

**CAPITAL CONSTRUCTION
FY 2014-15 JOINT BUDGET COMMITTEE MEETING WITH THE CAPITAL
DEVELOPMENT COMMITTEE
AGENDA**

**Wednesday, December 11, 2013
Legislative Services Building Hearing Room A
8:00 am – 9:00 am**

8:00-8:30 State Maintenance Needs and Funding

Kori Donaldson, Capital Development Committee Staff
Larry Friedberg, State Architect
Daniel Krug, Michael Richey, Michael Dillon, Governor's Office of Information Technology
Amanda Bickel, Joint Budget Committee Staff

Format/Topics:

- 10 minute presentation from Kori Donaldson regarding physical facility maintenance; Q & A with Kori Donaldson and Larry Friedberg;
- 5-10 minute presentation and Q & A with OIT regarding IT maintenance issues;
- Committee feedback on JBC and CDC staff recommendations for moving forward.

8:30-8:45 S.B. 09-228 and JBC/CDC Process Issues

Kori Donaldson, CDC Staff
Amanda Bickel, JBC Staff
Esther van Mourik, Office of Legislative Legal Services

Format/Topics:

- JBC/CDC Staff request guidance on whether both Committees wish to delay the SB 09-228 requirement that the CDC provide "recommendations concerning new methods of financing the state's ongoing capital construction needs and controlled maintenance".
- The Capital Development Committee is working on a clean-up bill on capital construction statutes. Staff would like input from both the JBC and the CDC on some elements that affect both committees, such as the process for determining which items go through the capital versus operating budget review process.

8:45-9:00 FY 2014-15 Capital Budget Request – Prioritization Discussion

Format/Topics:

- Staff handout of current version of capital request (including projects “below the line”), showing CCHE versus OSPB prioritization, color-coding for types of projects & noting whether there is an associated operating request.
- Opportunity for the JBC to provide any input it wishes to CDC before CDC begins its prioritization process and for the CDC to share its thoughts, recognizing that prioritization has not yet begun for the CDC.

Attachments

A - CDC Staff Memo: Capital Budget Request Process and Maintenance-Driven Projects

B - JBC and CDC Staff Memo: Staff Recommendations for Next Steps on Capital Maintenance Needs

C - JBC, CDC, and OLLS Staff Memo: S.B. 09-228 and Capital Development “Clean-up” Bill: Committee Input Requested

D – FY 2014-15 Capital Requests



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MEMORANDUM

December 9, 2013

TO: Capital Development Committee and Joint Budget Committee Members

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

SUBJECT: Capital Budget Request Process and Maintenance-Driven Projects

Summary

This memorandum provides information about the classification of capital versus operating budget requests. It compares capital and operating budget requests and outlines the dollar thresholds triggering legislative review of capital projects. It also provides a historical look at funding for maintenance-driven capital projects.

Operating versus Capital Budget Requests

The distinction between an operating and capital budget request is largely based on the statutory definition of capital construction; however, budget instruction documents and memorandums of understanding also play a role in distinguishing between capital and operating budget requests. In recent years, some confusion has existed regarding the classification of certain information technology and lease-purchase projects as capital rather than operating requests.

Capital budget requests. The Capital Development Committee (CDC) is statutorily charged with the general review and oversight of capital projects.¹ The term "capital" collectively refers to three types of projects, including: (1) capital construction; (2) controlled maintenance; and (3) capital renewal. Capital construction projects are program-driven. An agency must justify a capital construction request based on how a project will allow it to improve or alter its ability to provide a certain program or service. By contrast, controlled maintenance projects are system- or maintenance-driven, and address facility component systems at the end of their useful life. As such, controlled maintenance involves site improvements and corrective repairs or replacement of utilities and equipment at existing state-owned, General Fund-supported or academic buildings and other physical facilities. Capital renewal projects address controlled maintenance issues that exceed \$2 million in cost and are better addressed building by building, rather than system by

¹Section 2-3-1304, *et. seq.*, C.R.S.

system. The term "capital renewal" is not defined in statute, but is established through budget instructions published annually by the Governor's Office of State Planning and Budgeting (OSPB) and the Office of the State Architect (OSA).

Classification of information technology requests. The existing practice of classifying certain information technology projects as capital rather than operating requests is based on a 1997 memorandum of understanding (MOU) between the CDC, Joint Budget Committee (JBC), OSPB, and the Colorado Commission on Higher Education (CCHE). The MOU states that certain criteria must be met for information technology projects to be eligible for capital construction funding, as follows:

- a request must total at least \$500,000;
- a request cannot address computer replacements or maintenance, unless such replacement or maintenance is part of an agency-wide computer system upgrade; and
- the majority of the components should have a useful life of at least five years.

Information technology projects not meeting the criteria described above are submitted as operating budget requests.

Operating budget requests involving maintenance, minor construction, or small capital purchases. Although the classification of capital projects is largely dictated by the statutory definition of capital construction, various dollar thresholds — primarily established through the annual budget instructions published by OSPB — determine whether a project is subject to CDC review, and thus whether a project is funded from the operating or capital budget. Generally speaking, routine maintenance intended to maintain facilities to the end of their expected useful life cycle and costing less than \$15,000 and small construction projects or capital purchases costing less than \$500,000 are not subject to CDC review and may be paid from the operating budget. Notwithstanding these review thresholds, an agency may opt to submit a small maintenance or capital project for funding from the capital budget if there are insufficient operating funds available or if a project is anticipated to require more than a year to complete.

Figure 1 shows the dollar threshold triggering CDC review of controlled maintenance and capital renewal requests.

**Figure 1
Dollar Threshold Triggering Categorization and
Review of Controlled Maintenance Projects**

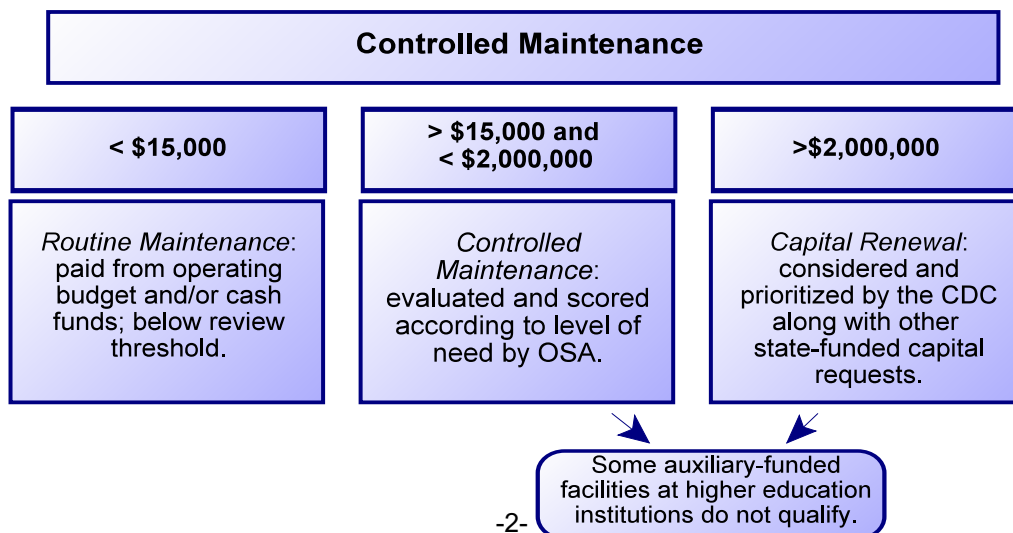
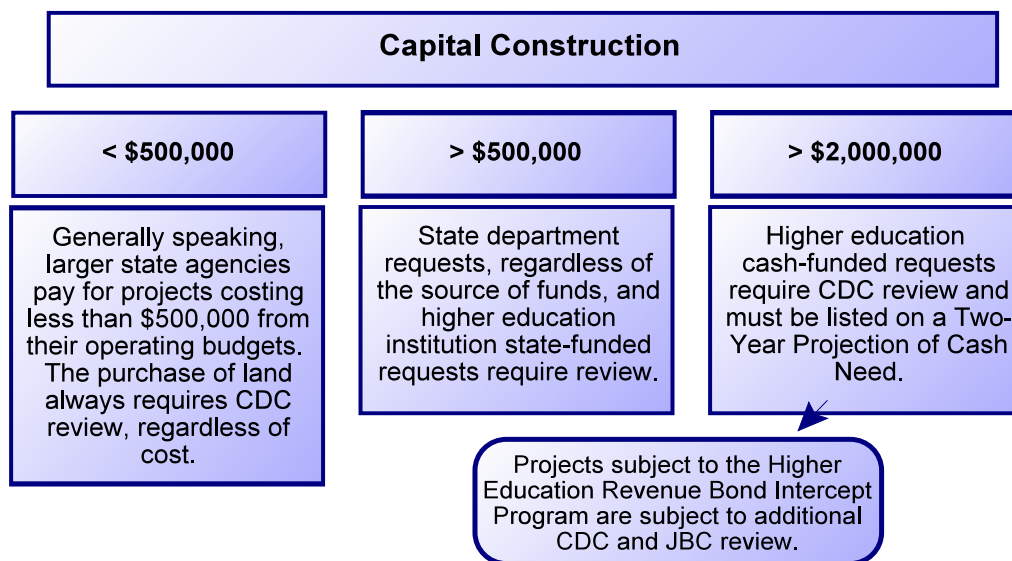


Figure 2 shows the dollar threshold triggering legislative review of various types of capital construction requests.

Figure 2
Dollar Threshold Triggering Review of Capital Construction Projects and Capital Development Committee Review and Prioritization of Capital Requests



Submittal of annual budget requests. The statutory deadline for OSPB to submit capital budget requests to the legislature differs from that established for operating budget requests. State department capital construction requests, regardless of the source or amount of funds, and higher education state-funded capital requests must be submitted to the CDC no later than September 1 of each year.² A prioritized list of capital projects is required to be forwarded to the CDC no later than November 1, the deadline for submission of the operating budget request to the JBC. There is no mechanism in statute allowing for the late submission of regular capital budget requests, although it is not uncommon for late capital submissions to be included in the November 1 prioritized submission.

Funding for Maintenance-Driven Capital Projects

Broadly speaking, maintenance-driven capital construction is divided into two categories, including: (1) controlled maintenance projects; and (2) capital renewal projects. However, as is particularly evident in the FY 2014-15 capital budget submission, there are a number of other capital budget requests that are maintenance- rather than program-driven. These projects all exceed \$2 million in cost, but do not conform to the definition of capital renewal because they address issues in multiple facilities rather than a single building. Like capital renewal requests, the projects are not programmatic in nature, and some program planning requirements for the projects have been waived. For instance, the Capitol Complex Leased Space Maintenance project is requested at \$5.4 million state funds and addresses six maintenance projects in various state facilities.

The OSA recommends that between 1 and 3 percent of the current replacement value of

²Section 24-37-304 (1)(c.3) (I), C.R.S.

the state's General Fund supported and academic facilities be spent annually for controlled maintenance and capital renewal. Based on a current replacement value amount of \$10.3 billion reported by the OSA in December 2013, between \$103 and \$309 million should be spent on maintenance projects in FY 2014-15 to satisfy this recommendation. The December 2013 OSA annual report executive summary is appended to this memorandum. Pages 1 to 3 of the executive summary discuss the growth of the state's building inventory and funding for the maintenance of state facilities. A discussion of each of the categories of maintenance-driven projects follows.

Controlled maintenance. The OSA is charged with the review and prioritization of controlled maintenance requests. The office assumed control of the controlled maintenance request and prioritization process in 1996 and formalized the categorization of controlled maintenance projects into three levels of need. It also adopted a policy of prioritizing a controlled maintenance request list equal to about 1 percent of the current replacement value of all state-owned, General Fund buildings.

Controlled maintenance projects are primarily funded from the Capital Construction Fund (CCF). The General Assembly created the Controlled Maintenance Trust Fund (CMTF) in 1993 with the intent of establishing a stable and consistent source of revenue for controlled maintenance projects, enabling the state to fund projects in a timely fashion and avoid high facility replacement or repair costs. However, no appropriations for controlled maintenance have been made from the fund since FY 2007-08.

The CMTF principal is primarily comprised of General Fund moneys. Each year, the legislature can transfer 50 percent of General Fund revenues for the prior fiscal year in excess of expenditures and required reserves, up to \$50 million, to the CMTF. In addition, the legislature can appropriate any amount of money to the CMTF. Although the CMTF principal balance cannot be appropriated for controlled maintenance projects, the principal earns interest to fund controlled maintenance projects. The General Assembly can appropriate up to 50 percent of the amount of interest expected to be earned by the fund in the current fiscal year, plus the amount of actual interest earned in the prior fiscal year and not already appropriated. During FY 2012-13 and FY 2013-14, \$71.0 million was appropriated to the fund for the purpose of increasing the principal of the fund, including \$48 million federal funds. However, the full amount appropriated in both years was transferred to the Disaster Emergency Fund through various executive orders for wildfire suppression and flood recovery efforts.

Figure 3 lists the amount requested and funded for controlled maintenance projects since the CMTF was established in FY 1993-94.

Figure 3
History of State Funding for Controlled Maintenance (CM)
FY 1993-94 through FY 2013-14

Fiscal Year	Total CM Request Amount	Total CM Appropriation	Percent of Total Request Funded	Fund Source and Amount	Percent of Total
FY 1993-94	\$9,925,393	\$8,862,942	89.3%	\$8,862,942 CCF	100.0%
FY 1994-95*	11,609,227	21,538,781	185.5%	21,538,781 CCF	100.0%
FY 1995-96*	12,255,555	15,055,848	122.8%	15,055,848 CCF	100.0%
FY 1996-97	26,666,007	26,302,358	98.6%	22,050,211 CCF 4,252,147 CMTF	83.8% 16.2%
FY 1997-98	34,773,219	36,509,161	105.0%	25,909,161 CCF 10,600,000 CMTF	71.0% 29.0%

**Figure 3 (Cont.)
History of State Funding for Controlled Maintenance (CM)
FY 1993-94 through FY 2013-14**

Fiscal Year	Total CM Request Amount	Total CM Appropriation	Percent of Total Request Funded	Fund Source and Amount	Percent of Total
FY 1998-99	55,972,409	43,314,901	77.4%	25,927,039 CCF 17,387,862 CMTF	59.9% 40.1%
FY 1999-00	61,337,590	48,396,229	78.9%	30,608,960 CCF 17,787,269 CMTF	63.2% 36.8%
FY 2000-01	54,671,981	46,417,700	84.9%	28,580,577 CCF 17,837,123 CMTF	61.6% 38.4%
FY 2001-02	68,780,833	31,248,431	45.4%	12,493,186 CCF 18,755,245 CMTF	40.0% 60.0%
FY 2002-03	69,636,104	2,537,923	3.6%	2,537,923 CCF	100.0%
FY 2003-04**	55,092,775	1,000,000	1.8%	1,000,000 CCF	100.0%
FY 2004-05	41,595,352	500,000	1.2%	248,691 CCF 251,309 CMTF	49.7% 50.3%
FY 2005-06	60,164,359	38,228,806	63.5%	38,228,806 CCF	100.0%
FY 2006-07	67,749,328	33,679,509	49.7%	30,479,509 CCF 3,200,000 CMTF	90.5% 9.5%
FY 2007-08	73,093,688	37,895,654	51.8%	37,555,654 CCF 340,000 CMTF	99.1% 0.9%
FY 2008-09	73,679,253	19,432,144	26.4%	19,432,144 CCF	100.0%
FY 2009-10	81,901,915	24,235,321	29.6%	24,235,321 CCF	100.0%
FY 2010-11***	62,518,880	9,794,588	15.7%	2,360,589 CCF 7,433,999 CF	24.1% 75.9%
FY 2011-12***	62,315,876	10,746,597	17.2%	10,418,297 CCF 328,300 CF	96.9% 3.1%
FY 2012-13***	63,117,591	25,229,871	40.0%	25,009,321 CCF 220,550 CF	99.1% 0.9%
FY 2013-14***	71,281,597	45,686,429	64.1%	44,926,689 CCF 759,740 CF	98.3% 1.7%
Totals	\$1,118,138,932	\$526,613,193	47.1%	\$427,459,649 CCF \$90,410,955 CMTF \$8,742,589 CF	81.2% 17.2% 1.7%

*Additional funds were made available for controlled maintenance above the original FY 1994-95 and FY 1995-96 request amounts.

**FY 2003-04 prioritized Level 1 controlled maintenance projects (\$16.2 million) were funded through the federal Job and Growth Tax Relief Reconciliation Act of 2003.

***The FY 2010-11 source of cash funds is State Land Board funds. The FY 2011-12 through FY 2013-14 source of cash funds is federal matching funds for state readiness center projects.

Source: Office of the State Architect and Legislative Council Staff

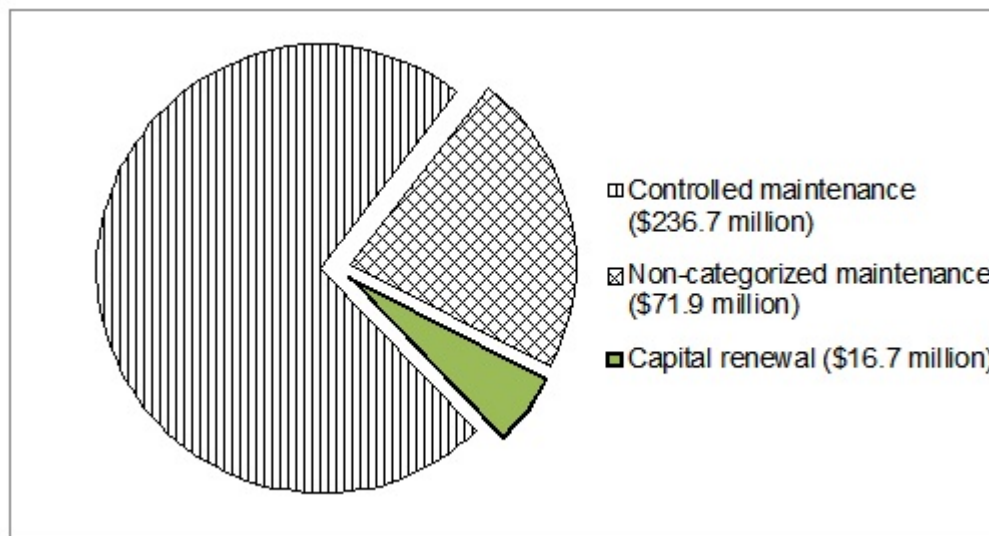
Prior to FY 2001-02, there was a relatively steady funding stream for the state's controlled maintenance needs; however, the amount of money made available for controlled maintenance has decreased significantly since FY 2000-01. Two factors that have contributed to the decline in controlled maintenance funding are the discontinuation of the annual statutory transfer to the CCF and the depletion of the interest-earning balance of the CMTF.

Capital renewal. The capital renewal process was established through OSA's annual budget instructions in the early 2000s in response to concerns raised by higher education institutions that program plans were required for what were essentially large maintenance projects. Facilities program plans are required for most capital projects as a means to justify the programmatic need for new construction or renovation. The argument was made that the program planning process is both costly and labor intensive, and that it is not appropriate for maintenance-driven requests. Thus a new category of project was established for large controlled maintenance projects exempt from program planning requirements. The first capital renewal project was submitted for review and consideration for funding in FY 2001-02. Since that time, a total of \$16.7 million state funds has been spent for five projects identified as capital renewal requests. The FY 2014-15 capital budget submission includes six capital renewal projects, none of which are recommended for funding by OSPB.

Other maintenance-driven requests. In addition to projects formally categorized as controlled maintenance or capital renewal requests, there are numerous other examples of capital projects submitted for consideration in the last ten years that were maintenance-driven. Legislative Council Staff identified 17 such state-funded requests since FY 2004-05. Of those projects identified as maintenance-driven, but not categorized as controlled maintenance or capital renewal, 12 were funded at a cost of \$71.9 million, or 7.4 percent of the total state funds spent for capital construction during the last ten years.

Total spending for maintenance-driven requests. State spending for maintenance-driven requests represents 33.6 percent of the total state funds appropriated for capital construction in the last ten years. Figure 4 illustrates the amount of state dollars spent for each category of maintenance funding in the last ten years.

Figure 4
Ten-Year History of State Funding for Maintenance Projects
FY 2004-05 through FY 2013-14



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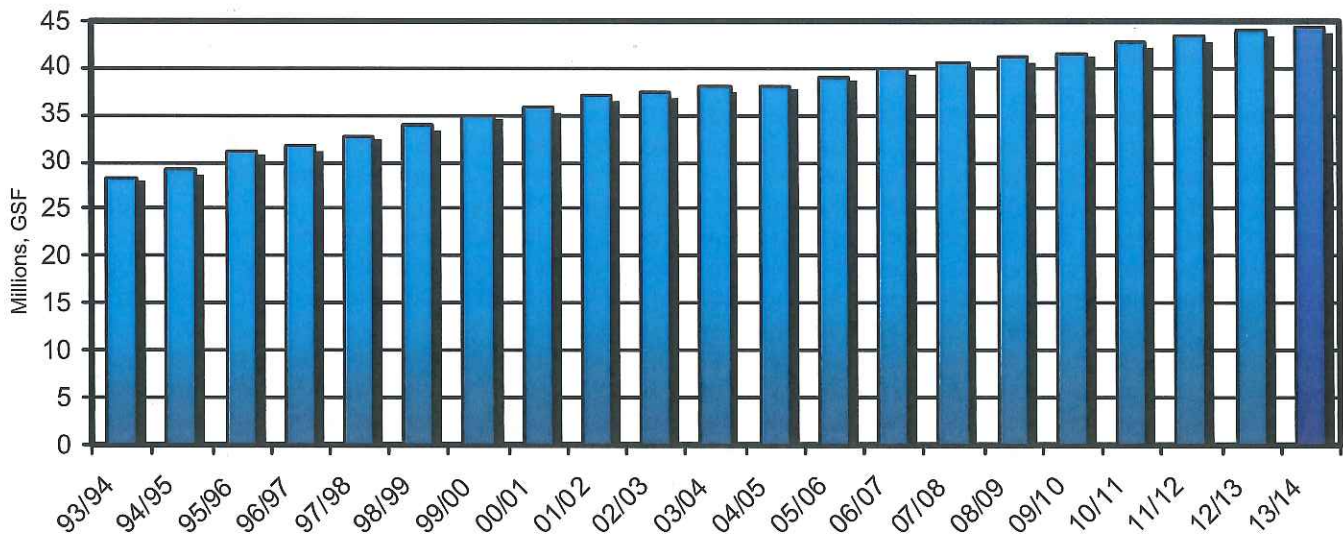
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STATEWIDE FACILITY INFORMATION

■ **Current Replacement Value (CRV):** The Current Replacement Value (CRV) of the inventory of State owned general fund and academic buildings as reported in 2013 is **\$10.2 billion dollars**. For the purposes of this report the CRV is derived from Risk Management insured values. Auxiliary funded buildings have an additional reported CRV of \$5.1 billion dollars for a grand total of all state owned buildings at approximately \$15.3 billion dollars.

■ **Gross Square Feet (GSF):** The reported inventory of State owned general funded and academic buildings has increased by 60%, or 15,882,850 Gross Square Feet (GSF) from 28,375,136 GSF in FY93/94 to **44,257,986 GSF** in FY13/14. (Reference APPENDIX E, Table A and B). Auxiliary funded and non-academic buildings have been reported at an additional 26,904,377 GSF for a total of 71,162,363 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 – FY93/94 to FY13/14



■ **Number and Age of Buildings:** Forty state agencies and institutions of higher education are included in the inventory of State owned general funded buildings comprising **2,225** buildings. Approximately 1,220 buildings which is equivalent to 55% of the total number of general funded buildings were constructed pre 1980. Of that total 948 buildings are pre 1970 (43% of the total) and 637 buildings are pre 1960 (29% 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	0.828	0.761	0.485	1.483	2.359	1.464	4.366	6.655	7.495	3.846	5.653	8.451
Number	87	34	42	79	147	72	176	311	272	294	360	295
% of Total GSF	1.9%	1.7%	1.1%	3.4%	5.3%	3.3%	9.9%	15.0%	16.9%	8.7%	12.8%	19.1%

*There are 57 buildings equaling 0.9% or 393,229 GSF of the general funded inventory with the date of construction unknown at this time.

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CONTROLLED MAINTENANCE FUNDING

■ **FY 1979/1980 Funding Recommendation:** In December of 1978 the State Buildings Division (the predecessor to the Office of the State Architect) provided the Controlled Maintenance report (FY79/80) 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 titled **A Plan for Maintaining State Buildings** concludes, "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. The physical plant managers of the State's agencies and institutions are well aware that inadequate funds are being expended to keep state facilities in serviceable condition." It is believed that the Controlled Maintenance Program was enacted into existence in 1962.

■ **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). The Office of the State Architect has recommended as a goal that approximately **1% of the CRV of the State's general fund inventory be appropriated to Controlled Maintenance** on an annual basis to address major planned maintenance and repairs throughout the building inventory and that an additional goal of 1% - 3% of the CRV be appropriated to Capital Construction as Capital Renewal/Renovation to address upgrading overall conditions building by building and site by site.

■ **Historical Funding:** A review of the past twenty years of funding (Refer to *Historical Funding Chart and CRV Graph on the opposite page*) illustrates that during the ten year period from FY94/95 to FY03/04 general fund appropriations for Controlled Maintenance (major planned maintenance and repairs) steadily increased to approximately 1% of the reported CRV through FY 01/02 before decreasing due to economic conditions that resulted in significant de-appropriation of general funds and then limited general funding in FY 02/03-FY04/05. Capital Construction funding also reached significant funding levels at approximately 3% of the CRV as Capital Renewal/Renovation projects before dramatically declining in FY02/03-FY04/05. The next ten fiscal years from FY 04/05 - FY13/14 demonstrate sporadic funding levels well below 1% of the reported CRV for Controlled Maintenance although the funding for FY07/08 - FY08/09 increased and were at or near the historical high of **\$50M**. Capital Construction decreased at a rate greater than Controlled Maintenance. In summary, although the State's inventory of general fund and academic buildings continued to age and increased over the last two decades, funding levels were not able to keep pace for Controlled Maintenance or Capital Construction and were therefore directed at the most critical needs and not towards a strategy to improve overall conditions of the inventory.

■ **Review of Controlled Maintenance Recommendations/Appropriations over the past eighteen years:** Available data beginning in FY96/97 indicates that of the **\$1.06B** recommended for Controlled Maintenance funding over the past eighteen years **\$556M** was appropriated (approximately 52%). **1,325** projects/phases were appropriated for major planned maintenance and repairs to existing facilities. Highlights of past appropriated projects by category include: **259/Fire and Life Safety** totaling \$104, **43/Structural Integrity** totaling \$16M, **259/Indoor Air Quality and Energy** totaling \$108M, **99/Environmental Remediation** totaling \$33M, **267/Infrastructure** totaling \$129M, **59/Major Electrical** totaling \$24M, **173/General Repair** totaling \$62M, **148/Roofing** totaling \$51M and **18** appropriations to the *Emergency Fund* totaling \$29M.

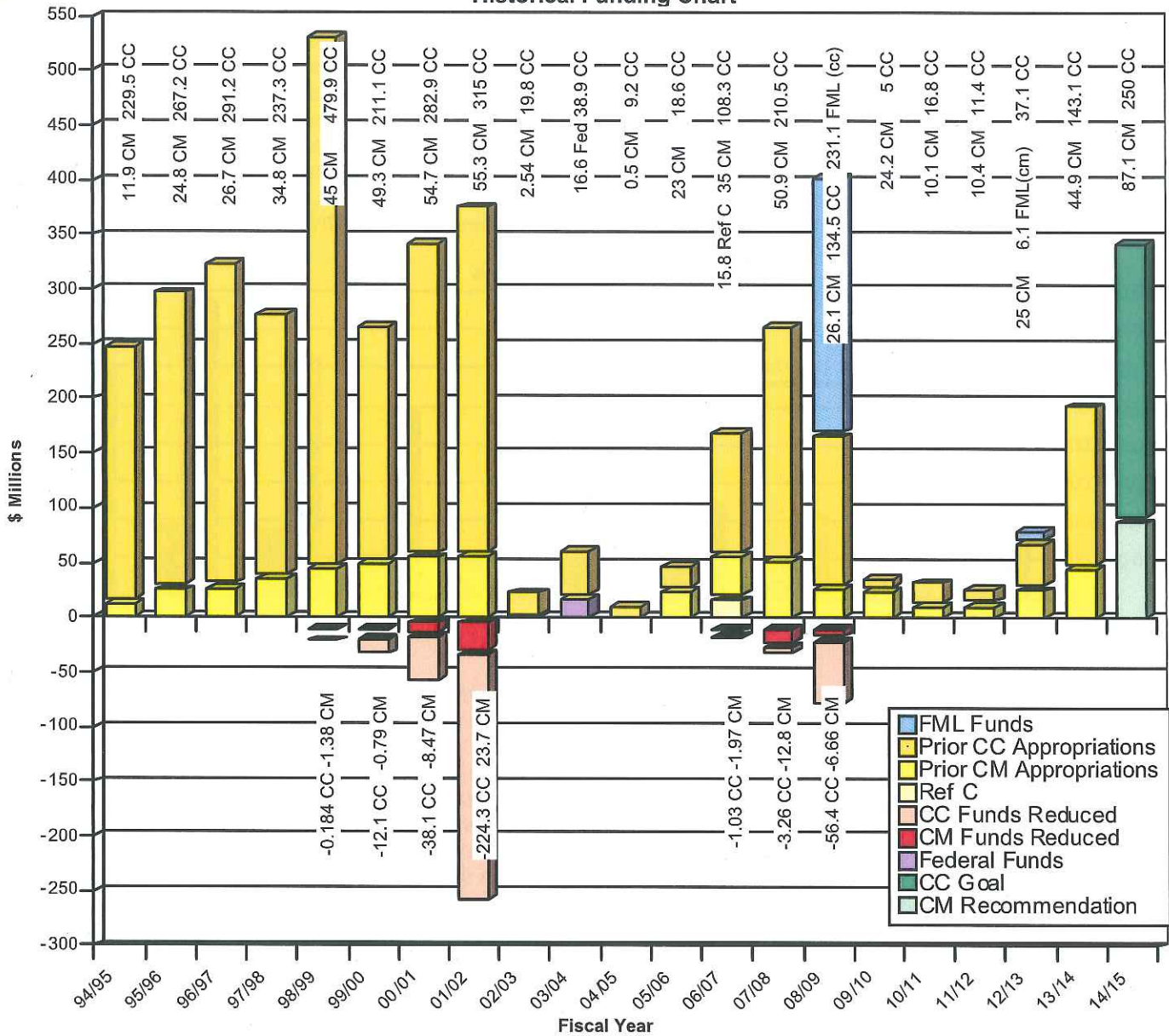
■ **Review of FY 2013/2014 Funding Recommendations:** **127** projects/phases comprising major planned maintenance and repairs to State owned general fund and academic buildings and associated infrastructure totaling **\$87,072,939** are recommended for Controlled Maintenance funding. (Reference SECTION III). The recommended RR is approximately 0.87% of the current CRV. Highlights of recommended projects by category include: **28/Fire and Life Safety** totaling \$17,529,599, **1/Structural Integrity** totaling \$851,070, **34/Indoor Air Quality and Energy** totaling \$28,758,819, **4/Environmental Remediation** totaling \$1,270,617, **16/Infrastructure** totaling \$11,061,176, **9/Major Electrical** totaling \$5,028,006, **19/Roofing** totaling \$10,715,170, **15/General Repair** totaling \$9,858,482, and **1** appropriation to the *Emergency Fund* at \$2,000,000.

■ **Five Year Controlled Maintenance Plan:** The reported Agency Five Year Plan totals for State owned general fund and academic buildings and associated infrastructure totals **\$493,800,311**. (Refer to APPENDIX B).

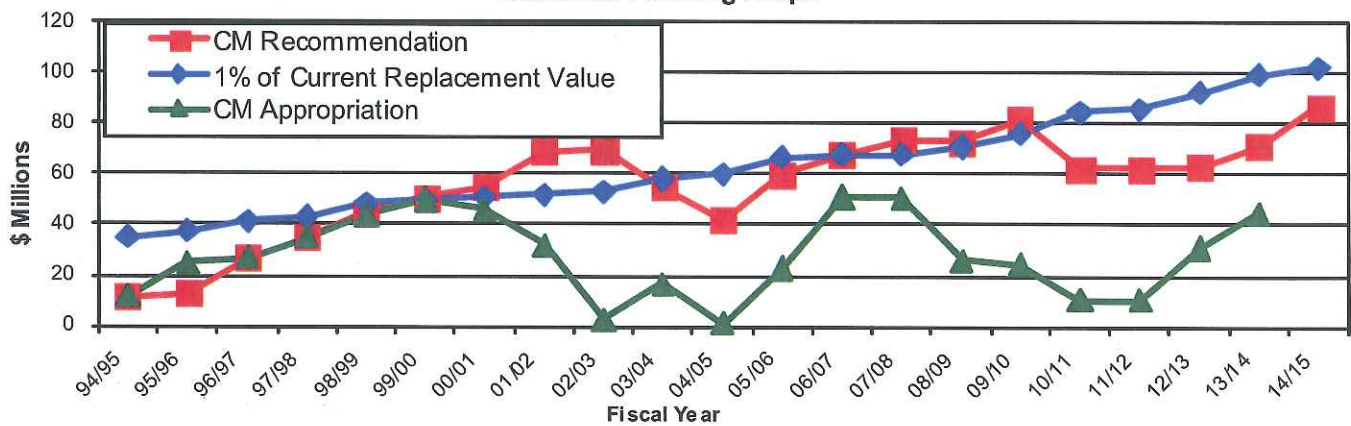
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Historical Funding Chart



Historical Funding Graph

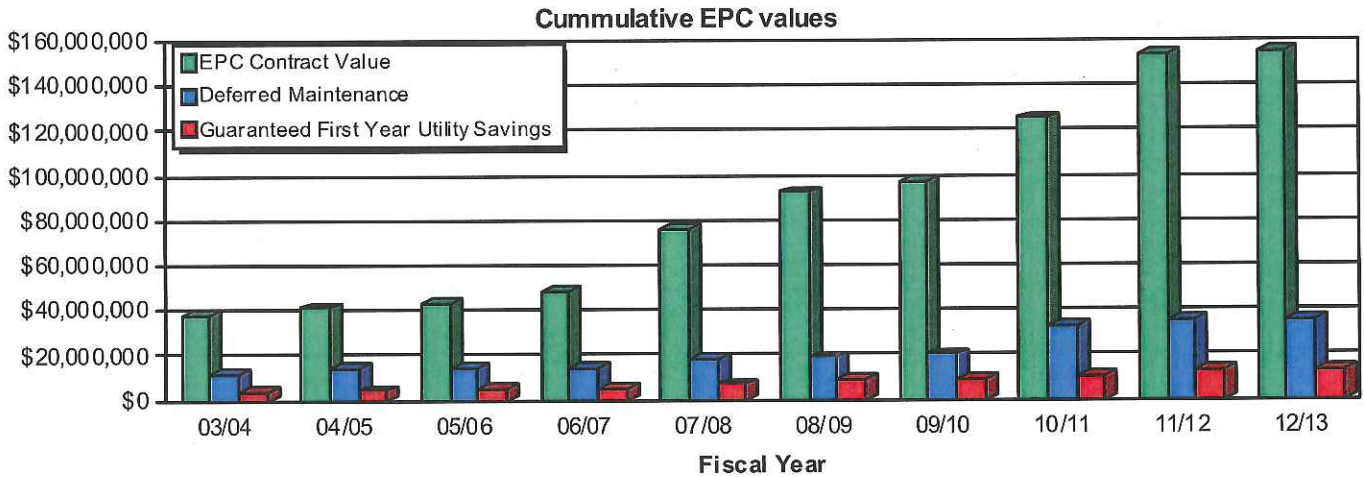


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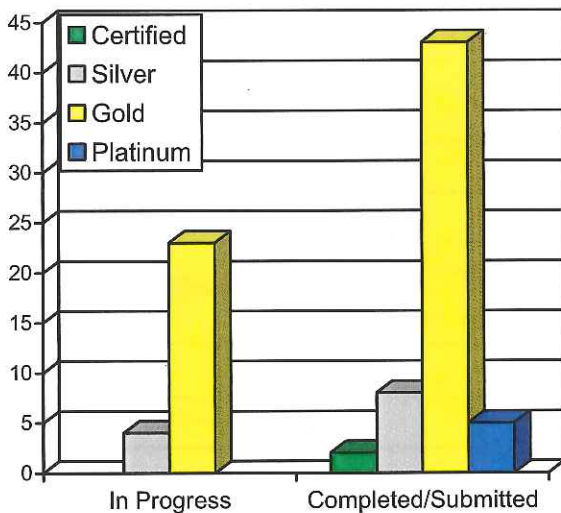
ENERGY MANAGEMENT

■ **Energy Performance Contracts:** Energy Performance Contracts (EPC) have been implemented as an alternative funding source for particular Controlled Maintenance needs for agencies and institutions of higher education to improve their facilities while increasing the energy efficiency of their buildings. This process uses the utility energy dollars saved to pay for applicable facility improvements over a specified time. In the past ten Fiscal years 26 agencies and institutions of higher education have completed or have under construction energy performance projects with a total contract value of \$155,196,814 which included the funding of \$34,607,726 of deferred maintenance with a guaranteed first year utility savings of \$12,430,676. Future energy savings are avoided utility cost used as payments for all EPC project loans. (Reference SECTION IV, Table A)

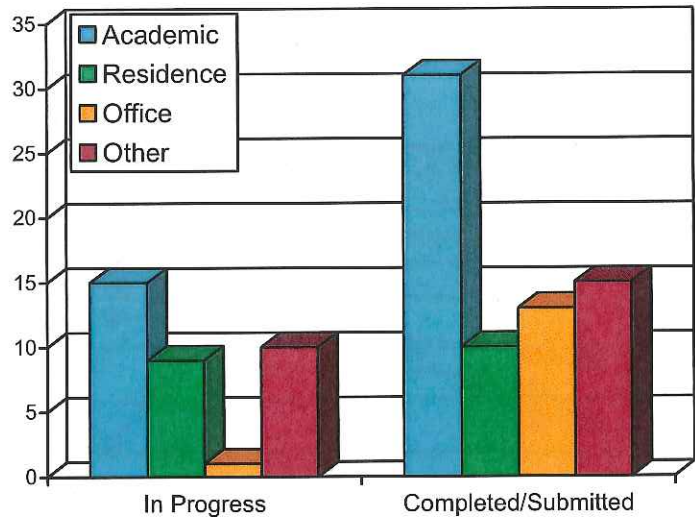


■ **High Performance Buildings and the Governor’s Executive Orders:** The High Performance Certification Program (HPCP) was established by OSA to determine the design and construction guidelines for new buildings and buildings undergoing substantial renovations per CRS 24-30-1305. The USGBC LEED (U.S. Green Building Council, Leadership in Energy and Environmental Design) is the guideline and their Gold level is the targeted goal of the HPCP. In addition, institutions of higher education have voluntarily adopted USGBC LEED™ as policy for their non-academic buildings. Buildings that started design work after January 1, 2010 are required to track and report their utility data. OSA works with CDE on BEST funded schools and has included a list of these projects (Reference Section IV, Table B). OSA is also working with DOLA on their grant programs for compliance with the HPCP and will provide a list as projects are funded. OSA is working with CEO on Executive Orders on Greening of State Government (Reference APPENDIX G).

LEED-NC Level & Status



Building Type & Status



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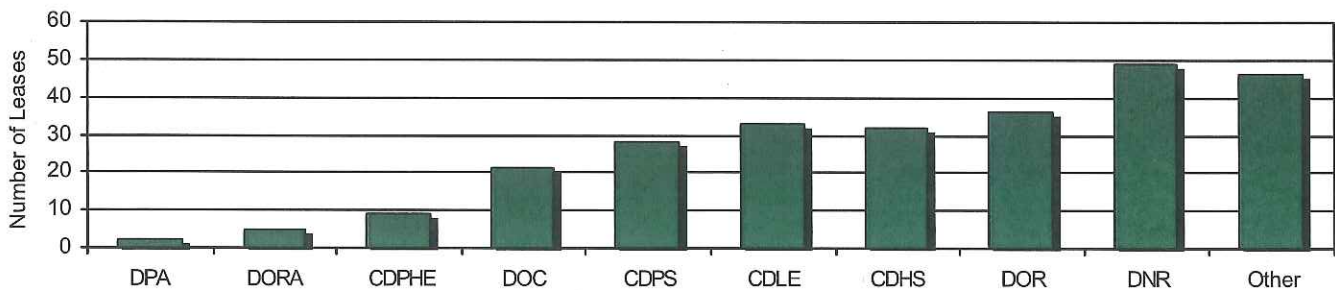
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REAL ESTATE MANAGEMENT

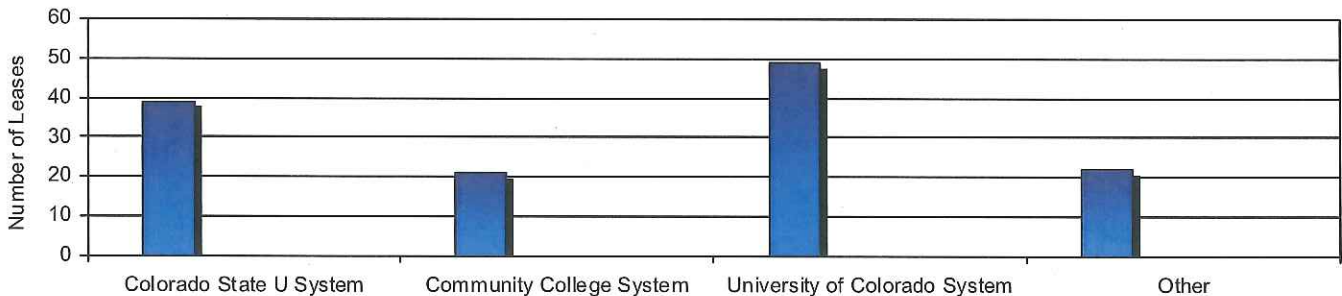
■ **Acquisitions and Dispositions:** Thirty six (36) acquisitions and four (4) dispositions of real property in fiscal year 2012/2013 were reported to the Office of the State Architect/Real Estate Programs (Reference SECTION V, Table A).

■ **Leased Property:** As of November 2013 there are 392 lease agreements reported in effect between State agencies and institutions and third parties. There were 128 interagency leases in effect reported including building leases and land leases. The building leases comprise a total of 3,026,894 rentable square feet. The total annual base rent paid by State agencies and institutions to third parties is \$45,613,837 vs. \$45,930,262 last year. The chart below illustrates the number of leases by Executive Branch Departments and Institutions of Higher Education (Reference SECTION V, Tables B and B1).

Number of Leases, except DOHE



Number of Leases for DOHE only



■ **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 941 sites vs. 909 sites last year comprising 402,856 acres, a increase of approximately 1,298 acres over 2012 owned by State agencies and institutions of higher education as outlined in Table C. (Reference 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).

■ **Strategic Planning and Capitol Complex Master Plan:** As discussed as one of several priorities in the Real Estate Strategic Plan for the Executive Branch Departments and as supported through the November 2012 State Auditor's Audit of State Capital Assets, a comprehensive master plan for the Capitol Complex Building Group and site (CCBG) was funded in July of 2013. The audit noted that the CCBG "lacks a comprehensive mechanism for long-term planning (such as a master plan), and that such a mechanism could assist the state in its efforts to maximize the value of real estate assets, reduce facility costs and support funding decisions". Facility and space needs assessments will be conducted in the master plan and data collected from this report will also be included in the evaluation and recommendation phases of the master plan (Refer to SECTION V, Statewide Acquisitions and Dispositions/Leased and Owned Property).

MEMORANDUM

TO: Joint Budget Committee and Capital Development Committee

FROM: Amanda Bickel, JBC Staff, and Kori Donaldson, CDC Staff

SUBJECT: Staff Recommendations for Next Steps on Capital Maintenance Needs

DATE: December 11, 2013

During the Joint Budget Committee (JBC) Staff November 7, 2013 Budget Briefing Presentation, JBC staff made a variety of recommendations on maintenance directed to both the JBC and the Capital Development Committee (CDC). Based on JBC feedback and further consultation with CDC staff, JBC and CDC staff have expanded on these suggestions. Broadly, they fall into two categories: (1) Considerations for FY 2014-15 funding decisions; and (2) Options for statutory changes, which may require further study.

Items for the 2014 Legislative Session

- Consider repaying the Controlled Maintenance Trust Fund (CMTF). The Governor's Office has drained the CMTF and transferred the moneys to the Disaster Emergency Fund; however, it appears to be proposing that those moneys be replenished. *If* funds are retained in the CMTF, interest on the Fund will be available for controlled maintenance.
- Consider devoting a larger share of the capital request to supporting controlled maintenance, *i.e.*, fund Level II and possibly Level III, rather than just Level I.
- Consider giving particular weight to funding requests that are based on building repair and maintenance, whether or not these are technically considered to be controlled maintenance or capital renewal. At present, there is no formal way of identifying such projects in the request process, but this might be worth the CDC's consideration.

Options that May Require Statutory Change /Further Study

For items in this second category, **JBC and CDC staff propose to compile a report for the two committees for presentation in fall 2014.** This report would include:

- Additional history and background on maintenance funding in Colorado;
- Additional background on approaches being used in other states; and
- More detailed options/recommendations on potential statutory changes.

To ensure that the report is as useful as possible, we would appreciate review by the Committees of the preliminary list of options below and input on the following:

1. **Do the Committees have additions/changes to the study areas below?**
2. **Do the Committees wish an outside contractor to study or provide input on these or related issues? (Some such work is already in progress related to the Capitol Complex Master Plan)**

3. Do the Committees want to move earlier on any of these items (e.g., legislation for the 2014 session)?

Options

- Specify in statute that priority be given to maintenance activities and define these as needed. Consider whether/how information technology maintenance might be included.
- Require maintenance activities be funded before other capital projects.
- Create a dedicated funding stream for controlled maintenance. For example:
 - require some or all of the funds transferred pursuant to S.B. 09-228 be used for controlled maintenance/ maintenance-related projects;
 - restore substantial funding to the Controlled Maintenance Trust Fund so that it generates substantial interest;
 - and/or change the CMTF from being a “Trust” fund so that the corpus of appropriations or transfers to a “controlled maintenance fund” may be spent (currently only 50 percent of the projected current year and any unused prior year interest earnings may be used).
- Develop additional mechanism for lease-charges to state tenants to provide revenue for capital construction.
- Develop additional mechanisms for requiring new buildings to have a set-aside for future maintenance.
- Develop further procedures for indicating when new construction versus capital renewal/controlled maintenance is most appropriate.
- Explore how large information technology system maintenance/renewal/replacements should be prioritized, if the General Assembly wishes to prioritize maintenance activities.

Additional Background

The 2012 Performance Evaluation of State Capital Asset Management and Lease Administration Practices, conducted by Deloitte for the Office of the State Auditor, recommended that OSPB work with the CDC to proactively identify potential solutions for addressing increased controlled maintenance funding, including (a) implementing a lease surcharge for State tenants; and (b) requiring all new capital construction projects to include a funding mechanism for controlled maintenance as part of the approved operating budgets (but only for projects recommended for funding by OSPB).

A Capitol Complex surcharge for maintenance was added in FY 2013-14 but does not appear likely to support all controlled maintenance costs, given that a separate \$5.4 million Capital Construction Fund request has been submitted related to capitol complex maintenance. Further, due to the anticipated cost-increase associated with requiring all capital projects to incorporate funding for controlled maintenance, part (b) of the recommendation has not yet been implemented. New capital construction procedures do, however, require programs to provide a lifecycle analysis of building costs as part of their capital construction request.

Some states require certain levels of annual controlled maintenance funding or provide ongoing revenue streams specifically for controlled maintenance.

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- By statute, Utah requires 1.1 percent of replacement value of state buildings be dedicated to controlled maintenance. This level of funding must be supported before the General Assembly may approve new capital development projects. (There were temporary modifications to the formula during the down-turn.)
- New Mexico uses a formula for higher education that requires controlled maintenance funding at 2.5 percent of replacement cost for eligible facilities (though the General Assembly has not been able to dedicate funding at this level).
- North Carolina statutorily allocates one-fourth of any unreserved General Fund balance to a repairs and renovations reserve account for the purpose of addressing controlled maintenance.

If the General Assembly wishes to adopt a rule that requires funding at a certain percentage of current replacement value, the current replacement value calculations may need to be reconsidered. JBC staff has some concerns that insured value may be too subject to adjustments for reasons that are unrelated to real replacement costs.

The State Architect reports that he has engaged an outside firm related to a Capitol Complex study and that he expects this firm to explore some of the approaches used by other states in more depth. This additional information should be available in fall 2014. Staff also notes that the National Conference of State Legislatures is in the process of updating its survey of state capital construction policies.

MEMORANDUM

TO: Joint Budget Committee and Capital Development Committee

FROM: Amanda Bickel, Joint Budget Committee Staff, Kori Donaldson, Capital Development Committee Staff, Esther van Mourik, Office of Legislative Legal Services

SUBJECT: S.B. 09-228 and Capital Development “Clean-up” Bill: Committee Input Requested

DATE: December 11, 2013

S.B. 09-228

S.B. 09-228 included a requirement that the Capital Development Committee (CDC) provide “recommendations concerning new methods of financing the state’s ongoing capital construction needs and controlled maintenance” prior to January 1, 2016 [Section 2-3-1304, C.R.S.]. When this deadline was originally included, the components of S.B. 09-228 that required transfer of 0.5 to 1.0 percent of General Fund revenue to the Capital Construction Fund were set to expire at the end of FY 2016-17. The transfer provision is now expected to begin FY 2015-16 (first payment April 2016) and expire FY 2019-20 [Section 24-75-219, C.R.S.]. *It has been suggested that, in light of this, the study should be delayed until January 1, 2019. Is that your intent? If so, does one of the Committees wish to sponsor a related bill?* As previously noted, whether or not statute is changed, Joint Budget Committee (JBC) and CDC staff propose to complete a study on capital maintenance issues and options by fall 2014.

Capital Statutes Clean-up Bill

Office of Legislative Legal Services (OLLS) and CDC Staff have been working for several months on a bill to clean up current capital construction statutes to resolve an array of inconsistencies and to align statute with current practice. A draft has been distributed to interested stakeholders, and OLLS continues to modify the bill to incorporate stakeholder input. A second draft of this (80+ page) bill is available if desired.

Staff would appreciate input from both the JBC and CDC regarding the process for determining which executive requests should be reviewed through the operating budget versus the capital budget process, i.e., which items should go through CDC review (as well as Joint Technology Committee (JTC) review for information technology projects). Current practice is reviewed in more detail in a separate memo from CDC staff. However, in brief:

- Current practice is largely determined by Office of State Planning and Budgeting (OSPB) budget instructions, which are informed by statute and an MOU between the JBC and CDC.
- Statutory guidance is limited, fragmented, and in some cases conflicts. For example, Section 24-75-112, C.R.S. (the statutory Long bill headnotes) includes in the definition of “capital outlay” (in operating appropriations): “New structures, meaning the construction of entirely new buildings...” and “nonstructural improvements to land” but “does not include things defined as capital construction by section 24-75-301 (1)”. Yet “new structures” and “nonstructural improvements” are central to the definition of “capital construction”.

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Options for Committee Consideration:

- Specify in statute that a joint resolution will dictate which projects are considered “capital” projects to be reviewed by the CDC versus operating projects to be reviewed by the JBC. Such resolution would remain in effect until the General Assembly adopted a different one. [Note: The process related to the Joint Technology Committee could also be addressed this way, but would require consultation with the JTC and a change to their statutes also].
- One component of this resolution could specify that information technology projects over \$2.0 million (instead of \$500,000) are considered capital information technology projects.

FY 2014-15 Capital Requests
Ordered by OSPB Priority

OSPB	CCHE	Project Title	CCF	CF	Grand Total	Outyear State Costs?	Impact on Operating?
1	NP	Various Projects at the Anschutz Medical Campus (formerly Fitzsimons) (COP Payment). <i>CU Denver*</i>	\$7,290,738	\$7,000,000	\$14,290,738	Yes	No
2	NP	Various Higher Education Projects — November 2008 Issue (COP Payment), <i>CCHE</i>	18,587,556	-	18,587,556	Yes	No
3	N/A	Centennial Correctional Facility Expansion (formerly CSP II) (COP Payment), <i>DOC</i>	18,426,771	-	18,426,771	Yes	No
4	N/A	Controlled Maintenance Projects — Level 1 (37 projects), <i>various agencies</i>	25,746,381	-	25,746,381	Yes	No
5	N/A	Digital Trunked Radio System, Software Upgrade, <i>OIT</i>	3,636,760	-	3,636,760	Yes	No
6	N/A	Suicide Risk Mitigation, <i>DHS</i>	4,478,533	-	4,478,533	Yes	No
7	N/A	Facility Refurbishment for Safety, Risk Mitigation, and Modernization, Division of Youth Corrections, <i>DHS</i>	1,100,000	-	1,100,000	Yes	No
8	N/A	Veterans Memorial Cemetery Expansion, <i>DMVA</i>	4,564,922	-	4,564,922	No	Yes
9	N/A	IT Systems Replacement, Division of Motor Vehicles, <i>DOR</i>	41,021,167	-	41,021,167	Yes	Yes
10	N/A	Multi-Use Support Building, Youthful Offender System, <i>DHS</i>	4,897,755	-	4,897,755	No	Yes
11	N/A	Resident Support Areas and Security Upgrades, Various State Veterans Nursing Homes, <i>DHS</i>	1,428,500	1,443,000	2,871,500	No	No
12	N/A	Electronic Health Record and Pharmacy System Replacement, <i>DHS</i>	9,849,610	-	9,849,610	Yes	Yes
13	N/A	Program and Master Planning, Colorado Mental Health Institutes, <i>DHS</i>	815,000	-	815,000	No	No
14	N/A	Statewide Leave, Time Tracking, and Human Resources Management Systems Modernization, <i>OIT</i>	16,070,000	-	16,070,000	No	Yes
15	N/A	Capitol Complex Leased Space Maintenance Request, <i>DPA</i>	5,400,000	-	5,400,000	No	Maybe
16		5 Auraria Library Renovation, <i>AHEC</i>	22,848,307	-	22,848,307	No	No
17		10 Visual and Performing Arts Complex, <i>UCCS*</i>	13,281,999	21,413,439	34,695,438	Yes	No
18	N/A	Lebanon Mill Dam Restoration, <i>History Colorado</i>	768,210	-	768,210	No	No
19	N/A	Georgetown Loop Business Capitalization Program, <i>History Colorado*</i>	300,000	100,000	400,000	Yes	No
Subtotal: Projects Recommended for Funding by OSPB			\$200,512,209	\$29,956,439	\$230,468,648		
20	N/A	Highway Construction Projects, <i>CDOT</i>	1,615,000	-	1,615,000	No	No
21	N/A	Pearce McAllister Renovation, <i>History Colorado</i>	843,876	-	843,876	No	No
22		1 Meyer Hall Replacement, <i>CSM*</i>	14,600,000	-	14,600,000	No	No
23		2 Berndt Hall Reconstruction — Geosciences, Physics, and Engineering, <i>FLC*</i>	20,827,755	2,115,987	22,943,742	Yes	No
24		3 Chemistry Building Addition, <i>CSU</i>	15,000,000	-	15,000,000	Yes	No
25		4 Ketchum Arts and Sciences Building (Capital Renewal Project), <i>CU Boulder</i>	11,592,712	1,149,528	12,742,240	No	No
26		6 Health Professions and Science Building, Arvada Campus, <i>RRCC</i>	10,000,000	12,532,288	22,532,288	No	No
27		7 Aviation, Aerospace, and Advanced Manufacturing Building, <i>MSU Denver*</i>	5,279,128	-	5,279,128	Yes	No
28		8 Tomlinson Library Addition and Renovation, <i>CMU</i>	18,462,102	6,037,654	24,499,756	No	No
29		9 East Campus Renovation, <i>ASU</i>	5,843,218	-	5,843,218	No	No
30	11	Quigley Hall Renovation, <i>WSCU</i>	25,779,853	-	25,779,853	No	No
31	12	Animal Sciences Building Renovation and Expansion, Phase II, <i>CSU</i>	4,863,456	-	4,863,456	No	No
32	13	Science and Health Lab Renovation, <i>ACC*</i>	5,879,416	1,469,854	7,349,270	Yes	No
33	14	Heating Plant Renovation (Capital Renewal Project), <i>CSM</i>	6,150,000	6,150,000	12,300,000	No	No
34	15	Psychology Building Renovation and Addition, <i>CSU Pueblo</i>	2,308,268	-	2,308,268	No	No
35	16	Health Sciences Department Remodel, <i>CMU</i>	6,974,130	2,000,000	8,974,130	No	No
36	17	North Classroom Building Renovation (Capital Renewal Project), <i>CU Denver</i>	7,846,650	12,683,469	20,530,119	No	No
37	18	Aerospace and Energy Systems Building, <i>CU Boulder*</i>	4,354,159	2,902,772	7,256,931	Yes	No

FY 2014-15 Capital Requests (Cont.)

Ordered by OSPB Priority

OSPB	CCHE	Project Title	CCF	CF	Grand Total	Outyear State Costs?	Impact on Operating?
38	19	Allied Health and Nursing Building, Larimer Campus, <i>FRCC</i>	\$19,867,000	\$4,000,000	\$23,867,000	No	No
39	20	Student Learning Commons and Theater, Downtown Studio Campus, <i>PPCC</i>	3,987,186	996,797	4,983,983	No	No
40	N/A	Replace Deteriorated Infrastructure, Colorado Mental Health Institute at Fort Logan (Capital Renewal Project), <i>DHS</i>	10,700,280	-	10,700,280	No	No
41	N/A	Upgrade Campus Utility Infrastructure, Colorado Mental Health Institute at Pueblo (Capital Renewal Project), <i>DHS</i>	19,227,152	0	19,227,152	No	No
42	31	Central Plant Upgrade, Westminster Campus (Capital Renewal Project), <i>FRCC</i>	4,366,780	-	4,366,780	No	No
NP	21	New Valley Campus Facility, <i>TSJC*</i>	5,026,603	450,000	5,476,603	Yes	No
NP	22	Engineering II Building, Shell Space, <i>CSU</i>	5,990,038	-	5,990,038	No	No
NP	23	Agriculture Science Program Remodel, <i>OJC</i>	1,393,800	400,000	1,793,800	No	No
NP	24	Warner College of Natural Resources Addition, <i>CSU</i>	9,977,927	10,000,000	19,977,927	No	No
NP	25	Shepardson Building Renovation and Expansion, <i>CSU</i>	22,800,000	9,000,000	31,800,000	No	No
NP	26	Combined Cooling, Heating, and Power System, <i>CMU</i>	6,814,092	-	6,814,092	No	No
NP	27	Interdisciplinary Building, <i>CU Denver*</i>	11,421,349	11,421,349	22,842,698	Yes	No
NP	28	Instructional Lab Wing, <i>CU Denver</i>	9,462,977	9,462,977	18,925,954	No	No
NP	29	Center for Agricultural Education, <i>CSU</i>	3,317,072	1,000,000	4,317,072	No	No
NP	30	San Luis Valley Research Center, <i>CSU</i>	4,800,000	-	4,800,000	No	No
NP	N/A	Level 2 Controlled Maintenance (54 projects), <i>DPA</i>	38,745,295	-	38,745,295	No	No
NP	N/A	Level 3 Controlled Maintenance (36 projects), <i>DPA</i>	22,581,263	-	22,581,263	No	No
C	N/A	eLicense Implementation, <i>Ag</i>	-	700,000	700,000	No	No
C	N/A	Correctional Industries — Miscellaneous Small Projects, <i>DOC</i>	-	660,000	660,000	No	No
C	N/A	Workers' Compensation Mainframe Migration and Modernization Project, <i>CDLE</i>	-	5,932,500	5,932,500	No	No
C	N/A	Infrastructure and Real Property Maintenance, Wildlife Areas, <i>CPW</i>	-	900,000	900,000	No	No
C	N/A	Land and Water Acquisitions, State Parks, <i>CPW</i>	-	950,000	950,000	No	No
C	N/A	Land and Water Acquisitions, Wildlife Areas, <i>CPW</i>	-	11,300,000	11,300,000	No	No
C	N/A	New Park Development, <i>CPW</i>	-	5,261,053	5,261,053	No	No
C	N/A	Park Infrastructure and Facilities, <i>CPW</i>	-	12,632,244	12,632,244	No	No
C	N/A	Brownfields Cleanup Program (aka HB 00-1306 Site Cleanups), <i>CDPHE</i>	-	250,000	250,000	No	No
C	N/A	G.R. Carrel Hall Renovation, <i>DPS</i>	-	545,633	545,633	No	No
C	N/A	Motor Carrier Training Facility and Dormitory, <i>DPW</i>	-	1,200,000	1,200,000	No	No
C	N/A	Performance Based Brake Tester Acquisition and Installation, Dumont Port of Entry, <i>DPS</i>	-	500,000	500,000	No	No
C	N/A	New Colorado History Museum (COP Payment), <i>History Colorado</i>	-	3,021,734	3,021,734	No	No
C	N/A	Regional Museum Preservation Projects, <i>History Colorado</i>	-	700,000	700,000	No	No
C	N/A	Ralph L. Carr Justice Center (COP Payment), <i>Judicial Branch</i>	-	21,627,507	21,627,507	No	No
Grand Total: All FY 2014-15 Capital Requests			\$569,210,746	\$189,909,785	\$759,120,531		

N/A=Not applicable; NP=Not prioritized; C=Cash-funded project; *=State-funded project with outyear cash match.

Certificates of participation (COP) payment

Information technology project

Maintenance-driven project