanted to take a look at what's
7 happening in the last two years. And so right now, it's
8 a pretty flat curve. There are spikes here along the
9 way, but there's an opportunity, but you need to move
10 quickly on this opportunity. And I'm not here to put
11 pressure on you, but we all know interest rates are going
12 to go up, but the sooner we can do this, the sooner we
13 can take advantage of that.

14 The bottom chart there was also to take a
15 look at when you use a lease leaseback structure, while
16 the loan is non-recourse to the State of Nevada, so
17 you're not on the hook for this other than the lease
18 payment, but we're able to pull through your credit
19 rating, and that's the basis for borrowing. And so what
20 this shows here is I believe you're at a double A, and
21 you can see how that impacts the interest rate for
22 30-year bond financing. We're seeing rates today, if we
23 were to go to the finance market, of about 3.2 percent
24 interest.

25 So to go back to -- so here's your curve.
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1 And this is what you can look forward to if we don't
2 change that thinking. Now I got the graph that you'll
3 all have to look on your sheet because you can't possibly
4 read this. But so that we were comparing apples to
5 apples, what we took a look at is a \$45,000,000 cost of
6 each of the three buildings that we were taking a look
7 at. We worked with the architect and Core Construction
8 to do some preliminary cost estimating to get us that
9 \$45,000,000 number. That gets us -- and I can't read it
10 either. I'm going to walk up here. That gets us this
11 new State building lease rate in year 2018 of \$1.15 a
12 square feet per month.

13 We do something different. Under a lease
14 leaseback structure when we're using private capital,
15 they want to know, the investors want to know that the
16 buildings are going to be maintained, and they're not
17 subject to annual appropriations of capital repair
18 dollars. So what we build into our lease structure is a
19 dollar-per-square-foot annually that's put in a trust.
20 We work with you to use those funds to maintain building
21 systems.

22 And one of the things we do in our projects
23 is we do a lifecycle analysis of all major systems in the
24 building, and we will project out when we need capital
25 and to make sure that. So for the life of a 30-year

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1 financing, that building is maintained. That translates
2 to 8 cents a square foot of these three buildings, and so
3 that's programmed in there.

4 We then, so that we're comparing your costs
5 with what our costs might be, we have put in there 50
6 cents a square foot in year one to cover maintenance and
7 utilities, day-to-day maintenance and utilities. We used
8 50 cents. We took a look at what the commercial market
9 is, but we're able to back out property taxes. We're
10 able to -- we use your utility rates, and so we can come
11 up with 50 cents per square foot on an annual -- on a
12 monthly basis number. That gets us to \$1.78 a square
13 foot, and so that first gold line is representing that.
14 Actually, that's the rollup number before we add the cost
15 of utilities and maintenance.

16 So what this study here did is we took a look
17 at then various ways to finance a project. We typically
18 work with your treasurer, your Department of
19 Administration to -- we're going to analyze all different
20 ways to finance because we approached this as we're
21 working with you to lessen the burden of government.
22 We're not here to just say, "This is it. Take it or
23 leave it." So we're going to figure out what's the most
24 optimum program, building design, utility infrastructure,
25 and lease.

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1 But looking at this from a lease perspective,
2 what this is showing, if we went in and did 30-year
3 financing, but we did four years interest only and we do
4 this -- we just build the first two privately-funded
5 public schools in the State of Arizona, and we went in
6 there with five years of interest only and 35-year
7 financing, but we did that because we wanted their
8 going-in lease rate to be lower so that they could ramp
9 up enrollment, and it made sense. We wanted to test that
10 model with you here.

11 So what this slide shows is that for the
12 first four years, your cost of leasing is lower than your
13 cost of -- under this model, lower than your cost of
14 leasing on the commercial market. Then when we kick in
15 principal and interest, there are three years where
16 you're slightly above the line, and then we flatten it
17 out for the rest of the term of the financing. And
18 here's what that looks like in a graph, is that the red
19 line would be continued commercial leasing.

20 The green line is showing four years of
21 interest only. Then we spike up where we make principal,
22 but then for the rest of that 30 years, it's a flat line.
23 So you can see how much below the line you are, and then
24 the magic occurs in year 30 when the debt is paid off,
25 you've got the facilities, and now you're only paying

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1 your maintenance costs and utility costs. And so you can
2 see how it drops down, and that's the blue line. So what
3 that translates to, and again, I can't read it from here,
4 sorry, but \$5.7 million-dollar savings in first ten
5 years.

6 DEPUTY ADMINISTRATOR CHIMITS: \$106.

7 MR. NIELSEN: I'll switch over to here where
8 I can read this screen. \$106,000,000 over the 30 years
9 over that continued curve, and then at that 30-year point
10 when we turn over these three buildings to you, they have
11 a depreciated value of \$54,000,000. So besides getting
12 this incredible savings in lease rates, you're also
13 getting an asset that's got a \$54,000,000 value. And
14 what we used to calculate that was we did a two percent
15 straight line depreciation from building costs to 30
16 years out to come up with \$54 million dollars. And
17 that's that number right there.

18 Now, this is a purest model and a lot of
19 assumptions, and so there's a lot of straight lines and
20 things like this. The reality is the red line is going
21 to jump up and down based on the economy, but the green
22 line and the blue line are always going to stay the same.
23 You'll have a fixed rate, you'll know what those lease
24 payments are on an annual basis, you can budget for them,
25 and you'll be in control of your maintenance and utility

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1 costs.

2 So we also then tested this with a two-year
3 interest-only model, and what this did was again, your
4 first two years, you've got a lower amount of money in
5 there. Then the line straight goes slightly above when
6 we get to principal and then flattens out. In this
7 model, there is \$3.2 million dollars in savings, in ten
8 years, \$111; in 30, still get the \$54 million-dollar
9 value at end of financing.

10 We took a look at it in a fixed-rate scenario
11 so you don't want to do interest rate only. What this
12 means is you're slightly above the line for the first
13 four years, so you have an additional cost of \$2.7
14 million dollars. Then the lines cross, and you've got a
15 fixed rate through there. What that translates to is a
16 \$700,000 savings in ten years, and then \$115,000 over 30,
17 \$54 million-dollar value. What this tells us is that we
18 should take advantage of this low interest rate and
19 leverage that money, and that's the idea behind the four
20 years interest only or two years interest only, is let's
21 let that low interest rate work in our benefit.

22 We were asked to take a look at a discrete --
23 so we tested the three buildings. We know they make
24 sense, but what happens if we just take a look at a
25 single building. And in this case, so here, I'm sorry,

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1 let me go through the comparison of those options again
2 just to -- we wanted you to be able to look side by side
3 what those three financing options look like. And you
4 can see four years interest only, two years interest
5 only, and then fixed term, so in terms of making a
6 decision on what's the most appropriate. That decision
7 doesn't have to be made until we get through design and
8 are ready to go to financing, and then we're going to
9 take a look at all of options. But you've got options
10 there.

11 So we took a look at one building, and this
12 is if we just built the Business and Industry building in
13 Las Vegas. We know that their cost of leasing from day
14 one is lower than our cost of constructing in a lease
15 leaseback, so you can see here how we're well below the
16 curve starting in day one. The savings in this is huge.
17 Just one building now. We're just talking about building
18 one building. \$7.6 million-dollars savings in the first
19 ten years, \$70 million-dollar savings over 30 years, \$18
20 million-dollar residual value of that single building.

21 The third option we took a look at is so what
22 if we just built two HH&S buildings. Now here, it's a
23 different environment, and as you saw in that one chart,
24 is that the commercial lease rates in the Carson City
25 market are well below the norms, and so that has a pretty

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1 that we sold, to cover our budget deficit years ago, we
2 sold the state capitol and a number of state government
3 buildings, but we did it under a lease purchase
4 structure. They monetized it, but not only do they have
5 a lease payment, but they've got a buyout provision at
6 the tail end or any time along the way at fair market
7 value. So the cost of doing that approach is going to
8 have long-term impacts. We don't believe in that.

9 We start this effort from a how do we lessen
10 the burden of government, and it's not by adding more
11 costs and things like this. It's really a how do you
12 move forward. So we've demonstrated that continue
13 leasing. Based on inflation rates, there is a cost, and
14 you don't really have control. You as a board -- and the
15 State has recognized this all the way back to that first
16 study in 1987 said, you know, we really need to get out
17 of the leasing business. That study has been repeated,
18 but the economy wasn't right or the interest rate wasn't
19 right, but the opportunities are here today.

20 So moving, how do you go forward from here?
21 What we're suggesting to you is that we're looking for a
22 recommendation to move forward with one or more
23 buildings. Again, the studies show you should build all
24 three. That would allow us to start down this path of
25 the Capital Complex and the Bradley Government Complex.

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1 You would, under our solicitation, is you would take it
2 to the next step and enter into a development agreement
3 with GFDS, our company. We operate off of a five-step
4 process, and we outlined this in the presentation. But
5 for those of you that weren't there, is that the first
6 step is we work with you to determine if there's an
7 opportunity. I'm here today to say we thought there was
8 an opportunity, and because of that, we assembled an
9 all-star team with a very, very small contract to move
10 this forward.

11 The second step is actually this feasibility
12 study that we've completed today that says this makes
13 financial sense based on what you can pay and what the
14 finance rates are and what the cost is.

15 The next step, and that really is is now we
16 get into full-blowing the programming exercise to work
17 with the departments to make sure that we're putting
18 those right mixes and groups together. We're going to
19 look at those operational savings as well as the how do
20 you make the program work. We're going to take the
21 buildings into design. We're going to work on the legal
22 documents, the financing elements necessary to finance
23 the project.

24 You're always in control. We get to that
25 point. We got a building that's designed, and you say
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1 well, there's a momentary spike in the interest rate.
2 Let's hold for six months. We hold for six months, and
3 we're monitoring what's happening in the marketplace.
4 You could say hold for three years if you wanted to, but
5 the idea is that you're in control.

6 The fourth step is you tell us all things
7 look right. Let's keep going. We take it into
8 financing. We've got a whole -- our legal firm that is
9 not on here is Snell and Wilmer, so we've got local
10 representation that we work through the documents. I'm
11 going to close next week on a convention center we're
12 building in Northern Nevada. The documents that it will
13 take to do that deal fill a table 18 feet long, and so
14 this is a very complex approach to make this work to
15 encourage and get private capital to invest in the
16 facilities. There's a lot of due diligence that goes
17 into this. We have to demonstrate every which way
18 possible that it makes financial sense. So that fourth
19 step, take it through financing, and then the fifth one
20 is we're building buildings.

21 One of the things that we suggested in our
22 study is that the cost of predevelopment to take it to
23 the point of financing -- now, remember our structure is
24 through a non-profit foundation. They don't have a
25 bucket load of cash to put in to do pre-development

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1 funding. If we go out and borrow that money without
2 knowing that there is a project on the end, our interest
3 rate, we're looking at ten to 15 percent. We have to go
4 find private capital that's willing to put that in.
5 That's a cost that gets transferred on to you.

6 So one of the things we've suggested is that
7 there is a -- this first -- this third phase here, which
8 takes us up to we've got core and shell drawings. We've
9 got a guaranteed maximum price for construction. We've
10 got all of the site due diligence done. We've got the
11 legal documents done, and we're working with the
12 underwriters to know that we've got a project that's
13 financial. We estimate that that cost is \$2.7 million
14 dollars.

15 That next phase where we've got almost \$2
16 million dollars is permitting and the final legal
17 documents and things to take it through financing. That
18 can be deferred into close of financing. So rather than
19 us borrow \$6.6 million dollars, the greatest savings we
20 can bring on to you is to suggest that you fund \$2.7
21 million dollars worth of predevelopment costs. That gets
22 us through that third phase and without this interest hit
23 to the project, so that's a suggestion here. Again, the
24 lower chart, just to show you that beginning in day one,
25 if you go to four-year interest only or two-year interest

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1 only, this project pays for itself to build the three
2 buildings.

3 Construction schedule. In order for us to
4 put all of the pieces together and to kind of map out
5 assumptions and things like this, we had to take a look
6 at when could we deliver, what are the steps it took, and
7 how do we get to that magic move-in date of January 1,
8 2018. This chart was put in place to show us that we
9 work backwards. We work backwards from a move-in period
10 to a 15-month construction period to financing, design,
11 and that gets us to a decision point in time that should
12 be made over the next couple of months, the sooner the
13 better, to move forward with a project like this, take
14 advantage of that interest rate, and move the project
15 forward.

16 So again, just to kind of recap. If you
17 believe like we do that this is a tremendous opportunity
18 for savings for you, there are a couple of things that
19 we're looking for, is that authorization to move forward
20 with one or more buildings, authorization or approval or
21 recommendation to move forward with a development
22 agreement which lets us start putting the dollars and
23 time necessary to bring the project up to full design,
24 and our recommendation is to seek authorization to spend
25 \$2.7 million dollars to defer our having to borrow \$6.6

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1 million dollars at an incredibly high interest rate and
2 pass that onto you. So those are the three areas we're
3 at. With that, I'd be happy to answer any questions that
4 you have.

5 CHAIRMAN METCALF: Thank you, Steve. Before
6 we continue on, I have a statement I'd like to make
7 personally. I've discussed this with Kevin, board
8 counsel. As full disclosure, I've had a private project
9 relationship with Core Construction for about the past 18
10 months. We currently have a relationship on a private
11 project in New Mexico where I'm acting as a minor
12 consultant. No Public Works projects, so I don't feel
13 there would be any effect on this matter at all, but at
14 the same time, I will be abstaining on this motion right
15 now. So thank you.

16 So let's go down to the south to the board,
17 if there's any comments, and start with that.

18 ADMINISTRATOR NUNEZ: I just -- I thought it
19 would be good to, Mr. Chairman, with your permission, is
20 to go over real quick where we're at contractually on
21 this work that we're doing.

22 CHAIRMAN METCALF: Why don't you talk.

23 ADMINISTRATOR NUNEZ: I'm sorry.

24 CHAIRMAN METCALF: No, you're correct.

25 ADMINISTRATOR NUNEZ: And so I asked Susan to
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1 review the current contract that we have so you know
2 where we're at and what are some of the stipulations on
3 that contract with respect to moving forward. Today,
4 basically this report concludes the contractual agreement
5 that we have, but there is a stipulation to proceed.

6 So I'll let Susan talk to that real quick,
7 and then I just wanted to explain a couple of things here
8 with respect to bring to the attention of the Board as to
9 some of the things that we did from Public Works to make
10 this report what I feel to make it as real as possible
11 rather than all hypothetical. So first of all, I'd like
12 to just turn over to Susan real quick.

13 COUNSEL STEWART: Susan Stewart, Deputy
14 Attorney General, construction law counsel. Gus
15 essentially said everything that needs to be said. The
16 contract that we have now, this concludes the contractual
17 obligation pursuant to the agreement that we've entered
18 into. However, we have a right to move forward and
19 essentially accept what has been presented here and move
20 forward just as Steve discussed in his presentation. So
21 that's where we are. Contractually, we have no
22 obligation, but we have the option to move forward as was
23 presented.

24 ADMINISTRATOR NUNEZ: One of the things that
25 -- I'm sorry.

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1 MEMBER CLUTTS: Member Bryce Clutts, for the
2 record. I guess before we get into questions, if it's
3 possible, Mr. Chairman, I'm not sure I'm clear on what's
4 being requested of us as a board today.

5 ADMINISTRATOR NUNEZ: Basically, when we
6 moved -- this is something that we've done in the past,
7 the studies, and whenever this has come up in prior years
8 when we've done this evaluation, we've presented this to
9 the board with respect to lease versus own. That work
10 has been done in-house.

11 We thought it would be appropriate to bring
12 this to the board. And actually, the only -- you can't
13 -- The board is not in the position to approve. The
14 board is only in a position, just like in the CIP, to
15 make a recommendation to the administration. So you can
16 recommend today. That's about, you know, you can accept
17 the report, or you can make a recommendation to the
18 administration, any one of those things. Obviously, you
19 can't authorize us to proceed with this. That would have
20 to be a commitment from the State and, you know, starting
21 with, you know, basically be an executive branch through
22 the Governor's office that would say yes, that's what we
23 want to do, and to proceed, we would have to get approval
24 for that.

25 So all the board can do today is just make a
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1 recommendation on this. We thought it would be also a
2 good idea for the board to review it just from the point
3 of view of the policy, you know, policy of the State.
4 You know, you're right now pretty much in this case since
5 the law was changed, acting as a policy board and also as
6 an appeals board, and that's how we're functioning with
7 you all. So as a policy board, this is something that
8 the board can look at with respect to how to proceed with
9 respect to any recommendation that you may want to make
10 to the administration. Hopefully, that answers your
11 question.

12 MEMBER CLUTTS: That's good for now.

13 ADMINISTRATOR NUNEZ: And the other thing
14 that I wanted to mention, we did pick HHS in Northern
15 Nevada, and we did pick B&I in Southern Nevada so that
16 just for the fact that we already have done extensive
17 work for those two agencies and the programming, and so
18 and we wanted to make this just hypothetical for any
19 agency in the state that's currently leasing because
20 that's the other thing obviously that we provided to the
21 consultant.

22 Here's our lease log, here's what we're
23 leasing, from whom we're leasing, and how much we're
24 paying for each and every one of those leases. We
25 provided that to them and how long those leases are going
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1 to last and what we're paying throughout the year because
2 a lot of those leases are five-to-ten-year leases, and
3 they have explanation clauses on a yearly basis so they
4 would know what that information was.

5 We provided them the two programs to make the
6 analysis as real as possible and as detailed as possible,
7 and of course obviously if we would have had the money,
8 it would have been nice to program all of the agencies
9 that we're leasing for, see what it is, but there were
10 limited funds to do this process here, so we had to
11 provide as much information as we could to the consultant
12 to keep the cost down, basically, the amount of effort
13 that they were going to do versus the amount of
14 information that we provide them that was readily
15 available here, so we provided that.

16 That's not to say that if, as you saw in part
17 of the presentation, that there's probably over 600,000
18 square feet of office of basically leases that will be
19 expiring between now and '18. So if for some reason one
20 of those agencies says no, that's not good for us or
21 someone in the administration says we want to go this way
22 rather than that way, that doesn't mean that it couldn't
23 be done in a very similar way for other agencies.

24 Let's say B&I doesn't want to go into the
25 Southern Nevada building. They want to go somewhere else
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1 they're ready to say, "And we can do it, and we will do
2 it." So in the RFP, that's why there's some wording in
3 the contract that even though this contract now
4 terminates that we have the ability to or, you know,
5 there is a clause in there that allows us at our option
6 to proceed with the next step. And if the next step
7 works out, we can proceed to the next step.

8 So we wanted to make it -- again, we wanted
9 to make this thing as cost effective and as real as we
10 could make it and bring it to the board and get the
11 board's input. I know how our staff, from our staff
12 perspective, it would be nice to get your perspective
13 and then move on from there. So that's where we're at
14 today here.

15 MEMBER CLUTTS: Okay. Thank you.

16 CHAIRMAN METCALF: Am I allowed to ask the
17 board?

18 ADMINISTRATOR NUNEZ: I'm sorry. I just
19 wanted to give, I think, a background as to how we got
20 here. And again, like I said, we've done this work in
21 the past in-house. However, we've always looked at it as
22 here's what we're paying this year, and here's how much
23 it's going to cost to do it this year.

24 At one point when we did the Bryant Building,
25 we did exactly that, and said boy, we're very close with
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1 the \$3 million-dollar subsidy, which is what we got on
2 the Bryant Building from the legislature. The debt
3 service for that building today is 55 cents a square
4 foot. We built that building at that time that we
5 contracted at the end of '03 and built it in '04 and '05.
6 We built that building for \$139 a square foot and total
7 project cost coming in at \$175 a square foot. And when I
8 say total project costs, our fees, utility hookup fees,
9 the FF&E to fully furnish that building, come in at \$175
10 a square foot. You couldn't touch that building today
11 anywhere near for \$175 a square foot, as I'm sure you're
12 well aware of.

13 So at that point, actually, at that time, we
14 actually recommended three buildings. We recommended the
15 two for HHS and the one for DC&R. The administration at
16 that time said, "Let's just test the water. Let's just
17 build one and see how that goes, and then we'll look at
18 other two."

19 And ever since we made the decision in '04,
20 the first three months of '04, steel went up 20 percent
21 per month, 60 percent in that first part of the year, and
22 inflation just took off, and then we had the economic
23 downturn and things have been depressed, you know. We've
24 been able to find leased space at a fairly reasonable
25 amount, so we today we haven't -- as we've looked at it

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1 on a static, we've never looked at it long-term as this
2 group has just done for us just on what's happening right
3 now doesn't make sense right now. We've been looking at
4 it every year, and it hasn't made sense because of those
5 conditions that we've gone through.

6 And this time around, we just decided let's
7 see what someone out there that's doing this kind of work
8 can come up with for us, and it does actually sort of
9 coincide with what it appears to be a good window right
10 now so that we don't, five years from now, we don't look
11 back like we did with the Bryant Building and go boy, I
12 wish we would have built three at that time instead of
13 just one or do nothing instead of doing something,
14 perhaps, be in a position to be looking at it.

15 So with that, I think that -- I think
16 hopefully that gives you enough background as to where
17 we've been and this thing and the work that we've been
18 doing with this group of folks on this project.

19 CHAIRMAN METCALF: Member Clutts, if you
20 don't mind, I'm going to start in the south and work our
21 way north.

22 MEMBER CLUTTS: Please do.

23 CHAIRMAN METCALF: Member Stewart, do you
24 have any questions or comments, sir?

25 VICE-CHAIRPERSON STEWART: Yeah, I've got a
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1 few. I'm sorry I'm a little clueless on this. Just
2 maybe a little history lesson for me here. When did we
3 talk about this project, and how much did we spend on it?
4 Just kind of give me a little background. I might have
5 been gone that day.

6 ADMINISTRATOR NUNEZ: Okay. This contract,
7 to do this work here, we contracted for this for \$25,000
8 out of our advanced planning CIP, which is, that's S04.

9 COUNSEL STEWART: It's planning money.

10 ADMINISTRATOR NUNEZ: It's planning money
11 from the CIP.

12 DEPUTY ADMINISTRATOR CHIMITS: '13 S04.

13 ADMINISTRATOR NUNEZ: '13 S04.

14 VICE-CHAIRMAN STEWART: Again, Sean Stewart,
15 for the record. So I guess the easy answer there is this
16 was done internally?

17 ADMINISTRATOR NUNEZ: Correct.

18 VICE-CHAIRMAN STEWART: And then again, Sean
19 Stewart for the record. The Bryant, basically, I'm not
20 familiar with it. Who built the Bryant Building? Was
21 that a similar project to what we're talking about here?

22 ADMINISTRATOR NUNEZ: Yeah. The Bryant
23 Building, basically, like I said, since I've been here at
24 Public Works, we always have internally done just a quick
25 analysis of lease versus own. At that time we did that,
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1 it looked like it was pretty close to being sort of like
2 revenue neutral at that time for static location as to
3 what are they paying now versus what the costs of
4 construction and the debt service would be, how much was
5 that versus what they were paying for lease.

6 It was a bit short, but the legislature
7 actually supported that project to the tune of \$3 million
8 dollars that they provided for that project. That was
9 back in '03, I believe, when that started right around
10 there. And we -- The administration said yes, you know,
11 that was Governor Guinn that was the governor at that
12 time. He goes, "Yes, we want to proceed. Let's do one
13 building using lease purchase financing and move ahead,"
14 so that we were directed to proceed in that fashion.

15 Obviously, at that time, like I indicated, we
16 actually recommended three, were approved for one, and
17 that's how we proceeded. And due to inflation and other
18 economic factors, doing the other two buildings haven't
19 really pencilled out. We've been looking at it for, you
20 know, every biennium for HHS, we've been requesting to
21 look at it, and it just -- those intervals in the past,
22 it actually hasn't panned out.

23 The last time we looked at -- Actually, the
24 first time we looked at it was a couple of CIPs after
25 that, and I think that the lease purchase approach

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1 required about a 45 percent subsidy, and that was felt
2 that that was not a good avenue at that time to proceed
3 to have a 45 percent subsidy to the financing to make the
4 numbers come out. But we continually are being asked,
5 have been asked by the various agencies during the CIP
6 process to go around that time to look at this.

7 VICE-CHAIRPERSON STEWART: Again, Sean
8 Stewart, for the record. Just to follow up, Gus, then
9 who built the Bryant Building? Was it similar to this
10 project where someone financed it, they did the design,
11 the architecture and built it and then leased it back to
12 the State? Are we talking about the same type of
13 scenario here?

14 ADMINISTRATOR NUNEZ: Pretty much along those
15 lines. What we did at that time was that we said well,
16 we can go to a developer, or we can -- the treasurer's
17 office, and the administration said -- and this is in the
18 middle of the session. When it came up, the session was
19 over. And they said, why don't you -- let's go lease
20 purchase, number one, use the lease purchase approach,
21 and Public Works, how can you do that? You know, pick a
22 contractor to go out and build this things and an
23 architect.

24 And I'm going well, first of all, to go out
25 for architecture services, that's going to cost money,
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1 and we don't have any money to do the design work. We
2 could in-house, we could do an outline program and define
3 what we want and the location that we want and maybe do a
4 soils analysis and topography. That we can do from
5 advanced planning, but that's about as far as we can take
6 it.

7 So at that time, so the only way -- the other
8 the approach that we could do this with with a very --
9 hardly no money that we had to get the project started
10 and go out and select an architect and a contractor to do
11 this, we said -- the Public Works basically offered back
12 to the administration we could do this as lease purchase,
13 and we could do it as a design build contract. You guys
14 get the money. Treasurer, you go get the money. We'll
15 hire a -- we'll go through a selection for a design build
16 firm to do the project.

17 So to do that, we had to come up with what we
18 call those bridging documents, as you're aware of in the
19 law, for the selection of a design build team. And to
20 that, like I said, we put a program together, we did
21 soils, we did topo, boundary and --

22 COUNSEL STEWART: Who owns it?

23 ADMINISTRATOR NUNEZ: Who was the -- and the
24 winner of that selection was -- Chris, do you remember?

25 DEPUTY ADMINISTRATOR CHIMITS: Jacobsen.
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1 ADMINISTRATOR NUNEZ: And the winner of that
2 process was Jacobsen, and Jacobsen got that project
3 designed and built. Sorry I couldn't remember the name
4 of the firm, but that was a process that we went through,
5 and we just lost the guys in Southern Nevada. There we
6 go. Did you catch that last part, Sean? It was
7 Jacobsen.

8 MEMBER TIBERTI: No. We can't hear anything.
9 It's all scrambled.

10 ADMINISTRATOR NUNEZ: Okay. How about now?

11 VICE-CHAIRPERSON STEWART: Yeah, we can hear
12 you now.

13 ADMINISTRATOR NUNEZ: You can hear us now?

14 MEMBER TIBERTI: We lost the last five
15 minutes. We can't see you. You're all scrambled.

16 VICE-CHAIRPERSON STEWART: That's okay. It's
17 better that way.

18 ADMINISTRATOR NUNEZ: The design build team
19 that was selected for that project was Jacobsen.

20 VICE-CHAIRMAN STEWART: Okay. Again, Sean
21 Stewart, for the record. I'm just trying to find out who
22 financed the project. Was this a State project, or was
23 it private money? Have we done this type of thing before
24 in the past?

25 ADMINISTRATOR NUNEZ: We've done lease
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1 purchase in the past, and this would be about the same.

2 MR. DALE: Jacobsen wasn't the financing.

3 ADMINISTRATOR NUNEZ: Jacobsen was not the
4 financing end of it. The State, the State themselves
5 went out and got the Certificates of Participation, sold
6 those, provided the funds. We contracted with a design
7 build team, and they built that, and we got the money
8 through the treasurer's office to -- they issued us
9 Certificates of Participation. That's how that building
10 was done. And that's still an option today.

11 VICE-CHAIRMAN STEWART: Okay. Gus, we're a
12 little slow down here. Sean Stewart, for the record,
13 again. What is a Certificate of Participation?

14 ADMINISTRATOR NUNEZ: That's basically
15 similar to general obligation bond, but it has an out
16 clause in it. In other words, it has a non -- I would
17 call it a non-appropriation clause in that financing
18 where if the State could opt out and back out of the
19 deal, and the holders of the Certificate of Participation
20 would then get that asset back to get their -- so that
21 they can get their money back for the term of the
22 financing. And in this case, at that, we were told that
23 they would be given a few more years than just the term
24 of the financing, so if it was 30-year financing, they
25 would get 30 years plus a few more years for them to

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1 recoup their investment.

2 So that, all of that paperwork has to be set
3 up upfront, which I think probably that's what Steve was
4 alluding to, all of the paperwork that has to take place,
5 but it allows the State to -- actually they can, through
6 the non-appropriation clause, they can just opt to back
7 out of the deal. The holders of the certificates get the
8 asset for a period of time, and then it comes back to the
9 State after that term, and the State would own it free
10 and clear at that point. That's how those COPS work.
11 Steve was raising his hand here. He might be able to add
12 to that.

13 MR. NIELSEN: Let me just talk a little bit
14 about this. And again, from my government experience, is
15 so I built student housing for the University, and we
16 used this type of financing. It's still arm's length to
17 the university or to the -- in the case of your -- and we
18 researched your financing -- is that what happened here
19 was there is a non-profit entity that was formed that
20 actually is the owner-borrower, and then they, just as
21 we've said here, but the State formed that non-profit
22 entity.

23 And so the difference is that -- and I did
24 that while I was at the University. I went down that
25 path. But the accounting rules changed, and the

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1 underwriters or Standard and Poor's and the rating
2 agencies, they took a look at this and said well, that's
3 the same as borrowing money, and so that has credit
4 impacts. And so as a result of that, we developed this
5 scenario that we're talking about here, which is -- it
6 looks and feels the same way, but it's arm's length to
7 the State because what we're trying to do is preserve
8 your bonding capacity in the future, your debt capacity
9 and credit rating impacts.

10 And so by using a non-profit that has nothing
11 to do with the State, we create that arm's length
12 transaction. You still are joined at the hip with us in
13 the planning and design and oversight, but we have this
14 sidestep that allows us -- we also do a lease leaseback
15 instead of a lease purchase because remember that \$54
16 million-dollar value that's there? If this was a lease
17 purchase, I can give it to you for a dollar, but you're
18 going to have tax consequences and accounting
19 consequences.

20 By doing a lease leaseback structure is that
21 we do a term lease for the same -- it's co-terminus with
22 financing, and I can tell you so a 30-year financing, it
23 would be a 30-year lease. And in that lease, the magic
24 words that we put in that lease is that you ask the
25 non-profit entity, not you, but this entity is to tear

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1 down the buildings, or you're willing to accept that.
2 And by removing that gift and having in the documents
3 this language that says the non-profit has to return the
4 land to you in the condition that they leased it, that
5 takes away that gift clause and takes away some of those
6 accounting issues.

7 And so it's finesse, but as the accounting
8 rules change and the IRS rules change, we keep adapting
9 this model. So yes, the financing is exactly the same as
10 Bryant in terms of private capital through a non-profit
11 foundation to build a building that's owned -- that's
12 leased by the State that will eventually be owned by the
13 State. This is the exact same thing, only we have
14 adjusted it to meet current IRS rulings and current
15 accounting rulings.

16 ADMINISTRATOR NUNEZ: I guess that's why an
17 engineer shouldn't try to be explaining how financing
18 works.

19 COUNSEL STEWART: It was a good try.

20 ADMINISTRATOR NUNEZ: I gave it a shot.

21 CHAIRMAN METCALF: Member Stewart, any more
22 questions, sir?

23 VICE-CHAIRPERSON STEWART: Yeah. Member
24 Stewart, for the record. I'm sorry. I've got quite a
25 few. I apologize. I was just trying to understand for
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1 our knowledge down here if we'd ever done a scenario like
2 this where someone has come to us with a proposal,
3 they're financing it themselves, and we build it out. It
4 sounds like we have kind of.

5 ADMINISTRATOR NUNEZ: Kind of.

6 COUNSEL STEWART: Kind of. That's a good way
7 to put it.

8 VICE-CHAIRPERSON STEWART: Just a couple of
9 questions. It sounds like we were intimately involved in
10 the numbers that were generated. I see there's a huge
11 difference between Las Vegas rental rate of \$2.16 and
12 Carson City of \$1.42. We're talking about moving about
13 20 percent of our space in Las Vegas into this building
14 that we're going to build. Did we do an analysis of what
15 the rental is that 20 percent that would be going into
16 this building, or did we just take the average to \$2.16
17 and assume that that was the rate that would go over?

18 MR. NIELSEN: The calculation was done where
19 we've -- without knowing the specific entities and what
20 those -- what their current lease rates were, we just
21 went with the mean average lease rate of \$1.78 today and
22 then inflated it up to the point where these new
23 buildings would come on line. So I don't have an exact
24 answer to your question.

25 VICE-CHAIRMAN STEWART: Okay. And just maybe
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1 just a statement. I was just looking at Carson City is
2 at \$1.42, and it looks like in most scenarios, we're
3 looking at \$2.20 for the buildings in Carson City, so a
4 pretty good increase in the rent there where it seems
5 less, less of an issue in Las Vegas, although \$2.16 seems
6 a little higher. I'm renting my building out too cheap,
7 one of the two of them. I guess that's all the questions
8 I have at this point. I'm just trying to get my mind
9 around how this has worked and how we've done it in the
10 past.

11 CHAIRMAN METCALF: Thank you, Member Stewart.
12 Member Tiberti?

13 MEMBER TIBERTI: I'm just way behind the
14 curve on this, Steve, in really development questions. I
15 would like to know if, I guess, if there's documents that
16 somebody says they have to develop it, but if this has
17 already been documented and done before, I'd like to read
18 the documents and see the flow of the responsibility
19 because I'm not quite sure who is responsible here. I've
20 heard it on the presentation, but I'd like to read the
21 documents and look at those; where are they set up and
22 who flows to what. Has somebody done that in Arizona or
23 North Dakota or someplace that we can look at?

24 MR. NIELSEN: Sure. Actually, you could take
25 a look at the Bryant documents, your own documents here,
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1 and that would show you the flow of --

2 MEMBER TIBERTI: Do they have a -- what do
3 you call it? A nonprofit foundation?

4 MR. NIELSEN: Yes.

5 COUNSEL STEWART: Yes. For the record, Susan
6 Stewart, construction law counsel. Actually, those
7 documents, I can get from the treasurer's office and put
8 them on a CD and send those to you, if you would like,
9 Member Tiberti.

10 MEMBER TIBERTI: Well, I would only like them
11 if we're talking about replicating those documents. I
12 wouldn't want to look at those and then have it finessed
13 or whatever the term I just heard was because of taxes
14 and code changes or, I mean, IRS changes. If it's not
15 going to be the same, then I'd really like to know if
16 there's something, a more current one that how this all
17 builds up and with all of the legal documents where the
18 responsibility is lying here.

19 MR. NIELSEN: Sure. We can provide you a
20 disc for these two public schools that we just built in
21 Arizona. They're \$70 million dollars, so that it's not
22 an inconsequential amount of financing.

23 Every deal is a little bit different, and so
24 there's a really good amount of document flow that goes
25 into these. I can tell you there is investor counsel,
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1 bond counsel, underwriter counsel, financing counsel, our
2 counsel, and your counsel that all kind of go into this
3 to put these deals together, but we can give you a
4 relatively recent transaction for you to take a look at.

5 MEMBER TIBERTI: Those two schools, are they
6 owned by a non-profit foundation?

7 MR. NIELSEN: Yes, they are.

8 MEMBER TIBERTI: And who is on that board or
9 what is that entity? I don't quite understand who that
10 is.

11 MR. NIELSEN: That particular non-profit is
12 called the James Megellas Foundation, and it is made up
13 of former educators and government sector representatives
14 that they have the ability to go out and borrow money to
15 build education, governmental and health care facilities
16 under this tax-exempt bond financing.

17 Now, for the purposes of our proposal that
18 we've given you, we've suggested the Provident Group, and
19 the Provident Group, they have funded and own projects
20 across the United States. They're made up of retired
21 investment bankers, so there's a high level of expertise
22 as it relates to legal issues and accounting issues, but
23 they've built projects for universities, health care, and
24 government facilities in all three sectors.

25 Because of the fact that these are state
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1 buildings and the size of the issuance rather than use
2 this smaller foundation, we've suggested the Provident
3 Group would be a more appropriate non-profit entity to
4 work with.

5 CHAIRMAN METCALF: Member Tiberti?

6 MEMBER TIBERTI: What I'd like to do is I'd
7 like to get that, if it's going to be very similar. I'd
8 just like to review that a little bit and understand it
9 because I'm really lost here.

10 And then the other thing I'd just like to ask
11 is you said something in the presentation, and you can
12 correct me, that it's like non -- How is this different
13 than us, the State, just getting tax-free bonds and
14 building the building? How do you walk away from either
15 one? I don't understand that.

16 MR. NIELSEN: If you issue geo bonds, one, is
17 it requires legislative authorization, and those are
18 direct recourse bonds to the State. It's your project,
19 and if something goes wrong, it's your project. In this
20 type of financing, because the State's not -- you're a
21 lessee. So at any given year, you can say we don't have
22 the funds and we don't want -- we cannot afford to make a
23 lease payment. You can walk away. The investors know
24 that, and they -- we will demonstrate to them why it's a
25 good, solid investment, but because of these types of
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1 arm's length transactions, you're not on the hook for the
2 debt.

3 And what we're really trying to solve for in
4 this concept is to have minimal impact on your ability to
5 bond finance higher-priority projects or other projects
6 without an impact. And so with limited amount of bonding
7 capacity, you probably wouldn't build these three
8 buildings for a while, but the market opportunities here,
9 the long-term cost is here. This is a way to do it, kind
10 of have your cake and eat it, too. You can build the
11 facilities, you can lease them, but it's not a direct
12 obligation of the State.

13 What will happen is, just to clarify, is the
14 lenders, the trustee will step in. If you said I don't
15 want to lease that building or I can't afford to lease
16 it, they're going to do two things. First is they're
17 going to say what can you afford to do because that will
18 be in their best interest, and if you say we just don't
19 want to have anything to do with the building, then they
20 will put in another tenant.

21 CHAIRMAN METCALF: Member Tiberti?

22 MEMBER TIBERTI: Yes. If Susan could do that
23 or Steve, I'd appreciate it, and that's all I have.
24 Thank you.

25 COUNSEL STEWART: I will do that.
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1 CHAIRMAN METCALF: Thank you. Member Kwon?

2 MEMBER KWON: I don't have anything. I
3 already got the answer from these two gentlemen.

4 COUNSEL STEWART: All right.

5 CHAIRMAN METCALF: Thank you. I'm going to
6 start over to my right. So, Member Clutts?

7 MEMBER CLUTTS: Thank you, Mr. Chairman.
8 Bryce Clutts, for the record. On the mean lease rates,
9 the curve that you show in each of the charts,
10 Mr. Nielsen, how -- Those are strictly inflationary
11 based?

12 MR. NIELSEN: Yes.

13 MEMBER CLUTTS: Okay. So what is the risk to
14 the State, in your opinion?

15 MR. NIELSEN: Good question. I think your
16 risk kind of comes down to that annual appropriation if
17 something happened that, you know, at mega level at the
18 State, and you said we can't afford to make a lease
19 payment and the trustee said, okay. Well, we're going to
20 put in X, Y, Z office building. Please move out your
21 furniture, and then you have to figure out an alternative
22 use.

23 The way these deals are structured now,
24 though, is even if that were to happen, after 30 years,
25 you still own the land and the improvements. And so

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1 there's always -- there's an upside to this. I think
2 your risk is really is annual appropriations of the lease
3 payment.

4 MEMBER CLUTTS: Bryce Clutts, for the record.
5 I would also -- correct me if I'm wrong. The risk is
6 also that the inflation rate doesn't grow at the levels
7 that you've indicated, and that curve doesn't necessarily
8 work.

9 MR. NIELSEN: Well --

10 MEMBER CLUTTS: That would be another one;
11 correct?

12 MR. NIELSEN: It's not a risk. I mean, it
13 may minimize the savings, but this will always be a
14 savings. Just historically, is that's why we go back and
15 we look 30 years and say what happened in 30 years, and
16 we see interest rates, everything from at the height of
17 our recession to minus five percent to five and a half,
18 six percent a year, plus you've got, as Gus indicated,
19 just the inflation factor of construction materials and
20 construction costs.

21 I mean, today, the stars are aligned. We've
22 got relatively lower-cost construction. We've got great
23 interest rates, and you're at the mercy of commercial
24 leasing. Those are the opportunities, but yes. I don't
25 think there's much risk.

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1 CHAIRMAN METCALF: Member Walker?

2 MEMBER WALKER: Well, I'm going to finish
3 Sean's time.

4 CHAIRMAN METCALF: Does that mean unlimited?

5 MEMBER WALKER: The first was the risk and
6 the obligation of both parties. I really don't
7 understand that, and I would like to know more of the
8 mechanics of this because I see State land with the
9 public -- with the private building on State land, and if
10 you want to want raise your rates, I'll tell you to move
11 your building. So how is that mechanically or that
12 mechanical thing handled in the public/private financing?

13 MR. NIELSEN: Sure. Good question is the
14 reality is is again, because we're working together to
15 determine the feasibility and the cost, and because we
16 have a non-profit there, the non-profit, through IRS
17 rules, can't make more than \$10,000 a year, so they have
18 zero incentive to raise your rates. Regardless of what
19 they could, they can't. They jeopardize their non-profit
20 status. So when we talk about how -- that's why in this,
21 as you see this flat curve because we're going to give
22 you a lease rate table for 30 years. It's not going to
23 change.

24 MEMBER WALKER: Member Walker. The building
25 built with private money coming from a non-profit private
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1 source, with that, the risk that the State has is the
2 \$2.7 million dollars that we would pay to get to, I
3 believe, the funding stage. So the State is at risk \$2.7
4 to deplete all the way to the end. So once -- Well, go
5 ahead.

6 MR. NIELSEN: I wouldn't categorize it as
7 risk because what you're doing is pre-buying a product.
8 If you're paying -- we're going to -- if you turned
9 around and at the end of that phase three said don't move
10 forward with financing your \$2.7 million dollars, you
11 bought a set of plans. You bought all of the studies
12 that go into the plans, and you bought the documents.

13 So we're not asking you to risk anything,
14 just merely is if you were going to build the building,
15 you'd hire this team, and/or somebody like them, and
16 you'd go out and design the building. It would cost you
17 \$6 million dollars. In this approach, it's just as we
18 work together in this, this is an opportunity to reduce
19 the overall building cost and still get value for exactly
20 what you're paying for.

21 MEMBER WALKER: Member Walker. With the
22 private money building this, that -- Well, one of the
23 issues we have now at the state legislature is our
24 schools and the prevailing wage rate. Since you're
25 building this privately, would the prevailing wage rate
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1 be attached to this building?

2 MR. NIELSEN: We have, in our proposal, a
3 response back to the State saying yes. We don't want to
4 get in that fight. You, as the owner, can turn around or
5 somewhere along the line and say the law changed or it
6 didn't change, or we'd like you to do something
7 different, but right now, the law says we do prevailing
8 wage.

9 COUNSEL STEWART: Construction law counsel,
10 for the record. That statutes governing this type of
11 scenario require, specifically require that the project
12 is subject to prevailing wage.

13 MEMBER WALKER: Member Walker. In your
14 presentation, you mentioned maintenance pool of --

15 MR. NIELSEN: It's a dollar a square foot.

16 MEMBER WALKER: I guess this would be
17 addressed to Susan. Since we are who knows how many
18 multimillions in deferred maintenance, if this money was
19 set aside, how do we protect it from going to general
20 fund and being spent elsewhere?

21 COUNSEL STEWART: I suspect we don't have
22 access to it.

23 MEMBER WALKER: Well, in their collection,
24 that stays private?

25 MR. NIELSEN: The trustee is going to collect
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1 it and hold it, and together with you, we will give them
2 an annual repair budget and expend it. But no, it
3 doesn't get swept until if there are funds remaining in
4 year 30 when the debt is paid off and we turn over the
5 facilities to you again, the non-profit can't make money.
6 They're going to sign over any funds that are there to
7 you.

8 COUNSEL STEWART: Then they sweep it.

9 MEMBER WALKER: Member Walker. Again, and I
10 think this would be a Susan question. We put out an RFP
11 for this. And in fact, there's probably a statement for
12 that. I'll start with that. I believe this is exactly
13 what we've been working for since September on our board
14 meetings of public/private financing. Now, with that, we
15 put out one RFP to do the preliminary work. To go
16 forward with this, do we have to do another RFP, or
17 within the first one, is it --

18 COUNSEL STEWART: Specifically -- for the
19 record, Susan Stewart -- we specifically wrote the RFP
20 and the contract that we're under or that is done now so
21 that we have the option to go forward with what's been
22 presented. That was intentional.

23 MEMBER WALKER: Member Walker. A conceptual
24 question with the campus picture that I saw, we currently
25 have 1.5 million square feet of lease property. That's
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1 due to State expansion of services. Within this
2 four-year period that we have, I guess this would
3 probably be to Evan. The expansion of State government.

4 How do we keep this expansion in track with
5 the budgeting of this as the department working with a
6 department? Are they projecting their needs for 50 years
7 or for 30 years for the lease of this building?

8 COUNSEL STEWART: Gus can answer that.

9 ADMINISTRATOR NUNEZ: I can probably answer
10 that. Gus Nunez, for the record. Member Walker, what we
11 did on the Bryant Building is we built additional square
12 -- in addition to what they require on that, the date we
13 projected for the date of occupancy, we built additional
14 square footage for them to grow into. And I can't recall
15 right now whether it was projected another ten, 15, 20
16 years. I can't remember the projections right now. It's
17 been quite a few years since we did that one.

18 But what we did is that we backfilled that
19 space with other agencies that were renting. And the
20 promise to all of those folks that move in there that
21 we're moving in there is that if you move in, we promise
22 you that we won't kick the DC&R -- because it was built
23 for the preservation of natural resources -- would not
24 kick you out, you know, for a minimum -- they'll let you
25 stay there for a minimum of five years. After that, they

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1 can request that you move out because they need the
2 space. So there was a minimum of five-year commitment to
3 every agency that went in to backfill that space for
4 future growth for them. So all of the space was occupied
5 from the beginning. That's how that was structured.

6 The way I see it, we would structure the
7 final design space on these buildings after we refine the
8 program, and the future study is to project growth over a
9 period of time, ten, 15, at least ten, 15 years, what I
10 would recommend, and then backfill with other agencies
11 that are renting.

12 We're always going to be leasing space. I
13 mean, every time you need 10,000 square feet, you can't
14 go out there and build a new building, so we're always
15 going to have agencies lease, and there's always going to
16 be folks in the State that are looking for space. So we,
17 like I said, there's plenty of opportunity for backfill
18 for a period of time until that agency grows into that
19 space.

20 MEMBER WALKER: Member Walker. I would just
21 like to understand the mechanics of this in a lot more
22 detail of how to really move forward. Yes, that's --
23 I'm done.

24 CHAIRMAN METCALF: Mr. Wells?

25 MEMBER WELLS: I don't have any questions.
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1 CHAIRMAN METCALF: Okay. Mr. Clutts?

2 MEMBER CLUTTS: Member Clutts, for the
3 record. Gus, would this be administered similar to the
4 way projects administered now with the State Public Works
5 Department administer the project, or would it be
6 privately administered?

7 ADMINISTRATOR NUNEZ: Well, I don't see it
8 much different than when we did the Bryant Building where
9 we oversaw the -- as we developed this next phase where
10 we're overseeing the design and then oversee the
11 construction of the building.

12 In that particular case, we even, in the
13 Bryant Building, we included actually those fees, our
14 fees to oversee that process and make sure that we were
15 getting what they promised. During the design and
16 construction, it was overseen by us, and we charged a
17 fee, and that fee was financed with the COP's. It was
18 part of the financing with COP's. I don't know --

19 COUNSEL STEWART: Also, for the record, in
20 the statute -- this is Susan Stewart -- it specifies that
21 the building official will have jurisdiction over the
22 construction of the project. It's on State lands, and so
23 the building official would be in charge of code
24 compliance, inspection plan review just as any other
25 Public Works project.

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1 MEMBER CLUTTS: Okay.

2 CHAIRMAN METCALF: We're not going to let the
3 City of Carson come in. Before I have a couple of
4 questions, I'd like to throw it back to the south to the
5 members just in case.

6 MEMBER TIBERTI: Member Tiberti. I just have
7 a question. Where is this Bradley Campus?

8 ADMINISTRATOR NUNEZ: For the record, Gus
9 Nunez, Administrator. Member Tiberti, that's on East
10 Sahara where the East Sahara DMV is currently at.

11 MEMBER TIBERTI: Okay. Okay.

12 ADMINISTRATOR NUNEZ: That's where we're
13 going to be -- where the new proposed building is is
14 actually where the current DMV is. When we build a new
15 DMV, that old DMV goes away.

16 MEMBER TIBERTI: And who is Bradley?

17 ADMINISTRATOR NUNEZ: And Bradley is the
18 current government building that's on that site, and it
19 would be at the --

20 DEPUTY ADMINISTRATOR CHIMITS: Southwest.

21 ADMINISTRATOR NUNEZ: -- southwest corner of
22 that block, which we own. The State owns the entire
23 block except for the corner that the Navy, the U.S.
24 Government, the Navy has on that on the other corner,
25 which would be the southeast corner.

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1 COUNSEL STEWART: He asked who is Bradley.

2 ADMINISTRATOR NUNEZ: Oh, who is Bradley. I
3 have no idea.

4 MEMBER WELLS: He is the governor from the
5 1870's.

6 COUNSEL STEWART: So okay. Former governor.

7 ADMINISTRATOR NUNEZ: Former governor. Just
8 found out.

9 MEMBER TIBERTI: Okay. For the record, we
10 didn't hear. Maybe we should take our next \$25,000 and
11 get a system because every time you guys start to talk,
12 it scrambles.

13 CHAIRMAN METCALF: I think it's the pitch of
14 Gus's voice.

15 COUNSEL STEWART: Point of order. Does
16 anyone in the room have their cell phone on? Because
17 having the phone on will interfere with our somewhat
18 antiquated system, which I do believe we're getting a new
19 one.

20 MEMBER TIBERTI: It's been good. Just a
21 couple of times, it went totally haywire down here.

22 CHAIRMAN METCALF: And I apologize for we
23 didn't make that announcement to a fairly new group here.

24 MR. DALE: It's on the door.

25 COUNSEL STEWART: Is yours on?
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1 ADMINISTRATOR NUNEZ: It's on buzz.

2 COUNSEL STEWART: It is Gus.

3 CHAIRMAN METCALF: Okay. Anybody else down
4 south? I've just got a couple of questions to
5 Mr. Nielsen, and they're both innocuous. Is the State of
6 Nevada, you said we're a double A rating?

7 DEPUTY ADMINISTRATOR CHIMITS: Yeah.

8 CHAIRMAN METCALF: Chris, do you know that?

9 DEPUTY ADMINISTRATOR CHIMITS: Yes.

10 CHAIRMAN METCALF: We are a double A rating.
11 Good. Mr. Nielsen, you mentioned about a conference
12 center in Northern Nevada. Was that Northern Nevada or
13 maybe someplace else?

14 MR. NIELSEN: Elko.

15 CHAIRMAN METCALF: Oh, it is in Elko. Is it
16 similar documents that would be in these buildings?

17 MR. NIELSEN: For the most part. That one,
18 we're doing tax-exempt bond financing through a
19 nonprofit, but our underwriter is a bank, so the banks
20 have different regulations.

21 CHAIRMAN METCALF: Okay.

22 MR. NIELSEN: We're happy to share those
23 documents with you.

24 CHAIRMAN METCALF: I just thought it would
25 help. That's all.

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1 MR. NIELSEN: We're in the process of
2 actually finalizing them. This will close here in a week
3 or so.

4 COUNSEL STEWART: Is it for the conference
5 center in Elko?

6 MR. NIELSEN: Yes.

7 CHAIRMAN METCALF: Okay. Gus and Susan,
8 maybe if you want to craft a pathway to possibly a
9 motion, I'd appreciate help.

10 ADMINISTRATOR NUNEZ: That's up to the board.
11 I mean, I felt it would be important for the -- I know
12 how myself and our staff feels about, you know, on this
13 thing here, but certainly we have a lot of experience
14 here on this board, and I certainly -- one of the things
15 I definitely wanted from this presentation was input from
16 the board.

17 I would like to also then go to my new boss,
18 Jim, after that, and see how he feels about it. I mean,
19 the only thing I can tell you, for me, it's exciting. I
20 think that, I mean, if we, way back when we're looking at
21 the Bryant Building, the debt service on that, I think,
22 Evan, I think that's what? 55 cents a square foot about?

23 MR. DALE: I don't remember the number
24 offhand, but that sounds similar, and then B&G is
25 charging about 50. So it's about \$1.10, which was
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1 competitive with the private lease rate.

2 ADMINISTRATOR NUNEZ: Right. At that time.
3 So, I mean, if we would have done two more of those at
4 the time, we would have probably looked like heros today,
5 and it's just a matter of looking back and saying well,
6 you know, when I know that numbers fluctuate.

7 I mean, for instance, as Member Bryce brought
8 up, the inflation could be different in the future. Who
9 knows. But I think we all know it's going to go up, and
10 it would be nice to know that once you jump your lease
11 for the next 50 years, or the next 30, during the time
12 and then the last 20, you know where you're at. You
13 definitely will know where you're at.

14 You're not subject to every time we -- I can
15 tell you every time we negotiate a lease, I haven't seen
16 one that's gone down since I took over B&G two years, two
17 and half years ago. We're always paying a little bit
18 more every time we negotiate a lease. At least
19 currently, that's what's happening. I know after '07,
20 things took a dip, and we got the benefit of that, but
21 we're going back up again.

22 It's hard to predict the future any better
23 than by looking back, but I certainly welcome and
24 appreciate and would respect your opinion. You all have
25 a lot of experience in business. And certainly, we look
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1 forward to your input to the staff. And of course, you
2 know, now that we have a, you know, a part of the board
3 is the head of the department, especially the budget
4 director, obviously, it helps out to have that input from
5 you all.

6 CHAIRMAN METCALF: Gus, I'd like to step in a
7 second here and then get to Mr. Chimits, but all of the
8 board members have asked questions on the presentation.

9 And the one reason I'm looking at this is a
10 lot of times when we have a board packet, our action item
11 is kind of laid out already. We don't have that action
12 item laid out. That's why I asked you and Susan to guide
13 us. As Member Walker said, this is in the spirit of what
14 we asked to start doing in August after the CIP, but yet
15 at the same time, you and staff have taken the lead on
16 this, and I guess I'd like to throw it to Mr. Chimits
17 now.

18 DEPUTY ADMINISTRATOR CHIMITS: Thank you.
19 Chris Chimits, Deputy Administrator. As it was mentioned
20 before, the experience on the board is highly valued. We
21 have a board at this time we're fortunate to have.

22 And I just want to point out that Steve
23 brought the design architect from the firm that created
24 the concept here and helped with this whole proposal and
25 also the construction manager at risk and contractor who
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1 developed the model, and they're available here for
2 questions.

3 Bryce, you correctly went right to the red
4 curve and said, okay. How does that curve get shaped?
5 Because there's some subjectivity in it. And I think the
6 only other thing that you didn't question that could be
7 questioned other than that is just pure math, this whole
8 thing, is that cost model. How valid is that cost model?
9 How valid is that \$45 million dollars for each building?
10 And I just thought, given your backgrounds and the fact
11 that we've got two gentlemen here who are integral in
12 that process, it might be a good thing to hold that cost
13 model up a little bit. They can certainly answer any
14 questions about it, if you'd like.

15 CHAIRMAN METCALF: Thank you, Mr. Chimits.
16 And since Gus kind of threw it back at us, I'm going to
17 let the board members -- Evan, sorry. I didn't notice.

18 MR. DALE: If you wouldn't mind,
19 Mr. Chairman, Steve, the move-in date on your schedule
20 here is around December of '17; is that right? And it
21 looks, if I'm reading this right, the State would have to
22 come up with certainly \$2.7 million dollars before then,
23 plus another \$2 million for these phase four
24 reimbursable's?

25 MR. NIELSEN: No.
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1 MR. DALE: I'm not sure what that number is.

2 MR. NIELSEN: No. They're rolled into -- and
3 good question is so the predevelopment costs leading up
4 to close of financing is about \$6.6 million dollars.
5 We've got two approaches to fund that. I can go borrow
6 the money, but it will be a very high interest rate, and
7 then it gets paid off at close of financing. Or
8 conversely, and we did this with Elko, is where they had
9 some funding, is they funded a portion of the
10 predevelopment expenses to lower the interest to lower
11 the overall lease rate and to offset our having to buy
12 this. So if you put \$2.7 million dollars in, we don't
13 have to borrow \$6.6. That's kind of the either/or here.

14 MR. DALE: And then we're done until the --

15 MR. NIELSEN: You've got a lease payment.

16 MR. DALE: Until December '17 when we start
17 making lease payments.

18 MR. NIELSEN: That is correct.

19 MR. DALE: Okay. Thank you.

20 CHAIRMAN METCALF: Member Stewart?

21 VICE-CHAIRPERSON STEWART: Yes, sir.

22 CHAIRMAN METCALF: I'm just asking again,
23 Member Tiberti? Member Kwon? Any comments?

24 VICE-CHAIRMAN STEWART: No, I think we're
25 good at this time.

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1 CHAIRMAN METCALF: Member Clutts?

2 MEMBER CLUTTS: Bryce Clutts, for the record.
3 Mr. Chimits, I definitely appreciate your comment. I
4 guess I'm a little confused because that would have been
5 a comment if I could find anywhere in here where those
6 cost models were. So maybe somebody could direct me to
7 that. There are a lot of numbers and graphs in here, and
8 I felt bad here as I'm sitting with these gentlemen,
9 sitting here with all of their expertise ready to answer
10 questions that I can't pose because I'm not sure where we
11 find this information.

12 COUNSEL STEWART: Chris?

13 MEMBER WALKER: Could I say Tito?

14 MR. NIELSEN: If I can, so for this round of
15 work is that we took the Bradley Building, the Bryant
16 Building, as the models show. It's roughly 125,000
17 square-foot building, four-story, open floor plates,
18 central elevator and utility corridor. And we then took
19 today's dollars, we took an updated concept plan, we took
20 today's dollars, and we did some preliminary cost
21 estimating.

22 We ran it in through a preliminary per forma
23 based on an interest rate of 4 percent to assure
24 ourselves that we could develop, deliver a \$45
25 million-dollar building. We're not ready at this point

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1 to say that's what the costs are and that's what the
2 building design is. For the purposes of just
3 feasibility, we're at a pretty high level conceptual,
4 which is why you don't see those numbers in there. We
5 don't want anybody focusing in on well, an elevator costs
6 this, or the building costs this.

7 MEMBER CLUTTS: Yeah. If I could -- Bryce
8 Clutts, for the record. I'm not necessarily concerned
9 about that. I get being in the business that that stuff
10 will come later. I can't even find in here where square
11 footage is identified or the \$45 million is identified,
12 and so --

13 MR. NIELSEN: It's actually in the whole
14 report, not in the --

15 ADMINISTRATOR NUNEZ: It's in this packet.

16 MEMBER CLUTTS: Can somebody direct me to a
17 certain page number?

18 DEPUTY ADMINISTRATOR CHIMITS: Page 15 gets
19 you the size of the building, and then the cost is back
20 here on page one.

21 CHAIRMAN METCALF: Page what, Chris?

22 DEPUTY ADMINISTRATOR CHIMITS: Page 15 for
23 the building size and page one. I believe that's where
24 we show the \$444,800 -- \$44,800,000.

25 MEMBER CLUTTS: Okay.
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1 MR. NIELSEN: And, Gus, if I remember right,
2 isn't the Bryant Building, wasn't that an all in the \$45
3 million-dollar building or pretty close?

4 ADMINISTRATOR NUNEZ: No.

5 COUNSEL STEWART: No.

6 MR. DALE: No.

7 MR. NIELSEN: Okay. You gave us kind of a
8 preliminary model that we worked on.

9 ADMINISTRATOR NUNEZ: Yeah. I mean, you used
10 the Bryant Building as a concept for many reasons. We
11 feel that that, from Public Works' perspective, we feel
12 that's a well-laid out general office building that fits
13 very well, fits very flexible to fit just about anything
14 that we do that we would need for the State, number one.

15 Number two is the architectural style is in
16 compliance with the Capital Complex master plan, the
17 architectural standard. So we said look at that
18 building, and it was built to the Public Works' standards
19 that we currently have or currently had at that time.
20 There have been very minor modifications to those design
21 standards that we have. So it meets all of those
22 criteria, and you've reflected that here in the overall
23 report in looking at the Capital Complex.

24 So the Bryant, we felt the Bryant Building
25 was something that you all needed to look at because
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1 that's sort of very similar to what we would be expecting
2 in getting here in continuing on with the Capital
3 Complex. The only thing that's going to change as we
4 move north, the Capital Complex, we're going from four to
5 five stories at that end. As we move north, we're going
6 to go to three stories. And the main reason for that for
7 the Capital Complex is we don't want to overwhelm the
8 Capitol dome. We still want the Capitol dome to be the
9 highest around the area, the highest point around here.
10 So it meets all of those requirements. So I don't know
11 if I've answered your question, but --

12 MR. MAURER: They're 130,000 square feet.
13 And if you take out the sites on both --

14 CHAIRMAN METCALF: I'm sorry.

15 COUNSEL STEWART: You have to speak up.

16 MR. MAURER: Seth Maurer, Core Construction.
17 If take out the site on both campuses, we're looking at
18 \$237 a square foot, prevailing wage. Pretty price
19 competitive.

20 MEMBER CLUTTS: Thank you, Seth. Bryce
21 Clutts, for the record.

22 In coming back, Mr. Chimits, I had looked at
23 that, and again, there's a lot of data here. I guess
24 coming back to the fundamental concern that I have, as
25 the Chairman mentioned a minute ago, I read the

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1 information that's in here. I quickly went through this
2 and tried to follow Mr. Nielsen's logic through all of
3 it, and it all looks good.

4 I guess the challenge that I have is I don't
5 know the charge of the board today. And if somebody
6 could just -- if there is a recommendation by staff to
7 the board that you're asking us to make a motion on, then
8 I can get my head around this. Otherwise, I felt like as
9 we started this meeting, our obligation and our charge
10 was to ask questions and to gather knowledge. And so I
11 feel like at least from my perspective, I've done that.
12 I'm not sure what is being asked of me at this point.

13 CHAIRMAN METCALF: Member Clutts, that's kind
14 of why I tried to throw it over to Gus.

15 COUNSEL STEWART: Well, he's going to take it
16 over now.

17 ADMINISTRATOR NUNEZ: Well, I'm going to try.
18 For the record, Gus Nunez. You have various options.
19 You can just ask for more information, you can basically
20 make a motion to accept the report, you can make a motion
21 to accept the report and to ask staff to investigate
22 further with the administration. You can go farther than
23 that if you feel comfortable with that. But we think
24 that the information here provided that we should
25 continue -- we should continue to investigate these

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1 options as to its feasibility with the administration. I
2 think it's worth continuing in this path at this point.

3 So it's not -- I don't think that what is
4 shown here in the report is something that we say great
5 report, but it just doesn't look good. It doesn't feel
6 right. It's not the right timing right now, so it was
7 great. We'll take a look at it again next biennium just
8 like we've been doing for several bienniums now.

9 The way this came out here and actually, Evan
10 and I looked at it, at this thing here a while back just
11 like the way we typically looked at it in-house, and
12 which actually prompted me to say we should put out an
13 RFP out there and see what the private -- someone out
14 there that does this kind of work can come up with, and I
15 don't know. I remember Evan assisted me in doing a
16 financial analysis just for a building here in Carson
17 City, and it's certainly when he calculated it all the
18 way through to calculate the rate of return, the rate of
19 investment.

20 MR. DALE: Yeah, the rate of return to the
21 State.

22 ADMINISTRATOR NUNEZ: To the State.

23 MR. DALE: And it looked good. I would add,
24 Gus, that if we have any aspirations of pursuing this
25 schedule, the board should probably encourage you to
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1 pursue it now to investigate further and seek funding.
2 Otherwise, the whole thing is going to move forward two
3 years.

4 CHAIRMAN METCALF: This is Chairman Metcalf.
5 Evan, I think you kind of said it. We're all kind of,
6 you know, we were here to ask questions, but it has
7 another step. Seek funding and go further. We're not
8 the final step. They have to get past this gentleman
9 right here and BOE and the executive branch.

10 COUNSEL STEWART: And the governor.

11 ADMINISTRATOR NUNEZ: At the end of the day,
12 it's going to be the governor. Probably Jim and the
13 governor are going to have to give direction and say that
14 we want to do something, you know, we want to investigate
15 further and proceed and figure out where the money is
16 going to come from.

17 CHAIRMAN METCALF: And this is not the last
18 time we'll see this process.

19 MEMBER CLUTTS: I'm sorry. Are you
20 entertaining a motion?

21 CHAIRMAN METCALF: Sure.

22 MEMBER CLUTTS: Member Clutts, for the
23 record. I would make a motion that we continue in the
24 process of investigation based on the information that we
25 have today.

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1 COUNSEL STEWART: And if I -- for the record,
2 Susan Stewart -- may I add onto your motion and include
3 the process moving forward, include Department of
4 Administration and other government officials as
5 appropriate.

6 MEMBER CLUTTS: Yes.

7 CHAIRMAN METCALF: Okay. I've got a motion.
8 Looking for a second.

9 MEMBER TIBERTI: Tito Tiberti. I second
10 that.

11 CHAIRMAN METCALF: Okay. I guess I'm going
12 to ask for a question, or were you --

13 MEMBER WALKER: No, I was going to second.

14 CHAIRMAN METCALF: Okay. Member Tiberti
15 seconded it. Sorry. He was verbal. All of those in
16 favor -- yes. Member Wells?

17 MEMBER WELLS: Jim Wells, for the record. A
18 couple of things come to mind. One is that where we are
19 in the funding cycle is very problematic with the
20 legislature being in session and the budgets being fairly
21 close to being closed for the upcoming biennium, finding
22 \$2.7 million dollars to move forward on this scale or on
23 this timeline is a little troubling for me.

24 Second, I have a few concerns about what the
25 difference is in cost if we had bonding capacity to build
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1 these with bonds versus what the lease purchase option
2 would be.

3 And third, I have a concern about the costs,
4 especially in the northern campus if you look at some of
5 the numbers where we are kind of upsidedown for at least
6 the next decade or more versus what we are currently
7 leasing space for up here as well as what that would do
8 to the leased space that's available in Carson City. I
9 mean, obviously, we're one if not the larger employer in
10 Carson City, and if we start moving everyone into a
11 Capital Complex, you have to do this methodically because
12 you're going to leave a lot of open office buildings
13 around town, so then that will drive down the lease rates
14 in those vacant buildings. So I have some concerns about
15 the northern piece of this as well.

16 CHAIRMAN METCALF: And if I'm not mistaken --
17 Member Wells, thank you. That's part of what staff will
18 be going further with part of the process.

19 COUNSEL BENSON: Kevin Benson. I just want
20 to clarify, Susan, if the board recommends that this go
21 forward for further investigation, it's not legally
22 binding to the board to accept this contract or any
23 further action at this point; is that correct?

24 COUNSEL STEWART: That's correct.

25 CHAIRMAN METCALF: Is there any further
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1 discussion? All of those in favor, signify by saying
2 aye.

3 THE BOARD: Aye.

4 CHAIRMAN METCALF: And one abstention.
5 Motion carries. Thank you.

6 ADMINISTRATOR NUNEZ: Thank you all.

7 CHAIRMAN METCALF: Can we take a break? Five
8 minutes.

9 (Recess was taken.)

10 VICE-CHAIRMAN STEWART: For the record, I
11 have to take a conference call, so I'll step outside the
12 door.

13 CHAIRMAN METCALF: We still have a quorum.

14 ADMINISTRATOR NUNEZ: Yes, we do.

15 CHAIRMAN METCALF: Okay. Let me get back to
16 the agenda. Item Number 5: Presentation of the State of
17 Nevada Statewide Cost Allocation Plan or SWCAP. Mr. Evan
18 Dale.

19 MR. DALE: Yes. Thank you, Mr. Chairman.
20 Administrator Nunez asked me to present the SWCAP, and I
21 don't know exactly all of the background behind that, but
22 I know it's an intriguing subject for most people, so we
23 have a short 15-minute presentation, and Heather will
24 bring this up right here.

25 CHAIRMAN METCALF: Did you say five minutes?
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1 MR. DALE: Fifty. No, it will only be like
2 five minutes.

3 CHAIRMAN METCALF: Okay. Good.

4 COUNSEL STEWART: Well, we could go to Agenda
5 Item Number 6, if we wanted to. Just a suggestion.

6 CHAIRMAN METCALF: Okay. Is that okay with
7 counsel? Let's move onto --

8 COUNSEL STEWART: Table 5.

9 CHAIRMAN METCALF: Table 5, Agenda Number 6,
10 Original Roofing report. Follow-up on contractor
11 qualification hearing, September 10, 2014.

12 COUNSEL STEWART: For the record, Susan
13 Stewart. If you'll recall, September 10, 2014, Original
14 Roofing came before the board for a hearing on their
15 qualification, and they had issues with their several
16 OSHA violations, and the board agreed to grant their
17 appeal and allow them to be qualified. However, it was
18 conditional, and it was conditioned on Original Roofing
19 reporting to staff that they had no additional OSHA
20 violations and also reporting their worker's compensation
21 modification factor.

22 And if you look in you board packet in Agenda
23 Item Number 6, there's a March 3rd, 2015 letter from
24 their insurance, Solutions Insurance Company, reporting
25 their modification rate followed by a March 9, 2015

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1 letter from Original Roofing stating that they have no
2 OSHA violations.

3 ADMINISTRATOR NUNEZ: I think we lost the
4 folks in the south.

5 COUNSEL STEWART: No.

6 MEMBER TIBERTI: No, we can hear you.

7 COUNSEL STEWART: And then that is followed
8 by a March 6th letter from the Department of Business and
9 Industry, OSHA, confirming that Original Roofing Company
10 has not had any additional violations since July 11,
11 2014. So that is just an informational item to let you
12 know that they are in complete compliance with your
13 directions that were given at the September 10 hearing.

14 CHAIRMAN METCALF: Okay. So that was
15 informational only. Next item is the Administrator's
16 Report. Mr. Nunez?

17 ADMINISTRATOR NUNEZ: Thank you,
18 Mr. Chairman. For the record, Gus Nunez, Administrator.
19 Just want to touch real quick on items that are pending
20 from the last meeting we've had that we've basically been
21 working on, and we've been -- since the session started,
22 we've been somewhat busy with our presentation of our
23 budgets and other issues that are ongoing right now, so I
24 have to apologize. We're trying to get back to these,
25 but I wanted to go over them with you and let you know

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1 the progress that we've made.

2 The board, at the last meeting, requested
3 that we do an analysis of all of the data that we
4 presented the last time. And if you remember, the data
5 consisted of the information that was in the facility
6 condition database, those CIP projects that we requested
7 and not approved. We talked a little bit about the
8 pattern that we're seeing in the last two CIPs where
9 essential facilities obviously get first, you know,
10 prisons, hospital, governance centers, those facilities
11 obviously get the priority in our deferred maintenance
12 program to fund those first.

13 By the time we then get to other facilities
14 such as parks, museums, the pattern is developing over
15 the last three CIPs including the one coming up whereby
16 the time we get to those, there's no money left, and they
17 continue to be ignored, and there are issues, the issues
18 that I pointed out on those things, and I think we had
19 some folks here from DC&R to come in and talk to the
20 board about that.

21 We also talked a little bit about the
22 computerized maintenance system, computerized maintenance
23 management system that B&G has initiated here, and
24 basically, we're off and running with that. It requires
25 us to set up criteria for deferred maintenance, how we're
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1 going to maintain our equipment in the state. Not only
2 does it require you to set up that criteria, but in order
3 to set up your permitted maintenance program, but it also
4 computerized the whole thing and kicks out your quarters,
5 etcetera.

6 The board thought -- and actually, our prior
7 director of administration of materials thought that that
8 would be something that perhaps should be, once we get it
9 fully implemented here and running, that that should be
10 rolled out to the rest of the state so that we get a
11 consistent level of maintenance throughout that is
12 established right now. We have various agencies,
13 departments throughout the State that does their own
14 maintenance, and there's no coordination there with
15 respect to what level of maintenance is to be provided,
16 what that criteria is. It's up to each individual agency
17 to do their own, whichever way they feel is adequate for
18 them.

19 So you wanted some recommendations with
20 respect to, you know, how could all of the needs from --
21 how can we get sufficient funding to take care of all of
22 these deferred maintenance needs, and also that we've
23 been seeing some recommendations that you also actually
24 you wanted an analysis. And actually, I believe looking
25 back through the minutes, you also asked for a PowerPoint

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1 presentation back to the board with some recommendations
2 from the staff as to how to proceed that you could
3 discuss and then finalize and then make a recommendation
4 to the administration as to what should be done in these
5 areas.

6 You also asked that we look at what other
7 states are doing. To that end, we contacted -- we're
8 members of the National Association of State Facility
9 Administrators, and it's a national organization that
10 we've contacted, and they're willing to do a survey for
11 us. All we have to do is give them the questions, and
12 they're going to contact all of their members throughout
13 the country and do that survey for us and provide that
14 information back to us. We've done that. We're
15 developing the survey to do that, and we'll proceed with
16 that. But I -- other than to tell you that, you know, we
17 know that you've requested these things, and we're
18 working on some of it. That's as far as we've been able
19 to take it right now.

20 We need to find here, hopefully toward the
21 end of the session, things will slow down a little bit
22 for us and we can work on these items and get back with
23 you on all of these things and bring you back the
24 PowerPoint presentation that you requested with our
25 analysis on all of these matters and probably the results

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1 of this survey and then start generating some
2 recommendations for you to consider and discuss with
3 respect to what you may want to tell the administration
4 these are the issues. Here are some solutions that we're
5 recommending.

6 CHAIRMAN METCALF: So, Gus, I guess what
7 you're asking for is a legislative session reprieve?

8 ADMINISTRATOR NUNEZ: Kind of.

9 CHAIRMAN METCALF: Well, that sounds
10 reasonable.

11 MEMBER CLUTTS: I'll make a motion to
12 definitely give him that reprieve. I've spent plenty of
13 time over there.

14 ADMINISTRATOR NUNEZ: Anyhow, we haven't
15 forgotten. We know that you want these things completed,
16 analyzed, and reported back to you, and we will be --
17 we're working on it as best as we can, and we'll
18 hopefully be able to do that and get right back to you.

19 CHAIRMAN METCALF: Well, thank you. Let's go
20 back to Item Number 5. Mr. Evan Dale.

21 MR. DALE: Let's do Item Number 5. I like
22 that item.

23 CHAIRMAN METCALF: Did you say four minutes?

24 MR. DALE: Yeah, it's going to be a couple
25 minutes. Okay. I've done this so many times now. Okay.

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1 The Statewide Cost Allocation Plan. Next slide, please.

2 The Statewide Cost Allocation Plan allocates
3 central service costs to all programs under the State
4 umbrella, and this enables the State to recover the cost
5 of those services from non-State funded sources. So
6 while we allocate all of the central costs, we recover
7 only from the non-State funded operations. Central
8 service costs allocated to State-funded operations. We
9 don't recover that. We show the allocation, but we don't
10 recover it.

11 However, if you are a non-State funded
12 operation, we do allocate to you and we budget and
13 recover those costs from you. The SWCAP typically
14 allocates \$40 to \$50 million dollars a year, and out of
15 that, we recover \$8 to \$10 million. Recovered costs
16 benefit the general fund, so whatever we do decide to
17 recover goes straight to the general fund, and the reason
18 for this is that the general fund typically supports the
19 central services up front and then recovers the cost back
20 through the SWCAP from the non-State funded operations.
21 Every year, the allocation plan is reviewed and approved
22 by the federal government, so there's lots of oversight
23 over this whole process.

24 Okay. Next slide, please. On this slide,
25 I'm showing you what the central services are for the
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1 State of Nevada. See we have the controller's office,
2 treasurer's office, and so forth, and then down at the
3 bottom here is buildings. So I assume that's what we're
4 most interested here today.

5 So let's take a closer look at the buildings
6 and how that's done. So if we go to the next slide,
7 please. The building portion of the SWCAP is pretty
8 substantial. It's \$25 to \$30 million dollars a year, and
9 that's about 50 to 65 percent of the whole SWCAP plan.
10 Building costs are derived from the depreciation expense
11 reported on the controller's office CAFR, so essentially
12 what we're allocating is a depreciation on all of the
13 capital improvements.

14 Only the State portion of building costs are
15 included in the SWCAP. If a building is partially funded
16 with agency funds, donations, etcetera, only the State
17 portion is in the SWCAP, so this is particularly relevant
18 with military buildings and veteran's buildings where
19 part of the building is federal, you know, the
20 construction is federal, part of it's state. We would
21 only seek to recover the State portion.

22 Most buildings in the SWCAP, about \$20
23 million-dollars worth, are allocated to the Department of
24 Corrections, so it's the cost of all of the prisons.

25 Corrections is general funded, so we don't actually

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1 recover that. I hope that makes sense that, you know,
2 they're already a general-funded operation. Why recover
3 money from them just to put it back in the general fund.
4 We just have to give them more general funds to pay it
5 right back.

6 Buildings financed through a construction
7 funding agreement are not included in the SWCAP. And
8 again, this is relevant to the military buildings where
9 if the construction of the building is pursuant to an
10 agreement with the federal department or the military,
11 then we don't attempt to recover the State portion
12 because it was agreed that we would pay that portion so
13 we don't try to recover back from the military.

14 And finally, the costs are covered based on
15 the square footage of occupancy. So if you're an
16 occupant in the Bradley Building and you occupy ten
17 percent of that building, your budget would include a
18 SWCAP amount equal to ten percent of the Bradley Building
19 depreciation. So that's kind of a very high-level view
20 of how that works. And what I didn't mention is that out
21 of the whole entire building allocation, 25 to 30
22 million, about one to five million is actually recovered
23 every year.

24 CHAIRMAN METCALF: Are there any questions
25 from Item Number 5 from the Board?

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1 Item 9 is discussion regarding construction
2 law counsel's briefing regarding the false claim and
3 Richardson Construction. So we don't need to make a
4 motion. No more discussion.

5 COUNSEL BENSON: This was one just
6 informational only, I believe.

7 CHAIRMAN METCALF: Item 10 is Board Comment
8 and Discussion. Is there any board comment down south?

9 MEMBER TIBERTI: No.

10 CHAIRMAN METCALF: Any up north? Okay.
11 Items to be included in the future agendas. As Board
12 Chairman, I have an item that Administrator Gus and I
13 talked about, and I'd like to agendize it for the next
14 board meeting.

15 I was given a UNLV purchasing and contracts
16 request for qualification 635-DC. This was for planning,
17 programming architectural engineering, design and
18 consulting services for a new UNLV College of Engineering
19 facility and for existing College of Engineering
20 facility. There was some language in the RFQ that was
21 brought to my attention. I passed this on to the
22 administrator, Mr. Nunez, and we both thought that we
23 should agendize this for a future meeting. And I don't
24 know how much further I'm allowed to go, so I'll stop
25 right there until someone tells me.

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1 COUNSEL BENSON: Okay. I'm not sure exactly
2 what the document is to put on there, but I'm sure we can
3 look it up.

4 COUNSEL STEWART: There's a question whether
5 the -- UNLV's authority to --

6 COUNSEL BENSON: To include that language?

7 COUNSEL STEWART: Well, not just to include
8 the language, but to actually issue the --

9 COUNSEL BENSON: To issue an RFQ?

10 COUNSEL STEWART: Correct.

11 COUNSEL BENSON: Okay. Got you.

12 CHAIRMAN METCALF: Did I go far enough?

13 COUNSEL STEWART: Yeah.

14 CHAIRMAN METCALF: Okay. Review of action
15 items for SPWD management, set a future meeting date, if
16 needed. Do we have one, or is that part of the reprieve?

17 COUNSEL STEWART: Well, we'll coordinate with
18 -- I mean, the session isn't going to take forever.

19 CHAIRMAN METCALF: Is there any public
20 comment at this time? We're adjourned.

21 (The meeting concluded at 3:50 p.m.)

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1 STATE OF NEVADA,)

2)

3 CARSON CITY.)

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5

6

7 I, NICOLE ALEXANDER, Official Court Reporter for the
8 State of Nevada, State Public Works Division, do hereby
9 Certify:

10 That on the 13th day of March, 2015, I was
11 present at said meeting for the purpose of reporting in
12 verbatim stenotype notes the within-entitled public
13 meeting;

14 That the foregoing transcript, consisting of pages 1
15 through 89, inclusive, includes a full, true and correct
16 transcription of my stenotype notes of said public
17 meeting.

18

19

20 Dated at Carson City, Nevada, this 20th day of
21 March, 2015.

22

23

24

NICOLE ALEXANDER, NV CCR #446

25

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