

MINUTES OF THE
MARICOPA ASSOCIATION OF GOVERNMENTS
JOINT MAG REGIONAL COUNCIL EXECUTIVE COMMITTEE
AND THE BUILDING LEASE WORKING GROUP

January 8, 2007

MAG Offices, Cholla Room
302 North 1st Avenue, Phoenix, Arizona

MEMBERS ATTENDING

Mayor James M. Cavanaugh, Goodyear, Chair
* Mayor Mary Manross, Scottsdale, Vice Chair
Mayor Joan Shafer, Surprise, Treasurer
Mayor Steven M. Berman, Gilbert

Mayor Keno Hawker, Mesa
Mayor Thomas L. Schoaf, Litchfield Park
Councilmember Peggy Neely, Phoenix

BUILDING LEASE WORKING GROUP MEMBERS ATTENDING

Mayor Keno Hawker, Mesa, Chair
Mayor James M. Cavanaugh, Goodyear

* Councilmember Ron Clarke, Paradise Valley
Frank Fairbanks, Manager, City of Phoenix

PARTNERING AGENCIES ATTENDING

Steve Olson, Arizona Municipal Water
Users Authority

Bryan Jungwirth for David Boggs,
Valley Metro
Rick Simonetta, Valley Metro Rail

* Not present

Participated by videoconference or telephone conference call

1. Call to Order

The Executive Committee and Building Lease Working Group meeting was called to order by Chair James M. Cavanaugh at 12:00 p.m. Chair Cavanaugh stated that Mayor Shafer was participating in the meeting by telephone. He noted that addenda to the agenda, items #5D and #11 were at each place. Chair Cavanaugh stated that public comment cards were available for those members of the public who wish to comment. He noted that transit tickets were available from Valley Metro for those using transit to come to the meeting. Parking validation was available from MAG staff for those who parked in the parking garage.

2. Call to the Audience

Chair Cavanaugh noted that according to MAG's public comment process, members of the audience who wish to speak are requested to fill out the public comment cards and stated that there is a three minute time limit. Public comment is provided at the beginning of the meeting for items that are not on the agenda that are within the jurisdiction of MAG, or non-action agenda items that are on the agenda for discussion or information only. Chair Cavanaugh stated that no public comment cards were received.

3. Update on the Regional Office Center

Chair Cavanaugh turned the gavel over to Mayor Hawker for the Building Lease Working Group meeting. Mayor Hawker introduced Denise McClafferty, MAG Management Analyst, who began the update on this item.

Ms. McClafferty stated that the Executive Committee and Building Lease Working Group were last provided an update on the progress of the Regional Office Center on October 16, 2006. At that time, the Executive Committee authorized further indemnification to Kaye/Ryan for the development of a refined schematic design package. Ms. McClafferty stated that the schematic design package was then advertised to the subcontracting community to receive construction cost bids. She said that MAG staff was provided with a total cost of \$91 million based on the schematic design package.

Ms. McClafferty stated that a value engineering process was conducted, which included both hard and soft costs, and three cost options were developed. She noted that these three options were included in the memorandum in the agenda packet. Ms. McClafferty explained that Option A would eliminate an office tower floor and the underground parking level. The cost of Option A is approximately \$79 million. She said that Option B would include retaining the initial gross square footage and the tenant improvements for all growth space. The cost of Option B is approximately \$86 million. Ms. McClafferty stated that Option C would include retaining the initial gross square footage but eliminates the tenant improvements on the sixth floor. The cost of Option C is approximately \$85 million. Ms. McClafferty stated that all three options include cost savings from the value engineering process.

Ms. McClafferty stated that in the interim since the agenda was mailed, an Option D had been developed for a total of \$86.9 million. She explained that it was developed after staff had discussions with each partnering agency director to update them on the estimated building cost and the value engineering process. Ms. McClafferty stated that the Directors felt it would be a good idea to not eliminate an office tower floor because of growth, and this would most likely not allow the elimination of a parking level.

Ms. McClafferty stated that when this project began in January 2005, the goals were the same as they are today: To build a regional office center that would house regional agencies and be convenient for elected officials and the public; to build a conference center that could accommodate all four regional agencies' meetings and that would provide the convenience and security for elected officials to attend these meetings; building a parking garage that would provide secure parking for elected officials and accommodate the agencies' meetings.

Monique de los Rios-Urban, MAG Senior Program Manager, provided a review of the renderings of the building as included in the schematic design package. Ms. de los Rios-Urban spoke about the amenities that could be provided by the building, such as proximity to light rail, I-10, and arterials, and secure parking for elected officials.

Ms. de los Rios-Urban stated that when the value engineering process was conducted, approximately 50 items were proposed to be eliminated. Among these items, one office tower level and one parking level were proposed to be eliminated. She advised that after discussion with

agency directors, it was decided that the office tower floor and the parking level would be retained in the program. Ms. de los Rios-Urban described the features of the building, including a four-level parking garage with 570 spaces plus a secured underground level of 100 spaces for member agency officials' use and 40 spaces for residents of the adjacent mixed-use project; a 42,000 square foot conference center; a 200,000 square foot, six-story office tower; and a rooftop terrace. She noted that Kaye/Ryan have proposed a residential wrap project that will be developed concurrently with the regional office center.

Ms. de los Rios-Urban noted that in designing the building, it was important to conform with the City of Phoenix Transit-oriented Development Guidelines, the Downtown Development Guidelines, and proposed Urban Form Study. She spoke about the facade design features that reduce energy consumption. Ms. de los Rios-Urban stated that a space of approximately 4,000 square feet to house a restaurant or retail is planned at the street level. She noted that translucent glazing for the building is proposed to avoid the closed-in look. The street level perimeter is recessed and trees are proposed to provide shading.

Ms. de los Rios-Urban stated that the 50 items considered for elimination represented about \$10 million. She said that one item that was kept with minor modifications was the design of the east tower facade to retain energy efficiency. Ms. de los Rios-Urban advised that no major concessions were made to the conference center or to the tenant improvements budget. She also noted that the rooftop terrace was retained, but some of the materials were modified, as well as xeriscape garden on the fifth floor Conference Center. Ms. de los Rios advised that the value engineering process resulted in a \$3.9 million reduction.

Ms. de los Rios-Urban showed more views of the building and explained the parking access. She noted that reducing the 4,000 square foot lobby was proposed, but the agencies decided to retain the original design. Ms. de los Rios-Urban stated that the television studio would be kept on the street level, but buildout and equipment would happen at a later date. She explained that no compromises were made to the Conference Center, because that is a signature part of the building. Ms. de los Rios-Urban stated that it has 18 corporate meeting rooms. Within this is a hi-tech Regional Council chamber, and three Boards of Directors meeting rooms. Ms. de los Rios-Urban stated that ballroom, which can be divided into six meeting rooms, could accommodate 300 people. There is a 5,000 square foot hospitality area for breakout rooms and reception, restrooms, a kitchen, and a training room. She displayed the areas accessible only to staff and those accessible by the public. Ms. de los Rios-Urban noted that the conference facility is designed with state-of-the-art audio visual technology.

Mayor Berman asked why residential units were included. Ms. de los Rios-Urban replied that the Roosevelt Historic Neighborhood is adjacent to the building site and from the beginning of the process, the neighborhood was included in discussions. She advised that it was important to the neighborhood to have a residential or combined office/residential component. Ms. de los Rios-Urban stated that staff followed City of Phoenix guidelines of the downtown core and wanted to introduce a mixed use development. Ms. de los Rios-Urban also noted that the site is actually two different parcels and Kaye/Ryan would retain the parcel on the west side of the development for the residential component. Mayor Berman asked for clarification of the residential parking arrangements. Ms. de los Rios-Urban stated that the 40 residential stalls are proposed to be integrated into the underground parking level. Dennis Smith noted that the proposed residential

development would face the historic neighborhood. He commented that it was better to accommodate their parking to get as much office space and parking as possible.

Mayor Hawker asked if the residential vehicles would have direct access from their units to the parking garage. Ms. de los Rios-Urban replied that preliminary plans show that access will be directly from the underground parking to the residential component. Mayor Hawker noted that the material included two different costs for the land—\$6 million and \$9 million. Mr. Smith stated that the land price is negotiable and staff thinks \$6.85 million would be used for the negotiations. Mayor Hawker asked how that negotiation would be handled. Mr. Smith stated that the project team would handle the negotiations. Mayor Hawker stated that he was not overly excited about the slits on the outside wall of the parking garage. Ms. de los Rios-Urban stated that the redesign will be part of the design development package and will be revisited. Mayor Hawker asked about window coverings. Ms. de los Rios-Urban replied that the tenant improvements component includes window coverings for the entire building.

Mayor Hawker commented that he was surprised at the number of breakout and conference rooms. He asked how that number was determined. Ms. de los Rios-Urban replied that before the schematic design was developed, staff, working collaboratively with the other agencies, developed a matrix to understand the nature of the meeting room demand. Ms. de los Rios-Urban stated that this matrix was also used to determine the final number of parking spaces. Ms. McClafferty noted that the AMWUA and RPTA meet on the same day. Each agency having a board room makes it easier to move from one meeting to the other without delay or disruption.

Mayor Shafer asked if staffs have had an opportunity to review this because they are the ones who will be working there. Ms. de los Rios-Urban noted that at the beginning of the process, staff from all agencies participated in the exercise to determine their needs. This input was entered into the matrix and considered as the schematic design was developed.

Mayor Hawker said that he thought there would be some synergy to eliminate duplication of rooms and staff. He commented that he was surprised and disappointed that each agency would have its own board room.

Mayor Cavanaugh commented that he thought the building was first class and the conference center is superb. He stated that he was very supportive of this project. Mayor Cavanaugh asked for clarification that the \$3.9 million was the value engineering after coordination with tenants. Ms. de los Rios-Urban replied that was correct. She said that staff had meetings with agency directors during the value engineering process and received their input. Ms. de los Rios-Urban noted that the result of the value engineering was a \$3.9 million reduction. Mayor Cavanaugh remarked that the preliminary cost was \$78 million. Mr. Smith replied that was the informal number provided by Kaye/Ryan at the beginning of the process, but the refined number was higher. Mayor Cavanaugh asked if the next presentation would be about the ability to afford that. Mr. Smith replied that was correct.

Mr. Fairbanks stated that he was impressed that the building gives the image of being open, progressive, and future-oriented, which is aligned with the image of the organizations. He added that consideration might be given that those in the historic neighborhood along Second Avenue might not appreciate progressive and modern. He suggested that an historic facade, which is

relatively inexpensive, be added to the residential face. Ms. de los Rios-Urban noted that this is an important point to consider and added that the design is very schematic sketch level. She noted that within this neighborhood is the Portland Place project, which is very modern.

Al Dreska, Senior Project Director for 3D International, addressed the Committee. He said he has been assisting in managing the project since July 2006. In addition, he assisted in the value engineering and plan review process, and completed a cost estimate to evaluate the cost proposal submitted by Kaye/Ryan. Mr. Dreska stated that the focus has been construction and design costs. He said that one factor is the timing and duration of construction. Mr. Dreska noted that in the past year, construction costs were escalating at the rate of one-half of one percent per month. He advised that there has been some stabilization, but material costs are still volatile. Mr. Dreska stated that upon review, his firm found the overall costs are reasonable for the nature and location of the project at this time. He added that his firm's cost estimate exceeded Kaye/Ryan's proposal by 7.5 percent.

GeeGee Entz, Coldwell Banker, provided a list of actual tenant leases signed for Class A office space in the past six months. The sources were Cushman Wakefield, the broker representing Renaissance One and Two, and CB Richard Ellis. Ms. Entz stated that leases ranged from a low of \$28.25 to a high of \$42 per square foot, with an escalation every year. She advised that when renewals have been coming up in the downtown market, there have been huge increases. Ms. Entz noted that the Class A downtown vacancy rate is 5.2 percent, and 6.3 percent overall, and is not increasing. Ms. Entz stated that an important factor to consider is that the agencies would own a building. She mentioned that the selling price for One Renaissance increased \$8.8 million from March to June 2005. Ms. Entz stated that having a building 100 percent leased for 30 years adds value to a building. She explained that \$86 million based on a seven percent return equals more than \$108 million, and seven percent is a conservative figure. Ms. Entz commented that it is not just the cost, but the equity value in the building.

Rebecca Kimbrough, MAG Fiscal Services Manager, presented an update on costs. She reviewed the assumptions used in the analysis. Ms. Kimbrough stated that a cost of \$86.9 million for the building and the land was used. The owners are MAG, RPTA, Valley Metro Rail, and AMWUA; non-owners are considered the conference center, the rooftop terrace, the TV studio, and the regional hub. Ms. Kimbrough stated that costs are allocated to owners and non-owners for shell and tenant improvement costs. She explained that costs are allocated to owners only for land costs and other costs such as garage, retail space, green wall, UPS system, employee showers, etc. Ms. Kimbrough noted that revenue reimbursements on parking, retail space, and leasing extra space were not included in this estimate. The reimbursement to the owners of the residential parking spaces was included.

Ms. Kimbrough stated that the average annual cost estimate for MAG is \$3.7 million, or \$34 per square foot, and includes the conference center, rooftop terrace, TV studio, and regional hub. The average annual cost for RPTA is estimated at \$2.5 million, or \$36 per square foot. The average annual cost for Valley Metro Rail is \$1.8 million, or \$36 per square foot. The average annual cost for AMWUA is estimated at \$350,000, or \$37 per square foot.

Mayor Hawker asked for clarification of how the cost per square foot was determined. Ms. Kimbrough replied that staff had the cost estimate for the conference center and the MAG tenant

improvements. They took the cost and square footage and allocated among the owners spaces such as the parking garage, shared spaces, and land. This was done on a 30-year average.

Mr. Fairbanks asked if the per square foot costs were in today's dollars which would be inflated, or were they the first year cost when the building is completed. Ms. Kimbrough replied that these prices are in today's dollars. She added that a present value has not been completed because the numbers had only been received Friday.

Mr. Jungwirth asked if the analysis included the capital and operating costs of the space but did not include the offsets of revenue. Ms. Kimbrough replied that was correct. They included a debt reserve return assumed at 4.25 percent. She noted that the repurchase of the parking spaces for the west side residential was included, but any estimated revenue from leasing retail space was not included.

Mayor Hawker asked if the partially shelled portion of the building was to remain empty and would be allocated among all owners. Ms. Kimbrough replied that the shelled space was allocated to RPTA and Valley Metro Rail for their projected growth. This was allocated on a basis of the original program. About 12,515 square feet were not included in the tenant improvements at that point and that was the number that was used. Mayor Hawker asked if those agencies could rent or lease that space in the interim. Ms. Kimbrough replied that at this point, this has not been extensively discussed with RPTA and Valley Metro Rail.

Mr. Jungwirth asked if they did tenant improvements, would that space be at the same rate proposed. Ms. Kimbrough replied that half of the floor would be improved. The \$36 estimate is not tenant improved estimates, and includes all costs of land, operating costs, etc. Ms. Kimbrough stated that the tenant improvement costs are separate. Mr. Jungwirth asked if the effective rate would lower if they did the tenant improvements. Ms. Kimbrough replied that was correct, because they would have more square feet from which to allocate the costs.

Mayor Cavanaugh asked for clarification of the amount from MAG for principal and interest. Ms. Kimbrough replied the amount was on average \$3.7 million annually. Ms. Kimbrough stated that MAG is currently at \$22 per square foot, which does not include parking or offsite storage costs. She commented that MAG would be at the break-even point in 2029 if they stay in the current building. She stated that with Class A downtown space estimated at \$33 per square foot, there is no break even point with a purchase.

Mayor Hawker asked the amount of parking and storage costs. Ms. Kimbrough replied that MAG enjoys a good rate on its current 2.5 year lease. She said she was unsure what MAG would pay for parking at the end of the lease.

Councilmember Neely asked if the cost of the conference center would be shared among all users or just MAG. Ms. Kimbrough replied that the conference center cost was broken out separately so the cost could be allocated differently later. Currently, the analysis shows MAG taking on the cost. Mr. Smith stated that meeting space was discussed a few times with the agency directors. MAG is the principal user and because of the equipment, MAG would request ownership and have a type of chargeback. He noted this could be minimal to the other agencies because MAG has a better opportunity to pay for the space with federal funds than the other agencies.

Ms. Kimbrough displayed a graph that showed the costs each year for 30 years. Mayor Hawker asked if a combined analysis with existing leases had been done. Mr. Smith stated that the average annual cost for the space MAG has now is \$750,000 per year. If MAG expands in this building to the fourth floor and the bank space that would total 44,000 square feet at a cost of \$1.3 million per year. To try to find the same space as MAG is trying to build, the cost would be \$3.5 million per year. A custom building would be \$3.7 million per year. Mr. Smith stated that the City of Phoenix has been gracious about offering the fourth and first floors to MAG, but the problem with staying in the current building is MAG probably has a horizon of 10 years here. He commented that a decision will need to be made at some point.

Mayor Hawker stated that Proposition 400 is a 20-year tax, but the analysis covers a 30-year period. Ms. Entz stated that a 20-year projection also had been done. Mayor Hawker stated that 15 years will be left on the tax by the time the agencies moved in and wondered how that would work. Mr. Smith stated that MAG has a greater funding stream than the other agencies. MAG has an indirect cost rate that could be used.

Mayor Hawker asked how much of Proposition 400 revenue is locked in as far as planning money. Mr. Smith noted that approximately \$4 million is assigned for administration from Proposition 400. He commented that the question is whether MAG will be around, and added that in April 2007, MAG will celebrate its 40th anniversary. Mr. Smith replied that no action was being requested today from the Executive Committee, but if there was consensus, the next step would be to make presentations to each individual board to show them their costs. Mr. Smith noted that every delay costs money. He expressed his appreciation for all of the effort on the building to the City of Phoenix, the partnering agencies and to MAG staff. Mr. Smith stated that Jack DeBolske, the former Secretary of MAG, said recently during a meeting that MAG needs to build the building. Mr. DeBolske went on to say that when the League was going to build its building they could not afford it, but it ended up being the best decision they ever made. Mr. Smith noted that the worst case scenario, the building would be an asset to sell.

Mayor Hawker asked what parts of the building would not be marketable. Ms. Entz replied that the conference center and the TV studio would be the most obvious. However, those could be remodeled. She added that this would depend if the agencies were staying when the building was sold. Ms. Entz said that having tenants with a 20-year commitment means a higher return on investments.

Mayor Hawker asked how the sequence of costs worked until there was full occupancy. Ms. Entz replied that there are two years until the building would be ready for occupancy. She advised that it would be very easy to sublease the space. Because of the low rate and the long lead time the leases are very marketable. Ms. Entz commented that she foresees all agencies being able to move into the building when it is ready for occupancy. Mr. Smith added that RPTA's and MAG's leases expire at the same time. Valley Metro Rail has a need for consultant space, and they could use their existing space for that purpose. Mr. Smith noted that AMWUA has the bigger issue because its lease runs until 2009 or 2010.

Mayor Hawker asked about an increase in dues to finance the building. Mr. Smith replied that no increase in MAG dues is projected. The only increase planned is the usual increase based on an annual inflation factor. Mr. Smith stated that MAG has approximately \$3.5 million allocated in

the TIP for studies each year. Because revenues have been higher, MAG released it last year and has been able to handle costs with federal revenue. Mr. Smith said that staff feels that if overhead increases, much of it could be absorbed with federal funds. He added that this is why MAG has proposed to absorb the conference center, which helps out Valley Metro Rail and AMWUA.

Councilmember Neely expressed concern that inaction could result in a higher interest rate. She stated that she hoped the interest rate would be the same in six months. Councilmember Neely commented on the need to move forward with the project.

Mr. Fairbanks stated that the reality is that MAG will be more important than ever because there are more and more issues on which the cities and towns collaborate. He added that more freeway miles and buses will be needed. Mr. Fairbanks stated that in the long run, this building will help the member agencies work together better and help build a better region.

Mayor Cavanaugh asked for clarification of the ownership of the residential portion. Mr. Smith replied that David Kaye is the landowner, who has entered into an agreement with Ryan. He will be the owner and take the risk to build the units. Mayor Cavanaugh asked if retail and parking would be revenue sources. Mr. Smith replied that employees would be charged for parking, but that charge has not yet been determined.

Mayor Cavanaugh asked for clarification if the \$1.5 million per year for 44,000 square feet was current or in the future. Ms. Kimbrough stated that increasing MAG's space to 44,000 square feet would happen incrementally. She noted that the City of Phoenix provided an opportunity to MAG to increase its space by offering the fourth floor and the bank on the first floor of the current building.

Mayor Cavanaugh expressed that he was in favor of moving ahead with the building, but was concerned that the cost differential doubles and will be that every year. Ms. Entz stated that in the cost differential between leasing vs. owning, the cost per square foot is less to own than to lease. She also noted that costs continue to rise.

Mayor Schoaf asked about the square footage that MAG will need. Mr. Smith replied that costs are increasing because there is much more space. The conference center is a superior facility to what MAG currently has. He stated that MAG would be going from 25,000 square feet to 110,000 square feet and needs 44,000 square feet today. Mr. Smith noted that staff believes the conference center will be full from the day it opens. He added that it would not be used by MAG staff alone, but by all agencies. Mr. Smith explained that member agencies currently use MAG meeting rooms, especially the Saguaro Room, for their meetings.

Mayor Schoaf stated that MAG's space would be 110,000 square feet, the conference center is 42,000 square feet, leaving almost 70,000 square feet. He asked if that 70,000 would be office space or did it include common areas and how the 70,000 square feet compares to the current need of 44,000 square feet. Rita Walton, MAG Information Services Manager, who worked on the cost analysis, explained that the 70,000 square feet are gross square feet; the net square feet for the MAG offices is just over 39,000 square feet. Ms. Walton stated that the conference center is 42,000 square feet, and the TV studio, regional hub and rooftop terrace total another 6,000 square feet. Also included in the 70,000 square feet are the lobbies, elevators, some of the garage space,

etc. Ms. Entz noted that the conference center, even though MAG would be paying for it, is for all agencies' use.

Mayor Schoaf stated that costs would be increasing \$2 million per year and it appears MAG would not be getting that much more space than a conference center and a nicer lobby area. He asked how does this kind of increase fit in with the budget. Mr. Smith replied that MAG has been frugal. The federal funds have increased every year and MAG does not spend those funds just because they have them. Mr. Smith commented that this allows MAG to release STP dollars. He said that MAG has in excess of \$3 million each year. The idea is to spend the federal money first, then the sales tax, then use STP funds depending on the studies needed. Mr. Smith stated that staff thinks this will handle the cost.

Mayor Cavanaugh asked if there were any restraints on the use of federal funds. Ms. Kimbrough replied that staff met with Federal Highway Administration, who indicated that federal funds could be used for the building but not for the land.

Mr. Fairbanks stated that the City of Phoenix tried to be a good partner by being helpful to MAG. He noted that this building is Class B space and is owned by the City of Phoenix Transit Department. Mr. Fairbanks noted that the City has been approached by potential tenants because it has parking and downtown parking is limited. He advised that the City could make more money leasing MAG's space to others and added that they had another use for the other floors but offered them to MAG. Mr. Fairbanks stated that in a few years, MAG's rate will need to be increased to reflect the downtown market. He said that the City is part of the team, but cannot be put in the position of handing out a subsidy.

Mayor Hawker stated that there seemed to be interest in moving forward on the project and making presentations to the partners' Boards and then to the Regional Council.

4. Adjournment of the Building Lease Working Group

The Building Lease Working Group meeting adjourned at 1:20 p.m.

5. Approval of Executive Committee Consent Agenda

Chair Cavanaugh stated that public comment would be heard before action was taken on the consent items. Each speaker is provided with a total of three minutes to comment on the consent agenda. After hearing public comments, any member of the Committee can request that an item be removed from the consent agenda and considered individually. Chair Cavanaugh stated that agenda items #5A, #5B, #5C, and #5D were on the consent agenda. Chair Cavanaugh noted that no public comment cards had been turned in.

Chair Cavanaugh asked members if they had questions or comments on any of the consent agenda items. No comments were noted.

Mayor Hawker moved to approve consent agenda items #5A, #5B, #5C, and #5D. Mayor Schoaf seconded, and the motion carried unanimously.

5A. Approval of the November 13, 2006 Executive Committee Meeting Minutes

The Executive Committee, by consent, approved the November 13, 2006 Executive Committee meeting minutes.

5B. Status Update on the June 30, 2006 Single Audit and Management Letter Comments, MAG's Comprehensive Annual Financial Report (CAFR) and OMB Circular A-133 Reports (i.e., "Single Audit") for the Fiscal Year Ended June 30, 2006

The Executive Committee, by consent, recommended acceptance of the audit opinion issued on the MAG Comprehensive Annual Financial Report and Single Audit Report for the year ended June 30, 2006. The public accounting firm of Deloitte & Touche LLP has completed the audit of MAG's Comprehensive Annual Financial Report (CAFR) and Single Audit for the fiscal year ended June 30, 2006. An unqualified audit opinion was issued on December 28, 2006 on the financial statements of governmental activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information. The independent auditors' report on compliance with the requirements applicable to major federal award programs, expressed an unqualified opinion on the Single Audit. The Single Audit report indicated there were no reportable conditions in MAG's internal control over financial reporting considered to be material weaknesses, no instances of noncompliance considered to be material and no questioned costs. The Single Audit report had no new or repeat findings. No new or repeat Management Letter comments were issued for the fiscal year ended June 30, 2006.

5C. Amendment of Valley Metro Rail Contract

The Executive Committee, by consent, approved amending the Valley Metro Rail contract to increase the budget by \$60,000 to have ASU, Department of Civil and Environmental Engineering collect and analyze parking and mode usage data at ASU campuses. The FY 2007 MAG Unified Planning Work Program and Annual Budget, approved by the Regional Council in May 2006, includes a work element to study the 58-mile light rail system configuration. Valley Metro Rail is responsible for this task. The MAG Travel Demand Model is being used to update the demand projections. A peer review of the model was conducted in October 2006. One of the short term action items resulting from the review requires collection and analysis of data related to parking and mode usage at ASU campuses. The data is crucial for timely update and calibration of the MAG model and production of the updated travel projections. Timing of this data collection exercise is predetermined by ASU scheduling. It is important to initiate the study in January 2008 in order to obtain reliable and usable data sets that cover travel patterns at ASU campuses. MAG approached ASU and identified ASU faculty who can be instrumental in collecting ASU data and conducting the study. This consultant would collect the data required, analyze it and provide advice to Valley Metro Rail and MAG for relevant model refinements that had been recommended through the peer review process.

5D. Amendment to T&B Systems Contract

The Executive Committee, by consent, approved the amendment to the T&B contract to add \$15,000 for a new total contract amount of \$180,000. MAG is conducting a PM-10 Source Attribution and Deposition Study to identify the sources that contributed to violations of the

federal air quality standard for PM-10 during stagnant conditions in 2005 and 2006. This information is critical in selecting control measures for the Five Percent Plan that will be most effective in attaining the PM-10 standard at monitors in the nonattainment area. MAG contracted with T&B Systems in June 2006 to perform particulate and meteorological monitoring and analysis for this study for a total cost of \$165,000. The MAG contract with T&B Systems does not currently have funding for presentations on the field work. MAG staff is recommending that T&B present preliminary results to the Air Quality Technical Advisory Committee (TAC) on January 11, 2007. These results will be useful to the Air Quality TAC in developing effective control measures for the Five Percent Plan for PM-10. Additional presentations may be necessary before the T&B Systems contract ends in May 2007. MAG staff recommended that the current contract with T&B Systems be amended to add \$15,000 for presentations by T&B Systems.

6. Discussion of the Development of the FY 2008 MAG Unified Planning Work Program and Annual Budget

Ms. Kimbrough addressed the Committee on the development of the FY 2008 Unified Planning Work Program and Annual Budget. Ms. Kimbrough stated that the draft Dues and Assessments were included in the agenda packet and were based on the average Consumer Price Index (CPI) for urban areas. She advised that the FY 2008 Dues and Assessments were estimated using a 3.2 percent inflation factor and will be revised upon receipt of the December 2006 CPI-U estimate. Ms. Kimbrough stated that the proposed budget production timeline was also included in the agenda packet. The timeline notes opportunities for early input into the development of the Work Program and Budget. Ms. Kimbrough noted that the Work Program will be presented monthly to the Management Committee, Executive Committee and Regional Council. Approval of the Work Program is anticipated in May 2007. Chair Cavanaugh thanked Ms. Kimbrough for her report. No questions from the Committee were noted.

7. Regional Planning Dialogue Update

Mr. Smith stated that at its December meeting, the Regional Council approved moving forward with the Statewide Intrastate Mobility Reconnaissance Study that was recommended by the COG/MPO Chairs and Directors. He said that the Scope of Work has been prepared and was distributed for review by the COG/MPO Directors and business leaders. Mr. Smith stated that the COG/MPO Directors will discuss the Scope at its meeting on January 10, 2007, after which the Request for Proposals will be advertised. He stated that the next step will be a meeting of the statewide group in March, followed by the selection of a consultant by the MAG Regional Council.

Mayor Hawker asked about ADOT's interaction with the study. Mr. Smith replied that ADOT had contributed \$72,000 to the study and will be at the table for the Scope. Mayor Hawker asked the time horizon of the study. Mr. Smith replied that the focus of the study is a short-term reconnaissance to determine the choke points and then the consultant would develop the strategy for a long-term framework. Mayor Hawker commented that if this ties into the federal transportation initiatives, there might be some funding. Bob Hazlett, MAG Senior Engineer, noted that this possibility exists, provided a long-term planning horizon is evaluated, much like the framework studies that MAG has underway in the Hassayampa and Hidden Valleys.

8. Federal Transportation Initiatives

Matthew Clark, MAG Senior Policy Planner, stated that in May 2006, the U.S. Department of Transportation (USDOT) announced its National Strategy to Reduce Congestion on America's Transportation Network. He said that two programs have been announced. The first program is the Urban Partnership. Mr. Clark explained that the USDOT is looking for three to five regions to partner on developing a plan for tolling, transit, telecommuting, and technology to handle congestion. He stated that the USDOT has indicated it will provide expertise, technical knowledge, and financial subsidies to implement the technologies. Mr. Clark stated that for the partnership, businesses will need to agree to telecommuting strategies and political cooperation on what types of congestion policies could be put into place. He noted that the deadline for submission is April 30, 2007.

Mr. Clark stated that the second program is the establishment of a "Corridors of the Future" competition. He noted that this competition ties into the River of Trade Corridor Coalition (ROTCC). Mr. Clark explained that the ROTCC is in the process of assembling a multi-state coalition to advocate for increasing traffic flow and trade movement in the River of Trade Corridor, which includes I-10. He stated that in June 2006, the ROTCC asked MAG to become a partner in the coalition. Mr. Clark noted that membership in ROTCC would require that MAG host one event, which would involve an evening reception, a breakfast, an afternoon meeting and a dinner. He said that the cost is estimated at approximately \$7,000.

Mr. Clark stated that the goal of the ROTCC is to assemble a coalition that could speak as one and advocate for additional funding to start to mitigate congestion along the corridor emanating from Long Beach, California. He stated that MAG has worked with the ROTCC in their submittal to the Corridors of the Future competition, which has now closed. Mr. Clark stated that the next stage of finalists will be announced soon. He added that Chair Cavanaugh had sent a letter in support of the River of Trade to the Transportation Secretary, Mary Peters. Mr. Clark noted that MAG has not yet become a member of ROTCC, but the invitation is open and MAG has offered to work with them cooperatively.

Mr. Clark stated that as part of SAFETEA-LU, a commission was established that will travel the country and listen to states on their ideas on how to better fund future transportation needs. He said that MAG offered a seat at the upcoming hearing in Long Beach and is working on putting together some draft testimony that will be delivered by Victor Mendez, the ADOT Director.

Chair Cavanaugh stated that it is time for a decision if MAG will join the ROTCC. He remarked that he did not see a downside to joining, and added that Mayor Manross had asked him to pass along her support for joining. Chair Cavanaugh asked the Executive Committee to discuss this and pass it up to the Regional Council. He noted that it is important that the testimony and the ROTCC meetings will be in Long Beach at the same time, and this could provide an opportunity for members to meet with them.

Mayor Berman expressed his support.

Mayor Hawker asked the potential gain for MAG by becoming members. Mr. Clark stated that financial commitment is not a part of the national strategy. If a financial commitment does come,

ROTCC has indicated it will ask members to support those routes deemed by the USDOT as the highest areas of need. Mr. Clark mentioned that they hope to include investment in rail, expanded roadway capacity, or a bypass if warranted. Mr. Smith noted that one possibility might be improving SR-85 to a full freeway. He added that SR-85 is frequently used for freight not bound for the metropolitan area.

Councilmember Neely expressed concern that this could take money that may be coming to Arizona anyway, because it might not be Arizona they decide to improve. Mr. Clark stated that staff has spoken to them about this and they understand the problem of being a donor state. He said that staff continues to monitor this concern. Councilmember Neely commented that she would be supportive if they agreed to an above the line financial commitment.

Mayor Hawker asked about the ranking process and what would prevent communities from banding together to promote their projects. Mr. Clark replied that he understood that the goal of the Corridors of the Future competition is to remove politics from the process. He said that the USDOT will review the data and identify areas of need, then apply the necessary tools to mitigate congestion.

Mr. Smith stated that since this item was on the agenda for possible action, the Executive Committee could make a recommendation to the Regional Council, where there could be a broader discussion.

Chair Cavanaugh asked if there were additional opportunities for participation besides ROTCC. Mr. Clark noted that the Corridors of the Future competition was closed and they were not accepting further applications.

Mayor Hawker asked if staff had any recommendation. Mr. Clark replied that there were good and bad points to becoming members. He said that as long as MAG communicates with them, staff feels they could be a good partner to explain the region's needs; however, as with any process, when there are a lot of people in the room, issues get diluted. Mr. Smith commented that above the line is the most important aspect. If it is above the line, then there is strength in numbers.

Chair Cavanaugh commented that ROTCC would not have the authority to undermine MAG's committed funds.

Mayor Hawker brought up that this could impact the funding agreements for the light rail extension. He noted that the extension is in Proposition 400, but a federal match is still needed. Mayor Hawker asked if they could decide to put those federal funds on the River of Trade Corridor. Mr. Smith stated that Federal Highway Administration funds and Federal Transit Administration funds are separate.

Chair Cavanaugh stated that it would be helpful for MAG to visit Long Beach in February and assist Mr. Mendez with the presentations and at the same time interact with the ROTCC. He said he thought he would be making that trip.

Mayor Hawker asked if MAG would be hosting its \$7,000 event during the Long Beach meetings. Mr. Clark replied that MAG's events would be a separate occasion held here, if MAG chooses to join.

Chair Cavanaugh asked members if they would like this to be on the Regional Council agenda. Mayor Hawker agreed with having it on the agenda.

Mayor Schoaf there was any harm to MAG by not participating. Has MAG already joined by assisting with the "Corridors of the Future" proposal? Mr. Clark replied that staff believes they are not doing anything other than turning in the grant proposal. He noted that the MAG region is the largest region along the River of Trade corridor that has not joined the coalition. Mr. Clark stated that adding MAG's name to the membership, especially with Congressman Mitchell as a new member of the Transportation and Infrastructure Committee, might send a strong signal.

Councilmember Neely stated that a White Paper on the ROTCC, including Pros and Cons and a membership list might be helpful.

Chair Cavanaugh commented that because of the concerns expressed with losing funding, he would rather it be addressed at the Executive Committee before passing it on to the Regional Council. He directed that a White Paper could be drafted for discussion at the Executive Committee meeting. Chair Cavanaugh stated he would go to the Long Beach meetings in February and then the item could be presented to the Regional Council.

11. Legislative Update

This agenda item was taken out of order.

Mr. Clark updated members on legislative items of interest. He stated that Senator Burns has drafted legislation to move \$450 million from the state's rainy day fund to the STAN account. He noted that the Appropriations Committee would be meeting January 9th and they hope to have it on the Governor's desk January 12th.

Mr. Clark stated that the City of Tucson is in support of PAG's legislative agenda that includes an indexing bill. He stated that Senator Jay Tibshraeny opened a folder on privatization. The goal of the bill is to modify state statute on tolling and open it up to public/private partnerships, benefit districts, HOT lanes, etc.

Mr. Clark stated that Senator John Huppenthal has held a few transportation meetings with stakeholders. He has spoken about point to point bidding. Mr. Clark noted that the Governor has spoken about a possible change in bonding from 20 years to 30 years to increase flexibility. Mr. Clark advised that extending the bond rating to 30 years may impact ADOT's bond rating, and may be more of a stopgap measure than a permanent fix. He noted that the State of the State address is anticipated to address this in greater detail.

9. Annual Performance Review of the MAG Executive Director

The employment agreement entered into with the MAG Executive Director in January 2003 provided that the Executive Committee conducts an annual performance review in consultation with the Regional Council. On November 14, 2006, the Executive Committee agreed to move forward with the evaluation survey for the MAG Executive Director's performance review. As part of the evaluation, the goals/work emphasis areas and results for the past year are included, along with the proposed goals/work emphasis areas for the coming year.

On November 28, 2005, the survey was sent to the members of the Regional Council to receive their input on the review. A survey was also sent to the members of the Executive Committee. The results of the completed surveys were summarized and will be discussed by the members of the Executive Committee. The Executive Committee will also discuss and provide input on the past and proposed regional goals/work emphasis areas.

The Executive Committee voted to recess the meeting and go into executive session to discuss personnel matters relating to the MAG Executive Director's review and salary at 2:00 p.m. The authority for such an executive session is A.R.S. § 38-431.03(A)(1).

The Executive Committee meeting reconvened to take action regarding the review and make a salary determination. Mayor Schoaf moved to increase the salary of the Executive Director to \$182,500 to be allocated between salary and deferred compensation as he prefers. Councilmember Neely seconded, and the motion carried unanimously.

The action of the Executive Committee will be presented to the Regional Council for ratification.

10. Adjournment

There being no further business, the Executive Committee meeting adjourned at 2:25 p.m.

Chair

Secretary