CAPITAL CONSTRUCTION
FY 2015-16 JOINT BUDGET COMMITTEE HEARING AGENDA
Wednesday, December 17, 2014

3:30-3:50 OVERVIEW OF CAPITAL CONSTRUCTION REQUEST, A RECONSIDERATION OF IT CAPITAL FUNDING SOURCE, AND TRANSFER RECOMMENDATIONS FOR COP PAYMENTS BETWEEN CAPITAL AND OPERATING (ISSUES 1, 2, AND 5) QUESTIONS

1. **What is the status of CSP II? Are there plans for it? Are we going to tear it down or sell it?**

CSP II is mostly vacant but the first floor is used for food service, medical and dental procedures, and mental health hold beds.

At this time there are no plans for further activation. The State Treasurer refinanced the COPs for the facility and they now allow for non-state tenants. To date we have not been successful in finding other customers for the building. Please keep in mind it has a unique design.

We do not support demolishing the building. A sale of the building is impractical because it is part of a secure campus that is controlled by the DOC. We believe there could be a long term potential for using the full facility at a lower security level than originally envisioned. This could be possible with some architectural modifications and outdoor recreation space. If this idea is pursued we recommend a short-term engagement with the vendor who completed the prison utilization study to consider the implications of such a design on the other recommendations in the plan.

2. **Why does the Governor's request stop at Level I of controlled maintenance?**
3. **Why didn't the additional projects for Higher Education make the request list**

Combined Answer:
The FY 2015-16 budget request reflects growth in entitlement programs, enrollment and inflation for K-12 education, funding for public safety, reduced federal funds for Medicaid, additional compensation for state employees and continuation of capital construction projects from prior years. These items comprise the bulk of the request in the General Fund. In addition, we are planning for the new expenses of SB 09-228 and TABOR rebates. Out of the remaining funds, the Governor selected the priorities reflected in the request. Many worthy ideas were considered including the ones in questions #2 and #3; sufficient funds were not available.

For context, in FY 14-15 Level 1 and 2 Controlled Maintenance were funded as well as several new projects for Higher Education. Continuation costs for the latter were a high priority for funding.

4. Why isn't there a capital request to address the vacant and deteriorating buildings at the Department of Human Services (DHS) Grand Junction Regional Center?

The General Assembly created the Regional Center Task Force in 2014 to make recommendations concerning the future needs and operations of Colorado's three regional centers. The Task Force has been actively meeting since the summer of 2014 and has toured the Department's campus at Grand Junction. The Task Force will guide the Department in determining the future of this specific campus.

Before preparing a capital request, the Department sought an assessment of the Grand Junction Campus to determine the existing conditions of the campus infrastructure and buildings and to identify the options and costs to address the maintenance deficiencies.

The assessment began in early 2014, when the Department's Office of Administrative Solutions contracted with OZ Architect and a team of sub-contractors to assess the existing conditions of infrastructure and buildings on the 46 acres at the Colorado Department of Human Services' Campus at Grand Junction. OZ is currently completing the assessment that will include reports from civil engineers, mechanical, electrical, code, and roof consultants. This report will help guide the Department in making future capital requests. The assessment is in its final stages and will be presented to the Regional Center Task Force members in January 2015.

5. How much in Capital Construction Funds is dedicated to continuation of commitments made last year?

We identified this amount on Page 7 of our budget transmittal letter. The request contains $207.2 million General Fund of continuation costs from prior years.

6. OLLS: Would creating a separate IT fund require an additional transfer bill?

7. What do OSPB and other stakeholders think about the IT capital funding source issue and staff recommendation?

We support having the conversation but we do not support implementing this recommendation if it means the creation of additional reappropriated dollars in the budget.

8. What does OSPB think about moving COP payments to the operating budget?

We are neutral on this point but these expenditures should remain exempt from the 6.5 percent reserve requirement. We note that the current structure allows the appropriation to count toward the requirement of SB 09-228 for capital construction.

9. OLLS: If we move COP payments to the operating budget, can we exempt them from the General Fund reserve requirement?

3:50 – 4:15 PLANNING UNIT FOR THE OFFICE OF THE STATE ARCHITECT QUESTIONS

10. How long ago was the State Architect located in OSPB? Please provide a brief history on the State Architect's responsibilities and location in the State's organizational chart and the State's building capital planning function.

Division of Public Works which included Architecture and Engineering, Contract Administration, Construction and Maintenance Inspection, Administrative Services, and the Capitol Buildings Group units within Department of Administration was abolished and the functions moved to the Office of State Planning and Budgeting where they remained from 1975 until 1979. During this period of time, the Capitol Buildings Section remained within the Department of Administration. In 1979 the functions were transferred back to the Department of Administration into what was then called State Buildings Division. In 1984, the name of the Capitol Buildings Section was changed to the Division of Capitol Complex Facilities so the two divisions responsible for facilities planning and facilities maintenance existed within the department.

Throughout the 1980's, construction appropriations increased and it became apparent that centralized functions in the planning, design, construction and controlled maintenance process were sorely needed. While the centralized planning function was assumed by OSPB, there remained a need to provide administrative and technical staff capable of managing these processes. In order to meet the demand for services, State Buildings Programs continued to provide technical assistance through the development of policies, procedures and contracts, statewide implementation of codes and standards, and the administration of the controlled maintenance, real estate and energy programs while delegating its authority to manage design and construction projects to state agencies and institutions of higher education.

In 1993, the State Buildings Division was moved into the Division of Purchasing where it remained until 2000. That year, Capitol Complex Facilities was no longer designated as an independent division, the division director position was abolished, and the facilities/property management function was moved into the Division of Central Services. The State Buildings Division was then designated as State Buildings and Real Estate Services and was moved into the Division of Central Services. These two functions were designated as Facilities Maintenance and Planning in the budget.

In 2002, the State Buildings and Real Estate Services was moved to the newly created Division of Finance and Procurement where it remained until 2008. In 2009, it was renamed the Office of the State Architect (OSA) and moved to the Department of Personnel and Administration and then to the Office of Statewide Programs in 2012. Capitol Complex Facilities has remained in the Division of Central Services along with the Integrated Document Factory (printing, mail, etc.) and Fleet/Motor Pool.

As per part 13 of Title 24, the Office of State Architect establishes policies and procedures, provides statutory oversight of the state's capital construction and controlled maintenance process, and provides oversight for state leases and other real estate contracts at each state agency and institution of higher education.

In addition, OSA prepares and recommends the annual statewide controlled maintenance budget including the prioritized list of controlled maintenance project needs to OSPB and the Capital Development Committee (CDC). Also, OSA is responsible for post appropriation of capital construction and pre and post appropriation of controlled maintenance and the centralized leasing process.

Per 24-30-1303 (1) (l), OSA has the statutory authority to consult with the Office of State Planning and Budgeting and develop standards for the preparation of current facilities master plans coordinated with operational master plans and facility program plans for each state agency. However, this function was not funded and transferred when the OSA (formerly State Buildings Programs) was downsized in 1987 and the planning function assumed by OSPB, however, the statutory citation remained in OSA.

11. What do OSPB and other stakeholders think about a planning unit for the Office of the State Architect (OSA)? Should building capital planning be located in OSPB? Should the OSA be located in OSPB? What would be a recommended staffing size for such an office? How should the planning function responsibilities and policies be defined in statute?

OSPB and other stakeholders are receptive to the planning function returning to OSA. (The Capitol Complex Master Plan recommendations include similar findings.) OSA was originally set up to provide the technical knowhow and training statewide. With sufficient technical staff and direction from OSPB as per statute, OSA can reassume this function. Given OSA's expertise, the building and capital planning functions should be located in OSA under the direction of OSPB. OSA currently compiles and recommends the state's controlled maintenance five year plan and all capital renewal projects for both state agencies and institutions of higher education. Adding the responsibility of compiling and recommending state agency capital construction five year plans would allow for greater coordination and efficiencies.

The OSA's placement in DPA has afforded it some impression of independence from political influence. Some stakeholders believe that moving it to OSPB would diminish that. However, as long as work is conducted in the same manner as today, the quality of the work should remain the same regardless of OSA's placement. If the General Assembly were to decide to place OSA in OSPB, it would be appropriate to allow OSA employees to remain part of the State personnel system and not become at-will employees.

The recommended staffing size for an OSA planning unit would be three FTE. The function responsibilities and policies are already defined in 24-30-1303 (1) (l).

12. How might the DHS Master Plan request (first of a three-year phased project) be changed or restructured in the context of a statewide planning unit? How might a statewide planning unit contribute to improved facility management for a department like DHS that appears to have ongoing issues at various campuses and facilities?

The Department of Human Services is open to conversations regarding how the Master Plan request may be changed or restructured in the context of a statewide planning unit. Given the breadth of the planning challenge within DHS, however, the priority of its immediate master planning needs should not be diminished.

A statewide planning unit could play a supportive role for agencies like DHS in their master planning efforts. The unit could be designed to allow for departments' future programmatic needs to lead the master planning activities.

13. CDHE/CCHE/OSPB: Please describe the Higher Education building capital process and offer an assessment of the strengths and weaknesses of that capital project approval system.

The Governing Boards must review and approve program plans for new capital projects. Each Governing Board must affirm that the project conforms to the institution's master plan, benefits educational programs, that the costs are appropriate, and is included on the five-year program schedule. A third-party, independent review must be performed for each project and must include: code compliance, cost reviews, the thoroughness of the cost estimating methodology, and the validity of the chosen alternative. DHE reviews these plans for consistency with institutional master plans, space allocations, and the appropriateness of financial planning for the project.

The final part of the process is the annual review and prioritization list. DHE and CCHE use six evaluation criteria: Health, Life and Safety, and Code, Other Funding Sources, Space Needs Analysis, Clear Identification of Beneficiaries, Achieves Goals, and Governing Board Priority. The Capital Assets Subcommittee of CCHE is involved in this process, and works with staff to evaluate projects. The Capital Assets Subcommittee (CAS) works with staff to create the prioritization list and then sends it to the CCHE for a final review. Every October, CCHE meets and votes on the capital list after reviewing it.

This part of the process has many strengths as there is a high level of conversation between institutions, governing boards, staff, and CCHE about capital needs. Projects are reviewed thoroughly, and the required justification is reviewed at each step. The approach is analytical and works to gage needs. The prioritization process is still relatively new, and there are still conversations between CCHE members, staff, and institutions about possible improvements, but the analytical approach is an improvement to the prior process.

Cash funded projects have a different process. The legislature has given institutions substantial latitude in using institutional funds for capital. Cash projects that are less than $2 million are not reviewed, but are covered in a report by staff. Cash projects that are over $2 million and are non-Intercept projects are not reviewed individually. Instead, these projects are compiled on a 2-

year list that is reviewed annually by CCHE. These projects must be passed on the list before an institution can commence building. Intercept projects are reviewed by CCHE and submitted on the 2-year list. CDC serves an advisory role on these projects. Governing boards review and pass these projects. This process lacks the same level of review by staff, CCHE, and the legislature as state funded projects receive, but much of this has been intentional through legislation intended to give institutions a greater ability to meet their own needs. Institutions have considerable latitude to meet their own needs through cash funded projects.

14. What do OSPB, the State Architect, and other stakeholders think about implementing a centralized, federal model of government building ownership and oversight in which one agency would be the owner and manager of all state properties?

At this time, OSPB believes the effort to design and implement a large-scale consolidation such as the one proposed would be significant and would not necessarily change outcomes or usable information. We believe the current system and process can be adjusted to improve performance and raise consistency, which are concerns that we have heard expressed by the committee.

4:15-4:40 AN AUTOMATIC FUNDING MECHANISM FOR CONTROLLED MAINTENANCE AND CAPITAL RENEWAL QUESTIONS

15. What do OSPB, the State Controller, the State Architect, and other stakeholders think about staff's recommendation for a depreciation-based, capital recovery system for cash-funded and state-funded capital projects? What about staff's recommendation for a 1.0 percent controlled maintenance set-aside for COP-funded capital projects? Please identify potential accounting or budget problems with using a depreciation-based, capital investment recovery system as proposed.

We believe the recommendation was thoughtful and well researched. More consistent funding for controlled maintenance would of course be in the State's interest. We believe there is merit to this recommendation but that the full fiscal implication should be discussed further. The primary concerns are 1) that a commitment to a plan could limit flexibility to deal with a future downturn and 2) the creation of new cash fund revenue or program cuts to implement the funding. These issues and further analysis of the proposal could be included in the study called for in SB 09-228.

We also note that the recently completed Capitol Complex Master Plan also provides information that a commitment to a fixed program of controlled maintenance is a known best practice around the country.

4:40-4:50 IT CAPITAL REQUESTS AND GREATER JUSTIFICATION FOR PROJECTS QUESTIONS

16. What do OSPB and other stakeholders think about requiring the identification and quantification of administrative and program efficiencies, cost benefit analyses, and return on investment calculations for IT capital project requests?

To the extent this information is available, OSPB already requires it as a part of its approval process. For instance, the expectation of dramatically reduced wait times for driver's licenses played a significant role in OSPB's approval of the Department of Revenue's DRIVES project. Similarly, documented programmatic and operational benefits associated with the development of electronic health records systems contributed significantly to our approval of several requests for FY 2014-15 and FY 2015-16.

Many IT projects, however, do not lend themselves to this type of analysis. The Colorado Operations Resource Engine (CORE) project, for example, proceeded not on a promise of operational efficiency or ROI. Rather, OSPB advocated for the approval of the CORE project to sidestep the growing potential of a catastrophic failure of the State's existing financial management system. Similarly, our FY 2015-16 package of requests includes a number of items that are intended to improve the stability of the State's IT networks, but will not directly cause an increase in programmatic efficiency or productivity.

OSPB will gladly work with JBC and JTC staff to modify its budget instructions to more specifically identify the circumstances in which requests require these types of analyses. However, we do not believe that legislation is necessary to accomplish the goal of improving the analytical content of certain IT requests.

17. What do OSPB, OIT, and other stakeholders think about requiring IT project planning to occur within five-year master planning, similar to what was recommended for building capital projects? Please describe the recommended location, staffing, responsibilities, and policies required for a centralized, statewide IT planning role? Should this be referred to and addressed by the JTC?

OIT and OSPB support the idea of a five-year master plan for information technology, and would be happy to work with the JTC as needed to achieve this goal. Responsibility of such a process is the responsibility of OIT as required in statute. Further, OIT has already defined many of the policies/processes for IT project planning via requirements of HB 12-1288 and has an established Project Management Office that manages governance around IT projects. Statewide IT planning and budgeting is currently shared between OIT and OSPB. Additional staff may be required to focus on a “five-year” planning process and OIT would request the opportunity to conduct a true gap analysis of resources.

Governance is only manageable if similar practices, processes, and prioritization plans are used across OIT and customer agencies. OIT has been successful in building out several Agency IT Offices including the roles of IT Director, IT Portfolio Manager, IT Financial Analyst, and IT Project/Data Analyst. Where more fully implemented, we will experience significant

improvements in alignment of IT priorities with business outcomes. OIT plans to continue dialogue with OSPB and customer agencies on this concept and approach, and will strive to perform the gap analyses to identify all of the roles required to implement the successful model across all executive branch agencies.

4:50-5:00 CORE IMPLEMENTATION UPDATE QUESTIONS

18. Please provide an update on CORE implementation and anticipated supplemental and budget amendment requests?

The Executive Branch anticipates submitting a total of four supplemental and/or budget amendment requests related to CORE.

The first was sent to the JBC and JTC on December 3. This *emergency supplemental* request will enable CGI's existing resources to remain in Colorado from January 2015 through August 2015 for two important purposes. First, CGI will continue to support the state in implementing critical components of the CORE system that remain troublesome to departments throughout the State, at a cost of approximately $1.1 Million General Fund. For a variety of reasons, these components of the system have taken longer and been more complex to configure and implement than anticipated. Second, CGI will support the development of several additional modules in the CORE system that were not initially envisioned as part of the project. These modules will increase the efficiency with which many departments around the state conduct their business in the areas of grants management, accounts receivable, and financial reporting.

The second request will be a very simple supplemental for FY 2014-15 to more appropriately distinguish CORE appropriations within OIT between the operating and capital budgets. We anticipate submitting this request to the JBC on January 2, 2015.

The third will be a supplemental for FY 2014-15 and a budget amendment for FY 2015-16 that transfers most existing appropriations to support CORE from OIT to DPA. This request is necessary to reflect DPA's assumption of an ownership role of the CORE system, with secondary assistance coming from OIT, effective in FY 2015-16. Included in this request will be a modification to the department-by-department billing structure to reflect usage changes since the initial "COFRS Modernization" appropriation. We will submit a final version of this request to the JBC on January 2, but have already supplied JBC staff with a preliminary draft.

The fourth request will reflect a realignment of staff within DPA, and between DPA and OIT, to facilitate the appropriate management of CORE within the Office of the State Controller. This request will comprise both a supplemental for FY 2014-15 and a budget amendment for FY 2015-16, and will be submitted on January 2.

Concerning the implementation of CORE, OSPB and DPA are aware of the ongoing challenges departments have highlighted in their responses to the JBC's common hearing questions. In addition, both DPA and OSPB have conducted specific outreach of departments to gain a better understanding of both their successes and frustrations with the new system. A few observations from this outreach follow.

- We have every reason to believe that the CORE financial system is functioning as expected, and the data within the system is accurate and reliable.

- Department employees remain challenged by the operational and clerical changes required by the new system. This is not surprising, given that the State has retired a system used for three decades by thousands of State employees -- the efficiency borne of these many decades of use was retired along with COFRS, and it will necessarily take some time to regain it. Nevertheless, DPA has more work to do with departments to assist them in making the best and fastest use of the system.

- The largest and most unexpected struggle with the CORE implementation has not been with the CORE system specifically, but in its integration with the State's existing payroll system (CPPS). The COFRS system contained a Labor Data Collection (LDC) module to allocate payroll expenditures to their appropriate cost centers which has been much more difficult than anticipated to replicate in the interface between CPPS and CORE. The vast majority of our contingency expenditures on the CORE project have been dedicated to this interface, and certain components of it are still not fully functional.

- Because of this delay, every State agency has had difficulty in assessing their actual payroll expenditures against their appropriated budgets. We do expect, however, that the interface will be fully operational by the end of December, and departments will have accurate budget-to-actual reporting early in the new year.

- The reporting of information from the CORE system has disappointed nearly every user. Some of these reporting difficulties are the direct result of the delayed reflection of payroll information in CORE. Others are as a result of imperfect report writing during the initial configuration of CORE. The former of these problems is slowly being addressed as the LDC module is finally implemented. The latter is being addressed by group of over 20 employees who are combing through over 200 reports to ensure the accuracy of their data. DPA has also established a new group of State employees to oversee the creation of new reports, the improvement of existing reports, and the processes by which we can expand the capacity of department employees to pull information from CORE without complete reliance on DPA's central report writers.

- Modules within CORE that are ancillary to the base financial recording functionality, such as purchasing and inventory, have been more difficult for users to adapt to and use than expected. Most departments have reported some level of difficulty in these areas, with points to a strong additional need for DPA to assist departments in managing the change.

Overall, the CORE implementation has proven every bit as challenging as we anticipated. Even with the unanticipated difficulties, however, the accounting community throughout the State seems to remain confident that we will accurately and completely close the books on schedule in August 2015.

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December 15, 2014

MEMORANDUM

TO: Alfredo Kemm
Joint Budget Committee Staff

FROM: Heidi Dineen HD
Senior Assistant Attorney General

RE: Capital Construction JBC Hearing

The following responds to your invitation to attend the JBC Hearing scheduled for December 17, 2014 and responds to specific questions concerning Capital Construction and COP issues. This memorandum is the opinion of the authoring Assistant Attorney General and is not the formal opinion of the Colorado Attorney General.

1. Status of CSPII and Can it be Torn Down or Sold. CSPII is pledged as collateral for the COPs which mature in 2019. In order to sell or tear down CSPII, the State must post alternative collateral in the approximate amount of $100 million and amend the finance documents. In 2013, the COPs were refinanced to taxable COPs to eliminate the private use restrictions on facilities funded with tax-exempt COPs. CSPII can now be rented to a private prison vendor or the federal government without jeopardizing the tax status of the COPs. The Department of Corrections has been searching for a buyer or lessee for CSPII, however, its design as a maximum security prison limits interested lessees. CSPII lacks an outdoor exercise area, an issue the Colorado courts held constitutes cruel and unusual punishment in a case brought against CSPI.

11. Stakeholder Input on a Planning Function for Capital Construction Projects. I have represented the State on COP financing for State capital construction projects over the last ten years and have served as the State's legal counsel on the Building Excellent School Today (BEST) program which has constructed 46 K-12 public school throughout the State. In my opinion, the State needs additional personnel to

properly plan and budget for large capital construction projects. Recent projects for the Department of Agriculture and Colorado Bureau of Investigation indicate smaller Departments lack the expertise or resources to formulate a Facility Project Plan or Architectural plans. They do their best with the limited resources available, but once the project is funded with COP proceeds and an engineer and architect retained, the projects change dramatically. Departments also focus solely on the needs of their Department and lack a global perspective on the needs of the State.

The State needs a process to plan capital construction projects to create a firm and viable project plan before the project is approved by the Capital Development Committee and General Assembly. The statutes should be revised to provide that material changes to a previously approved capital construction plan must be approved by OSPB and the CDC. The Attorney General's office receives the project approved by the General Assembly and executes the transaction, however, after conducting due diligence there may be legal or practical concerns with the project that cannot be addressed because the General Assembly has already approved the project.

Because OSPB leadership can potentially change every four years, I think the planning function should be located in the Office of the State Architect and remain a division of the Department of Personnel & Administration. Planning is a long term process and requires years of research and background that necessitates a permanent classified employee performing the function. The OSA has not been involved in planning capital construction projects financed with COPs primarily due to a lack of resources. In my opinion, a process to acquire and renovate land and buildings needs to be developed and should apply to COP financed projects and capital construction projects paid for by the General Fund.

14. Stakeholder Input on Centralizing Ownership of State Buildings. The building and land acquisitions acquired with COP proceeds are titled to "State of Colorado, or the use and benefit of xxxx Department." Title to older land and buildings frequently is just "State of Colorado" and it can be difficult to determine which agency is responsible for the site. Most of the COP projects were for facilities located outside the capital complex. DPA lacks the resources to manage facilities located outside the Denver metro area. Smaller agencies lack the expertise to acquire or manage a building. Buying and financing a building acquisition is much more permanent and technical compared to leasing office space. I think the expertise to manage State buildings should be centralized at DPA and DPA provided the resources to properly manage the facilities.

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