CAPITAL CONSTRUCTION
FY 2016-17 JOINT BUDGET COMMITTEE HEARING AGENDA

Wednesday, November 18, 2015
1:30 pm – 3:30 pm

1:30-1:35 INTRODUCTIONS AND OPENING COMMENTS

(For the following questions please provide both a written and verbal response.)

1:35-2:00 ISSUE 1: FIRST TAKE ON CAPITAL CONSTRUCTION REQUEST

For the State Architect:

1. **Please describe the capital construction project contracts process and specifications and contractual details related to State funding commitments for capital projects.**

   RESPONSE: C.R.S. 24-30-1301 et. Seq. authorizes the Office of the State Architect (OSA or Office) to administer the post appropriation capital construction process for state agencies and institutions of higher education. Once an agency or institution receives an appropriation, a standardized project administration and documentation process as established by the OSA is to be followed. OSA oversees the process and tracks each project and provides technical support and advises on the appropriate contract document (project delivery method) to use.

   C.R.S. 24-30-1303 (IV) (V) authorizes the OSA to establish standard contract language for agreements between architects, engineers, and contractors and state agencies and institutions of higher education and to approve all modifications to that standard contract language. These agreements have been established with the assistance of the Attorney General and the State Controller and are required to be used on all state funded construction projects. The OSA provides those agreements online. www.colorado.gov/osa.

   Incorporated into every standard contract for design and construction services agreement are provisions for the State's rights to terminate work for performance or convenience. Essentially, suspension or termination clauses may be activated for poor performance on the part of the vendor or for reasons considered to be in the best interests of the State, including loss of appropriations.

   For example, due to declining revenues in FY 2001-02, OSPB issued the Memorandum of September 19, 2001 (**Attachment A**), which put all capital construction projects on hold that *"have not started physical construction or are at a phase of construction or development that can be resumed at a later date without safety risks or additional costs to the state."* Over $200 million dollars of capital construction and controlled maintenance projects were shut down and their appropriations rescinded, affecting most state agencies and institutions of higher education. The standard contract language for termination (as it exists today) was activated, vendors were paid according to their services rendered to date and no lawsuits were filed. Most projects eventually restarted and were completed at a later date when funding was available.

For OSPB:

In preface to the responses below, OSPB notes that the many observations and recommendations made by JBC staff in its Capital Construction briefing stem from a foundational challenge in budgeting: there is a finite pot of resources and demands that exceed those resources. The State of Colorado's challenge is magnified by incongruous rules around revenue and spending.

The JBC Staff's briefing highlights the competing interests between caring for our existing infrastructure and building for future growth in an environment of increasingly constrained General Fund revenues. Our budget request for FY 2016-17 reflects the Hickenlooper Administration's recommendation to balance these competing needs, particularly in light of the fact that funding in the past three years for maintenance of our existing facilities has grown substantially over levels seen during the Great Recession. We determined that, given the significant limitation of available General Fund in FY 2016-17, completion of the capital construction projects approved during the 2015 legislative session merited funding above the continuation of a more aggressive policy around controlled maintenance.

As part of our request for FY 2016-17, however, we also placed a substantial increase in controlled maintenance funding near the top of our prioritization should additional General Fund revenue become available for expenditure. This placement reflects the Administration's ongoing commitment to properly support and maintain the infrastructure necessary to ensure the functioning of Colorado government, as also evidenced by our efforts to replace Colorado's accounting, payroll, and human resources systems; our support of the replacement of the State's motor vehicle and driver's license systems; and our completion of the Capitol Complex Master Plan and identification of funding for the renovation of two important State buildings.

We also note that many recommendations contained in the JBC Staff's capital construction briefing constitute new financing mechanisms for the maintenance of existing facilities, but exclude associated assessments or recommendations for the funding required to activate those mechanisms. We appreciate and recognize the JBC Staff's motivation in contemplating these mechanisms. We welcome a thorough discussion about whether our prioritization of funding for FY 2016-17 represents the best possible use of limited General Fund dollars in building and maintaining the proper infrastructure for serving Colorado's citizens both now and in the future.
At the same time, our debate must distinguish between methods of finance versus levels of funding. This distinction is at the center of our answers.

Lastly, these answers are in the context of a non-emergency fiscal environment. Some of these general answers would require modification to accommodate adverse circumstances.

2. **Of the requested continuation projects, which are in planning and which are breaking ground? Which continuation building projects are under contract? Are any building projects that have only been funded for planning, already under contract for construction? If so, why?**

   RESPONSE:

   University of Northern Colorado

   The UNC Campus Commons Phase 1 project is currently in design. We have selected Semple Brown / Handprint Architecture and are under contract. We have also selected and contracted with our construction manager, Adolphson Peterson. We anticipate breaking ground on site work, utilities and foundations in fall 2016. Our project was funded for design and construction of all of phase 1.

   Colorado Mesa University

   CMU's continuation project has progressed well beyond the planning stage in the 6 months following the State's decision to fund the project in July, 2015. Contracts to allow CMU to purchase the hospital property have been closed; doctors, nurses and other medical professionals who leased medical office space from Community Hospital for many years, were given notice and have since vacated the medical campus; CMU has been able to relocate simulation labs for the nursing program from the main campus and has begun creating office space for a police sub-station, a student health clinic, band instrument storage and additional faculty offices.

   Funding approved in July, 2015 has further allowed CMU to encumber the full value of the A/E teams design contract, allowing the team to work towards full construction drawings for the entire project. The design team agreed to provide early release bid packages for the aforementioned remodel projects as well, which has allowed the project to move forward in a timely manner. CMU is moving forward with plans to begin demolition and renovation in February.

   Subsequent steps include finishing bid packages that describe how site utilities will be extended to existing and future buildings, install campus utilities (phone, internet, etc.) and begin clearing and grubbing in advance of an anticipated July, 2016 start date for building construction.

   Pueblo Community College

   The PCC Davis Academic Building Phase I is under contract for design and will see ground breaking within 60 days. Phase I also included funding for the purchase of long-lead mechanical equipment and incorporated the design for the second phase within the first phase. The design firm is scheduled to be under contract for Phase II design by January 15, 2016.

   Colorado State University – Fort Collins

   The Chemistry Building is under contract and the utilities to the site are about 95% done. Work will start on the demolition of the existing Stock Pavilion in a couple of weeks, which will clear the way for the building construction. Note that the current contract is for building core and shell only--we need the next phase for tenant finishes.

Metropolitan State University – Denver

The AES building is under contract and we have executed our third amendment which includes structural steel and the foundation work. We have broken ground on the AES Building and are currently coordinating off-site utilities and will begin foundation work on the facility by the end of January.

Department of Human Services – DYC Facility Refurbishment for Safety and Risk Mitigation

The FY 2016-17 request comprises several smaller projects related to a study of DYC funded in FY 2014-15, intended to improve the safety and security of both residents and staff in DYC facilities. Construction on these components has not yet commenced.

Department of Human Services – Mental Health Institutes Suicide Risk Mitigation

Work to mitigate the risk of suicide at the State's mental health institutions has been ongoing for several years. The phase requested in FY 2016-17 is intended to complete construction on components that will be designed using appropriations received in FY 2015-16.

Department of Human Services – Adams Youth Services Center Replacement

The FY 2016-17 request is the second of a multi-phase request to construct a new youth detention facility to replace the existing Adams Youth Services Center. Phase I, funded in FY 2015-16, will allow building design. This Phase II will allow for site acquisition, development, and infrastructure. This project has not yet commenced construction.

Department of Education, Colorado School for the Deaf and the Blind – Jones and Palmer Halls

The FY 2016-17 request is the second half of a two-phase project to complete renovation on two buildings within the CSDB campus. The bid process for construction activities for the Jones Hall renovation is underway, but construction has not yet begun.

3. **What does OSPB think about the staff recommendation to prioritize controlled maintenance ahead of continuation funding for new building projects?**

   RESPONSE: OSPB's FY 2016-17 capital construction request constitutes the Hickenlooper Administration's preferred prioritization between construction of new facilities for Colorado's growing population and maintenance of our existing facilities.

4. **What does OSPB think about seeking COP funding for the DHS Adams Youth Services Center replacement or the Public Safety Communication Network Microwave Infrastructure Replacement projects as an option for reducing the request for state funds?**

   RESPONSE: In general, OSPB believes that the State should take a cautious approach to multi-year financing of ongoing operations. While multi-year financing can reduce the first-year costs of certain projects and speed up project implementation, we must also acknowledge the risk in binding future budgets with unchangeable obligations. In most cases, our preference remains to address the capital needs of State agencies with available funding in a given fiscal year. Meanwhile, if the question anticipates starting more capital projects on a phased basis, we are not supportive and even less so if ongoing operating expenditures would be the area of increased expenditure.

5. **What does OSPB think about staff's long term recommendation to align the State's lack of commitment to maintaining its buildings by incrementally selling its state agency buildings and crediting proceeds to the Controlled Maintenance Trust Fund?**

   RESPONSE: **O**SPB opposes this recommendation. The analysis seems not to consider the financial or operational implications of such a policy. For example, we generally believe that the sale of occupied buildings would also necessitate the lease-back of those facilities from potential buyers or the need to acquire space from alternative landlords. It is unlikely that the interest earned in the Controlled Maintenance Trust Fund on the proceeds from a building sale would eclipse the required annual lease payments for that same space. Meanwhile, in the current environment, higher interest earnings would be refunded under Article X, Section 20 of the Constitution.

   For example, a 30,000 sq. ft. building sold for $140 per sq. ft. (the approximate average asking price for office buildings in Colorado in 2015) would generously yield, after real estate commissions, no more than $4.1 million. At an annual interest rate of 1.8 percent, compounded monthly, the Controlled Maintenance Trust Fund would earn about $74,000. By contrast, at $17 per sq. ft. in annual lease payments (the approximate average rent for office space in Colorado), that same space would require increased appropriations of $510,000.

2:00-2:30 ISSUE 2: PRIORITIZING CONTROLLED MAINTENANCE

For the State Architect:

6. **Please explain the rationale for the recommendation for 1.0 percent of the current insured replacement value of state buildings annually for controlled maintenance.**

   RESPONSE: In FY 1997-98, the OSA (formerly State Buildings and Real Estate Programs) was directed by the Capital Development Committee (CDC) to develop a methodology for recommending funding for the annual controlled maintenance statewide budget. (Funding, then as now, depends on available revenue). After much research OSA established the following process with the approval of the CDC:

- State agencies and institutions of higher education conduct inventories of their facilities (buildings and associated infrastructures) and document their conditions according to established industry standards and align their replacement values with the risk management insured values. As of FY 1998-99, Facility Condition Audits are required.
- In FY 2000-01, the OSA recommended an annual funding target for controlled maintenance of 1% of the total inventory of state owned facilities for controlled maintenance, which was based on industry standards and to maintain conditions over time. An additional funding goal of between 1-3% was set for capital renewal (for upgrading existing conditions through renovations/replacements, etc.). Please refer to the FY 2016-17 Executive Summary of OSA's annual report to the CDC further documenting the 1% (**Attachment B**).
- In addition, OSA provides the following backup information for the 1%:
    a) In December of 1978 the State Buildings Division (a predecessor to the Office of the State Architect) provided the FY 1979-80 Controlled Maintenance report that concluded:

       *"It is evident that the State has been appropriating for controlled maintenance less than **0.1%** per year of the total gross value of the physical plant. Statistics compiled by private investors and institutions show maintenance expenditures at the rate of **3.0 to 4.0%** of the gross value of their physical plants. There is an immediate need to adequately fund a maintenance program in keeping with recognized building manager's standards for this activity."*

    b) The state of Minnesota has set in statute 1% of the current replacement value of its buildings as an annual funding goal through a dedicated funding source.

    c) In 2005 the state of Utah set in statute the mandatory funding of 1.1% of the current replacement value of its buildings to be annually funded through a dedicated fund. A mechanism exists to reduce the 1.1% if economic conditions warrant.

    d). The state of Virginia has funded controlled maintenance through bonds in 2009 totaling $294 million dollars and again in 2013 totaling $210 million dollars, which is approximately 1.5% of the current replacement value of its buildings.

6. **(continued) Are there ways to reduce or avoid controlled maintenance for state buildings? If so, how might we implement strategies or techniques to consistently effect savings for the State through the capital budget process?**

   RESPONSE: OSA sees no way to avoid paying for the maintenance of state owned facilities. However, long-term costs could be reduced if consistent annual funding is available and dedicated to maintaining those facilities and not deferring to a later time and paying for additional inflationary costs.

   - A reinvestment rate (annual controlled maintenance funding of a percentage of the current replacement value of the state's inventory of owned buildings) is one strategy to reduce long-term costs for <u>existing buildings</u>.
   - S.B. 15-211, which requires an annual set-aside of General Fund for controlled maintenance for all future State-funded capital construction projects, will lessen the need for controlled maintenance appropriations over time. It is possible to pursue other similar concepts, such as adding a percentage of the cost of construction to every new capital construction appropriation, and placing that amount in an interest bearing account to address long-term maintenance needs dedicated only to that new building.
   - For State agencies leasing State-owned space, increase the leasing line item amount to include operating and capital improvements would increase up-front costs, but could lead to longer-term savings.

   Each of the concepts discussed above, however, would immediately require additional appropriations in order for them to function properly.

<u>For OSPB:</u>

7. **What does OSPB think about staff recommendation #1 to statutorily require funding equal to 1.0 percent of current replacement value and to restrict funding for new construction until the controlled maintenance funding threshold is met?**

   RESPONSE: OSPB opposes this recommendation. In general, deliberations regarding the funding level for controlled maintenance should occur annually.

8. **What does OSPB think about staff recommendation #2 to statutorily require repayment in the following year of any funds transferred out of the principal of the Controlled Maintenance Trust Fund?**

   RESPONSE: OSPB believes that this concept merits further discussion. If it were to move forward, however, we would favor this idea's adoption as a budgetary policy, rather than as a law. Moreover, as the Controlled Maintenance Trust Fund is presently Colorado's most ready source of funding to confront disaster emergency situations, our support for this concept grows as much from the recognition of a need for emergency preparedness as from a desire to use interest proceeds from the Fund for the purpose of controlled maintenance. (Given the present low interest rate paid on the Controlled

Maintenance Trust Fund, a substantially larger balance must exist before annual interest earnings could meaningfully augment funding for controlled maintenance.)

9. **What does OSPB think about staff recommendation #3 to aggressively refill the Controlled Maintenance Trust Fund, and making a transfer from the Unclaimed Property Trust Fund or repurposing S.B. 09-228 transfers for capital construction?**

   RESPONSE: With interest rates at such low levels, and construction costs in Denver and Colorado increasing at a much higher rate, OSPB questions the wisdom of placing money in a long-term, low-interest setting rather than simply investing that same money now to address capital construction and controlled maintenance needs. In addition, because our FY 2016-17 capital construction proposal relies on S.B. 09-228 transfers, this proposal would limit the funding available for critical construction projects for State agencies and institutions of higher education. For these reasons, OSPB would not support the repurposing of S.B. 09-228 transfers into the Capital Construction Fund.

   As it concerns the Unclaimed Property Trust Fund, OSPB has concerns about the impacts of this recommendation on funding for Colorado Tourism Promotion and adult dental benefits within Medicaid. Without a more thorough analysis of how the transfer of $85 million out of the Fund would affect these important programs, OSPB does not support the recommendation. As an alternative, and depending on the effects caused to other programs, OSPB may support the diversion of some interest earned in the Unclaimed Property Trust Fund for the purposes of funding controlled maintenance.

   With respect to reserve levels in general, it is more likely that a bigger statutory reserve is in the long term interest of the State rather than a reserve for a discrete purpose.

10. **What does OSPB think about staff recommendation #4 about creating a state agency asset management trust and finance authority enterprise that would hold in trust for the State, properties transferred to or built by the enterprise and which would lease those buildings at cost to state agencies and self-fund controlled maintenance through a capital reserve provided from lease revenue?**

    RESPONSE: OSPB opposes this recommendation. At the present time, a large proportion of State-owned buildings are already managed by the Department of Personnel and Administration through its Capitol Complex program, which charges an annual lease rate to State occupants of those buildings.

    Additionally, S.B. 15-270 created a planning unit within the Office of the State Architect to assist policymakers in prioritizing funding for the construction and maintenance of all State buildings. OSPB believes that the State's interests are best served by allowing the activities of that planning unit to mature before making any substantial revision to the mechanisms by which State-owned buildings are managed. Moreover, S.B. 15-211 created a mechanism to guarantee longer-term controlled maintenance funding for new State-funded capital assets. Over time, OSPB anticipates that these new laws passed during the 2015 session will largely accomplish the objectives outlined in this recommendation from JBC staff.

As noted earlier, the larger question at hand centers around the prioritization of *funding* for the maintenance of State buildings, rather than the mechanisms for managing buildings. If the General Assembly were to place a higher priority on better maintenance of State buildings, it could increase the existing Capitol Complex lease rate and increase appropriations to owners of other State facilities for maintenance-related activities. (Although this is not part of the Executive Branch's FY 2016-17 budget proposal, we would readily participate in a conversation with the General Assembly about the efficacy of such actions.)

The creation of a new governmental entity to manage State buildings is duplicative of a functioning operational model that can responsibly and effectively put to use additional resources.

2:30-3:00 ISSUE 3: DHS FACILITIES

For the State Architect:

11. Please comment on DHS facilities needs or issues and your expectations for addressing DHS facilities needs through statewide planning in your office.

RESPONSE:

Statutory Authority (Statewide Planning)

C.R.S. 24-30-1311(3)(a), was created through Senate Bill S.B. 15-270, establishing the duties and powers of the Office with respect to capital construction and long-range planning. The section states "*Each state agency shall forward Operational Master Plans, Facilities Master Plans and Facilities Program Plans, and Five-Year Plans to the Office. The Office shall review Operational Master Plans, and approve the Facilities Master Plans, Facilities Program Plans, and Five-Year Plans described in section 24-1-136.5.*" The legislation gives the Office the authority to prescribe uniform policies, procedures, and standards including space utilization to operational master plans, facilities master plans, facilities program plans and five year plans for State department capital construction projects on State-owned or State-controlled land.

C.R.S. 24-30-1303(t)(I), was modified in part through S.B. 15-270, adding the responsibility to the Office to "*Make recommendations on capital construction and capital renewal project requests made by each state agency after the requests have been reviewed by the Office as specified in C.R.S. 24-30.1311, and submit recommendations for the same to the Office of State Planning and Budgeting. The State Architect may not recommend capital construction project requests if such projects are not included in the state agency's facility program plan that is approved as required in section 24-30-1311, unless the State Architect determines that there exists a sound reason why the requested project is not included in the facility program plan.*"

C.R.S. 24-37-304 (a), was modified in part through S.B. 15-270, and continues to require the Office of State Planning and Budgeting to develop an annual plan for capital construction expenditures and adds, *"But the plan for capital construction expenditures must consider recommendations made by the Office of the State Architect for state agencies, and recommendations made by the Colorado Commission on Higher Education for state institutions of higher education."*

The Office of the State Architect is establishing policies, procedures and instructions to address all agency facility needs (including DHS) through a comprehensive **Statewide Long-Range Planning Process** as follows:

Step #1. Operational Master Plans

Operational Master Planning is the first step in an agency's long-range planning effort. This plan uses in-house expertise and resources along with the Office to profile and document the current agency's mission, goals, programs, program delivery, service areas, management structure, FTE, facilities inventory, current planning efforts, business plan, funding sources, etc. and identifies agency as well as programmatic needs and objectives, and sets agency and programmatic priorities as directed by the agencies management team. All of this is done in consultation with the Governor's Office of State Planning and Budgeting (OSPB). Note, programmatic needs and priorities identified in an Operational Master Plan must be set prior to assessing related facilities needs and solutions in a Facilities Master Plan.

DHS Status-The office is currently working with DHS facilities staff to compile their Operations Master Plan and has met several times to develop a draft. Previously, DHS hired several planning consultants that are assessing various facility and programmatic conditions and needs. In addition, DHS annually submits a Facilities Condition Inventory and Controlled Maintenance Five Year Project Request Plan to the Office as part of the Controlled Maintenance submittal. The Office will compile and document along with DHS staff and current consultants the combined findings and recommendations of these recently completed planning studies and on-going planning efforts (including the findings of the Grand Junction Regional Center Task Force), and meet with agency leadership to review findings according to current mission, goals programmatic needs and an overview of facilities needs as documented to date, etc., and set priorities and next steps in order to complete the Operational Master Plan. (Anticipated completion-Spring 2016)

Step #2. Facilities Master Plans

Facilities Master Plans build on Operational Master Plans and play an extremely important role in determining the best use of State and cash funds in the State's capital construction process. Planning is a continuous process that will enable an agency to get from where it is today, to where it wants to be in the future. From the State perspective, the ability to review facilities master plans and facilities program plans for State agencies allows OSA and elected officials to attain a better understanding of agency needs and priorities. A Facilities Master Plan is a documented comprehensive facilities vision based on review and assessment of current policies and procedures, organizational structures, programmatic needs, existing facilities conditions, urban design, energy and environmental impacts and provides projections for changes in service delivery, technological advances and emerging trends that identifies and justifies assumptions for the future and sets priorities for future Capital Construction and Controlled Maintenance Project requests and acquisitions and dispositions. A Facilities Master Plan is a living document that evolves and responds to changing conditions and priorities over time.

DHS Status-Once the Office and DHS complete the Operational Master Plan and set agency and programmatic priorities in consultation with OSPB, a consensus strategy will be developed determining what additional planning efforts and resources are needed going forward taking into account any decision made by the Task Force on the Grand Junction Regional Center Property. (Decision to impact Capital Construction, Controlled Maintenance and the scope of any Planning funding requests submitted in July for FY17/18 fiscal year).

Step #3. Facilities Program Plans

Facilities Program Plans derive directly from the facility needs identified in a Facilities Master Plan and are listed in the Plan's Five/Ten Year Capital Construction and Controlled Maintenance Project Requests. Generally, a Facilities Program Plan should provide justification for the project based on existing and projected conditions, existing and projected program and space expansions/consolidations, an analysis of program and facility alternatives, life cycle, design and construction costs, construction phasing and project delivery methodology. The program plan should also establish detailed space requirements, spatial relationship, system/equipment and material alternatives, special design requirements based on program or facilities needs and conceptual design site and building floor plans and elevations, etc. in order to guide the project into the design phase once funding is obtained. Facility Program Plans are required to be completed (per C.R.S. 24-30-1303(t) (I)) and provided as an attachment and justification with all State agency Capital Construction Requests submitted to the Office commencing with FY 2017-18.

DHS Status-Once the Office and DHS complete the Operational Master Plan and set agency and programmatic priorities in consultation with OSPB, a consensus strategy will be developed determining what additional planning efforts and resources are needed going forward taking into account any decisions made by the Task Force on the Grand Junction Regional Center Property. (Decision to impact Capital Construction, Controlled Maintenance and the scope of any Planning funding requests submitted in July for FY17/18 fiscal year)

Statewide Services Planning Fund

Starting in FY 2015-16, the Office has been appropriated annual funds through the operating budget to assist State agencies in the long-range planning of their facility needs. This money is not sufficient or intended to fund Facility Master Plans but can assist in the overall effort to assess needs and contribute to planning documentation. The Office is currently in the process of defining scope and selecting a Statewide Planning Consultant (SPC) that will provide, on an as-needed basis, planning expertise and planning assistance to all State agencies. The consultant's master agreement and subsequent "Task Orders" will be held by and paid out of the planning fund by the Office and the consultant will be dispatched to the various State agencies. The Office will oversee and participate in the various Task Orders although the SPC will work directly with the assigned agency. The intent of the SPC is to supplement existing agency resources by consistently assessing and documenting needs and recommending solutions. The SPC will also document and compile along with the Office a statewide perspective on planning efforts to assist the Office in its statewide statutory reporting requirements. The Office will review and approve all planning documents that the SPC consults on as part of the Capital Construction process.

DHS Status-SPC to be brought on in February and assigned a DHS Task Order as determined by outcome of Operational Master Plan consensus strategy as described above.

11. (continued) Please comment on the staff recommendation to create a State Asset Management Trust enterprise to manage all Department of Human Services real property assets and how such an entity would need to work with the statewide planning function and your office.

RESPONSE: OSA believes the most efficient and cost effective asset management function for DHS as well as other state agencies would be to provide those functions in-house with existing resources. Adding/reorganizing the facilities management function into an asset management function, charging programs directly for the operation and maintenance of the state owned facilities that they are housed in would benefit the state only if the lease rates were raised and adequately funded on an annual basis.

OSA sees no change in the working relationship or roles and planning responsibilities if the facilities management functions of DHS included asset management functions.

For DHS:

12. What does the Department think about the staff recommendation to create a State Asset Management Trust enterprise to manage all Department of Human Services real property assets?

RESPONSE: Portions of the Joint Budget Committee (JBC) 2016-2017 Staff Budget Briefing Document accurately describe some of the systemic issues related to ensuring that all state buildings and especially the Department of Human Services facilities are maintained appropriately:

- Ongoing funding of controlled maintenance. This funding has historically been treated as a discretionary item by the Legislature resulting in decreasing budget and difficulty in managing the maintenance and replacement of outdated facilities.
- The staff briefing highlights the extraordinary efforts of DHS to maintain the facilities as best they can without sustained funding. The State's current model of funding delinks facility maintenance costs and controlled maintenance cost from the costs of providing mission-driven services. This has led to an inaccurate accounting of true programmatic costs of delivering services. Upgrading and maintaining updated and well-maintained facilities for clients is a core program.

While the staff briefing captures some of the major challenges for DHS in controlled maintenance, the recommended solution of creating a State Asset Management Trust enterprise would not solve the problem it seeks to address.

- DHS must maintain control over its 24/7 facilities that include Mental Health Hospitals, Regional Centers, Youth Correction Facilities and Veterans Community Living Centers to be able to provide client centered services. Creating another layer of bureaucracy could lead to an inability to assure the quality of service delivered to the residents on a daily basis.
- In order for DHS to effectively provide its mandated services, DHS needs to control the day to day facility maintenance of those services. Providing for a lease back may be an option to show true costs as a part of client care but the determination of what types of buildings and maintenance services are provided should be maintained as part of the DHS mandated mission.
- Last year, the Legislature gave the Department of Personnel Administration Office of State Architect the role of coordinating planning for all state facilities including DHS facilities. This process is moving forward and will be an important next step. Creating a new and seemingly contradictory board will undercut the cooperation between DHS and OSA to quantify controlled maintenance and capital needs to the Legislature.
- In the case of DHS, prior to any determinations being made about priorities in controlled maintenance funding, a master planning effort should be undertaken in coordination with the Office of the State Architect.

13. **Aside from more funding (whether for new facilities, a master plan, or controlled maintenance), what does the Department think should or could be done to address its facilities needs and for better managing and maintaining its real property assets in the future?**

RESPONSE: DHS is working with OSA to complete a comprehensive planning process to utilize a framework established by the State Architect. Comprehensive planning is the first step to truly addressing DHS facility's needs. This process **could/should** include the following steps:

- Identify administrative facility needs that are not directly involved in client services related to future staff increases/changes linked to administrative and executive requirements.
- Identify programmatic responsibilities for mission-driven activities/client services. What are the current facility needs, and what are the expected future facility needs in the next 10 years?
- Use an OSA created framework to quantify how those responsibilities would translate into facilities – regardless of what exists today. Use that framework to determine the true costs of those facilities by program so that the controlled maintenance and capital costs can be clearly articulated to the JBC and the Capital Development Committee (CDC).
- Conduct an inventory of current DHS assets to determine the following:
  - Which facilities meet current and expected needs;
  - Which facilities need controlled maintenance to meet current and expected needs;
  - What new facilities are needed;
  - How portions of campuses such as Fort Logan, Pueblo, and Wheat Ridge might meet expected facilities needs; and
  - Engage relevant stakeholders to determine how those facilities might provide the greatest public benefit

Based on the assessment of needs and the inventory of current assets, DHS will utilize OSA framework to develop a comprehensive, fully justified request to JBC for capital construction and controlled maintenance.

As part of the planning process OSA and DHS will also cooperate to recommend a maintenance cost model that maintains a clear link to the mission-driven services. As recommended in the staff briefing, the system will incorporate facilities maintenance and controlled maintenance cost as part of the capital project funding requests. This effort will provide a method of presenting levels 1, 2, and 3 of controlled maintenance as well as new capital projects to the legislature in a more transparent way.

__For OSPB:__

14. What does OSPB think about the staff recommendation to create a State Asset Management Trust enterprise to manage all Department of Human Services real property assets?

RESPONSE: As noted in the response to Question 10 above, OSPB opposes this recommendation.

15. Aside from more funding, what does OSPB think should or could be done to address DHS facilities needs and for better managing and maintaining DHS real property assets in the future?

RESPONSE: As noted in the response to Question 10 above, OSPB believes that S.B. 15-270 represents a positive first step in allowing the State Architect to better assist departments in the management of their capital assets. It is expected that the new Planning Unit within the Office of the State Architect will focus its initial efforts on support of the Department of Human Services, and we believe the State would be best served by allowing this new Unit to operate for some time before making any dramatic changes to the mechanisms for managing buildings owned by the Department of Human Services.

3:00-3:30 ISSUE 4: CAPITAL CONSTRUCTION FUNDING FOR INSTITUTIONS OF HIGHER EDUCATION

__For the State Architect:__

16. Please explain the State's responsibility for funding maintenance for institutions' academic buildings. Please comment on the staff recommendation to fund higher education institutions capital construction through an annually consistent, proportional, per capita distribution, and that in return, places responsibility for all capital construction and controlled maintenance decisions on institutions through a required capital assets management plan.

RESPONSE: The OSA believes that statute provides clear definition of the State's responsibility for funding maintenance for institutions' academic buildings. The statute reads, in relevant part, as follows:

C.R.S. 24-30-1301 (4) (b) Controlled maintenance *means: "Corrective repair or replacement, including improvement for health, life safety, and code requirements, of the fixed equipment necessary for the operation of real property, when such work is not funded in a state agency's or* ***state institution of higher education's*** *operating budget." (entire section added 1979)*

C.R.S. 23-1-106 (10.2) (a) (I) *"Notwithstanding any laws to the contrary,* ***all academic facilities*** *acquired or constructed, or an auxiliary facility repurposed for use as an academic facility, solely from cash funds held by the state institution of higher education* *and operated and maintained from such cash funds or from state moneys appropriated for such purpose, or both, including but not limited to, those facilities described in paragraph (b) of subsection (9) of this section and subparagraph (II) of Paragraph (a) of subsection (10) of this section, that did not previously qualify for state controlled maintenance funding* ***will qualify for state controlled maintenance funding****, subject to approval by the capital development committee and the eligibility guidelines described in section 24-30-1303.9 CRS. (SB12-040, Higher Ed Facilities Eligible for Controlled Maintenance.)*

For OSPB:

17. What does OSPB think about the staff recommendation to fund higher education institutions capital construction through an annually consistent, proportional, per capita distribution or "capital COF"?

RESPONSE: OSPB opposes this recommendation. We appreciate JBC Staff's conceptualization of a consistent and predictable stream of funding to institutions of higher education for the purposes of construction and maintenance of buildings. However, we believe any mechanism that proportionally ties funding to student FTE counts would unduly limit the ability of the various institutions, the Commission on Higher Education, the Governor, and the General Assembly to respond to the various and changing needs of our State-funded institutions.

18. What does OSPB think about the staff recommendation to fund a higher education "capital COF" through a 40 percent distribution from net lottery proceeds as well as possibly from a statutorily required state-funded match?

RESPONSE: OSPB and the Hickenlooper Administration strongly oppose any effort to modify the distribution of proceeds from the Colorado Lottery.

STATE OF COLORADO

OFFICE OF STATE PLANNING AND BUDGETING
111 State Capitol Building
Denver, Colorado 80203
(303) 866-3317

Bill Owens
Governor

Dr. Nancy McCallin
Director

MEMORANDUM

TO: State Department Executive Directors and Higher Education Presidents

FROM: Nancy J. McCallin

DATE: September 19, 2001

CC: Joint Budget Committee and Capital Development Committee Members

SUBJECT: Delay Capital Construction Funding

Revenue estimates prepared by the Office of State Planning and Budgeting in accordance with the September 20 statutory deadline, indicate that there is not sufficient revenue to fund the appropriated amounts of capital, General Fund operating needs, and Senate Bill 97-1 money. The revenue estimates are lower by nearly $200 million. We will be working with the General Assembly in the upcoming weeks to take the appropriate action to align revenues and expenditures.

In order to allow the maximum flexibility for the Executive and Legislative branches to work on this issue, the Governor has directed me to immediately put all capital construction projects on hold that 1) received General Fund or Capital Construction Funds Exempt appropriations for FY 2001-02 and 2) have not started physical construction or are at a phase of construction or development that can be resumed at a later date without safety risks or additional costs to the state. Therefore, I am directing all state agencies, including those under the authority of the Colorado Commission on Higher Education, to immediately cancel planned expenditures and encumbrances for such capital construction projects. Specifically, any projects that have only completed Architectural and Engineering (A/E) analysis are officially delayed. Moreover, if A/E has been funded but a contract has not yet been signed, I am directing a temporary halt to these projects. I am not requesting in-progress construction to be halted.

I am also requesting that each state agency submit a list of such projects to me by noon on September 20, 2001. The Colorado Commission on Higher Education shall compile this list for each governing board.

While I understand the significant planning time invested in these projects as well as the inconvenience this action may cause, it is imperative that we take this step to negotiate the difficult economic circumstances facing the state's budget. It is my hope that during the upcoming special session, a plan to fund the state's operating, transportation, and capital needs within existing resources will be formulated.

Upon a careful review of the Senate Bill 97-1 statute, and in consultation with the Attorney General's Office, we believe that the conventional interpretation of the state's "trigger" mechanism for Senate Bill 97-1 money does not provide the cushion previously believed. The statute, Section 39-26-123, C.R.S., does not include capital expenditures as a required expenditure to be used in determining whether or not Senate Bill 97-1 money decreases. The trigger is only activated when revenues are insufficient to allow for six percent growth of General Fund operating money, the four percent reserve, continuously appropriated items such as the cigarette tax rebate, and constitutional expenditures, such as the TABOR refund. The forecast shows there is sufficient revenue to accommodate these needs. There is not sufficient revenue to accommodate these statutorily required needs, Senate Bill 97-1, *and* capital expenditures. Thus, in balancing the budget, there will need to be discreet choices made among all competing expenditures.

Thank you for your immediate attention to this matter.

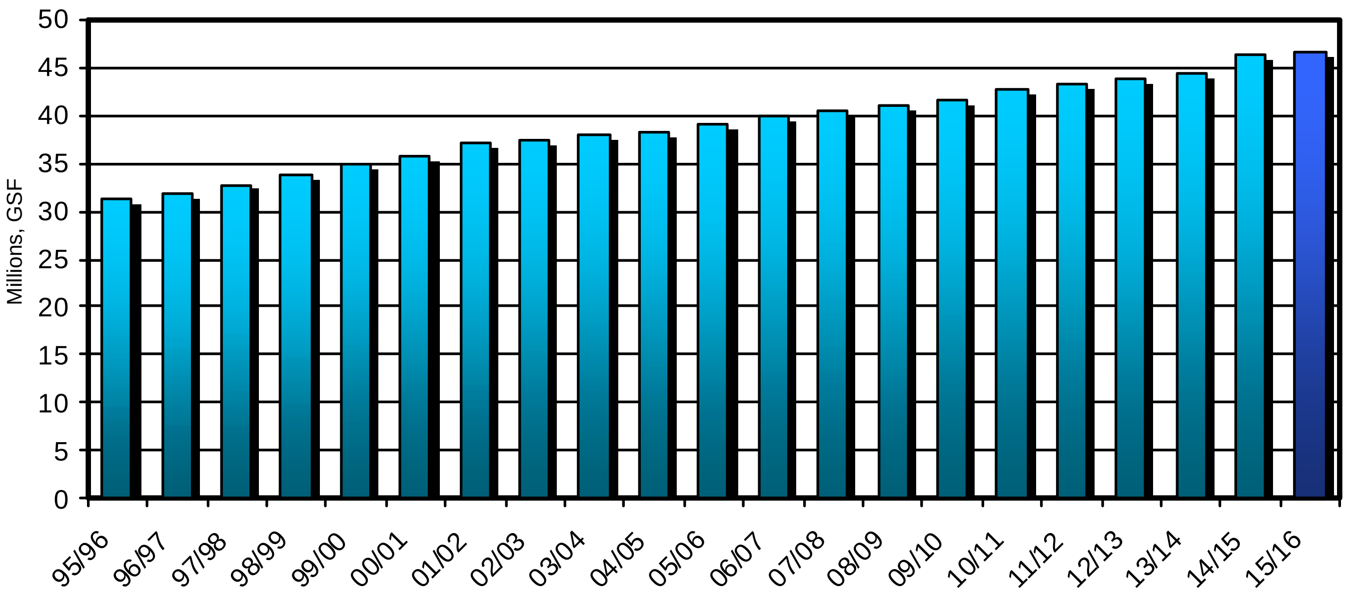
DECEMBER 2015

STATEWIDE FACILITY INFORMATION

■ **Current Replacement Value (CRV):** The Current Replacement Value (CRV) of the inventory of State owned general fund and academic buildings as reported in 2015 is **$11.7 billion dollars**. For the purposes of this report the CRV is derived from Risk Management insured values. Auxiliary funded and non-academic buildings have an additional reported CRV of $5.4 billion dollars for a grand total of all State owned buildings at approximately $17.1 billion dollars.

■ **Gross Square Feet (GSF):** The reported inventory of State owned general funded and academic buildings has increased by 51**%,** or 15,410,992 Gross Square Feet (GSF) from 31,198,818 GSF in FY95/96 to **46,609,810 GSF** in FY15/16. ***(Refer to APPENDIX E, Table A and B).*** Auxiliary funded and non-academic buildings have been reported at an additional 28,924,843 GSF for a total of 75,534,653 GSF; however, they are not included in the following analysis since they are not eligible for Controlled Maintenance funding and depend on alternative funding sources. The chart below illustrates the reported increase in State owned general funded and academic buildings over the past twenty years as compared to the current year.

General Funded Building Growth – FY95/96 to FY15/16



■ **Number and Age of Buildings:** Forty-three state agencies and institutions of higher education are included in the inventory of State owned general funded buildings comprising **2,377** buildings. Approximately 1,278 buildings, which is equivalent to 57% of the total number of general funded buildings, were constructed pre-1980. Of that total 1014 buildings are pre-1970 (41% of the total) and 683 buildings are pre-1960 (26% of the total). The table below indicates the number and associated GSF of the buildings by year constructed, not necessarily the year acquired by the State.

Age, GSF and Number of Buildings *

Year Constructed*	Pre-1900	1901-1910	1911-1920	1921-1930	1931-1940	1941-1950	1951-1960	1961-1970	1971-1980	1981-1990	1991-2000	2001-present
GSF/M	0.852	0.650	0.518	1.601	2.487	1.466	4.484	6.873	7.855	4.174	5.387	9.716
Number	77	49	70	94	147	74	172	331	264	297	357	310
% of Total GSF	1.8%	1.4%	1.1%	3.4%	5.3%	3.1%	9.6%	16.8%	16.8%	8.9%	11.5%	20.8%

*There are 135 buildings equaling 1.3% or 630,213 GSF of the general funded inventory with the date of construction unknown at this time.

CONTROLLED MAINTENANCE FUNDING

■ **A Plan For Maintaining State Buildings:** In December of 1978 the State Buildings Division (the predecessor to the Office of the State Architect) provided the FY 79/80 Controlled Maintenance report directly to the Governor. At that time, the State Buildings Division was in the Office of State Planning and Budgeting and the Capital Development Committee would later be established in 1985. The report concluded:

> *"It is evident that the State has been appropriating for controlled maintenance less than **0.1%** per year of the total gross value of the physical plant. Statistics compiled by private investors and institutions show maintenance expenditures at the rate of **3.0 to 4.0%** of the gross value of their physical plants. There is an immediate need to adequately fund a maintenance program in keeping with recognized building manager's standards for this activity."*

■ **Reinvestment Rate (RR):** Industry standards continue to emphasize that without an annual Reinvestment Rate (RR) of 3% to 4% of the Current Replacement Value (CRV) of a building inventory, conditions cannot be upgraded or maintained at acceptable levels and will continue to deteriorate (Reference: APPA, American Association of Higher Education Facilities Officers, report titled Capital Renewal and Deferred Maintenance Programs 2009). Concurrently, the Office of the State Architect has recommended as a goal that approximately **1% of the CRV of the State's general funded and academic building inventory be appropriated for Controlled Maintenance** on an annual basis to address planned major maintenance and repairs throughout the building inventory and that an additional goal of **1% - 3% of the CRV be appropriated for Capital Renewal/Renovation** to address upgrading overall conditions of existing state owned facilities.

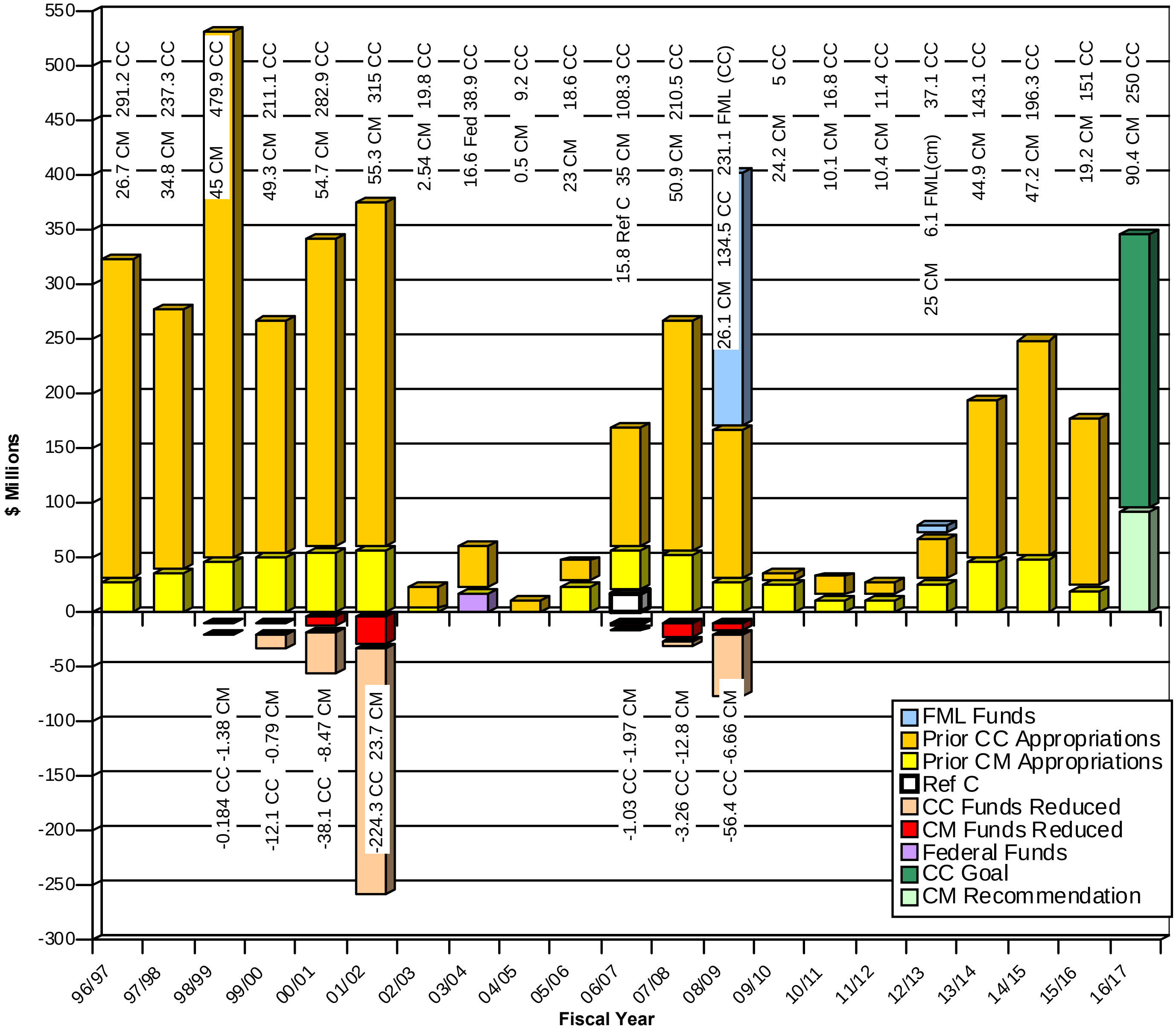
■ **Historical Funding:** A review of the last twenty years of Controlled Maintenance appropriations (Refer to *Historical Funding Chart and Graph* on page 3) reveals inconsistent funding levels since FY 01/02 subject to fluctuations in the state's economy and to the absence of a dedicated revenue source. Funding levels approximately reached the 1% CRV goal between FY 97/98 to FY 00/01 before economic downturns in the state's economy lead to the rescinding of Capital Construction and Controlled Maintenance project appropriations that were originally funded in FY 98/99 to FY 01/02 and again in FY 06/07 to FY 08/09, forcing the shutdown of numerous projects that were underway at state departments and institutions of higher education. FY 16/17 represents the current funding recommendation for Controlled Maintenance funding and an additional 3% goal for Capital Renewal/Renovation.

■ **Review of Controlled Maintenance Recommendations/Appropriations over the past twenty years:** Since FY96/97 **$1.23B** has been recommended for Controlled Maintenance funding of which **$643M** was appropriated (approximately 52%). The appropriations included **1,449** projects/phases for major planned maintenance and repairs to existing facilities. Highlights of past appropriated projects by category include: ***297** Fire and Life Safety* totaling $127.2M, ***44** Structural Integrity* totaling $16.8M, ***291** Indoor Air Quality and Energy* totaling $134.3M, ***104** Environmental Remediation* totaling $35.1M, ***280** Infrastructure totaling* $137.5M, ***72** Major Electrical* totaling $31.8M, ***183** General Repair* totaling $67.3M, ***158** Roofing* totaling $60M, *and **20*** appropriations to the *Emergency Fund* totaling $33M***.***

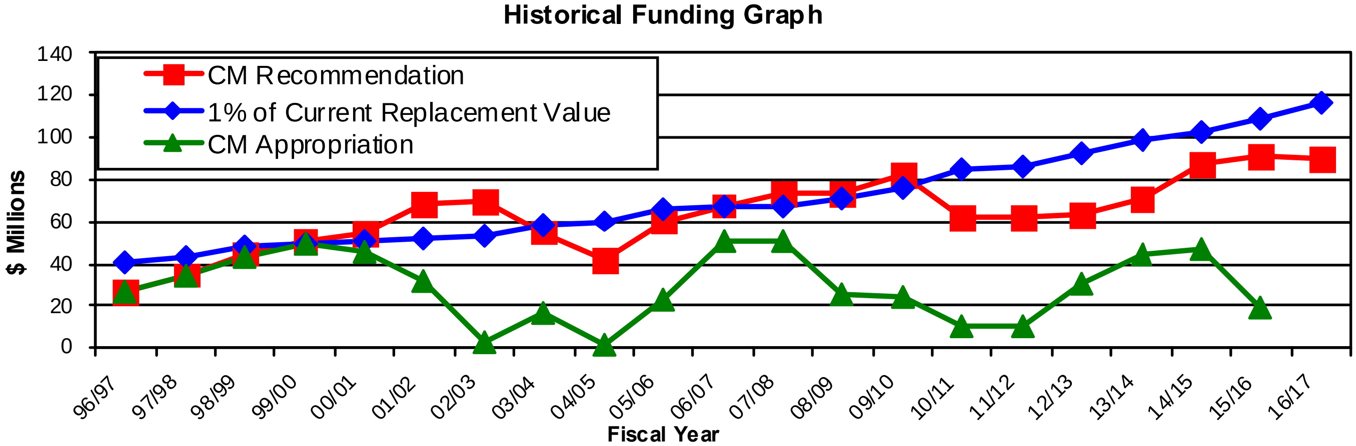
■ **Review of FY 2016/2017 Funding Recommendations: 119** projects/phases comprising major planned maintenance and repairs to State owned general fund and academic buildings and associated infrastructure totaling **$90,361,852** are recommended for Controlled Maintenance funding. (Refer to SECTION III). The recommended RR is approximately 0.80% of the current CRV. Highlights of recommended projects by category include*: **23** Fire and Life Safety totaling* $20,638,191, **2** *Structural Integrity* totaling $1,562,615, ***31** Indoor Air Quality and Energy* totaling $26,189,335*, **1** Environmental Remediation* totaling $139,397, ***20** Infrastructure* totaling $13,751,643, ***9** Major Electrical* totaling $4,779,773, ***19** Roofing* totaling $11,895,899, ***13** General Repair* totaling $9,405,000*,* and ***1*** appropriation to the *Emergency Fund* of $2,000,000***.***

■ **Five Year Controlled Maintenance Plan/Long-term Needs:** The reported Agency Controlled Maintenance Five Year Project Plans for State owned general fund and academic buildings and associated infrastructure totals **$496,230,810** and the long-term major maintenance needs (derived from agency life cycle assessments) are estimated at **$1,958,401,029.** (Refer to APPDENDIX B).

Historical Funding Chart

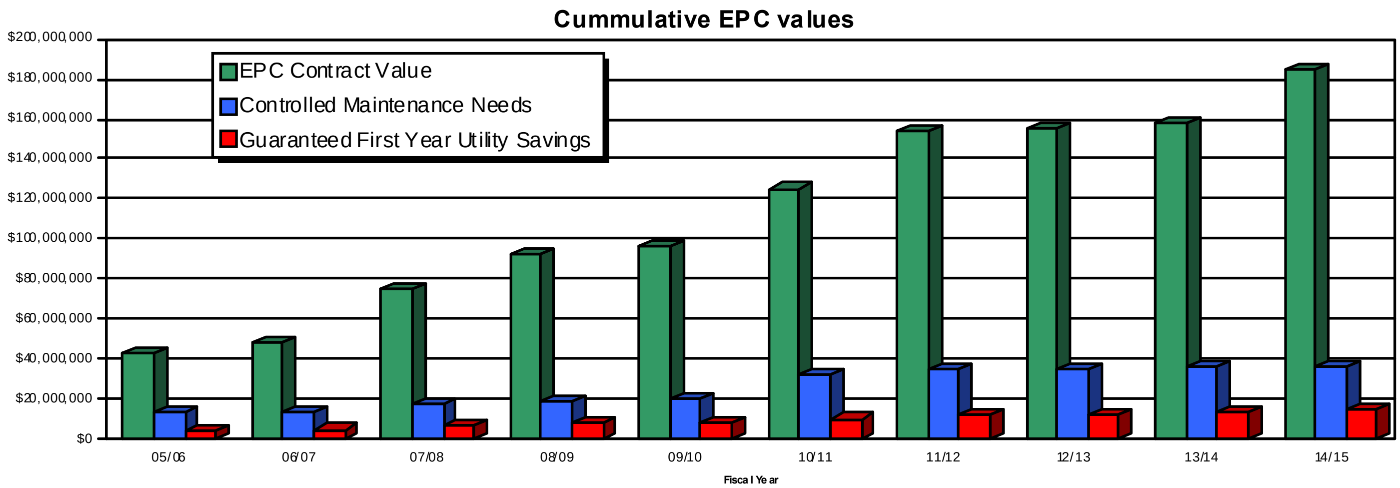


Historical Funding Graph

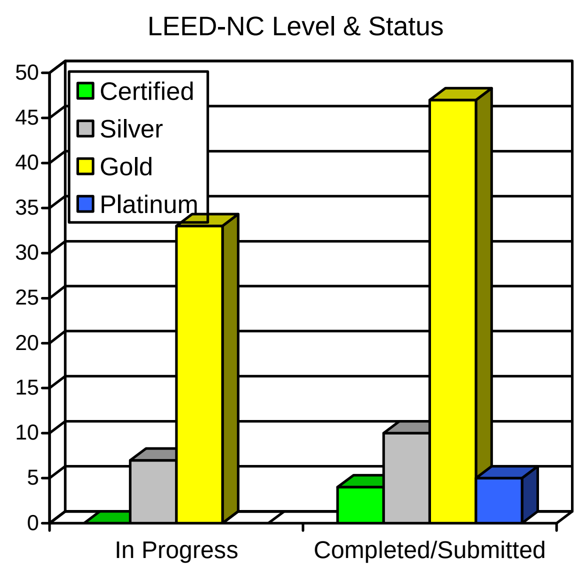


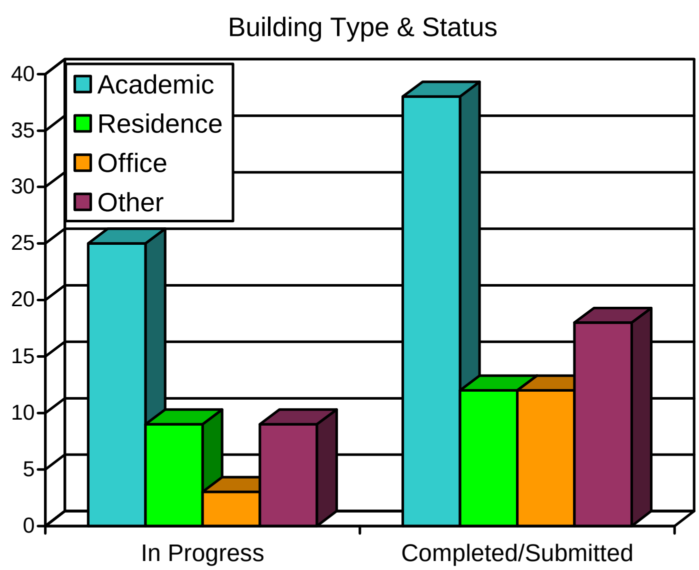
ENERGY MANAGEMENT

■ **Energy Performance Contracts:** Energy Performance Contracts (EPC) are considered as an alternative funding source for certain Controlled Maintenance needs for agencies and institutions of higher education to improve their facility conditions while increasing the energy/water efficiency of their buildings. This process uses the utility dollars saved (avoided future utility cost) to pay for applicable facility improvements over a specified time. Since the first EPC for Colorado was started in 1996, most agencies and institutions of higher education have completed or have under construction energy performance projects. The following chart tracks the cumulative value over the past ten years of EPC work. Total contract value of **$184,308,548** which included the funding of **$36,707,726** of controlled maintenance projects with a guaranteed first year utility savings of **$14,727,548.** *(Refer to SECTION IV, Table A)*



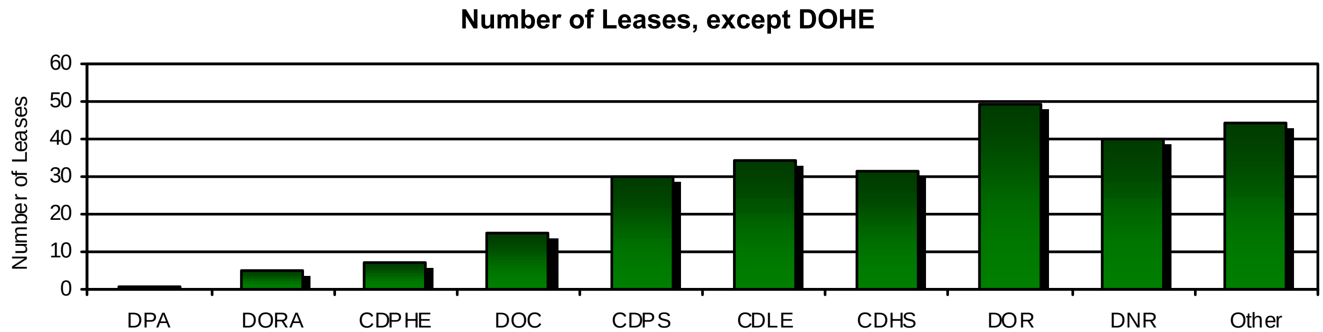
■ **High Performance Buildings and the Governor's Executive Orders:** The High Performance Certification Program (HPCP) standards were established by OSA to determine the design and construction guidelines for new buildings and buildings undergoing substantial renovations per CRS 24-30-1305.5. The USGBC LEED (U.S. Green Building Council, Leadership in Energy and Environmental Design) is the guideline and the Gold level certification is the targeted goal of the HPCP. Buildings that started design work after January 1, 2010 are required to track and report their utility data. Projects for state departments and institutions of higher education are listed in the reference section. OSA works with the Colorado Department of Education on BEST funded schools and has included a list of these projects. OSA is also working with the Department of Local Affairs on their grant programs for compliance and has included a list of these projects. *(Refer to Section IV, Table B)*

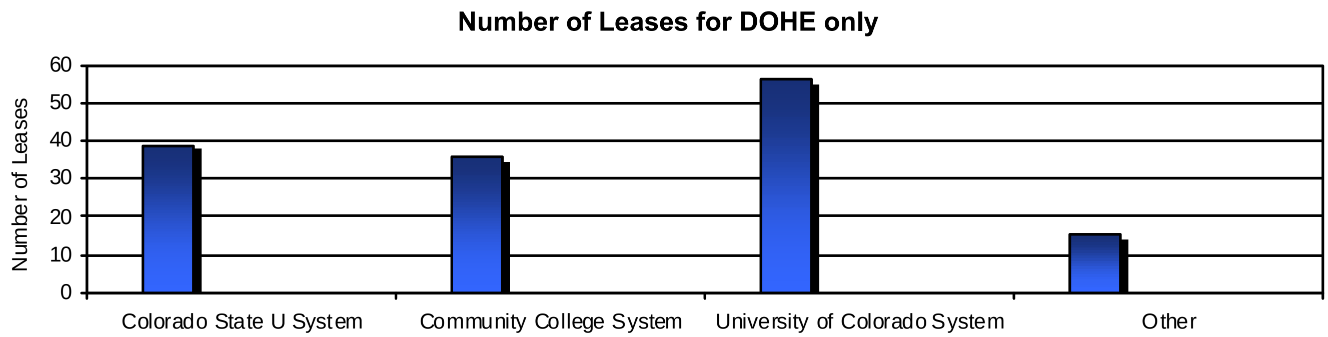




REAL ESTATE MANAGEMENT

■ **Acquisitions and Dispositions: Twenty (20)** acquisitions and **five (5)** dispositions of real property in fiscal year 2014/2015 were reported to the Office of the State Architect/Real Estate Programs *(Refer to SECTION V, Table A).*
■ **Leased Property:** As of November 2015 there were **402** building lease agreements reported in effect between State agencies and institutions and third parties. There were **126** interagency leases in effect reported including building leases and land leases. The building leases comprise a total of **3,272,110** rentable square feet. The total annual base rent paid by State agencies and institutions to third parties is **$53,249,149** vs. **$50,447,385** last year. *The chart below illustrates the number of leases by Executive Branch Departments and Institutions of Higher Education (Refer to SECTION V, Tables B and B1).*





■ **Owned Property:** The inventory of real property is grouped by site with each site varying in size, type and number of properties and improvements. Currently, the reported inventory lists a total of **986** sites vs. **972** sites last year comprising **404,064.781** acres, an increase of approximately **481.267** acres over 2014 owned by State agencies and institutions of higher education as outlined in Table C. *(Refer to SECTION V, Table B lists the building leases by department, Table B1 lists the building leases by institutions of higher education and Table B2 lists the interagency leases by department).*

■ **Capitol Complex Master Plan:** As recommended in the November 2012 State Auditor's Audit of State Capital Assets, a comprehensive master plan for the Capitol Complex Building Group (CCBG) was completed in December of 2014 and approved by the CDC during the 2015 session. The Capitol Complex Master Plan evaluated a wide variety of issues including: agency needs, building conditions, urban design context of the Capitol Complex, benchmarking of ten states evaluating decision making processes and facilities management organizational structure and makes recommendations for implementation and financing. The CCMP along with the Real Estate Strategic Plan will be used to insure that each real estate decision will be approached holistically. Each major transaction will be evaluated through the Buy/ Build/ Lease matrix to obtain the best overall value to the State over the long term.

CAPITAL CONSTRUCTION
FY 2016-17 JOINT BUDGET COMMITTEE HEARING AGENDA

Tuesday, January 12, 2016
10:00 am – 12:00 pm

10:00-10:05 INTRODUCTIONS AND OPENING COMMENTS

(For the following questions please provide both a written and verbal response.)

10:05-10:30 ISSUE 1: FIRST TAKE ON CAPITAL CONSTRUCTION REQUEST

For the State Architect:

1. Please describe the capital construction project contracts process and specifications and contractual details related to State funding commitments for capital projects.

For OSPB:

2. Of the requested continuation projects, which are in planning and which are breaking ground? Which continuation building projects are under contract? Are any building projects that have only been funded for planning, already under contract for construction? If so, why?

3. What does OSPB think about the staff recommendation to prioritize controlled maintenance ahead of continuation funding for new building projects?

4. What does OSPB think about seeking COP funding for the DHS Adams Youth Services Center replacement or the Public Safety Communication Network Microwave Infrastructure Replacement projects as an option for reducing the request for state funds?

5. What does OSPB think about staff's long term recommendation to align the State's lack of commitment to maintaining its buildings by incrementally selling its state agency buildings and crediting proceeds to the Controlled Maintenance Trust Fund?

10:30-11:00 ISSUE 2: PRIORITIZING CONTROLLED MAINTENANCE

For the State Architect:

6. Please explain the rationale for the recommendation for 1.0 percent of the current insured replacement value of state buildings annually for controlled maintenance. Are there ways to reduce or avoid controlled maintenance for state buildings? If so, how might we implement

strategies or techniques to consistently effect savings for the State through the capital budget process?

For OSPB:

7. What does OSPB think about staff recommendation #1 to statutorily require funding equal to 1.0 percent of current replacement value and to restrict funding for new construction until the controlled maintenance funding threshold is met?

8. What does OSPB think about staff recommendation #2 to statutorily require repayment in the following year of any funds transferred out of the principal of the Controlled Maintenance Trust Fund?

9. What does OSPB think about staff recommendation #3 to aggressively refill the Controlled Maintenance Trust Fund, and making a transfer from the Unclaimed Property Trust Fund or repurposing S.B. 09-228 transfers for capital construction?

10. What does OSPB think about staff recommendation #4 about creating a state agency asset management trust and finance authority enterprise that would hold in trust for the State, properties transferred to or built by the enterprise and which would lease those buildings at cost to state agencies and self-fund controlled maintenance through a capital reserve provided from lease revenue?

11:00-11:30 ISSUE 3: DHS FACILITIES

For the State Architect:

11. Please comment on DHS facilities needs or issues and your expectations for addressing DHS facilities needs through statewide planning in your office. Please comment on the staff recommendation to create a State Asset Management Trust enterprise to manage all Department of Human Services real property assets and how such an entity would need to work with the statewide planning function and your office.

For DHS:

12. What does the Department think about the staff recommendation to create a State Asset Management Trust enterprise to manage all Department of Human Services real property assets?

13. Aside from more funding (whether for new facilities, a master plan, or controlled maintenance), what does the Department think should or could be done to address its facilities needs and for better managing and maintaining its real property assets in the future?

For OSPB:

14. What does OSPB think about the staff recommendation to create a State Asset Management Trust enterprise to manage all Department of Human Services real property assets?

15. Aside from more funding, what does OSPB think should or could be done to address DHS facilities needs and for better managing and maintaining DHS real property assets in the future?

11:30-12:00 ISSUE 4: CAPITAL CONSTRUCTION FUNDING FOR INSTITUTIONS OF HIGHER EDUCATION

For the State Architect:

16. Please explain the State's responsibility for funding maintenance for institutions' academic buildings. Please comment on the staff recommendation to fund higher education institutions capital construction through an annually consistent, proportional, per capita distribution, and that in return, places responsibility for all capital construction and controlled maintenance decisions on institutions through a required capital assets management plan.

For OSPB:

17. What does OSPB think about the staff recommendation to fund higher education institutions capital construction through an annually consistent, proportional, per capita distribution or "capital COF"?

18. What does OSPB think about the staff recommendation to fund a higher education "capital COF" through a 40 percent distribution from net lottery proceeds as well as possibly from a statutorily required state-funded match?