

BACKGROUND ON STATE BUILDING MAJOR/DEFERRED MAINTENANCE AND CONSTRUCTION

A Report Prepared for the
Legislative Finance Committee

By
Cathy Duncan

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INTRODUCTION

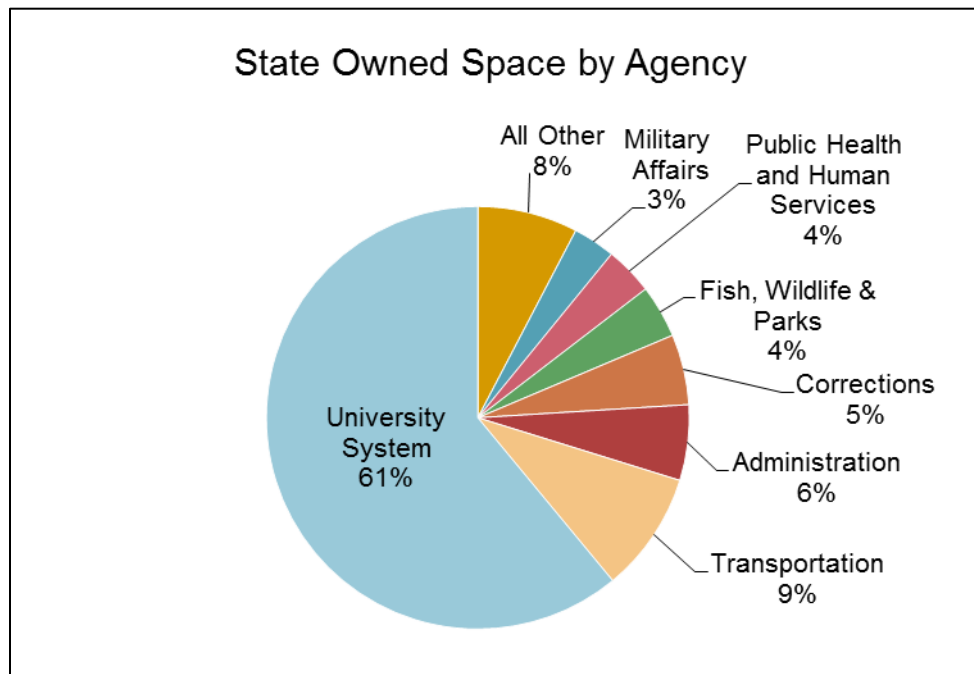
This report will provide background on the processes used in determining when and where state infrastructure investments are needed. For the purposes of this interim study and unless otherwise directed by the LFC, state infrastructure will mean state-owned buildings and the associated infrastructure as defined in 17-7-201, MCA, summarized as:

- Buildings, facilities, or structures constructed or purchased wholly or in part with state moneys, including those owned or to be owned by a state and those at state institutions
- State infrastructure will not include buildings, facilities, or structures owned or to be owned by a county, city, town, school district, or special improvement district or facilities or structures used as a component part of a highway, or water conservation projects

The report will describe the basics of the major maintenance responsibilities for state buildings. The state infrastructure project will include a significant focus on the Long-Range Building Program (LRBP) as the principle mechanism for appropriations and authorizations related to the major state infrastructure maintenance and construction. For a visual representation of program spending, this report will utilize LRBP appropriations approved in the 2015 session.

STATE BUILDING INVENTORY

The LRBP is the mechanism through which state agencies request appropriations and authority for the deferred maintenance and major repairs on some 4,000 buildings. According Department of Administration, Risk Management and Tort Division the state owns approximately 22.5 million square feet (sq/ft) of facilities. The information is compiled by the division for insurance purposes, not strictly as a measure of the space owned in state buildings. Agency ownership of the space is shown in the figure below.

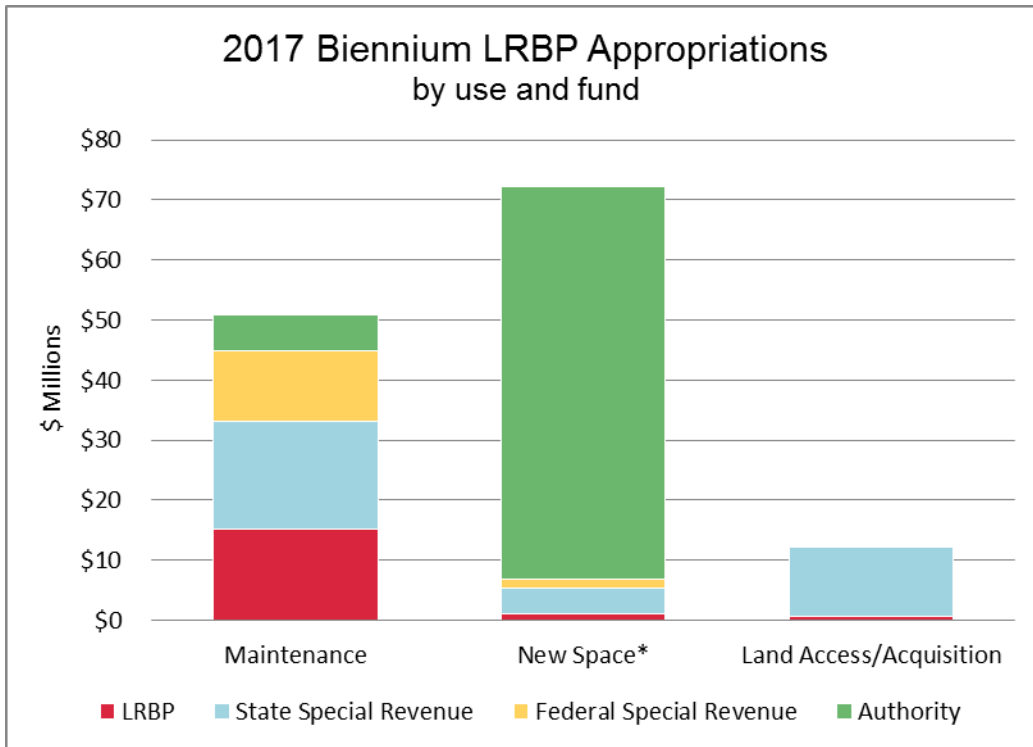


LONG-RANGE BUILDING PROGRAM

The LRBP evaluates, reviews and prioritizes the major maintenance, repairs, and construction (projects with costs of \$150,000 or more) for most of the state government buildings, including many of the buildings at the university campuses. A specific LRBP account dedicated to the program is projected to have \$22.0 million of revenues in the 2017 biennium, which is generally used for the deferred maintenance of general fund supported agency space. Agencies funded with substantial state special and/or federal special revenue funding, such as the Department of Fish, Wildlife, & Parks and the Department of Military Affairs, have historically been responsible to fund their deferred maintenance and construction needs. The deferred maintenance and construction of auxiliary space in the Montana University System (MUS) is funded with student fees and other non-state funds.

The LRBP, administered by the Department of Administration, was enacted in 1963 to provide a single comprehensive program with a prioritized plan for allocating state resources to capital repair and construction of state-owned facilities.

The figure below provides the appropriations and authority supplied by the Sixty-fourth Legislature in HB 403 by use and fund type. The figure is intended to provide a measure of the maintenance responsibility, as demonstrated by the type of funding.



*New Space includes a \$60 million donation for a new Engineering Building at MSU Bozeman

Historically, the LRBP has been funded with a combination of cash accounts and bonding. The “cash” funding of the LRBP is not usually sufficient for new construction. Historically, new state space construction has been funded with general fund transfers to the LRBP, bond proceeds, and donations (Author), primarily at the university system. In recent times, new space has been funded through general fund infusions. The most recent LRBP bonded program was authorized in the 2005 Session.

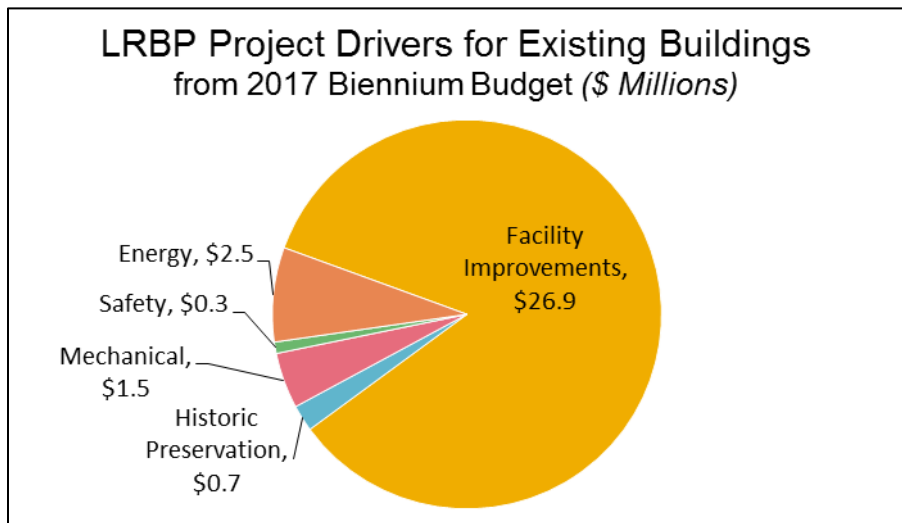
DRIVERS OF LRBP PROJECTS

The drivers of state infrastructure deferred maintenance and construction projects are varied, and are summarized in the following figures.

Deferred maintenance and major repair project drivers include:

- Facility improvements: Projects that result from a need for improvements or repairs due to normal wear and tear on structures and are intended to extend the life of the structure
- Historic preservation: Projects intended to extend the life of historic buildings
- Mechanical: Projects that result from the need to repair or improve mechanical systems within a structure, such as repairs to heating, ventilation, and air-conditioning systems, elevator repairs, and boiler replacement¹
- Safety: Projects directed to ADA, hazardous materials and code deficiencies
- Energy: Projects that will conserve energy, such as window replacement, boiler replacement, and lighting improvements¹

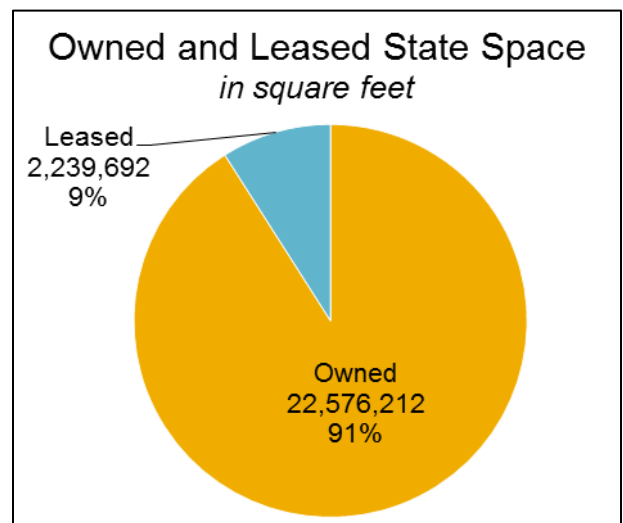
¹The graphic below contains appropriations made specifically for these purposes. Other mechanical, safety, and energy repairs may be included in the FI category.



For new construction projects primary drivers include:

- Agency growth
- New programs
- Facility obsolescence
- Replacement of leased space
- Consolidation of personnel and functions

To accommodate growth, the primary alternative of new space construction is to lease space. The data contained in the figure to the right is provided through the building inventory. The figure to the right shows a 91:9 ratio of owned to leased state space. The March report will provide a comprehensive examination of state owned and leased space, with a historical perspective of how owned and lease space has changed over time.



CONCLUSION

In summary, this report is intended to provide the background for understanding the focus of the state-owned infrastructure project. The project will focus on the LRBP, since state government deferred maintenance and construction projects with costs exceeding \$150,000 are appropriated or authorized through the program. State agencies supported by state and federal special revenues generally use those revenues to fund their maintenance and construction needs.

New space construction is most often funded from general fund transfers, bonded debt, or other revenue sources. The determination of project need generally takes into account the current condition of the facilities, changes in space needs, and obsolescence of the existing space. Alternatives are always considered in the decision of new space, with consideration to own versus lease. The March report will follow up with information related to build/lease decisions and provide a historic perspective on those decisions.