

JOINT BUDGET COMMITTEE



STAFF BUDGET BRIEFING FY 2020-21

CAPITAL CONSTRUCTION and IT CAPITAL PROJECTS

JBC WORKING DOCUMENT - SUBJECT TO CHANGE
STAFF RECOMMENDATION DOES NOT REPRESENT COMMITTEE DECISION

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CAPITAL CONSTRUCTION

CAPITAL CONSTRUCTION OVERVIEW

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

- Capital construction is defined in Section 24-30-1301 (2), C.R.S., and includes purchase of land, construction or demolition of buildings or other physical facilities, site improvement or development, initial purchase and installation of related equipment, and architectural and engineering services for capital projects.
- Information technology was removed from the definition of capital asset and references to information technology previously included in capital construction were removed in H.B. 14-1395, *Information Technology Budget Requests*. House Bill 15-1266, *Information Technology Budget Request Process*, created the Information Technology Capital Account in the Capital Construction Fund for the purpose of funding information technology projects in the capital construction budget from the Capital Construction Fund while keeping such funding distinct.
- Controlled maintenance is defined in Section 24-30-1301 (4), C.R.S., and includes corrective repairs or replacement for existing real property "when such work is not funded in an agency's or state institution of higher education's operating budget." Pursuant to Section 23-1-106 (10.2), C.R.S., (added in H.B. 12-1318 and amended in S.B. 17-267) higher education academic facilities, even if constructed using solely cash funds for building constructed prior to July 1, 2018, are also eligible for state controlled maintenance funding.
- Capital renewal is defined in Section 24-30-1301 (3), C.R.S., and includes a controlled maintenance project or multiple controlled maintenance projects with costs exceeding \$2.0 million for corrective repairs or replacement that is more cost effective than smaller individual controlled maintenance projects. Although capital renewal projects are large or bundled controlled maintenance projects, they are submitted and prioritized as capital construction requests for new projects rather than included in the controlled maintenance section of the capital construction budget.
- Section 2-3-1701 (2)(b), C.R.S., specifies that information technology does not mean post-implementation support, hardware life-cycle replacement, or routine maintenance.

Some key differences between capital construction and operating budget appropriations:

- Pursuant to Section 24-37-304 (c.3) and (c.5), C.R.S., the executive request is first submitted to the Capital Development Committee (CDC) or the Joint Technology Committee (JTC). Part 13 of Article 3 of Title 2, C.R.S., outlines responsibilities of the CDC. Part 17 of Article 3 of Title 2, C.R.S., outlines responsibilities of the JTC. Pursuant to these parts, the CDC and the JTC are responsible for submitting written reports with recommendations to the JBC. Pursuant to Section 2-3-203 (b.1), C.R.S., the JBC is responsible for making capital construction appropriation

recommendations. However, statute requires that if the JBC wishes to prioritize capital projects differently from the CDC or the JTC, it must meet with the CDC or JTC prior to making such recommendations to the Appropriations Committees.

- Senate Joint Resolution 14-039 added guidelines and threshold amounts for the categorization of operating, capital, and IT budget requests. Joint rule 45 was added to legislative rules rather than statute to provide greater flexibility for revising guidelines and threshold amounts for categorizing budget requests. Joint rule 45 defines operating, capital, and IT budget requests and specifies that these categories of budget request are reviewed by the JBC, CDC, and the JTC, respectively. It also establishes a generally open referral process for requests that may be more appropriately reviewed by another committee.
- The majority of capital construction funding in the Long Bill originates as General Fund, transferred into the Capital Construction Fund, from which Long Bill appropriations for capital projects are made.
- Capital construction appropriations become available upon enactment of the Long Bill. If a project is initiated within the fiscal year through the encumbrance of spending authority, the appropriation remains available for a period of three years for completion of the project. The three-year appropriation is authorized in the head notes of the capital construction section of the Long Bill. Because a supplemental appropriation amends the original Long Bill appropriation, supplemental appropriations or other non-monetary adjustments to a project in following years do not automatically extend the three-year appropriation. However, the CDC pursued H.B. 18-1371, *Capital Construction Budget Items*, to codify head notes in statute and specified that appropriations spending authority is automatically extended for three years in any supplemental appropriation regardless of need.
- Although controlled maintenance projects receive line-item appropriations, pursuant to Section 24-30-1303.7, C.R.S., the Executive Director of the Department of Personnel, whose authority is typically delegated to the State Architect, has authority to transfer funds from one controlled maintenance project to another, when the actual cost of a project exceeds the amount appropriated or when an emergency need arises. Pursuant to Section 24-75-302 (3.2), C.R.S., the State Architect is annually appropriated an amount in the Emergency Controlled Maintenance Account in the Capital Construction Fund. Except for \$3.0 million appropriated in FY 2017-18, \$2.0 million is generally appropriated annually. Reporting shows \$2.5 to \$3.0 million per year spent on emergencies based on controlled maintenance spending authority.

Recent significant pieces of legislation related to the Capital Construction budget and funding processes include:

- House Bill 18-1374, *Controlled Maintenance Financed Acquired Property*, eliminates the eligibility of buildings financed through lease-purchase agreements, such as certificates of participation (COPs), to receive future state funding for controlled maintenance. The bill requires any future legislation authorizing the issuance of COPs to acquire, construct, or renovate state buildings to include a requirement that a state agency or institution of higher education present a plan for funding future controlled maintenance to the Capital Development Committee. The plan must be presented the December or January before the 16th year after the acquisition or substantial

completion of a project financed through a lease-purchase agreement. The plan should assess the controlled maintenance needs of the facility for the next 25 years and may include a request for an additional lease-purchase agreement or a request for state funding. An approved plan must be enacted through a bill, other than the Long Bill or a supplemental bill, unless the plan is from a higher education institution to pay for controlled maintenance from cash funds.

- Senate Bill 17-267, *Sustainability of Rural Colorado*, requires the State to collateralize state buildings through the use of lease purchase agreements in increments of up to \$500.0 million per year beginning in FY 2018-19 for four years (up to \$2.0 billion in total). The first \$120 million from FY 2018-19 proceeds is statutorily allocated for controlled maintenance (\$113.9 million) and capital construction (\$6.1 million). The balance of the proceeds (up to \$1.82 billion) are allocated for highway construction.
- Section 23-1-106 (10.2)(a)(III), C.R.S., also added in S.B. 17-267, specifies that academic buildings acquired or constructed solely from institutional cash funds after July 1, 2018, are not eligible for state controlled maintenance funding. Prior to this provision and date, all academic buildings, whether or not funded with state funds, are eligible for state controlled maintenance funding.
- Senate Bill 15-211, *Automatic Funding for Capital Assets*, established in Section 24-30-1310, C.R.S., created a recapitalization *sinking fund* mechanism to route annual depreciation of capital construction projects into the Capital Construction Fund for projects funded beginning in FY 2015-16. Depreciation-lease equivalent payments are included in department operating budgets for this purpose.
- Senate Bill 15-270, *Create the Office of State Architect*, codified the Office of the State Architect and created a statewide planning function in the Office. Pursuant to Section 24-30-1311, C.R.S., the statewide planning function provides centralized planning services for state agencies, provides a technical review of capital construction requests from state agencies for project readiness, and makes recommendations on capital construction and capital renewal project requests made by state agencies for the Governor's Office of State Planning and Budgeting (OSPb).

CAPITAL CONSTRUCTION BUDGET: RECENT APPROPRIATIONS

FUNDING SOURCE	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21*
Capital Construction Fund	\$94,800,857	\$155,389,364	\$168,460,533	\$174,625,914
Cash Funds	71,680,140	194,459,733	72,690,215	221,140,065
Reappropriated Funds	10,000,000	18,743,326	8,911,836	0
Federal Funds	15,559,090	5,179,500	10,664,870	35,497,456
TOTAL FUNDS	\$192,040,087	\$373,771,923	\$260,727,454	\$431,263,435

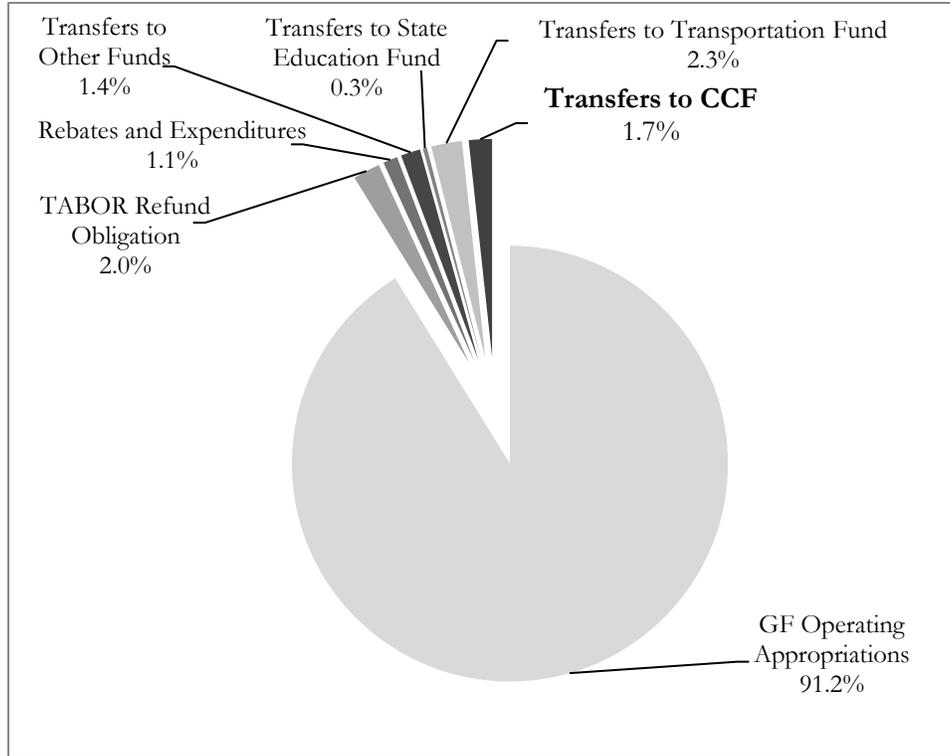
*Requested appropriation.

Table excludes S.B. 17-267 funding provided in FY 2018-19

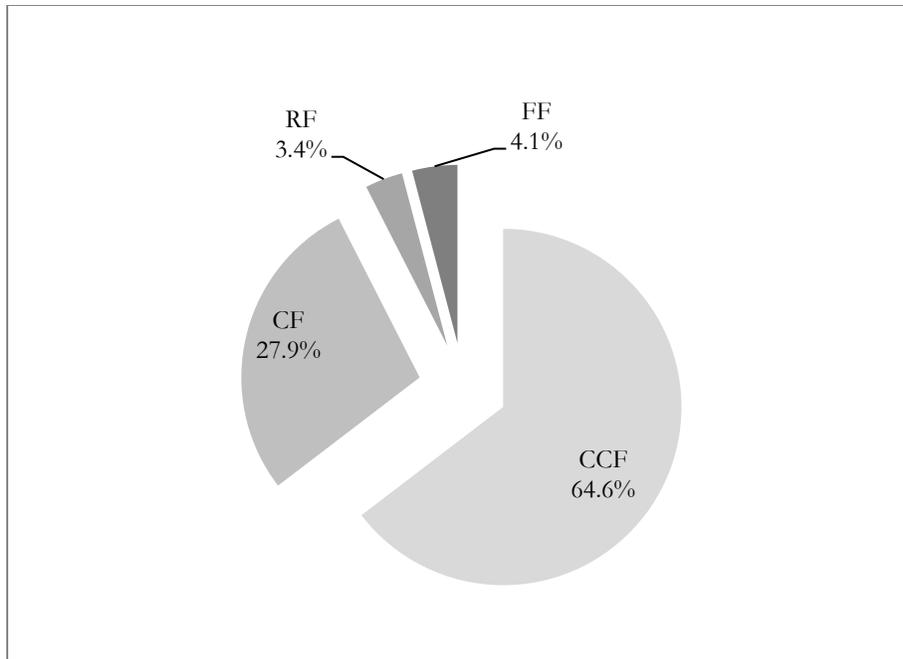
DEPARTMENT BUDGET: GRAPHIC OVERVIEW

FY 2019-20 SHARE OF TOTAL STATEWIDE GENERAL FUND

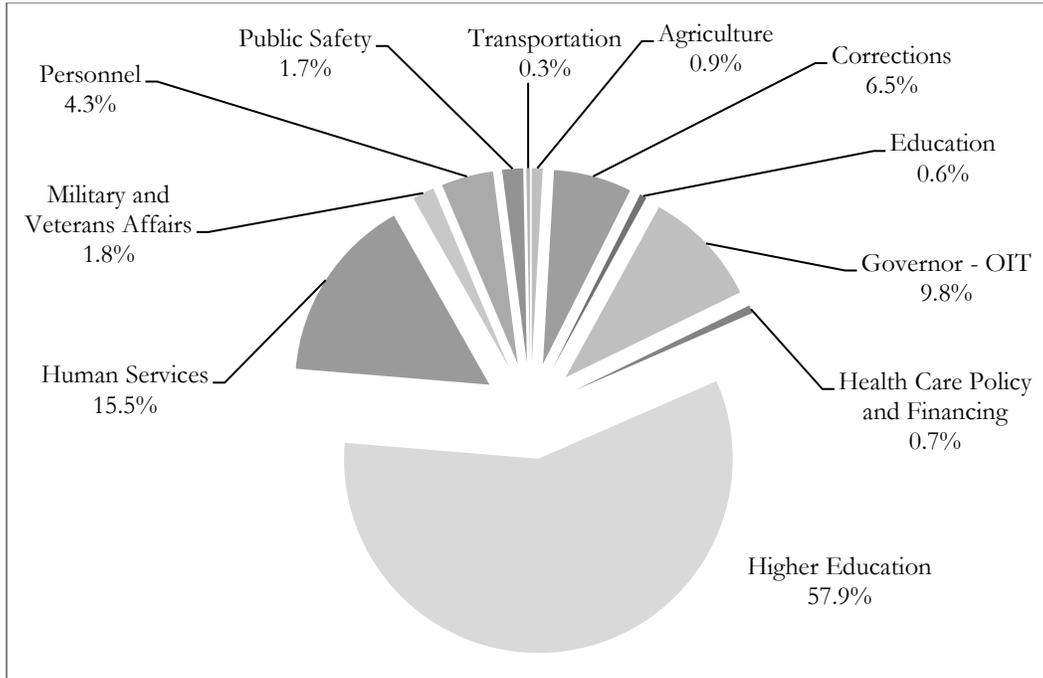
Source: September 2019 Legislative Council Staff Forecast



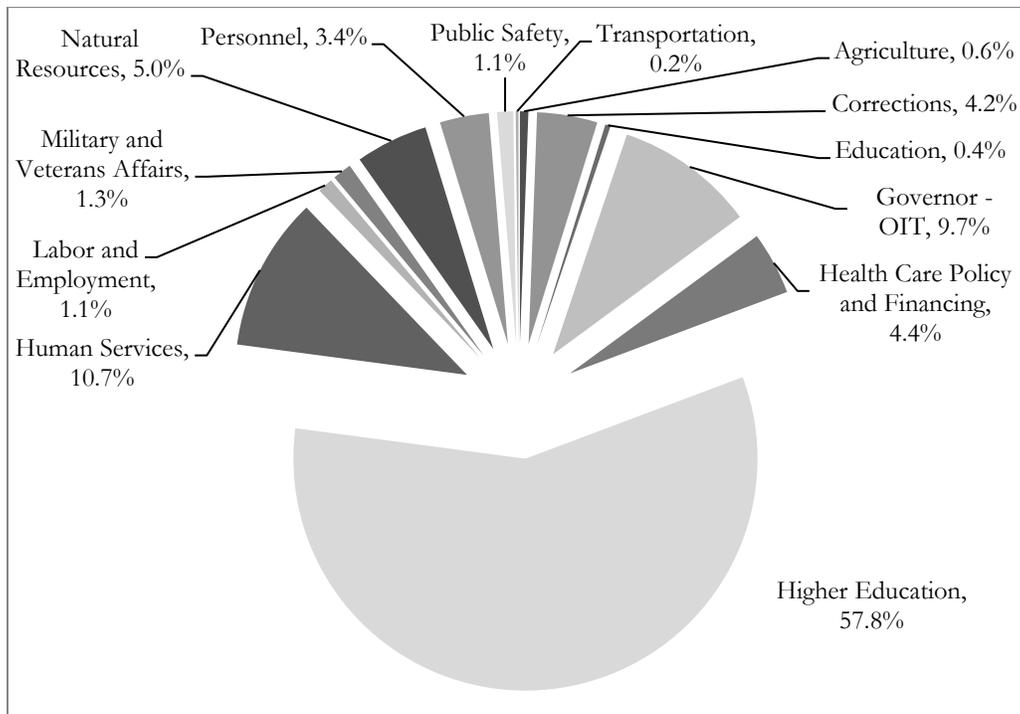
FY 2019-20 CAPITAL CONSTRUCTION FUND SOURCES



FY 2019-20 DISTRIBUTION OF CAPITAL CONSTRUCTION FUND BY DEPARTMENT



FY 2019-20 DISTRIBUTION OF TOTAL FUNDS BY DEPARTMENT



GENERAL FACTORS DRIVING THE BUDGET

Capital Construction funding for FY 2019-20 consists of 64.6 percent Capital Construction Fund, 27.9 percent cash funds, 3.4 percent reappropriated funds, and 4.1 percent federal funds.

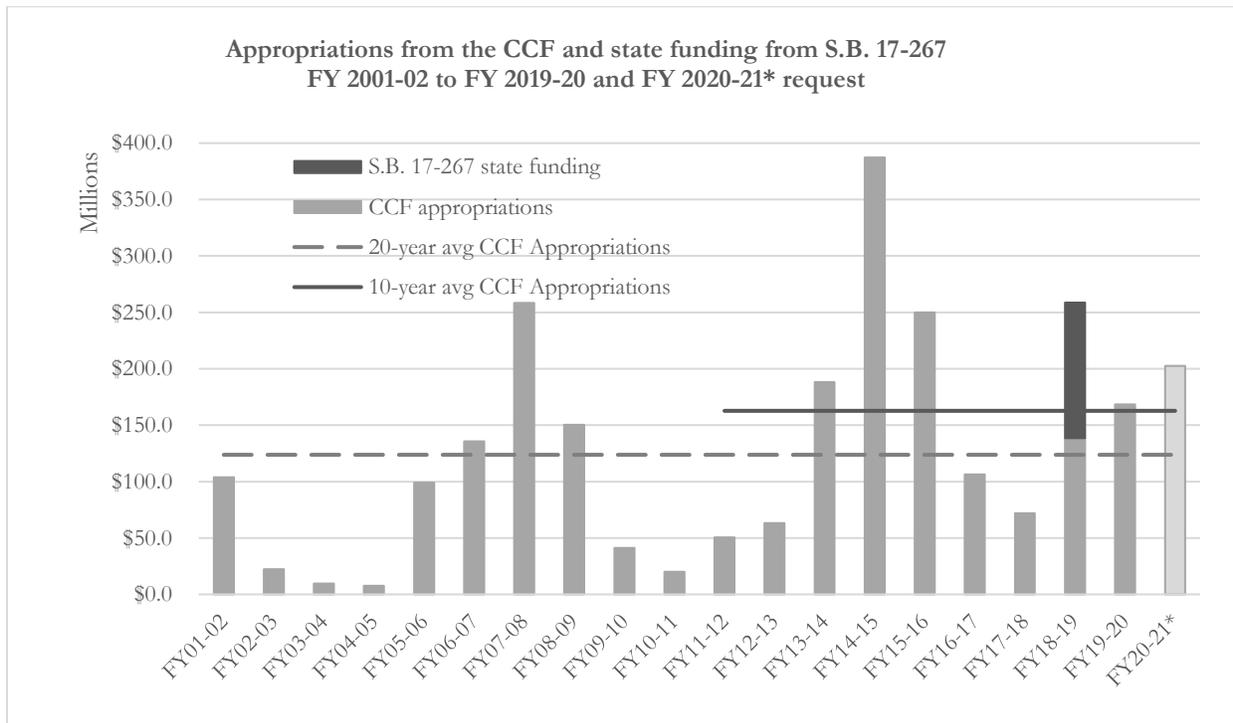
The primary budget driver is General Fund revenue available in any given year. Sufficient funding for controlled maintenance and recapitalization is related to the current replacement value of existing building inventory. Additionally, new building construction at institutions of higher education over the last 15 years have generated a substantial commitment for the State.

REVENUE AVAILABLE FOR CAPITAL CONSTRUCTION

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

General Fund transfers to the Capital Construction Fund are not necessarily equal to appropriations from the Capital Construction Fund due to annual interest earnings and reversions experienced within the Capital Construction Fund; and cash funds transferred into the Capital Construction Fund. Additionally, some state funds may be transferred into other cash funds and included in the budget as cash funds, pursuant to statute.

Nevertheless, appropriations from the Capital Construction Fund are the best data point available over time to track and measure the state-funded commitment for capital construction. The following chart outlines appropriations from the Capital Construction Fund since FY 2001-02 through FY 2019-20 and the FY 2020-21 request.



The FY 2018-19 bar in the chart includes the appropriation as well as the statutory state funding enacted in S.B. 17-267. The 20-year average CCF appropriation is \$122.7 million and the 10-year average is \$160.6 million.

The chart includes all appropriations from the Capital Construction Fund including appropriations for IT Capital projects prior to FY 2015-16 and for IT Capital projects from the IT Capital Account since FY 2015-16. Tracking of building capital and IT capital prior to FY 2015-16 is difficult. Since FY 2015-16, building capital appropriations represent 82.3 percent of appropriations from the Capital Construction Fund and IT capital appropriations represent 17.7 percent. The average annual appropriation from the Capital Construction Fund since FY 2015-16 is \$129.6 million for building capital and \$27.9 million for IT capital.

In some years, statutory formulas triggered automatic transfers to the Capital Construction Fund. House Bill 02-1310 provided automatic transfers to the Capital Construction Fund and the Highway Users Tax Fund of excess General Fund revenue. These transfers were replaced in S.B. 09-228 which authorized five years of transfers to the Capital Construction Fund of 0.5 percent of total General Fund revenue for two years followed by 1.0 percent for three years. Due to the complexity of the trigger and transfer mechanisms in S.B. 09-228, H.B. 16-1416 set specified transfers of \$49.8 million for FY 2015-16 and \$52.7 million for FY 2016-17 and S.B. 17-262 specified no transfer for FY 2017-18 and \$60.0 million each year for FY 2018-19 and FY 2019-20.

At one time, automatic statutory transfers of General Fund to the Capital Construction Fund suggested a policy intention to pre-determine a "boost" or "catch-up" for capital construction based on the scale of anticipated General Fund surplus. However, in every year in recent history, total appropriations for capital projects exceed automatic transfers, requiring an additional, annual transfer of General Fund. This experience suggests that automatic statutory transfers are sometimes complex and cumbersome for forecast and planning purposes and, practically, unnecessary, since the necessary amount of General Fund is transferred to meet the appropriations need in each year.

Higher education projects that are non-state-funded (entirely through cash funds and federal funds) are not included in state appropriation bills. Higher education cash-funded capital construction projects and projects financed through the revenue bond intercept program that exceed \$2.0 million, as well as all controlled maintenance and capital renewal projects that exceed \$10.0 million, are subject to legislative approval from the Capital Development Committee. Higher education requests for access to financing through the revenue bond intercept program also require Joint Budget Committee approval.

PRIORITIZING CONTROLLED MAINTENANCE AND RECAPITALIZATION

The capital budget process primarily differs from the operating budget process in that budgeting for state agency programs begins from a base which is incrementally adjusted annually. Capital budget items in the capital budget are considered discretionary, new decision items. While the Governor's request provides a total amount that guides the general scale of annual funding for capital construction, the decision on the margin, or on setting the line for funding, is generally made after prioritizing base operating budget items.

As a budget principle, new construction and real property purchases – *capital expansion* – should be addressed as discretionary, new request items. Whereas, controlled maintenance represents the

ongoing upkeep of the existing building inventory. That inventory represents state budget decisions previously made to purchase and own buildings and property. However, historically, new construction was prioritized alongside and sometimes ahead of controlled maintenance. The cost of maintaining existing buildings should be considered as a commitment made at the time the decision to purchase and own a building is made.

Building systems experience both a physical life and an economic life. The physical life is the period until system failure. The economic life is the point at which the annual lifecycle cost of maintaining the existing system exceeds the annual lifecycle cost of a replacement system. Therefore, the discretionary budget decision to spend less on controlled maintenance in a given year does not necessarily save the State money and often increases state facility costs. Instead, not funding the timely replacement of state building systems:

- drives a higher cost in facilities management operating budgets due to increased annual repair, maintenance, and utility costs for deteriorating and inefficient building systems;
- increases future year capital costs due to construction inflation, collateral building system failure, and premature facility deterioration; and
- reduces state agency program effectiveness, particularly when deterioration leads to the unscheduled loss of use of facilities.

Capital renewal is defined in Section 24-30-1301 (3), C.R.S., as a controlled maintenance project or group of projects with costs exceeding two million dollars in a fiscal year. *Renovation* projects are typically identified as capital construction rather than capital renewal because they include improvement in program space and may also include space additions. While new space in a renovation project is properly characterized as "new construction", a renovation project will also include replacement of existing building systems or subsystems that would otherwise require replacement through controlled maintenance. The term *recapitalization* can be used generally to describe controlled maintenance and capital renewal for recapitalizing the existing building stock, and is therefore a good term that encompasses renovation.

While the terms *repair* and *maintenance* are sometimes used in connection with controlled maintenance projects, ongoing repair and maintenance of systems or subsystems are typically provided by day-to-day facilities management operations and paid for within the annual facility operating cost for a building. Repair and maintenance is an annual process, while recapitalization provides benefits expected to last beyond a year.

Historically, the State Architect's annual report has included the following recommendation:

*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.

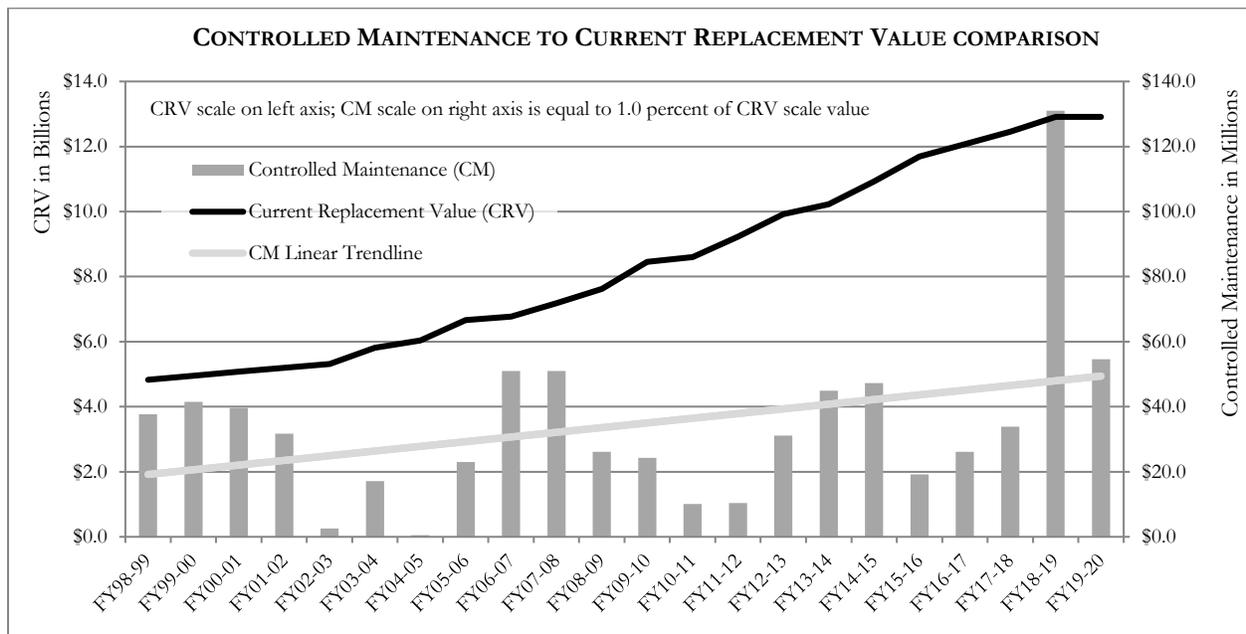
Additionally, the State Architect annually prioritizes controlled maintenance project requests from state agencies and institutions of higher education in three classifications:

- Level 1 are considered critical projects related to life safety or loss of use from equipment or system failure or lack of compliance with codes, standards, and accreditation requirements.
- Level 2 are projects causing operational disruptions, energy inefficiencies, or environmental contamination – predominantly HVAC, electrical, and mechanical systems.
- Level 3 are other building deterioration – typically related to building envelope including roofs, windows, and building surface.

In order to better focus the state's commitment to controlled maintenance and recapitalization, the 2017 capital construction section of the Long Bill was reorganized into four sections:

- 1 Controlled Maintenance;
- 2 Capital Renewal and Recapitalization;
- 3 Capital Expansion; and
- 4 Information Technology Projects.

The following chart reflects controlled maintenance (CM) funding compared to current replacement value (CRV).



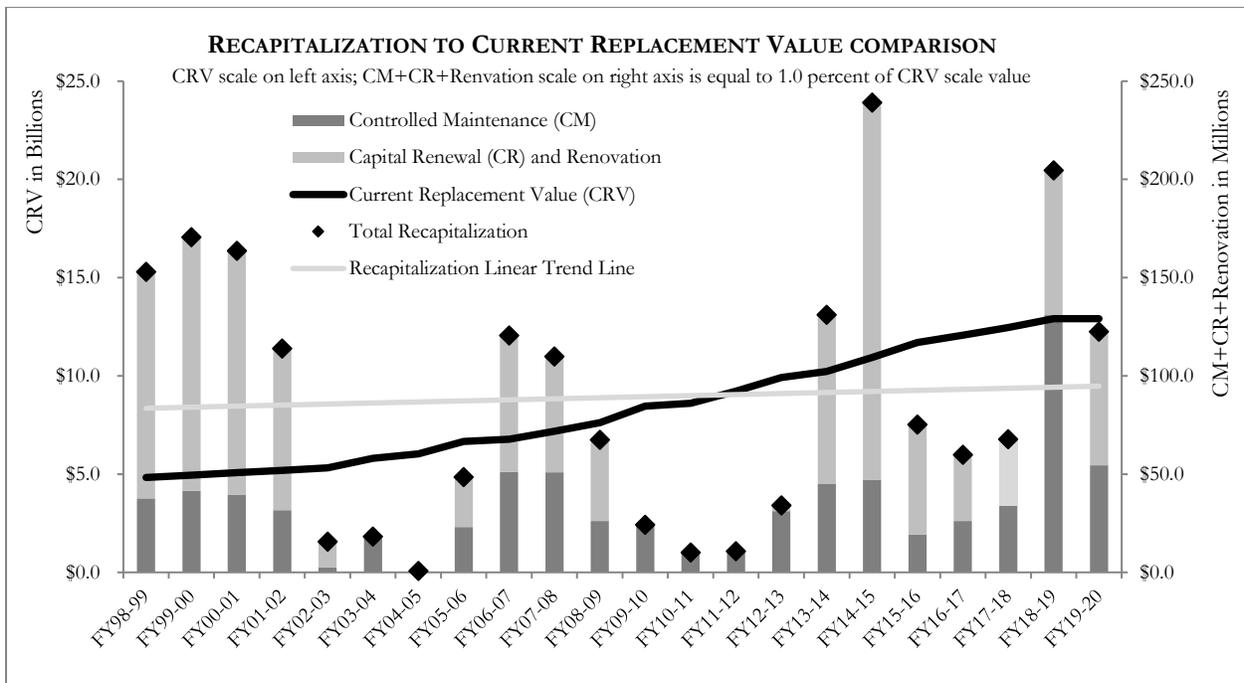
The CRV scale, represented in billions, is shown on the left side of the chart with values reflected in the black line. The CM scale, represented in millions, is shown on the right side of the chart with values reflected in the grey bars. The CM scale is set equal to 1.0 percent of the CRV scale. Controlled

maintenance spending in any year that is equal to 1.0 percent of current replacement value would be reflected in the chart as exactly equal to CRV.

Statewide controlled maintenance funding has trended slightly higher since FY 1998-99, predominantly due to additional funding provided by S.B. 17-267 included in FY 2018-19. The slight increase compares to the total current replacement value of state buildings, which has increased at a greater rate. The increase in CRV reflects growth in total square footage of state buildings along with an increase in value of real property related to inflation and market value.

In FY 2018-19, total controlled maintenance funding of \$129.0 million, which included \$15.1 million in Long Bill appropriations and \$113.9 million in state funds from S.B. 17-267 collateralization COPs, just equaled 1.0 percent of CRV of \$12.91 billion. Additional funds from S.B. 17-267 collateralization COPs provided a substantial one-time funding boost for controlled maintenance. However, keep in mind that the State Architect's recommended funding for controlled maintenance is 1.0 percent per year. Controlled maintenance funding equal to 1.0 percent of CRV would require a similar effort each year to meet that standard. CRV increases from just under \$5.0 billion to \$13.0 billion and, aside from FY 2018-19, the gap between CRV and CM generally widens over time.

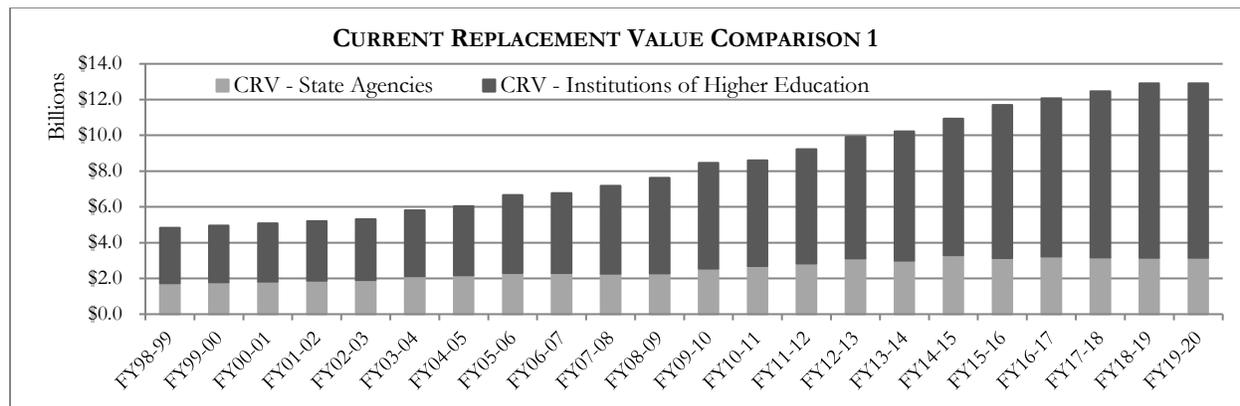
The following chart reflects all recapitalization funding compared to current replacement value.



As the chart illustrates, while funding for recapitalization exceeds 1.0 percent of CRV in nine of the 21 years, the linear trend line is only slightly increasing. The slope of the trend line is partially due to the greater funding provided in the early years shown in the chart when spending on recapitalization in FY 1998-99 through FY 2000-01 was greater than 3.0 percent of CRV.

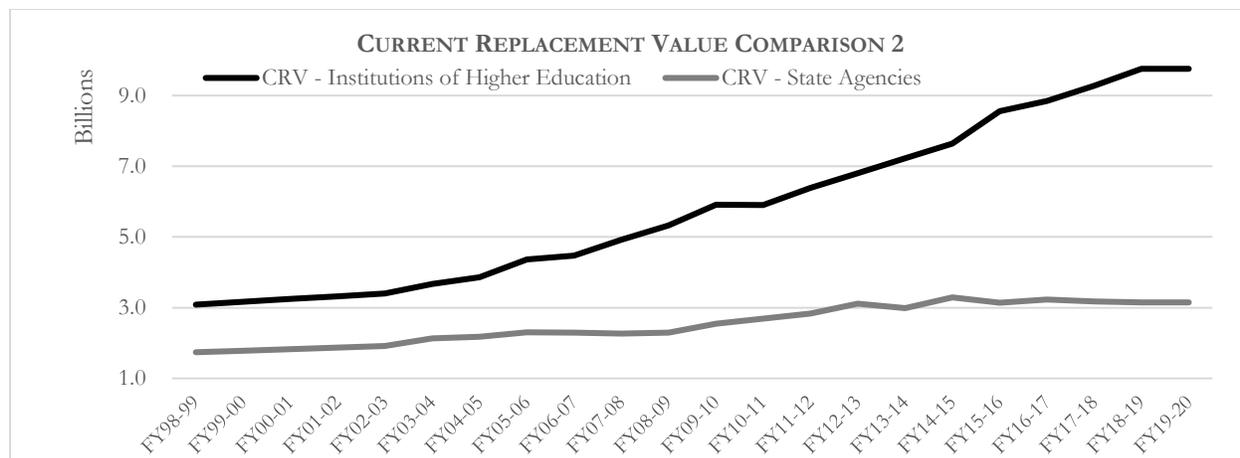
COMMITMENTS FOR HIGHER EDUCATION CAPITAL CONSTRUCTION

Institutions of Higher Education hold the largest portion of the state's building inventory. The higher education total does not include the value of non-academic buildings, which are not provided state-funded controlled maintenance. The following chart outlines the current replacement value of academic buildings at institutions of higher education and state agencies since FY 1998-99 in a stacked column comparison to reflect both total scale and relative share.



CRV figures for the current fiscal year were not yet available at publication. As of last fiscal year, the current replacement value for state agency buildings totaled \$3.15 billion, representing a decrease from \$3.18 billion in the prior year. The current replacement value for institutions of higher education totaled \$9.76 billion, representing an increase from \$9.28 billion in the prior year. State agencies and institutions of higher education represent 24.4 percent and 75.6 percent of the \$12.91 billion state building inventory, respectively.

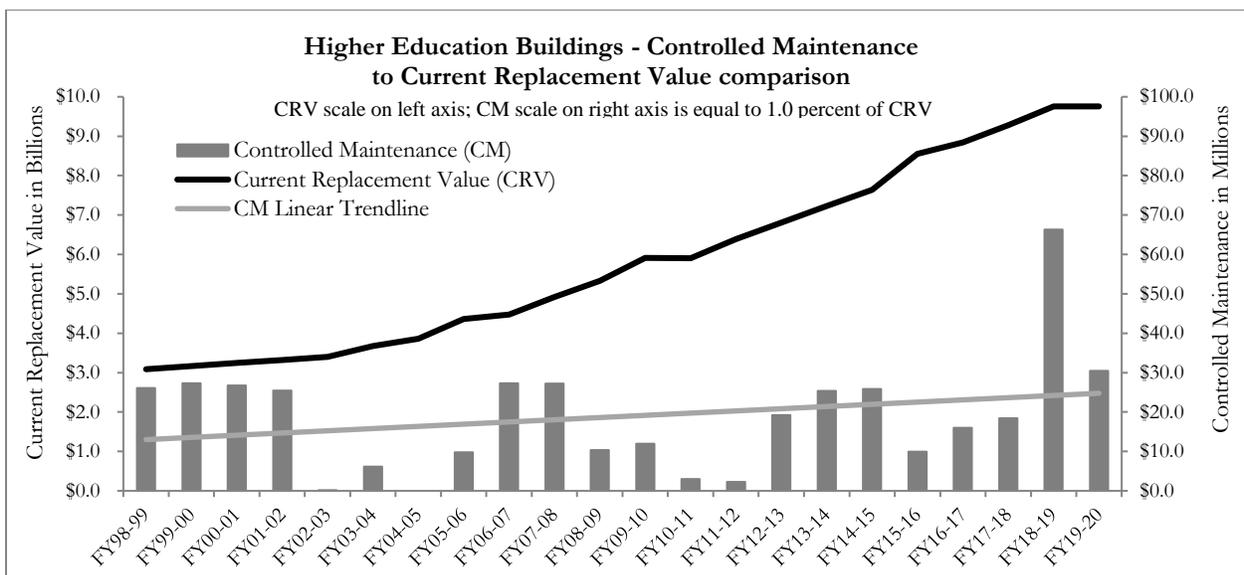
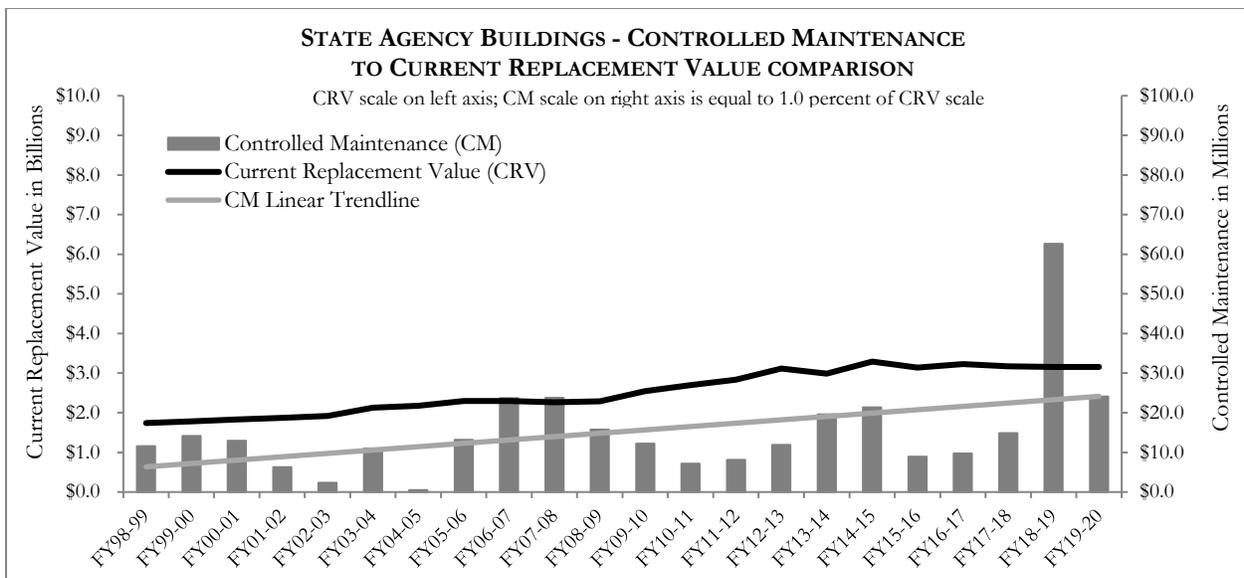
In FY 1998-99, current replacement values totaled \$1.74 billion and \$3.09 billion, respectively, representing 36.1 percent and 63.9 percent of the \$4.83 billion total state building inventory. The state agency building inventory increased 85.1 percent over the 21-year period shown in the chart, a compound average growth rate of 2.7 percent per year, while the institutions of higher education building inventory increased 208.3 percent over that period, a compound average growth rate of 5.5 percent per year. The following comparison line chart reflects the change in CRV for each in a direct comparison.



Gross square footage increased 16.7 percent and 48.2 percent, respectively, over that period for state agency and institution of higher education buildings. This returns a compound average annual growth rate of 0.7 percent and 1.9 percent per year, respectively.

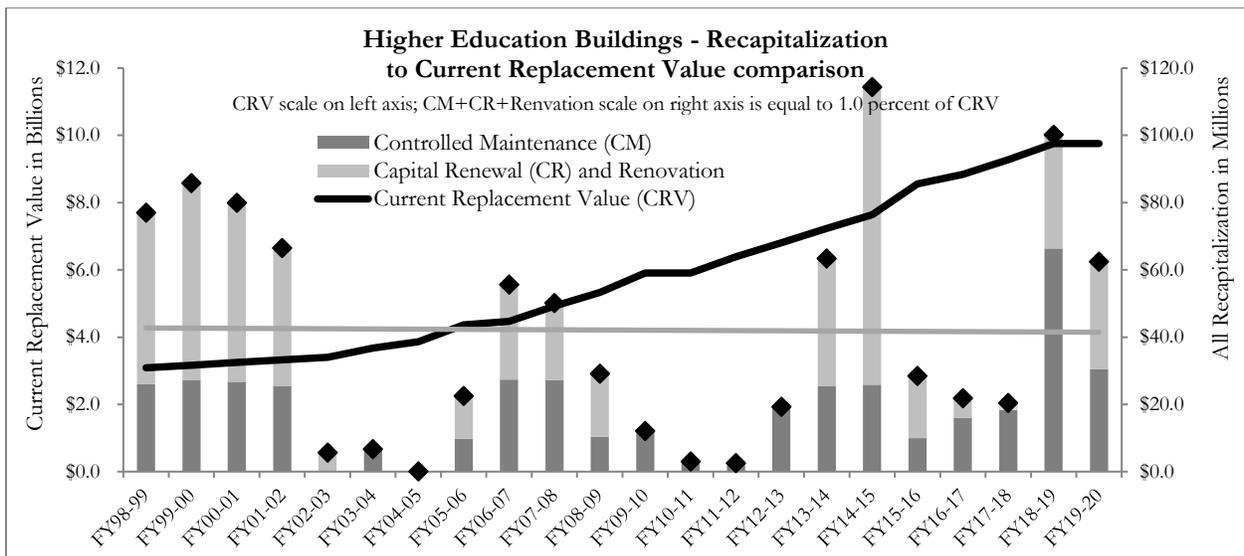
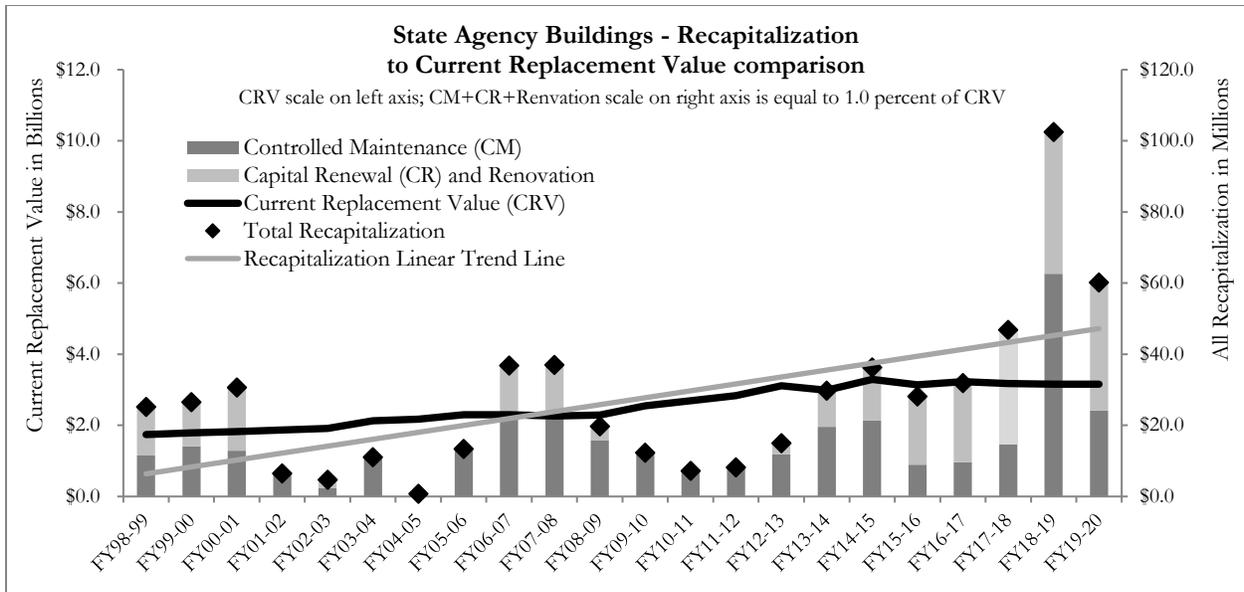
Just over \$6.5 billion of building inventory for institutions of higher education has been added since FY 1998-99 and \$5.8 billion or 89.2 percent of that has been added in the last 15 years. The general condition of newer building stock requires less controlled maintenance. However, the State begins funding controlled maintenance for buildings at 15 years. The building inventory added after FY 2004-05 began qualifying for state-funded controlled maintenance in FY 2019-20.

The following charts outline CM to CRV comparisons by state agency buildings and by higher education buildings.



The State Architect's recommended 1.0 percent funding for controlled maintenance in FY 2019-20 would have totaled \$31.5 million for state agency buildings and \$97.6 million for institution of higher education buildings. Controlled maintenance appropriations totaled \$24.1 million for state agency buildings, representing 76.5 percent of recommended and \$30.4 million for institution of higher education buildings representing 31.2 percent of recommended.

The following charts outline all recapitalization to CRV comparisons by state agency buildings and by higher education buildings.



Other recapitalization (capital renewal and renovation) appropriations from state funds in FY 2019-20 provided an additional \$36.0 million and \$32.0 million for state agency and institution of higher education buildings, respectively. All recapitalization appropriations provided 1.9 percent of CRV for state agency buildings and 0.6 percent of CRV for higher education buildings.

The current and foreseeable state of revenue limits and budget commitments leads to a reduced ability for the State to provide adequate recapitalization funding annually and to provide one-time catch-up funding in the foreseeable future. Due to the additional revenue sources available to institutions of higher education for capital expansion, state funding for capital construction for institutions of higher education should be almost entirely directed to controlled maintenance, capital renewal, and recapitalization rather than new construction.

Further, as reflected in the charts, the scale of commitment to provide adequate annual controlled maintenance and recapitalization for state agency buildings is reasonable and within reach based on State Architect recommendations. However, that is not the case for institution of higher education buildings.

Capital construction decision making for state agencies and for institutions of higher education should perhaps be addressed separately due to the differences in:

- The scale of building inventory;
- The revenue sources available to institutions of higher education not available to state agencies; and
- The relatively greater fiscal independence and independent governance structure of institutions.

Much as there has been an improvement in recent years in emphasizing controlled maintenance and recapitalization in the budget structure, a bifurcated and distinct capital construction approach to state agencies and institutions of higher education may begin to lead to better stewardship practices and funding choices regarding the state's building inventory.

THE UNACKNOWLEDGED CORRELATION BETWEEN CAPITAL CONSTRUCTION AND COMMERCIAL LEASED SPACE

The budget cost of capital construction is entirely and exclusively tied to the cost of housing or providing space for state agency operations. On the basis of that relationship, the alternative solution to providing "space" for state agency operations is through the annual purchase of commercial leased space in an annual rent payment. While technically not an aspect of capital construction as a budget construct, annual leased space payments in the operating budget represent the alternative or "non-capital construction" solution to provide workspace for state employees and state agency operations.

Traditionally, capital construction has been viewed as a one-time, lump-sum payment for a building. The cost appears to be high in the first year and then free after that; i.e. the cost falls "off-budget" - essentially out-of-mind and out-of-sight. State agency programs which reside in state-funded buildings will appear to have lower annual operating costs because the cost of real estate appears to be zero in the absence of a budget payment for the annual cost of building space.

This traditional manner of identifying and funding capital asset costs is technically inaccurate and not helpful to annual budget decision making. Accurate budget-pricing information related to funding incremental space additions or improvements or larger, wholesale building and facility renovations, replacements, construction, or purchase is not available when considered in the traditional lump-sum funding manner. When annual costs – equal to the lifecycle cost divided over the 20-, 30-, or 50-year lifecycle – are priced into the budget for a capital asset, requested increases to the annual cost can be directly compared to the program space advantages gained by the State, whether for housing additional

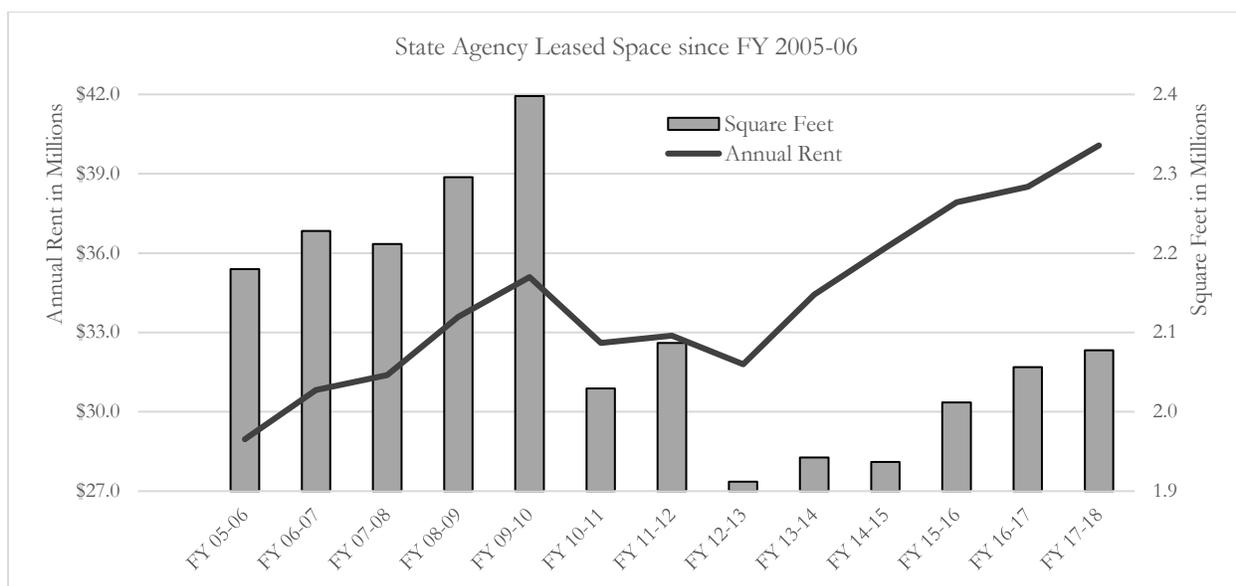
employees or for improving the quality and functionality of a space. In such a context, annual commercial leased space costs can be compared to the annual lifecycle costs of a state-owned space and a rational, lowest cost decision can be made.

Similarly, cash-funded programs housed in state-funded buildings, will necessarily misprice their fees when the cost of housing a program appears to be cost-free, but is actually subsidized by state funds paid in the capital construction budget. Such cash-funded programs will appear to have a lower cost when leased space or capital construction cost is not included as a cost of the program. When a cash funded program is located in commercial leased space, the cost is readily apparent and, theoretically, must be included in the fee calculation in order to cover all program costs.

While commercial leased space is a flexible space-expansion option, particularly for fluctuating or incrementally-expanding state programs, it is also the most expensive state agency space option. A commercial lease includes the private owner's actual facility costs – either construction and financing or depreciation/economic opportunity cost, leasehold improvement costs required by the program for the space, any scheduled controlled maintenance items over the period of the lease, and the landlord's management expense and profit. In commercial leased space, the full economic cost of the facility, plus management expenses and profit, is paid in the annual lease payment.

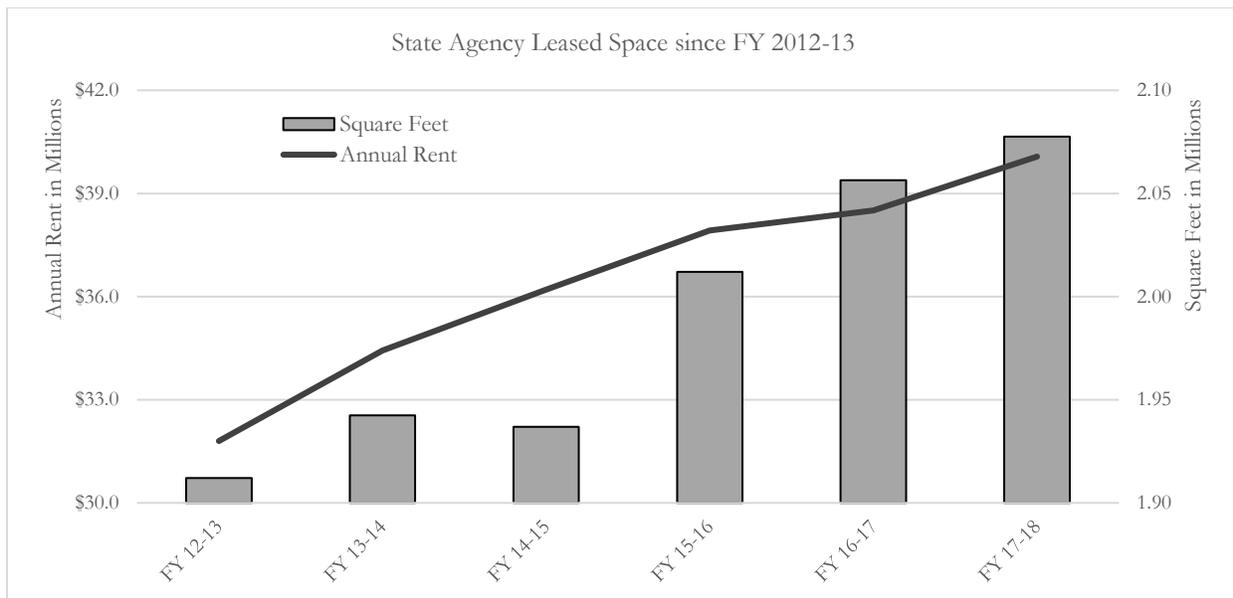
As reflected in the previous charts, the current replacement value for state agency buildings has remained essentially flat since FY 2012-13 at about \$3.1 billion. Gross square footage for state agency buildings has decreased from 14.8 million GSF to 14.7 million GSF in FY 2018-19. These trends, since at least FY 2012-13, a period over which state agency FTE increased 13.4 percent, suggest that more employees are being located in existing space or agencies are housing additional state employees in commercial leased space. There is some anecdotal evidence supplied by the Office of the State Architect that square footage per employee has decreased over time in recent years, both empirically and for space planning purposes. However, it is not clear that the decrease in square footage per employee accounts for or accommodates the entire 13.4 percent increase in FTE.

The following chart reflects state agency leased space since FY 2005-06.



As reflected in the chart, total leased space has decreased to just under 2.1 million square feet from a high of 2.4 million square feet in FY 2009-10. Following the 2008 financial crisis, due to the economic downturn and state budget considerations, there was a substantial decrease in leased space square footage experienced in FY 2010-11. Around that time, the State was also able to renegotiate lower cost lease agreements in the downtown Denver area contributing to an increase in square footage in FY 2011-12 at a reduced annual rent.

The following chart outlines state agency leased space since FY 2012-13.



As reflected in both charts, the cost of space has steadily increased since FY 2012-13 to \$40.1 million in FY 2017-18 and is generally increasing, corresponding with the experience of current market conditions. Additionally, unlike the slight decrease in square footage for state-owned buildings since FY 2012-13, square footage for commercial leased space has increased 8.7 percent.

While not a factor driving the capital construction budget directly, "leased space" – which can be considered as "the avoidance of additional, renovation, and replacement of state-owned building space" – is a factor which should be considered in the context of the capital construction budget. The increasing use of leased space should also be foremost in the need for a structural reconsideration of state funding for capital construction and the broader purchase of "space", which extends beyond annual budget decisions.

SUMMARY: FY 2019-20 APPROPRIATION & FY 2020-21 REQUEST

		CAPITAL CONSTRUCTION (BUILDING CAPITAL ONLY)					ADD'L OUT- YEAR STATE FUNDS
		TOTAL FUNDS	CAPITAL CONSTRUCTION FUND	CASH FUNDS	REAPPROP. FUNDS	FEDERAL FUNDS	
		FY 2019-20 APPROPRIATION:					
		FY 2019-20 Long Bill (S.B. 19-207) - IT Projects excluded					
		224,613,001	156,122,857	68,092,774	0	397,370	
		TOTAL	\$224,613,001	\$156,122,857	\$68,092,774	\$0	\$397,370
Priority							
OSP	CCHE	FY 2019-20 Approved State-funded 1331 Interim Supplemental Requests:					
		DHS: Hawkins Building L2 Unit, CMHIP					
		1,600,000	1,600,000	0	0	0	
		CDPHE: Replace Mechanical Systems, Laboratory Building					
		1,421,454	1,421,454	0	0	0	1,078,546
		PER: Capitol Annex Building Sewer Venting Repair					
		4,070,023	4,070,023	0	0	0	
		SUBTOTAL - FY 2019-20 Approved 1331s					
		\$7,091,477	\$7,091,477	\$0	\$0	\$0	\$1,078,546
Priority							
OSP	CCHE	FY 2019-20 State-funded Request Placeholders					
4		DNR: Increase State Park Access					
		10,000,000	10,000,000	0	0	0	
6		DHS: DYS Facility Refurbishment for Safety and Risk (ph.6)					
		473,131	473,131	0	0	0	
7		DHS: DYS Anti-climb Mesh (for 5 facilities)					
		1,575,058	1,575,058	0	0	0	
8		DHS: DYS Facility Refurbishment for Safety and Risk (ph. 3)					
		200,000	200,000	0	0	0	
		SUBTOTAL - FY 2019-20 Approved 1331s					
		\$12,248,189	\$12,248,189	\$0	\$0	\$0	\$0
		SUBTOTAL - Additional FY 2019- 20 State-funded Items					
		\$19,339,666	\$19,339,666	\$0	\$0	\$0	\$1,078,546
Priority							
OSP	CCHE	FY 2020-21 PRIORITIZED REQUESTS (STATE-FUNDED) REQUESTED APPROPRIATION:					
1		Level I Controlled Maintenance					
		29,977,955	29,977,955	0	0	0	
2		DOC: SCF Steam Condensate Line Replacement (capital renewal)					
		7,560,645	7,560,645	0	0	0	
3		AGR: Repair/Replace Water, Sanitary, and Stormwater Infrastructure, CSF (capital renewal)					
		3,299,747	3,299,747	0	0	0	
4		DNR: Increase State Park Access (FY19-20)					
		0	0	0	0	0	
5		DOC:AVCF Utility Water Lines Replacement (capital renewal)					
		7,789,547	7,789,547	0	0	0	
6		DHS: DYS Facility Refurbishment for Safety and Risk (FY19-20)					
		0	0	0	0	0	
7		DHS: DYS Anti-climb Mesh (for 5 facilities) (FY19-20)					
		0	0	0	0	0	

		CAPITAL CONSTRUCTION (BUILDING CAPITAL ONLY)					ADD'L. OUT- YEAR STATE FUNDS	
		TOTAL FUNDS	CAPITAL CONSTRUCTION FUND	CASH FUNDS	REAPPROP. FUNDS	FEDERAL FUNDS		
8		DHS: DYS Facility Refurbishment for Safety and Risk (FY19-20)	0	0	0	0	0	
9		Level II Controlled Maintenance	35,022,045	35,022,045	0	0	0	
10		PER: EV Charging Stations, Merrick Garage	840,252	840,252	0	0	0	
11		PER: Infrastructure for State Fleet Electrification - placeholder	2,000,000	2,000,000	0	0	0	
12		DOC: AVCF Electronic Security System Replacement (capital renewal)	3,176,955	3,176,955	0	0	0	
13		PER: Centennial Building Renovation	28,595,728	7,000,000	21,595,728	0	0	
14	1	HED: FLC Whalen Gymnasium Expansion and Renovation for Exercise Science	29,524,323	26,571,891	2,952,432	0	0	
15	2	HED: ASU Plachy Hall HVAC Upgrade and Replacement, ph 2 of 2 (capital renewal)	2,819,630	2,819,630	0	0	0	
16	3	HED: UC-Denver CU Anschutz - Center for Personalized Medicine and Behavioral Health ¹	21,859,241	7,000,000	14,859,241	0	0	
17	4	HED: CSU Shepardson Building Renovation and Addition	17,051,200	17,051,200	0	0	0	
18	13	HED: UNC Boiler #3 Replacement (capital renewal)	3,826,172	3,779,372	46,800	0	0	
		SUBTOTAL - Prioritized Requests	\$193,343,440	\$153,889,239	\$39,454,201	\$0	\$0	\$0
		¹ This CU Anschutz project is requested by the insitution at \$21,859,241 CCF. The Governor's request recommends the reduced CCF amount shown but did not include the balance of the total requested as a cash funds appropriation. Staff reflects the balance amount included in the total request as cash funds.						
Priority								
		FY 2020-21 NON-PRIORITIZED REQUESTS (100% CASH-FUNDED) REQUESTED						
OSP	CCHE	APPROPRIATION:						
1	5	HED: CSM Subsurface Frontiers Building ²	18,143,259	0	18,143,259	0	0	
1	5	HED: CSM Subsurface Frontiers Building ²	110,630,982	0	110,630,982	0	0	
2		CDPHE: Superfund, Colorado Smelter	35,000,000	0	3,507,544	0	31,492,456	
3		HistCO: Regional Property Preservation Projects	700,000	0	700,000	0	0	
4		DOC: Program Annex Building Renovation, SCF	3,536,046	0	3,536,046	0	0	
5		DHS: DRCO Depreciation Fund Capital Improvements	745,110	0	745,110	0	0	
6		DHS: Facility Upgrades, Fitzsimons VCLC	969,346	0	969,346	0	0	
7		DHS: Facility Upgrades, McCandless VCLC	546,892	0	546,892	0	0	
8		DHS: Facility Upgrades, Rifle VCLC	303,712	0	303,712	0	0	
9		DHS: Facility Upgrades, Homelake VCLC	390,754	0	390,754	0	0	
10		CDE: CSDB Disposition of Teller County Parcel ³	(19,300)	0	(19,300)	0	0	
11		CDE: CSDB Disposition of El Paso County Parcel ³	(113,517)	0	(113,517)	0	0	
12		CDE: CSDB Disposition of Bell Flower Drive Parcel ³	(19,500)	0	(19,500)	0	0	

CAPITAL CONSTRUCTION (BUILDING CAPITAL ONLY)							ADD'L OUT-YEAR STATE FUNDS
		TOTAL FUNDS	CAPITAL CONSTRUCTION FUND	CASH FUNDS	REAPPROP. FUNDS	FEDERAL FUNDS	
13	DNR: Property Acquisitions	11,000,000	0	11,000,000	0	0	
14	DNR: Infrastructure and Facilities	9,569,600	0	9,569,600	0	0	
SUBTOTAL - Non-prioritized Requests		\$191,383,384	\$0	\$159,890,928	\$0	\$31,492,456	\$0
² CSM requested \$18.1m state funds and \$110.6m cash funds in FY20-21. OSPB recommends cash funds for the state-funded portion and does not include the balance of the request in its recommendation. The original request in FY 2019-20 identified a second year need of \$18.1 CCF and \$91.7m cash funds. In order to accurately reflect the institution's total request, staff reflects the institution's cash fund request amount in a separate line following the amount included in the Governor's request.							
³ The Colorado School for the Deaf and the Blind (CSDB) dispositions are included to accurately reflect the Governor's budget request. Negative appropriations applied up to an amount already appropriated are valid appropriation recommendations. However, there are no existing FY20-21 appropriations to offset. Additionally, disposition actions are contractual asset exchanges recorded on the accounting balance sheet, typically as an exchange of property for cash. Resulting cash assets may be used as a fund source but the disposition action is not in itself a budget item for appropriation. It is staff's understanding that these items were approved by the CDC and no further action is necessary from the JBC. Staff will not include these requested appropriations in the Long Bill as they are not items of appropriation.							
FY 2020-21 Cash-funded item not included in Governor's Request							
	HED: CSU National Western Center Lease Purchase Payments ⁴	18,696,574	0	18,696,574	0	0	
SUBTOTAL - Items not included		\$18,696,574	\$0	\$18,696,574	\$0	\$0	\$0
⁴ This amount originates as General Fund transferred to the National Western Center Trust Fund pursuant to section 23-31-902 (3), C.R.S., and is included in the Long Bill as a cash funds appropriation.							
TOTAL		\$403,423,398	\$153,889,239	\$218,041,703	\$0	\$31,492,456	\$0
INCREASE/(DECREASE)		\$178,810,397	(\$2,233,618)	\$149,948,929	\$0	\$31,095,086	
Percentage Change		79.6%	(1.4%)	220.2%	n/a	7,825.2%	
TOTAL - 2-year additional appropriations requested		\$422,763,064	\$173,228,905	\$218,041,703	\$0	\$31,492,456	\$1,078,546

OSPB PRIORITIZED NOT RECOMMENDED FOR FUNDING AND CCHE PRIORITIZED
 The following table includes additional building capital projects prioritized by OSPB and CCHE.

CAPITAL CONSTRUCTION (BUILDING CAPITAL ONLY)							ADD'L OUT-YEAR STATE FUNDS
Priority		TOTAL FUNDS	CAPITAL CONSTRUCTION FUND	CASH FUNDS	REAPPROP. FUNDS	FEDERAL FUNDS	
OSPB	CCHE	FY 2020-21 OSPB PRIORITIZED BUT NOT RECOMMENDED FOR FUNDING:					
19		DHS: CMHI Suicide Mitigation Continuation	1,446,879	1,446,879	0	0	10,551,983
20	12	DHS: CMHIP Campus Utility Infrastructure Upgrade, ph 1 of 3 (capital renewal)	9,603,528	9,603,528	0	0	26,864,622
21		HistCO: Adobe Restoration, Fort Vasquez	2,317,329	2,317,329	0	0	
22		HistCO: Grant-Humphreys Mansion Exterior Repairs (capital renewal)	3,711,653	3,711,653	0	0	
23		DHS: CMHIFL Campus Utility Infrastructure Upgrade ph 2 of 3 (capital renewal)	11,344,289	11,344,289	0	0	6,861,006

Priority	CAPITAL CONSTRUCTION (BUILDING CAPITAL ONLY)						ADD'L OUT-YEAR STATE FUNDS
	TOTAL FUNDS	CAPITAL CONSTRUCTION FUND	CASH FUNDS	REAPPROP. FUNDS	FEDERAL FUNDS		
24	DHS: CMHIP HVAC Replacement in Four Buildings ph 1 of 3 (capital renewal)	3,896,460	3,896,460	0	0	0	40,355,621
25	DOC: SCF Renovate Kitchen, Food Services Building (capital renewal)	36,300,641	36,300,641	0	0	0	
26	DOC: CSP Electronic Security System Repl. (capital renewal)	4,168,693	4,168,693	0	0	0	
27	DOC: AVCF Critical Living Unit Shower Drain Replacement (capital renewal)	10,831,749	10,831,749	0	0	0	
28	DOC: SCC Aging Population Living Unit	13,480,567	13,480,567	0	0	0	
29	DOC: DCC Perimeter Security Improvements	7,719,602	7,719,602	0	0	0	
30	Level II Controlled Maintenance (remainder)	18,964,800	18,964,800	0	0	0	
31	Level III Controlled Maintenance	27,561,058	27,561,058	0	0	0	
32	6 HED: CCA New Diesel Education and Support Services Building	9,236,927	6,029,487	3,207,440	0	0	
33	7 HED: UCB Hellems Building Renovation ph 1 of 4	8,071,643	3,228,657	4,842,986	0	0	30,184,018
34	8 HED: ACC Health Programs Integration Renovation	11,152,093	8,364,000	2,788,093	0	0	
35	9 HED: CSM Mines Innovation Hub	17,500,000	8,750,000	8,750,000	0	0	
36	10 HED: UCD Engineering and Physical Sciences Building Renovation ph 1 of 3	19,603,911	4,900,978	14,702,933	0	0	32,840,475
37	11 HED: CMU PA/PT/OT Center	12,023,501	10,941,385	1,082,116	0	0	
38	12 HED: CMU Kinesiology Renovation and Expansion	23,707,528	17,780,645	5,926,883	0	0	
39	14 HED: CCD Boulder Creek Health Science Center Ren. ph 1 of 4	5,472,380	4,596,799	875,581	0	0	19,034,493
40	15 HED: AHEC Campus-wide HVAC Infrastructure Replacement (capital renewal)	19,583,905	19,383,905	200,000	0	0	
41	16 HED: WSCU Savage Library Renovation	12,992,409	12,292,409	700,000	0	0	
42	17 HED: CSU Anatomy Zoology East Wing Revitalization (capital renewal)	17,636,612	14,109,290	3,527,322	0	0	
43	18 HED: ASU Central Technology Renovation and Addition	6,204,268	6,204,268	0	0	0	
44	18 HED: MSU Health Institute	8,475,758	8,390,758	85,000	0	0	87,139,301
45	20 HED: CSM Arthur Lakes Library Renovation	13,000,000	10,000,000	3,000,000	0	0	
46	21 HED: UNC Gray Hall Mechanical Systems Replacement (capital renewal)	3,555,934	3,510,934	45,000	0	0	
47	CDOT: Eisenhower Johnson Memorial Tunnels (EJMT) Electrical System	1,000,000	1,000,000	0	0	0	
SUBTOTAL - OSPB Prioritized but Not Recommended for Funding		\$340,564,117	\$290,830,763	\$49,733,354	\$0	\$0	\$253,831,519
SUBTOTAL - CCHE All Prioritized		\$291,044,222	\$205,309,136	\$85,735,086	\$0	\$0	\$196,062,909

STAFF OBSERVATIONS FOR THE BUILDING CAPITAL REQUEST

Staff has included number-noted comments at the bottom of tables for particularly unusual items included in the Governor's request which may lead to tracking differences between the amounts included in the Governor's request and the totals reflected in the tables above. To recap:

- The UC Denver Anschutz project, identified as priority #16, is requested by the institution at \$21.9 million Capital Construction Fund. The Governor's request recommends a reduced CCF appropriation of \$7.0 million, but did not include the balance of the request as a cash funds appropriation. Staff reflects the balance amount included in the total request as cash funds.
- The Colorado School of Mines project, identified as priority #1 in the cash-funded request list, was requested at \$18.1 million CCF and \$110.6 million cash funds. The Governor's request recommends cash funds for the state-funded portion and does not include the balance of the request in its recommendation. The original request for FY 2019-20 identified a second year need of \$18.1m CCF and \$91.7 million cash funds. Staff reflects the Institution's cash fund request amount in a separate line to enhance clarity regarding the difference between the Institution's and the Governor's requests.
- The Colorado School for the Deaf and the Blind (CSDB) dispositions, identified as priorities #10-12 in the cash-funded list, are included to accurately reflect the Governor's budget request. Negative appropriations applied up to an amount already appropriated are valid appropriation recommendations. However, there are no existing FY20-21 appropriations to offset. Additionally, disposition actions are contractual asset exchanges recorded on the accounting balance sheet, typically as an exchange of property for cash. Resulting cash assets may be used as a fund source but the disposition action is not in itself a budget item for appropriation. It is staff's recollection that these items were approved by the CDC and no further action is necessary from the JBC. Staff will not include these requested appropriations in the Long Bill as they are not items of appropriation.
- Staff has added the CSU National Western Center Lease Purchase Payments as a cash-funded item as it was not included in the Governor's request.

CDOT TRANSPORTATION FUNDING FROM REF. C GENERAL FUND EXEMPT

The OSPB budget request does not include \$500,000 for CDOT Transportation Projects that is traditionally included in the capital construction budget. Similarly, this funding was not included in last year's prioritization from the CDC. Staff may recommend to the Committee at figure setting to fund the \$1.0 million request prioritized #47 in the Governor's list, which has been submitted in prior years, rather than include the traditional and standard \$500,000 included for transportation projects from "Ref. C" General Fund Exempt.

CDPHE INTERIM SUPPLEMENTAL PHASE 2 FUNDING

The approved 1331 interim supplemental for the Department of Public Health and Environment totaled \$1.4 million. However, the request was submitted as phase 1 of 2. It is staff's understanding that the total estimated cost for a one-phase project is \$2.5 million. In the interim supplemental document and discussion, staff suggested the possibility of making a staff-initiated recommendation for the January supplemental process to include the entire \$2.5 million for the project. Regardless, it

is unclear whether the Governor's request includes the balance for this project in the second year. There is an item included in the Level 2 controlled maintenance list which appears may be this project funded at almost the same amount for FY 2020-21. It is not clear to staff whether this is a phase 2 funding amount or simply a repeat of the amount already funded in the interim supplemental.

CSU NWC COP PAYMENTS

Funding for CSU NWC COP payments is provided from the National Western Center Trust Fund (NWCTF) created in Section 23-31-902 (2), C.R.S. Beginning July 1, 2019, for up to 20 years, funds for all COP payments up to \$20.0 million are to be transferred into the NWCTF. Funding is from General Fund formerly set aside for COP payments for the Colorado State Penitentiary II (CSP II) project, which were concluded in FY 2018-19. The remainder of the \$20.0 million may be transferred upon request of the Capital Development Committee to the Capitol Complex Master Plan Implementation Fund to fund projects related to the Capitol Complex Master Plan.

HISTORY COLORADO RELIEF FOR COP PAYMENTS AND CENTENNIAL BUILDING RENOVATION

The Department of Higher Education has submitted budget request HC1 for History Colorado. This request requires legislation in order to provide \$1.0 million per year from the amount that would otherwise be transferred to the Capitol Complex Master Plan Implementation Fund, to provide relief and subsidize the certificates of participation (COP) payments for the History Colorado Museum building.

It is staff's understanding that the Department of Personnel had identified the full amount of transfers to the Capitol Complex Master Plan Implementation Fund for the purpose of making payments for a COP lease-purchase financing in order to fund the renovation of the Centennial Building. The total cost identified for renovation included other funding sources for the larger project including the use of energy performance contracts in order to piece together the total identified cost of the renovation. The original request received by staff in the October 1st un-prioritized capital projects submission, totaled \$50.5 million, including \$10.0 million Capital Construction Fund and \$40.5 million cash funds from a COP lease-purchase financing. The Governor's request has decreased the cost of this project to \$28.6 million, including \$7.0 million Capital Construction Fund and \$21.6 million cash funds from COP financing.

Staff is concerned that the identified amounts in the Governor's request for the Centennial Building renovation project are much less than is necessary for the full renovation identified in the original request. If this is the case, this project will eventually require additional state funds or the renovation will not deliver the desired or even a reasonable end result from the cut-rate budget.

Staff does not have the technical knowledge or policy background necessary to comment on the necessity or criticality of the History Colorado request. Nevertheless, this appears to be a case of shifting funds around from one purpose to another, with the end result that the funding removed from one will end up backfilled with General Fund in the end.

It may be reasonable and appropriate to repurpose these statutory transfers for other needs. However, the Committee and General Assembly should be aware that the funding provided for the CSU National Western Campus projects was incorporated into a legislative "grand bargain" that included funding for the Capitol Complex Master Plan from funds formerly dedicated to COP payments for the Colorado State Penitentiary II facility at the time of its passage in 2015.

\$10 MILLION STATE FUNDS TO INCREASE STATE PARK ACCESS AND LOTTERY PROCEEDS

The Governor's request identifies a \$10.0 million request for FY 2019-20 for the Increase State Park Access project in the Department of Natural Resources. The Division of Parks and Wildlife annually receives direct distributions from lottery proceeds for Parks and Wildlife projects. In FY 2018-19 the direct distribution to the Division totaled approximately \$13.7 million. The Division of Parks and Wildlife additionally receives a distribution of about half of Great Outdoors Colorado (GOCO) funding; distributions of lottery proceeds to GOCO totaled \$68.5 million in FY 2018-19.

Section (1)(b)(II) of Section 3 of Article XXVII of the Colorado Constitution specifies:

(II) Ten percent to the Division of Parks and Outdoor Recreation for the acquisition, development and improvement of new and existing state parks, recreation areas and recreational trails; and

It is staff's opinion that a state agency that receives a constitutionally-set funding stream of \$40 to \$50 million per year for the same purposes included in this request item should not also be subsidized with additional state funds. If this item is a priority to be considered for funding with state funds, then it should be funded with this Department's constitutionally-provided funding stream ahead of other projects. If funding from lottery proceeds is not allowed to be used to fund a project like this, such constitutional restrictions need to be clearly explained in the supplemental request narrative to be submitted for this placeholder.

SUMMARY: FY 2019-20 APPROPRIATION & FY 2020-21 REQUEST

		IT CAPITAL					ADD'L OUT-YEAR STATE FUNDS
		TOTAL FUNDS	CAPITAL CONSTRUCTION FUND	CASH FUNDS	REAPPROP. FUNDS	FEDERAL FUNDS	
		FY 2019-20 APPROPRIATION:					
		FY 2019-20 Long Bill (S.B. 19-207)	36,114,453	12,337,676	4,597,441	8,911,836	10,267,500
		TOTAL	\$36,114,453	\$12,337,676	\$4,597,441	\$8,911,836	\$10,267,500
Priority							
OSPB	CCHE	FY 2019-20 Approved State-funded 1331 Interim Supplemental Requests:					
		DHS: Child Welfare Case Mgt. Sys. Replacement (TRAILS)	9,829,233	5,897,540	0	0	3,931,693
		SUBTOTAL - FY 2019-20 Approved 1331s	\$9,829,233	\$5,897,540	\$0	\$0	\$3,931,693
Priority							
OSPB	CCHE	FY 2019-20 State-funded Request Placeholders					
1		PER: HRWorks supp. placeholder	2,700,000	2,700,000	0	0	0
		SUBTOTAL - FY 2019-20 Requested Placeholders	\$2,700,000	\$2,700,000	\$0	\$0	\$0
		SUBTOTAL - Additional FY 2019-20 State-funded Items	\$12,529,233	\$8,597,540	\$0	\$0	\$3,931,693
Priority							
OSPB	CCHE	FY 2020-21 PRIORITIZED REQUESTS (STATE-FUNDED) REQUESTED APPROPRIATION:					
1		PER: HRWorks	11,300,000	11,300,000	0	0	0
2		GOV: CO Health IT Roadmap Initiatives, Off. of eHealth Innov.	4,450,000	445,000	0	0	4,005,000
3	2	HED: ASU/FLC/WSCU Digital Transformation Initiative for Rural Higher Education (ph. 1 of 2)	9,082,500	8,991,675	90,825	0	0
		SUBTOTAL - Prioritized Requests	\$24,832,500	\$20,736,675	\$90,825	\$0	\$4,005,000
Priority							
OSPB	CCHE	FY 2020-21 NON-PRIORITIZED REQUESTS (100% CASH-FUNDED) REQUESTED APPROPRIATION:					
1		DNR: Parks and Wildlife Website Redesign and Platform Migration	924,000	0	924,000	0	0
2		DPS: Colorado Crime Information Center (CCIC) Migration	2,083,537	0	2,083,537	0	0
3		DOC: DeCORuM spending authority extension ¹	0	0	0	0	0
		SUBTOTAL - Non-prioritized Requests	\$3,007,537	\$0	\$3,007,537	\$0	\$0
		¹ The DeCORuM request is identified as a cash-funded request in the Governor's request. However, this project includes \$30.3 million state-funded CCF appropriations, of which \$7.5m is identified as unspent and for which the extension is requested. If approved, the last appropriation in FY 2017-18 totaling \$12.6 million would be amended to provide an extension of spending authority; as a supplemental budget action, this item would not appear as an appropriated item in the FY 2020-21 budget.					
		TOTAL	\$27,840,037	\$20,736,675	\$3,098,362	\$0	\$4,005,000
							\$11,694,375

IT CAPITAL						
	TOTAL FUNDS	CAPITAL CONSTRUCTION FUND	CASH FUNDS	REAPPROP. FUNDS	FEDERAL FUNDS	ADD'L. OUT-YEAR STATE FUNDS
INCREASE/(DECREASE)	(\$8,274,416)	\$8,398,999	(\$1,499,079)	(\$8,911,836)	(\$6,262,500)	
Percentage Change	(22.9%)	68.1%	(32.6%)	(100.0%)	n/a	
TOTAL - 2-year additional appropriations requested	\$40,369,270	\$29,334,215	\$3,098,362	\$0	\$7,936,693	

OSPB PRIORITIZED NOT RECOMMENDED FOR FUNDING AND CCHE PRIORITIZED

The following table includes additional IT Capital projects prioritized by OSPB and CCHE.

Priority		IT CAPITAL					ADD'L. OUT-YEAR STATE FUNDS	
OSPB	CCHE		TOTAL FUNDS	CAPITAL CONSTRUCTION FUND	CASH FUNDS	REAPPROP. FUNDS	FEDERAL FUNDS	
		FY 2020-21 OSPB PRIORITIZED BUT NOT RECOMMENDED FOR FUNDING:						
4	1	HED: CSU Upgrade Network Hardware	745,000	545,000	200,000	0	0	2,641,000
5	2	HED: UNC Next Gen Cyber Secure Net	1,387,867	1,373,988	13,879	0	0	0
6	4	HED: CMU Net Security Resiliency Proj.	2,472,417	2,249,898	222,519	0	0	0
7	4	HED: CCD Class/Conf. Rm Technology	2,403,206	2,259,014	144,192	0	0	4,709,415
8	6	HED: MSU-D IT Infrastruct. Moderniz.	3,675,000	3,305,000	370,000	0	0	586,250
9	7	HED: OJC Tech. and Equip. Upgrades	722,750	597,750	125,000	0	0	2,460,000
10	8	HED: CCA Improv. Access to Tech.	527,845	475,061	52,784	0	0	0
11	9	HED: TSJC Technology Infrastructure	636,846	636,846	0	0	0	532,918
12	10	HED: CNCC Comp./Network Upgrades	812,172	812,172	0	0	0	812,172
13	11	HED: CSUP Comm. System Upgrades	2,132,807	2,132,807	0	0	0	0
		SUBTOTAL - OSPB Prioritized but Not Recommended for Funding	\$15,515,910	\$14,387,536	\$1,128,374	\$0	\$0	\$11,741,755
		SUBTOTAL - CCHE All Prioritized	\$24,598,410	\$23,379,211	\$1,219,199	\$0	\$0	\$23,436,130

STAFF OBSERVATIONS FOR THE IT CAPITAL REQUEST

As outlined on page 1, section 2-3-1701 (2)(b), C.R.S., specifies that information technology does not mean post-implementation support, hardware life-cycle replacement, or routine maintenance. It appears that many of the Higher Education requests appear to relate to hardware replacement. However, the Governor's prioritized recommendations for funding includes only one Higher Education project. Staff has communicated with Joint Technology Committee (JTC) staff to ascertain whether CCHE-submitted projects meet this statutory requirement as a part of JTC prioritization.

OSPB ESTIMATED GENERAL FUND TRANSFER

Based on their priority list, including \$173.2 million for building capital construction projects and \$29.3 million for IT Capital projects, OSPB estimates the need for a transfer of \$202.6 million from

the General Fund to the Capital Construction Fund to fund all projects included in the Governor's request.

STAFF OBSERVATIONS FOR THE ESTIMATED GENERAL FUND TRANSFER

The Governor's request identifies approximately \$30 million in reversions in the Capital Construction Fund, including approximately \$20 million from the Department of Revenue's \$93.4 million DRIVES project. The Governor's request proposes transferring \$25.0 million for transportation funding and \$5.0 million to the Severance Tax Perpetual Base Fund for Implementation of the Colorado Water Plan.

The \$25.0 million transfer for transportation funding is packaged with an additional \$500 million from the General Fund for a total additional \$525 million from General Fund. Similarly, the \$5.0 million transfer is to be paired with an additional \$5.0 million General Fund transfer to effect a total \$10.0 million transfer to the Severance Tax Perpetual Base Fund.

The Committee may choose to effect transfers as it determines. However, staff would recommend retaining the \$30 million in reversions in the Capital Construction Fund and thereby reduce the total General Fund transfer into the Capital Construction Fund by the same amount. The \$30.0 million saved in transfers to the Capital Construction Fund can be included in direct transfers for the items identified.

It appears that the identified transfer amount matching the appropriated amount may be intended to synchronize those amounts to effect a simplified tracking system of funding provided for capital projects. However, there will also be interest earnings credited to the Capital Construction Fund, which will further reduce the total General Fund transfer. Approximately \$3 million in interest earnings and depreciation-lease equivalent transfers were credited to the Capital Construction Fund as a part of balancing for a General Fund transfer for the 2019 Long Bill.

There may be a good reason for the Governor to identify certain pots of money as available for specified purposes. However, in practice it would probably be best to minimize the number of transfers that lead to the same funding outcome.

ISSUE 1: EXEMPT LEGISLATIVE CASH FUND FROM DEPRECIATION-LEASE EQUIVALENT PAYMENTS

Section 24-30-1310, C.R.S., enacted in S.B. 15-211, requires depreciation-lease equivalent payments from the General Fund to the Capital Construction Fund and the Controlled Maintenance Trust Fund equal to depreciation on state-funded capital construction projects as a recapitalization mechanism for the State's capital accounts. Cash funds are similarly required to set aside depreciation in a capital reserve account within the cash fund. This cash fund set-aside is intended to provide for recapitalization of assets from fee revenue cash funds for programs that include the regular use of capital assets. Inappropriate depreciation-lease equivalent payments were added to the 2018 and 2019 Long Bills that included payments from the Legislative Cash Fund.

SUMMARY:

- Senate Bill 15-211 requires depreciation-lease equivalent payments from the General Fund to the Capital Construction Fund and the Controlled Maintenance Trust Fund for state-funded capital construction projects funded in the capital construction section of the Long Bill on or after FY 2015-16. Cash funds are similarly required to set aside depreciation in a capital reserve account within the cash fund.
- The depreciation-lease equivalent payment functions as a *sinking fund* transfer mechanism for recapitalization funding with the purpose of retaining or maintaining dollars invested in capital construction through transfers equal to depreciation.
- For FY 2018-19 and FY 2019-20, the Department of Personnel inappropriately included appropriations for depreciation-lease equivalent payments from the Legislative Cash Fund.
- The Legislative Cash Fund is continuously appropriated to the Legislative Branch. However, capital reserve requirements specify annual appropriations even for continuously appropriated cash funds. This effectively hands some level of spending authority to the Governor through the annual appropriations process for the Legislative Cash Fund.

RECOMMENDATION:

Staff recommends that the Committee pursue legislation to exclude the Legislative Cash Fund from the definition of cash fund for the depreciation-lease equivalent capital reserve requirement and to release any amount currently recorded within a capital reserve.

DISCUSSION:

AN OVERVIEW OF S.B. 15-211

In 2015, staff recommended and the Committee pursued legislation to create a transfer mechanism based on depreciation for capital construction appropriations in the Long Bill beginning in the FY 2015-16 budget.

The *annual depreciation-lease equivalent payment* is a transfer from the General Fund to the State's capital funds or from cash funds into capital reserves within those funds. The payment is intended to function as a *sinking fund* transfer mechanism for all current and future capital construction purchases. A sinking fund periodically sets aside money for the replacement of a depleting asset.

State government depreciation is recorded for the purpose of collecting construction and capital asset costs from the federal government for federally supported programs housed in state buildings. Such depreciation is included in the statewide indirect cost assessment plan developed by the State Controller annually. Indirect cost recoveries collected by state agencies as set in the statewide plan are then used to offset General Fund in each department operating budget, reducing the state's expenditure of General Fund by an amount equal to the annual statewide indirect cost recovery. Through this cycle, the depreciation of capital assets – captured in the indirect cost plan – has historically been routed to help fund the operating budget.

The mechanism in S.B. 15-211 creates a *closed-loop* for capital construction dollars. When a capital construction project is funded, state funds are spent for that purpose, and the state funds purchase a capital asset equal to the same amount. As the capital project is depreciated on the state's accounting books, the capital asset value decreases by the amount of depreciation. The transfer mechanism in S.B. 15-211 returns the cash amount of the booked depreciation to the state's capital construction funds. In this way, when a dollar is spent on capital construction, it is retained in the state's capital assets accounts through this transfer. As asset book values decrease by the depreciation amount, capital construction cash assets increase by the same amount, which are then used to pay for current recapitalization needs generally and the cycle repeats indefinitely for a new or additional dollar added to the state's capital assets stock.

STATUTORY GUIDANCE

Subsections 24-30-1310 (2)(a) and (2)(d), C.R.S., state:

(2) For every appropriation in the capital construction section of the 2015-16 annual general appropriation act and every appropriation in the capital construction section of each annual general appropriation act thereafter, not including appropriations for information technology projects, additional funding must be set aside as follows:

(a) If the funding source for the appropriation is from a cash fund, the state agency shall annually calculate an amount equal to the recorded depreciation of the capital asset or capital assets acquired, repaired, improved, replaced, renovated, or constructed with the appropriation based on the depreciation period, the general assembly shall include an annual depreciation-lease equivalent payment line item payable from the cash fund in the operating section of the annual general appropriation act for the state agency, and on June 30 the state controller shall credit such amount from the cash fund that was the

source of the funding for the appropriation to a capital reserve account established by the state agency in such cash fund as specified in section 24-75-403 (2).

(d) If the funding source for the appropriation is a combination of the funding sources described in paragraphs (a), (b), and (c) of this subsection (2), then the annual set aside must be made in proportion to the funding source.

Section 24-30-1310 (2)(a), C.R.S., specifies that an appropriation be added in the Long Bill for the state agency and the appropriation is credited to a capital reserve account in such cash fund. Subsection (2)(b) specifies that a combination of funding include set-asides in proportion to the funding source.

Section 24-75-403 (2) and (3), C.R.S., state:

(2) For each cash fund from which moneys are appropriated for capital outlay or capital construction, the principal department responsible for the accounting related to the fund shall identify in the fund balance report a capital reserve, which consists of an amount equal to the depreciation of the depreciable components of the capital outlay or the capital construction, based on the depreciation period.

(3) Any uncommitted capital reserves at the end of a fiscal year may be used for capital outlay, capital construction, capital renewal, or controlled maintenance, subject to an appropriation in the annual general appropriation act. This appropriation requirement applies even if the moneys in the fund are otherwise continuously appropriated.

Section 24-75-403, C.R.S., regarding the capital reserve, specifies that the capital reserve requirement is assigned to the principal department responsible for the cash fund. It also states that the capital reserve can only be spent by appropriation, even for funds that are continuously appropriated. The requirement for annual appropriation was to ensure that capital reserves were spent for recapitalization (replacement or repair) in the capital construction budget or for capital outlay in the operating budget.

Section 24-30-1310 (1)(d) specifies cash fund exclusions:

(d) "Cash fund" does not include:

- (I) The lottery fund created in section 44-40-111;*
- (II) The limited gaming fund created in section 44-30-701 (1);*
- (III) Money allocated to the division of parks and wildlife from lottery proceeds as specified in section 3 of article XXVII of the state constitution; or*
- (IV) The regional center depreciation account in the capital construction fund, created in section 24-75-302 (3.8)(a).*

The purpose of exempting certain cash funds from this requirement is related to the source of revenue flowing into the cash fund and the purpose of the payment stream from the cash fund. For cash funds identified as excluded, revenue is unrelated to the programs funded by the payment stream from the cash fund. In other words, such payment streams are intended to function as a "gift" or "grant" to the programs served by the payment stream. If such "gift" or "grant" payment streams were to be required to "gift" and also set aside capital reserves, they would be required to essentially double their gifts, which would have the effect of reducing the total available for "gifting". Therefore such cash funds are excluded or exempt from the capital reserve requirement.

Whereas operating cash funds which collect fee revenue for a program is considered to be a "working" cash fund as it relates to capital assets necessary to operate the program. If a cash fund is not adequately collecting fees to also cover capital costs, the cash-funded program will have no choice but to request state funds for recapitalization. A cash fund that prices the depreciation cost of capital assets into its fees, then sets aside that portion in the capital reserve and is self-sustaining.

INAPPROPRIATE DEPRECIATION-LEASE EQUIVALENT PAYMENT LINE ITEMS

In FY 2018-19, the Department of Personnel submitted a requested line item titled, "Depreciation of House and Senate Chamber Restoration", in which the Department identified a General Fund amount of \$239,769 and a cash funds amount of \$112,832 payable from the Legislative Department Cash Fund. This request from the Department of Personnel was repeated in FY 2019-20 at \$235,106 General Fund and \$112,250 cash funds from the Legislative Cash Fund.

It is staff's understanding that at the time of the first request the JBC analyst for the Department of Personnel was provided an explanation that this appropriation was proper pursuant to Section 24-30-1310, C.R.S. Because this line item was a new component within the state budget, the JBC analyst accepted the explanation and recommended the adjustment at figure setting.

Staff (the Capital Construction JBC analyst) was first alerted to this issue in May or June of 2019 from an inquiry from the Legislative Department Controller, Heather Lin, regarding the FY 2018-19 appropriation. The Controller expressed concern and sought clarification regarding the requirements of the statute. Staff clarified that the appropriation was included in error and it, along with the FY 2019-20 appropriation, would need to be addressed in a supplemental in January 2020.

In staff's understanding, the Department of Personnel erred in the following ways, and staff communicated this to Controller Lin:

- A line item for depreciation per project is not specified in statute;
- The line item should have been titled, "Annual Depreciation-Lease Equivalent Payments";
- All depreciation from all Department projects should have been included within that line item;
- The Department of Personnel was not the custodian of the Legislative Cash Fund, and should not have requested an appropriation from another agency's cash fund;
- The contribution from the Legislative Cash Fund is functionally a "gift" fund source and the fund is not a Department of Personnel fee revenue, operating cash fund.

Staff was again contacted by Controller Lin in August 2019 at the time that the State's accounting books were being closed for FY 2018-19. At that time, Controller Lin was being directed by the Department of Personnel to transfer a payment in the amount of the appropriation from the Legislative Cash Fund to the Department of Personnel. Again, staff clarified to the Controller that she should not make this payment. It is staff's understanding that such a payment was not made. Staff assured Controller Lin and Director Mullis of Legislative Council Services that staff would address the appropriation and statutory problem with the Committee in the 2020 legislative session.

RECOMMENDED RESOLUTION

Staff has had conversations with the staff analyst for the Department of Personnel and anticipates that he will bring staff-initiated recommendations for supplemental adjustments for the inappropriate appropriations included for FY 2018-19 and FY 2019-20. Additionally, staff is actively monitoring the use of the Annual Depreciation-Lease Equivalent Payments line item across all department budgets.

The contribution from the Legislative Cash Fund in this case is functionally a "gift" fund source and not a Department of Personnel fee revenue, operating cash fund. On this basis, the Legislative Cash Fund could be and probably should be excluded. Additionally, Controller Lin and Director Mullis requested exclusion from the capital reserve requirement because the Legislative Cash Fund is continuously appropriated and controlled by the Legislative Branch. Requiring annual appropriations transfers some spending authority to the Governor over this Legislative Branch cash fund.

Staff agrees and recommends that on the basis of legislative authority and separation of powers that the Committee should exclude the Legislative Department Cash Fund from the definition of cash funds in Section 24-30-1310, C.R.S.

Additionally, staff recommends that legislation include a provision that any amount set aside in a capital reserve from the Legislative Cash Fund related to the FY 2018-19 Department of Personnel appropriation should be released for general spending.

ISSUE 2: A CAPITAL ASSET MANAGEMENT ENTERPRISE FOR STATE AGENCY BUILDINGS

The JBC requested a bill draft for a Capital Asset Management Enterprise in the 2019 legislative session although the legislation was not pursued. The Committee indicated a desire to proceed with work on such legislation for the 2020 session. A capital asset management enterprise for state agency buildings would be structured as an independent enterprise charged with a primary goal of maximizing the value of capital assets under management (stewardship) and a secondary goal of minimizing lease costs to state agencies (operating cost savings). The authority would be responsible for the lifecycle management of its portfolio of state buildings through the finance, construction, controlled maintenance, renovation, and demolition or sale of capital assets. The authority would lease buildings to state agencies for long-term (near-lifecycle) periods through formal lease agreements, hold ownership of capital assets in trust for the State, and return to the State, a majority of any realized profits on each building at the end of its lifecycle.

SUMMARY:

- Buildings, facilities, and general space needs of state agencies are currently considered and treated in different manners through the legislative approval and state budget process. Such disparate treatment makes it difficult to compare average, annual costs of potential state program space solutions and produces potentially irrational, less desirable, and more expensive outcomes in how state resources are spent on housing state programs.
- Commercial leased space is the highest cost option but easiest for state agencies to add needed program space.
- New construction through the capital construction appropriations process is the lowest lifecycle cost but appears high during the period of construction and then appears to be zero in the budget after that. A capital construction project is dependent on available state funds in any given year and whether a project has made its way up the list of priorities over several years, rather than whether there is economic justification for the state purchase of space.
- A third option is new construction financed through a multi-year, certificate of participation or COP lease-purchase agreement. Similar to the second option, the average, annual cost over a 30- to 50-year life of a building is low. It is not unusual for cash-funded agencies to proceed with COP-financed projects since it is typically a rational economic decision to make 20 to 30 years of lease-purchase payments rather than pay commercial lease rates for the same space over the building lifecycle.
- A fourth option is occupancy of existing state building space, such as in the Capitol Complex, which includes an operating budget line item to pay for annual facility operating costs of the Capitol Complex program, but does not include a rent for the capital asset, and so is the least expensive option. Existing space tends to be fully occupied, is dependent on ongoing upkeep through the controlled maintenance process, and quality of building space varies. Typically, the State has not been a good landlord of its properties in this regard in underfunding controlled maintenance and rarely engaging in renovation or facility improvement for its buildings.

- However, good capital budgeting should allocate or reflect costs intertemporally in such a way that if a project is a good idea, then its benefits are apparent in every period compared to the costs for the period. Good capital budgeting should allow program space options to be compared on an average, annual cost basis.

RECOMMENDATION:

Staff recommends that the Committee propose legislation to create a state asset management enterprise for the construction or acquisition of state agency buildings.

DISCUSSION:

2019 BILL DRAFT

In the 2019 legislative session, the Committee requested a bill draft for a Capital Asset Management Enterprise based on staff's recommendation. Although the legislation was not pursued in 2019, the Committee indicated a desire to proceed with work on such legislation for the 2020 session. The 2019 bill draft is included as an attachment which follows this issue brief. The following issue brief outlines staff's recommendation for such an entity and method for addressing capital construction for state agencies.

GOOD CAPITAL BUDGETING AND INTERTEMPORAL COST COMPARISON

Typically, a capital construction project looks expensive while a project is being built, and then looks inexpensive thereafter. The traditional method and model for funding the state's capital construction reflects this kind of cost pattern. A building project request makes its way up the priority list over several years until it is high enough on the list to be funded with that year's state funds made available for capital construction. After payment for construction, the cost of state program space appears to be nothing. There is no cost reflected in the budget.

Good capital budgeting should allocate or reflect costs intertemporally in such a way that if a project is a good idea, then its benefits are apparent in every period compared to the costs for the period. Depreciation-lease equivalent payments as enacted in Senate Bill 15-211 now provides a method to reflect depreciation of a capital project in the budget for state-funded capital projects. However, the funding method or model is predominantly carried out through traditional, lump-sum funding with state funds as General Fund revenue is available in a given year.

COMMERCIAL LEASED SPACE AND BUILDING NEW

When a new program is created, or a program is expanded, either additional space is found in an existing building or new space is sought. If space is not available in an existing building, typically new space is sought in commercial leased space. The commercial leasing process is managed or overseen statewide by the Office of the State Architect; primarily through the use of contracted brokers and through the use of a standard lease contract.

Once a lease is negotiated and signed, a request item is submitted through the budget process to pay for the contracted lease. Although technically a request item in the budget process, increased appropriations for new leases are typically treated by the Committee as technical adjustments that

should be funded rather than as choices that the Committee may or may not fund. There is a practical understanding that due to the negotiation process for a lease, and the time constraints for signing a lease, the Committee accords the executive branch authority to take care of lease negotiation and approval before the related appropriation is approved through the budget process.

While commercial leased space is a flexible space-expansion option, particularly for newer state programs that have not reached a level of stability, it is also the most expensive state agency space option. A commercial lease must include the private owner's actual facility costs – either construction and financing or depreciation/economic opportunity cost, leasehold improvement costs required by the program for the space, any major maintenance items necessary in the space over the period of the lease, and the landlord's management expenses as well as profit. In the commercial leased space option, the full cost of the facility, plus management expenses and profit, is paid in the lease.

When a capital construction project is funded with state funds, typically the cost is paid in a lump sum at the front end of the project. Controlled maintenance may be paid by the state in the capital construction budget after the building is 15 years old; but controlled maintenance is not paid by the state agency in its operating budget as a controlled maintenance item would be included in a lease payment in an equivalent commercial leased space payment. Other improvements to the building to better accommodate program changes could be requested for funding through the capital construction process. However, in comparison, a lease renewal in commercial leased space could incorporate necessary space changes based on changed program needs; and those costs would be included in future lease payments made in the state agency's operating budget.

As it relates to flexibility and quality of space, it is to a state program's advantage to locate in commercial leased space, although the cost is the most expensive to the state.

State programs with generic office or warehouse space needs can readily find commercial leased space opportunities. However, more specialized state programs that include corrections and human services 24-7 care facilities often require specialized buildings that are not generally available for commercial lease. It is not unusual that these programs rely on lump-sum state funding or COP-financed projects for their space needs. And because of this, the need for new space has to rise to such a high level in criticality, that replacement of facilities or construction of additional space comes well after program need and economic justification might be established.

Over the last few years, staff has discussed issues related to the importance of prioritizing funding for controlled maintenance and recapitalization and has recommended increased commitment for those needs. Included in those discussions is a general, underlying conclusion that the State has not consistently and appropriately maintained its buildings and capital assets. Staff has argued that this is partly a function of the bifurcation of the capital construction budget from the operating budget.

The capital construction budget is generally viewed as containing projects funded by state money that is available after all operating budget issues have been addressed. While that is a simplification, capital construction and even more importantly, controlled maintenance and recapitalization, have often been approached as optional funding items in difficult budget years. And while it is true, generally, that the State can choose to not fund controlled maintenance in a given year, it cannot make that a regular practice without paying a much higher price for the cost of addressing deferred maintenance and additional building system failures that lead to the loss of use of program space.

As previously mentioned, provisions enacted in S.B. 15-211 now require that depreciation from capital projects be reflected in the operating budget for capital projects funded in the Long Bill in or after FY 2015-16. This will help to level the playing field as it relates to how state-funded, capital construction projects are reflected and viewed and considered in the budget relative to commercial leased space payments.

However, it would be more effective to more permanently and fundamentally resolve the budget challenge of building state buildings and maintaining state building within the capital construction budget through an entity charged with financing and managing state agency capital construction needs using the models of private commercial leased space and real property asset management.

REAL PROPERTY ASSET MANAGEMENT

Real property asset management is a process of decision-making and implementation regarding real property acquisition, use, and disposition assuring that a property is operated for optimum short-term and long-term performance, including fiscal sustainability and enhancement of value. Asset management can also be described as a systematic process of deploying, operating, maintaining, upgrading, and disposing of assets cost-effectively over every year of an asset's lifecycle.

Asset management proactively matches real property management and property development with customer needs over defined and planned periods of time. Asset management objectively prices property lease payments and property management services to ensure financial sustainability through operating cash flow and reserves for real property lifecycle planning – acquisition, use, and disposition – that maximizes asset value for cost.

A CAPITAL ASSET MANAGEMENT AND FINANCE AUTHORITY

A capital asset management and finance authority, structured as an independent state enterprise, and charged with a primary state policy goal of maximizing value of capital assets under management, would be responsible for the lifecycle management of state buildings through the financing, construction, controlled maintenance, renovation, and demolition or sale of capital assets at the end of the building or facility lifecycle. The authority would:

- finance the construction of buildings through bonding authority;
- lease those buildings to state agencies for 20 to 50 years (long-term, lifecycle or near-lifecycle);
- provide facility improvements or expansion (renovation) in conjunction with state agency facility planning through the lifecycle;
- hold ownership of each discrete capital asset in trust for the State; and
- upon disposal, return to the State a majority of any realized profit at the end of the facility lifecycle.

A lease rate would include the cost of construction and financing as well as an amount to pre-fund all necessary future controlled maintenance. The lease rate could include day-to-day facility operating costs if the state agency is not staffed to handle facility operating responsibilities. And the authority would be funded through administrative or operating fees collected through lease payments.

While such a fee or fees would be nominally more expensive than the current model of lump-sum, state funded capital construction, fees in lease rates would be less than the expenses and profit included in rates for commercial leased space. The charge to maximize value would ensure that lease rates would include the full lifecycle cost of the facility – financing, construction, maintenance, renovation, and demolition or sale – and administrative and operating costs for the authority, but exclude profit. Any profit realized at the conclusion of a facility lifecycle could be returned to the State through a profit-sharing requirement that returns the largest portion of any profit to the State; such profit would reflect an overpayment by the State for the facility over its lifecycle.

A finance authority with bonding authority would provide the State with a method for the immediate or near-term construction of state agency buildings that does not rely on the current availability of a lump sum amount of state funds to fund the full construction cost of state buildings. As previously addressed, the lease rates paid in the operating budget for such authority-financed, –constructed, and –owned buildings should not be any more expensive on an annual basis than current payments reflected in operating budgets for state agencies leasing commercial space. Costs and cash flow reflected in the operating budget would be similar to COP-financed projects but would reside in a *closed-loop or sealed portfolio* held in trust and beyond the realm of State budget responsibility for ongoing capital maintenance costs.

Authority lease payments may increase the on-budget operating cost of some programs which previously occupied state-owned buildings. However, future decision making for changes to state program facility needs will be enhanced with clear and accurate cost information regarding options for a variety of levels of facility quality.

Specialized state buildings, such as for Department of Human Services programs in need of replacement due to policy change like the Grand Junction Regional Center, or due to general deterioration, would be reflected in the operating budget for the first time. However, in cases where such programs rely on federal funds, it is staff's understanding that federal payments for services may be collected to pay for lease payments but not for capital construction. Such federal payments for traditional capital costs can only be captured through the depreciation and statewide indirect cost process. This suggests that the proposed authority would enable a more direct method of receiving federal dollars for capital costs for federally-supported program facilities.

ADVANTAGES

Some basic advantages of the authority model include:

- A more economically rational or business-based approach to asset management and stewardship of state resources rather than one based on political decision-making.
- As facilities are built through the authority, the State's need to fund controlled maintenance for state agency buildings will be reduced overall and eliminated for all new buildings. Funding for controlled maintenance would be included in lease rates paid in the operating budget similar to commercial leased space payments.
- The elimination of the budgetary conflict about adequate funding for capital construction and controlled maintenance after operating expenses have been determined. Capital construction – fundamentally, the cost of state agency program space needs – will receive its funding through the

operating budget in the form of a lease payment that is equal to the annual lifecycle cost of the space.

AUTHORITY STRUCTURE

While statute provides guidance in format for existing facility authorities, the keys to the creation of a well-functioning authority include:

- A governing board with shared legislative and executive branch participation. Staff recommends a governing board consisting of at least seven members as follow:
 - The Chairman and Vice-chairman of the JBC;
 - The Chairman and Vice-chairman of the CDC;
 - The Director of the OSPB;
 - The State Architect; and
 - The State Treasurer.
- Legislative and State Architect oversight of building project construction and purchase approval. Staff recommends that the CDC provide legislative oversight of project approval through the CDC process and include State Architect oversight through the state agency statewide planning process.
- State Treasurer approval and oversight of financing activities.
- State Auditor review of accounting and financial sustainability practices.
- Specified State policy goals regarding (1) asset value maximization and (2) lease cost minimization.
- Transparent reporting of measures of achievement through an annual asset management plan that includes measures of customer service and authority accountability.
- Due to the fiduciary emphasis on sustainable financial management of capital assets, an organizational compensation structure that incentivizes meeting and exceeding annual, asset management (value generation and cost containment) and customer service goals.

ALTERNATIVE CAPITAL CONSTRUCTION FUNDING MODELS

The following assumptions are included in a funding model comparison for:

1. Commercial leased space
2. Traditional lump-sum funding, with and without a 2.5 percent economic opportunity cost factor
3. Depreciation-lease equivalent lump-sum funding
4. 20-year financing with just-in-time, annual 1.0 percent controlled maintenance beginning in year 16
5. Capital Asset Management Enterprise that includes:
 - 1.0 percent CAM project fee
 - 3.0 percent financing fees
 - 4.0 percent financing interest rate
 - 20-year financing
 - 0.25 percent annual CAM fee

- 0.25 percent annual recapitalization set-aside
- 3.0 percent recapitalization trust fund interest rate
- 1.0 percent controlled maintenance beginning in year 16

Building construction cost:

- 200,000 square foot building
- \$325 cost per square foot
- \$65,000,000 building cost
- 70 percent building cost
- \$92,857,143 total project cost

Rent at \$25 per square foot in year 1, increasing at 2.5 percent per year.

COST COMPARISON OF FUNDING MODELS OVER TIME

Year	1	10	15	20	22	23	25	30
Annual Cash Outflow								
Commercial Leased Space	\$5,000,000	\$6,244,315	\$7,064,869	\$7,993,251	\$8,397,909	\$8,607,857	\$9,043,630	\$10,232,037
Traditional lump-sum	92,857,143	0	0	928,571	928,571	928,571	928,571	928,571
Traditional w/opp. cost	92,857,143	0	0	928,571	928,571	928,571	928,571	928,571
Deprec-Lease Equiv.	92,857,143	4,642,857	4,642,857	4,642,857	0	0	0	0
20-yr COP	7,037,569	7,037,569	7,037,569	7,966,140	928,571	928,571	928,571	928,571
CAM Enterprise - 20-yr fin.	7,570,180	7,570,180	7,570,180	7,570,180	928,571	928,571	928,571	928,571
Annual Average Cost								
Commercial Leased Space	\$5,000,000	\$5,601,691	\$5,977,309	\$6,386,164	\$6,559,740	\$6,648,789	\$6,831,553	\$7,317,117
Traditional lump-sum	92,857,143	9,285,714	6,190,476	4,875,000	4,516,234	4,360,248	4,085,714	3,559,524
Traditional w/opp. cost	95,178,571	11,607,143	8,511,905	7,196,429	6,837,662	6,681,677	6,407,143	5,880,952
Deprec-Lease Equiv.	92,857,143	13,464,286	10,523,810	9,053,571	8,441,558	8,074,534	7,428,571	6,190,476
20-yr COP	7,037,569	7,037,569	7,037,569	7,269,712	6,693,244	6,442,606	6,001,484	5,155,998
CAM Enterprise - 20-yr fin.	7,338,038	7,304,055	7,282,340	7,504,788	6,903,330	6,641,748	6,181,212	5,297,723
Total Cost								
Commercial Leased Space	\$5,000,000	\$56,016,909	\$89,659,633	\$127,723,288	\$144,314,280	\$152,922,137	\$170,788,820	\$219,513,516
Traditional lump-sum	92,857,143	92,857,143	92,857,143	97,500,000	99,357,143	100,285,714	102,142,857	106,785,714
Traditional w/opp. cost	95,178,571	116,071,429	127,678,571	143,928,571	150,428,571	153,678,571	160,178,571	176,428,571
Deprec-Lease Equiv.	92,857,143	134,642,857	157,857,143	181,071,429	185,714,286	185,714,286	185,714,286	185,714,286
20-yr COP	7,037,569	70,375,688	105,563,533	145,394,234	147,251,377	148,179,948	150,037,091	154,679,948
CAM Enterprise - 20-yr fin.	7,338,038	73,040,547	109,235,102	150,095,756	151,873,250	152,760,196	154,530,305	158,931,678

The table reflects that annual average cost tends to converge for most funding structures around years 22 and 23. In terms of annual average cost and total cost, commercial leased space becomes much more expensive at an accelerating rate after that point. In terms of annual cash outflow, once the 20-year point is reached, the 20-year financing payments are less than commercial leased space on an annual budget basis. While the Capital Asset Management Enterprise funding model always remains more expensive than the 20-year COP financing model, it is only incrementally more expensive and this model provides a self-funded maintenance mechanism outside of the state budget. It is likely that at the end of any specified lifecycle period, buildings managed within the Capital Asset Management structure would deliver greater market value relative to traditional state-owned buildings due to the management structure and specified state policy goal for the enterprise to maximize value.

First Regular Session
Seventy-second General Assembly
STATE OF COLORADO

UNEDITED
UNREVISED
DRAFT
4.24.19

DRAFT

LLS NO. 19-0896.01 Jason Gelender x4330

COMMITTEE BILL

Joint Budget Committee

BILL TOPIC: "State Capital Asset Management and Finance Auth"

A BILL FOR AN ACT

101 **CONCERNING THE CREATION OF THE STATE CAPITAL ASSET**
102 **MANAGEMENT AND FINANCE AUTHORITY.**

Bill Summary

(Note: This summary applies to this bill as introduced and does not reflect any amendments that may be subsequently adopted. If this bill passes third reading in the house of introduction, a bill summary that applies to the reengrossed version of this bill will be available at <http://leg.colorado.gov/>.)

The bill creates the state capital asset management and finance authority (authority) as an independent special purpose authority to provide coordinated lifecycle management, from financing, construction or acquisition by purchase or lease, operation, controlled maintenance, capital renewal, expansion, and demolition or other disposal by sale or otherwise, of capital assets used by state agencies. The authority is

*Capital letters or bold & italic numbers indicate new material to be added to existing statute.
Dashes through the words indicate deletions from existing statute.*

1 COLORADO TO SPEND TAXPAYER DOLLARS ON CAPITAL ASSETS IN A
2 PRUDENT AND FISCALLY RESPONSIBLE MANNER THAT MINIMIZES THE
3 TOTAL COSTS TO THE STATE OF USING THE CAPITAL ASSETS OVER THE
4 ENTIRE LIFECYCLE OF THE CAPITAL ASSETS AND PROPERLY MAINTAIN THE
5 CAPITAL ASSETS THAT IT OWNS IN ORDER TO MAXIMIZE THE VALUE OF THE
6 CAPITAL ASSETS;

7 (c) PRUDENT AND FISCALLY RESPONSIBLE MANAGEMENT OF
8 CAPITAL ASSETS THAT MINIMIZES THE COSTS TO THE STATE OF USING THE
9 ASSETS AND MAXIMIZES THE VALUE OF THE CAPITAL ASSETS REQUIRES
10 COORDINATED MANAGEMENT THROUGHOUT THE ENTIRE LIFECYCLE OF
11 EACH CAPITAL ASSET FROM FINANCING, CONSTRUCTION OR ACQUISITION
12 BY PURCHASE OR LEASE, OPERATION, CONTROLLED MAINTENANCE,
13 CAPITAL RENEWAL, EXPANSION, AND DEMOLITION OR OTHER DISPOSAL BY
14 SALE OR OTHERWISE OF THE CAPITAL ASSET.

15 (d) IN ORDER TO PROVIDE SUCH COORDINATED MANAGEMENT OF
16 CAPITAL ASSETS USED BY STATE AGENCIES AND THEREBY ADEQUATELY
17 MEET THE STATE'S CAPITAL ASSET NEEDS IS A PRUDENT AND FISCALLY
18 RESPONSIBLE MANNER THAT MINIMIZES THE COSTS TO THE STATE OF USING
19 THE ASSETS AND MAXIMIZES THE VALUE OF THE CAPITAL ASSETS, IT IS
20 NECESSARY, APPROPRIATE, AND IN THE BEST INTEREST OF THE STATE TO
21 CREATE A STATE CAPITAL ASSET MANAGEMENT AND FINANCE AUTHORITY
22 TO MANAGE CAPITAL ASSETS THROUGHOUT THEIR ENTIRE LIFECYCLE AND
23 TO LEASE THE CAPITAL ASSETS THAT IT MANAGES TO STATE AGENCIES.

24 **24-82.3-103. Definitions.** AS USED IN THIS ARTICLE 82.3, UNLESS
25 THE CONTEXT OTHERWISE REQUIRES:

26 (1) "AUTHORITY" MEANS THE STATE CAPITAL ASSET MANAGEMENT
27 AND FINANCE AUTHORITY CREATED IN SECTION 24-82.3-104 (1).

1 MAINTENANCE, CAPITAL RENEWAL, EXPANSION, AND DEMOLITION OR
2 OTHER DISPOSAL BY SALE OR OTHERWISE OF THE CAPITAL ASSET.

3 (6) "STATE AGENCY" OR "AGENCY" MEANS ANY PRINCIPAL
4 DEPARTMENT OR AGENCY OF A PRINCIPAL DEPARTMENT OF STATE
5 GOVERNMENT, INCLUDING THE OFFICE OF THE GOVERNOR AND THE
6 LEGISLATIVE AND JUDICIAL DEPARTMENTS OF THE STATE, BUT DOES NOT
7 INCLUDE A STATE INSTITUTION OF HIGHER EDUCATION, AS DEFINED IN
8 SECTION 23-18-102 (10).

9 **24-82.3-104. State capital asset management and finance**
10 **authority- creation - board - open meetings and records - expenses.**

11 (1) THE STATE CAPITAL ASSET MANAGEMENT AND FINANCE AUTHORITY
12 IS HEREBY CREATED AS A PUBLIC INSTRUMENTALITY, AND THE EXERCISE
13 OF ITS POWERS AS AUTHORIZED BY THIS ARTICLE IS THE PERFORMANCE OF
14 AN ESSENTIAL PUBLIC FUNCTION. THE AUTHORITY IS A BODY CORPORATE
15 AND A POLITICAL SUBDIVISION OF THE STATE, IS NOT AN AGENCY OF STATE
16 GOVERNMENT, AND IS NOT SUBJECT TO ADMINISTRATIVE DIRECTION BY
17 ANY DEPARTMENT, COMMISSION, BOARD, OR AGENCY OF THE STATE.

18 (2) (a) THE AUTHORITY IS GOVERNED BY A BOARD OF DIRECTORS
19 THAT CONSISTS OF THE FOLLOWING SEVEN EX OFFICIO MEMBERS, EACH OF
20 WHOM HAS FULL VOTING PRIVILEGES AND FOUR OF WHOM CONSTITUTE A
21 QUORUM OF THE BOARD FOR THE PURPOSE OF CONDUCTING BUSINESS AND
22 EXERCISING THE POWERS OF THE BOARD:

23 (I) THE CHAIR OF THE JOINT BUDGET COMMITTEE OF THE GENERAL
24 ASSEMBLY;

25 (II) THE VICE-CHAIR OF THE JOINT BUDGET COMMITTEE OF THE
26 GENERAL ASSEMBLY;

27 (III) THE CHAIR OF THE CAPITAL DEVELOPMENT COMMITTEE OF

1 THE GENERAL ASSEMBLY;

2 (IV) THE VICE-CHAIR OF THE CAPITAL DEVELOPMENT COMMITTEE

3 OF THE GENERAL ASSEMBLY;

4 (V) THE DIRECTOR OF THE OFFICE OF STATE PLANNING AND

5 BUDGETING;

6 (VI) THE STATE ARCHITECT; AND

7 (VII) THE STATE TREASURER.

8 (b) THE AUTHORITY IS SUBJECT TO THE OPEN MEETINGS

9 PROVISIONS OF THE COLORADO SUNSHINE LAW CONTAINED IN PART 4 OF

10 ARTICLE 6 OF TITLE 24 AND THE "COLORADO OPEN RECORDS ACT",

11 ARTICLE 72 OF TITLE 24.

12 (3) BOARD MEMBERS RECEIVE NO COMPENSATION FOR THEIR

13 SERVICES BUT ARE ENTITLED TO NECESSARY EXPENSES, INCLUDING

14 TRAVEL AND LODGING EXPENSES, INCURRED IN THE DISCHARGE OF THEIR

15 OFFICIAL DUTIES. PAYMENT FOR EXPENSES SHALL BE MADE SOLELY FROM

16 AUTHORITY FUNDS.

17 **24-82.3-105. General powers of the authority.** (1) IN ADDITION

18 TO ANY OTHER POWERS GRANTED TO THE AUTHORITY BY THIS ARTICLE,

19 THE AUTHORITY HAS THE FOLLOWING POWERS:

20 (a) TO HAVE PERPETUAL EXISTENCE AND SUCCESSION AS A BODY

21 POLITIC AND CORPORATE;

22 (b) TO ADOPT AND FROM TIME TO TIME AMEND OR REPEAL BYLAWS

23 FOR THE REGULATION OF ITS AFFAIRS AND THE CONDUCT OF ITS BUSINESS,

24 CONSISTENT WITH THE PROVISIONS OF THIS ARTICLE;

25 (c) TO SUE AND BE SUED;

26 (d) TO HAVE, USE, AND ALTER A SEAL;

27 (e) TO MAINTAIN AN OFFICE AT SUCH PLACE OR PLACES AS IT MAY

1 DESIGNATE;

2 (f) TO HIRE AN EXECUTIVE DIRECTOR AND SUCH OTHER
3 EMPLOYEES AS IT MAY REQUIRE TO EXERCISE ITS POWERS AND FUNCTIONS
4 UNDER THIS ARTICLE, AND, TO THE EXTENT DEEMED APPROPRIATE BY THE
5 BOARD, TO COMPENSATE THE EXECUTIVE DIRECTOR AND EMPLOYEES IN A
6 MANNER THAT INCENTIVIZES MEETING AND EXCEEDING ANNUAL GOALS OF
7 COST CONTAINMENT AND VALUE GENERATION IN ASSET MANAGEMENT
8 AND THE PROVISION OF EXCELLENT CUSTOMER SERVICE;

9 (g) TO DETERMINE, SUBJECT TO THE REQUIREMENTS OF THIS
10 ARTICLE, THE LOCATION AND CHARACTER OF ANY CAPITAL ASSET TO BE
11 UNDER THE MANAGEMENT OF THE AUTHORITY AS AUTHORIZED BY THIS
12 ARTICLE, TO MANAGE THE CAPITAL ASSET AS LESSOR, AND TO ENTER INTO
13 CONTRACTS NEEDED TO FURTHER THOSE PURPOSES AND FOR THE
14 MANAGEMENT AND OPERATION OF CAPITAL ASSETS;

15 (h) TO LEASE TO A STATE AGENCY ANY CAPITAL ASSET UPON SUCH
16 TERMS AND CONDITIONS AS THE AUTHORITY DEEMS PROPER, INCLUDING,
17 BUT NOT LIMITED TO RENEWABLE, ONE-YEAR LEASES WITH OR WITHOUT
18 A LEASE-PURCHASE AGREEMENT AUTHORIZED PURSUANT TO SECTIONS
19 24-82-102 (1)(b) AND 24-82-801, AND, IN CONNECTION WITH THE LEASE:

20 (I) TO CHARGE AND COLLECT REASONABLE AND NECESSARY
21 MANAGEMENT FEES AND RENT FOR THE LEASE OR LEASE-PURCHASE
22 AGREEMENT, AND TO TERMINATE ANY LEASE UPON THE FAILURE OF THE
23 STATE AGENCY LESSEE TO MAKE LEASE PAYMENTS OR OTHERWISE COMPLY
24 WITH LEASE OBLIGATIONS;

25 (II) TO INCLUDE IN ANY SUCH LEASE, IF DESIRED, PROVISIONS
26 THAT:

27 (A) THE STATE AGENCY LESSEE MAY RENEW THE TERM OF THE

1 LEASE FOR SUCH PERIOD OR PERIODS, AT SUCH RENT, AND UPON SUCH
2 TERMS OR CONDITIONS AS THE AUTHORITY DETERMINES;

3 (B) THE STATE AGENCY LESSEE MAY PURCHASE THE CAPITAL
4 ASSET; OR

5 (III) UPON PAYMENT OF ALL OF THE INDEBTEDNESS INCURRED BY
6 THE AUTHORITY FOR THE FINANCING OF THE CAPITAL ASSET, THE
7 AUTHORITY WILL CONVEY ANY OR ALL OF THE CAPITAL ASSET TO THE
8 STATE AGENCY LESSEE WITH OR WITHOUT CONSIDERATION;

9 (i) TO BORROW MONEY AND TO ISSUE BONDS, NOTES, BOND
10 ANTICIPATION NOTES, OR OTHER OBLIGATIONS FOR ANY OF ITS CORPORATE
11 PURPOSES AND TO FUND OR REFUND THE BONDS, NOTES, OR OTHER
12 OBLIGATIONS AS AUTHORIZED BY THIS ARTICLE;

13 (j) TO ESTABLISH RULES FOR THE USE OF ANY CAPITAL ASSET
14 UNDER THE MANAGEMENT OF THE AUTHORITY;

15 (k) TO EMPLOY OR CONTRACT FOR THE SERVICES OF CONSULTING
16 ENGINEERS, ARCHITECTS, ATTORNEYS, ACCOUNTANTS, CONSTRUCTION
17 AND FINANCIAL EXPERTS, SUPERINTENDENTS, MANAGERS, AND ANY OTHER
18 EMPLOYEES AND AGENTS NEEDED TO ALLOW THE AUTHORITY TO EXERCISE
19 ITS POWERS AND DUTIES UNDER THIS ARTICLE;

20 (l) TO RECEIVE AND ACCEPT FROM THE FEDERAL GOVERNMENT OR
21 ANY OTHER PUBLIC AGENCY LOANS, GRANTS, OR CONTRIBUTIONS FOR THE
22 CONSTRUCTION OR EQUIPPING OF CAPITAL ASSETS, AND TO RECEIVE AND
23 ACCEPT GRANTS, GIFTS, OR OTHER CONTRIBUTIONS FROM ANY SOURCE;

24 (m) TO MORTGAGE OR PLEDGE ALL OR ANY PORTION OF A CAPITAL
25 ASSET, AND ITS SITE OR SITES, WHETHER THEN OWNED OR THEREAFTER
26 ACQUIRED, FOR THE BENEFIT OF THE HOLDERS OF BONDS ISSUED TO
27 FINANCE THE CAPITAL ASSET OR PORTION OF THE CAPITAL ASSET;

1 (n) TO CHARGE TO AND EQUITABLY APPORTION AMONG STATE
2 AGENCY LESSEES THE ADMINISTRATIVE COSTS AND EXPENSES OF THE
3 AUTHORITY INCURRED IN THE EXERCISE OF THE POWERS GRANTED AND
4 THE DUTIES CONFERRED BY THIS ARTICLE;

5 (o) TO MAKE AND EXECUTE CONTRACTS AND ALL OTHER
6 INSTRUMENTS NECESSARY OR CONVENIENT FOR THE EXERCISE OF ITS
7 POWERS AND FUNCTIONS UNDER THIS ARTICLE; AND

8 (p) TO DO ALL OTHER THINGS NECESSARY AND CONVENIENT TO
9 CARRY OUT THE PURPOSES OF THIS ARTICLE.

10 (2) THE AUTHORITY SHALL NOT OPERATE A CAPITAL ASSET AS A
11 BUSINESS OTHER THAN AS THE LESSOR OF THE FACILITY.

12 **24-82.3-106. Acquisition of property.** THE AUTHORITY MAY
13 ACQUIRE BY PURCHASE, LEASE, GIFT, DEVISE, OR ANY OTHER LEGAL
14 MEANS OTHER THAN CONDEMNATION SUCH LANDS, STRUCTURES, REAL OR
15 PERSONAL PROPERTY, RIGHTS-OF-WAY, FRANCHISES, EASEMENTS, AND
16 OTHER INTERESTS IN LANDS, INCLUDING LANDS LYING UNDER WATER AND
17 RIPARIAN RIGHTS WHICH ARE LOCATED WITHIN OR WITHOUT THE STATE,
18 AS IT MAY DEEM NECESSARY OR CONVENIENT FOR THE MANAGEMENT OF
19 CAPITAL ASSETS, UPON SUCH TERMS AS MAY BE CONSIDERED BY THE
20 AUTHORITY TO BE REASONABLE, AND MAY TAKE TITLE TO THE
21 ACQUISITIONS IN THE NAME OF THE AUTHORITY.

22 **24-82.3-107. Bonds - investments - bonds eligible for**
23 **investment and exempt from taxation - state agreement to not impair**
24 **rights of obligees.** (1) (a) THE AUTHORITY MAY ISSUE BONDS FOR ANY OF
25 ITS CORPORATE PURPOSES. BONDS MUST BE ISSUED PURSUANT TO A
26 RESOLUTION OF THE BOARD AND ARE PAYABLE FROM PAYMENTS RECEIVED
27 FROM STATE AGENCIES PURSUANT TO THE TERMS OF LEASE OR

1 LEASE-PURCHASE AGREEMENTS EXECUTED AS AUTHORIZED BY THIS
2 ARTICLE.

3 (b) BONDS MAY BE EXECUTED AND DELIVERED BY THE AUTHORITY
4 AT SUCH TIMES; MAY BE IN SUCH FORM AND DENOMINATIONS AND
5 INCLUDE SUCH TERMS AND MATURITIES; MAY BE SUBJECT TO OPTIONAL OR
6 MANDATORY REDEMPTION PRIOR TO MATURITY WITH OR WITHOUT A
7 PREMIUM; MAY BE IN FULLY REGISTERED FORM OR BEARER FORM
8 REGISTRABLE AS TO PRINCIPAL OR INTEREST OR BOTH; MAY BEAR SUCH
9 CONVERSION PRIVILEGES; MAY BE PAYABLE IN SUCH INSTALLMENTS AND
10 AT SUCH TIMES NOT EXCEEDING FIFTY YEARS FROM THE DATE THEREOF;
11 MAY BE PAYABLE AT SUCH PLACE OR PLACES WHETHER WITHIN OR
12 WITHOUT THE STATE; MAY BEAR INTEREST AT SUCH RATE OR RATES PER
13 ANNUM, WHICH MAY BE FIXED OR VARY ACCORDING TO INDEX,
14 PROCEDURE, OR FORMULA OR AS DETERMINED BY THE AUTHORITY OR ITS
15 AGENTS, WITHOUT REGARD TO ANY INTEREST RATE LIMITATION
16 APPEARING IN ANY OTHER LAW OF THE STATE; MAY BE SUBJECT TO
17 PURCHASE AT THE OPTION OF THE HOLDER OR THE AUTHORITY; MAY BE
18 EVIDENCED IN SUCH MANNER; MAY BE EXECUTED BY SUCH OFFICERS OF
19 THE AUTHORITY, INCLUDING THE USE OF ONE OR MORE FACSIMILE
20 SIGNATURES SO LONG AS AT LEAST ONE MANUAL SIGNATURE APPEARS ON
21 THE BONDS, WHICH MAY BE EITHER OF AN OFFICER OF THE AUTHORITY OR
22 OF AN AGENT AUTHENTICATING THE SAME; MAY BE IN THE FORM OF
23 COUPON BONDS THAT HAVE ATTACHED INTEREST COUPONS BEARING A
24 MANUAL OR FACSIMILE SIGNATURE OF AN OFFICER OF THE AUTHORITY;
25 AND MAY CONTAIN SUCH PROVISIONS NOT INCONSISTENT WITH THIS
26 ARTICLE 82.3, ALL AS PROVIDED IN THE RESOLUTION OF THE AUTHORITY
27 UNDER WHICH THE BONDS ARE AUTHORIZED TO BE ISSUED OR AS PROVIDED

1 IN A TRUST INDENTURE BETWEEN THE AUTHORITY AND ANY COMMERCIAL
2 BANK OR TRUST COMPANY HAVING FULL TRUST POWERS.

3 (c) BONDS MAY BE SOLD AT PUBLIC OR PRIVATE SALE AT SUCH
4 PRICE OR PRICES, IN SUCH MANNER, AND AT SUCH TIMES AS DETERMINED
5 BY THE BOARD, AND THE BOARD MAY PAY ALL FEES, EXPENSES, AND
6 COMMISSIONS THAT IT DEEMS NECESSARY OR ADVANTAGEOUS IN
7 CONNECTION WITH THE SALE OF THE BONDS. THE POWER TO FIX THE DATE
8 OF SALE OF THE BONDS, TO RECEIVE BIDS OR PROPOSALS, TO AWARD AND
9 SELL BONDS, TO FIX INTEREST RATES, AND TO TAKE ALL OTHER ACTION
10 NECESSARY TO SELL AND DELIVER THE BONDS MAY BE DELEGATED TO AN
11 OFFICER OR AGENT OF THE AUTHORITY. ANY OUTSTANDING BONDS MAY
12 BE REFUNDED BY THE AUTHORITY PURSUANT TO ARTICLE 56 OF TITLE 11,
13 ALL BONDS AND ANY APPLICABLE INTEREST COUPONS ARE DECLARED TO
14 BE NEGOTIABLE INSTRUMENTS.

15 (d) THE RESOLUTION OR TRUST INDENTURE AUTHORIZING THE
16 ISSUANCE OF BONDS MAY PLEDGE ALL OR A PORTION OF THE REVENUE TO
17 BE RECEIVED BY THE AUTHORITY FROM LEASE OR LEASE-PURCHASE
18 PAYMENTS UNDER LEASE OR LEASE-PURCHASE AGREEMENTS WITH STATE
19 AGENCIES AUTHORIZED BY THIS ARTICLE OR ANY OF ITS OTHER LEGALLY
20 AVAILABLE REVENUE OR PROPERTY; MAY CONTAIN SUCH PROVISIONS FOR
21 PROTECTING AND ENFORCING THE RIGHTS AND REMEDIES OF HOLDERS OF
22 ANY OF THE BONDS AS THE AUTHORITY DEEMS APPROPRIATE; MAY SET
23 FORTH THE RIGHTS AND REMEDIES OF THE HOLDERS OF ANY OF THE BONDS;
24 AND MAY CONTAIN PROVISIONS THAT THE AUTHORITY DEEMS
25 APPROPRIATE FOR THE SECURITY OF THE HOLDERS OF THE BONDS,
26 INCLUDING, BUT NOT LIMITED TO, PROVISIONS FOR LETTERS OF CREDIT,
27 INSURANCE, STANDBY CREDIT AGREEMENTS, OR OTHER FORMS OF CREDIT

1 ENSURING TIMELY PAYMENT OF THE BONDS, INCLUDING THE REDEMPTION
2 PRICE OR THE PURCHASE PRICE.

3 (e) ANY PLEDGE OF REVENUE OR PROPERTY MADE BY THE
4 AUTHORITY OR BY ANY PERSON OR GOVERNMENTAL UNIT WITH WHICH THE
5 AUTHORITY CONTRACTS IS VALID AND BINDING FROM THE TIME THE
6 PLEDGE IS MADE. THE PLEDGED SPECIAL FUND OR OTHER PLEDGED
7 PROPERTY IS IMMEDIATELY SUBJECT TO THE LIEN OF THE PLEDGE WITHOUT
8 ANY PHYSICAL DELIVERY OR FURTHER ACT, AND THE LIEN OF THE PLEDGE
9 SHALL BE VALID AND BINDING AGAINST ALL PARTIES HAVING CLAIMS OF
10 ANY KIND IN TORT, CONTRACT, OR OTHERWISE AGAINST THE PLEDGING
11 PARTY REGARDLESS OF WHETHER THE CLAIMING PARTY HAS NOTICE OF
12 THE LIEN. THE INSTRUMENT BY WHICH THE PLEDGE IS CREATED NEED NOT
13 BE RECORDED OR FILED.

14 (f) NEITHER THE MEMBERS OF THE BOARD, EMPLOYEES OF THE
15 AUTHORITY, NOR ANY PERSON EXECUTING BONDS IS LIABLE PERSONALLY
16 ON THE BONDS OR SUBJECT TO ANY PERSONAL LIABILITY BY REASON OF
17 THE ISSUANCE OF BONDS.

18 (g) THE AUTHORITY MAY PURCHASE ITS BONDS OUT OF ANY
19 AVAILABLE MONEYS AND MAY HOLD, PLEDGE, CANCEL, OR RESELL SUCH
20 BONDS SUBJECT TO AND IN ACCORDANCE WITH AGREEMENTS WITH THE
21 HOLDERS THEREOF.

22 (2) THE AUTHORITY MAY INVEST OR DEPOSIT ANY PROCEEDS AND
23 ANY INTEREST FROM THE SALE OF BONDS IN THE MANNER PROVIDED BY
24 PART 6 OF ARTICLE 75 OF TITLE 24.

25 (3) ALL BANKS, TRUST COMPANIES, SAVINGS AND LOAN
26 ASSOCIATIONS, INSURANCE COMPANIES, EXECUTORS, ADMINISTRATORS,
27 GUARDIANS, TRUSTEES, AND OTHER FIDUCIARIES MAY LEGALLY INVEST

1 ANY MONEY WITHIN THEIR CONTROL IN BONDS ISSUED BY THE AUTHORITY
2 AS AUTHORIZED BY THIS ARTICLE 82.3. PUBLIC ENTITIES, AS DEFINED IN
3 SECTION 24-75-601 (1), MAY INVEST PUBLIC MONEYS IN BONDS ISSUED BY
4 THE AUTHORITY ONLY IF THE BONDS SATISFY THE INVESTMENT
5 REQUIREMENTS ESTABLISHED IN PART 6 OF ARTICLE 75 OF TITLE 24.

6 (4) THE INCOME OR OTHER REVENUE OF THE AUTHORITY, ALL
7 CAPITAL ASSETS OR OTHER PROPERTY OWNED BY THE AUTHORITY, BONDS
8 ISSUED BY THE AUTHORITY, AND THE TRANSFER OF AND THE INCOME FROM
9 ANY BONDS ISSUED BY THE AUTHORITY ARE EXEMPT FROM ALL TAXATION
10 AND ASSESSMENTS IN THE STATE. IN THE RESOLUTION OR INDENTURE
11 AUTHORIZING THE BONDS, THE AUTHORITY MAY WAIVE THE EXEMPTION
12 FROM FEDERAL INCOME TAXATION FOR INTEREST ON THE BONDS. BONDS
13 ARE EXEMPT FROM THE PROVISIONS OF ARTICLE 51 OF TITLE 11.

14 (5) THE STATE HEREBY PLEDGES TO AND AGREES WITH THE
15 HOLDERS OF ANY BONDS AND WITH THOSE PARTIES WHO MAY ENTER INTO
16 CONTRACTS WITH THE AUTHORITY THAT THE STATE WILL NOT LIMIT,
17 ALTER, RESTRICT, OR IMPAIR THE RIGHTS VESTED IN THE AUTHORITY WITH
18 RESPECT TO THE MANAGEMENT OF CAPITAL ASSETS OR THE COLLECTION
19 OF LEASE OR LEASE-PURCHASE PAYMENTS OR MANAGEMENT FEES TO
20 PRODUCE SUFFICIENT REVENUE TO MEET THE EXPENSES OF MANAGEMENT
21 OF CAPITAL ASSETS AND TO FULFILL THE TERMS OF ANY AGREEMENTS
22 MADE WITH BONDHOLDERS AND WITH PARTIES WHO MAY ENTER INTO
23 CONTRACTS WITH THE AUTHORITY PURSUANT TO THIS ARTICLE 82.3. THE
24 STATE FURTHER AGREES THAT IT WILL NOT IN ANY WAY IMPAIR THE
25 RIGHTS OR REMEDIES OF BONDHOLDERS OR SUCH PARTIES UNTIL THE
26 BONDS, TOGETHER WITH INTEREST, INTEREST ON ANY UNPAID
27 INSTALLMENT OF INTEREST, AND ALL COSTS AND EXPENSES IN

1 CONNECTION WITH ANY ACTION OR PROCEEDING BY OR ON BEHALF OF THE
2 BONDHOLDERS ARE FULLY MET AND DISCHARGED AND THE CONTRACTS
3 ARE FULLY PERFORMED BY THE AUTHORITY. THE AUTHORITY MAY
4 INCLUDE THIS PLEDGE AND UNDERTAKING FOR THE STATE IN ITS BONDS
5 AND CONTRACTS.

6 **24-82.3-108. Management of capital assets - leasing of capital**
7 **assets to state agencies.** ON AND AFTER THE EFFECTIVE DATE OF THIS
8 ACT, WHEN A STATE AGENCY SEEKS TO OCCUPY OR OTHERWISE USE ALL OR
9 A PORTION OF EITHER AN AS-YET UNCONSTRUCTED CAPITAL ASSET OR AN
10 EXISTING CAPITAL ASSET THAT IS NOT ALREADY OWNED BY OR BEING USED
11 BY THE STATE OR A STATE AGENCY, THE STATE AGENCY, AFTER OBTAINING
12 ALL REQUIRED APPROVALS FOR THE ACQUISITION AND USE OF THE CAPITAL
13 ASSET AND FOR THE EXECUTION OF A LEASE AGREEMENT OR
14 LEASE-PURCHASE AGREEMENT SET FORTH IN ARTICLE 82 OF THIS TITLE 24,
15 SHALL LEASE THE CAPITAL ASSET BY ENTERING INTO A LEASE AGREEMENT
16 OR A LEASE-PURCHASE AGREEMENT WITH THE AUTHORITY.

17 **24-82.3-109. Asset management plan - reporting - authority**
18 **subject to audit.** (1) THE AUTHORITY SHALL PREPARE AN ANNUAL
19 CAPITAL ASSET MANAGEMENT PLAN THAT INCLUDES SPECIFIC,
20 MEASURABLE, ACHIEVABLE, RELEVANT, AND TIME-BOUND ASSET
21 MANAGEMENT GOALS, INCLUDING GOALS RELATING TO MINIMIZATION OF
22 CAPITAL ASSET MANAGEMENT COSTS, MAXIMIZATION OF CAPITAL ASSET
23 VALUE, AND CUSTOMER SERVICE. THE AUTHORITY SHALL ANNUALLY
24 REPORT TO THE JOINT BUDGET AND CAPITAL DEVELOPMENT COMMITTEES
25 OF THE GENERAL ASSEMBLY, OR ANY SUCCESSOR COMMITTEES REGARDING
26 THE PLAN AND ITS PERFORMANCE IN IMPLEMENTING THE PLAN.

27 (2) IN ACCORDANCE WITH SECTION 2-3-103 (1)(b), THE STATE

1 AUDITOR HAS THE AUTHORITY TO CONDUCT OR CAUSE TO BE CONDUCTED
2 POSTAUDITS OF ALL FINANCIAL TRANSACTIONS KEPT BY OR FOR THE
3 AUTHORITY.

4 **SECTION 2.** In Colorado Revised Statutes, 24-77-102, **add**
5 (15)(b)(XIX) as follows:

6 **24-77-102. Definitions.**

7 (15)(b) "Special purpose authority" includes, but is not limited to:
8 (XIX) THE STATE CAPITAL ASSET MANAGEMENT AND FINANCING
9 AUTHORITY CREATED IN SECTION 24-82.3-104 (1).

10 **SECTION 3. Act subject to petition - effective date.** This act
11 takes effect at 12:01 a.m. on the day following the expiration of the
12 ninety-day period after final adjournment of the general assembly (August
13 2, 2019, if adjournment sine die is on May 3, 2019); except that, if a
14 referendum petition is filed pursuant to section 1 (3) of article V of the
15 state constitution against this act or an item, section, or part of this act
16 within such period, then the act, item, section, or part will not take effect
17 unless approved by the people at the general election to be held in
18 November 2020 and, in such case, will take effect on the date of the
19 official declaration of the vote thereon by the governor.

ISSUE 3: AGILE METHODOLOGY AND IMPROVED FUNDING GATE-KEEPING FOR IT CAPITAL PROJECTS

The Governor's Office of State Planning and Budgeting (OSPB) and Office of Information Technology (OIT) are moving toward the use of agile methodology and principles for information technology (IT) projects. This issue brief describes agile methodology practices and why agile IT practices may lead to improved IT project management and development generally and to improved budgeting, procurement, and fund gate-keeping for IT projects.

SUMMARY:

- Planning an entire project upfront is known as "waterfall" development. Agile development projects are planned in broad strokes, with a well-defined description of the overall project goal.
- Usually five to nine people work in two-week cycles known as "sprints" to deliver actual working software. In this way, value is delivered constantly and continuously.
- The vendor is paid for developer time only, not for a software system. Everything created by the vendor – software, documentation, research, designs – is owned by government and delivered to government at the end of each sprint.
- Large, complex software projects tend to collapse under the weight of administration. Instead, large projects are broken into smaller, quasi-independent software projects in which each component communicates with other components through simple, modular standards, so that any one piece can be "swapped out" at any time using application programming interface or API and service-oriented architecture (SOA).
- By using agile principles, it is possible to break up a large, risky contract into a handful of smaller contracts. A contract should be small enough that the agency can easily discontinue working with a non-performing vendor. As a rule of thumb, an agile development team of 5–9 people costs between \$1-2 million per year.
- The greater the amount of money spent on a software project, the greater the odds of failure. As a general rule, no more than \$10 million should be spent on an entire project. A 2014 survey of 25,000 software projects found that software projects that cost more than \$10 million succeed only 8 percent of the time. Outcomes improve substantially as the dollar value is reduced, peaking at a 70 percent success rate for projects under \$1 million.
- Unlike bridges or other capital infrastructure projects, custom software is never "done". It is important to plan for it to be modified and improved continuously. Maintaining software should mean continuing to modify it in response to identified user needs, which change along with laws, regulations, policies, best practices, and technology.

DISCUSSION:

Most of the ideas and discussion included in this issue brief are generously sourced from the August 2019 publication, *De-risking custom technology projects: A handbook for state budgeting and oversight*, by the 18F Technology Transformation Service of the General Services Administration (18F).

A FOUNDATIONAL BASIS FOR STAFF INTEREST IN IT PROJECT BUDGETING

Staff began the role as JBC capital construction analyst in 2014. At the time, IT capital projects were included within the capital construction role. For the first time in FY 2015-16, IT capital projects were located in a distinct section in the capital construction section of the Long Bill and were funded from the newly created IT Capital Account within the Capital Construction Fund. Internal JBC staff conversations determined that the JBC analyst for OIT had better technical knowledge of OIT and IT projects generally and may be better suited for JBC staff responsibility over IT capital projects. Beginning in FY 2016-17, that role was carved out from building-related capital construction.

Over the intervening years, staff was nevertheless involved in large IT capital projects transitioned into the operating budget. These included the troubled rollout of the Colorado Operations Resource Engine or CORE system and common policy billing structure in the Department of Personnel and the \$93.4 million Driver License, Record, Identification, and Vehicle Enterprise Solution or DRIVES system in the Department of Revenue. Similarly, staff had been involved in early requests for the HRWorks system in the Department of Personnel and was aware of the troubling, changing contracts with vendors related to that system in recent years prior to its development stall about a year ago. More recently staff began additional scrutiny of the GenTax tax administration system in the Department of Revenue due to the system's general inability to provide tax data except at additional cost from the vendor.

Over the course of staff's work related to these IT systems, staff's largest concern and frustration was with the apparent inability to ensure through the budget process that money spent on such systems would, in the end, deliver a product of value for the cost. IT capital is different from building capital in that most of the time, state money spent on building capital generally retains a known, predictable, and equivalent market value at the conclusion of a project. Whereas the IT capital project process does not have a history of delivering a reasonably known and predicible end product of equivalent market or utility value.

Despite not being responsible for staff analysis of IT capital projects, staff nevertheless continued to seek solutions to this fundamental problem.

Over the last 12 to 18 months, staff became aware of the work of the 18F group, which formed at the federal level following the initial failure of the healthcare insurance marketplace IT system known as healthcare.gov. This group and others began to establish principles for improved procurement and development of government IT systems. While there are always management fads – especially when it comes to IT products, services, and management – the recommendations developed by 18F and agile methodology generally appear to resolve many of the issues for which staff has been attempting to find solutions.

The goal is to find processes which more consistently deliver functioning IT systems within a given period of time while minimizing costs through an improved funding gate-keeping process tied to

actual results. This also means recognizing that IT projects, unlike building projects, once built and implemented, are from then on, works in progress. Most importantly, as it relates to state budget considerations, it also means the end of overpaying vendors for system development costs and then overpaying those same vendors for 10-year renewable operating and maintenance contracts. It puts an end to suddenly recognizing that the State has immense sunk costs in a system and its vendor and is, at that point, held captive to that vendor for its operating life.

AGILE PRINCIPLES

1. User-centered design – Software development should be centered on the needs of the end users, the people who are expected to use it. Development work on new software is not finished until end users agree that their needs have been met.

2. Agile software development – Planning an entire project upfront is known as "waterfall" development. Agile development projects are planned in broad strokes, with a well-defined description of the overall project goal. Usually five to nine people, including developers, product managers, user researchers, writers, and security experts work in two-week cycles known as "sprints" to deliver actual working software. On day one, the team plans only the work for the next two weeks. Each task is in the form of a "user story" – a specific user need. The entire collection of user stories to be worked on is called the "backlog". At the end of a two-week sprint, the team reviews its work and tests it with end users. The next two-week sprint is similarly determined and repeated.

Initially, the software may not seem like much, but gradually and systematically the team is able to integrate the project into an existing legacy system. Functioning software is delivered at the end of each sprint – fully tested, fully-documented, and ready to be used. In this way, value is delivered constantly and continuously, until the software is good enough to be rolled out for broad use. The vendor is paid for developer time only, not for a software system. Everything created by the vendor – software, documentation, research, designs – is owned by government and delivered to government at the end of each sprint.

A 2018 survey of over 57,000 developers found that 85 percent use agile. A 2015 study by Hewlett Packard found that the vast majority of organizations reported that they primarily use agile software development methods.

3. Product ownership – "Product" is shorthand for whatever the thing is that is being created: a website, an app, an intranet application, etc. The product owner:

- is the key person and must be a government employee;
- prioritizes and defines the work for the product team;
- does not need to be a technical expert but should know the users of the system;
- is empowered by their agency to represent stakeholders in making rapid product decisions without the need for many layers of approval.

4. DevOps – Typically, teams building software are separate from the teams responsible for operating the software once implemented. Due to this, government agencies often insist that the vendor building the software also host it indefinitely on the vendor's infrastructure, creating vendor lock-in with its associated high prices. DevOps is the practice of coordinating these two groups to automate the work that goes into testing software and moving it to a live server – merging software development and

system operations. Developers cannot merely hand their work to the system operations team; they are responsible, practically and contractually, for their code working properly in real time on a live server.

5. Building with loosely coupled parts – Large, complex software projects tend to collapse under the weight of administration. No single developer can understand the entire system on which they are contributing. Each new member added to a project team increases the complexity of the entire team's interactions. This necessitates additional management roles like software architects, with whom developers must check before doing any work. The contributors need to coordinate carefully to avoid conflict between their efforts. As a team grows, members spend increasing amounts of time managing the project and decreasing amounts of time actually doing the work.

It is better to break large projects into a handful of small, quasi-independent software projects. In this model, each component communicates with other components through simple, modular standards, so that any one piece can be "swapped out" at any time. Instead of a monolith, a smaller ecosystem is built, in which each piece can be upgraded and modified easily, as changing needs demand. Each component is maintained by a single agile team, which documents the component's application programming interface or API – the grammatical rules that other components can use to communicate with it. The teams' need to coordinate is minimal, because they can simply follow the API documentation for the other components for which they need to interface.

When each component uses abstracted APIs, this is known as using "service-oriented architecture" (SOA). Standardized couplings are the underlying concept behind cloud computing, electrical outlets, USB, Legos, trains, and countless other modern products and practices. Building IT systems using loosely coupled parts, connected by open and available APIs, allows for flexible, sustainable systems that meet user needs and cost less over time.

6. Modular contracting – By combining user-centered design, agile, product ownership, DevOps, and building with loosely coupled parts, it is possible to break up a large, risky contract into a handful of smaller contracts. A contract should be small enough that the agency can easily discontinue working with a non-performing vendor. The other vendors will continue working, so the total loss of velocity will be minimal. A new vendor should have no difficulty taking over for the old one, since the old one was delivering completed, documented, tested software every two weeks. There are vendor teams that specialize in working on an agile basis. As a rule of thumb, an agile development team of 5–9 people costs between \$1-2 million per year.

Small contracts may come in under a simplified procurement threshold. With simplified procurement, agencies can write a request for proposals, publish it, and award a contract within 90 days or so. This approach requires coordination and buy-in from procurement teams. Procurement personnel are often accustomed to the traditional approach of outsourcing IT projects: one large procurement based on lengthy RFP documents, asking for lengthy proposals and outdated, waterfall-style certifications and qualifications from vendors.

BEST PRACTICES FOR BUDGETING

1. Think about risk in a new way – In recent times, government agencies have turned away from using in-house staff, instead relying on outside vendors to build their mission-critical technology and promises of cheaper, "off-the-shelf" tools. The problem an IT budget request aims to solve is not a

technical problem but a problem related to fulfilling the agency's mission, and technology is simply a means to that end.

Technical knowledge is readily available and becomes more affordable when available from a wider pool of vendors. But knowing how to run a state agency is a more specialized skill in comparison. Technology vendors are hired only to help and should be easily replaceable if they do not deliver. It is critical to regard outside vendors as interchangeable tools to accomplish a goal, rather than as the "owners" of a project or its outcome.

2. Procure services, not software – Procuring custom software should be thought of as buying a service rather than a thing. The RFP should describe the overall goal of the work and use a statement of objectives rather than a statement of work, eliminating "change orders". The RFP should include a Quality Assessment Surveillance Plan (QASP), requiring that software be inspected at the end of each sprint to ensure that it is tested, secure, accessible, documented, and deployed. This requires regular demonstrations of actual, working software, not memos or descriptions of what a system is supposed to do in the future.

3. Require demos, not memos – The way to monitor work is by seeing if it actually works.

4. Hire tech talent in-house – The personnel cost of bringing in a developer or upskilling current staff is minimal in comparison to state spending on technology. Larger projects may need to contract a development team indefinitely, under the oversight of a government product owner. Under waterfall, this would be paid to a vendor for annual "operations and maintenance" (O&M). Under agile, O&M is simply continued user research, design, and ongoing software development.

5. Minimize the cost of change – Acquiring software as a monolith guarantees it will gradually become unable to support an agency's needs. Rather than acquiring one giant piece of proprietary software, insist that vendors use open-source software and service-oriented architecture. To ensure data portability, files should be stored in open, non-patented formats supported by multiple vendors. If using custom off-the-shelf (COTS) components, the vendor should provide a path for a competitor with a more cost-effective way to export all stored data.

6. Measure success based on iterative outcomes, not project milestones – Value should not come only at the end of a project. Value should be provided to end users within no more than six months. At the end of the first sprint, working code must be delivered and must continue with each subsequent sprint.

7. Limit total spending – The greater the amount of money spent on a software project, the greater the odds of failure. As a general rule, no more than \$10 million should be spent on an entire project. A 2014 survey of 25,000 software projects found that software projects that cost more than \$10 million succeed only 8 percent of the time. Outcomes improve substantially as the dollar value is reduced, peaking at a 70 percent success rate for projects under \$1 million.

8. Limit contract sizes – Using a single vendor over a long period of time, or for a large number of teams, may feel more comfortable, but it inevitably leads to vendor lock-in. Require that no more than \$2 million be spent on any single contract annually, and that no contract last for more than three years, including option periods. If a project needs more development teams, obtain them from another vendor and have them work separately. In addition to preventing vendor lock-in, smaller contracts

are less likely to be protested through the procurement process because the dollar value does not justify the trouble and legal cost.

9. Fund systems, not monoliths – Do not replace the old legacy system with a new legacy system. Insist on loosely coupled systems that are built incrementally. Individual components can be replaced as the need arises.

10. Expand the vendor pool – In order to drive down the price of bids, it is important to consider working with remote or distributed, rather than on-site, vendor teams. Procurement teams will be tempted to seek out vendors who have previously built a near-identical system; that is both unnecessary and limits the vendor pool to just a few, big, international companies.

11. Budget for software as an operational expense – Unlike bridges or other capital infrastructure projects, custom software is never "done". It is important to plan for it to be modified continuously. Maintaining software should mean continuing to modify it in response to identified user needs, which change along with laws, regulations, policies, best practices, and technology.

APPENDIX A

RECENT LEGISLATION AFFECTING CAPITAL CONSTRUCTION BUDGET

2018 SESSION BILLS

S.B. 18-208 (CREATE GOVERNOR'S MANSION MAINTENANCE FUND): Creates the Governor's Mansion Maintenance Fund, which may be used to fund rental operations, routine maintenance, and controlled maintenance at the mansion. The fund is comprised of monies earned from mansion operations and is subject to annual appropriation. The fund balance may not exceed \$500,000 at the close of any fiscal year. The Governor's Office may expend money from the fund for operating costs and routine maintenance and the Department of Personnel may expend money from the fund for controlled maintenance projects.

S.B. 18-232 (CALCULATION FOR ART IN PUBLIC PLACES REQUIREMENT): Changes how the art in public places contribution amount is calculated for projects financed through lease-purchase arrangements. Under current law, the calculation is based on 1.0 percent of the estimated construction cost. This bill changes the calculation to 1.0 percent of the state share of the estimated construction cost, which conforms to how the calculation is made for projects financed through a regular appropriation, rather than a lease-purchase arrangement.

S.B. 18-276 (INCREASE GENERAL FUND RESERVE): Increases the statutory General Fund reserve requirement to 7.25 percent of appropriations for FY 2018-19 and subsequent years from 6.5 percent. Repeals exclusions from the calculation of the reserve for appropriations for lease-purchase agreements and appropriations for depreciation-lease equivalent payments into the Capital Construction Fund (CCF) and Controlled Maintenance Trust Fund (CMTF).

H.B. 18-1006 (INFANT NEWBORN SCREENING): Expands newborn screening for genetic and metabolic diseases, increases access to follow-up services, and creates a funding source for newborn hearing loss screening. In FY 2018-19, appropriates \$1,951,722 total funds to the Department of Public Health and Environment, including \$1,862,500 in capital construction appropriations as follow:

- \$1,162,500 cash funds from the Newborn Screening and Genetic Counseling Cash Fund for capital construction related to laboratory space expansion and equipment purchase; and
- \$700,000 Capital Construction Fund from the Information Technology Capital Account for capital construction related to an information technology system for hearing loss screening. The bill includes an associated transfer of \$700,000 General Fund to the Information Technology Capital Account.

H.B. 18-1322 (LONG BILL): General appropriations act for FY 2018-19.

H.B. 18-1340 (TRANSFERS OF MONEY FOR STATE'S INFRASTRUCTURE): Makes a number of FY 2018-19 transfers to the Capital Construction Fund (CCF) and the Controlled Maintenance Trust Fund (CMTF). Transfers to the CCF total \$89,831,610 and include:

- \$89,181,610 from the General Fund:

- \$500,000 from the General Fund Exempt account; and
- \$150,000 from the State Historical Fund.

Of the \$89,181,610 transferred from the General Fund, \$15,206,760 is transferred to the IT Capital Account in the CCF to pay costs associated with capital IT projects.

Transfers to the CMTF total \$30,000,000 to replace funds transferred out in FY 2017-18 for executive orders.

H.B. 18-1371 (CAPITAL CONSTRUCTION BUDGET ITEMS): Relocates spending and encumbrance guidelines from the Long Bill capital construction headnotes to the Colorado Revised Statutes. It also codifies spending and encumbrance guidelines for capital projects approved or modified through a supplemental appropriations bill. Prior to the 2017 legislative session, there was a common understanding that a capital project approved or modified through a supplemental appropriations bill was authorized to spend the appropriation for three full fiscal years. However, three years of spending authority is only explicitly included in the Long Bill capital construction headnotes and not in a supplemental appropriations bill. This bill codifies the three-year extension of spending authority for capital projects included in a supplemental appropriations bill.

H.B. 18-1372 (EXEMPT FUND FROM CAPITAL CONSTRUCTION FUNDING MECHANISM): Exempts the Regional Center Depreciation Account in the Capital Construction Fund from the set-aside and appropriation requirements established under S.B. 15-211 and H.B. 17-1144. Senate Bill 15-211 created a process to annually set aside an amount equal to the calculated depreciation of a capital asset funded through the capital construction section of the Long Bill. Under current law, if a state department project is paid in whole or part from a cash fund source, the state department is required to calculate the depreciable cost of the project, and, once the depreciation period begins, an amount equal to the calculated depreciation is appropriated to a capital reserve account created within the cash fund through the Long Bill.

H.B. 18-1374 (CONTROLLED MAINTENANCE FINANCED ACQUIRED PROPERTY): Eliminates the eligibility of buildings financed through lease-purchase agreements, such as certificates of participation (COPs), to receive future state funding for controlled maintenance. The bill requires any future legislation authorizing the issuance of COPs to acquire, construct, or renovate state buildings to include a requirement that a state agency or institution of higher education present a plan for funding future controlled maintenance to the Capital Development Committee. The plan must be presented the December or January before the 16th year after the acquisition or substantial completion of a project financed through a lease-purchase agreement. The plan should assess the controlled maintenance needs of the facility for the next 25 years and may include a request for an additional lease-purchase agreement or a request for state funding. An approved plan must be enacted through a bill, other than the Long Bill or a supplemental bill, unless the plan is from a higher education institution to pay for controlled maintenance from cash funds.

2019 SESSION BILLS

S.B. 19-127 (SUPPLEMENTAL BILL): Modifies the FY 2018-19 appropriations to Capital Construction.

S.B. 19-207 (LONG BILL): General appropriations act for FY 2019-20.

S.B. 19-214 (CAPITAL-RELATED TRANSFERS OF MONEY): Makes a number of FY 2019-20 transfers to the Capital Construction Fund (CCF) and the Controlled Maintenance Trust Fund (CMTF). Transfers to the CCF total \$104,538,665 and include:

- \$103,038,665 from the General Fund:
- \$500,000 from the General Fund Exempt account; and
- \$1,000,000 from the State Historical Fund.

Of the \$103,038,665 transferred from the General Fund, \$12,342,676 is transferred to the IT Capital Account in the CCF to pay costs associated with capital IT projects.

Transfers to the CMTF total \$42,000,000 to replace funds transferred out in FY 2018-19 for executive orders.

APPENDIX B FOOTNOTES AND INFORMATION REQUESTS

There were no Long Bill footnotes or information requests related to Capital Construction.

OFFICE OF THE STATE ARCHITECT ANNUAL REPORT
SECTION II - C: STATE AGENCIES / INSTITUTIONS OF HIGHER EDUCATION
CONTROLLED MAINTENANCE FUNDING RECOMMENDATIONS FOR FY 2020/21

November 8, 2019

Ref No.	Agency Score	Project Title:	Project M#	CURRENT-YEAR* Project Request	OUT-YEAR* Project Balance	Cumulative Total of Recommended Projects
LEVEL 1						
1	1	Office of the State Architect Emergency Fund,	1995-048M18	\$2,043,768	\$0	\$2,043,768
2	4	Department of Corrections Suppression Systems Improvements, CCF, Ph 2 of 2	2015-127M16	\$1,363,635	\$0	\$3,407,403
3	4	Department of Human Services Repair/Replace Fire Protection Systems, GYSC and LMYSC, Ph 3 of 3	2019-035M18	\$1,199,450	\$0	\$4,606,853
4	4	University of Colorado Boulder Replace Campus Fire Alarm Control Panels, Ph 3 of 3	2019-025M18	\$1,202,798	\$0	\$5,809,651
5	5	Department of Corrections Replace Fire Dampers, DWCF, Ph 1 of 1		\$1,415,825	\$0	\$7,225,476
6	5	Colorado State University Fire Alarm Upgrade, VTH, Ph 1 of 1		\$635,428	\$0	\$7,860,904
7	5	Auraria Higher Education Center Replace Fire Alarm System, King Center, Ph 1 of 1		\$1,554,699	\$0	\$9,415,603
8	5	Colorado Community College System at Lowry Upgrade Security Systems, Campus, Ph 3 of 3	2019-040M18	\$522,579	\$0	\$9,938,182
9	5	University of Colorado Boulder Update Classroom Security, Various Sites, Ph 1 of 3		\$1,310,703	\$2,113,387	\$11,248,885
10	6	Red Rocks Community College Install Fire Sprinkler Lines and Upgrade Fire Alarm System, Main Building, Ph 2 of 2	2020-072M19	\$1,508,981	\$0	\$12,757,866
11	6	Colorado School of Mines Upgrade Fire Alarm Mass Notification System, Ph 3 of 4	2019-027M18	\$451,470	\$481,564	\$13,209,336
12	6	Department of Public Safety Install Fire Suppression System, State Patrol Academy, Ph 1 of 1		\$825,537	\$0	\$14,034,873
13	6	Department of Agriculture - Colorado State Fair Install Fire Suppression, Accessibility Upgrade, Palace of Agriculture, Ph 1 of 1		\$739,797	\$0	\$14,774,670
14	6	University of Northern Colorado Fire Sprinklers, Michener Building, Ph 1 of 2		\$1,281,079	\$785,178	\$16,055,749
15	6	Community College of Aurora Upgrade Site Security, Interior and Exterior, Ph 1 of 2		\$767,576	\$751,244	\$16,823,325
16	6	Department of Local Affairs - Fort Lyon Improve Life Safety and Code, Multiple Buildings, Ph 1 of 2		\$613,965	\$485,491	\$17,437,290

Ref No.	Agency Score	Project Title:	Project M#	CURRENT-YEAR* Project Request	OUT-YEAR* Project Balance	Cumulative Total of Recommended Projects
17	6	Lamar Community College Upgrade Building Door Access Control and Campus Safety, Ph 2 of 2	2019-046M19	\$1,329,414	\$0	\$18,766,704
18	6	Colorado State University Replace Electric Service to ERC, Foothills Campus, Ph 1 of 2		\$620,364	\$522,914	\$19,387,068
19	8	Otero Junior College Upgrade Fire Safety, Egress, and Exit Paths, McDivitt Center, Ph 1 of 1		\$1,050,000	\$0	\$20,437,068
20	8	Colorado School of Mines Campus Steam Branch Repairs, Ph 4 of 4	2019-027M14	\$357,915	\$0	\$20,794,983
21	8	Colorado Mesa University Replace Sewer Drain System, Lowell Heiny Hall, Ph 1 of 1		\$65,000	\$0	\$20,859,983
22	10	Department of Human Services Upgrade Fire Sprinkler Systems, SCYSC, Ph 1 of 1		\$713,639	\$0	\$21,573,622
23	10	Fort Lewis College Replace North Campus Heating and Cooling Line, Ph 2 of 2	2019-057M19	\$866,335	\$0	\$22,439,957
24	10	Pikes Peak Community College Replace Sewer Vent Pipes and Upgrade Restrooms, Centennial Campus, Ph 2 of 2	2020-081M19	\$639,571	\$0	\$23,079,528
25	10	Trinidad State Junior College Upgrade HVAC Air Quality and Building Safety, Alamosa Campus, Ph 2 of 2	2020-077M19	\$1,243,544	\$0	\$24,323,072
26	10	Pueblo Community College Replace Roof, Main Building, Southwest Campus, Ph 2 of 2	2019-058M19	\$697,439	\$0	\$25,020,511
27	10	University of Colorado Colorado Springs Replace Roof, El Pomar, Kraemer Family Library, Ph 1 of 1		\$1,987,486	\$0	\$27,007,997
28	10	Colorado State University Roof Replacement, Clark A Wing, Ph 1 of 1		\$871,841	\$0	\$27,879,838
29	10	Western Colorado University Accessibility Improvements, Exterior Campus, Ph 1 of 2		\$353,272	\$1,024,803	\$28,233,110
30	10	Front Range Community College Replace Mechanical System and Update Controls, Harmony Library, Larimer Campus, Ph 1 of 1		\$782,603	\$0	\$29,015,713
31	10	Department of Personnel & Administration - Division of Capital Assets Refurbish Freight Elevator and Replace Electrical Switch Gear, Centennial Building, Ph 1 of 1		\$962,242	\$0	\$29,977,955

Ref No.	Agency Score	Project Title:	Project M#	CURRENT-YEAR* Project Request	OUT-YEAR* Project Balance	Cumulative Total of Recommended Projects
			Level 1 Totals:	\$29,977,955	\$6,164,581	
			Cumulative Current-Year Project Requests:	\$29,977,955		
			Cumulative Out-Year Project Balances:		\$6,164,581	

Ref No.	Agency Score	Project Title:	Project M#	CURRENT-YEAR* Project Request	OUT-YEAR* Project Balance	Cumulative Total of Recommended Projects
LEVEL 2						
32	12	Colorado State University - Pueblo Replacement/Upgrade of Building Fire Alarm Equipment, Campus, Ph 1 of 3		\$1,056,667	\$2,113,334	\$31,034,622
33	12	Auraria Higher Education Center Provide ADA walkways, Curtis and Champa Streets and Classroom Courtyard, Ph 1 of 2		\$1,064,015	\$596,493	\$32,098,637
34	12	Colorado State University ADA Accessibility Improvements, Ph 1 of 1		\$363,329	\$0	\$32,461,966
35	12	Department of Corrections Improve Accessibility, FCF, Ph 2 of 5	2020-086M19	\$1,924,406	\$4,883,445	\$34,386,372
36	12	Red Rocks Community College Refurbish West Wing Elevator, Lakewood Campus, Ph 1 of 1		\$272,483	\$0	\$34,658,855
37	12	Colorado State University - Pueblo Refurbish Elevators, Upgrade ADA Compliance, Three Buildings, Ph 1 of 1		\$795,453	\$0	\$35,454,308
38	12	Adams State University Repair Electrical Distribution, Campus, Ph 1 of 3		\$1,661,534	\$2,003,734	\$37,115,842
39	12	Department of Human Services Refurbish HVAC Systems, B Building, CMHIFL, Ph 2 of 2	2019-053M19	\$920,666	\$0	\$38,036,508
40	12	Arapahoe Community College Replace HVAC Primary Equipment, Main Building, Ph 2 of 3	2020-078M19	\$1,816,915	\$1,272,850	\$39,853,423
41	12	University of Colorado Denver Replace Chiller, Fitzsimons Building, Ph 1 of 2		\$1,068,667	\$1,572,825	\$40,922,090
42	12	Department of Personnel & Administration - Division of Capital Assets Upgrade/Replace HVAC Systems, 690 and 700 Kipling Buildings, Ph 1 of 2		\$1,368,850	\$1,059,303	\$42,290,940
43	12	Department of Public Health and Environment Replace Mechanical System, State Laboratory Building, Ph 1 of 1		\$1,432,580	\$0	\$43,723,520
44	12	University of Northern Colorado Replacement Chiller, Michener, Ph 1 of 1		\$548,651	\$0	\$44,272,171
45	12	Department of Military and Veterans Affairs Site Flood Mitigation, Building Envelope Repairs, Watkins Readiness Center, Ph 3 of 3	2017-037M16	\$378,540	\$0	\$44,650,711
46	12	Colorado State University - Pueblo Replace Campus Water Lines, Ph 2 of 3	2020-087M19	\$919,809	\$919,809	\$45,570,520
47	12	History Colorado Replace Roofs, Santa Fe Trail Museum and Baca House, Ph 1 of 1		\$218,809	\$0	\$45,789,329

Ref No.	Agency Score	Project Title:	Project M#	CURRENT-YEAR* Project Request	OUT-YEAR* Project Balance	Cumulative Total of Recommended Projects
48	12	Colorado Northwestern Community College Replace Roof, Windows, Blakeslee and Allesbrooke Buildings, Rangely Campus, Ph 1 of 1		\$416,826	\$0	\$46,206,155
49	14	History Colorado Fire Mitigation, Georgetown Railway Loop, Area C, Ph 2 of 3	2020-075M19	\$517,791	\$537,571	\$46,723,946
50	14	Department of Human Services ADA Accessibility Improvements, DYS, Ph 1 of 1		\$150,044	\$0	\$46,873,990
51	14	Department of Personnel & Administration - State Capitol Building Replace Short Tunnel Roof, Capitol, Ph 1 of 1		\$1,949,130	\$0	\$48,823,120
52	14	Pikes Peak Community College Electrical Infrastructure Improvement & Emergency Generators, Downtown Studio, Ph 1 of 1		\$1,168,091	\$0	\$49,991,211
53	14	University of Colorado Denver Improve Heating System, Building 500, Ph 2 of 5	2019-073M19	\$782,607	\$2,427,156	\$50,773,818
54	14	Department of Personnel & Administration - Division of Capital Assets Repair East Perimeter Wall and Electrical Upgrades, Executive Residence, Ph 1 of 1		\$400,000	\$0	\$51,173,818
55	14	Department of Human Services Refurbish HVAC and Mechanical Equipment, ZPYSC, PYSC, SCYSC, Ph 1 of 2		\$1,270,715	\$1,022,743	\$52,444,533
56	14	Department of Education - Colorado Talking Book Library Improve Site Drainage and Safety, Talking Book Library, Ph 1 of 1		\$529,444	\$0	\$52,973,977
57	14	Colorado State University Replacement Domestic Water Line, East Drive, Ph 1 of 1		\$484,745	\$0	\$53,458,722
58	14	Colorado Mesa University Improve Building Envelope, AEC and Wubben/Science Buildings, Ph 1 of 1		\$466,326	\$0	\$53,925,048
59	14	Department of Military and Veterans Affairs Replace Roof and Fire Alarm Systems, BAFB Building 1500, Ph 1 of 1		\$577,655	\$0	\$54,502,703
60	14	Department of Education - Colorado School for the Deaf and Blind Roof Replacements, West and Argo Halls, Ph 1 of 2		\$614,892	\$1,324,423	\$55,117,595
61	15	Department of Corrections Roof Replacement, Administration Building, CTCF, Ph 1 of 1		\$1,012,323	\$0	\$56,129,918
62	16	Department of Personnel & Administration - 1881 Pierce Restroom Modernization, Ph 1 of 1		\$1,058,963	\$0	\$57,188,881
63	16	Colorado State University Repair C Basin Sanitary Sewer Outfall, Ph 1 of 1		\$497,127	\$0	\$57,686,008
64	16	Department of Corrections Improve Door Security, Cellhouse 3, CTCF, Ph 1 of 1		\$1,632,874	\$0	\$59,318,882

Ref No.	Agency Score	Project Title:	Project M#	CURRENT-YEAR* Project Request	OUT-YEAR* Project Balance	Cumulative Total of Recommended Projects
65	16	Colorado School of Mines Upgrade Fire Alarm Mass Notification System, Ph 4 of 4	2019-027M18	\$481,564	\$0	\$59,800,446
66	16	Colorado Community College System at Lowry Replace HVAC Equipment, Building 999, Ph 1 of 1		\$1,047,804	\$0	\$60,848,250
67	16	Department of Corrections Improve Door Security, Lower North, BVCF, Ph 1 of 4		\$1,521,748	\$4,565,241	\$62,369,998
68	16	Department of Local Affairs - Fort Lyon Replace Chiller, Building 5, Ph 1 of 1		\$212,946	\$0	\$62,582,944
69	16	Colorado School of Mines Replacement of Hazardous Laboratory Exhaust Fans, Campus, Ph 1 of 3		\$480,208	\$2,119,860	\$63,063,152
70	16	Colorado State University Replace Roof, B Wing, Engineering Building, Ph 1 of 1		\$518,166	\$0	\$63,581,318
71	16	Northeastern Junior College Knowles Hall Roof and East Entrance Replacement, Ph 1 of 1		\$646,819	\$0	\$64,228,137
72	16	Trinidad State Junior College Roof Replacement, Mullen Building, Ph 1 of 1		\$303,061	\$0	\$64,531,198
73	16	Front Range Community College Replace Harmony Library Roof, Larimer Campus, Ph 1 of 1		\$468,802	\$0	\$65,000,000
74	18	Fort Lewis College Replace Fire Alarm Equipment, Multiple Buildings, Ph 1 of 2		\$1,125,504	\$1,104,414	\$66,125,504
75	18	Auraria Higher Education Center Replace Main Electrical Switchgear, Campus, Ph 1 of 1		\$1,203,199	\$0	\$67,328,703
76	18	Colorado State University Refurbish Water Wells, Pumps, Ditches, ARDEC, Ph 1 of 1		\$1,048,555	\$0	\$68,377,258
77	18	Department of Human Services Refurbish Ash Conveyor System, Heat Plant, CMHIP, Ph 1 of 2		\$1,578,173	\$1,470,037	\$69,955,431
78	18	Department of Education - Colorado School for the Deaf and Blind Upgrade HVAC, ADA, Electrical, Early Education Center, Ph 1 of 1		\$1,091,935	\$0	\$71,047,366
79	18	Lamar Community College Campus Accessibility Compliance, Ph 1 of 1		\$650,000	\$0	\$71,697,366
80	18	Community College of Aurora Roof Replacement, Administration Building, Ph 1 of 1		\$434,240	\$0	\$72,131,606
81	18	Front Range Community College Replace Mechanical System and Update Controls, Challenger Point, Larimer Campus, Ph 1 of 1		\$995,805	\$0	\$73,127,411

Ref No.	Agency Score	Project Title:	Project M#	CURRENT-YEAR* Project Request	OUT-YEAR* Project Balance	Cumulative Total of Recommended Projects
82	18	Department of Human Services Replace Roofs, Five Buildings, CMHIFL, Ph 1 of 2		\$1,143,240	\$1,220,991	\$74,270,651
83	20	Colorado Community College System at Lowry Upgrade HVAC System, Building 905, Ph 1 of 1		\$1,992,187	\$0	\$76,262,838
84	20	Western Colorado University Upgrade HVAC Systems, Academic Buildings, Ph 1 of 1		\$884,785	\$0	\$77,147,623
85	20	Department of Public Health and Environment Replace Emergency Generator, Argo Water Treatment Facility, Ph 1 of 1		\$376,200	\$0	\$77,523,823
86	20	Department of Human Services Replace Hydronic Valves, Southern District, Ph 1 of 2		\$720,887	\$831,383	\$78,244,710
87	20	History Colorado Install Geothermal Heat System, Officer's Quarters, Ft. Garland, Ph 1 of 1		\$485,084	\$0	\$78,729,794
88	20	University of Colorado Colorado Springs Replace AHU and Return Air System, Columbine Hall, Ph 1 of 1		\$562,722	\$0	\$79,292,516
89	20	Department of Human Services Upgrade Interiors Group Home, Ph 1 of 3		\$1,017,206	\$1,965,343	\$80,309,722
90	20	Morgan Community College Replace Campus Irrigation System, Ph 1 of 1		\$1,007,050	\$0	\$81,316,772
91	20	Otero Junior College Abate Asbestos, Safety Upgrade, Humanities Center, Ph 1 of 1		\$1,400,000	\$0	\$82,716,772
92	20	Colorado State University - Pueblo Replace Roof and Structure, Buell Communication Center, Ph 1 of 1		\$639,166	\$0	\$83,355,938
93	20	Department of Human Services Refurbish HVAC Systems, PVYSC, MFYSC, DYSC, Ph 1 of 3		\$608,862	\$1,256,787	\$83,964,800
Level 2 Totals:				\$53,986,845	\$34,267,742	
Cumulative Current-Year Project Requests:				\$83,964,800		
Cumulative Out-Year Project Balances:					\$40,432,323	

Ref No.	Agency Score	Project Title:	Project M#	CURRENT-YEAR* Project Request	OUT-YEAR* Project Balance	Cumulative Total of Recommended Projects
LEVEL 3						
94	21	Trinidad State Junior College Install Card Access and Update Door Hardware, Ph 1 of 1		\$159,738	\$0	\$84,124,538
95	21	Pikes Peak Community College Improve Electrical Infrastructure, Rampart Range Campus, Ph 1 of 1		\$943,616	\$0	\$85,068,154
96	21	Auraria Higher Education Center Replace Transformers at North Chiller and PE Events Center, Ph 1 of 2		\$241,794	\$494,231	\$85,309,948
97	21	Department of Corrections Roof Replacement, Program and Support Buildings, TCF, Ph 1 of 1		\$1,747,429	\$0	\$87,057,377
98	21	Fort Lewis College Replace Roof, Aquatic Center, Ph 1 of 1		\$671,229	\$0	\$87,728,606
99	21	Department of Human Services Repair/Replace Roofs, 16 buildings at MVYSC, GYSC, Ph 1 of 3		\$1,662,168	\$2,210,394	\$89,390,774
100	21	University of Colorado Colorado Springs Replace Roof, Columbine Hall, Ph 1 of 2		\$833,804	\$328,801	\$90,224,578
101	21	Department of Corrections Replace Roof, Support Building, DWCF, Ph 1 of 1		\$1,866,309	\$0	\$92,090,887
102	24	Colorado State University Upgrade Campus Exterior Lighting, Ph 1 of 1		\$557,839	\$0	\$92,648,726
103	24	University of Colorado Denver Bathroom Modernization, Fitzsimons Building, Ph 1 of 3		\$924,659	\$1,797,133	\$93,573,385
104	24	Department of Human Services Replace Flooring, Five Buildings, CMHIFL, Ph 1 of 2		\$900,913	\$992,656	\$94,474,298
105	24	University of Colorado Boulder Refurbish Elevators, Six Buildings, Ph 1 of 3		\$862,034	\$3,663,617	\$95,336,332
106	24	Department of Corrections Replace Roof, Minimum Living Unit, SCF, Ph 1 of 2		\$970,586	\$1,112,430	\$96,306,918
107	24	University of Northern Colorado Replace Roof, Arts Annex, Ross, and Skinner, Ph 1 of 1		\$316,430	\$0	\$96,623,348
108	27	Department of Human Services Replace Gym Floors, DYS, Ph 1 of 2		\$1,632,952	\$716,623	\$98,256,300
109	28	Colorado School of Mines Remediate Campus Fall Hazard, Ph 3 of 3	2019-037M18	\$488,879	\$0	\$98,745,179
110	28	Colorado Mesa University Refurbish HVAC and Control Systems, Moss Performing Arts, Ph 1 of 2		\$1,959,076	\$1,770,924	\$100,704,255

Ref No.	Score	Agency Project Title:	Project M#	CURRENT-YEAR* Project Request	OUT-YEAR* Project Balance	Cumulative Total of Recommended Projects
111	28	Department of Local Affairs - Fort Lyon Emergency Generators, Buildings 6 and 8, Ph 1 of 1		\$600,000	\$0	\$101,304,255
112	28	Office of the Governor - Office of Information Technology Replace Microwave Communications Site Shelters, Ph 1 of 2		\$1,192,156	\$998,140	\$102,496,411
113	28	Colorado Community College System at Lowry Replace Windows and Doors, Building 905, Ph 1 of 1		\$799,870	\$0	\$103,296,281
114	28	Colorado Mesa University Replace Roof, WCCC Building A, Ph 1 of 1		\$342,958	\$0	\$103,639,239
115	30	Lamar Community College Replace Pumps, Controls, Valves, Campus Irrigation System, Ph 1 of 1		\$225,000	\$0	\$103,864,239
116	30	Colorado Northwestern Community College Repair/Replacement of Parking Lots and Adjacent Sidewalks, Rangely Campus, Ph 1 of 1		\$719,607	\$0	\$104,583,846
117	30	University of Colorado Colorado Springs Refurbish Campus Elevators, 6 Buildings, Ph 1 of 3		\$238,465	\$822,784	\$104,822,311
118	36	Department of Military and Veterans Affairs Replace Pavement and Upgrade Security Lighting, BAFB Aviation Readiness Center, Ph 1 of 2		\$795,339	\$673,662	\$105,617,650
119	36	History Colorado Paint High Bridge, Georgetown Mining and Railroad Park, Ph 1 of 1		\$684,479	\$0	\$106,302,129
120	42	Department of Local Affairs - Fort Lyon Refurbish Water Tower, Ph 1 of 1		\$136,187	\$0	\$106,438,316
121	42	Colorado State University - Pueblo Repair Roof, Physical and Heat Plant, Ph 1 of 1		\$761,794	\$0	\$107,200,110
122	48	Front Range Community College Roof Replacement, North Roof Section, Westminster Campus, Ph 1 of 1		\$1,795,886	\$0	\$108,995,996
123	48	Department of Human Services Refurbish Secondary and Emergency Electrical Systems, Tier 1, CMHIP, Ph 1 of 3		\$1,652,056	\$3,510,888	\$110,648,052
124	48	Office of the Governor - Office of Information Technology Microwave Site Roof Replacements, Ph 1 of 1		\$877,806	\$0	\$111,525,858
Level 3 Totals:				\$27,561,058	\$19,092,283	
Cumulative Current-Year Project Requests:				\$111,525,858		
Cumulative Out-Year Project Balances:					\$59,524,606	
Grand Total of Current-Year Project Request:				\$111,525,858		
Grand Total of Current-Year Project Request and Out-Year Project Balance:					\$171,050,464	