COLORADO GENERAL ASSEMBLY
JOINT BUDGET COMMITTEE

FY 2015-16 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. This section of the Long Bill also includes appropriations for annual lease purchase payments for capital 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*.

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

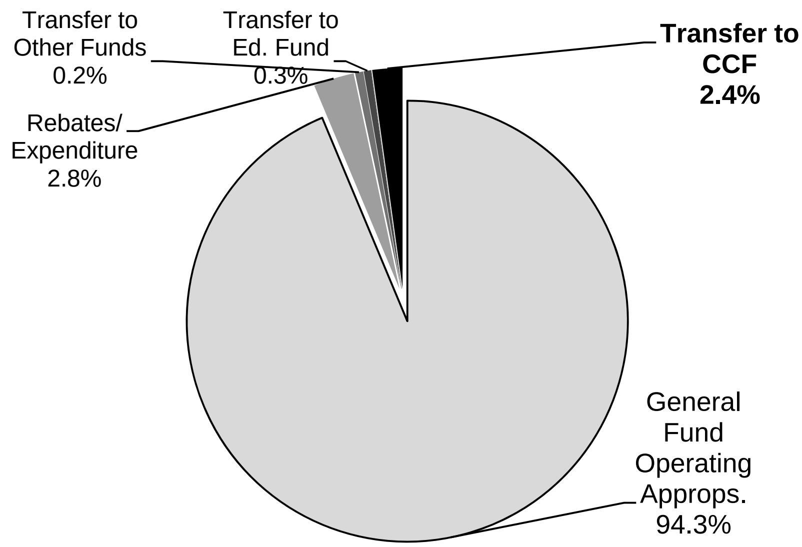
Appropriations for Capital Construction and Controlled Maintenance Projects[/1]

Funding Source	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16[/2]
Capital Construction Funds [/3]	$63,100,367	$188,069,493	$364,420,213	$285,424,378
Cash Funds	87,351,635	86,298,813	116,124,738	93,007,949
Reappropriated Funds	8,626,790	7,113,670	8,566,515	0
Federal Funds	12,088,026	2,266,990	3,722,025	16,135,791
Total Funds	**$171,166,818**	**$283,748,966**	**$492,833,491**	**$394,568,118**

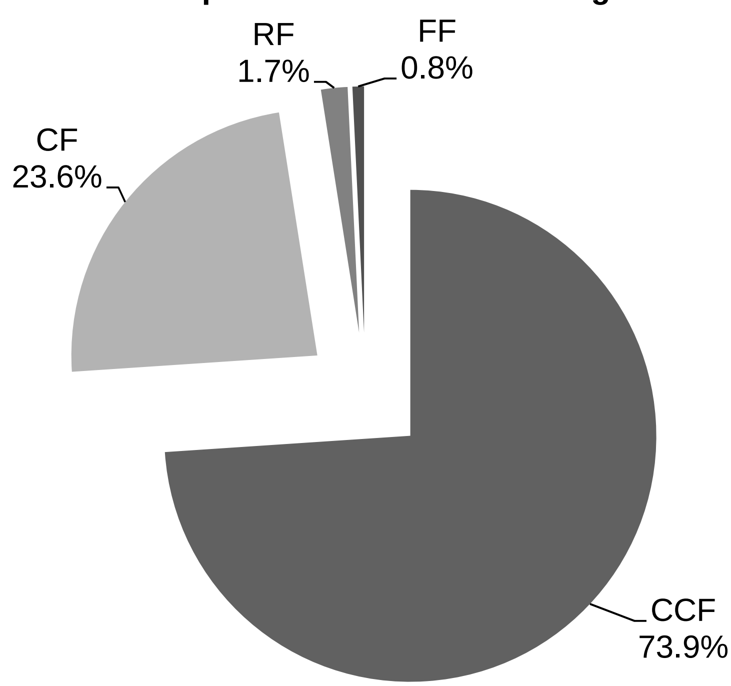
[/1] Does not include appropriations or transfers to the Capital Construction Fund or Controlled Maintenance Trust Fund.
[/2] Requested appropriation.
[/3] For FY 2014-15, includes $135,335,748 CCF conditioned on receipt of sufficient FY 2013-14 General Fund surplus revenue. The conditional appropriations were funded in FY 2014-15.

Department Budget: Graphic Overview

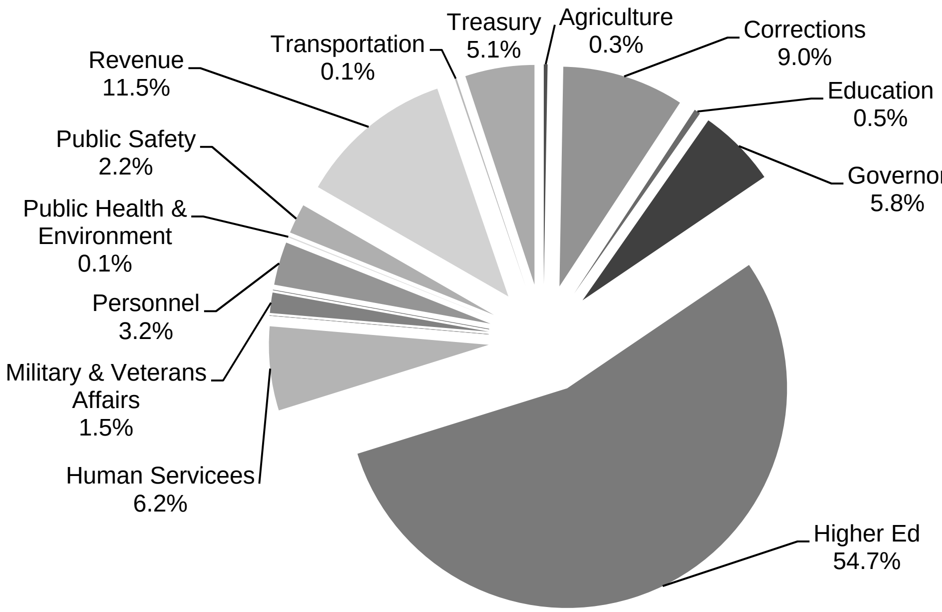
FY 2014-15 Share of Total Statewide General Fund Expenditures
September 2014 Legislative Council Staff Forecast



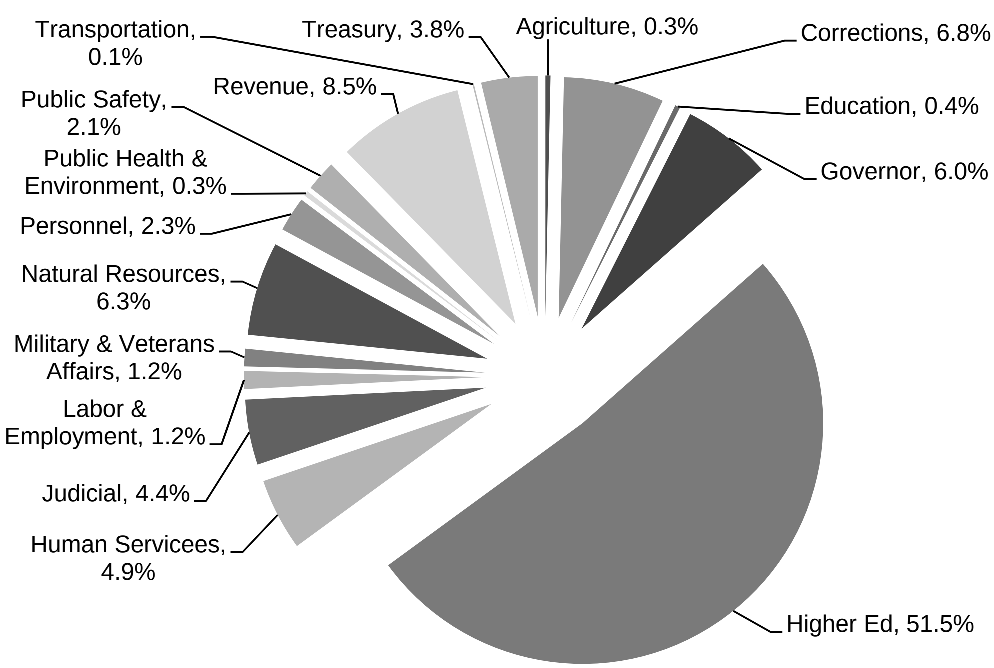
FY 2014-15 Capital Construction Funding Sources



FY 2014-15 Distribution of Capital Construction Funds by Department



FY 2014-15 Distribution of Total Funds by Department

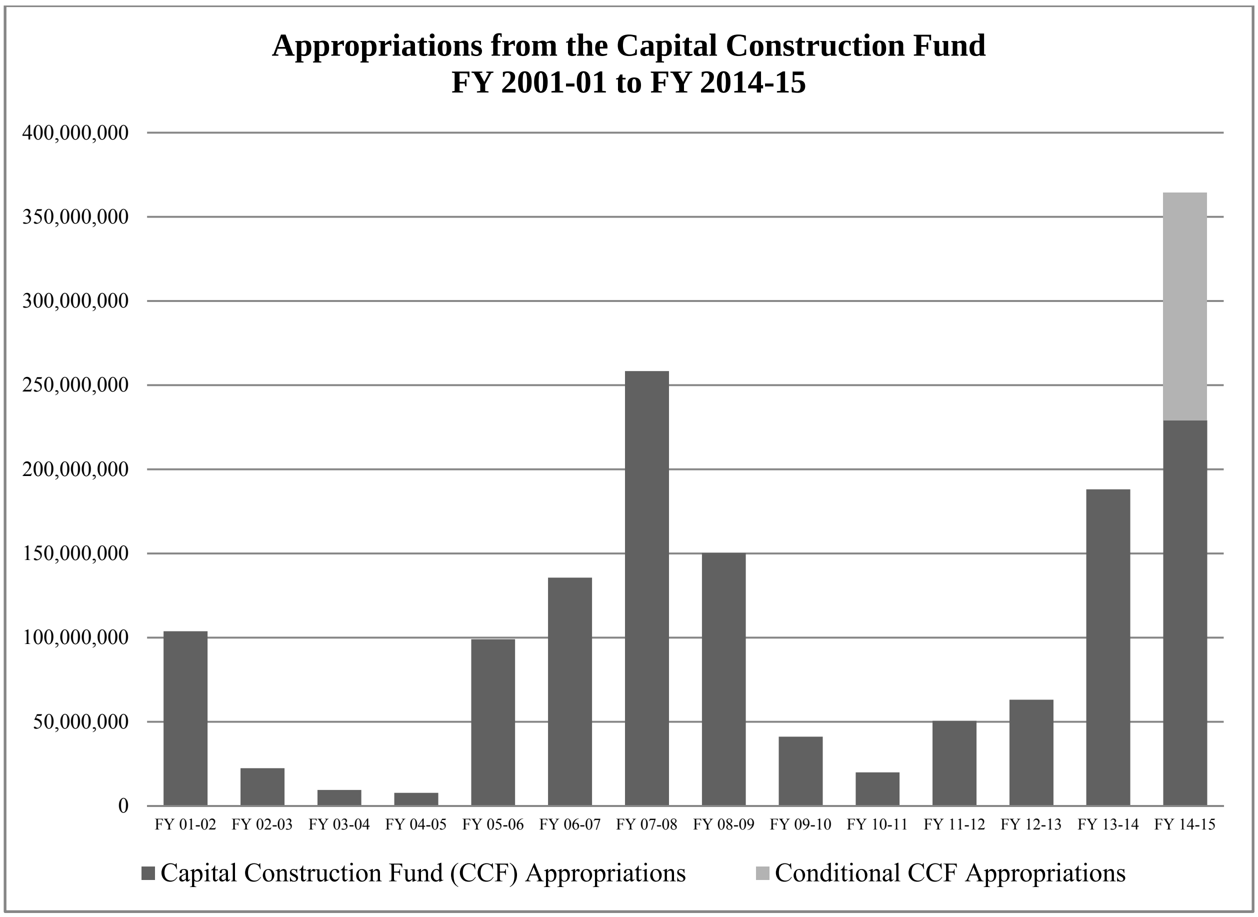


General Factors Driving the Budget

The FY 2015-16 request is for $394.6 million total funds, including $285.4 million Capital Construction Funds. The Governor's Office estimates that appropriations at this level will require a transfer of $281.6 million from the General Fund to the Capital Construction Fund, after taking into account the anticipated start-of-year balance in 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 primarily based on the recommendations of the Capital Development Committee and the most recent forecast of revenues available, given constitutional and statutory constraints and other demands on the budget.



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. This bill 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 are delayed until a personal income trigger is met. Transfers begin in the first fiscal year in which, for the calendar year that ends before the start of the fiscal year, personal income increases by at least five percent.

Personal income is expected to increase 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. Legislative Council forecasts a TABOR surplus of 1.2 percent and estimates a transfer of $25.4 million in FY 2015-16. OSPB forecasts a TABOR surplus of 1.3 percent and estimates a transfer of $102.6 million.

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, under certain circumstances, the Joint Budget Committee.

Summary: FY 2014-15 Appropriation & FY 2015-16 Request

Capital Construction - OSPB Request	Total Funds	Capital Construction Fund	Cash Funds	Reappropriated Funds	Federal Funds	FTE
FY 2014-15 Appropriation						
HB 14-1336 (Long Bill)	$492,833,491	$364,420,213	$116,124,738	$8,566,515	$3,722,025	0.0
TOTAL	**$492,833,491**	**$364,420,213**	**$116,124,738**	**$8,566,515**	**$3,722,025**	**0.0**
FY 2015-16 Requested Appropriation						
FY 2014-15 Appropriation	$492,833,491	364,420,213	$116,124,738	$8,566,515	$3,722,025	0.0
Annualize FY 2014-15 appropriation	(492,833,491)	(364,420,213)	(116,124,738)	(8,566,515)	(3,722,025)	0.0
*Requests Prioritized by OSPB**						
R1 HED: Anschutz Medical Campus COP	14,289,937	7,289,937	7,000,000	0	0	0.0
R2 HED: Federal Mineral Lease COP	18,587,813	18,587,813	0	0	0	0.0
R3 DOC: CSP II COP	20,254,768	20,254,768	0	0	0	0.0
R4 Level 1 Controlled Maintenance	19,822,659	19,822,659	0	0	0	0.0
R5 HUM: MHI Suicide Risk Mitigation Phase II	4,556,369	4,556,369	0	0	0	0.0
R6 HUM: DYC Facility Refurbishment Phase II	2,000,000	2,000,000	0	0	0	0.0
R7 HED: FLC Bernt Hall Continuation	10,409,332	8,293,345	2,115,987	0	0	0.0
R8 HED: CU Systems Biotech Bldg Continuation	28,243,179	20,243,179	8,000,000	0	0	0.0
R9 HED: UCCS Visual and Performing Arts Coninuation	20,588,699	9,608,699	10,980,000	0	0	0.0
R10 HED: CSU Chemistry Bldg Addition Continuation	29,094,678	23,694,678	5,400,000	0	0	0.0
R11 HED: MSU Aviation, Aerospace, and Adv. Manuf. Bldg. Continuation	31,125,032	14,720,872	16,404,160	0	0	0.0
R12 HED/HistCO: Georgetown Loop Business Capitalization Program	400,000	300,000	100,000	0	0	0.0
R13 COR: CSP Close Custody Outdoor Recreation Yards	4,780,979	4,780,979	0	0	0	0.0
R14 HUM: Kipling Village Security Perimeter	730,510	730,510	0	0	0	0.0
R15 HUM: Wheat Ridge Regional Center Capital Improvements	937,841	937,841	0	0	0	0.0
R16 HUM: Pueblo Regional Center Capital Improvements	823,070	823,070	0	0	0	0.0
R17 HUM: CVCLC Safety and Accessibility Improvements	3,588,700	3,588,700	0	0	0	0.0
R18 HED: CSM Heating Plant Renovation	13,129,330	6,564,665	6,564,665	0	0	0.0
R19 HUM: CMHIFL Campus Utility Infrastructure	3,289,760	3,289,760	0	0	0	0.0
R20 COR: Limon CF Hot Water Loop Replacement	4,187,050	4,187,050	0	0	0	0.0

R21 HUM: Master Plan	1,451,365	1,451,365	0	0	0	0.0
R22 HUM: Adams YSC Replacement	1,982,833	1,982,833	0	0	0	0.0
R23 DPS: State Wildland Fire Engine Replacement	1,660,000	1,660,000	0	0	0	0.0
R24 MIL: Buckley P-4 Conservation Easement	5,000,000	5,000,000	0	0	0	0.0
R25 PER: Capitol Grounds Water Conservation and Landscaping Renovation	1,134,449	1,134,449	0	0	0	0.0
R26 DPS: Supplemental CBI Lab Space	2,522,576	2,522,576	0	0	0	0.0
Subtotal - Prioritized Requests	$244,590,929	$188,026,117	$56,564,812	$0	$0	0.0
Subtotal - Non-prioritized Requests [100% cash and federally-funded] - 11 projects	37,241,698	0	36,443,137	0	798,561	0.0
Subtotal - Information Technology Prioritized Requests - 16 projects**	112,735,491	97,398,261	0	0	15,337,230	0.0
TOTAL	**$394,568,118**	**$285,424,378**	**$93,007,949**	**$0**	**$16,135,791**	**0.0**
Percentage Change	(19.9%)	(21.7%)	(19.9%)	(100.0%)	333.5%	n/a

*Reflect's OSPB's prioritization order. Higher Education projects are separately prioritized by CCHE. Higher Education cash-funded projects, which do not require appropriations from the General Assembly, are not included.

** OSPB's prioritized list of IT projects reflects funding with General Fund. However the OPSB request includes the total state funding for IT projects in the amount requested as General Fund transfer to the Capital Construction Fund. This table reflects their inclusion in the capital budget with funding from the CCF consistent with the CCF transfer request and OSPB transmittal letter to the Joint Technology Committee.

The Governor's Office estimates that **appropriations for these requests will require a transfer of $281.6 million from the General Fund** to the Capital Construction Fund, after taking into account the anticipated start-of-year balance in the Capital Construction Fund.

As noted at the bottom of the table, OSPB has included information technology project (IT capital) requests within the total request to be funded with the Capital Construction Fund. The transmittal letter to the Joint Technology Committee indicates that OSPB's request also requires a statutory change to allow funding of information technology capital projects with the Capital Construction Fund in order to avoid the additional 6.5 percent General Fund reserve.

For additional information and further discussion regarding funding IT capital projects, please see issue brief #2 beginning on page 12. For additional detail on the projects requested, please see the attached letters from the Governor's Office to the CDC (Attachment B) and JTC (Attachment C). Information on requested IT capital projects will be addressed in the Office of the Governor (Office of Information Technology) briefing on November 19th.

Issue 1: Overview of Capital Construction Request

The OSPB building capital prioritized request, submitted to the Capital Development Committee, includes $285.4 million from the Capital Construction Fund. This would require an estimated transfer of $281.6 million from the General Fund to the Capital Construction Fund.

SUMMARY:

- The Executive requests appropriations of $394.6 million total funds for capital construction in FY 2015-16 for state-funded, cash- and federal-funded, and information technology project (IT capital) requests.

- The request would fund 26 building projects from the Capital Construction Fund (CCF). The request also includes $37.2 million total funds for 11 non-prioritized requests that are 100 percent funded by cash and federal funds. The request for IT capital would fund ten projects.

- The building capital request includes the following requests:
  $46.1 million CCF for three Certificate of Participation (COP) lease payments, including $25.9 million for higher education institutions and $20.3 million for the unused Department of Corrections CSP II facility;
  $19.8 million CCF for Level 1 Controlled Maintenance;
  $83.4 million CCF for seven projects for higher education institutions and History Colorado;
  $19.4 million CCF for nine projects for the Department of Human Services;
  $9.0 million CCF for two projects for the Department of Corrections;
  $5.0 million CCF for a conservation easement for the Department of Military and Veterans Affairs;
  $4.2 million CCF for two projects for the Department of Public Safety; and
  $1.1 million CCF for a capitol grounds landscaping and water conservation project by Capitol Complex in the Department of Personnel.

- Although IT capital requests were statutorily excluded from capital construction in H.B. 14-1395, the request includes $112.7 million total funds including $97.4 million CCF for ten IT capital requests and includes a statement that statutory change is necessary to allow funding from the Capital Construction Fund rather than General Fund.

DISCUSSION:

FY 2015-16 and FY 2014-15 Comparison
The FY 2015-16 executive request is for $394.6 million total funds including $285.4 million Capital Construction Funds (CCF) that would require a transfer of $281.6 million from the General Fund to the Capital Construction Fund.

The FY 2014-15 appropriation totaled $492.8 million total funds including $364.4 million CCF. The FY 2014-15 appropriation included a regular appropriation and an appropriation conditioned on surplus General Fund revenue which was met. Likewise, the General Fund transfer to the Capital Construction Fund included a regular transfer and a conditional transfer. Regular appropriations totaled $347.8 million including $229.1 million CCF and a transfer of $225.5 million. The conditional appropriations totaled $145.0 million including $135.3 million CCF and a conditional transfer of $135.3 million.

General Prioritization
The executive capital request prioritizes building capital projects as follows:
1. Certificates of participation (COP) lease payments (#1-3);
2. Controlled Maintenance Level 1 (#4);
3. Continuation projects for the Department of Human Services (#5-6), higher education institutions (#7-11), and History Colorado (#12); and
4. 14 additional projects (#13-26).

OSPB and CDHE Prioritization
The executive request prioritizes higher education institution requests in the same order as the Department of Higher Education's (CDHE) prioritized request. However, in addition to the five continuation projects, the executive request only includes CDHE's prioritized request #1 for funding (#18). CDHE's prioritized list includes 21 additional projects beyond the two higher education COP lease payments and five continuation requests.

Continuation and Capital Renewal
Including certificates of participation and controlled maintenance, 12 of the 26 projects requested are continuation projects (#1-12). Although capital renewal is specifically defined as multiple controlled maintenance projects for a single facility costing more than $2.0 million, 19 of the 26 projects requested are related to controlled maintenance and capital renewal of existing facilities (#4-20, #25, #26).

Categories of Request
Certificates of Participation (#1-3): $46.1 million for three previously-approved COP projects:
- $20.3 million for the Colorado State Penitentiary II (which remains empty and unused);
- $18.6 million for various higher education projects that were to be funded with Federal Mineral Lease (FML) funds but which are funded with state funds when FML is not available; and
- $7.3 million for Anschutz Medical Center supported by a combination of state funds and Tobacco Settlement Revenue.

Controlled Maintenance Level 1(#4): $19.8 million for Level 1, "life safety" controlled maintenance projects costing less than $2.0 million prioritized and recommended by the State Architect.

Capital Renewal-type Projects (#5-20, #25, #26): $112.0 million for capital renewal-type projects. Three of the prioritized projects (#18-20) are designated *Capital Renewal* projects. However, all 18 of these requests are related to capital renewal of existing facilities.

Other Projects (#21-24): $10.1 million for other projects including a Department of Human Services master plan (#21) and Division of Youth Corrections replacement facility (#22), Department of Public Safety State Wildland Fire Engine Replacement (#23), and a Department of Military and Veterans Affairs conservation easement for Buckley Air Force Base (#24). Although not capital renewal-type projects, projects #21 and #24 also address existing facilities and projects #22 and #23 address capital replacement.

IT Capital

Although information technology project (IT capital) requests were statutorily excluded from capital construction in H.B. 14-1395, the executive request includes $112.7 million total funds including $97.4 million from the Capital Construction Fund for 16 information technology (IT capital) requests. The OSPB transmittal letter to the Joint Technology Committee includes a statement that statutory change is necessary to allow IT capital projects to be funded with CCF rather than General Fund in order to avoid the 6.5 percent General Fund reserve. Requested IT capital projects will be addressed in the Office of the Governor, Office of Information Technology briefing on November 19th. (For additional information and discussion on capital construction policy, including IT capital project funding, please see Issue Briefs #2 and #6 on pages 12 and 29 respectively.)

The JBC, the CDC, and the JTC

Statute and rules define legislative roles in the capital budget process for the Joint Budget Committee, the Capital Development Committee (CDC), and the Joint Technology Committee (JTC). Over the next several months, the Capital Development Committee (CDC) will be reviewing building capital construction requests and the JTC will be reviewing IT capital requests in detail and will ultimately recommend prioritized lists of projects to the Joint Budget Committee. The JBC's role with respect to the capital budget is more circumscribed, and *staff would discourage the JBC from any effort to duplicate the CDC's and JTC's in-depth review of proposed projects*. However, the JBC should be aware of the requests early in the process given that the JBC has ultimate authority for recommending the entire budget, including the capital budget, to the General Assembly.

Staff will continue to work with Legislative Council Staff assigned to the CDC and JTC for the purpose of answering questions and addressing specific issues related to the requested projects in order to resolve concerns during the prioritization process. Due to the roles provided in statute and rule, staff recommends that the Committee likewise address questions and concerns regarding the request list either through staff or directly to the CDC and the JTC during the prioritization process.

Issue 2: A Reconsideration of IT Capital Funding Source

House Bill 14-1395 split consideration of information technology (IT capital) requests from building capital requests in the capital construction budget process. This also included changing the funding source for state-funded IT capital projects from the Capital Construction Fund to the General Fund. The IT capital request for FY 2015-16 includes ten projects that total $97.4 million in state funds. If these projects are funded with General Fund, the projects will require an additional $6.3 million to satisfy the 6.5 percent General Fund reserve.

SUMMARY:

- The decision to fund IT capital projects with General Fund, Capital Construction Funds, or another fund source does not infringe on the JBC's or General Assembly's authority to allocate state funding to building capital, IT capital, or operating budget areas.

- Funding IT capital projects with the Capital Construction Fund or a dedicated IT Capital Fund could still be accomplished with a single General Fund transfer bill that would not make the Long Bill amendment process any more complex.

- All current and future IT capital projects funded with General Fund will require an additional 6.5 percent to satisfy the General Fund reserve. The FY 2015-16 request totals $97.4 million in state funds which will require an additional $6.3 million. The $76.4 million in IT capital projects funded for FY 2014-15 would have required an additional $5.0 million General Fund.

- Some IT capital projects require access to appropriations beyond one year as do some building projects. While roll-forward authority provided by footnote is available, it requires manually tracking specific appropriations over multiple fiscal years. The standard headnotes for capital construction appropriations provide straightforward access to funds for up to three years.

- Funding IT capital projects with General Fund will make General Fund tracking more cumbersome and appear more complex because IT capital appropriations will reside outside of the capital budget as well as outside of the operating budget but within General Fund appropriations.

RECOMMENDATION:

Staff recommends that the Committee reconsider last year's decision to fund IT capital projects with General Fund and sponsor legislation to fund IT capital projects with Capital Construction Funds through the creation of a dedicated IT capital account within the Capital Construction Fund.

DISCUSSION:

Recent History

House Bill 14-1395 split consideration of information technology (IT capital) requests from building capital requests in the capital construction budget process. This also included changing the funding source for state-funded IT capital projects from the Capital Construction Fund to the General Fund.

The Committee primarily discussed and came to a decision about funding IT capital with General Fund at its meeting on April 23, 2014. The discussion addressed proposed legislation (that became H.B. 14-1395) to move the authority for prioritizing IT capital projects to the Joint Technology Committee (JTC) from the Capital Development Committee (CDC).

At that meeting, the Office of Legislative Legal Services bill drafter was seeking direction from the Committee regarding a fund source for IT capital projects. The drafter discussed with the Committee the following options:

- Create a new IT capital fund source for IT capital projects that would operate similarly to the Capital Construction Fund;
- Continue to fund IT capital projects with the Capital Construction Fund; or
- Choose to fund IT capital projects with General Fund.

Initially a concern was raised that creating a new IT capital fund might add complexity to the Long Bill amendment process. The concern was whether a separate IT capital fund would require amending three bills for a single Long Bill amendment. On the basis of this concern, the Committee dismissed the idea of creating a new IT capital fund.

The next concern centered on the concept of keeping building capital funding entirely separate and distinct from IT capital funding over a concern that IT capital projects might benefit from statutory funding mechanisms that were intended for replenishing building infrastructure. The Committee was in general agreement, and, on that basis, determined that IT capital projects should be funded with General Fund, by default, rather than with the Capital Construction Fund.

At some point during the discussion, a clarification was made that a separate IT capital fund would not necessarily create additional complexity for the Long Bill amendment process as initially discussed. However, the Committee never reconsidered the idea of establishing a discrete IT capital fund once the discussion had shifted focus to the concept of keeping building capital funding separate from IT capital funding.

The Case Against Using General Fund for IT Capital

The Capital Construction Fund provides unique benefits to the budget process for one-time, project-based appropriations because it avoids General Fund appropriations-related statutory limits and reserves intended for the ongoing operations budget.

1. General Fund Limit
While the limit on the annual increase in General Fund appropriations may not be an immediate concern, it is possible that at some point in the future General Fund appropriations may have to be restricted. Funding IT capital appropriations with General Fund makes a restriction more likely along with the potential that IT project appropriations may *crowd-out* operations appropriations.

2. General Fund Reserve
The more immediate case against the use of General Fund for IT capital appropriations is the automatic 6.5 percent increase in cost for every state-funded IT capital project as a result of the 6.5 percent General Fund reserve requirement. The FY 2015-16 request totals $97.4 million in state funds which will require an additional $6.3 million for the reserve. The $76.4 million in IT capital projects funded for FY 2014-15 would have required an additional $5.0 million for the reserve. The FY 2015-16 Department of Revenue's DMV-DRIVE project requests $52.4 million in state funds, which also includes a 5.0 percent contingency of $2.4 million. The General Fund reserve required for this project would add $3.4 million.

The OSPB transmittal letter to the Joint Technology Committee states that the request assumes that IT capital projects will continue to be funded with the Capital Construction Fund. It also identifies the need for a statutory change to allow IT projects to be exempt from the 6.5 percent General Fund operating reserve requirement.

3. Multi-year Access to Appropriations
Long Bill headnotes for the capital construction budget provides access to appropriations for up to three years. Most IT capital projects as with building capital construction projects do not need to access appropriations for more than one year. However, there are occasionally large building projects and large IT capital projects that need such multi-year access to appropriations.

While it is possible to provide roll-forward authority for appropriations through the footnote process, the use of roll-forward authority is relatively random and rare. While the State Controller exercises spending authority oversight for roll-forward appropriations as footnoted in the Long Bill, they are not systematically tracked within the budget process beyond the year of appropriation due to their random usage in the operating budget. In that sense they are to some extent unaccounted for and functionally *fall out* or *fall off* of General Fund tracking beyond the fiscal year in which such an appropriation is made. Available General Fund may be overstated and appropriated General Fund understated if an appropriation with roll-forward authority accesses General Fund after the fiscal year of appropriation. This could become a more visible concern given the larger scale of appropriations for capital projects.

The capital construction portion of the Long Bill addresses the need for multi-year access to appropriations in a consistent and transparent manner that fits with the one-time nature of large project funding. The transfer to the Capital Construction Fund ensures that funds are available beyond the first year for projects that require multiple-year access to appropriations without the need for additional General Fund tracking.

4. General Fund Tracking

Finally, if IT capital projects are funded with General Fund, IT capital appropriations will reside outside of the capital budget and outside of the operating budget but will need to be counted within total General Fund appropriations. Given the historical inclusion of IT capital projects within the capital budget and the cleaner presentation of General Fund tracking, IT capital tracked within the capital budget enhances both historical comparisons and budget transparency.

Reconsideration of a Dedicated IT Capital Fund

A discrete IT capital fund could be included within a single General Fund transfer bill along with the traditional transfer to the Capital Construction Fund. A single transfer bill would resolve the issue of amending more than two bills for a single Long Bill amendment affecting a capital appropriation.

Finally, the creation of a dedicated IT capital account within the Capital Construction Fund would achieve the separate funding distinction that the Committee was primarily interested in achieving while maintaining the advantages built into the capital budget, the Capital Construction Fund, and the General Fund tracking processes.

Issue 3: Planning Unit for the Office of the State Architect

The lack of a centralized agency responsible for managing capital construction planning processes and the lack of planning expertise available at state agencies limit the effectiveness of and confidence in the capital construction decision-making process. Additionally, lack of due diligence and planning may create legal liabilities for the State when incomplete project planning must be reconsidered after the issuance of a Certificate of Participation (COP).

SUMMARY:

- State agencies generally lack but should have access to a more thorough, pre-appropriation planning process equivalent to that available to higher education institutions.
- A better planning process maximizes due diligence and minimizes legal liability.
- A better planning process would lead to more effective capital construction decision-making.

RECOMMENDATION:

Staff recommends that the Committee sponsor legislation to add a planning unit in the Office of the State Architect (OSA) to improve the building capital planning and budget process and provide capital planning oversight and expertise to state agencies. Staff recommends that statutory guidance for planning be modeled after the higher education capital planning process. Statewide planning policies for state agencies should be determined through rule and through management by the planning unit of the OSA. Capital project requests should be approved by the OSA planning unit, as included within an approved master plan, prior to their consideration by OSPB or CDC in the building capital budget process.

Staff further recommends that legislation also require that capital projects be approved for construction by the State Architect only after approval by the planning unit and the CDC. While a project may be granted approval through a bill, the project would nevertheless have to be approved by the planning unit and be approved by the CDC in order for the State Architect to begin construction on a project.

DISCUSSION:

Overview

In September a cross-branch group of staff who work on capital construction-related areas met to discuss the issue of real property transactions. The meeting included: legislative staff from the Office of Legislative Legal Services (OLLS), Legislative Council (LCS), and JBC; representatives from the Office of the State Architect (OSA), including the State Architect, Larry Friedberg; Deputy Director of the Office of State Planning and Budgeting (OSPB), Erick

Scheminske; Heidi Dineen from the Attorney General's (AG) Office; and Brett Johnson from the Treasurer's Office.

The meeting was initiated generally to address legal concerns over how current statewide capital construction approval processes may be inadequate to address a general lack of planning expertise among state agencies that affect the Certificates of Participation (COP) issuance process.

Specifically, the meeting was initiated based on the Department of Public Safety's (DPS) letter to the Capital Development Committee (CDC) regarding the change in construction plans for the Pueblo CBI Lab (Appendix F). In that letter, DPS informed the CDC that although the project had been approved as a renovation of an existing building, the architects and engineers had determined that the existing structure's roof could not support the enhanced HVAC systems required for the lab. The revised recommendation was demolition and construction of a new building. The budget and timeline for the project could still be met and demolition and new construction would lead to a more efficient outcome when compared to preparing the existing structure to handle the additional rooftop HVAC system.

The concern among the attorneys from the AG's Office and OLLS was that the legislation authorizing the COP and the COP issuance were drafted based on the planning documents forwarded from DPS. Both the COP legislation and issuance identified and referred to the renovation of a building and did not include the possibility of demolition and new construction for the project based on the planning document. While there appeared to be a potential for legal liability related to the COP issuance, the representatives from the AG's Office and the Treasurer's Office have since determined that the changes in the project do not materially affect the COP agreement based on the project's expectation to remain within budget and on-time.

Ms. Dineen from the AG's Office expressed concern over the lack of adequate planning for the Pueblo CBI Lab and other state agency building projects. She referenced and compared the typical 7-10 page planning document completed for a state agency's capital construction project to the 70-page planning document developed for higher education institution capital construction projects. It was Ms. Dineen's opinion that engaging in COP issuances should require the due diligence contained in a document equivalent to those provided by higher education institutions.

The discussion among the group was that higher education institutions had the facility planning resources and expertise to plan at a level that state agencies generally lack. There was discussion that planning services funding could be requested through the capital construction budget process, but it was not required and was rarely used given the delay and risk of a multi-year, multi-request process required to include a funded planning element.

It was generally determined by the group that the following principles defined the problem and pointed to a solution to the lack of real property planning in state agencies:

- State agencies generally lack but should have access to a more thorough, pre-appropriation planning process equivalent to higher education institutions.
- A better planning process maximizes due diligence and minimizes legal liability.

- A better planning process would lead to more effective capital construction decision-making.

Office of the State Architect

Currently, the State Architect only becomes involved in the capital construction process post-appropriation, managing construction projects. Historically, the OSA was located within OSPB and had a robust planning function related to capital construction. Over time the OSA was moved to the Department of Personnel and its function was reduced to post-appropriation construction management, statewide lease policy management, and building inventory tracking and prioritizing controlled maintenance needs.

Although the State Architect tracks the state inventory of buildings and manages the statewide lease policy function for state agencies, no one is responsible for surveying the planning needs for all state agencies. Whether a state agency (1) leases private commercial space, (2) leases a Capitol Complex or other state-owned space, or (3) owns its building, at the time that an agency needs to address its program space needs, there is no statewide monitoring to assure that the alternatives are good for the State in addition to being good for the agency. There is no single state agency or office charged with monitoring the space needs of the State for all state agencies with its attention on better addressing statewide property resource use among all state agencies.

The Higher Education Capital Construction Process

Current capital construction planning and approval processes for state agencies lacks the structure that is provided for higher education institutions. The higher education capital planning process requires all higher education institution capital projects to be developed within an approved institutional master plan, and requires project approval by the Colorado Commission on Higher Education (CCHE), the Department of Higher Education (CDHE), and the Capital Development Committee (CDC). For the purpose of accessing the Revenue Bond Intercept Program for access to lower interest rates on COP issuances, a higher education institution capital project must also gain approval from the JBC.

The higher education capital construction planning process remains decentralized, allowing for maximum flexibility, and yet is relatively robust in comparison to the state agency process. Aside from the multi-authority approval process and that a building project be part of an approved master plan, statute allows the organizations that manage the process to define the standards.

Conclusion

State agencies and the State generally would benefit from a more robust real property planning unit in the Office of the State Architect. A planning unit could provide the expertise that is currently lacking in the state agency capital construction process. Rather than making funds available through the capital construction budget process on a piecemeal basis, by project or by agency, a planning unit could be funded centrally. As the first line of approval for capital construction projects, the unit would function as a funnel and provide a more adequate level of due diligence and professional oversight prior to a project's consideration in the budget or legislative process. In this way, the planning unit would function similarly to and have similar advantages to the higher education capital construction process.

Issue 4: An Automatic Funding Mechanism for Controlled Maintenance and Capital Renewal

The State has generally underfunded controlled maintenance in annual appropriations and lacks an automatic funding mechanism to provide for controlled maintenance. A depreciation-based capital recovery system would create a *closed loop* for capital construction funds and more effectively synchronize with federal treatment of capital assets and capital recovery.

SUMMARY:

- Building capital projects are paid up-front or financed with certificates of participation (COPs) using state funds or non-state-funds.

- The federal government will not pay up-front for capital outlay, nor will it pay for COP lease payments, but instead only allows the cost of capital projects to be recovered through depreciation.

- Depreciation included as an element of cost in fee-setting and thus, collected in fee revenue, will accumulate in a fund balance reserve, lead to an excess reserve, and require a reduction in fees. This cycle results in subsidized operating costs as capital is depleted.

- Depreciation for state-funded capital assets is primarily a non-cash flow, accounting transaction. Funds equal to the ongoing, annual depreciation for capital assets are not actually set aside as a capital reserve but used to fund operating expenses in the statewide indirect cost recovery plan.

- The payment for or set-aside of a reserve for controlled maintenance and capital renewal was required and included in the ongoing operating budget for the Judicial Center, is used by higher education institutions for cash-funded projects, and is consistent with private sector financing practices for commercial buildings.

RECOMMENDATION:

Staff recommends that the Committee sponsor legislation to require a funding mechanism for controlled maintenance costs as part of the building capital budget process as follows:

1. Cash-funded: Staff recommends that non-state-funded (cash-funded) building projects annually set aside actual depreciation for the depreciation period in a capital outlay reserve for the purpose of independently cash-funding future controlled maintenance or capital renewal projects related to the capital project.

2. COP-financed: Staff recommends that cash-funded, COP-financed building projects set aside 1.0 percent of building cost annually in a capital outlay reserve. Staff recommends that state-funded, COP-financed building projects pay 1.0 percent of building cost annually into the Controlled Maintenance Trust Fund.

3. State-funded: Staff recommends that state-funded building projects include a depreciation-based, state lease payment system. Such a system would provide up-front payment for project construction with Capital Construction Funds and require an ongoing, annual *State Lease Payment* line item in the operating budget. The lease payment amount and its duration would be equal to the depreciation allowed for the project. The equivalent of 1.0 percent of project cost would be paid into the Controlled Maintenance Trust Fund with the balance paid into the Capital Construction Fund. Controlled maintenance projects would pay depreciation entirely into the Controlled Maintenance Trust Fund.

Alternatively, staff recommends that the Committee pursue legislation to require that all state agencies pay annually, 1.0% of building cost or building value into a dedicated capital outlay reserve for cash-funded facilities or into the Controlled Maintenance Trust Fund for state-funded facilities through a *Controlled Maintenance Payment* in the operating budget.

DISCUSSION:

Funding and Financing Types

There are roughly two sources of funding for building capital projects and two ways to *finance* or structure payment for a building capital project. Building capital projects can be divided into state-funded (GF or CCF) projects and non-state-funded (CF, RF, or FF) projects, generally referred to as *cash-funded* projects. Finance or payment structure is accomplished through a one-time, up-front payment of state or cash funds or through annual lease-purchase payments made for certificates of participation (COPs) with state or cash funds.

One-time, up-front payments for capital projects appear in the capital budget only in the year of appropriation. Beyond that, the state agency located in a funded capital facility will not reflect the cost of the facility construction in its budget. A state agency located in a facility funded by a COP will reflect an annual COP lease payment in its budget for the life of the COP payments. Comparing these, the COP lease payments provide a visible, ongoing facility cost, while the project funded up-front provides no ongoing reflection or reference in the budget to the resource commitment made for its construction.

Additionally, for comparison, real property space for state agencies may be leased annually in a privately-owned or state-owned property. Lease payments are included in the operating budget and are paid for with state or cash funds. Lease payments are perpetually visible in the budget as an ongoing operating cost. Lease payments as ongoing expenses are included in fee-setting for cash-funded programs and for indirect costs recovered from federally-funded programs.

Depreciation and Cash-funded Capital Assets

The federal government allows the State to charge federal grants for the use of capital assets by accepting depreciation as an allowable cost in billing rates and indirect cost allocation plans. The federal government is strict and requires the State to fund the purchase of the capital asset in advance and only collect for the use of the capital asset after the fact. As a result, <u>the State is not</u>

allowed to build a cash reserve for new capital asset costs by billing the federal government in advance of purchasing a capital asset. Implicit in the advance funding of capital assets is the fact that only historical cost, rather than replacement cost, can be accumulated.

Non-state-funded or *cash-funded* capital assets are depreciated for accounting purposes according to the federal requirements. Theoretically, the annual depreciation cost is billed within the fees for services provided by cash-funded programs. As fee revenue is collected, the share that is equal to the depreciation is collected as well, and the revenue flows into the program's cash fund balance. But depreciation is primarily a non-cash flow accounting mechanism on a balance sheet. Unlike program operating costs for staff and operating expenses that are paid out in cash, depreciation is accounted for through a reduction of capital assets and an increase in cash; but the expense is not actually paid out. So as depreciation is collected in fees, but with no actual cash payment or outflow, depreciation accumulates in the fund balance. Eventually, the accumulated depreciation contributes to an excess reserve. Statutorily, once a cash fund balance exceeds a 16.5 percent reserve, the program has to reduce fees in order to maintain no more than a 16.5 percent reserve. In this way capital subsidizes operating costs through lower fees than would otherwise be the case without access to the accumulated depreciation. (For an illustration of this effect, see the depreciation cash flow model on page 25.)

In 2014, the General Assembly adopted S.B. 14-108 which allows the Department of Personnel to set aside the depreciation collected for its Capitol Complex and Integrated Document Solutions programs in a *capital outlay reserve* for the purpose of future capital renewal. The amount of the capital outlay reserve is exempt from the 16.5 percent excess reserve limit. The capital outlay reserve concept included in S.B. 14-108 does not violate the intent of the 16.5 percent excess reserve limit for cash funds because that limit is intended to be an *operating* reserve. But for a program with capital assets, those capital assets are depleted over time (through both depreciation and use) and fees for services provided by such a program are set artificially lower than they otherwise would be to fully recover the costs of operating and capital. This means that the share of the fee equal to depreciation ends up being used to pay for operations rather than building a reserve for capital renewal. The depletion of the capital stock is, in effect, subsidizing ongoing operations.

In the capital construction process, cash-funded buildings should be setting aside annual depreciation in a capital outlay reserve for the purpose of funding controlled maintenance and capital renewal. As with S.B. 14-108, agency access to a capital outlay reserve for controlled maintenance or capital renewal projects would still require project and spending authority approval through the legislative budget process. **However, an automated funding mechanism like a self-funded capital outlay reserve would allow cash-funded buildings to self-finance future controlled maintenance and capital renewal needs independently and remain in compliance with the federal treatment of capital.**

Cash-funded and State-funded COPs

Cash-funded capital projects that are financed by a COP, require annual COP lease payments. The federal government does not pay for COP lease payments for capital assets, but instead pays for depreciation. The annual COP lease payment may or may not equal the depreciation expense allowed by the federal government. Regardless, the annual COP lease payment is visible in the budget as an ongoing facility cost for the program and is generally a valid approximation of the depreciation expense allowed. However, COP lease payments only pay the cost of the COP. Cash-funded COP projects should therefore, at a minimum, be setting aside 1.0 percent of building or project cost in a capital outlay reserve for the purpose of independently cash-funding future controlled maintenance or capital renewal projects related to the capital project. A 1.0 percent *controlled maintenance payment* should be included in the operating budget for this purpose.

State-funded capital projects that are financed by a COP, similarly require annual COP lease payments. Those annual lease payments are a reasonable approximation of the depreciation expense allowed by the federal government and are visible in either the capital or operating budget. As with a cash-funded COP project, state-funded COP projects should likewise be setting aside an additional 1.0 percent of building or project cost annually. However for a state-funded project, the 1.0 percent *controlled maintenance payment* in the operating budget should be paid into the Controlled Maintenance Trust Fund (CMTF).

State-funded Capital Projects

State-funded capital projects are funded up-front using General Fund transferred to the Capital Construction Fund. State funded capital projects become invisible in the budget after they are funded. Once funded they no longer appear in the capital or operating budget on an annual basis. However their accounting cost, particularly for federal purposes, is accounted for annually with depreciation. Nevertheless, the accounting cost is likewise an off-budget, non-cash flow, accounting transaction on paper. To the extent that depreciation charges are included in the statewide indirect cost allocation plan (Budget/Cash Fees Plan), indirect cost recoveries are used to fund state agency operations; once again, capital subsidizes operations.

However, a more accurate reflection of the annual, ongoing cost of state-funded capital projects could be included as an annual *State Lease Payment* in the operating budget at an amount equal to allowed depreciation. As an example, a building with a 40-year depreciation schedule would have an annual cost of 2.5 percent of the building cost. Additionally, of the *State Lease Payment* amount, the equivalent of 1.0 percent of the building cost could be paid to the Controlled Maintenance Trust Fund with the balance of the payment paid to the Capital Construction Fund. Continuing the example, a 40-year depreciation schedule would have 1.0 percent paid into the Controlled Maintenance Trust Fund and 1.5 percent paid into the Capital Construction Fund. A 20-year depreciation schedule for a building improvement would have an annual State Lease Payment amount equal to 5.0 percent of the project, with 1.0 percent paid to the Controlled Maintenance Trust Fund and 4.0 percent paid to the Capital Construction Fund.

The purpose of a *State Lease Payment* capital funding system is to:

(1) Treat all building capital transactions and space costs the same in the budget – whether financed by a COP, paid by state funds, paid by cash funds, or included as a lease payment;
(2) Provide ongoing budget visibility for the <u>actual, annual cost</u> of facilities by all agencies and programs regardless of ownership structure; and
(3) Create an automatic budget mechanism for funding ongoing capital construction and controlled maintenance.

The advantage to a depreciation-based capital recovery system is that it creates a *closed loop* for capital construction funds and synchronizes with federal treatment of capital recovery. **Once dollars are committed to the capital stock of the State through approval of a capital project, recovered dollars through the depreciation process remain within funds that maintain the capital stock, rather than depleting capital assets that subsidize operating expenses.**

The FY 2015-16 Request Impact on the FY 2016-17 Operating Budget
The following table outlines the impact that the recommended policy changes would have on the FY 2016-17 operating budget for the FY 2015-16 building capital requests.

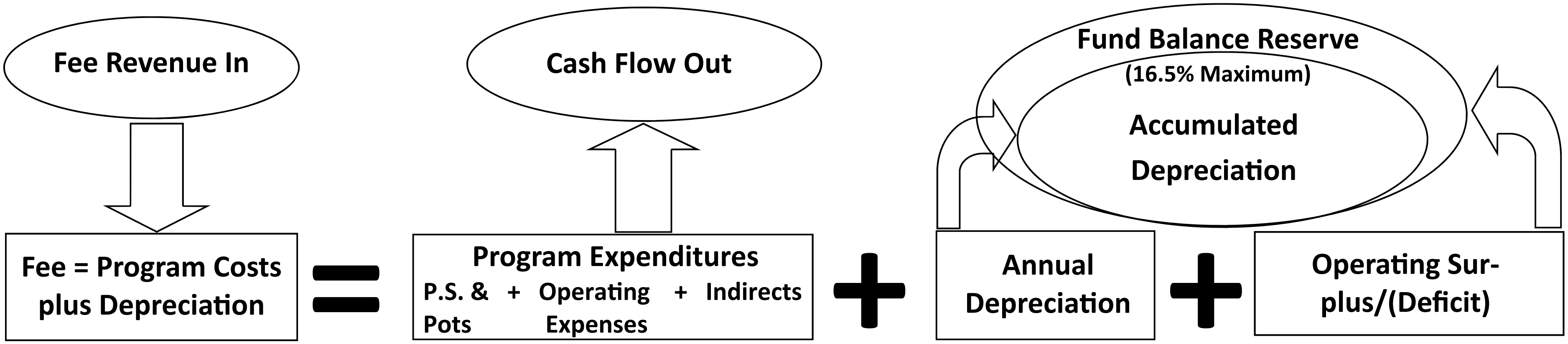
The FY 2015-16 Building Capital Request Impact on the FY 2016-17 Operating Budget						
	FY 2015-16 Capital Budget			FY 2016-17 Operating Budget		
	Capital Const. Fund	Cash Funds	Total Funds	General Fund	Cash Funds	Total Funds
COPs				***1.0 Percent for Controlled Maintenance****		
R1 Anschutz Medical Campus COP	7,289,937	7,000,000	14,289,937	$705,100	$1,222,129	$1,927,229
R2 Federal Mineral Lease COP	18,587,813	0	18,587,813	3,251,630	0	3,251,630
R3 CSP II COP (not in use)	20,254,768	0	20,254,768	0	0	0
Subtotal - COPs	46,132,518	7,000,000	53,132,518	3,956,729	1,222,129	5,178,858
Controlled Maintenance				***5-year Depreciation - 20.0 percent annually***		
R4 Level 1 Controlled Maintenance	19,822,659	0	19,822,659	3,964,532	0	3,964,532
Building Capital Projects				***20-year Depreciation - 5.0 percent annually***		
R5 MHI Suicide Risk Mitigation Phase II	4,556,369	0	4,556,369	227,818	0	227,818
R6 DYC Facility Refurbishment Phase II	2,000,000	0	2,000,000	100,000	0	100,000
R7 FLC Bernt Hall Continuation	8,293,345	2,115,987	10,409,332	414,667	105,799	520,467
R8 CU Systems Biotech Bldg. Contin.	20,243,179	8,000,000	28,243,179	1,012,159	400,000	1,412,159
R9 UCCS Visual and Perf. Arts Contin.	9,608,699	10,980,000	20,588,699	480,435	549,000	1,029,435
R10 CSU Chem. Bldg. Addition Contin.	23,694,678	5,400,000	29,094,678	1,184,734	270,000	1,454,734
R11 MSU AAAM Bldg. Contin.	14,720,872	16,404,160	31,125,032	736,044	820,208	1,556,252
R12 HistCO Georgetown Loop Prog.	300,000	100,000	400,000	15,000	5,000	20,000
R13 CSP CC Outdoor Rec. Yards	4,780,979	0	4,780,979	239,049	0	239,049
R14 Kipling Village Security Perimeter	730,510	0	730,510	36,526	0	36,526
R15 WRRC Capital Improvements	937,841	0	937,841	46,892	0	46,892
R16 PRC Capital Improvements	823,070	0	823,070	41,154	0	41,154
R17 CVCLC Safety and Access Improv.	3,588,700	0	3,588,700	179,435	0	179,435
R18 CSM Heating Plant Renovation	6,564,665	6,564,665	13,129,330	328,233	328,233	656,467
R19 CMHIFL Campus Util. Infrastructure	3,289,760	0	3,289,760	164,488	0	164,488
R20 LCF Hot Water Loop Replacement	4,187,050	0	4,187,050	209,353	0	209,353
R21 DHS Master Plan	1,451,365	0	1,451,365	72,568	0	72,568

R22 Adams YSC Replacement	1,982,833	0	1,982,833	99,142	0	99,142
R23 State Wildland Fire Engine Replace	1,660,000	0	1,660,000	83,000	0	83,000
R24 Buckley P-4 Conservation Easement	5,000,000	0	5,000,000	250,000	0	250,000
R25 Capitol Grounds Renovation	1,134,449	0	1,134,449	56,722	0	56,722
R26 Supplemental CBI Lab Space	2,522,576	0	2,522,576	126,129	0	126,129
Subtotal - Building Capital Projects	**$122,070,940**	**$49,564,812**	**$171,635,752**	**$6,103,547**	**$2,478,241**	**8,581,788**
Total FY 2016-17 Controlled Maint. and Depreciation Expense for FY 2015-16 Capital Construction Requests	-	-	-	**14,024,808**	**3,700,370**	**17,725,177.8**

*The Anschutz Medical Campus COP is calculated at a total project cost of $70.1 million state funds and $122.2 million cash funds. The Federal Mineral Lease COP is calculated at a total project cost of $325.2 million state funds. The CSPII COP facility is not in use and therefore not assessed a controlled maintenance charge for this illustration.

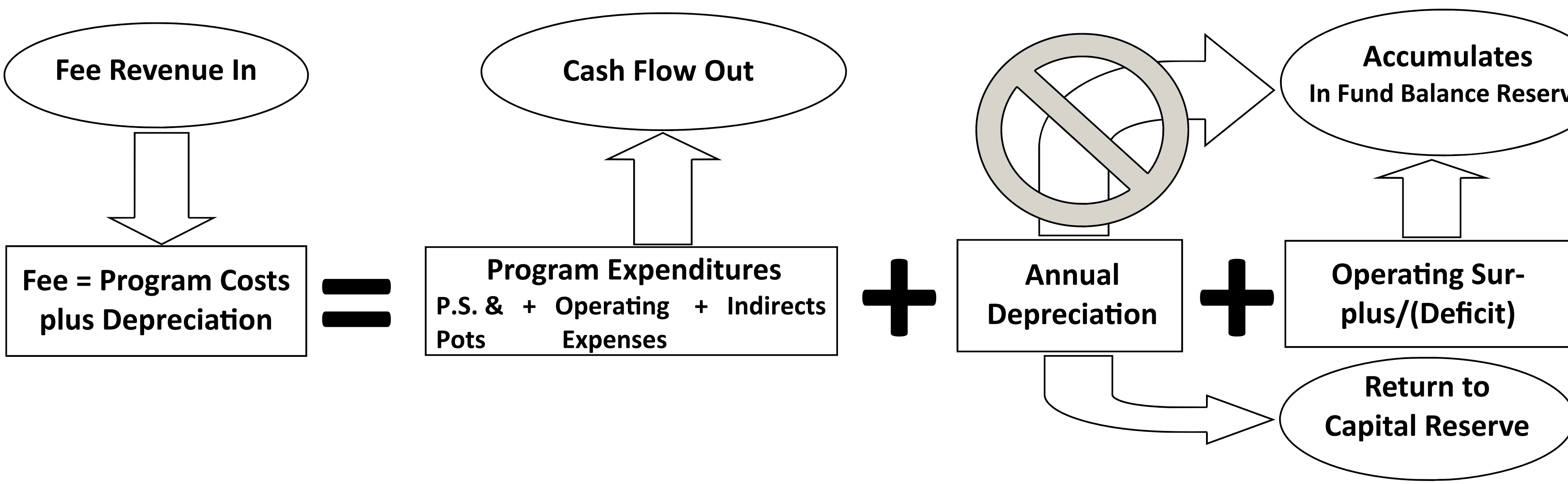
The first year impact would lead to an additional $14.0 million General Fund expense in FY 2016-17. Those funds would be paid into the Controlled Maintenance Trust Fund and the Capital Construction Fund and offset spending from those funds in the following year (FY 2017-18). Each out year would require continued funding for these expenses through the depreciation schedule. Each following year's capital construction commitments would begin to generate an additional need for General Fund in the operating budget for these purposes. However, these operating expenses and payments are paid into the State's capital funds. Capital construction – through the Controlled Maintenance Trust Fund and Capital Construction Fund – would eventually fund itself through this mechanism that would retain capital reserves within a closed system and more effectively synchronize with federal treatment of capital assets.

Current Depreciation Subsidizes Operations Cash Flow Model



As accumulated depreciation increases over time, the fund balance reserve builds. Eventually fees are reduced to account for an excess reserve generated from capital.

Proposed Depreciation to Capital Reserve Cash Flow Model



Issue 5: Transfer Recommendations for COP Payments Between Capital and Operating

The Capital Development Committee (CDC) has requested that the JBC consider moving certificates of participation (COP) lease payments from the capital budget to the operating budget due to their routine, ongoing nature consistent with operating expenses as provided in Joint Rule 45.

SUMMARY:

- During the 2014 session, the General Assembly adopted Joint Rule 45 to better and more consistently define the capital construction budget process and codify the roles of the JBC, the CDC, and the Joint Technology Committee (JTC) for the aspects of the budget process guiding building capital, information technology (IT) capital, and operating requests.

- The CDC has determined that COP payments, once facility construction is substantially complete and the use of the facility is consistent with day-to-day operations, more properly belong in the operating budget according to the definitions provided in Joint Rule 45.

- The CDC has recommended that five COP payment requests included in the capital budget be relocated to the operating budget. Similarly, a Department of Natural Resources (DNR) loan payment might also be relocated to the operating budget.

- H.B. 14-1170 authorized a COP for the Department of Public Safety's (DPS) Pueblo CBI Lab and included a General Fund appropriation in FY 2014-15 for the first COP payment. The Department has annualized its FY 2015-16 COP lease payment within its operating budget. This COP payment might more properly belong in the capital budget until facility construction is substantially complete.

RECOMMENDATION:

1. a) Staff recommends that the Committee adopt a general policy to locate non-state-funded (cash and federal) COP lease payments in the operating budget once facility construction is substantially complete and the use of the facility is consistent with day-to-day operations.

b) Notwithstanding the additional cost to meet the 6.5 percent General Fund reserve, in the interest of better aligning the budget process with the definitions provided in Joint Rule 45, staff also recommends that the Committee adopt a general policy to locate state-funded COP payments in the operating budget once facility construction is substantially complete.

c) Consistent with recommendations 1a and 1b, staff recommends that the Committee accept the recommendations from the CDC to relocate five identified COP lease payments to the operating budget and also recommends that the cash-funded request from DNR for the CWCB Beaver Park Dam Repayment also be relocated to the operating budget.

2. Staff recommends that the Committee adopt a general policy to locate COP payments for building capital projects for which facility construction is not substantially complete in the capital budget. Consistent with this recommendation, staff recommends that the Committee relocate the DPS Pueblo CBI Lab COP payment request from the operating to the capital budget.

DISCUSSION:

Joint Rule 45 and CDC Recommendations
During the 2014 session, the Capital Development Committee (CDC) and the JBC proposed and the General Assembly adopted legislative changes to better and more consistently define the capital construction budget process. The General Assembly also adopted Joint Rule 45 which codified the roles of the JBC, the CDC, and the Joint Technology Committee (JTC) regarding aspects of the budget process addressing building capital, information technology (IT) capital, and operating requests. Pursuant to Joint Rule 45 (b), which allows any of the committees to refer a request to any other committee, the CDC forwarded a list of five COP payments requested in the capital budget to the JBC for consideration in the operating budget (Appendix D).

Joint Rule 45 (a) (2) provides that, "Capital budget requests generally include projects that require a large and temporary outlay of funds for the acquisition, construction, renovation, and maintenance of capital assets." The CDC determined at its October 2nd meeting that facilities under construction – not substantially complete and not yet housing day-to-day program operations – are generally still subject to oversight by the CDC and that such COP payments should properly be located in the capital budget. However, once facility construction is substantially complete, annual COP lease payments better fit an operating budget request as defined in Joint Rule 45 (a) (1), which describes the operating budget as one that "includes routine expenses related to day-to-day operations, including items that require ongoing funding levels from year to year ...."

In addition to the five COP payments, CDC staff also suggested that the cash-funded loan payment from the Department of Natural Resources (DNR) for the Colorado Water Conservation Board (CWCB) Beaver Park Dam Repayment might also be relocated to the operating budget. The following table outlines the five COP payments and the DNR loan payment.

FY 2015-16 Capital Requests Recommended for the Operating Budget

Agency	Project Title	State Funds	Cash Funds
Agriculture	Department Office Consolidation (COP)	$0	$529,063
Corrections	Centennial Correctional Facility Expansion (COP)	20,254,768	0
History Colorado	New Colorado History Museum (COP)	0	3,121,815
Treasury	Various Higher Education Projects (COP)	18,587,813	0
UC Denver	Various Projects at the Anschutz Medical Campus (COP)	7,289,938	7,000,000
Natural Resources	CWCB Beaver Park Dam Repayment (loan payment)	0	333,333
Total		**$46,132,519**	**$10,984,211**
6.5 Percent General Fund Reserve Required		$2,998,614	

The CDC letter also refers to the COP payment for the Pueblo CBI Lab in the Department of Public Safety (DPS). House Bill 14-1170 authorized a COP for the Pueblo CBI Lab and appropriated $867,542 General Fund in FY 2014-15 for the first COP payment. The Department has requested ongoing COP payments within its operating budget and has annualized the FY 2015-16 COP payment of $867,542 into its leased space line item. While the CDC did not formally request or recommend that this COP payment be addressed in the capital budget, the background material included in the letter suggests that this COP payment might more properly be relocated to the capital budget until facility construction is substantially complete.

Conclusion

Joint Rule 45 provides operating and capital budget definitions which suggest that once facility construction is substantially complete, COP payments are more properly included in the operating budget, rather than the capital budget, due to their being *routine expenses related to day-to-day operations that require ongoing funding levels from year to year*.

As identified in the CDC letter, <u>the primary disadvantage to making COP payments with General Fund in the operating budget rather than with Capital Construction Funds in the capital budget is the additional reserve set-aside to satisfy the 6.5 percent General Fund reserve requirement.</u> As identified in the table above, the additional General Fund reserve required would total just under $3.0 million. <u>Due to the additional cost, staff would recommend against including state-funded COP payments in the operating budget. However, due to the guidance provided by Joint Rule 45, it appears that all COP payments for facilities in which program operations are ongoing should more properly be included in the operating budget.</u>

The CDC recommendations do not infringe on the Committee's decision to fund capital projects to any greater or lesser extent and are not intended to enhance or increase funding for additional building capital projects recommended by the CDC. Additionally, CDC staff has communicated the intent to continue to track all outstanding statewide COP payments, regardless of their placement in the capital or operating budgets, for the purpose of monitoring the total of lease payment commitments for capital projects undertaken by the State.

Staff recommends that the Committee adopt general policies regarding the placement of COP payments in the operating budget as suggested by the CDC in accordance with Joint Rule 45. Staff also recommends that the Committee relocate the five listed COP payments and the DNR loan payment to the operating budget and relocate the DPS Pueblo CBI Lab COP payment to the capital budget until that facility is substantially complete.

Issue 6: IT Capital Requests and Greater Justification for Projects

Information technology budget (IT capital) requests may be more expensive when compared to building capital requests. A large IT capital project with an estimated obsolescence of 10 to 20 years can cost as much as a building with an estimated useful life of 40 years. Additionally, IT capital projects are higher risk projects relative to building capital projects in that failed or underperforming IT projects retain almost no asset value. Due to the higher cost and higher asset risk, IT capital projects should not be funded unless project planning clearly defines the operating efficiencies or program enhancements to be gained and clearly quantifies the benefits of a project relative to its costs.

SUMMARY:

- The FY 2015-16 IT capital request totals $112.7 million including $97.4 million Capital Construction Funds (CCF) for ten IT projects. Excluding the Department of Revenue's (DOR), Division of Motor Vehicles (DMV), Driver License, Record, Identification, and Vehicle Enterprise Solution (DRIVES) project, totaling $52.4 million CCF, the additional nine IT project requests average $6.7 million total funds and $5.0 million CCF.

- The FY 2015-16 building capital request totals $244.6 million including $188.0 million CCF for 26 projects. Excluding the COP lease payments and controlled maintenance, building capital requests total $171.6 million including $122.1 million CCF for 22 projects. Those 22 projects average $7.8 million total funds and $5.5 million CCF.

- Depreciating the average $7.8 million building capital project over 20 years, would generate an ongoing, annual depreciation cost of about $390,000. Depreciating the average $6.7 million IT capital project over 10 years, would generate an ongoing, annual depreciation cost of about $671,000. In this example, the average IT capital project costs 72.1 percent more than the average building capital project over the estimated life of each project.

- The OSPB prioritization criteria include life-cycle cost but do not include anticipated operating efficiencies as a factor. However, the FY 2015-16 IT capital requests generally lack life-cycle cost data. Additionally, most requests vaguely suggest efficiency gains without clearly identifying, quantifying, or projecting cost savings anticipated from the requested IT project.

RECOMMENDATION:

Staff recommends that the Committee pursue legislation to require that IT capital 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. Additionally, the anticipated staff and operating savings should be considered as a factor by the Joint Technology Committee (JTC) when prioritizing and recommending IT capital projects to the JBC.

DISCUSSION:

Project Cost Comparison – IT Capital and Building Capital Requests
The FY 2015-16 IT capital request totals $112.7 million including $97.4 million Capital Construction Funds (CCF) for ten IT projects. IT capital requests average $11.3 million total funds and $9.7 million CCF. State funds represent 86.4 percent of total IT capital project costs.

The FY 2015-16 building capital request totals $244.6 million including $188.0 million CCF for 26 projects. Building capital requests average $9.4 million total funds and $7.2 million CCF. State funds represent 76.9 percent of total building capital project costs.

The Department of Revenue's (DOR), Division of Motor Vehicles (DMV), Driver License, Record, Identification, and Vehicle Enterprise Solution (DRIVES) project totals $52.4 million CCF, representing 53.7 percent of the CCF request and 46.4 percent of the total request for IT capital. The additional nine IT project requests average $6.7 million total funds and $5.0 million CCF.

Excluding the COP lease payments and controlled maintenance, building capital requests total $171.6 million including $122.1 million CCF for 22 projects. Those 22 projects average $7.8 million total funds and $5.5 million CCF.

Including all projects, IT capital requests are about $1.9 million total funds and about $2.5 million CCF higher than building capital requests. The average cost of most building projects are about $1.1 million total funds and about $0.5 million CCF higher than the average cost of most IT capital projects.

Depreciation Cost Comparison – IT Capital and Building Capital Requests
Depreciation schedules for capital assets vary. The State Fiscal Procedures Manual specifies that the useful life of new construction is estimated at 40 years or 27.5 years based on the type of construction. Building improvements are estimated at 20 years. Controlled maintenance life safety improvements are estimated at five years. A 40-year depreciation on a building leads to a 2.5 percent depreciation cost per year; and represents the annual implied cost of the facility construction over time.

IT capital projects are likewise depreciated or capitalized based on their anticipated obsolescence. The State Fiscal Procedures Manual identifies the estimated useful life of computer equipment at three years for computer equipment and five years for software.

Depreciating the average $7.8 million building capital project over 20 years, would generate an ongoing, annual depreciation cost of about $390,000. Depreciating the average $6.7 million IT capital project over 10 years, would generate an ongoing, annual depreciation cost of about $671,000. In this example, the average IT capital project costs 72.1 percent more than the average building capital project.

A project like the DMV-DRIVES project, that was funded in FY 2014-15 at $41.0 million and is requested in FY 2015-16 at $52.4 million, using an extended 20-year depreciation schedule, will generate an ongoing, annual depreciation cost of $4.7 million per year. The entire Division of Motor Vehicles operating budget for FY 2014-15 totaled $44.1 million. The DMV-DRIVES project, depreciated over 20 years, is equal to 10.7 percent of the entire DMV annual operating budget. Depreciated over 10 years, at $9.3 million per year, the project is equal to 21.1 percent of the annual budget. The relatively shorter estimated useful life and greater ongoing, annual depreciation cost of an IT capital project necessarily requires a higher level of scrutiny and due diligence.

Asset Risk
In most cases, real property retains market value regardless of ongoing need or suitability for tenants. Buildings are commonly repurposed to meet the needs of a new tenant. IT capital projects that are considered to be failed or underperforming projects have no intrinsic market resale, or re-purposing value beyond the specific IT efficiencies and services they provide to a specific program or agency. While IT hardware can be repurposed or sold in the period of time that precedes equipment obsolescence, generally the bulk of IT systems costs are software and development. Additional investments to improve performance are (as is the original investment in the system) sunk costs that cannot be recovered.

Examples of Requests
The following are examples of FY 2015-16 requests with elements that illustrate the lack of quantitative justification included in requests.

Department of Revenue, IT capital request #1, DMV DRIVES
This request for $52.4 million GF in FY 2015-16 is to fund the second and final year of the DOR, DMV-DRIVES project. The request includes an operating cost request for DMV staff backfill for temporary, contract staff equivalent to 44.0 FTE that totals $3.1 million in FY 2015-16. These 44.0 FTE include staff devoted to project managers, driver control, driver license, investigations, emissions, titles and registration, and accounting. The *Environmental Scan* section appears to be the only section that addresses the operational needs of the project and states:

> *Lastly, the operational goals this option include: (1) minimize impact on provision of services to customers; (2) improve efficiency and effectiveness; (3) implement favorable contractual terms and conditions; (4) improve responsiveness to external requirements; (5) efficiently maintain and keep applications current; (6) mitigate hardware and software end-of-life issues; (7) implement robust disaster recovery procedures; and (8) reduce significant risk and avoid reactive measures at a higher cost and impact.*

The narrative neither details nor specifically describes how the need for staff was calculated. Additionally, while the request clearly quantifies the need for additional temporary staff – 44.0 FTE in seven categories of agency classification, the request does not project staff efficiencies expected to be gained by the project. The department's need for backfill staff is identified but anticipated efficiencies are not.

The *Costs Savings and Improved Performance Outcomes* section of the narrative describes the Department's comprehensive budget, legislative, and technology strategy for driver and vehicle services that was undertaken for the FY 2014-15 budget during the 2014 legislative session. The narrative outlines the technology strategy as follows (emphasis added):

> *The technology strategy included replacing the DLS, CSTARS, and supporting systems per the FY 2014-15 DRIVES capital construction request. The Department received $41.0 million to fund the first year of a two-year request.* ***Investing in technology will contribute to a reduction in customer wait times in driver license offices to reach the goal of an average of 15 minute wait times.*** *Currently the system experiences frequent outages impacting customer service and staff productivity, has limited functionality, lacks flexibility in updating and communicating information to driver and vehicle services customers in a timely manner, is extremely complex and time consuming to navigate, and lacks security and internal controls.*

It appears that the goal of 15-minute average wait times is the primary purpose for engaging in this IT project. The underlined portion identifies the staff and user experience with the current system proposed to be replaced and appears to loosely identify staff productivity as one of the issues. Notwithstanding the consultant studies, lean studies, and various analyses undertaken by the Department for this effort and referred to in the narrative, there is a lack of specific, quantitative information identifying and supporting the need for additional temporary staffing and for projecting efficiencies that would allow the department to reach its goal of a 15-minute average wait time.

Department of Human Services IT capital request #5 for Enterprise Content Management

This request is for $500,400 in state funds for FY 2015-16, $502,332 for FY 2016-17, $505,867 for FY 2017-18. While not specified in the request, it appears that FY 2017-18 costs would be ongoing. The narrative states, "In broad terms, enterprise content management is a strategy for managing electronic documents and files for an organization." The narrative adds, "The system will automate various tasks that are not enhanced by human input such as assigning file names, sharing permissions, and allowing for heightened retention policies." More specifically, the *Background and Justification* section of the narrative states (emphasis added):

> *A content management system will dramatically improve internal operations, making the Department more efficient and better positioned to deliver essential services to Coloradans. The Department employs program assistants to serve as executive aides to each of its 30 + directors, and while these assistants bear the primary responsibility for managing administrative processes, they are also uniquely positioned to respond to concerns from clients that fall outside the normal conduits.* ***By redirecting staff time from repetitive administrative functions that technology should take care of,*** *staff will be able to focus on the personal interaction with clients that differentiates the Department as a leader in customer service.* ***Though this system will not reduce FTE, it will allow the Department to use its existing staff in a more efficient manner.*** *This also directly benefits employees through increased job satisfaction.*

The *Cost Savings and Improved Performance Outcomes* section of the narrative states (emphasis added):

> *Currently, the Department's administrative staff struggle with outdated tools to keep pace with business that demands mobile access and real-time collaboration. A conservative estimate is that **program assistants within each office spend 20 hours per week** performing functions that could be automated within a content management system: resolving missing or improperly submitted data, determining the proper workflow, manually routing items for approvals, documenting the status of what was shared with whom and when, and, researching and reporting on the status of approvals. **Across eight administrative offices, this amounts to over 8,300 hours spent annually** to complete functions which could be automated, taking valuable time from staff to create, collaborate, and improve client outcomes.*

While the request claims that the project "will not reduce FTE", it appears that administrative staff savings have been quantified in the narrative. The narrative suggests that the staff savings will be channeled into other customer service activities, but neither defines those activities nor describes the end-result enhancements other than to provide vague references to improved operations and customer service.

Life Cycle Cost

OSPB lists a number of criteria for how IT capital requests are prioritized, including "well-defined life cycle costs and reasonable cost estimates". Although they address "well-defined life cycle costs" and general program improvements related to policy goals, the criteria do not address administrative or operating efficiencies to be gained from an IT project. Additionally, the *Life Cycle Cost (LCC) Analysis* section of most request narratives include very little quantitative information. Generally, this section of the request narrative does not appear to meet the OSPB criterion of "well-defined life cycle costs" and it is unclear how OSPB is able to evaluate this criterion. As an example, the entire *Life Cycle Cost (LCC) Analysis* section of the DOR-DMV DRIVES request follows:

> ***Life Cycle Cost (LCC) Analysis and Project Alternatives***
>
> *As indicated in the Business Process Analysis section under Environmental Scan, the Department hired a consultant in 2013 to work with OIT to conduct an environmental scan to identify viable options to modernize or replace the DLS and CSTARS systems. The purpose of the study was to explore options for modernizing or installing a new DMV environment that incorporates contemporary functional system capabilities and standards, at a managed and reasonable cost. The study identified and analyzed five options: (1) do nothing; (2) replace DLS and CSTARS; (3) transform DLS and CSTARS; (4) replace DLS and transform CSTARS; and (5) transform DLS and replace CSTARS. Each option was assessed to determine whether the option satisfied the technical, business, and operational goals of the DMV, both one-time and ongoing costs, and project operational impacts. Further, the study analyzed the approach, strengths and weaknesses, and costs to implement each option. Based on the information provided in the environmental scan and internal review, the DOR and OIT requested to proceed with replacement of the DLS, CSTARS, and supporting*

systems. This option is anticipated to significantly meet the DMV's business, technical, and operational goals, which are presented in the Business Process Analysis section under Environmental Scan.

Conclusion

The *Life Cycle Cost (LCC) Analysis* section of most request narratives almost entirely lack quantitative data. This includes clearly outlining the costs of the project over the anticipated life of the system. Operating budget requests typically include vague and unquantified references to improvements and efficiencies. However, oftentimes those are much smaller requests that do not address system-wide IT improvements or new, replacement systems.

For the scope and scale associated with IT capital projects, both in cost and program impact, it is reasonable to require departments to provide more detailed analyses that identify, quantify, and project administrative or operating cost savings that are expected to be generated as a return on the investment of resources. IT capital requests for the purpose of offering enhanced services or program expansion should be similarly defined and quantified, specifying the type and volume of enhanced program services expected to be delivered for the investment of resources. <u>Projects that cannot identify and project administrative or operating efficiencies or program enhancements should be judged on that basis and compared against projects that can.</u>

If an agency believes that in addition to a project's anticipated staff and operating cost savings, the program also requests additional FTE which offset the savings, for customer service, administrative, or other program enhancements, such a *counter-balancing* staffing request should be addressed separately in an operating budget request, or at least clearly delineated as a distinct piece of the IT capital request. Operating savings gained and intended to be reinvested in program enhancements should be clearly identified and quantified for both purposes.

Issue 7: CORE Implementation Update

This is an informational issue on the implementation of the Colorado Operations Resource Engine (CORE), also known as COFRS Modernization.

SUMMARY:

- The Colorado Operations Resource Engine (CORE), also known as COFRS Modernization, went live on July 1st.
- The two largest functions of the system, purchasing and payment processes – bid solicitation and paying employees and vendors – were successfully implemented.
- Reporting – the ability to generate standard reports and develop custom reports – is expected to be available within the next week.
- Implementation efforts related to the Labor Data Collection (LDC) module and its connection to the payroll system (CPPS) and the labor allocation system (CLAS) are currently the focus of implementation.
- The Department of Personnel and OSPB are expected to submit requests by January 2nd for supplementals and budget amendments related to: (1) the transfer of CORE to the Office of the State Controller (OSC); (2) a true-up of state agency assessments for CORE; (3) a reorganization of the OSC to better manage CORE; and (4) a supplemental for the build-out of additional functionality for CORE (CORE 2.0).

DISCUSSION:

The Colorado Operations Resource Engine (CORE), also known as COFRS Modernization, went live on July 1st. The two largest functions of the system, purchasing and payment processes – bid solicitation and paying employees and vendors – were successfully implemented.

All departments are using CORE and using the same policies and processes for general accounting for the first time. CORE is a "document-driven", transaction-based system that generates a period-end report based on the documents entered in the system. Prior to this, COFRS was considered to be a "balancing" system, in which each department made entries as necessary based on internal spreadsheets and internal accounting processes, and used journal entries to make adjustments for the purpose of balancing the period-end report.

State Controller, Bob Jaros shared with staff that while the system is not at a point of stability that he would like to see, in general it has been a fairly successful implementation. Mr. Jaros identified three areas that are the current focus of implementation efforts:

1. Labor Data Collection (LDC) – data collection for the grant-based income system and its connection to the payroll system (CPPS) and the labor allocation system (CLAS).

2. Reporting – the ability to generate reports is expected to be rolled out within the next week. This will help resolve the concern of accounting system users and agency managers who previously had reports developed over 22 years of the COFRS system. CORE *Information Advantage* reports will allow "super-users" to develop custom reports while allowing everyday users to generate standard reports.
3. Tickets – the implementation team is currently working through help-desk requests that range from individual user issues to system-wide coding problems.

Deputy Director of the Office of State Planning and Budgeting (OSPB), Erick Scheminske identified the labor allocation module related to the LDC as have been mis-scoped in cost at the time that COFRS modernization was being planned over two years ago. Additionally, both Mr. Scheminske and Mr. Jaros identified the greater use of contingency funds than what had been expected to cover training for CORE users.

Mr. Scheminske and Mr. Jaros brought up the issue of transferring CORE to the OSC in the Department of Personnel from the Governor's Office of Information Technology (OIT). While initially CORE was located as an OIT operation, it has now become clear to the implementation team that the system should reside in and be managed from the OSC.

Mr. Scheminske identified the following request items that are expected to be submitted by January 2nd:

1. A CORE transfer from OIT to the Department of Personnel.
2. A true-up of assessments made to each department. This request will involve a supplemental and budget amendment for the cost of CORE.
3. A reorganization of the Office of the State Controller (OSC) for better addressing the ongoing needs for managing CORE in the OSC.
4. A supplemental to address funding "CORE 2.0". This request will be made for the purpose of building out more functionality that is available to the present system. This would allow the partnering relationship with CGI, and the expertise that has developed due to that relationship, to be immediately leveraged as opposed to being lost if further CORE development were undertaken at a later time.

Both Mr. Scheminske and Mr. Jaros spoke highly of the relationship and work product of CGI who is the IT developer for the project and attributed much of the success of the implementation to this point to the commitment of CGI.

Appendix A: Recent Legislation Affecting Capital Construction Budget

2013 Session Bills

S.B. 13-190 (Implementation of COFRS Modernization): Authorizes the State to enter into one or more lease-purchase agreements for the implementation costs of the Colorado Financial Reporting System (COFRS) modernization project. Requires the Office of Information Technology to ensure that the system includes any functionality that the legislative branch deems to be of particular importance, or explains why such functionality cannot be incorporated. Also requires reporting to the Joint Budget Committee (JBC) and to the Capital Development Committee regarding progress on the project.

S.B. 13-236 (Transfers of Money Related to Capital Construction): For FY 2012-13, increases the transfer from the General Fund to the Capital Construction Fund by $420,184, from $60,491,314 to $60,911,498. For FY 2013-14, transfers $186,215,493 from the general fund to the Capital Construction Fund and $500,000 from the General Fund Exempt account of the General Fund to the Capital Construction Fund. Also: (1) repeals a statutory section that provides for a transfer of up to $5 million from the state historical fund in the 2013-14 fiscal year for the capitol dome restoration; and (2) requires transfer to the Colorado Water Conservation Board Construction Fund any excess General Fund reserve for the fiscal year 2013-14 that is equal to the lesser of thirty million dollars or the total General Fund surplus.

S.B. 13-263 (Development of Capitol Complex Master Plan): Requires the Department of Personnel enter into competitive negotiations for the development of a comprehensive master plan for the capitol complex, with final approval from the Office of State Planning and Budgeting (OSPB) and the Capital Development Committee (CDC), and requires that all real estate-related capital requests by executive branch departments or the legislative branch for the capitol complex be evaluated by the OSPB and the CDC against the capitol complex master plan.

H.B. 13-1234 (Lease-purchase Authority for Department of Agriculture Office Consolidation): Authorizes the State to enter into one or more lease-purchase agreements for the Department of Agriculture's office consolidation, and authorizes the use of moneys from the Agricultural Management Fund for expenses related to such consolidation**.**

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. 14-1249 (Supplemental Bill): Supplemental appropriations bill for capital construction and the Controlled Maintenance Trust Fund. Includes modifications to capital appropriations for

FY 2009-10, FY 2011-12, FY 2012-13, and FY 2013-14 and a supplemental appropriation to the Controlled Maintenance Trust Fund for FY 2013-14.

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.

COLORADO
Office of State Planning
& Budgeting

111 State Capitol
Denver, Colorado 80203

November 3, 2014

The Honorable Edward Vigil
Vice-Chair, Capital Development Committee
State Capital Building
Denver, Colorado 80203

RE: OSPB Submission of FY 2015-16 Prioritized Capital Construction Requests

Dear Representative Vigil:

As required by Section 24-37-304 (1) (c.3) (I), C.R.S., the Governor's Office of State Planning and Budgeting (OSPB) is providing the prioritized capital construction requests for FY 2015-16. These requests are prioritized and are accounted for in the overall budget request. This November 3, 2014 submission includes two binders, both of which are provided to the Capital Development Committee (CDC) staff.

This November 3 package includes the following:

- A prioritized list of capital construction projects utilizing Capital Construction Funds;
- A non-prioritized list of capital construction projects utilizing 100 percent federal or cash funds, all recommended for funding;
- A prioritized list of controlled maintenance projects; and
- An updated assessment of the necessary General Fund transfer into the Capital Construction Fund, applying OSPB September 2014 forecast assumptions.

OSPB prioritized capital construction requests based on a number of criteria, described below:

- Projects that are partially funded by cash funds and/or federal funds;
- Certificates of participation (COP) annual payments for existing projects;
- Projects with clear and urgent life or safety implications;
- Requests for continuation projects appropriated in FY 2014-15;
- Life cycle costs and the reasonableness of cost estimates;
- Projects that are funded partly by non-state funds and non-student fee funds;
- Requests with clear space needs analyses and a clear assessment of how individuals will be better served by the project;
- Phased projects in which the individual phases are stand-alone projects;

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- All requests should be integral to achieving departments' policy goals or to individual institutions' planning goals;
- Projects will be reviewed against the program plans for appropriateness, necessity, and sufficiency of the project with respect to programs, applicable state policies, plans, and standards;

Please note that the Department of Higher Education (CDHE) will not submit higher education requests unless they meet OSPB criteria. However, the Commission on Higher Education reserves its ability under Section 23-1-306 (7) (a), C.R.S. to submit a prioritized list to the Capital Development Committee that may include projects deemed not to meet OSPB criteria. OSPB has delegated review of all 100 percent cash funded projects for institutions of higher education to the Department of Higher Education. These cash requests will be submitted directly to the Capital Development Committee by CDHE.

OSPB did not approve any inflationary adjustments for the FY 2015-16 capital construction requests.

Please feel free to contact my office at (303) 866-3317 with questions. At the Committee's request, I am available to present any necessary information at a future meeting.

Thank you for your consideration of these important requests.

Sincerely,

Henry Sobanet

Henry Sobanet
Director

cc: Senator Randy Baumgardner, CDC
Senator Cheri Jahn, CDC
Senator John Kafalas, CDC
Representative Randy Fischer, CDC
Representative Libby Szabo, CDC
Ms. Kori Donaldson, CDC Staff
Mr. John Ziegler, JBC Staff Director
Mr. Alfredo Kemm, JBC Staff
Mr. Larry Friedberg, Office of the State Architect
Ms. Diane Duffy, CDHE
Mr. Andrew Rauch, CDHE
Mr. Erick Scheminske, Deputy Director, OSPB
Ms. Laura Blomquist, OSPB Staff

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STATE OF COLORADO 1876

FY 2015-16 Capital Construction Requests											
OSPB Priority	CCHE Priority	Recommend Funding	Department	Division or Institution	Request Title	CC/ CM/ CR	FY 2015-16 Request				Summary
							TF	CCF	CF/RF	FF	
1	N/A	Yes	Higher Ed	CU Health Sciences	Anschutz Medical Campus COP	CC	$14,289,937	$7,289,937.0	$7,000,000	$0	Funds the annual Certificates of Participation.
2	N/A	Yes	Higher Ed	Not Applicable	Federal Mineral Lease COP	CC	$18,587,813	$18,587,813.0	$0	$0	Funds the annual Certificates of Participation payments per the provisions of SB 08-233.
3	N/A	Yes	Corrections	Colorado State Penitentiary II	Centennial Correctional Facility Expansion COP	CC	$20,254,768	$20,254,768.0	$0	$0	Funds the seventh of twelve payments for the refinanced Centennial Correctional Facility Expansion Certificates of Participation (formerly CSP II).
4	N/A	Yes	Level I CM	Not Applicable	Level I Controlled Maintenance	CM	$19,822,659	$19,822,659.0	$0	$0	For FY2014-15 all Level I controlled maintenance is requested to be funded.
5	N/A		Human Services	Colorado Mental Health Institutes	Human Services: Suicide Mitigation Phase II	CC	$4,556,369	$4,556,369	$0	$0	The Department requests $4,556,369 in capital construction funds (CCF) in FY 2015-16 for Phase II to continue to mitigate suicide risks at the Mental Health Institutes.
6	N/A		Human Services	Division of Youth Corrections	Human Services: DYC Facility Refurbishment for Safety and Risk Mitigation	CC	$2,000,000	$2,000,000	$0	$0	Funds would bring the physical state youth correctional facilities to standard. In FY 2014-15, the Department received $1,100,000 for the first phase of the project including $100,000 to develop a comprehensive assessment and planning process for twelve facilities across the State.
7	Continuation 1	Yes	Higher Ed	FLC	Higher Education: FLC Bernt Hall	CC	$10,409,332	$8,293,345	$2,115,987	$0	The Berndt Hall Reconstruction for Geosciences, Physics and Engineering project will complete a 60,838 gsf state of the art building with science laboratories, classrooms, and faculty office space.
8	Continuation 2	Yes	Higher Ed	CU-Boulder	Higher Education: CU Systems Biotech Building	CC	$28,243,179	$20,243,179	$8,000,000	$0	This project adjoins the academic wing to four wings on the East Campus. Provides additional space for teaching labs and classrooms.
9	Continuation 4	Yes	Higher Ed	UCCS	Higher Education: UCCS Visual and Performing Arts	CC	$20,588,699	$9,608,699	$10,980,000	$0	This project will consolidate the programs of the Department of Visual and Performing Arts and allow the programs to provide inter-disciplinary learning and improved efficiencies through shared resources.
10	Continuation 3	Yes	Higher Ed	CSU-FC	Higher Education: CSU Chemistry Building Addition	CC	$29,094,678	$23,694,678	$5,400,000	$0	The project is for the construction of a 60,000 gsf addition to the Chemistry Building. The project provides the necessary facilities to recruit quality faculty and research personnel to support directives aimed at getting the intellectual properties of research into the private sector.
11	Continuation 5	Yes	Higher Ed	MSU	Higher Education: MSU Aviation, Aerospace, and Adv. Manuf Building	CC	$31,125,032	$14,720,872	$16,404,160	$0	Metro State University Denver (MSU) is requesting funds for the Aerospace, Aviation & Advanced Manufacturing Building (A3M) with the goal of making this project a Public/Private Partnership.
12	N/A	Yes	Higher Ed	History Colorado	History Colorado: Georgetown Loop Business Capitalization Program	CC	$400,000	$300,000	$100,000	$0	Funds address business capitalization and infrastructure needs at the Georgetown Loop Railroad and developing a reliable fleet of motive power.
13	N/A	Yes	Corrections		Corrections: Colorado State Penitentiary Close Custody Outdoor Recreation Yards	CC	$4,780,979	$4,780,979	$0	$0	This request is in response to recent legal rulings with regards to Administrative Segregation housing conditions as well as the Department's phasing out of the administrative segregation beds as currently defined.

FY 2015-16 Capital Construction Requests											
OSPB Priority	CCHE Priority	Recommend Funding	Department	Division or Institution	Request Title	CC/ CM/ CR	FY 2015-16 Request				Summary
							TF	CCF	CF/RF	FF	
14	N/A	Yes	Human Services	Office of Community Access and Independence	Human Services: Kipling Village Security Perimeter	CC	$730,510	$730,510	$0	$0	This request enhances security to protect the residents and surrounding community while maintaining an appropriate treatment setting for the individuals served by adding a perimeter fence.
15	N/A	Yes	Human Services	Office of Community Access and Independence	Human Services: Wheat Ridge Regional Center Capital Improvements	CC	$937,841	$937,841	$0	$0	The Wheat Ridge Regional Center (WRRC) is requesting $3,563,814 in funding for capital improvement projects at its community residential homes.
16	N/A	Yes	Human Services	Office of Community Access and Independence	Human Services: Pueblo Regional Center Capital Improvements	CC	$823,070	$823,070	$0	$0	The Pueblo Regional Center (PRC) is requesting $5,687,509 in funding across Fiscal Years 2015-16 and 2016-17 for capital improvement projects at its community residential homes.
17	N/A	Yes	Human Services	Colorado Veterans Community Living Centers	Human Services: CVCLC Safety & Accessibility Improvements		$3,588,700	$3,588,700	$0	$0	The funding will provide immediate upgrades to security systems and provide important fall mitigation improvements for both indoor and outdoor resident areas at the two homes, both of which are 30+ years old.
18	1	Yes	Higher Ed	CSM	Colorado School of Mines Heating Plant Renovation	CR	$13,129,330	$6,564,665	$6,564,665	$0	Replace equipment within the Mines Heating Plant. Deaerators, pumps, valves, electrical systems and the emergency generator are also beyond their useful life.
19	N/A	Yes	Human Services	CMHIFL	Department of Human Services, Campus Utility Infrastructure at CMHIFL	CR	$3,289,760	$3,289,760	$0	$0	Replace the heating hot water piping system within the central plant and secure facilities
20	N/A	Yes	Corrections	Limon Correctional Facility	Corrections: Limon Correctional Facility Hot Water Loop Replacement	CR	$4,187,050	$4,187,050	$0	$0	The heating hot water piping system within the central plant and secure facilities has had chronic problems. The facility capital renewal request is to replace the pre-insulated piping systems.
21	N/A	Yes	Human Services	Office of Administrative Solutions	Human Services: Master Plan	CC	$1,451,365	$1,451,365	$0	$0	A Department Master Plan and Facilities Program Plan (FPP) for a Department building consolidation onto the Ft. Logan Campus.
22	N/A	Yes	Human Services	Division of Youth Corrections	Human Services: Adam YSC Replacement	CC	$1,982,833	$1,982,833	$0	$0	Design, build, and operate a 40-bed detention facility, which will replace the existing Adams Youth Services Center.
23	N/A	Yes	Public Safety		Public Safety: State Wildland Fire Engine Replacement	CC	$1,660,000	$1,660,000	$0	$0	The Department requests one-time Capital Construction Funds to purchase five Type 3/4 wild land fire engines which will replace five existing engines that have reached or exceeded the limit of their useful life at an estimated cost of $332,000 each.
24	N/A	Yes	Military and Veterans		Buckley P-4 Conservation Easement		$5,000,000	$5,000,000	$0	$0	This project, consisting of easements, land exchanges and land purchases will encompass property on the borders of Buckley Airforce Base. The desired end state of this project is a compatible use buffer zone around BAFB.
25	N/A	Yes	Personnel and Admin.		Personnel and Admin: Capital Grounds Water Conservation and Landscaping Renovation	CC	$1,134,449	$1,134,449	$0	$0	The request for funds to complete a water conservation and landscaping renovation project on the east lawn of the Capitol grounds.
26	N/A	Yes	Public Safety		Public Safety: Supplemental CBI Lab Space to Comply with HB13-1020	CC	$2,522,576	$2,522,576	$0	$0	This funding will allow the Department of Public Safety to backfill space vacated by the Department of Agriculture, move occupants from more costly commercial leased space, and accommodate recent growth within the DPS workforce.
Total Capital Construction Requests Recommended for Funding by the Governor							**$244,590,929**	**$188,026,117**	**$56,564,812**	**$0**	

FY 2015-16 Capital Construction Requests											
OSPB Priority	CCHE Priority	Recommend Funding	Department	Division or Institution	Request Title	CC/ CM/ CR	FY 2015-16 Request				Summary
							TF	CCF	CF/RF	FF	
27	N/A	No	Corrections		Corrections:AVCF ADA and Critical Cell House Improvements	CR	$8,603,398	$8,603,398	$0	$0	This project will address ADA, plumbing code, and safety deficiencies throughout the facility.
28	N/A	No	Higher Ed	Pueblo Community College	Department of Higher Education, Pueblo Community College, Davis Academic Building Renovation	CR	$9,223,210	$9,223,210	$0	$0	Replace HVAC and mechnical systems, upgrade science labs, fix rainstorm issues.
29	2	No	Higher Ed	CMU	Health Sciences Building	CC	$14,735,212	$12,230,212	$2,505,000	$0	Builds the phase I of the Health Sciences - Nurse Practitioner Center and remodels the Community Medical Center Plaza.
30	3	No	Higher Ed	UC-Denver	North Classroom Renovation	CC	$31,877,761	$20,552,020	$11,325,741	$0	Scope of work consists of replacing the roof, electrical, plumbing, lighting and exteriors. Critical improvements are needed to building systems, infrastructure, and common areas.
31	4	No	Higher Ed	UNC	Campus Commons	CC	$44,084,323	$25,000,000	$19,084,323	$0	Builds a center which includes the following: undergraduate and graduate admissions, welcome center, new student orientation, performance hall, gallery, student supportive services, and career services.
32	5	No	Higher Ed	CSU-FC	Warner College Addition	CC	$20,477,151	$10,000,000	$10,477,151	$0	Upgrade the existing building's mechanical, plumbing, electrical and telecommunication systems, and construct labs, office and support space.
33	6	No	Higher Ed	CCCS: Arapahoe Community College	Science and Health Lab Renovation	CC	$15,452,265	$11,589,198	$3,863,067	$0	Renovate the Biology/Chemistry and Health labs on the Littleton Campus.
34	7	No	Higher Ed	CCCS: Front Range Community College	Allied Health and Nursing Building	CC	$25,060,350	$18,700,000	$6,360,350	$0	Consolidate and improve space for existing Allied Health and Nursing programs.
35	8	No	Higher Ed	UC-Denver	Interdisciplinary Building and Data Center	CC	$48,757,310	$24,378,655	$24,378,655	$0	Building will include a data center, info & tech data center staff offices, the Center for Biomedical Informatics, and Clinical Faculty Offices.
36	9	No	Higher Ed	CSU-FC	Shepardson Building	CC	$33,766,872	$24,766,872	$9,000,000	$0	The project will house classrooms, instructional labs, a auditorium and meeting space.
37	10	No	Higher Ed	CCCS: Pikes Peak Community College	Student Learning Commons and Black Box	CC	$4,983,983	$3,683,983	$1,300,000	$0	Add an entrance to the campus, add space to the Downtown Studio Campus, the Student Learning Center and the Black Box theater.
38	11	No	Higher Ed	UC-Boulder	Aerospace and Engineering Science Building	CC	$74,981,051	$28,290,716	$46,690,335	$0	Design a building to support an integrated education and research space.
39	12	No	Higher Ed	WSCU	Savage Library Renovation	CC	$10,562,483	$10,456,858	$105,625	$0	Reorganize the building and address storm water, and building improvements.
40	13	No	Higher Ed	CCCS: Trinidad State Junior College	Valley Campus	CC	$4,452,106	$4,252,106	$200,000	$0	Construct a facility for the Valley Campus Career and Technical Education Trades Technologies program.
41	14	No	Higher Ed	CMU	Kinesiology and Performing Arts Center	CC	$17,998,412	$14,938,682	$3,059,730	$0	Expand and renovate the current structure. The renovation will include four gyms, one classroom, a running track, a climbing wall and support facilities.
42	15	No	Higher Ed	CCCS: Otero Junior College	Agriculture Science Program Renovation	CC	$1,393,800	$1,393,800	$0	$0	Renovate the McDivitt Hall and add a facility for the Agriculture Science Program.
43	N/A	No	Education	Colorado School for the Deaf and Blind	Department of Education: Renovate Jones and Palmer Halls	CC	$15,675,110	$15,675,110	$0	$0	Funds for the renovation of Palmer Hall and Jones Hall. Palmer Hall update and improve safety. Currently, Jones Hall is unusable for staff an student requirements.
44	N/A	No	Military and Veterans		Revere Contiguous Lot		$1,600,000	$1,200,000	$400,000	$0	Land acquisition which will allow for future consolidation of federal offices.

FY 2015-16 Capital Construction Requests											
OSPB Priority	CCHE Priority	Recommend Funding	Department	Division or Institution	Request Title	CC/ CM/ CR	FY 2015-16 Request				Summary
							TF	CCF	CF/RF	FF	
45	N/A	No	Human Services	CMHIP	Department of Human Services, Campus Utility Infrastructure Upgrade at CMHIP	CR	$19,996,238	$19,996,238	$0	$0	Capital renewal will replace aging building infrastructure including: HVAC, plumbing, electrical systems, fire alarm system upgrades, and improve energy conservation with building insulation and window replacement.
46	N/A	No	Transportation		Transportation: Automated Avalanche Reduction: I-70	CC	$2,825,000	$2,525,000	$300,000	$0	Install, and implement Gazex, an automated method of reducing avalanche danger in certain high risk corridors.
47	N/A	No	Transportation		I-70 Genesee Bike Path	CC	$2,191,141	$556,000	$835,141	$800,000	This project will construct a 10-foot wide concrete multi-use path on the northerly side of Interstate 70 between the Genesee Exit and Evergreen Pkwy Exit. $835,141 will come from local and cash funds and $800,000 will come from federal funds.
Total Capital Construction Requests							**$653,288,105**	**$456,038,175**	**$196,449,930**	**$800,000**	

Row	Department	Divison or Institution	Request Title	CC/ CM/ CR	FY 2015-16 Capital Construction Cash Fund Requests						Criterion
					TF	CCF	CF	RF	FF	HUTF	
1	Agriculture		Office Consolidation Lease-Purchase Payment	CC	$529,063	$0	$529,063	$0	$0	$0	No CCF
2	Higher Ed	Historical Society	Annual Payment for Colorado History Museum COP	CC	$3,121,835	$0	$3,121,835	$0	$0	$0	No CCF
3	Higher Ed	Historical Society	Regional Property Preservation Project	CC	$700,000	$0	$700,000	$0	$0	$0	No CCF
4	Natural Resources	Wildlife	Land and Water Acquisitions, Wildlife	CC	$9,300,000	$0	$9,300,000	$0	$0	$0	No CCF
5	Natural Resources	Parks	Park Infrastructure and Facilities, State Parks	CC	$12,586,412	$0	$11,787,851	$0	$798,561	$0	No CCF
6	Natural Resources	Wildlife	Infrastructure and Real Property Maintenance , Wildlife	CC	$3,564,934	$0	$3,564,934	$0	$0	$0	No CCF
7	Natural Resources		Land and Water Acquisitions, State Parks	CC	$950,000	$0	$950,000	$0	$0	$0	No CCF
8	Natural Resources		New Park Development, State Parks	CC	$3,237,669	$0	$3,237,669	$0	$0	$0	No CCF
9	Natural Resources		CWCB Beaver Park Dam Repayment, Wildlife	CC	$333,333	$0	$333,333	$0	$0	$0	No CCF
16	Public Safety		Greeley Troop Office	CC	$974,897	$0	0	$0	$0	$974,897	No CCF
Total Requests					**$35,298,143**	**$0**	**$33,524,685**	**$0**	**$798,561**	**$974,897**	

COLORADO
Office of State Planning & Budgeting

111 State Capitol
Denver, Colorado 80203

November 3, 2014

The Honorable Max Tyler
Chair, Joint Technology Committee
Colorado State Capitol
Denver, Colorado 80203

RE: OSPB Submission of FY 2015-16 Prioritized Information Technology Requests

Dear Representative Tyler:

As required by Section 24-37-304 (1) (c.5) (I) (B), C.R.S., the Governor's Office of State Planning and Budgeting (OSPB) is providing the Executive Branch information technology budget requests for FY 2015-16. These requests are prioritized and are accounted for in the overall budget request. This November 3, 2014 submission includes two binders, both of which are provided to the Joint Technology Committee (JTC) staff. The binders contain the requests for state departments except the Department of Higher Education.

This November 3 package includes the following:

- A prioritized list of information technology projects;
- Revisions to the information technology project requests submitted on October 1, 2014; and
- An updated assessment of the necessary General Fund transfer into the Capital Construction Fund, applying OSPB September 2014 forecast assumptions.

Pursuant to Section 24-37.5-802 (1), OSPB worked jointly with OIT to prioritize these requests based on a number of criteria, described in part below:

- Projects that are partially funded by cash funds and/or federal funds;
- Projects with clear and urgent life or safety implications;
- Requests for continuation projects appropriated in FY 2014-15;
- Life cycle costs and the reasonableness of cost estimates;
- Projects that are funded partly by non-state funds;
- A clear assessment of the individuals that will be served and how they will be better served by the project will receive higher priority;
- Phased projects in which the individual phases are stand-alone projects;
- All requests should be integral to achieving departments' policy goals or to individual institutions' planning goals; and

200 E. Colfax Ave, Room 111, Denver, Colorado 80203 P 303.866.3317

- Projects will be reviewed against the program plans for appropriateness, necessity, and sufficiency of the project with respect to programs, applicable state policies, plans, and standards.

The request assumes that IT projects reviewed and recommended by the Joint Technology Committee pursuant to 2-3-1701 (2.5) (a), C.R.S. will be paid with moneys in the Capital Construction Fund. Similar IT projects reviewed by the Capital Development Committee in previous years were paid from the Capital Construction Fund. The passage of House Bill 14-1395, which transferred the review of large IT projects to the JTC, removed this funding mechanism. A law change is necessary in order to continue the longstanding practice of allowing large IT projects to be exempt from the 6.5 percent General Fund operating reserve requirement.

Please feel free to contact my office at (303) 866-3317 with questions. At the Committee's request, I am available to present any necessary information at a future meeting.

Thank you for your consideration of these important requests.

Sincerely,

Henry Sobanet

Henry Sobanet
Director

cc: Senator Linda Newell, Vice-Chairman, JTC
Senator Owen Hill, JTC
Senator Gail Schwartz, JTC
Representative Bob Rankin, JTC
Representative Jonathan Singer, JTC
Ms. Jessika Shipley, JTC Staff
Mr. John Ziegler, JBC Staff Director
Mr. Alfredo Kemm, JBC Staff
Mr. Kevin Neimond, JBC Staff
Ms. Kori Donaldson, CDC Staff
Ms. Diane Duffy, CDHE
Mr. Andrew Rauch, CDHE
Mr. Erick Scheminske, Deputy Director, OSPB
Mr. Paul Doyle, OSPB Staff
Ms. Andrea Day, OSPB Staff
Ms. Laura Blomquist, OSPB Staff

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FY 2015-16 Capital Construction IT Requests											
OSPB Priority	CCHE Priority	Recommend Funding	Department	Divison or Institution	Request Title	CC-IT	FY 2015-16 Request				Summary
							TF	GF	CF/RF	RF/FF	
1	N/A	Yes	Revenue	DMV	DRIVES System	CC-IT	$52,350,833	$52,350,833	$0	$0	The Department of Revenue (DOR) and the Governor's Office of Information Technology (OIT) request $52,350,833 General Fund in FY 2015-16 to fund the second and final year of the DMV-Driver License, Record, Identification, and Vehicle Enterprise Solution (DRIVES) project.
2	N/A	Yes	Personnel and Admin.	Statewide	Timekeeping, Scheduling and Leave System Modernization and Human Resources Information System Supplemental	CC-IT	$9,407,500	$9,407,500	$0	$0	Human Resource Information System (HRIS), which includes personnel administration, payroll administration, performance management, and statewide leave and time tracking for Executive Branch departments.
3	N/A	Yes	Info & Tech		PSCN Microwave Infrastructure Replacement	CC-IT	$11,151,036	$11,151,036	$0	$0	Upgrade and replace the State Microwave system which provides critical connectivity among the Digital Trunked Radio System (DTRS) communications transmitter sites, the State's principal public safety communications system
4	N/A	Yes	Corrections		DOC Offender Management System	CC-IT	$11,049,761	$11,049,761	$0	$0	Complete the implementation of a fully-integrated electronic offender management system.
5	N/A	Yes	Human Services	Mental Health Institutes	MHI Electronic Health Records Phase II	CC-IT	$4,863,145	$4,863,145	$0	$0	Phase II includes includes funding for contract professional services, software acquisition, equipment, and contingency.
6	N/A	Yes	Public Safety		Capitol Complex Security Surveillance System Replacement	CC-IT	$812,000	$812,000	$0	$0	Replace and maintain of the Capitol Complex Security Surveillance System.
7	N/A	Yes	Human Services		Modernization of the Child Welfare Case Management System	CC-IT	$6,824,567	$4,648,707	$0	$2,175,860	Statewide Automated Child Welfare Information System (SACWIS) is compliant case management system (Trails) and underlying infrastructure.
8	N/A	Yes	Human Services		Interoperability	CC-IT	$14,139,300	$1,413,930	$0	$12,725,370	This project standardizes all existing Department IT systems and adds the necessary technology components, security and governance to allow the data contained within these system to be made available without removing the data from the core systems.
9	N/A	Yes	Human Services		Data Integration and System Analysis	CC-IT	$1,636,949	$1,200,949	$0	$436,000	Division of Community and Family Support (DCFS) will track data and allow for easy integration across all Office of Early Childhood (OEC) programs. Complements TRAILS.
10	N/A	Yes	Human Services		Enterprise Content Management	CC-IT	$500,400	$500,400	$0	$0	The Department requests $500,000 Capital Construction Funds in FY 2015-16, and beyond for Enterprise Content Management software that would manage electronic documents and files for an organization.
Total Information Technology Requests Recommended for Funding by the Governor							**$112,735,491**	**$97,398,261**	**$0**	**$15,337,230**	

Sen. Gail Schwartz, Chair
Sen. Randy Baumgardner
Sen. Cheri Jahn

Rep. Edward Vigil, Vice-Chair
Rep. Randy Fischer
Rep. Libby Szabo

Capital Development Committee
State Capitol Building, Room 029
Denver, Colorado 80203-1784
(303) 866-3521

October 2, 2014

Representative Crisanta Duran
Chair, Joint Budget Committee
200 East 14th Avenue, Third Floor
Denver, Colorado 80203

Dear Representative Duran:

The Capital Development Committee (CDC) received FY 2015-16 cash-funded capital budget requests on September 15, 2014, and non-prioritized FY 2015-16 state-funded capital budget requests on October 1, 2014. Several of these requests are for lease payments associated with completed capital projects, to be paid from the capital budget. Joint Rule 45 (b), which was adopted during the last legislative session, allows the CDC to refer budget requests to another committee if it determines that a particular request would be more appropriately reviewed by the Joint Budget Committee (JBC) or the Joint Technology Committee. The CDC determined at its October 2, 2014 meeting that ongoing annual lease payments should be reviewed by the JBC for possible inclusion in the operating budget. Table 1 lists five FY 2015-16 capital budget requests for annual lease payments that the CDC is forwarding to the JBC. The rationale for forwarding these budget requests to the JBC is discussed below.

Table 1
Projects Referred to Joint Budget Committee Pursuant to Joint Rule 45 (b)

Agency	Project Title	State Funds Request Amount	Cash Funds Request Amount
Department of Agriculture	Department Office Consolidation	$0	$529,063
Department of Corrections	Centennial Correctional Facility Expansion	20,254,768	0
History Colorado	New Colorado History Museum	0	3,121,815
Treasury Department	Various Higher Education Projects	18,587,813	0
University of Colorado Denver	Various Projects at the Anschutz Medical Campus	7,289,938	7,000,000
	Totals	***$46,132,519***	***$10,650,878***

Legislative changes adopted during the 2014 legislative session, such as the adoption of Joint Rule 45 and House Bill 14-1395, refined the definition of capital construction to better delineate between capital and operating budget requests. Joint Rule 45 excludes budget requests for grant programs that award funding to local governments from the capital budget. House Bill 14-1395 shifts information technology requests that were formerly considered for inclusion in the capital budget to the operating budget. The CDC sees the shift of COP payments to the operating budget — after the substantial completion of a facility — as a continuation of a trend to more precisely define what is operating and what is capital.

Joint Rule 45 states that operating budget requests generally include routine expenses related to day-to-day operations, including items that require ongoing funding levels from year to year. Although the definition of operating budget requests does not specify that payments for leased space are included in the operating budget, for many agencies it is standard practice to reflect lease payments in the operating budget. The CDC determined at its October 2 meeting that once construction of a new or renovated facility is substantially complete, certificates of participation (COP) annual lease payments better fit the definition of an operating budget request. At the outset of a project financed through COPs, the CDC believes that it makes sense to consider payments in the capital budget because agencies report about the ongoing construction of a facility. Once a facility is substantially complete, the nature of the payments shifts from a capital expense (monitoring how the proceeds of a COP sale are spent on the construction or renovation of a facility) to an operating expense (a lease payment made to the building owner, in this case a trustee, for use of a facility).

The CDC believes that shifting annual lease payments to the operating budget after the substantial completion of a project allows the budget to better reflect complicated repayment structures; it also affords a more consistent treatment of lease payments within the budget. Some COP payments are made from more than one cash and state fund source — a payment structure that can be better reflected within the operating budget. For instance, the annual lease payment on behalf of the new Colorado Financial Reporting System is shared throughout state government in a common policy. For FY 2015-16, the annual lease payment on behalf of this project will be requested through the operating rather than the capital budget. The FY 2015-16 annual lease payment on behalf of the Department of Agriculture office consolidation project is requested from the capital budget. The payment is entirely cash funded from multiple cash sources. Because renovation of the facility is substantially complete, the project may be a better fit for the operating budget. Conversely, construction of a new Colorado Bureau of Investigation laboratory building near Pueblo is just getting under way. The annual lease payment for the facility was originally planned for the operating budget due to its complicated, multi-fund repayment structure; however, the CDC believes this payment belongs in the capital budget until construction of the new laboratory is completed.

An important consideration of moving COP payments to the operating budget is the additional cost to satisfy the 6.5 percent reserve requirement for the state costs associated with certain state-funded COPs. Paying cash-funded COP payments from the operating budget (and the cash-funded share of state-funded COP payments) will not affect the reserve requirement. Based on the total state funds shown in Table 1, the FY 2015-16 reserve amount would increase by about $3.0 million if the state-funded COP payments were made from the operating budget. If revenue is limited, the General Assembly may not wish to set aside additional money in the reserve. It is worth noting that the state-funded costs of certain state-funded COPs may be subject to change based on the availability of certain cash fund sources used to offset state-funded COPs.

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The CDC does not anticipate that shifting COP payments from the prioritized list of capital budget requests to the operating budget will result in additional moneys for new capital budget requests, nor is that the committee's intent in exploring this option. Rather it is anticipated that the overall amount of money recommended for capital may be reduced as a reflection of the shift of certain state-funded payments to the operating budget and that no more funding will be made available for capital projects than what is recommended by the JBC in a transfer bill.

The CDC believes that it is essential that the members of the General Assembly be made aware of the total cost of ongoing lease payments for construction financed through COPs. If the JBC agrees to include annual lease payments within the operating budget after the substantial completion of a facility financed through the sale of COPs, the CDC could pursue legislation during the 2015 session to add a reporting requirement to its duties in order to maintain a level of awareness about spending for state facilities. Specifically, the report could reflect the cost of ongoing COP payments, from all fund sources, including historical information about the total cost of a project attributable to interest and principal payments.

A copy of the referenced budget requests will be forwarded under separate cover to Joint Budget Committee staff. The CDC looks forward to hearing whether or not the JBC is amenable to including annual lease payments in the operating budget for FY 2015-16. If you have any questions or concerns about the CDC's recommendations, please call Kori Donaldson, Legislative Council Staff, at 303-866-4976.

Sincerely,

Gail Schwartz

Senator Gail Schwartz
Chair, Capital Development Committee

c: Capital Development Committee Members
Joint Budget Committee Members
Jeff Stalter, Department of Agriculture
Cristina Everist, Department of Corrections
Andy Stine, History Colorado
Joseph Bell, History Colorado
Patrick Brodhead, Judicial Department
Andrew Rauch, Department of Higher Education
Brett Johnson, Office of the State Treasurer
Teresa Osborne, CU System
Erick Scheminske, Office of State Planning and Budgeting
Laura Blomquist, Office of State Planning and Budgeting
John Ziegler, Joint Budget Committee Staff
Alfredo Kemm, Joint Budget Committee Staff
Kori Donaldson, Capital Development Committee Staff

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Colorado Legislative Council Staff

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M E M O R A N D U M

October 27, 2014

TO: Senator Kent Lambert

FROM: Kori Donaldson, Principal Research Analyst, 303-866-4976

SUBJECT: Condition of Grand Junction Regional Center

Summary

This memorandum responds to your request for information about vacant buildings on the Grand Junction Regional Center (GJRC) campus. Specifically, you asked whether the vacant buildings on the campus have a termination or reuse plan. In response to this question, the Department of Human Services replied that a third-party site assessment conducted by Oz Architecture, Inc. will be published in mid-November, and that this report will include recommendations about the future use of vacant and aging facilities on the campus. According to the department, there are currently eight vacant buildings on the GJRC campus. Another building will be vacated before the end of October 2014. This memorandum provides information about the current condition of the buildings on the campus, including both occupied and vacant facilities.

According to the data included in the annual asset inventory prepared by the Office of the State Architect (OSA) in December 2013, the GJRC campus is aging and in generally poor condition. The asset inventory reports that there are 28 buildings totaling 233,910 gross square feet on the campus. The age of the buildings ranges from a residential facility constructed in 1889 to a warehouse storage facility built in 1975. Four buildings on campus were constructed before 1900. Another four buildings were built after 1900 and before 1950. The remaining buildings were all constructed after 1950 and before 1975. In recent years, $79,466 has been spent from the Emergency Controlled Maintenance Account for emergency projects at the GJRC to replace a water heater and a steam line.

The department measured the Facility Condition Index (FCI) of the buildings on the GJRC campus in 2002. Based on the 2002 assessment, the FCI rating of the buildings ranges from 19 to 88, but averages about 60. The FCI rating is a ratio of facility's deficiencies compared to its current replacement value on a scale of 100. Generally speaking, the FCI rating assumes a life span of 100 years for a building and, if left untouched, a building loses about one point in its FCI rating each year. The Office of the State Architect's target rating for state buildings is 85. If the average FCI rating from 2002 for the buildings on the GJRC campus is adjusted to account for the 12 years that have elapsed since the buildings were last assessed, the average drops to 48, or roughly half the target rating for state buildings.

The current replacement value of the buildings on the GJRC campus is $42.4 million. The Office of the State Architect recommends that approximately 1 percent of the current replacement value of the state's inventory be appropriated to controlled maintenance annually. Based on this recommendation and the deteriorating building inventory at the GJRC, about $424,000 should have been appropriated for controlled maintenance on the GJRC campus for the FY 2014-15 budget cycle. No moneys were appropriated for controlled maintenance for FY 2014-15 for projects on the GJRC campus. In fact, only four controlled maintenance projects have been requested on behalf of campus facilities since FY 2002-03 and no moneys have been appropriated for controlled maintenance projects on the campus since FY 1999-2000.

COLORADO
Department of Public Safety

Executive Director's Office
700 Kipling Street, Suite 1000
Lakewood, CO 80215

August 25, 2014

Capital Development Committee
Room 029
State Capitol
200 E. Colfax Avenue
Denver, CO 80203

Dear Chairman Schwartz, Vice-Chairman Vigil, and members of the Capital Development Committee:

This letter is to inform you of a plan change regarding the construction of a new Colorado Bureau of Investigation (CBI) regional facility in Pueblo. As you know, HB 14-1170 authorized the CBI to enter into certificates of participation (COPs) for the purchase and construction of a new Pueblo regional facility, including office and laboratory space. The COPs were issued and sold, and the closing for the purchase of the property took place, in early July.

The purchased property has an existing structure shell. Based on the information that was available prior to purchase, the guidance received from the architects indicated that the existing structure would be the base of the new building. After further examining the property, the project manager and general contractor have recommended that it will be more effective and efficient (from a time and cost perspective), to raze the existing structure shell and construct a new building. The existing building will be de-constructed and the salvage sold by the general contractor, with any proceeds deposited into the General Fund. It has been determined that the change to the construction plan will not result in additional construction time or costs, and will save approximately 16 weeks of construction time, with a projected completion date of June 2015.

The CBI plans to proceed pursuant to professional recommendations from the architect, engineers, general contractor, and project manager. The State Architect's office has been involved in this analysis and concurs with the recommendations of these professional services and the general contractor. The Attorney General's Office is also aware of this plan change and is advising on any legal aspects.

Please do not hesitate to contact us with further questions.

Sincerely,

Stan Hilkey
Executive Director, Department of Public Safety

Ron Sloan
Director, Colorado Bureau of Investigation

Cc: Senator Cheri Jahn, Capital Development Committee
Senator Randy Baumgardner, Capital Development Committee
Representative Randy Fischer, Capital Development Committee
Representative Libby Szabo, Capital Development Committee
Representative Crisanta Duran, Chair, Joint Budget Committee
Senator Pat Steadman, Vice-Chair, Joint Budget Committee
Senator Mary Hodge, Joint Budget Committee
Senator Kent Lambert, Joint Budget Committee
Representative Jenise May, Joint Budget Committee
Representative Bob Rankin, Joint Budget Committee
Kori Donaldson, Staff, Capital Development Committee
Amanda Bicker, Staff, Joint Budget Committee
Viktor Bojilov, Staff, Joint Budget Committee
Laura Blomquist, Staff, Office of State Planning and Budgeting