COLORADO GENERAL ASSEMBLY
JOINT BUDGET COMMITTEE

FY 2016-17 STAFF BUDGET BRIEFING

CAPITAL CONSTRUCTION

JBC Working Document - Subject to Change
Staff Recommendation Does Not Represent Committee Decision

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CAPITAL CONSTRUCTION

Overview

The capital construction section of the Long Bill includes funding appropriated to state departments and higher education institutions for capital construction and controlled maintenance projects.

- *Capital construction* is defined in Section 24-30-1301 (2), C.R.S., and includes purchase of land, construction or demolition of buildings or other physical facilities, site improvement or development, initial purchase and installation of related equipment, and architectural and engineering services for capital projects. House Bill 14-1395 (Information Technology Budget Requests) removed information technology from the definition of *capital asset* and removed references to information technology previously included in *capital construction*. House Bill 15-1266 (Information Technology Budget Request Process) created the Information Technology Capital Account in the Capital Construction Fund for the purpose of funding information technology projects in the capital construction budget from the Capital Construction Fund while keeping such funding distinct.

- *Controlled maintenance* is defined in Section 24-30-1301 (4), C.R.S., and includes corrective repairs or replacement for existing real property "when such work is not funded in an agency's or state institution of higher education's operating budget." Pursuant to Section 23-1-106 (10.2), C.R.S., (added in H.B. 12-1318) higher education academic facilities, even if constructed using solely cash funds, are also eligible for state controlled maintenance funding.

- *Capital renewal* is defined in Section 24-30-1301 (3), C.R.S., and includes a controlled maintenance project or multiple controlled maintenance projects with costs exceeding $2.0 million for corrective repairs or replacement that is more cost effective than smaller individual controlled maintenance projects.

Some key differences between capital construction and operating budget appropriations:

- Pursuant to Section 24-37-304 (c.3), C.R.S., the executive request is first submitted to the Capital Development Committee (CDC). Pursuant to Section 2-3-1304 and 1305, C.R.S., the CDC is responsible for submitting a written report with its recommendations to the JBC. Pursuant to Section 2-3-203 (b.1), C.R.S., the JBC is responsible for making capital construction appropriation recommendations to the appropriations committees and the General Assembly. However, statute requires that if the JBC wishes to prioritize capital projects differently from the CDC, it must meet with the CDC prior to making such recommendations.

- Senate Joint Resolution 14-039 added guidelines and threshold amounts for the categorization of operating, capital, and IT budget requests. Joint rule 45 was added to legislative rules rather than statute to provide greater flexibility for revising guidelines and threshold amounts for categorizing budget requests. Joint rule 45 defines operating, capital, and IT budget requests and specifies that these categories of budget request are reviewed by the JBC, CDC, and the Joint Technology Committee (JTC), respectively. It also establishes a referral process for requests that may be more appropriately reviewed by another committee.

- Although the majority of capital construction funding in the Long Bill originates as General Fund, the General Fund required is transferred into the Capital Construction Fund, and Long Bill appropriations for capital projects are made from the Capital Construction Fund. The transfer from the General Fund to the Capital Construction Fund is authorized through a separate bill in the Long Bill "package".

- Capital construction appropriations become available upon enactment of the Long Bill, and, if a project is initiated within the fiscal year, the appropriation remains available until completion of the project or for a period of three years (instead of one).

- Although controlled maintenance projects receive line-item appropriations, pursuant to Section 24-30-1303.7, C.R.S., the Executive Director of the Department of Personnel, whose authority is typically delegated to the State Architect, has authority to transfer funds from one controlled maintenance project to another, when the actual cost of a project exceeds the amount appropriated or when an emergency need arises.

Department Budget: Recent Appropriations

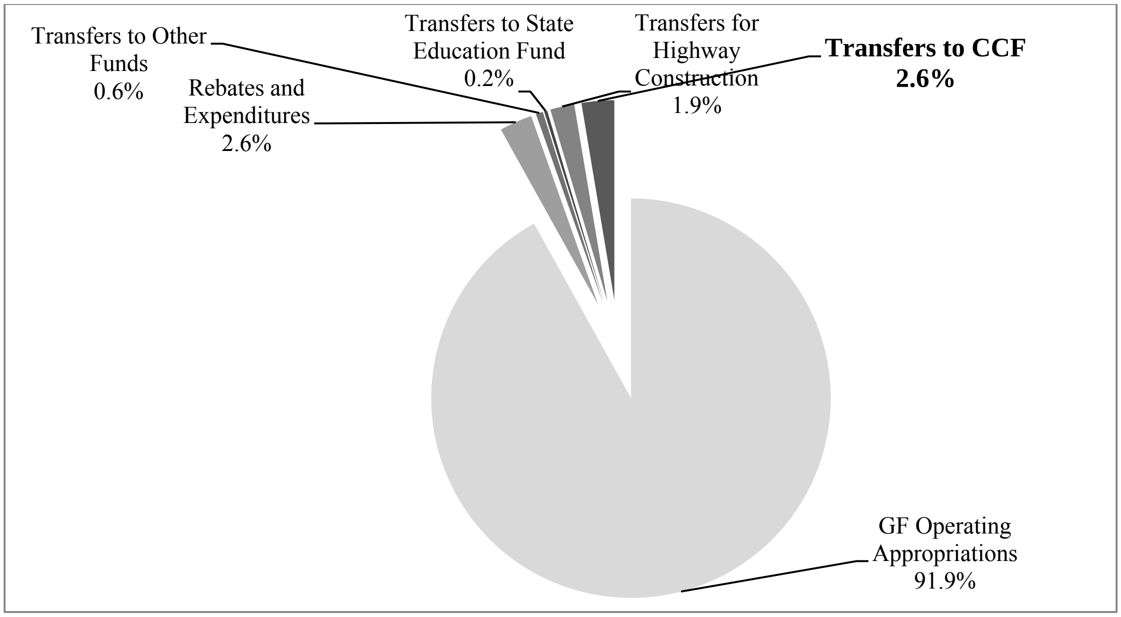
Appropriations for Capital Construction and Controlled Maintenance Projects[1]

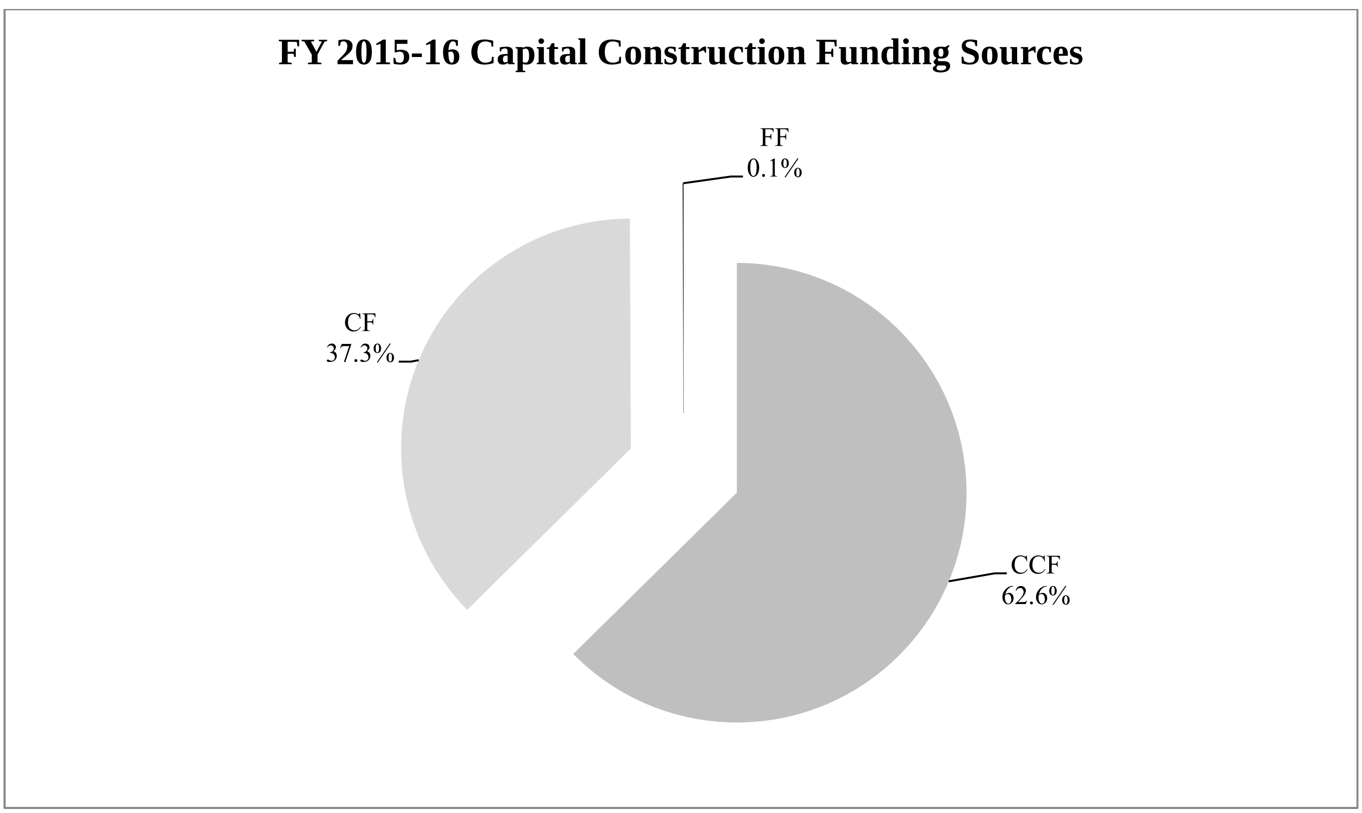
Funding Source	FY 2013-14	FY 2014-15[2]	FY 2015-16	FY 2016-17[3]
Capital Construction Fund	$188,069,493	$364,420,213	$173,798,149	$80,911,171
Cash Funds	86,298,813	116,124,738	103,579,566	79,295,475
Reappropriated Funds	7,113,670	8,566,515	0	0
Federal Funds	2,266,990	3,722,025	192,938	0
Total Funds	**$283,748,966**	**$492,833,491**	**$277,570,653**	**$160,206,646**

[1] Does not include appropriations or transfers to the Capital Construction Fund or Controlled Maintenance Trust Fund or appropriations or requests for Information Technology Projects in FY 2015-16 and FY 2016-17.
[2] FY 2014-15 included $135,335,748 CCF conditioned on receipt of FY 2013-14 General Fund surplus revenue.
[3] Requested appropriation.

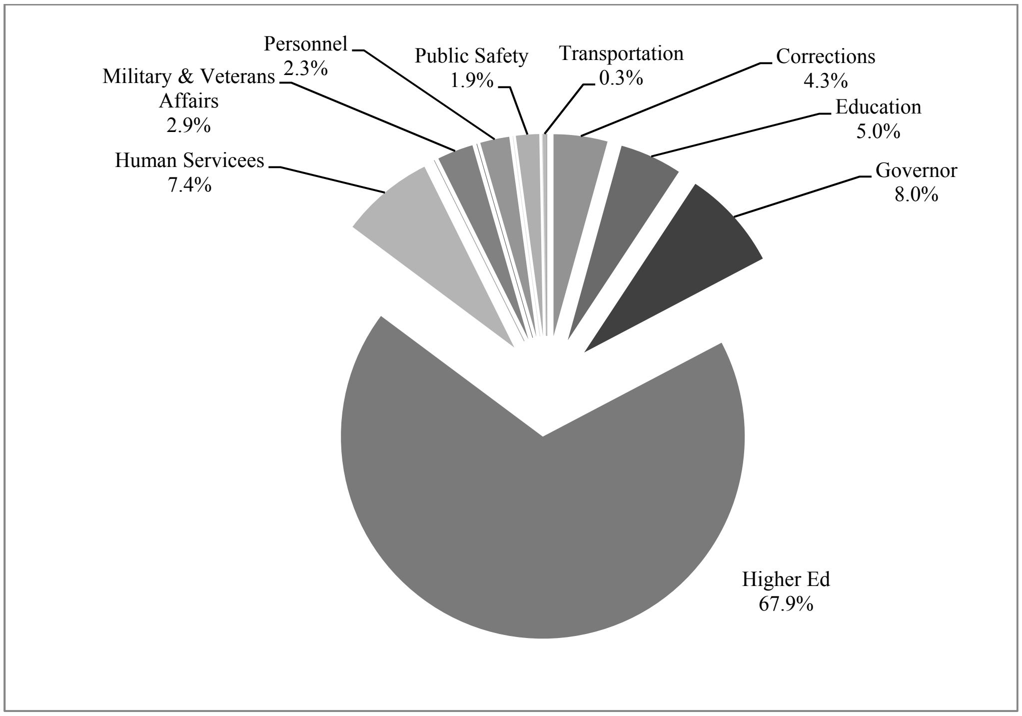
Department Budget: Graphic Overview

FY 2015-16 Share of Total Statewide General Fund Expenditures
Source: September 2015 Legislative Council Staff Forecast

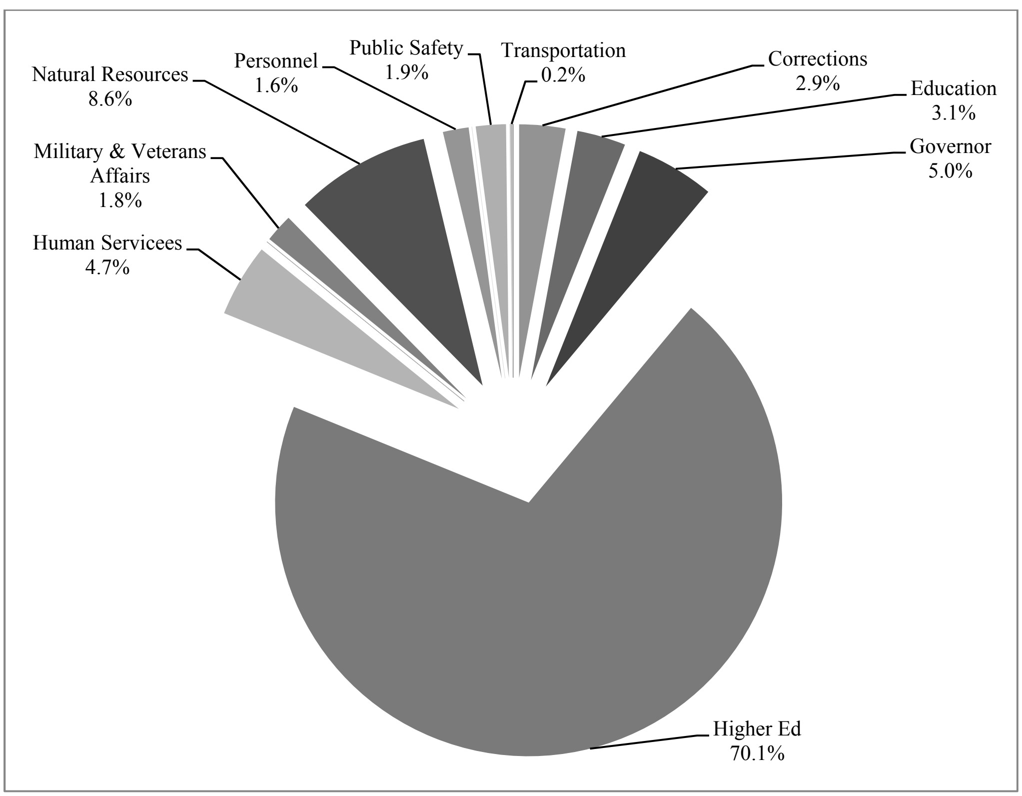




FY 2015-16 Distribution of Capital Construction Fund by Department



FY 2015-16 Distribution of Total Funds by Department

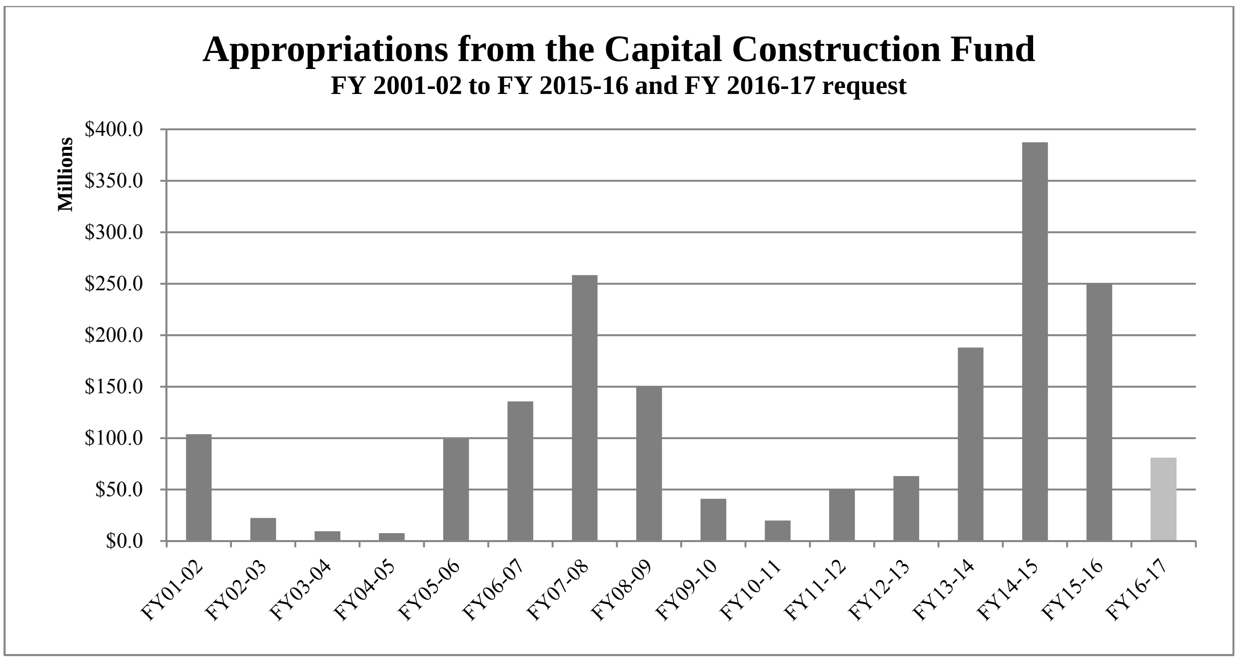


General Factors Driving the Budget

The FY 2016-17 request is for $160.2 million total funds, including $80.9 million Capital Construction Funds, which will require a transfer of $58.5 million from the General Fund to the Capital Construction Fund.

Revenue Available for Capital Construction

Transfers to the Capital Construction Fund from the General Fund vary substantially from year-to-year. The amount appropriated for capital construction is based on the recommendations of the Capital Development Committee and on the most recent forecast of revenues available, given constitutional, statutory, and other budget constraints.



In some years, statutory formulas trigger automatic transfers to the Capital Construction Fund. House Bill 02-1310 provided automatic transfers to the Capital Construction Fund and the Highway Users Tax Fund of excess General Fund revenue. These transfers were replaced in S.B. 09-228 which authorizes five years of transfers to the Capital Construction Fund of 0.5 percent for two years followed by 1.0 percent for three years. While these transfers were originally authorized to begin in FY 2012-13, they were delayed until a five percent personal income trigger was met. Personal income increased by more than five percent in 2014, triggering a transfer in FY 2015-16. However S.B. 09-228 also provided that a TABOR surplus of between 1.0 and 3.0 percent of General Fund revenue would cut the transfer in half and a TABOR surplus greater than 3.0 percent would eliminate the transfer entirely.

Other sources of revenue for capital construction projects include the Corrections Expansion Reserve Fund, Tobacco Master Settlement Agreement revenue, various cash funds administered by the Department of Higher Education and the Department of Natural Resources, and federal funds. However, higher education projects that are funded entirely through cash funds and federal funds are not included in state appropriation bills. Higher education cash funds projects that exceed $2.0 million are, however, subject to legislative oversight through the Capital Development Committee and, when requesting access to financing through the revenue bond intercept program, the Joint Budget Committee.

Summary: FY 2015-16 Appropriation & FY 2016-17 Request

Priority OSPB	Priority CCHE	FY 2016-17 Capital Construction - OSPB Request	Total Funds	Capital Construction Fund	Cash Funds	Reappropriated Funds	Federal Funds
		FY 2015-16 Appropriation					
		SB 15-234 (Long Bill - Capital Construction)	$257,092,622	$153,872,618	$103,027,066	$0	$192,938
		SB 15-234 (Long Bill - Controlled Maintenance)	19,195,021	19,195,021	0	0	0
		SB 15-234 (Long Bill – Building Capital Total)	276,287,643	173,067,639	103,027,066	0	192,938
		HB 15-1310 (DPW Acquire Real Property)	552,500	0	552,500	0	0
		HB 15-1333 (Regional Center Depreciation)	730,510	730,510	0	0	0
		TOTAL	**$277,570,653**	**$173,798,149**	**$103,579,566**	**$0**	**$192,938**
		FY 2016-17 Requested Appropriation					
		Prioritized Requests (state-funded)					
1		Level 1 Controlled Maintenance through score 4	10,250,821	10,250,821	0	0	0
2		DHS: MHI Suicide Risk Mitigation Phase III	1,867,586	1,867,586	0	0	0
3		DHS: DYC Facility Refurbishment Phase III	3,689,500	3,689,500	0	0	0
4	C1	HED: CSU Chemistry Bldg Addition	12,471,940	12,471,940	0	0	0
5	C3	HED: CMU Health Science Nurse Practitioner	11,735,212	9,230,212	2,505,000	0	0
6	C2	HED: MSU Aerospace Engineering Sciences	23,595,840	0	23,595,840	0	0
7	C4	HED: UNC Campus Commons	29,502,929	15,000,000	14,502,929	0	0
8	C5	HED: PCC Davis Academic Building Renovation	5,807,143	5,807,143	0	0	0
9		DHS: Adams YSC Replacement	3,000,000	3,000,000	0	0	0
10		HistCO: Georgetown Loop Business Cap. Program	400,000	300,000	100,000	0	0
11		OIT: Public Safety Communication Network Microwave Infrastructure Replacement	11,193,784	11,193,784	0	0	0
12		EDU: CSDB Jones and Palmer Halls Renovation	7,600,185	7,600,185	0	0	0
13		TRA: Highway Construction Projects	500,000	500,000	0	0	0
		Subtotal - Prioritized Requests	**$121,614,940**	**$80,911,171**	**$40,703,769**	**$0**	**$0**
		Non-prioritized Requests (100% cash-funded)					
		AGR: Biochem Lab Facility Pesticide Lab	1,220,000	0	1,220,000	0	0
		DOC: CCI Small Projects	660,000	0	660,000	0	0
		HistCO: Regional Museum Preservation Projects	700,000	0	700,000	0	0
		DHS: Regional Center Capital Improvements Phase 1 (CCF Depreciation Fund Request)	979,884	0	979,884	0	0
		DNR: Land and Water Acquisitions, Wildlife	9,300,000	0	9,300,000	0	0
		DNR: Park Infrastructure and Facilities, State Parks	19,837,320	0	19,837,320	0	0
		DNR: Infrastructure and Real Property Maintenance, Wildlife	3,799,502	0	3,799,502	0	0
		DNR: Land and Water Acquisitions, State Parks	950,000	0	950,000	0	0
		DPS: CSP Loma Replacement Eastbound POE	1,145,000	0	1,145,000	0	0
		Subtotal - Non-prioritized Requests	**38,591,706**	**0**	**38,591,706**	**0**	**0**
		TOTAL	**$160,206,646**	**$80,911,171**	**$79,295,475**	**$0**	**$0**
		Percentage Change	(42.3%)	(53.4%)	(23.4%)	n/a	(100.0%)

The Governor's Office estimates that appropriations for the Capital Construction request and the Information Technology Projects request will require a transfer of $58.5 million from the General Fund to the Capital Construction Fund. The Information Technology Projects request will be addressed in a staff briefing for the Governor's Office of Information Technology scheduled for Friday, November 20th.

FY 2016-17 General Fund Transfer to the Capital Construction Fund - OSPB Request	
Interest from prior year	$2,932,329
FY 2015-16 S.B. 09-228 Transfers remaining	$25,231,711
Funds Available	$28,164,040
Capital Construction request	$80,911,171
Information Technology Projects request	$5,770,805
Total CCF Projects	$86,681,976
General Fund Need	**($58,517,936)**

As noted above, budget request documents submitted by OSPB identify a balance remaining from the FY 2015-16 S.B. 09-228 transfers to the Capital Construction Fund of $25.2 million. This appears to be based on the September 2015 LCS forecast of $50.0 million, rather than their own forecast of $25.4 million which is $0.2 million less than the $25.6 million projected for projects funded in the Long Bill. Additionally, the OSPB request shows no transfer for FY 2016-17, which is consistent with their September 2015 forecast. While the September 2015 LCS forecast estimates an S.B. 09-228 transfer of $27.3 million in FY 2016-17.

At the time of the FY 2015-16 Long Bill, the March 2015, Legislative Council Staff (LCS) economic forecast estimated S.B. 09-228 transfers of $25.6 million in FY 2015-16, which was used for setting the related figures in the Long Bill and General Fund transfer bill. The most recent, September 2015, Governor's Office of State Planning and Budgeting (OSPB) economic forecast estimated a transfer of $25.4 million, reflecting a "half" transfer, while the LCS economic forecast estimated a transfer of $50.0 million, reflecting a "full" transfer. However, for FY 2016-17, OSPB budget request documents use a hybrid, "midpoint" forecast of both forecasts and appear to identify a balance remaining from the FY 2015-16 S.B. 09-228 transfers to the Capital Construction Fund of $25.2 million.

Issue 1: First Take on Capital Construction Request

The OSPB building capital prioritized request includes $80.9 million from the Capital Construction Fund for 13 state-funded capital construction items including 12 continuation projects. Although prioritized as #1, at $10.3 million, the controlled maintenance request reflects funding equal to 0.09 percent of the insured replacement value of all State buildings ($10.9 billion). While it may be necessary to fund capital construction at a lower level because of revenue or budget constraints, it is not in the State's interest, in any year, to fund new buildings ahead of controlled maintenance.

SUMMARY:

- The Executive requests appropriations of $160.2 million total funds for capital construction in FY 2016-17 for 13 state-funded and nine entirely cash-funded requests, including $80.9 million Capital Construction Fund and $79.3 million cash funds.

- State-funded request items include:
  - $10.3 million CCF for Level 1 controlled maintenance through priority score 4 for 10 of 118 State Architect-prioritized controlled maintenance projects plus the State Architect's $2.0 million emergency controlled maintenance fund;
  - $42.5 million CCF for five continuation projects for institutions of higher education;
  - $8.6 million CCF for three continuation projects for the Department of Human Services;
  - $11.2 million CCF for continuation of the Public Safety Communication Network Microwave Infrastructure project.
  - $7.6 million CCF for continuation of the Colorado School for the Deaf and the Blind's Jones and Palmer Halls Renovation project;
  - $500,000 CCF for Highway Construction Projects; and
  - $300,00 CCF for continuation of History Colorado's Georgetown Loop Business Capitalization project.

- Controlled maintenance may be treated as discretionary but spending less does not reduce the cost to the State. Spending less simply pushes the cost outward: It represents an unfunded liability that will have to be paid at some point, likely at a higher cost because of construction inflation and possibly because of building system failure and loss of use.

RECOMMENDATION:

Short term recommendation – FY 2016-17
Staff recommends fully funding levels 1 and 2 of controlled maintenance before funding continuation projects for new buildings.

Long term recommendation

Given the State's optional approach to funding controlled maintenance for its buildings, **staff recommends that the Committee pursue legislation to establish a policy and process for incrementally selling the State's buildings equal to 1.0 percent of the insured replacement value of State buildings each year,** as recommended by the State Architect and approved by the Capital Development Committee (CDC), and crediting the proceeds to the Controlled Maintenance Trust Fund. If State funding for controlled maintenance, capital renewal, and renovation equals or exceeds 1.0 percent of the insured replacement value of State buildings, that year's sale of buildings may be exempted by the CDC.

DISCUSSION:

FY 2016-17 and FY 2015-16 Comparison

The FY 2016-17 executive request for real property capital construction and controlled maintenance is for \$160.2 million total funds including \$80.9 million Capital Construction Funds (CCF) that would require a transfer of \$58.5 million from the General Fund to the Capital Construction Fund. The FY 2015-16 appropriation for real property capital construction and controlled maintenance (excluding Information Technology Project appropriations) totaled \$276.3 million total funds including \$173.1 million CCF.

General Prioritization

The executive capital request prioritizes building capital projects as follows:

1. Partial funding of Controlled Maintenance Level 1 (#1) through score 4.

2. Continuation projects for the Department of Human Services (#2, 3, and 9); institutions of higher education (#4-8); History Colorado, OIT, and the Colorado School for the Deaf and the Blind (#10-12).

3. A \$500,000 CCF appropriation from General Fund Exempt for highway construction projects. This item has traditionally been funded at this amount but is not statutorily or constitutionally required, except as an allowed purpose for General Fund Exempt moneys.

OSPB Prioritized, Not Recommended

The following table outlines additional capital construction projects prioritized but not recommended for funding, as well as the Colorado Commission on Higher Education (CCHE) prioritization. The actual prioritization system from CCHE refers to continuation items as "continuation priority numbers 1 through 5" and then returns to using priority number 1 for prioritization of new projects. Staff has labeled CCHE new project priority #1 as priority #6, as it is ordinally the 6th priority from CCHE and more clearly reflects where the CCHE priority compares relative to OSPB. Additionally, CCHE occasionally uses the same priority number for more than project, such as prioritizing their first two new project recommendations as priority #1, and their third project as #3. Staff has retained that aspect of the CCHE prioritization system so that the first two new projects are shown as priority #6 in the table and the third priority as #8, etc.

FY 2016-17 Capital Construction - OSPB prioritized but not recommended for funding					
OSPB	**CCHE**		**Total Funds**	**CCF**	**CF**
14		DHS: Colorado Veterans Community Living Centers Safety and Accessibility Improvements	$2,278,060	$2,278,060	$0
15	6	HED: FRCC Larimer Campus Health Care and Career Center	26,563,971	19,657,338	6,906,633
16	6	HED: UC-Anschutz Interdisciplinary Building 1	53,623,115	22,800,000	30,823,115
17	8	HED: UCB Aerospace Engineering Science Bldg.	5,503,300	4,834,369	668,931
18	9	HED: CSM Green Center Renovation	6,021,857	6,021,857	0
19	10	HED: CMU Computer Science and Engineering Building	7,462,688	5,000,000	2,462,688
20	11	HED: CSU Warner College of Natural Resources	20,817,437	10,000,000	10,817,437
21		MIL: Grand Junction Veterans One Stop	2,697,546	2,697,546	0
22		MIL: Revere Contiguous Lot	1,200,000	1,200,000	0
23		MIL: Metro Denver Readiness Center Land	2,500,000	2,500,000	0
24	12	HED: PPCC Student Learning Commons and Black Box Theater	6,550,995	4,847,735	1,703,260
25	13	HED: CCD Technology Infrastructure	1,342,134	993,179	348,955
26	13	HED: WSCU Savage Library Renovation	10,848,007	10,648,007	200,000
27	15	HED: OJC Agricultural Sciences Building	1,793,800	1,393,800	400,000
28	15	HED: ACC Learning Commons	2,362,387	1,748,166	614,221
29	17	HED: AHEC King Center Renewal	41,790,000	41,370,000	420,000
30	18	HED: ASU Plachy Hall HVAC Renewal	4,314,450	4,314,450	0
31	19	HED: CSU Shepardson Renovation	4,527,223	4,527,223	0
32	20	HED: ASU Nielsen Library Renovation	13,865,176	13,865,176	0
33	21	HED: CMU Performing Arts Renovation	8,794,497	8,007,041	787,456
34	22	HED: CMU Trigeneration	6,875,702	6,256,888	618,814
35	23	HED: CSUP Psychology Building	16,519,873	16,519,873	0
36	24	HED: CSUP IT Upgrades and Security	3,944,430	3,944,430	0
37	25	HED: UNC Wireless and Network Infrastructure	3,123,300	3,123,300	0
38	26	HED: UCD Engineering and Physical Sciences Building	60,114,407	45,114,407	15,000,000
39	27	HED: UCCS Engineering and Physical Sciences Building	7,551,960	7,551,960	0
40	28	HED: LCC Technology Infrastructure	644,400	644,400	0
41	28	HED: OJC Technology Infrastructure II	637,500	637,500	0
42	30	HED: PCC Critical Core Technology Infrastructure	1,490,050	1,490,050	0
43	31	HED: LCC Vocational Trades Building	1,996,733	1,996,733	0
44		TRA: I-25 Fiber Optic Comm. Infrastructure	6,000,000	6,000,000	0
45		TRA: Mountain Pass Safety Improvements	2,550,675	2,550,675	0
46		TRA: I-70 Fall River Road Pedestrian Bridge	899,828	899,828	0
		Total - prioritized, not recommended	**$337,205,501**	**$265,433,991**	**$71,771,510**

Contingent General Fund Requests

The Governor also submitted a prioritized, bullet-point list of contingent funding items in the event that General Fund revenue exceeds the current assumption and includes the following capital construction items:

- 4th bullet: Increase controlled maintenance to at least $20.3 million. This provides funding for an additional 12 controlled maintenance projects, up to priority score 8, but does not include all priority score 8 projects. All recommended Level 1 controlled maintenance projects through score 10 total $26.1 million.

- 13^{th} bullet: Provide funding for other capital construction projects.

Staff Concern

Although it is early in the budget process, particularly for capital construction and its prioritization – a process that is delegated to the Capital Development Committee (CDC), staff is concerned with the budget priorities as expressed in the executive request. Staff will provide in issue briefs, additional detail and policy recommendations that more fully express the reasons for budget priority differences from the executive request, but is particularly concerned about the general and specific lack of funding for controlled maintenance.

While controlled maintenance is prioritized item #1, the $10.3 million request reflects funding equal to 0.09 percent of the insured replacement value of all State buildings ($10.9 billion) for 11 of 30 items prioritized by the State Architect as controlled maintenance level 1 projects, through priority score 4. The request includes funding for 8.5 percent (10 of 118 total projects) of all State Architect-prioritized controlled maintenance projects plus the State Architect's $2.0 million emergency controlled maintenance fund.

An illustration of this level of commitment is a homeowner of a $500,000 home, planning to spend $470 annually for home maintenance. And, the State Architect's $2.0 million emergency controlled maintenance fund would reflect $92 for that half-million dollar home.

The State Architect's annual report identifies an industry standard reinvestment rate of 3.0 to 4.0 percent of the current replacement value (CRV) of a building inventory to maintain conditions that prevent deterioration. The State Architect recommends a goal of funding 1.0 percent of the CRV of State buildings for controlled maintenance and an additional 1.0 to 3.0 percent of CRV for capital renewal and renovation.

The State Architect defines Level 1 as critical projects related to life safety or loss of use from equipment or system failure or lack of compliance with codes, standards, and accreditation requirements. Level 2 are projects causing operational disruptions, energy inefficiencies, or environmental contamination – predominantly HVAC, electrical, and mechanical systems. Level 3 are other building deterioration – typically related to building skin treatments including roofs, windows, and building surface. The annual report states:

> *Historically, recommendations were prioritized based on overall comprehensive major maintenance and repairs across the entire building inventory to annually fund the three levels/categories of Controlled Maintenance needs. However, due to various downturns in the economy inconsistent and limited funding was available. The result of not having sufficient funding for all three levels is causing, for example, roofing projects that were originally prioritized in Level 3 to now rise in criticality to Levels 1 and 2 due to increased deterioration over time. The previous types of projects that were predominate per category in each level are now distributed throughout the levels.*

While the last line states that projects are distributed throughout the levels, what is meant is that Level 2 and Level 3 projects have risen to Level 1 due to potential for loss of use from failure. Projects that formerly would have been included in Level 1 are squeezed out into Level 2 based on "the number" – the target budget amount – provided by OSPB for funds availability for Level 1 controlled maintenance. And this year, "the number" does not even reach half funding for Level 1 of $26.1 million even though Level 1 has now become the "deferred maintenance crisis" list. These are the projects for building systems that are currently identified as failing or end of life and also the most likely to completely fail, risking loss of use before the next budget funding cycle.

The controlled maintenance funding request is inadequate. As detailed in issue brief #2, controlled maintenance should be prioritized before any new construction in the capital construction budget. <u>**As a foundational principle, it is more appropriate to discontinue capital construction funding for new buildings, particularly those that are still in the planning phase or early in the "breaking ground" phase, than to severely "discontinue" minimally adequate, annual, ongoing maintenance for current state buildings.**</u>

Spending on controlled maintenance is not the same as spending on annual program operating costs. A "reduction" in controlled maintenance spending does not reduce the cost to the State. It may be treated as discretionary but it is not a "savings". A reduction simply pushes the cost outward: It represents an unfunded liability that will need to be paid at some point. It is likely, that the cost at a point in the future will be higher because of construction inflation (which is set in the market and not bound by an OSPB budget principle) or because of building or building system failure and loss of use. <u>**While it may be reasonable and necessary to fund capital construction generally at a lower level in a given year because of revenue or budget constraints, it is not in the State's interest, in any year, to fund new buildings ahead of controlled maintenance.**</u>

Short term recommendation – FY 2016-17
Staff recommends fully funding levels 1 and 2 of controlled maintenance before continuing projects for new buildings. Fully funding level 1, which includes 30 items (29 projects plus the State Architect's $2.0 million emergency controlled maintenance fund) with priority scores of 1 to 10, is $26.1 million. Fully funding level 2, which includes 50 projects with priority scores of 11 to 20 is an additional $37.8 million. (Level 3, which includes 39 projects for priority scores 21 to 36, totals $26.4 million.) Either additional funding should be identified elsewhere in the budget for this purpose or the following options should be considered within the scope of the current total request:

- Requests #2 and #3 for Department of Human Services buildings should be funded, since they are capital renewal or capital upgrade projects on existing buildings. **Savings from request: $0.**

- Request #4 for Colorado State University's Chemistry Building Addition in its third year of funding and is far enough along, that it should be funded. **Savings from request: $0.**

- Request #5 for Colorado Mesa University's Health Science Nurse Practitioner building received planning funding of $3.0 million in FY 2015-16. This project should be set aside for this budget year. **Savings from request: $9.2 million.**

- Request #6 for Metropolitan State University's Aerospace Engineering Sciences building does not include state funding in FY 2016-17. **Savings from request: $0.**

- Request #7 for the University of Northern Colorado's Campus Commons project may still be in the planning phase and is early enough in the funding cycle that it should be set aside for this budget year. **Savings from request: $15.0 million.**

- Request #8 for Pueblo Community College's Davis Academic Building renovation is a continuing capital renewal project, and on that basis, should be funded. **Savings from request: $0.**

- Request #9 for the DHS Adams County Youth Services Center replacement was funded in FY 2015-16 for the planning phase at $2.0 million. The FY 2016-17 request is $3.0 million with an expected FY 2017-18 request of an additional $14.8 million. This project has been under consideration for several years and is reduced in scope from its original form. **Staff recommends that the CDC and JBC consider funding this project through a certificate of participation (COP) lease-purchase agreement.** While staff is cautious and hesitant in recommending funding through a COP, this project appears to represent both a necessary and delayed building project that may be unaffordable to fund immediately with state funds given this year's, and possibly foreseeable years', revenue and budget constraints. **Savings from request: $3.0 million less a first year COP payment.**

- Request #10 for History Colorado's Georgetown Loop Business Capitalization Program is requested at $300,000. Due to the relatively small funding amount for an ongoing project, staff recommends funding this request. **Savings from request: $0.**

- Request #11 for OIT's Public Safety Communication Network Microwave Infrastructure Replacement should continue to be funded given the multi-year funding cycle for this exceptionally large infrastructure project. However, **this may be a project that might appropriately be funded to completion through a COP.** An annual lease-purchase payment theoretically ties the payment stream to the benefits received over time. This is a project with benefits that will ensure and enhance the operation of public safety communications for the State. It is reasonable to consider funding this project through a lease-purchase agreement. **Savings from request: $0 (possible savings: $11.2 million less a first year COP payment).**

- Request #12 for the Colorado School for the Deaf and the Blind's Jones and Palmer Halls Renovation project should be funded. Although technically not a "capital renewal" project because of the program enhancements that accompany the project, this is a renovation. **Savings from request: $0.**

- Request #13 for CDOT Highway Construction Projects does not need to be funded. Although traditionally included in the capital construction budget for an allowed purpose for spending General Fund Exempt moneys, this request is not required. **Savings from request: $0.5 million.**

Total savings identified for re-prioritizing controlled maintenance ahead of new buildings and alternate funding options: $27.7 million to $38.9 million. An additional $27.7 million for controlled maintenance ($38.0 million total) will provide funding through recommendation #43, the first project with a priority score of 14 in controlled maintenance Level 2. An additional $38.9 million for controlled maintenance ($49.2 million) will provide funding through recommendation #55, the 13th project with a priority score of 14, leaving unfunded three projects with a priority score of 14.

Long term recommendation

Given the State's optional approach to funding controlled maintenance in any given year and its de facto policy of consistently, inadequately providing controlled maintenance for its buildings over time, **staff recommends that the Committee pursue legislation to more appropriately align the State's lack of commitment to maintaining its buildings and establish a policy and process for incrementally selling the State's inventory of buildings and properties as follows**:

- A general policy that will require the State Architect to recommend the sale of State buildings equal to at least 1.0 percent of the insured replacement value of all State buildings each year; that the CDC review and approve the sale of those buildings or alternate buildings equal to at least 1.0 percent; and that this policy begin in FY 2017-18 and be pursued indefinitely.

- Should 1.0 percent ever fall below the value of a single building that might be recommended for sale, at least one building at least equal to 1.0 percent shall be recommended and approved for sale.

- If State funding for controlled maintenance, capital renewal, and the portion equal to renovation within capital construction projects in the capital construction budget equals or exceeds 1.0 percent of the insured replacement value, that year's sale of buildings may be exempted by the CDC.

- Notwithstanding any other provision in statute, all proceeds from the sale of buildings recommended for sale through this policy shall be credited to the Controlled Maintenance Trust Fund.

- Due to the independence of the institutions of higher education, staff recommends that the 1.0 percent sale of properties be implemented for state agency buildings only.

Issue 2: Prioritizing Controlled Maintenance

State funding for controlled maintenance has declined over the period since FY 1998-99. The current replacement value of state buildings has increased by at least 126.4 percent, from $4.8 billion in FY 1998-99 to $10.9 billion in FY 2014-15. Spending less on controlled maintenance in a given year does not save the State money. It pushes the cost out to a future year and becomes an unfunded liability that will cost more from construction inflation or building system failure that may lead to additional system failures or loss of building use. But, unlike the base operating budget, controlled maintenance is prioritized within the capital construction budget as a discretionary, "new" funding item each year. The cost of maintaining current buildings should be prioritized as a commitment made when the decision is made to purchase a building.

SUMMARY:

- State funding for controlled maintenance has declined and the inventory of state buildings has increased.

- If the State is going to own property, it needs to commit to a policy to more fully fund controlled maintenance for its real property assets.

- If not, the State should lease from a property owner that more fully funds controlled maintenance for its real property assets from within its lease revenue.

RECOMMENDATION:

1. Staff recommends that the Committee pursue legislation that requires funding controlled maintenance and capital renewal at an amount at least equal to 1.0 percent of the current insured replacement value of State buildings. Staff also recommends a provision that specifies that state funding may not be provided for new construction or real property purchases until the 1.0 percent threshold for controlled maintenance is met.

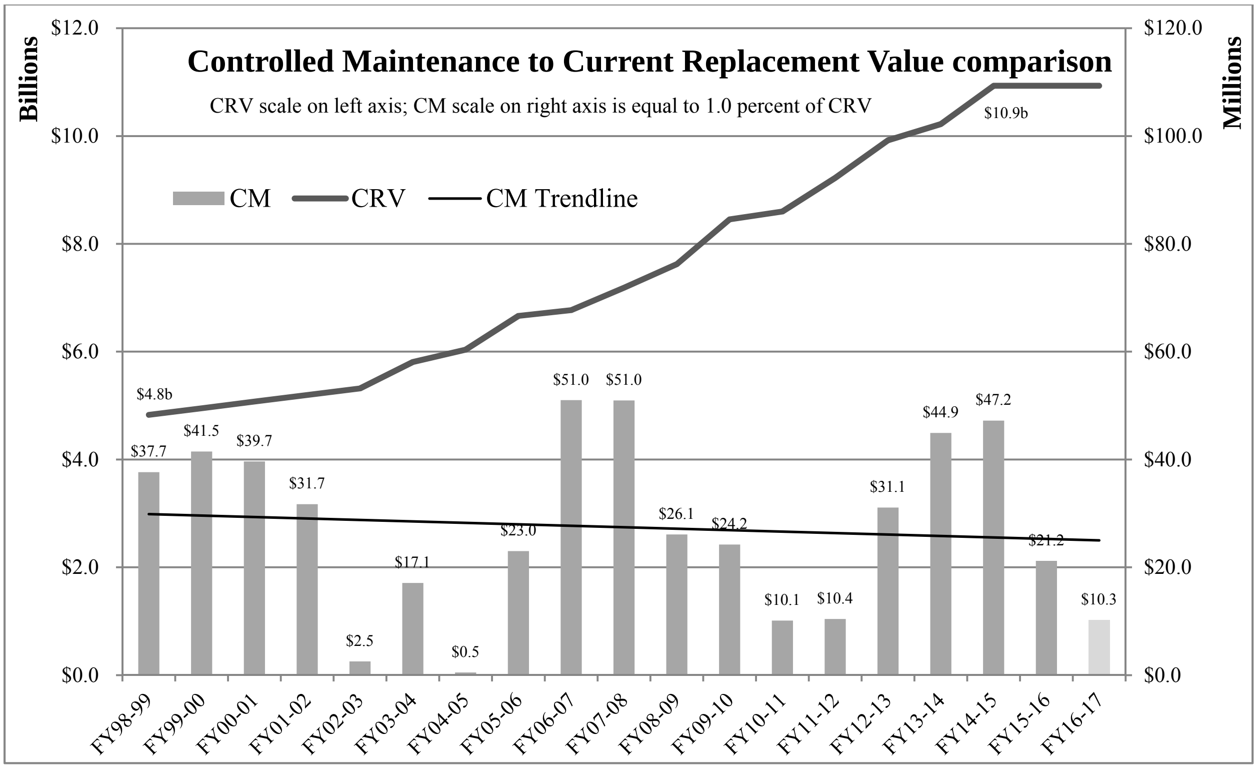
2. Staff recommends that the Committee pursue legislation that requires repayment in the following year of any funds transferred out of the principal of the Controlled Maintenance Trust Fund for any purpose.

3. Staff recommends that the Committee pursue aggressive policies for refilling the principal balance in the Controlled Maintenance Trust Fund. Specifically, staff recommends that the Committee consider transfers from the Unclaimed Property Trust Fund for this purpose as well as repurposing S.B. 09-228 transfers for capital construction.

4. Staff recommends that the Committee consider establishing a state agency asset management trust and finance authority enterprise that would hold in trust for the State, ownership of new construction or real property purchases and lease those buildings, facilities, or properties "at cost" to state agency programs. This policy approach would eliminate funding for state buildings in the capital construction budget which would be replaced by lease payments in the operating budget. In this way, a consistent, fair, and reasonable annual funding amount would be budgeted and paid for the actual cost of state buildings.

DISCUSSION:

Statewide controlled maintenance funding, even without adjusting for inflation, has been gradually trending downward since FY 1998-99. That decline compares to the total insured current replacement value of state buildings which has been increasing. That increase reflects a steady growth in gross square footage (GSF) of state buildings along with an increasing value of real property. The following chart reflects controlled maintenance (CM) funding compared to current replacement value (CRV).



The CRV scale, represented in billions, is shown on the left side of the chart, while the CM scale, represented in millions, is shown on the right side of the chart. The CM scale is set equal to 1.0 percent of the CRV scale. Controlled maintenance spending in any year that is equal to 1.0 percent of current replacement value would be reflected as exactly equal to CRV in the chart. While increasing CRV is creating an increasing gap between CRV and CM over the years shown, the CM linear trend line also indicates that spending on controlled maintenance is actually decreasing over this period.

Spending on capital construction is different from annual spending on programs and operations. Capital spending is predominantly a balance sheet transfer of assets from cash to long term assets; in this way capital spending or investment functions more like an asset reserve than an annual expense. But the State prioritizes capital construction and controlled maintenance as an optional item based on the availability of funds after funding operating budget items.

As a budget principle, new construction and real property purchases should be considered as discretionary, new request items in the budget. However, controlled maintenance represents the ongoing upkeep of the current building inventory. That inventory represents the policy and budget choices already made to purchase and own buildings and property. The cost of maintaining current buildings should be considered to be a commitment made at the time the decision to purchase and own a building is made.

The discretionary "choice" to spend relatively less on controlled maintenance in a given year does not save the State money. It simply pushes the cost out to a future year and is essentially an unfunded liability that will need to be paid at some point. If a particular deferred maintenance project experiences construction inflation or building system failure, the cost is greater than the originally identified cost. Building system failures that lead to additional system failures or loss of building use become much more expensive to the State.

On this basis, controlled maintenance should not be considered an annual, discretionary funding item.

The State Architect's annual report identifies an industry standard reinvestment rate of 3.0 to 4.0 percent of the current replacement value (CRV) of a building inventory to maintain conditions that prevent deterioration. The State Architect recommends a goal of funding 1.0 percent of the CRV of State buildings for controlled maintenance and an additional 1.0 to 3.0 percent of CRV for capital renewal and renovation.

The State Architect defines Level 1 as critical projects related to life safety or loss of use from equipment or system failure or lack of compliance with codes, standards, and accreditation requirements. Level 2 are projects causing operational disruptions, energy inefficiencies, or environmental contamination – predominantly HVAC, electrical, and mechanical systems. Level 3 are other building deterioration – typically related to building skin treatments including roofs, windows, and building surface. The annual report states:

> *Historically, recommendations were prioritized based on overall comprehensive major maintenance and repairs across the entire building inventory to annually fund the three levels/categories of Controlled Maintenance needs. However, due to various downturns in the economy inconsistent and limited funding was available. The result of not having sufficient funding for all three levels is causing, for example, roofing projects that were originally prioritized in Level 3 to now rise in criticality to Levels 1 and 2 due to increased deterioration over time. The previous types of projects that were predominate per category in each level are now distributed throughout the levels.*

While the last line states that projects are distributed throughout the levels, what is meant is that Level 2 and Level 3 projects have risen to Level 1 due to potential for loss of use from failure. Projects that formerly would have been included in Level 1 are squeezed out into Level 2 based on "the number" – the target budget amount – provided by OSPB for funds availability for Level 1 controlled maintenance. Level 1 has now become the "deferred maintenance crisis" list. These are the projects for building system that are currently identified as failing or end of life and most likely to completely fail, risking loss of use before the next budget funding cycle.

If not funded, any of these projects may become an emergency project funded out of the emergency controlled maintenance fund. The emergency controlled maintenance fund will end up funding building system failures for projects identified in Levels 1, 2, or 3, or that may be entirely unidentified in the prioritized controlled maintenance list. An unexpected and previously unidentified building system failure requires a repair response provided from this fund source as much as a previously identified failing system. However, to choose not to fund projects that are identified as failing and included on the prioritized list will inevitably lead to a higher cost to the State in future years.

Recommendation
Staff recommends that the Committee commit to prioritizing controlled maintenance funding in one or more of the following ways:

1. Staff recommends that the Committee pursue legislation that requires funding controlled maintenance and capital renewal at an amount at least equal to 1.0 percent of the current insured replacement value of State buildings. Staff also recommends a provision that specifies that state funding may not be provided for new construction or real property purchases until the 1.0 percent threshold for controlled maintenance is met.

2. Staff recommends that the Committee pursue legislation that requires repayment in the following year of any funds transferred out of the principal of the Controlled Maintenance Trust Fund for any purpose.

3. Staff recommends that the Committee pursue aggressive policies for refilling the principal balance in the Controlled Maintenance Trust Fund. Staff recommends that the Committee consider transfers from the Unclaimed Property Trust Fund (UPTF) as well as repurposing future year S.B. 09-228 transfers for capital construction.

Unclaimed Property Trust Fund
The principal of the UPTF consists of funds held in trust for Colorado residents from the sale of properties identified as unclaimed or abandoned. Principal from the UPTF previously provided funding for CoverColorado which provided health insurance for individuals who were otherwise uninsurable. CoverColorado received $94.2 million from the UPTF over the three years from FY 2010-11 to FY 2012-13. With the implementation of the Affordable Care Act and operation of the state health insurance exchange, the CoverColorado program was repealed in 2013 (H.B. 13-1115) which included a $15.0 million transfer to the health benefits exchange for implementation costs in FY 2013-14. With the repeal of CoverColorado, an adult dental benefit was also added to Medicaid with state funding provided from the UPTF (S.B. 13-242). The following table outlines the current balance in the UPTF.

Fund Balance Projection for Unclaimed Property Trust Fund ($ Millions)	**FY 12-13 Actual**	**FY 13-14 Actual**	**FY 14-15 Actual**	**FY 15-16 Estimated**	**FY 16-17 Projected**
Beginning Balance	$104.9	$124.5	$168.0	$189.0	$200.9
Net Revenue (Collections less claims)	53.2	46.2	41.1	41.9	41.9
Interest Income	1.3	1.5	2.0	1.5	2.0
Gross Revenue	159.4	172.2	211.1	232.4	244.8
Unclaimed Property Program Operating Expenses	(2.7)	(2.6)	(2.5)	(2.4)	(2.4)
Transfers:					
To CoverColorado	(32.2)	0.0	NA	NA	NA
From CoverColorado (H.B. 13-1115)	NA	15.0	NA	NA	NA
To Co. Health Benefit Exchange (H.B. 13-1245)	NA	(15.0)	NA	NA	NA
To Adult Dental Fund (S.B. 13-242)	NA	(1.6)	(19.6)	(29.1)	(30.6)
Subtotal - Expenses and Transfers	(34.9)	(4.2)	(22.1)	(31.5)	(33.0)
End Balance	$124.5	$168.0	$189.0	$200.9	$211.8
Required Reserve	(99.5)	(106.5)	(109.9)	(115.4)	(121.2)
Available Balance	**$25.0**	**$61.5**	**$79.1**	**$85.5**	**$90.6**

Staff is hesitant to recommend transferring principal out of this trust fund. However, it is a more reasonable public policy approach to use principal from the UPTF for the CMTF, where, principal is expected to remain whole and intact, rather than spending principal on annual program operating costs which should be more properly funded with annual taxes or fees. **Staff recommends that the Committee consider pursuing legislation to transfer approximately $85.0 million from the UPTF to the CMTF.** Staff also recommends a provision that requires the transfer amount to remain whole within the CMTF and that requires repayment of the transfer amount to the UPTF if the CMTF is ever repealed or if the purpose as a trust fund for funding controlled maintenance from interest earnings is ever changed.

Senate Bill 09-228 Transfers to Capital Construction

As described in the General Factors and Summary sections of this briefing, S.B. 09-228 authorizes five years of transfers to the Capital Construction Fund of 0.5 percent for two years followed by 1.0 percent for three years. While transfers were originally authorized to begin in FY 2012-13, they were delayed until a five percent personal income trigger was met. Personal income increased by more than five percent in 2014, triggering a transfer in FY 2015-16. However S.B. 09-228 also provided that a TABOR surplus of between 1.0 and 3.0 percent of General Fund revenue would cut the transfer in half and a TABOR surplus greater than 3.0 percent would eliminate the transfer entirely.

The March 2015, Legislative Council Staff (LCS) economic forecast estimated S.B. 09-228 transfers of $25.6 million in FY 2015-16, which figure was used for setting the related figures in the General Fund transfer bill. The most recent, September 2015, Governor's Office of State Planning and Budgeting (OSPB) economic forecast estimated a transfer of $25.4 million, reflecting a "half" transfer, while the LCS economic forecast estimated a transfer of $50.0 million, reflecting a "full" transfer. However, for FY 2016-17, OSPB budget request documents use a hybrid, "midpoint" forecast of both forecasts and appear to identify a balance remaining from the FY 2015-16 S.B. 09-228 transfers to the Capital Construction Fund of $25.2 million. The budget request documents identify no additional S.B. 09-228 transfers for FY 2016-17, consistent with the September 2015 OSPB economic forecast which projects no transfer in FY 2016-17, while the LCS forecast estimates transfers of $27.3 million in FY 2016-17.

The "full", "half", or "none" TABOR surplus restriction makes budget projection complicated and is easily prone to create a $25-50 million error. In the first two years a "full" transfer provides about $50 million, while a "half" transfer provides about $25 million. In the following three years, these amounts would double. While either transfer would be a benefit to the capital construction budget, in practice, a General Fund transfer is made to the Capital Construction Fund for the amount appropriated in the capital construction budget after accounting for any other balance or sources of funds. The difficulty is in setting a budget amount and identifying a necessary transfer amount, given the possibility that projections may be off by either $25 million or $50 million. If the projection ends up lower than the actual, there will be more than what was budgeted remaining in the Capital Construction Fund. But if the projection ends up higher than actual, the Capital Construction Fund will require a backfill of General Fund of at least $25.0 million for FY 2016-17, and at least $50.0 million for the following three years.

Staff recommends that the Committee consider pursuing legislation that would require any capital construction transfer from S.B. 09-228 in FY 2016-17 and beyond to be credited to the CMTF rather than directly funding capital construction. This approach will help refill the CMTF while more accurately projecting available funds for the capital construction budget.

4. Staff recommends that the Committee consider establishing a state agency asset management trust and finance authority enterprise that would hold in trust for the State, ownership of new construction or real property purchases and lease those buildings, facilities, or properties "at cost" to state agency programs. This policy approach would eliminate funding for state buildings in the capital construction budget which would be replaced by lease payments in the operating budget. In this way, a consistent, fair, and reasonable annual funding amount would be paid for the actual cost of state buildings.

Rather than provide funding for capital construction and controlled maintenance in competition with operating budget items on an annual basis, an automatic funding or revenue stream that is objectively tied to the use and cost of real property assets, like a market lease model, is a more dependable method for consistently funding capital construction and controlled maintenance. The ongoing investment in and annual cost of the use of facilities or other real property should be borne by a state agency program operating budget through a lease payment. If a State entity is the property owner, then the lease payment may be charged "at cost" and the savings relative to a private commercial property lease is retained by the State while funding the full cost of real property maintenance and ownership.

While staff has not developed this concept within this issue brief, supporting discussion and analysis can be found in issue brief #3.

Issue 3: DHS Facilities

Capital construction policymakers perceive that the condition of Department of Human Services (DHS) facilities and properties warrants exceptional attention. The new, statewide planning function in the Office of the State Architect (OSA) is expected to initially focus its efforts on DHS facility needs and make recommendations beginning in FY 2017-18. Related issues of current state funding limitations, alternative funding or financing options, and ongoing maintenance funding and stewardship of DHS properties should be addressed alongside OSA planning efforts before the State invests in substantial DHS facility upgrades and improvements.

SUMMARY:

- Data analysis suggests that DHS buildings are generally older and more deteriorated than those in other state agencies and the State is spending more on controlled maintenance for DHS facilities relative to other state buildings. Facility visits, building system visual reviews, and other anecdotal information likewise suggest that DHS facilities overall need to be upgraded.

- The DHS facilities management unit, DFM, appears to do a good job of property management with the resources provided, but does not provide asset management and is housed within a program-intensive department in which facility needs are generally an afterthought and not part of program change planning.

- The current facilities management structure does not transparently convey cost information to budget authorities regarding actual program facility costs and is not conducive to long term stewardship of state assets.

- Real property asset management is a systematic process of deploying, operating, maintaining, upgrading, and disposing of assets cost-effectively over every year of an asset's lifecycle.

- An asset management model could provide transparent cost information through actual and planned lease payments and property management fees to better guide budget authorities on facility cost decisions related to DHS program growth, reduction, or change.

- A properly structured asset management entity can provide the most efficient and effective method for maintaining facilities over the short term and the long term and could provide independent controlled maintenance funding through properly-costed lease rates paid in the operating budget.

RECOMMENDATION:

Staff recommends that the Committee pursue legislation to create a State Asset Management Trust enterprise to manage all Department of Human Services real property assets.

DISCUSSION:

Overview

Last year, the Department of Human Services (DHS or Department) requested a $5.1 million master plan to be executed in three phases beginning in FY 2015-16. While the DHS request was not funded, it was generally understood by capital construction policymakers that DHS facilities and properties are in a condition that warrants exceptional attention compared to other state agencies.

Additionally, a statewide planning function was added to the Office of the State Architect (OSA) to address state agency real property and facility planning on an ongoing basis. The statewide planning function was added to provide pre-appropriation due diligence of state agency capital construction project requests and to provide more rigorous and ongoing planning for future state agency building needs. It is expected that statewide planning will initially focus much of its efforts on DHS facility needs in response to the generally recognized need.

It is expected that statewide planning will likely make recommendations for DHS facilities beginning in the next budget year, FY 2017-18. It is conceivable that those recommendations may include the renovation or replacement of existing facilities over a period of time extending over several years but beginning as early as FY 2017-18.

Given the current governing challenge of prioritizing and apportioning adequate state funding for controlled maintenance and capital construction, **it is appropriate and necessary to consider alternative governing models that might provide achievable and reasonable acquisition and payment structures for new or upgraded facilities and improve stewardship of current and future properties and facilities.**

Condition of DHS Facilities – Facility Condition Index

The State Architect uses the facility condition index (FCI) as a reasonable indicator of building condition. The FCI is the average condition of all building components. A new building has an FCI rating of 100 percent and the State Architect recommends maintaining buildings at an FCI of 85 percent. The following table was included in a JBC staff briefing from 2013, comparing FCI across state agencies.

Facility Condition Index Comparison (November 2012 data)

		Percent Bldgs. w/FCI below:	
	Buildings	**<70%**	**<50%**
Agriculture	62	32.0%	10.0%
Corrections	749	38.0%	12.0%
Education	18	17.0%	6.0%
Governor - OIT	60	32.0%	2.0%
Higher Education	1,772	32.0%	14.0%

Facility Condition Index Comparison (November 2012 data)		Percent Bldgs. w/FCI below:	
	Buildings	<70%	<50%
Human Services	337	51.0%	11.0%
Labor and Employment	3	0.0%	0.0%
Military and Veterans Affairs	87	8.0%	2.0%
Personnel - Capitol Complex	20	70.0%	10.0%
Public Health and Environment	2	0.0%	0.0%
Public Safety	45	11.0%	0.0%
Revenue	15	0.0%	0.0%
Total	**3,170**	**35.0%**	**12.0%**

Source: JBC Staff Capital Construction briefing document, November 7, 2013.

The comparison suggests that DHS has more of its 337 buildings below 70.0 percent FCI than all other agencies except for the Department of Personnel – Capitol Complex, which has a significantly smaller inventory of 20 buildings. However, the OSA does not use an FCI comparison across agencies because agencies self-report and while methodology is objective, the evaluation process may vary by about ten percent higher or lower based on the evaluator.

Staff requested additional information from DHS on their buildings and found that only 283 of the 337 buildings, or 83.5 percent, have an FCI rating. The OSA reports that less than 15 percent of DHS buildings have received an FCI audit in the last five years. The OSA reports that typically, DHS will expend the effort of an FCI audit for a building in need of controlled maintenance. The Department focuses its staff time and resources on maintenance rather than on additional administrative tracking.

DHS self-reports an average FCI across all buildings at 66.6 percent. Staff similarly calculated a 64.0 percent average and 65.3 percent median FCI rating for Department buildings based on data provided. On a square footage basis rather than by building, staff calculated an average FCI of 67.7 percent. **While it may be a reasonable general indicator, due to the large number of DHS buildings, the number of buildings lacking an FCI rating, and the small percentage audited in the last five years, staff questions the degree of accuracy provided by the FCI measure as an objective and specific evaluation of the condition of Department buildings.**

Facility Valuation Trend Comparison
The OSA reports annually on state agency building space measured in gross square feet (GSF). Additionally, the OSA uses the State's Risk Management Program's current insured replacement value (CRV) as its standard measure of building value. While this measure does not capture *market value*[1], it reduces the administrative cost of annually establishing a standard value

[1] General market value indicators can be estimated based on type of building and square footage in a given location. However, in order to accurately determine market value, assessments of the condition of building systems would need to be incorporated. For accuracy, a *market value* assessment would require the equivalent of a professional real estate appraisal on an ongoing basis for all buildings in the State.

measure across all buildings in the State. Additionally, it uses a generally accepted value determined by an interested but independent third party, reducing concerns of uneven or subjective value judgements or disagreements over valuation methodology by the OSA. The following tables compare Department changes in GSF and CRV to other state agencies and the state average.

Department of Human Services 10-year GSF Trend and Comparison (millions)						
	Human Services	Corrections	Higher Education	Agriculture (low)	CDPHE (high)	All State-funded Buildings
FY 2014-15	3.48	6.45	30.94	0.88	0.11	46.33
FY 2013-14	3.47	6.54	30.17	0.83	0.11	44.26
FY 2012-13	3.51	6.97	29.52	0.83	0.09	43.88
FY 2011-12	3.51	7.12	28.89	0.83	0.09	43.31
FY 2010-11	3.51	7.13	28.31	0.83	0.09	42.68
FY 2009-10	3.28	6.60	27.81	0.83	0.09	41.60
FY 2008-09	3.28	6.60	27.28	0.78	0.09	41.03
FY 2007-08	3.28	6.58	26.65	0.78	0.09	40.42
FY 2006-07	3.31	6.70	25.83	0.78	0.09	39.76
FY 2005-06	3.31	6.58	25.29	0.78	0.09	39.06
FY 2004-05	3.31	6.54	24.45	0.78	0.09	38.15
10-year Change	5.4%	(1.4%)	26.5%	12.2%	28.0%	21.4%
10-year Average	0.5%	(0.1%)	2.7%	1.2%	2.8%	2.1%

Department of Human Services 10-year CRV Trend and Comparison (millions)						
	Human Services	Corrections	Higher Education	Agriculture (low)	CDPHE (high)	All State-funded Buildings
FY 2014-15	$670.8	$1,348.9	$7,712.3	$87.8	$52.2	$10,936.0
FY 2013-14	693.7	1,371.6	7,298.7	81.7	44.7	10,223.9
FY 2012-13	743.7	1,361.8	6,936.8	81.7	35.9	9,924.7
FY 2011-12	640.2	1,210.6	6,522.2	81.7	35.9	9,228.1
FY 2010-11	638.5	1,211.6	5,923.6	81.6	27.9	8,603.5
FY 2009-10	580.1	1,073.9	5,925.7	81.7	27.7	8,453.9
FY 2008-09	538.1	938.8	5,346.5	77.1	25.3	7,622.8
FY 2007-08	540.1	919.3	4,938.4	76.7	15.6	7,186.5
FY 2006-07	557.3	931.5	4,488.9	76.7	15.6	6,769.2
FY 2005-06	574.2	930.5	4,376.2	70.6	14.4	6,662.4
FY 2004-05	$523.1	$919.3	$3,874.9	$70.6	$0	$6,037.4
10-year Change	28.2%	46.7%	99.0%	24.4%	262.8%	81.1%
10-year Average	2.8%	4.7%	9.9%	2.4%	26.3%	8.1%

The OSA takes the current replacement value divided by the gross square footage (CRV/GSF) to arrive at a current replacement value per square foot by agency. Holding GSF steady, this value will go up over time based on real property appreciation and inflation; and likewise, this value will go down over time with building deterioration. Given the use of insured replacement value, the total statewide value, state agency subtotal value, or specific building values might vary by other valuation methods. However, an agency-to-agency or agency-to-statewide comparison should give an accurate relative value. Additionally, the use of rates of change over time will provide an accurate comparison of change in valuation figures by state agency. The following tables compare Department change in CRV/GSF to other state agencies and the state average.

Department of Human Services 10-year CRV/GSF Trend and Comparison

	Human Services	Corrections	Higher Education	Agriculture (low)	CDPHE (high)	All State-funded Buildings
FY 2014-15	$192.61	$209.18	$249.26	$99.77	$463.51	$236.04
FY 2013-14	199.81	209.64	241.94	98.53	399.15	231.01
FY 2012-13	211.89	195.30	235.02	98.72	379.78	226.19
FY 2011-12	182.38	170.02	225.74	98.72	379.78	213.09
FY 2010-11	181.90	170.01	209.23	98.68	316.50	201.58
FY 2009-10	177.07	162.75	213.10	98.53	314.23	203.20
FY 2008-09	164.25	142.19	196.01	98.35	287.93	185.79
FY 2007-08	164.61	139.73	185.29	97.95	177.39	177.80
FY 2006-07	168.19	139.01	173.78	97.95	177.39	170.24
FY 2005-06	173.26	141.43	173.07	90.01	163.52	170.58
FY 2004-05	$158.23	$140.64	$158.46	$90.01	$0.00	$158.23
10-year Change	21.7%	48.7%	57.3%	10.8%	183.5%	49.2%
10-year Average	2.2%	4.9%	5.7%	1.1%	18.3%	4.9%

Since FY 2004-05, the Department's insured replacement value per square foot (CRV/GSF) has increased 21.7 percent, or 2.2 percent per year. In comparison, the statewide CRV/GSF for all state buildings increased 49.2 percent, or 4.9 percent per year. <u>The State average CRV/GSF measure is 22.7 percent higher than the Department's over that 10-year period although both measures were valued equally at $158.23 in FY 2004-05.</u> Additionally, in comparison, Corrections experienced a 4.9 percent annual average increase, matching the State average, and Higher Education experienced a 5.7 percent annual average increase.

Excluding the institutions of higher education, DHS has the second largest presence in building space, after Corrections. Additionally, DHS serves several different programs, including behavioral and mental health, developmentally disabled, youth corrections, and veterans' community living centers, that require 24-7 client care and facility operation, similar to the programmatically more singular Department of Corrections. DHS institutional programs include a forensic incarceration facility that requires similar security needs to the standard Department of Corrections facility while handling additional, specialized mental and behavioral health requirements. So while the Departments of Human Services and Corrections are similar in their institutional facility needs, the Department of Human Services is responsible for services and programs that are more diverse in the client communities served and whose needs are just as critical in terms of providing adequate client, staff, and public safety and security.

The current replacement value per square foot comparison suggests that DHS buildings have not kept pace with other building- or facility-intensive state agencies and with the statewide average on the basis of this measure.

Controlled Maintenance Trend Comparison
The following tables compare the Department's controlled maintenance appropriations and CM to CRV ratio to other state agencies and the State average.

Department of Human Services 12-year Controlled Maintenance Trend and Comparison						
	Human Services	Corrections	Higher Education	Agriculture (low)	CDPHE (high)	All State-funded Buildings
FY 2015-16	$1,672,756	$2,708,075	$10,250,453	$0	$0	$19,195,021
FY 2014-15	4,814,489	3,558,036	26,809,180	992,325	323,200	45,227,361
FY 2013-14	4,522,711	5,697,063	26,078,178	988,738	0	42,926,689
FY 2012-13	2,766,814	3,330,583	19,528,102	709,680	0	29,087,933
FY 2011-12	1,495,808	1,822,167	2,510,461	0	0	8,418,297
FY 2010-11	1,202,511	1,712,167	3,173,381	0	0	8,129,588
FY 2009-10	3,065,905	3,419,032	12,302,365	709,680	184,089	22,235,321
FY 2008-09	3,029,959	4,557,407	10,749,579	1,754,112	0	24,087,798
FY 2007-08	5,008,230	5,046,160	27,901,510	1,853,137	0	49,957,102
FY 2006-07	5,429,689	5,900,720	28,020,164	2,109,681	377,300	49,005,632
FY 2005-06	3,679,382	3,312,530	9,944,028	750,000	0	20,835,292
FY 2004-05	0	0	0	0	n/a	0
12-year Average	**$3,057,355**	**$3,421,995**	**$14,772,283**	**$822,279**	**$80,417**	**$26,592,170**

Department of Human Services 10-year CM/CRV Trend and Comparison						
	Human Services	Corrections	Higher Education	Agriculture	CDPHE	All State-funded Buildings
FY 2014-15	0.72%	0.26%	0.35%	1.13%	0.62%	0.41%
FY 2013-14	0.65%	0.42%	0.36%	1.21%	0.00%	0.42%
FY 2012-13	0.37%	0.24%	0.28%	0.87%	0.00%	0.29%
FY 2011-12	0.23%	0.15%	0.04%	0.00%	0.00%	0.09%
FY 2010-11	0.19%	0.14%	0.05%	0.00%	0.00%	0.09%
FY 2009-10	0.53%	0.32%	0.21%	0.87%	0.67%	0.26%
FY 2008-09	0.56%	0.49%	0.20%	2.28%	0.00%	0.32%
FY 2007-08	0.93%	0.55%	0.56%	2.41%	0.00%	0.70%
FY 2006-07	0.97%	0.63%	0.62%	2.75%	2.42%	0.72%
FY 2005-06	0.64%	0.36%	0.23%	1.06%	0.00%	0.31%
10-year Average	**0.58%**	**0.36%**	**0.29%**	**1.26%**	**0.37%**	**0.36%**

In FY 2014-15, $45.2 million in controlled maintenance was appropriated for a statewide total CRV of $10.9 billion, equal to 0.41 percent of current replacement value. Averaged over the ten-year period, statewide appropriations for controlled maintenance to CRV ratio for all State buildings was 0.36 percent. In comparison, the Department's CM/CRV ratio for FY 2014-15 was 0.72 percent; its 10-year average CM/CRV ratio was 0.58 percent. Similarly, when compared to Corrections, the Department of Human Services nearly doubles the Department of Corrections' CM/CRV ratio when compared in individual years or averaged across longer periods.

When comparing controlled maintenance funding by state agency and by the statewide total, the Department generally shows a higher CM/CRV ratio. **The Department has received a greater share of controlled maintenance dollars relative to the statewide average.**

The State Architect recommends that annual controlled maintenance (CM) be funded at a minimum of 1.0 percent of current replacement value. It would appear that the closer an agency gets to the 1.0 percent recommendation, the better it is doing by that controlled maintenance standard. **However, when compared to the statewide average or other state agencies, it suggests that the Department's buildings are, annually, in greater need of controlled maintenance dollars than the average state building.**

Whether measured by facility condition index, current replacement value by gross square foot (CRV/GSF), or by the expenditure of controlled maintenance dollars, the data suggests that the Department's buildings are generally older and more deteriorated than those in other state agencies. Additionally, **staff is concerned that the relatively higher level of annual controlled maintenance spending for Department buildings** compared to the statewide average and compared to a department with 24-7 facilities like Corrections, **may be coming at a higher cost to the State over time, than the cost to renovate or replace the highest maintenance portion of the Department's building stock.**

DHS Facilities Management Unit (DFM)

The Department's facilities management unit, DFM, is responsible for all aspects of facilities management and is located in the Office of Administrative Solutions. DFM is funded, along with other administrative functions, through the Department's indirect cost allocation to divisions and programs.

In FY 2014-15, DFM had a total cost of $20.9 million and included 315 FTE. For comparison, the Capitol Complex – Facilities Management unit (Capitol Complex) in the Department of Personnel delivers similar facilities management services for Denver-Capitol area and other multi-agency buildings. Capitol Complex was budgeted $13.5 million and 55.2 FTE in FY 2014-15.

The OSA reports 3,818,063 GSF for DHS buildings and 1,684,300 GSF for Capitol Complex buildings. On this basis, DFM delivers facilities management services at $5.48 per square foot, while Capitol Complex delivers its facilities management services at $8.24 per square foot.

It is possible that DFM is providing a higher level of maintenance than average for state buildings as suggested by its higher controlled maintenance funding. Or it could mean that DFM is not doing a good enough job of maintaining buildings and so controlled maintenance needs are higher. However, based on the preceding analysis, it appears that DFM is likely servicing older and higher maintenance buildings and may be doing it at a lower cost than Capitol Complex.

Interim OSA Controlled Maintenance Visits
During the interim, staff visited several DHS campuses and other facilities, including Ft. Logan, Pueblo, and Grand Junction, with OSA staff during their controlled maintenance visits. These visits entailed meeting with facilities management staff – Department-level and campus-specific managers – and tours of specific controlled maintenance project needs and recently completed or in-process controlled maintenance projects. These tours almost entirely consisted of visual reviews of building systems, including roofs, windows and facades, elevators, heating, ventilation and air-conditioning (HVAC), electrical, and mechanical systems, and typically included walk-throughs of utility tunnels and mechanical rooms rather than general building tours of program services.

On these visits, staff was able to converse extensively with campus facilities managers about their work, resources, and Department support. Staff was generally impressed with both the awareness and knowledge of campus systems, including weaknesses and trouble spots, and with the level of attention paid to campus building systems by DHS campus facilities managers. Given the relatively aged and deteriorated condition of many of the Department's buildings and building systems, and what appears to be good work by DFM in overseeing facilities at the Department, regional, and campus or facility levels, staff was left to consider the effectiveness of the current, governing, budget, and Department management structure.

The General Funded Model
DFM can be described as a *cost-centered, indirect cost-funded model, serving General Funded program needs*. This is a traditional, government services model.

The *cost center* is an internal business service provider for the organization, with base costs paid to fund the program regardless of the level or quantity of services actually provided to end users within the organization. Theoretically, gradual adjustments would be made from year to year to increase or decrease funding for services based on historical usage. Practically, funding is determined through executive level decisions for apportioning available department resources.

In contrast, a *profit center* would sell its services directly to programs and divisions and earn revenue for its operations based on actual services provided. Its organizational growth or reduction is objectively tied to its revenue. A profit center is essentially a cash-funded program.

The *indirect cost* approach is "costed" or apportioned to programs or divisions through an indirect cost assessment. The Department's indirect cost assessment includes all other administrative "overhead" tasks and responsibilities that are handled for programs and divisions at the department level. Indirect cost methodology typically uses a proportional assessment based on FTE or personal services appropriations. It may also follow a federally-allowed, defined percentage rate charged on every dollar of revenue collected from federal programs for administrative overhead that would be equally assessed on cash-funded programs.

The more difficult it is to identify discrete services or to price or collect a fee for such services, the more appropriate it is to use an indirect cost approach. So while indirect cost methodology is reasonable for apportioning human resources or accounting costs, it may not be a reasonable method to account for potentially significant differences in facility cost by program or division; especially when such costs can be discretely identified.

The weakness of an indirect cost approach is that there is not a clear cost signal provided to the end user for the cost of those services. Services appear to be "free". In the case of DFM, funding is entirely disconnected from a specific program's actual facility costs. In the case of DHS, the "end user" includes divisions and programs, executive managers, and legislative budget authorities. <u>The actual facility costs for programs, particularly for facility-centric programs such as those located in specialized and dedicated 24-7 facilities, is vague and generally unknown and therefore the full cost of program expansion or the full savings from program reduction are also vague and unknown.</u>

This varies from a *direct-cost* approach which would bill directly for actual services provided to programs or divisions. The disadvantage of a direct cost approach is the administrative cost of pricing, billing, collecting, and accounting for services provided. Based on conversations with DFM managers, it appears that DFM tracks all costs by facility that would be necessary for implementing a direct cost model.

The traditional, *General Funded model* relies on the relative availability of state funds. Even when there is a relative scarcity of state funds in a given year, the base budget assures that the operating budget will continue to be funded at a similar, base-adjusted level from the prior year. However, capital construction and controlled maintenance are not funded annually from a base budget. In this case, DFM and its personal services and operating expenses are funded on a stable basis from year to year, but capital construction and controlled maintenance for Department facilities are not necessarily funded consistently from year to year.

Additionally, DHS is a particularly program-intensive state agency, delivering a fairly complex spectrum of client care services. It is reasonable that such a program-intensive department will focus its energy on the need for additional resources for annual program operating needs first. That is not to suggest that facility needs are not requested by the Department. They are sought through the capital construction budget, and increasingly in recent years through the operating budget. They are usually a mix of very large – such as a Department-wide master plan, or facility replacement requests – and relatively small – controlled maintenance to keep current facilities updated just enough relative to life safety, security, and accreditation requirements.

But facility needs are generally not considered or built into program expansion plans and requests. Facility needs remain afterthoughts relative to constant, incremental program changes, until the point is reached that very large facility needs have to be addressed but money is only available for annual, "band-aid" maintenance projects. DHS program priorities do not include or account for an incremental recognition of facility needs, because from the Department's perspective:

- To recognize and fully account for the cost of facilities might endanger a request for policy change and program expansion due to the additional, incremental cost for facilities.

- Facilities can always be addressed after the fact, when they are absolutely necessary for continued client, staff, and public safety and security.

- Facilities will necessarily be funded when it is made clear to budget authorities, through life safety and security failures, that additional moneys have to be spent on facilities.

And, consistent with a General Funded model, capital construction and controlled maintenance funding is regarded as generally outside of the Department's control – not something the Department can actively manage and therefore "be responsible for". The Department is entirely dependent and subject to the capriciousness of the economy and the General Assembly's annual decision-making. This approach leads to a lag in proactively planning for and improving or replacing deteriorated and unsuitable program facilities until the point of building failure; a general approach of "facility funding by crisis".

So, for DFM, controlled maintenance and capital construction funding is entirely reliant or dependent on the annual availability of state funds. Then, DFM is additionally dependent on the Department's policy priorities and its general, low-priority, low-effort, low-accountability, crisis-funding approach to facilities. DFM, as it is currently structured and funded in the Department's relatively large program structure is organizationally unable to proactively manage or guide Department facility needs. It is structurally bound to operate from a reactive position of "hoping" for funding for additional controlled maintenance and capital construction and it provides day-to-day maintenance to the extent possible with its operations funding.

This reactive stewardship of state resources along with higher-than-average annual spending on controlled maintenance that still provides only a bare minimum to keep facilities functional for ongoing program needs may ultimately come at a higher cost to the State over time. The inefficiency and waste is compounded by what appears to be an otherwise well-functioning facilities management organization that works efficiently with the resources it receives.

Cash-funded Enterprise Model

A cash-funded model – profit-centered and direct-cost funded – is the opposite of the indirect cost, General-Funded model. While the model requires the additional administrative tasks of pricing, billing, collecting, and accounting, a cash-funded model can price real property lifecycle costs and ongoing management services through lease payments and facilities management fees based on actual costs. Programs and divisions would have actual cost information to better understand the cost of their space. Executive and legislative decision makers can make better, more informed choices about program expansion and trade-offs between cost and quality of facilities.

The creation of an enterprise entity takes the cash-funded model one step further and provides facilities management outside of the Department and outside of direct state funding, potentially with access to bond financing authority. While a cash-funded enterprise can emulate industry property management practices, a state enterprise entity can be required to deliver these services at cost, preserving cost savings for the State that would otherwise accrue to profits in commercial leases.

Real Property Asset Management

Real property asset management is a process of decision-making and implementation regarding real property acquisition, use, and disposition assuring that a property is operated for optimum short-term and long-term performance, including fiscal sustainability and enhancement of value. Asset management can also be described as a systematic process of deploying, operating, maintaining, upgrading, and disposing of assets cost-effectively over every year of an asset's lifecycle. Asset management proactively matches real property management and property development with customer needs over defined and planned periods of time. Asset management objectively prices property lease payments and property management services to ensure financial sustainability through operating cash flow and reserves for real property lifecycle planning – acquisition, use, and disposition – that maximizes asset value for cost.

A State Real Property Asset Management Trust and Finance Authority Enterprise

Currently, DFM delivers property management services – day-to-day maintenance – but not asset management services. The current, DHS-DFM, General Funded model does not provide a governance or management performance incentive structure that is conducive to effective and efficient, short- and long-term, real property asset management. The Department of Human Services – as a program-intensive department – **should not be in the property management business.** The Department's entire effort should go toward management of its programs.

Facility management and property asset management should be provided as a direct cost business service to the Department. A cash-funded, enterprise model for real property asset management could provide a governing and management structure that incentivizes a customer-service approach to providing facilities and facility services for Department programs at cost while ensuring lifecycle financial sustainability and improved stewardship of the State's real property assets.

The creation of an asset management enterprise will entail the imposition of lease payments to be made by program or division for all Department facilities managed by the enterprise. This will increase the operating cost for programs by the cost of those lease payments. However, decision making for Department facilities by the Department, its programs, and budget authorities will be enhanced with clear and accurate cost information regarding options and levels of facility quality with a singly-purposed and fully-committed property asset management enterprise overseeing Department facilities.

Advantages include:

- A more business-based approach to asset management and stewardship of state resources.

- As facilities are developed and built within the enterprise management structure, the State's need to fund controlled maintenance for Department facilities will be reduced and possibly eventually eliminated.

- The elimination of the budgetary conflict about adequate funding for capital construction after operating expenses have been determined. Capital construction will receive its funding through the operating budget in the form of a lease payment that is equal to the annual lifecycle cost (including finance payment as necessary), annual operating expenses, and a capital reserve for controlled maintenance, capital renewal, and disposal.

The keys to the creation of a well-functioning asset management enterprise include:

- A well-defined governing board and structure that includes ongoing legislative oversight of property purchase decisions.

- Specified State policy goals regarding asset value maximization and cost minimization.

- Transparent reporting of measures of achievement through an annual asset management plan that includes measures of customer service and enterprise accountability.

- An organizational compensation structure that incentivizes meeting and exceeding annual, asset management (value generation and cost containment) and customer service goals. Compensation incentives should be designed to encourage efficient use of resources and prevent excessive organizational growth, service withholding, and other political forms of power expression that perpetuate the incentives of a traditional state program or agency.

Recommendation
Staff recommends that the Committee pursue legislation to create a State Asset Management Trust enterprise to manage all Department of Human Services real property assets.

Such legislation should include the following:

- The creation of an enterprise to function as a state asset management trust for Department of Human Services properties, effective upon passage.

- The establishment of an unpaid managing board, to be selected and organized by May 1, 2016, including membership requirements and responsibilities. Board members should include the chair of the Joint Budget Committee, the chair of the Capital Development Committee, the director of the Governor's Office of State Planning and Budgeting, the State Architect, and at least five non-government members with expertise in commercial real estate, public finance, commercial real estate finance, or real property capital asset management.

- The hiring of an executive director and administrative support staff by July 1, 2016;

- The provision for a General Fund loan for the enterprise's start-up costs, not to exceed operating expenses for the first 18 months, to be repaid over no more than five years.

- The development of preliminary asset management policies by November 1, 2016, that includes guidelines for the preparation and public release of an annual asset management plan for all capital assets managed by the enterprise;

- The development of an enterprise-wide compensation incentive structure by November 1, 2016, based on achieving defined customer satisfaction metrics and meeting long term fiscal sustainability through revenue, cost, and reserve targets set within the annual capital asset management plan.

- A preliminary budget recommendation by November 1, 2016, for leases to be paid by Department of Human Services programs to the enterprise beginning in FY 2017-18.

- The responsibility to establish leases and to begin collecting lease revenue from Department of Human Services programs beginning in FY 2017-18:
  - To provide for payment of ongoing operating costs of existing facilities, including custodial services and day-to-day maintenance;
  - To provide for payment of bond financing or lease-purchase payments for new facilities;
  - To provide for an adequate capital reserve or sinking fund for future controlled maintenance and capital renewal for enterprise-financed properties; and
  - To provide for the administrative costs of the enterprise.

- Recommendations to the Joint Budget Committee for additional legislation to codify in statute, as necessary:
  - Enterprise organizational needs, specifications, or requirements including finance authority;
  - Asset management policies;
  - Compensation incentive structures;
  - Business processes related to rights and responsibilities of the enterprise and its customers;
  - The transition to ownership of Department of Human Services properties;
  - Budget recommendations for the elimination of existing Department facility management appropriations and for the transition of Department facility management staff to the enterprise.

Other DHS Property-specific Recommendations

As previously stated, the Department **<u>should not be in the property management business.</u>** The Department should not act as a lessor for its buildings on the Grand Junction Regional

Center campus in an effort to preserve the campus and earn revenue on unused properties. Similarly, the Department should not act as a lessor for its otherwise vacant buildings at the Fort Logan campus.

Section 26-1-133.5, C.R.S., authorizes the Department to rent its surplus facilities on the campuses of the various institutions operated by the Department. The statute does not provide guidance regarding the recovery of the actual full cost of the property. It only requires that the "Department shall not enter into any lease agreement ... that is expected to result in a financial loss to the State."

The current property rental program at Fort Logan does not adequately price rents to recover the full cost of those buildings. Rather, the rental program only charges a nominal amount for the purpose of paying for maintenance projects for those buildings. Generally the surplus properties are leased to community non-profit organizations at a below-market rate. While the assistance provided to these programs from a below-market rent generates a social benefit, not recovering the full cost of the properties is a subsidy that is being provided by the State through this process.

If providing space for community programs at below-market rents is the public policy intention of this statute, then that goal should be clarified. Currently, the generation of any revenue that helps to pay for facility costs arguably meets the statutory requirement. Under current statute and Department practice, the Department is recovering less than the full lifecycle cost of these properties, and, in effect, subsidizing the facility cost for these programs. Keep in mind, without any additional statutory guidance, a real property asset manager charged with the responsibility for its own long term fiscal sustainability cannot lease a property for an amount less than the full lifecycle cost of that property.

Grand Junction Regional Center Campus
Staff recommends that the entire Grand Junction Regional Center campus be sold, regardless of policy and program decisions that may be made regarding the operation of a regional center in Grand Junction. If it is determined that there should be a regional center in operation in Grand Junction, then plans should be made for such a facility, just as group homes and related facilities are located in the community away from the campus. The historical property of campus buildings and utility infrastructure are overly expensive to actively maintain for a diminished client community. Any clients currently served in Grand Junction could be served at a lower cost in a more appropriate facility in the Grand Junction area. Ownership and maintenance of the campus absorbs excessive state resources that might otherwise be directed to improved or expanded client services or other needs.

It appears that the property – the campus as a decision point – may be "driving" or otherwise distracting the discussion from the necessary focus on the relevance of client and "program" needs apart from the existence of the campus. **Staff recommends that the Committee pursue legislation as necessary to sell the Grand Junction Regional Center campus as soon as possible.**

Issue 4: Capital Construction Funding for Institutions of Higher Education

Institutions of higher education, as enterprises, are treated with a substantial degree of independence and limited legislative oversight. However the current budget request process for capital construction leads to a "passive-aggressive" approach that spends institution resources on lobbying rather than efficiently managing capital assets. This approach is counter to proactive management suggested by their enterprise status and by the approach employed by institutions to secure auxiliary buildings and manage academic programs.

SUMMARY:

- At times, institutions take a proactive approach to their buildings, facilities, and campus needs – especially for cash-funded auxiliary buildings and structures – identifying and matching projected revenue with costs for facilities and improvements.

- For academic buildings, institutions take a "passive-aggressive" approach similar to General Funded state agencies, passively hoping for State funding and aggressively lobbying for project approval.

- General Funding provides an unpredictable, inconsistent, and inequitable method for providing capital construction and controlled maintenance funding across all institutions, dependent on uneven economic and General Fund conditions from year to year and placing institutions in a politically competitive "queue" for project approval over several years.

- The "queue" may also lead to larger-than-necessary capital project requests, causing institutions to bundle and phase projects in order to satisfy multiple campus and academic needs in a single approval decision.

- Institutions should be empowered to engage in a proactive approach to capital construction and controlled maintenance needs whether planning for academic or auxiliary buildings.

RECOMMENDATION:

Staff recommends that the Committee pursue legislation and adopt Committee policies that:

- **Funds higher education institutions capital construction and controlled maintenance through a per capita method like the College Opportunity Fund (COF), based on a Colorado resident FTE count attending each institution. In recognition of the higher facility costs for science labs, it is recommended that the "Capital COF" include a 0.5 FTE proportional increase for each Colorado FTE in a third year or higher undergraduate or graduate degree program in lab sciences, applied sciences or engineering, or health sciences.**

- **Places the Capital COF amount in the operating budget as a "base budget" line item to provide a consistent level of funding from year to year.**

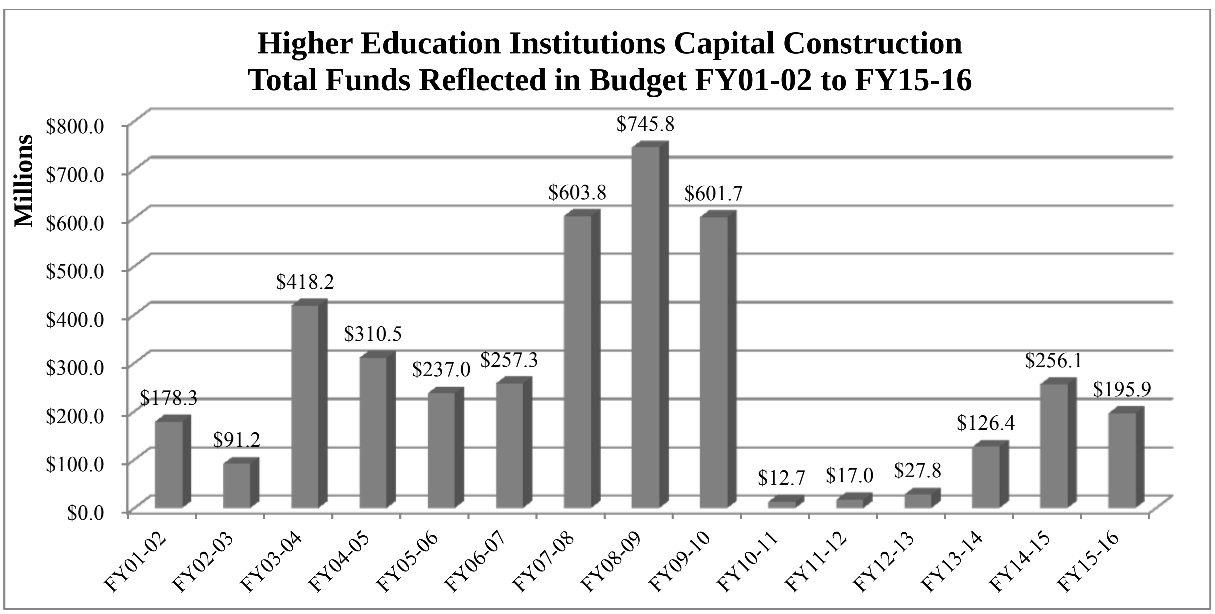
- **Requires each institution to plan and account for all state-funded capital construction and controlled maintenance spending through a capital asset management plan to be approved by institution boards, the Colorado Commission on Higher Education, and the Capital Development Committee.**

Staff also recommends that the Committee pursue a concurrent resolution to amend the State Constitution to distribute 40 percent of Net Lottery Proceeds for higher education institutions capital construction to provide a consistent level of funding regardless of the availability of State funds in a given year. Staff recommends that the Committee consider pursuing contingent legislation that would provide a proportional match from the General Fund as a shared commitment to the primary fund stream. Staff recommends an annual, total funding target equal to 50 percent of Net Lottery Proceeds.

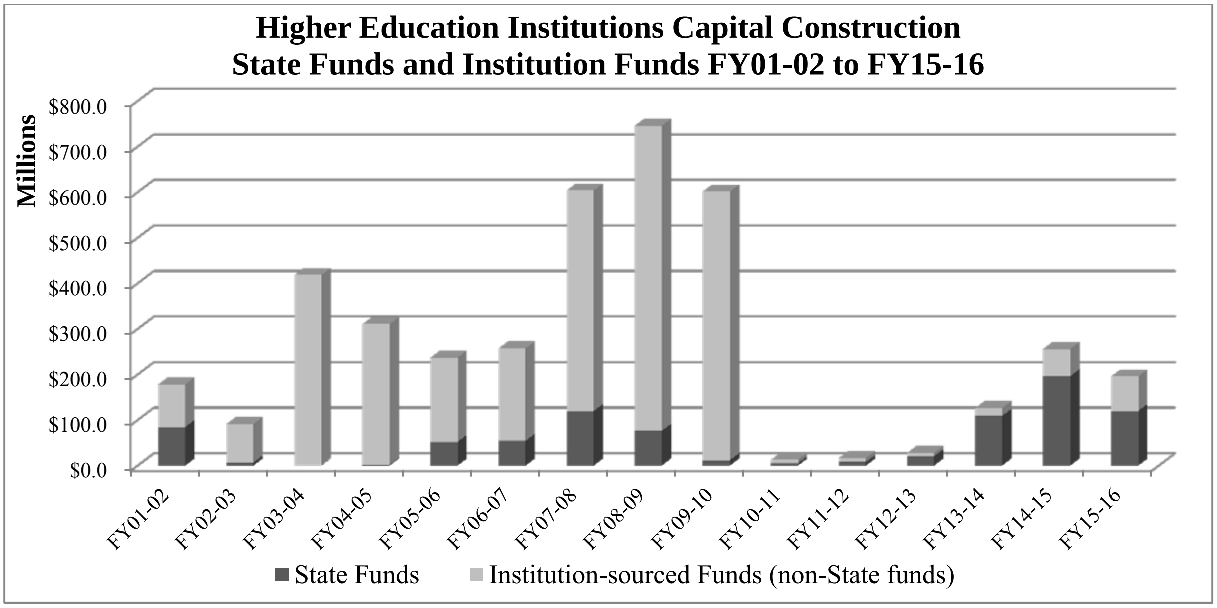
DISCUSSION:

A 15-year Overview of Capital Construction Funding

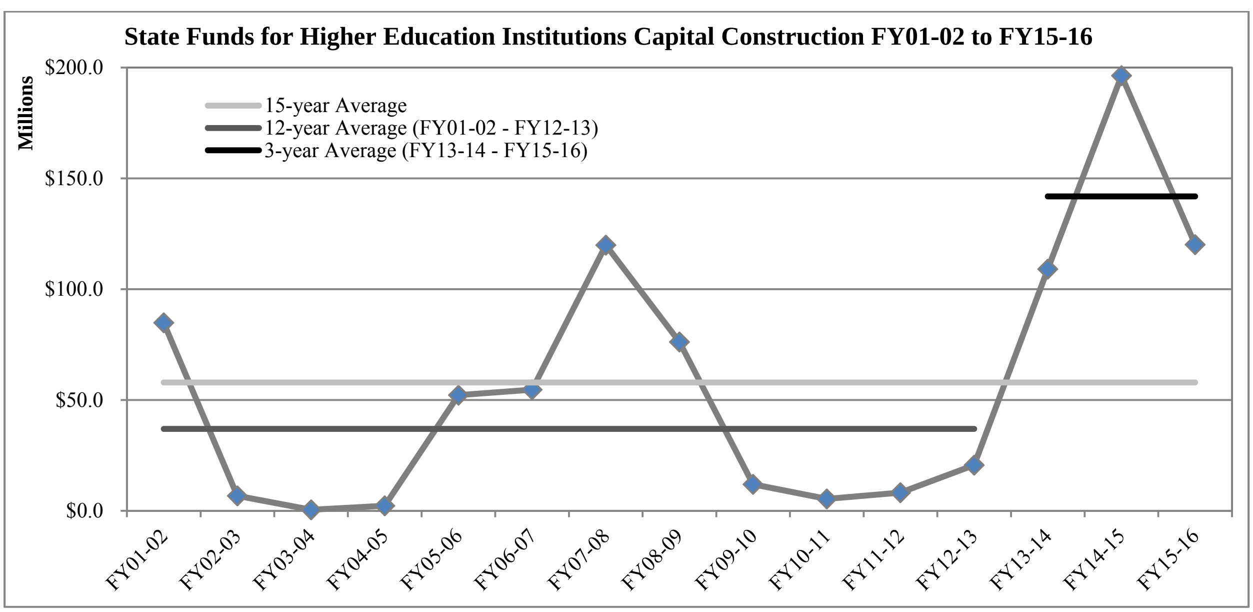
Over the last 18 years, state funding for capital construction has been predominantly limited to funding from the General Fund. Funding for capital construction varies from year to year based on the availability of General Fund. State funding for institutions of higher education (institutions) capital construction has followed that trend. The following chart outlines all capital construction funding reflected in the budget for institutions since FY 2001-02.



While year-to-year funding levels have varied, the greatest change reflected in the chart occurred in the significant decrease after FY 2009-10. Through that fiscal year, institutions included all capital construction projects in the budget. After that, exclusively cash-funded projects did not require annual appropriation authority. The next chart identifies the share of state funds and institution-sourced (all other) funds over the past 15-year period.



Most of the funds through FY 2009-10 were provided through institution-sourced funds. Over the nine-year period beginning in FY 2001-02, the State provided $0.4 billion or 11.9 percent of all funds and institutions provided $3.0 billion or 88.1 percent of all funds. In the six years since FY 2010-11, the State provided $459.8 million or 72.3 percent of all funds and institutions provided $175.9 million or 27.7 percent of all funds. The most recent six-year period likely better reflects the respective share of funding for academic facility projects since entirely cash-funded projects are predominantly auxiliary facilities. The following chart reflects only state funds provided for institutions capital construction over the same period.



State funding varied from year to year, but averaged $58.0 million per year over the 15-year period. State funding provided in the last three years, during a period of economic and General Fund recovery, was exceptionally high relative to the rest of the period and averaged $141.9 million per year. State funding over the previous 12 years averaged $37.0 million per year.

As illustrated in the charts, state funding for capital construction is inconsistent from year to year based on the availability of General Fund. Any economic growth and multiplier effects generated from capital construction spending in a given year reinforces the business cycle; multiplier benefits to the economy from construction spending are generated when the economy is already healthy and reduced when the economy is depressed. Additionally, capital construction spending is down in economic down years when construction costs are likely to be more affordable and up in economic up years when construction costs are likely to be more expensive. <u>The current funding model is unpredictable, inconsistent, and does not benefit the State economically or fiscally.</u>

Observations on Higher Ed Capital Construction Requests

At times, institutions take a proactive approach to their buildings, facilities, and campus needs – particularly for cash-funded auxiliary buildings and structures. It is a straightforward business decision to project cash fund revenue sources from an auxiliary facility project and generate that revenue with up-front financing for the project. Similarly, it is also a straightforward business decision whether to maintain, upgrade, or eliminate auxiliary facilities based on revenue and cost projections. With respect to auxiliary buildings as with academic programs, institutions function in a proactive, business-like manner, like the enterprises they have been designated to be.

Institutions may occasionally take a proactive approach to their academic buildings such as when donors step forth to fund an academic building or when an institution determines that it cannot wait for the State to fund an academic building, renovation, or repair and moves forward on a project using institutional funds. However, more commonly, institutions take a "passive-aggressive" approach to planning for state-funded academic buildings: hoping for funding but lobbying aggressively and engaging in competitive political positioning relative to other institutions' and state agencies' capital requests, typically over several years for any single project.

This "politically competitive" approach is not surprising for a state-funded process; it is the approach parties involved in the budget process expect, understand, and accept as a part of the budget process. But on a statewide basis, this approach expends institutional resources in political competition that could be more productively invested in capital asset management.

It is additionally ironic that institutions' passive-aggressive approach to state-funded academic buildings is more similar to the approach taken by General Funded state agencies than to their own "enterprise-style" of management of auxiliary facilities and academic programs generally. Institutions aggressively plead their case for State funding support, appealing to the State's responsibility for more adequately funding the higher education of the State's students and the needs of the academic programs. Given the advantage that institutions have in delivering a public service that generates economic benefits, institutions also speak to the vast but unquantified economic returns to the State resulting from projections for increased student enrollment and issuance of degrees, and enhanced community and research facilities secured for a given project.

While institutions generally make requests annually, they are also aware of the concept of "waiting their turn" for project funding. This "queue" approach to capital funding likely helps those institutions that happened to be "next in line" during a good funding year while limiting those institutions that happened to be "next in line" during a poor funding year. The queue approach gives the appearance of fairness over the long run – at least conceptually, but definitely not in a given year and likely still unevenly over the long run in reality. The queue approach may also have the tendency to fund a "next in line" project request ahead of genuine need or return on investment for the good of the State as a whole.

On the issue of prioritization beyond the "queue", should institutions be awarded state funds out of need – possibly indicating poor management and maintenance of campus facilities, infrastructure, and building systems? Or should institutions be awarded state funds because of a lack of need, which might suggest an institution's good stewardship of capital resources? If need is funded to a greater extent – as it generally is with crisis funding for state agencies, perhaps there is an incentive built into the process for institutions to more completely illustrate the need for state funds when it comes to maintaining academic facilities.

It also appears that institutions make larger than necessary, "bundled", and multi-year, "phased" requests. Institutions seek space for multiple program needs that could, and possibly even should, be addressed separately. It is in their interest to maximize their opportunity for total state funding for capital construction through a larger, bundled project approach that will address several campus needs in a single funding decision. These are some of the distortions away from rational enterprise management that are generated through the current, politically competitive process for project funding.

A "Capital COF" for Institutions of Higher Education

Institutions of higher education should engage in a proactive, enterprise-management approach to capital construction and controlled maintenance, whether planning for academic or auxiliary buildings. A consistent, predictable funding stream, with an annually fair and transparent funding formula across all institutions would allow institutions to manage and maintain academic facilities as rationally as auxiliary buildings, while reducing expenditures of energy and resources made through the politically competitive funding process. The current, annual, political request process could be replaced with a per-capita funding formula. A funding model similar to the College Opportunity Fund (COF) – a "Capital COF" – would ensure that the State is providing annual capital construction funding on an equitable basis across all institutions.

A Capital COF would give institutions control over decisions about funding new buildings, renovating existing buildings, controlled maintenance, or making payments for capital construction debt for academic facilities with the amount provided by the Capital COF. Such a model would encourage institutions to make better, long-range, and efficient decisions regarding the maintenance, upgrade, or elimination of academic facilities.

While this approach would eliminate annual institution capital construction budget decisions and JBC involvement, the Capital Development Committee would continue to be charged with overseeing and approving all institution of higher education capital construction projects through a capital asset management plan. A statutory requirement that each institution prepare a capital asset management plan that identifies where state funds intended for capital construction and controlled maintenance are being spent, along with other sources of revenue will enhance institutions' long-term and lifecycle management of capital assets.

The Capital COF model will reward institutions that are the most efficient and effective at planning and managing capital assets for the students, communities, and research areas they serve. This better-aligned incentive system will encourage more efficient and judicious campus facility planning that may include the elimination of unnecessary or overly expensive buildings and facilities for programs that are not delivering customers to justify expanded programs and facility buildout. Similarly, institutions with growing programs will receive immediate, annually adjusted, and justified funding feedback that will allow for expanded academic facilities with expanded academic enrollment. The Capital COF model should also eliminate overly bundled projects, as institutions will have an ongoing, stable, and predictable amount to spend. This will encourage efficient and necessary capital spending as determined by the institution and not as the result of of the current politically competitive funding approach to maximize state funds.

It is also reasonable to consider building into the Capital COF model an enhanced provision which counts every Colorado resident FTE in a third-year or higher degree program in research sciences, applied sciences or engineering, or health sciences at 1.5 FTE to better accommodate the increased cost of providing lab space for those academic programs. While the cost of constructing and maintaining lab facilities may be higher than what an enhanced 0.5 FTE count would deliver, institutions should do more on their own to account for revenue sources provided by improved lab and research facilities from research grants, industry partnerships, and enhanced enrollment of non-resident and resident students.

While it appears that institutions generally plan for ongoing fiscal health through academic program buildout and student enrollment growth, staff is concerned that not enough attention is being paid to capital asset management generally and lifecycle management of academic buildings in particular. Academic buildings are the capital assets at institutions that do not generate other cash revenues beyond tuition and research grant indirect cost recoveries. Staff is concerned that only a minimal portion of annual institutional revenue is currently being budgeted for capital asset maintenance. Capital replacement "sinking" funds for academic buildings appear to be almost entirely underfunded or not funded at most institutions. Annual institution revenue is predominantly expended on annual program operating costs with an inadequate set-aside for campus facility costs. It is possible that institutions are guided by the incentives built in to the traditional state funding model that sets the State as ultimately responsible for the fiscal stewardship of those facilities. This model needs to be changed to better align the incentives and more appropriately charge the institutional stewards with that responsibility.

Finally, the implementation of a Capital COF funding model suggests that this annual appropriation be included in the operating budget as a "base budget" line item, in order to provide consistent funding from year to year. The advantage to institutions is more reasonable control over a revenue stream that is consistent, predictable, and reliable. Currently, capital construction is funded as a new budget item annually and is considered as an optional item for state funding. This method of funding is not conducive to appropriate and reasonable asset management that will be gained by providing an ongoing base funding amount.

Net Lottery Proceeds
In 1982, the General Assembly created the Colorado Lottery. Net Lottery Proceeds are defined as funds remaining after lottery prize awards and administrative and operating expenses of the Colorado Lottery. Net Lottery Proceeds are distributed pursuant to a distribution formula which has changed a few times since 1982.

In the 16-year period from FY 1982-83 through FY 1997-98, net lottery proceeds provided $429.4 million in statewide capital construction funding. This distribution included $167.4 million over the last five years of that period from April 1, 1993 through FY 1997-98. The 1992 voter-approved amendment to the Constitution that created Great Outdoors Colorado (GOCO) set the distribution formula for the period from April 1, 1993, through FY 1997-98 for the purpose of winding down commitments to statewide capital construction, and also set the current distribution formula for the period since FY 1998-99, which excludes capital construction.

The current formula provides a distribution of 40 percent to the Conservation Trust Fund, 10 percent to the Division of Parks and Wildlife, and 50 percent to GOCO, up to a capped, inflation-adjusted amount. The remaining amount is distributed to the General Fund, but since FY 2001-02 the excess has been distributed to P-12 public school capital construction funds.

While the amendment was adopted 23 years ago, the current formula has been in place 18 fiscal years. Given the constitutional requirements and current structural strains on state funding, it may be appropriate to revisit and propose an adjustment to the distribution formula to better address current state funding needs and priorities a quarter century later, while keeping in mind the funding intent of the 1992 amendment.

Preservation vs. Economic Growth and Increased Access to Higher Education
Preservation generally, whether historic or for outdoor recreation, is good and should be valued in itself. However, at some point, other values may come into conflict with an open-ended funding commitment to preservation above all else. At this point it is appropriate to reconsider and ensure that, as a State, we would choose to continue providing exclusively for those particular goods or values, when we may not be providing enough of other goods that the citizens of the State also value. <u>An adjustment of this revenue source implies a reprioritization for improved economic opportunity for Colorado students at the expense of outdoor recreation.</u> In addition, there is likely to be a noticeable economic return to local and regional economies, as well as statewide, generated by the State's institutions of higher education that is not generated through current preservation funding.

Recommendation
Given the issues that the General Assembly and the JBC have in addressing the constitutional requirements for funding State needs, it is reasonable that <u>**the General Assembly take the lead**</u>

and propose to the voters adjustments to this constitutionally defined funding stream to better apportion these resources to better reflect the State's current needs and priorities.

Staff recommends that 40 percent of Net Lottery Proceeds be distributed for higher education institutions capital construction. Further, this distribution might be enhanced through a statutory commitment to fund an additional proportional amount from the General Fund. A General Fund amount equal to 25 percent of the Net Lottery Proceeds distribution would provide a targeted funding total for higher education institutions capital construction equal to 50.0 percent of Net Lottery Proceeds. In this way, the annually inconsistent amount provided from the General Fund for capital construction for institutions might be reduced on average, while a commitment is made that the total funding burden for this purpose will continue to be shared between both fund sources.

Net Lottery Proceeds for Higher Education Institutions Capital Construction Analysis
Over a fifteen-year period, from FY 2000-01 through FY 2014-15, Net Lottery Proceeds totaled just over $1.7 billion. Of that amount, GOCO received $794.5 million, the Conservation Trust Fund received $692.7 million, the Division of Parks and Wildlife received $173.2 million, and P-12 school funds received $71.3 million. The following table outlines distributions over that period.

Net Lottery Proceeds - Distributions FY 00-01 through FY 14-15

	GOCO	Conservation Trust Fund	Division of Parks and Wildlife	School Funds	Total
FY 00-01	$39,642,222	$31,713,775	$7,928,442	$0	$79,284,439
FY 01-02	46,523,408	44,018,673	11,004,667	8,499,940	110,046,688
FY 02-03	48,699,156	41,911,625	10,477,903	3,690,377	104,779,061
FY 03-04	49,639,294	41,628,583	10,407,143	2,396,438	104,071,458
FY 04-05	50,176,516	41,494,373	10,373,592	1,691,454	103,735,935
FY 05-06	50,230,238	50,220,437	12,555,109	12,545,316	125,551,100
FY 06-07	51,277,820	47,598,180	11,899,545	8,219,905	118,995,450
FY 07-08	53,104,374	48,920,053	12,230,013	8,045,692	122,300,132
FY 08-09	54,267,191	47,841,542	11,960,386	5,534,736	119,603,855
FY 09-10	56,382,233	45,176,627	11,294,157	88,550	112,941,567
FY 10-11	56,018,266	45,344,397	11,336,100	662,230	113,360,993
FY 11-12	57,065,579	49,299,790	12,324,948	4,559,159	123,249,476
FY 12-13	59,171,757	54,252,704	13,563,176	8,644,124	135,631,761
FY 13-14	60,321,412	52,045,403	13,011,351	4,735,342	130,113,508
FY 14-15	61,992,978	51,192,347	12,798,087	1,997,456	127,980,868
Total	**$794,512,444**	**$692,658,509**	**$173,164,619**	**$71,310,719**	**$1,731,646,291**
Percentage	45.9%	40.0%	10.0%	4.1%	

The following table reflects three possible distribution splits, including the recommended 40 percent for higher education capital construction, using the 15-year total of Net Lottery Proceeds.

Proposed Net Lottery Proceeds - Distributions using 15-year total					
Higher Ed Capital Construction	**GOCO**	**Conservation Trust Fund**	**Division of Parks and Wildlife**	**School Funds**	**Total**
Proportional Adjustment					
40.0%	27.5%	24.0%	6.0%	2.5%	100.0%
$692,658,516	$476,707,466	$415,595,105	$103,898,771	$42,786,431	$1,731,646,291
Alternative Adjustment #1					
40.0%	30.0%	30.0%	0.0%	0.0%	100.0%
$692,658,516	$519,493,887	$519,493,887	$0	$0	$1,731,646,291
Alternative Adjustment #2					
37.0%	30.0%	30.0%	0.0%	3.0%	100.0%
$640,709,128	$519,493,887	$519,493,887	$0	$51,949,389	$1,731,646,291

The proportional adjustment provides a 40 percent distribution for higher education capital construction as recommended, and holds the 15-year historical percentages constant for the remaining 60 percent.

Alternative adjustment #1 provides a 30 percent and 30 percent split for GOCO and the Conservation Trust Fund. The 10 percent distribution provided to the Division of Parks and Wildlife for State Parks in the current distribution formula is in addition to a required distribution provided within the GOCO distribution. This adjustment eliminates the double distribution in the current formula, but provides a simplified "60-40" split between the current outdoor recreational purpose and the proposed higher education purpose.

Alternative adjustment #2 retains the "30-30" split for GOCO and the Conservation Trust Fund, while providing 3 percent of the higher education distribution for P-12 school funds; preserving the "60 for outdoor recreation – 40 for education" concept.

The following table compares the proposed 40 percent Net Lottery Proceeds distribution for higher education capital construction with actual state funding over a 14-year period from FY 2001-02 to FY 2014-15.

Proposed Net Lottery Proceeds Distributions vs. Actual Higher Ed CC Funding FY 01-02 through FY 14-15			
	Total Net Lottery Proceeds	**Higher Ed CC at 40.0 percent**	**Actual State Funds for HED CC**
FY 01-02	110,046,688	44,018,675	84,857,170
FY 02-03	104,779,061	41,911,624	6,760,162
FY 03-04	104,071,458	41,628,583	519,779
FY 04-05	103,735,935	41,494,374	2,300,000
FY 05-06	125,551,100	50,220,440	52,191,368
FY 06-07	118,995,450	47,598,180	54,645,676
FY 07-08	122,300,132	48,920,053	119,929,475
FY 08-09	119,603,855	47,841,542	76,249,248
FY 09-10	112,941,567	45,176,627	11,999,909

Proposed Net Lottery Proceeds Distributions vs. Actual Higher Ed CC Funding FY 01-02 through FY 14-15			
	Total Net Lottery Proceeds	Higher Ed CC at 40.0 percent	Actual State Funds for HED CC
FY 10-11	113,360,993	45,344,397	5,401,693
FY 11-12	123,249,476	49,299,790	8,222,621
FY 12-13	135,631,761	54,252,704	20,624,809
FY 13-14	130,113,508	52,045,403	109,105,088
FY 14-15	127,980,868	51,192,347	196,368,472
Total	**$1,652,361,852**	**$660,944,741**	**$749,175,470**
Recommended 25.0 percent GF match		165,236,185	
Total Proposed HED CC Funding		**$826,180,926**	

While the 40 percent distribution provides $88.2 million less than actual state fund appropriations over that period, the distribution is more consistent from year to year. In the years following the two economic downturns over this period (2001 and 2008), many original capital construction appropriations were rescinded and projects begun and underway at the time were immediately stopped. This kind of funding in most cases led to wasted funds on unfinished projects that were entirely discarded, picked up again years later, or otherwise funded to completion using institutional funds.

In addition, if the General Assembly were to provide a 25 percent General Fund match of the 40 percent in Net Lottery Proceeds distribution, the total proposed funding would have exceeded actual state funding by $77.0 million over that period, while reducing the General Fund outlay by $583.9 million. Over the fifteen-year period, a 25 percent General Fund match would have required payments ranging from $10.4 million to $13.5 million in any given year. Actual state funding for higher education capital construction was lower in five of those years, and within that range in one year.

Advantages and Disadvantages

In addition to the almost even replacement of total state funds provided over the last fifteen years, this fund source would provide a consistent funding stream to institutions from year to year, rather than the feast-and-famine cycle of General Funding. It is anticipated that upcoming years will not provide the level of funding from the General Fund that were provided over the last three years. And it is reasonable to consider that such a generous funding period from the General Fund may never occur again given the current constraints on the budget. At best, future years may approach something closer to the prior 12-year average of $37.0 million per year. Coupled with a per-capita funding model, institutions will be better able to make more rational and efficient decisions about capital construction and controlled maintenance – capital asset management generally – with a dedicated, predictable, and consistent funding stream.

The advantages to this proposal include:

- Reprioritizing a constitutional funding stream to better reflect the State's current needs and priorities.

- Providing increased access to higher education to the State's students through more predictable, consistent, and adequate funding for institutions.
- Generating local, regional, and statewide economic growth from funds otherwise predominantly expended without an economic return.
- Providing an ongoing, consistent, counter-cyclical funding stream for capital construction for institutions of higher education that will require them to take responsibility for and allow them to better manage capital assets over time.
- Reducing the resource cost to institutions from the current, political capital project request process.
- Reducing the burden on the General Fund.

Disadvantages include:

- Reduced funding – by up to 50 percent – for the Division of Parks and Wildlife for the acquisition and management of open space, state parks, and recreation areas.
- Reduced funding – by 25 to 40 percent – for the Conservation Trust Fund for distribution to local governments for parks, recreation, and open space.

All Higher Education Institutions State-funded Capital Construction Requests FY 2016-17

Institution, Priority, and Project	Academic Program	Gross Square Feet New	Gross Square Feet Renovate	Gross Square Feet Total	Previously Funded	FY 2016-17 Request CCF	FY 2016-17 Request CF	FY 2016-17 Request Total	Total Project Cost CCF	Total Project Cost CF	Total Project Cost Total	FY 2014-15 Resident FTE
Adams State University (ASU)												
1 Nielsen Library Renovation	Library	0	77,058	77,058	No	$13,685,176	$0	$13,685,176	$13,685,176	$0	$13,685,176	
2 Plachy Hall HVAC Upgrade/Replace	Gymnasium	0	0	0	No	4,314,450	0	4,314,450	4,314,450	0	4,314,450	
ASU Subtotal						**$17,999,626**	$0	$17,999,626	**$17,999,626**	$0	$17,999,626	1,742
Percent of Higher Education Institutions Total						5.9%			3.6%			1.2%
Auraria Higher Education Center (AHEC)												
1 King Center Renovation and Expansion	Performing Arts	27,525	87,455	114,980	No	**$41,370,000**	$420,000	$41,790,000	**$41,370,000**	$420,000	$41,790,000	n/a
Percent of Higher Education Institutions Total						13.6%			8.2%			n/a
Colorado Mesa University (CMU)												
1 Health Sciences Phase I - NP Center	STEM	25,718	9,600	35,318	Yes	$9,230,212	$2,505,000	$11,735,212	$12,230,212	$2,505,000	$14,735,212	
2 Comp. Science and Engineering Bldg.	STEM	68,000	0	68,000	No	23,483,207	2,322,516	25,805,723	23,483,207	2,322,516	25,805,723	
3 Performing Arts Expansion/Renovation	Performing Arts	13,520	7,160	20,680	No	7,962,041	787,456	8,749,497	7,962,041	787,456	8,749,497	
4 Trigeneration (cooling/heating/power)	Campus	10,000	0	10,000	No	6,256,888	618,814	6,875,702	6,256,888	618,814	6,875,702	
CMU Subtotal						**$46,932,348**	$6,233,786	$53,166,134	**$49,932,348**	$6,233,786	$56,166,134	6,317
Percent of Higher Education Institutions Total						15.4%			9.9%			4.3%
Colorado School of Mines (CSM)												
1 Green Center Renovation	STEM, Campus	6,697	77,101	83,798	No	**$6,021,857**	$0	$6,021,857	**$23,850,871**	$35,776,306	$59,627,177	3,412
Percent of Higher Education Institutions Total						2.0%			4.8%			2.3%
Metropolitan State University of Denver (MSU)												
1 Aerospace Engineering Sciences	STEM	118,000	0	118,000	Yes	**$0**	$23,595,840	$23,595,840	**$20,000,000**	$40,000,000	$60,000,000	15,528
Percent of Higher Education Institutions Total						0.0%			4.0%			10.6%
University of Northern Colorado (UNC)												
1 Campus Commons	Campus	114,220	0	114,220	Yes	$15,000,000	$14,502,929	$29,502,929	$38,000,000	$35,533,669	$73,533,669	
2 Wireless Expansion and Modernization	Campus	0	0	0	No	3,123,300	0	3,123,300	3,123,300	0	3,123,300	
UNC Subtotal						**$18,123,300**	$14,502,929	$32,626,229	**$41,123,300**	$35,533,669	$76,656,969	7,706
Percent of Higher Education Institutions Total						6.0%			8.2%			5.3%

All Higher Education Institutions State-funded Capital Construction Requests FY 2016-17

Institution, Priority, and Project	Academic Program	Gross Square Feet			Previously	FY 2016-17 Request			Total Project Cost			FY 2014-15
		New	Renovate	Total	Funded	CCF	CF	Total	CCF	CF	Total	Resident FTE
Western State Colorado University (WSCU)												
1 Savage Library Renovation	Library	0	69,917	69,917	No	**$10,848,007**	$0	$10,848,007	**$10,848,007**	$0	$10,848,007	1,473
Percent of Higher Education Institutions Total						3.6%			2.2%			1.0%
Colorado State University System												
CSU - Fort Collins (CSU-FC)				0								
1 Chemistry Building phase 3	STEM	60,000	0	60,000	Yes	$12,471,940	$0	$12,471,940	$51,166,618	$5,400,000	$56,566,618	
3 Warner College Nat Resources Addition	STEM	49,670	0	49,670	No	10,000,000	10,817,437	20,817,437	10,000,000	10,817,437	20,817,437	
5 Shepardson Addition and Renovation	Design, STEM	36,230	46,393	82,623	No	4,527,223	0	4,527,223	24,595,501	9,000,000	33,595,501	
CSU-FC Subtotal						**$26,999,163**	$10,817,437	$37,816,600	**$85,762,119**	$25,217,437	$110,979,556	17,734
Percent of Higher Education Institutions Total						8.9%			17.1%			12.1%
CSU - Pueblo (CSU-P)												
2 Campus IT Upgrades and Security	Campus	0	0	0	No	$3,944,430	$0	$3,944,430	$3,944,430	$0	$3,944,430	
4 Psychology Bldg. Renovation/Addition	Psychology, campus	26,460	46,000	72,460	No	16,519,873	0	16,519,873	16,519,873	0	16,519,873	
CSU-P Subtotal						**$20,464,303**	$0	$20,464,303	**$20,464,303**	$0	$20,464,303	3,276
Percent of Higher Education Institutions Total						6.7%			4.1%			2.2%
CSU System Subtotal						**$47,463,466**	$10,817,437	$58,280,903	**$106,226,422**	$25,217,437	$131,443,859	21,010
Percent of Higher Education Institutions Total						15.6%			21.2%			14.4%
University of Colorado System												
UC - Boulder (UCB)												
2 Aerospace Engineering Sciences Bldg.	STEM	138,500	0	138,500	No	**$4,834,369**	$668,931	$5,503,300	**$28,290,716**	$52,109,284	$80,400,000	16,683
Percent of Higher Education Institutions Total						1.6%			5.6%			11.4%
UC - Colorado Springs (UCCS)												
3 Engineering Bldg. Renovation	STEM	0	74,022	74,022	No	**$7,551,960**	$0	$7,551,960	**$30,379,354**	$0	$30,379,354	7,917
Percent of Higher Education Institutions Total						2.5%			6.1%			5.4%
UC-Denver Anschutz Medical Campus												
1 Interdisciplinary Building 1	STEM	219,880	0	219,880	No	**$22,800,000**	$30,823,115	$53,623,115	**$45,597,598**	$74,402,115	$119,999,713	3,628
Percent of Higher Education Institutions Total						7.5%			9.1%			2.5%
UC-Denver (UCD)												
4 Engineering and Physical Sciences Bldg.	STEM	60,000	38,368	98,368	No	**$45,114,407**	$15,000,000	$60,114,407	**$45,114,407**	$15,000,000	$60,114,407	8,693
Percent of Higher Education Institutions Total						14.8%			9.0%			6.0%

All Higher Education Institutions State-funded Capital Construction Requests FY 2016-17

Institution, Priority, and Project	Academic Program	Gross Square Feet New	Gross Square Feet Renovate	Gross Square Feet Total	Previously Funded	FY 2016-17 Request CCF	FY 2016-17 Request CF	FY 2016-17 Request Total	Total Project Cost CCF	Total Project Cost CF	Total Project Cost Total	FY 2014-15 Resident FTE
CU System Subtotal						**$80,300,736**	$46,492,046	$126,792,782	**$149,382,075**	$141,511,399	$290,893,474	36,921
Percent of Higher Education Institutions Total						26.4%			29.8%			25.3%
Colorado Community College System (CCCS)												
Arapahoe Community College (ACC)				0								
5 Learning Commons	Library, Campus	0	46,883	46,883	No	**$1,748,166**	$614,221	$2,362,387	**$3,987,339**	$1,400,957	$5,388,296	5,075
Percent of Higher Education Institutions Total						0.6%			0.8%			3.5%
Front Range Community College (FRCC)												
2 Larimer Campus Allied Health and Nursing Bldg.	STEM	49,500	0	49,500	No	**$19,657,338**	$6,906,633	$26,563,971	**$19,657,338**	$6,906,633	$26,563,971	11,165
Percent of Higher Education Institutions Total						6.5%			3.9%			7.6%
Lamar Community College (LCC)												
6 Vocational Trades Building	Trades/Tech	10,000	0	10,000	No	**$1,996,733**	$0	$1,996,733	**$1,996,733**	$0	$1,996,733	567
Percent of Higher Education Institutions Total						0.7%			0.4%			0.4%
Otero Junior College (OJC)												
4 Agriculture Science Remodel	STEM	2,400	3,000	5,400	No	**$1,393,800**	$400,000	$1,793,800	**$1,393,800**	$400,000	$1,793,800	959
Percent of Higher Education Institutions Total						0.5%			0.3%			0.7%
Pueblo Community College (PCC)												
1 Davis Academic Bldg. Renovation phase 2	Campus	0	113,245	113,245	Yes	**$5,807,143**	$0	$5,807,143	**$9,376,762**	$0	$9,376,762	3,754
Percent of Higher Education Institutions Total						1.9%			1.9%			2.6%
Pikes Peak Community College (PPCC)												
3 Student Learning Commons & Black Box Theater	Performing Arts, Campus	9,823	0	9,823	No	**$4,847,735**	$1,703,260	$6,550,995	**$4,847,735**	$1,703,260	$6,550,995	9,168
Percent of Higher Education Institutions Total						1.6%			1.0%			6.3%
CCCS Subtotal						**$35,450,915**	$9,624,114	$45,075,029	**$41,259,707**	$10,410,850	$51,670,557	50,001
Percent of Higher Education Institutions Total						11.6%			8.2%			34.2%

	All Higher Education Institutions Requests Count	FY 2016-17 Request CCF	FY 2016-17 Request CF	FY 2016-17 Request Total	Total Project Cost CCF	Total Project Cost CF	Total Project Cost Total	FY 2014-15 Resident FTE
Higher Education Institutions Total	**29**	**$304,510,255**	$111,686,152	$416,196,407	**$501,992,356**	$295,103,447	$797,095,803	146,085

Appendix A: Recent Legislation Affecting Capital Construction Budget

2014 Session Bills

S.B. 14-189 (Controlled Maintenance Trust Fund Transfer): Transfers $9,762,000 from the Controlled Maintenance Trust Fund to the General Fund to support a FY 2014-15 appropriation for the Colorado firefighting air corps.

H.B. 14-1336 (Long Bill): General appropriations act for FY 2014-15. Also includes supplemental adjustments to capital appropriations for FY 2011-12.

H.B. 14-1342 (Transfers of Money Related to Capital Construction): For FY 2014-15, transfers $225,493,465 from the General Fund to the Capital Construction Fund, $500,000 from the General Fund Exempt account of the General Fund to the Capital Construction Fund, and $1,000,000 from the State Historical Fund to the Capital Construction Fund. Also modifies statutory provisions concerning the use of any FY 2013-14 General Fund surplus. Authorizes additional FY 2014-15 transfers from the General Fund to the Capital Construction Fund of up to $135,335,748 if there is sufficient FY 2013-14 General Fund surplus, and establishes a priority order for funding specific capital projects up to this dollar amount if the amount available for transfer to the Capital Construction Fund is lower than this figure.

2015 Session Bills

S.B. 15-165 (Supplemental Bill): Supplemental appropriations bill for capital construction. Includes modifications to capital appropriations for FY 2014-15 and footnote amendments for FY 2007-08 and FY 2008-09.

S.B. 15-170 (General Fund Transfer to Capital Construction Fund): Transfers $23,008,332 General Fund to the Capital Construction Fund for FY 2014-15 supplemental appropriations.

S.B. 15-211 (Automatic Funding for Capital Assets): Specifies that for every capital construction building project beginning in FY 2015-16, state agencies and higher education institutions must set aside reserve funds intended for future capital construction based on depreciation.

- *State-funded* capital construction projects funded by General Fund, the Capital Construction Fund, or the Controlled Maintenance Trust Fund, for state agencies and higher education institutions, will require an annual payment through a *depreciation-lease equivalent* line item in the operating budget equal to the depreciation amount for the length of the depreciation period to be paid with General Fund. An amount equal to one percent of the project cost of the *depreciation-lease equivalent* payment will be credited to the Controlled Maintenance Trust Fund and the balance of the *depreciation-lease equivalent* payment will be credited to the Capital Construction Fund.

- *Cash-funded* capital construction projects for state agencies only, must set aside depreciation in a *capital reserve* within the cash fund, equal to the depreciation amount for the length of the depreciation period.

Capital construction building projects financed with an annual lease-purchase payment agreement (certificates of participation or COPs) must set aside one percent of project cost annually for controlled maintenance. The one percent will be paid in a *controlled maintenance* line item in the operating budget.

- *Controlled maintenance* payments for state-funded capital projects financed with a COP will be paid by General Fund and credited to the Controlled Maintenance Trust Fund.

- *Controlled maintenance* payments for cash-funded capital projects financed with a COP will be set aside in a *capital reserve* within the cash fund.

S.B. 15-234 (Long Bill): General appropriations act for FY 2015-16.

S.B. 15-250 (Capital Related Transfers): For FY 2015-16, transfers $143,951,639 from the General Fund to the Capital Construction Fund, $500,000 from the General Fund Exempt account of the General Fund to the Capital Construction Fund, $76,877,790 from the General Fund to the Information Technology Capital Account in the Capital Construction Fund, and $1,000,000 from the Preservation Grant Program Account of the State Historical Fund to the Capital Construction Fund.

S.B. 15-251 (Exclude Lease-purchase Payments from General Fund Reserve): Excludes appropriations for lease-purchase payments from the amount used to calculate the necessary General Fund reserve.

S.B. 15-270 (Create the Office of the State Architect): Codifies in statute the Office of the State Architect in the Department of Personnel. Adds to the Office the responsibility for statewide capital construction planning and making recommendations on real property capital construction budget requests.

S.B. 15-278 (Capitol Dome Restoration Moneys Expanded Scope): Amends the FY 2013-14 Long Bill to allow the moneys originally appropriated for the capitol dome restoration project to be used more generally for state capitol restoration.

H.B. 15-1266 (Information Technology Budget Request Process): Creates the Information Technology Capital Account in the Capital Construction Fund for the purpose of funding Information Technology Capital Projects from the Capital Construction Fund. Requires that information technology budget requests clearly identify and quantify anticipated administrative and operating efficiencies or program enhancements and service expansion through cost-benefit analyses and return on investment calculations. Provides access to the interim supplemental process for information technology budget items.

H.B. 15-1280 (Capital Reserve in Certain Cash Funds): Requires state agencies to create a *capital reserve* in any cash fund which consists of accumulated depreciation related to capital outlay in the operating budget or capital construction in the capital budget. Specifies that the *capital reserve* is subject to annual appropriation in the Long Bill. Defines the *capital reserve* as a long-term asset, which is excluded from the definition of *uncommitted reserves* in the cash funds excess reserves statute, Section 24-75-402, C.R.S. Requires the State Controller to include in the annual report on excess uncommitted reserves the amount of the capital reserve excluded from uncommitted reserves for cash funds included in the report.

H.B. 15-1310 (Division of Parks and Wildlife Acquire Real Property): Appropriates $552,500 cash funds from the Wildlife Cash Fund to the Division of Parks and Wildlife in the Department of Natural Resources for FY 2015-16 to purchase property in Garfield County.

H.B. 15-1333 (Regional Center Depreciation Account in the Capital Construction Fund): Creates the Regional Center Depreciation Account (account) within the Capital Construction Fund. The account consists of all moneys received by the Department of Health Care Policy and Financing (HCPF) for the annual calculated depreciation of the state's regional centers, which are operated by the Department of Human Services (DHS). Spending from the account is subject to appropriation and approval by the Capital Development Committee. Funds in the account may be spent for regional center controlled maintenance, capital renewal, or capital construction. The bill also requires DHS to annually report the total calculated depreciation amount credited to the account to the Joint Budget Committee no later than 45 days after the close of a fiscal year. Appropriates $730,510 Capital Construction Fund from the account for improvements to the security perimeter fence at Kipling Village located at the Wheat Ridge Regional Center operated by the Department of Human Services for FY 2015-16. Also appropriates $594,750 Capital Construction Fund from the account for heat-detection fire alarm systems at regional center group homes operated by the Department of Human Services for FY 2014-15.