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

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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208 N. Curry Street
Carson City, Nevada 89703

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CARSON CITY, NEVADA, FRIDAY, MARCH 13, 2015,
1:00 P.M.
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CHAIRMAN METCALF: Item Number 1, roll call. Heather?

MS. FATZER: Chairperson Tom Metcalf?

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

MS. FATZER: Vice-Chairperson Sean Stewart?

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

COUNSEL STEWART: And not my brother.

VICE-CHAIRPERSON STEWART: Just kidding.

MS. FATZER: Member Bryce Clutts?

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

MEMBER WELLS: Nice to meet you.

MS. FATZER: Member Steven Kwon?

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

MS. FATZER: Member Tito Tiberti?

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

ADMINISTRATOR NUNEZ: Six years, I think, now.

MEMBER TIBERTI: Good to meet you.

MS. FATZER: Member Roy Walker?

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

CHAIRMAN METCALF: We had money back then.

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

MEMBER TIBERTI: Very good.

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

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

CHAIRMAN METCALF: Thank you.

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

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

MEMBER TIBERTI: No, sir.

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

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

MEMBER CLUTTS: So move, Mr. Chairman.

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

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

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

THE BOARD: Aye.

CHAIRMAN METCALF: Opposed? Motion carries. Thank you.

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

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

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

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

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

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

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

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

COUNSEL STEWART: Can you dim the lights?

Would that help a little bit?
ADMINISTRATOR NUNEZ: The button is underneath. See the one that goes up and down?
MEMBER TIBERTI: Gus, if I might interrupt this high-tech meeting, Tito Tiberti, for the record. Chairman Metcalf asked me if there was any guests, and there is a guest sitting here. He has nothing to say, John Busby, the mechanical contract associate. He just wants to know if we're going to spend some money. So I want to let you know he's sitting here.
MR. BUSBY: Give me some good news, fellows. Give me some good news.
MEMBER TIBERTI: He just wants a yes vote on $800,000,000.
MR. NIELSEN: So we went through a public procurement process. We put together a team to help with this feasibility study and the potential development of some buildings for the State of Nevada. We assembled a team, TSK Architects, so a local Nevada company; Core Construction, again, a local Nevada company; and then from there, we brought in some additional partners. Provident Resources is a co-developer, and they are a non-profit foundation that helps us with financing. They've built -- They own $1.8 billion dollars worth of governmental facilities through a tax-exempt bond

financing.

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

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

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

I can tell you that while I was with Arizona

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

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

So over the last 30 years, and inflation is a good guide for what's going to happen to your lease rates because on the commercial sector is they inflate leases based on inflation rates. And so we looked back 30 years. It's in your report. But the average -- there are ups and downs through economic cycles. And today, we've had the benefit of some pretty low inflation rates, but we've seen inflation rates on an annual basis over five and a half percent. So when you look back at 30 years, the average is 2.9 percent. So I want you to keep that fact in mind.

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

We also take a look at the financing for this. I mentioned that our approach is to use a non-profit foundation, so we take the profit motive out of this. We use 100 percent tax-exempt financing, and those bond interest rates are at an all-time low. And I've got some charts to kind of show you what's been happening, but we're sitting there at below the average inflation rate right now just in financing, and so I'll talk a little bit about that. So we jump right into here. So this slide is why now? And despite asking us to do it, this is one of the real questions is why should you do now?

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

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

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

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

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

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

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

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

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

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

So to go back to -- so here's your curve.

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

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

And one of the things we do in our projects is we do a lifecycle analysis of all major systems in the building, and we will project out when we need capital and to make sure that. So for the life of a 30-year financing, that building is maintained. That translates to 8 cents a square foot of these three buildings, and so that's programmed in there.

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

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

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

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

The green line is showing four years of interest only. Then we spike up where we make principal, but then for the rest of that 30 years, it's a flat line. So you can see how much below the line you are, and then the magic occurs in year 30 when the debt is paid off, you've got the facilities, and now you're only paying your maintenance costs and utility costs. And so you can see how it drops down, and that's the blue line. So what that translates to, and again, I can't read it from here, sorry, but $5.7 million-dollar savings in first ten years.

DEPUTY ADMINISTRATOR CHIMITS: $106.

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

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

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

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

We were asked to take a look at a discrete -- so we tested the three buildings. We know they make sense, but what happens if we just take a look at a single building. And in this case, so here, I'm sorry, let me go through the comparison of those options again just to -- we wanted you to be able to look side by side what those three financing options look like. And you can see four years interest only, two years interest only, and then fixed term, so in terms of making a decision on what's the most appropriate. That decision doesn't have to be made until we get through design and are ready to go to financing, and then we're going to take a look at all of options. But you've got options there.

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

The third option we took a look at is so what if we just built two HH&S buildings. Now here, it's a different environment, and as you saw in that one chart, is that the commercial lease rates in the Carson City market are well below the norms, and so that has a pretty lengthy front end if you just built those two buildings, as there is a 13-year period of which we have to pay more than it costs if you were to continue leasing. But how that -- So there's a $14 million-dollar deficit, but over 30 years, $11.7 million-dollar positive. So it's still saying that if you can afford to take that additional hit, you'll get the benefit long-term, and then of course when the debt is paid off, there's $36 million dollars worth of asset value that's transferred directly to the State, and the savings are then much more significant.

So kind of the summary of this effort is that just like it made sense to build the Bryant Building, it makes incredible sense to build three buildings; that we should take advantage of the low interest rates that are out there today. The idea of a lease leaseback structure, what this means is that through a non-profit foundation, it's non-recourse to the State, that the profit motive has been removed from this so that any time during that 30-year financing, if the State had a windfall and wanted to just buy out the lease, there is no pre-payment penalty, although at the interest rates we're talking about, I'm not sure that you would want to do that, but you're in control.

This is not a -- and I'm going to use a really bad example, and that is the State of Arizona is that we sold, to cover our budget deficit years ago, we sold the state capitol and a number of state government buildings, but we did it under a lease purchase structure. They monetized it, but not only do they have a lease payment, but they've got a buyout provision at the tail end or any time along the way at fair market value. So the cost of doing that approach is going to have long-term impacts. We don't believe in that.

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

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

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

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

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

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

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

One of the things that we suggested in our study is that the cost of predevelopment to take it to the point of financing -- now, remember our structure is through a non-profit foundation. They don't have a bucket load of cash to put in to do pre-development funding. If we go out and borrow that money without knowing that there is a project on the end, our interest rate, we're looking at ten to 15 percent. We have to go find private capital that's willing to put that in. That's a cost that gets transferred on to you.

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

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

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

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

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

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

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

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

CHAIRMAN METCALF: Why don't you talk.

ADMINISTRATOR NUNEZ: I'm sorry.

CHAIRMAN METCALF: No, you're correct.

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

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

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

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

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

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

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

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

MEMBER CLUTTS: That's good for now.

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

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

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

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

Let's say B&I doesn't want to go into the Southern Nevada building. They want to go somewhere else or do something else. That doesn't mean that there's not other agencies in Southern Nevada that are leasing space that could be accommodated in a similar building because it's an -- I don't know if you've been to the Bryant Building, but one of the things that we did when that building was built was that to make it a very general office building, that it would be very flexible. If you walk through it, you can see that. You can fit just about any -- most state activities could be fitted into that building and accommodated in that building. It's a very, very flexible office space.

So that was some of the -- I wanted to explain some of the workings that we've had because we've been working very closely, obviously, with these folks here for the last three months. It's been about three months since we embarked on this effort. And again, in the RFP, when we put out the RFP, we purposely put some wording in there that we were looking for more than just a consultant that was going to come in and say, "Here's a report. It looks good. Here it is. Good luck. Figure out how you're going to implement it."

When we put the RFP out, even though we number one, we didn't want to commit, but we wanted to ask. We didn't want to commit, but we also wanted somebody that when they told us here's what can be done, they're ready to say, "And we can do it, and we will do it." So in the RFP, that's why there's some wording in the contract that even though this contract now terminates that we have the ability to or, you know, there is a clause in there that allows us at our option to proceed with the next step. And if the next step works out, we can proceed to the next step.

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

MEMBER CLUTTS: Okay. Thank you.

CHAIRMAN METCALF: Am I allowed to ask the board?

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

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

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

And ever since we made the decision in '04, the first three months of '04, steel went up 20 percent per month, 60 percent in that first part of the year, and inflation just took off, and then we had the economic downturn and things have been depressed, you know. We've been able to find leased space at a fairly reasonable amount, so we today we haven't -- as we've looked at it on a static, we've never looked at it long-term as this group has just done for us just on what's happening right now doesn't make sense right now. We've been looking at it every year, and it hasn't made sense because of those conditions that we've gone through.

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

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

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

MEMBER CLUTTS: Please do.

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

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

ADMINISTRATOR NUNEZ: Okay. This contract, to do this work here, we contracted for this for $25,000 out of our advanced planning CIP, which is, that's SO4.

COUNSEL STEWART: It's planning money.

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

DEPUTY ADMINISTRATOR CHIMITS: '13 SO4.

ADMINISTRATOR NUNEZ: '13 SO4.

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

ADMINISTRATOR NUNEZ: Correct.

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

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

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

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

The last time we looked at -- Actually, the first time we looked at it was a couple of CIPs after that, and I think that the lease purchase approach required about a 45 percent subsidy, and that was felt that that was not a good avenue at that time to proceed to have a 45 percent subsidy to the financing to make the numbers come out. But we continually are being asked, have been asked by the various agencies during the CIP process to go around that time to look at this.

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

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

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

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

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

COUNSEL STEWART: Who owns it?

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

DEPUTY ADMINISTRATOR CHIMITS: Jacobsen.

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

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

ADMINISTRATOR NUNEZ: Okay. How about now?

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

ADMINISTRATOR NUNEZ: You can hear us now?

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

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

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

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

ADMINISTRATOR NUNEZ: We've done lease

purchase in the past, and this would be about the same.

MR. DALE: Jacobsen wasn't the financing.

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

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

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

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

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

And so the difference is that -- and I did that while I was at the University. I went down that path. But the accounting rules changed, and the underwriters or Standard and Poor's and the rating agencies, they took a look at this and said well, that's the same as borrowing money, and so that has credit impacts. And so as a result of that, we developed this scenario that we're talking about here, which is -- it looks and feels the same way, but it's arm's length to the State because what we're trying to do is preserve your bonding capacity in the future, your debt capacity and credit rating impacts.

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

By doing a lease leaseback structure is that we do a term lease for the same -- it's co-terminus with financing, and I can tell you so a 30-year financing, it would be a 30-year lease. And in that lease, the magic words that we put in that lease is that you ask the non-profit entity, not you, but this entity is to tear down the buildings, or you're willing to accept that. And by removing that gift and having in the documents this language that says the non-profit has to return the land to you in the condition that they leased it, that takes away that gift clause and takes away some of those accounting issues.

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

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

COUNSEL STEWART: It was a good try.

ADMINISTRATOR NUNEZ: I gave it a shot.

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

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

ADMINISTRATOR NUNEZ: Kind of.

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

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

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

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

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

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

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

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

MR. NIELSEN: Yes.

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

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

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

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

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

MR. NIELSEN: Yes, they are.

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

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

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

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

CHAIRMAN METCALF: Member Tiberti?

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

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

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

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

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

CHAIRMAN METCALF: Member Tiberti?

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

COUNSEL STEWART: I will do that.

CHAIRMAN METCALF: Thank you. Member Kwon?

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

COUNSEL STEWART: All right.

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

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

MR. NIELSEN: Yes.

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

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

The way these deals are structured now, though, is even if that were to happen, after 30 years, you still own the land and the improvements. And so there's always -- there's an upside to this. I think your risk is really is annual appropriations of the lease payment.

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

MR. NIELSEN: Well --

MEMBER CLUTTS: That would be another one; correct?

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

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

CHAIRMAN METCALF: Member Walker?

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

CHAIRMAN METCALF: Does that mean unlimited?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

COUNSEL STEWART: Then they sweep it.

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

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

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

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

COUNSEL STEWART: Gus can answer that.

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

But what we did is that we backfilled that space with other agencies that were renting. And the promise to all of those folks that move in there that we're moving in there is that if you move in, we promise you that we won't kick the DC&R -- because it was built for the preservation of natural resources -- would not kick you out, you know, for a minimum -- they'll let you stay there for a minimum of five years. After that, they can request that you move out because they need the space. So there was a minimum of five-year commitment to every agency that went in to backfill that space for future growth for them. So all of the space was occupied from the beginning. That's how that was structured.

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

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

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

CHAIRMAN METCALF: Mr. Wells?

MEMBER WELLS: I don't have any questions.

CHAIRMAN METCALF: Okay. Mr. Clutts?

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

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

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

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

MEMBER CLUTTS: Okay.

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

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

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

MEMBER TIBERTI: Okay. Okay.

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

MEMBER TIBERTI: And who is Bradley?

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

DEPUTY ADMINISTRATOR CHIMITS: Southwest.

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

COUNSEL STEWART: He asked who is Bradley.

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

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

COUNSEL STEWART: So okay. Former governor.

ADMINISTRATOR NUNEZ: Former governor. Just found out.

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

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

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

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

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

MR. DALE: It's on the door.

COUNSEL STEWART: Is yours on?

ADMINISTRATOR NUNEZ: It's on buzz.

COUNSEL STEWART: It is Gus.

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

DEPUTY ADMINISTRATOR CHIMITS: Yeah.

CHAIRMAN METCALF: Chris, do you know that?

DEPUTY ADMINISTRATOR CHIMITS: Yes.

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

MR. NIELSEN: Elko.

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

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

CHAIRMAN METCALF: Okay.

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

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

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

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

MR. NIELSEN: Yes.

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

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

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

MR. DALE: I don't remember the number offhand, but that sounds similar, and then B&G is charging about 50. So it's about $1.10, which was

competitive with the private lease rate.
ADMINISTRATOR NUNEZ: Right. At that time. So, I mean, if we would have done two more of those at the time, we would have probably looked like heros today, and it's just a matter of looking back and saying well, you know, when I know that numbers fluctuate.
I mean, for instance, as Member Bryce brought up, the inflation could be different in the future. Who knows. But I think we all know it's going to go up, and it would be nice to know that once you jump your lease for the next 50 years, or the next 30, during the time and then the last 20, you know where you're at. You definitely will know where you're at.
You're not subject to every time we -- I can tell you every time we negotiate a lease, I haven't seen one that's gone down since I took over B&G two years, two and half years ago. We're always paying a little bit more every time we negotiate a lease. At least currently, that's what's happening. I know after '07, things took a dip, and we got the benefit of that, but we're going back up again.
It's hard to predict the future any better than by looking back, but I certainly welcome and appreciate and would respect your opinion. You all have a lot of experience in business. And certainly, we look

forward to your input to the staff. And of course, you know, now that we have a, you know, a part of the board is the head of the department, especially the budget director, obviously, it helps out to have that input from you all.

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

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

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

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

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

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

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

MR. NIELSEN: No.

MR. DALE: I'm not sure what that number is.

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

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

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

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

MR. NIELSEN: That is correct.

MR. DALE: Okay. Thank you.

CHAIRMAN METCALF: Member Stewart?

VICE-CHAIRPERSON STEWART: Yes, sir.

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

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

CHAIRMAN METCALF: Member Clutts?

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

COUNSEL STEWART: Chris?

MEMBER WALKER: Could I say Tito?

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

We ran it in through a preliminary per forma based on an interest rate of 4 percent to assure ourselves that we could develop, deliver a $45 million-dollar building. We're not ready at this point to say that's what the costs are and that's what the building design is. For the purposes of just feasibility, we're at a pretty high level conceptual, which is why you don't see those numbers in there. We don't want anybody focusing in on well, an elevator costs this, or the building costs this.

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

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

ADMINISTRATOR NUNEZ: It's in this packet.

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

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

CHAIRMAN METCALF: Page what, Chris?

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

MEMBER CLUTTS: Okay.

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

ADMINISTRATOR NUNEZ: No.

COUNSEL STEWART: No.

MR. DALE: No.

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

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

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

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

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

CHAIRMAN METCALF: I'm sorry.

COUNSEL STEWART: You have to speak up.

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

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

In coming back, Mr. Chimits, I had looked at that, and again, there's a lot of data here. I guess coming back to the fundamental concern that I have, as the Chairman mentioned a minute ago, I read the information that's in here. I quickly went through this and tried to follow Mr. Nielsen's logic through all of it, and it all looks good.

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

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

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

ADMINISTRATOR NUNEZ: Well, I'm going to try. For the record, Gus Nunez. You have various options. You can just ask for more information, you can basically make a motion to accept the report, you can make a motion to accept the report and to ask staff to investigate further with the administration. You can go farther than that if you feel comfortable with that. But we think that the information here provided that we should continue -- we should continue to investigate these options as to its feasibility with the administration. I think it's worth continuing in this path at this point.

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

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

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

ADMINISTRATOR NUNEZ: To the State.

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

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

COUNSEL STEWART: And the governor.

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

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

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

CHAIRMAN METCALF: Sure.

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

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

MEMBER CLUTTS: Yes.

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

MEMBER TIBERTI: Tito Tiberti. I second that.

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

MEMBER WALKER: No, I was going to second.

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

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

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

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

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

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

COUNSEL STEWART: That's correct.

CHAIRMAN METCALF: Is there any further

discussion? All of those in favor, signify by saying aye.

THE BOARD: Aye.

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

ADMINISTRATOR NUNEZ: Thank you all.

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

(Recess was taken.)

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

CHAIRMAN METCALF: We still have a quorum.

ADMINISTRATOR NUNEZ: Yes, we do.

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

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

CHAIRMAN METCALF: Did you say five minutes?

MR. DALE: Fifty. No, it will only be like five minutes.

CHAIRMAN METCALF: Okay. Good.

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

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

COUNSEL STEWART: Table 5.

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

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

And if you look in you board packet in Agenda Item Number 6, there's a March 3rd, 2015 letter from their insurance, Solutions Insurance Company, reporting their modification rate followed by a March 9, 2015 letter from Original Roofing stating that they have no OSHA violations.

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

COUNSEL STEWART: No.

MEMBER TIBERTI: No, we can hear you.

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

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

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

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

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

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

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

So you wanted some recommendations with respect to, you know, how could all of the needs from -- how can we get sufficient funding to take care of all of these deferred maintenance needs, and also that we've been seeing some recommendations that you also actually you wanted an analysis. And actually, I believe looking back through the minutes, you also asked for a PowerPoint presentation back to the board with some recommendations from the staff as to how to proceed that you could discuss and then finalize and then make a recommendation to the administration as to what should be done in these areas.

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

We need to find here, hopefully toward the end of the session, things will slow down a little bit for us and we can work on these items and get back with you on all of these things and bring you back the PowerPoint presentation that you requested with our analysis on all of these matters and probably the results of this survey and then start generating some recommendations for you to consider and discuss with respect to what you may want to tell the administration these are the issues. Here are some solutions that we're recommending.

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

ADMINISTRATOR NUNEZ: Kind of.

CHAIRMAN METCALF: Well, that sounds reasonable.

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

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

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

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

CHAIRMAN METCALF: Did you say four minutes?

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

The Statewide Cost Allocation Plan. Next slide, please.

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

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

Okay. Next slide, please. On this slide, I'm showing you what the central services are for the

State of Nevada. See we have the controller's office, treasurer's office, and so forth, and then down at the bottom here is buildings. So I assume that's what we're most interested here today.

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

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

Most buildings in the SWCAP, about $20 million-dollars worth, are allocated to the Department of Corrections, so it's the cost of all of the prisons. Corrections is general funded, so we don't actually recover that. I hope that makes sense that, you know, they're already a general-funded operation. Why recover money from them just to put it back in the general fund. We just have to give them more general funds to pay it right back.

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

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

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

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

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

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

MEMBER TIBERTI: No.

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

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

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

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

COUNSEL BENSON: To include that language?

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

COUNSEL BENSON: To issue an RFQ?

COUNSEL STEWART: Correct.

COUNSEL BENSON: Okay. Got you.

CHAIRMAN METCALF: Did I go far enough?

COUNSEL STEWART: Yeah.

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

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

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

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

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STATE OF NEVADA,)
)
CARSON CITY.)

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

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

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

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

NICOLE ALEXANDER, NV CCR #446

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