

State of Washington
Joint Legislative Audit and Review Committee (JLARC)



Follow-up:
Higher Education Facilities
Preservation Study

Report 03-8

August 6, 2003

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The Joint Legislative Audit and Review Committee (JLARC) carries out oversight, review, and evaluation of state-funded programs and activities on behalf of the Legislature and the citizens of Washington State. This joint, bipartisan committee consists of eight senators and eight representatives, equally divided between the two major political parties. Its statutory authority is established in RCW 44.28.

JLARC staff, under the direction of the Committee and the Legislative Auditor, conduct performance audits, program evaluations, sunset reviews, and other policy and fiscal studies. These studies assess the efficiency and effectiveness of agency operations, impacts and outcomes of state programs, and levels of compliance with legislative direction and intent. The Committee makes recommendations to improve state government performance and to correct problems it identifies. The Committee also follows up on these recommendations to determine how they have been implemented. JLARC has, in recent years, received national recognition for a number of its major studies.

**FOLLOW-UP:
2001-03 HIGHER
EDUCATION FACILITIES
PRESERVATION STUDY**

REPORT 03-8



AUGUST 6, 2003

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REVIEW COMMITTEE

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OVERVIEW:

In 2001-03, JLARC's Higher Education Facilities Preservation Study (Report 03-1) assembled a large body of comparable information on college and university building inventories and conditions previously unavailable to the Legislature. The study identified more than 40 million square feet of state-supported publicly-owned higher education facilities across the state, with an estimated \$1.3 billion backlog of preservation and repair projects. JLARC made four recommendations to improve higher education preservation budgeting and accountability:

1. Sustain and expand the Comparable Framework (Legislature);
2. Establish minimum preservation expenditure thresholds and improve reporting of expenditures (OFM);
3. Establish preservation funding policies (OFM); and
4. Create a backlog reduction funding process (Legislature).

Lawmakers implemented two of the study recommendations during the 2003 Session. They approved \$283 million in the capital budget for higher education facility preservation, including \$152 million to reduce repair backlogs in older and more deteriorated buildings. The Legislature also set forth uniform preservation definitions to be used in budgeting and accountability, established the Facilities Condition Index as a performance measure to track facility conditions over time, and directed JLARC to build additional comparable information about higher education facilities during the 2003-05 Biennium.

JLARC's study directed the remaining two recommendations to the Office of Financial Management (OFM), which has not yet acted upon them. At JLARC's August 6, 2003 meeting, OFM indicated that they will strive to implement Recommendations 2 and 3, but that additional time may be needed.

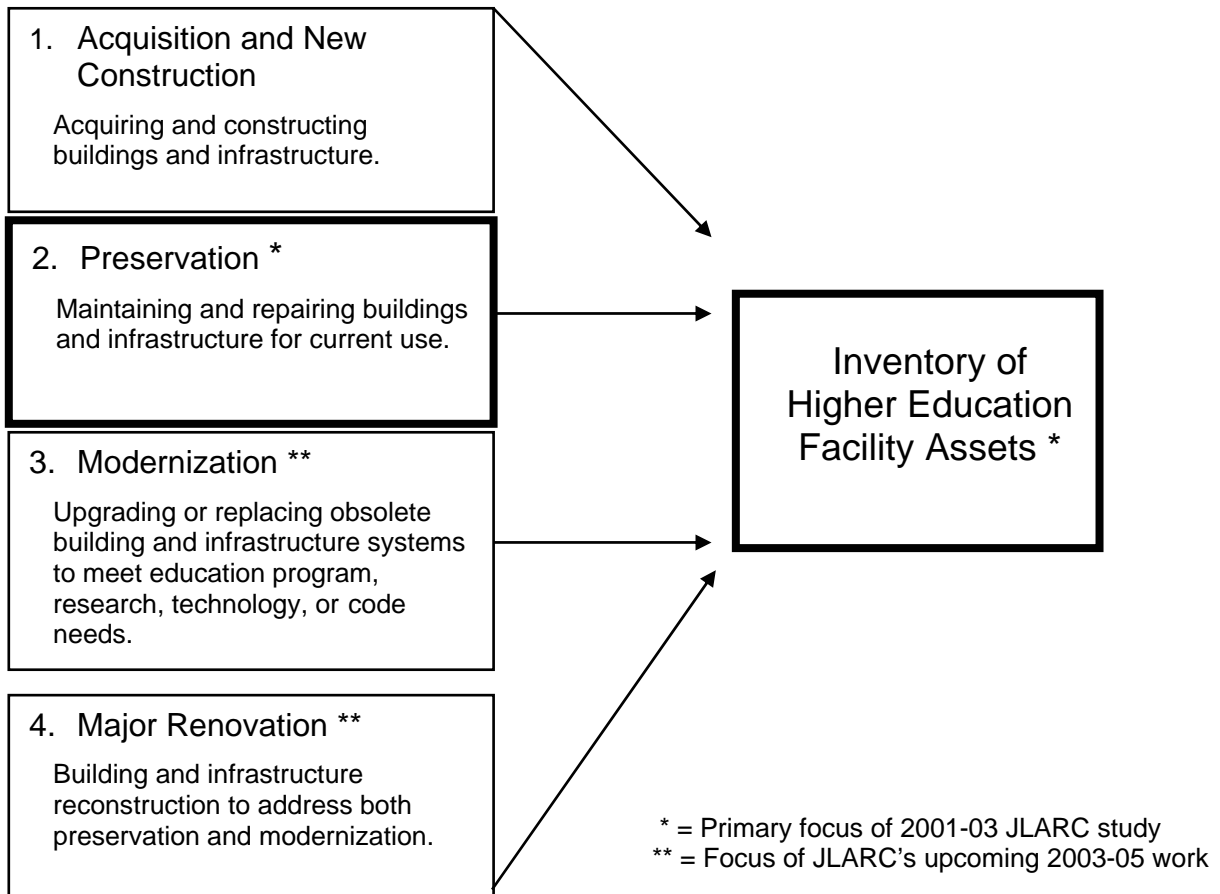
Since January 2003, JLARC staff have worked with legislative fiscal committee staff to develop an approach to preservation budgeting that analyzes available funding from state and local non-appropriated sources and forecasts future building conditions. Initial analysis indicates that colleges and universities will have enough preservation funding in 2003-05 both to maintain and improve building conditions. Should the state and institutions sustain 2003-05 funding levels through the 2007-09 Biennium, and if institutions spend these funds efficiently, the condition of higher education buildings could improve markedly.

JLARC will continue its study of higher education facilities in 2003-05, and will coordinate this work with two other studies directed in the 2003-05 Capital Budget.

I. 2001-03 STUDY: OVERVIEW AND RECOMMENDATIONS

In January 2003, JLARC released the Higher Education Facilities Preservation Study (Report 03-1). The study, commissioned in the 2001-03 Capital Budget, assembled complete, reliable, and comparable information about higher education facility inventories and building preservation, and recommended improvements to preservation budgeting and accountability. The final 2003-05 Capital Budget approved by the Legislature began implementing study recommendations while extending JLARC's work with higher education facilities into the 2003-05 Biennium.

Figure 1: Focus Areas of 2001-03 Study & Additional Areas JLARC Will Study in 2003-05



Highlights of 2001-03 Study

1. Set up a "Comparable Framework:" JLARC developed a Comparable Framework to collect, assemble, verify, and compare facilities data produced by colleges and universities.

2. Established Reliable Building Inventory: JLARC found that state colleges and universities manage over 52 million square feet of publicly owned facilities, contained in 2,463 buildings at 40 main campuses and 93 other sites across the state. About 75 percent (approximately 40 million square feet) of these buildings are state supported. The remaining 25 percent are funded locally, primarily from fees. JLARC estimates the current replacement value of state-supported buildings to be about \$11.5 billion.

3. Evaluated Building Conditions: Most state-supported higher education buildings are currently in good condition. However, about one-third are in only fair condition with older systems that will need improvement soon. Ten percent have aged and deteriorated to the point where they need immediate improvement.

4. Identified Backlogs: Preservation and repair backlogs for larger state-supported buildings currently total about \$1.3 billion across all institutions. The 10 percent of buildings that need immediate improvement make up about \$430 million of this backlog.

5. Calculated the Facilities Condition Index (FCI): This nationally recognized index measures facility conditions across institutions while accounting for differences in the type and quality of higher education buildings. The FCI is calculated by dividing the repair backlog by replacement value. The FCI can be monitored over time to track building conditions institution by institution – a record of performance for public accountability. The current statewide FCI is 11.6 percent, which is relatively good. If conditions improve, the FCI will go down (indicating fewer buildings need repair). If conditions deteriorate, the FCI will rise (indicating more buildings need repair).

6. Evaluated Preservation Expenditures: Higher education institutions fund preservation activities and projects from both operating and capital budget resources, relying on both appropriated and non-appropriated funds. Preservation expenditures are not routinely reported to the state, but institutions maintain this information. Compared to national benchmark averages, only two public institutions (University of Washington and Eastern Washington University) have spent adequate amounts on facility preservation over the past 10 years. Trends show also that preservation expenditures from the state capital budget have been increasing, while expenditures from institution-controlled operating funds have been decreasing. JLARC found that the state's policies on preservation funding are not clear, forcing the state capital budget to serve as a safety net to repair buildings with insufficient maintenance.

2001-03 Conclusions and Recommendations

The 2001-03 study concluded that existing preservation accountability systems, policies, and budget practices do not promote or ensure cost-effective preservation. JLARC made four recommendations, two directed to the Legislature and two to the Office of Financial Management (OFM). In their formal responses to the study, OFM and higher education institutions generally supported the recommendation to continue and expand the Comparable Framework. They did not, however, support the remaining three recommendations.

Committee Addendum

JLARC’s legislators unanimously adopted an addendum to the final report to reinforce the study recommendations. The addendum also suggested that the Legislature and Governor consider additional changes to higher education budgeting and management systems in the future to improve institutions’ complete financial performance and accountability.

Recommendation Status

The Legislature directly addressed two of the four study recommendations through the 2003-05 Capital Budget, and formally expressed its intent concerning one of the two remaining recommendations directed to OFM. OFM has not yet implemented those recommendations.¹

Table 1 summarizes the current status of the study recommendations. The next chapter provides additional information on legislative actions during the 2003 Session.

Table 1: Recommendation Status

Recommendation	Status as of July 2003	Comments
1. Sustain and expand the Comparable Framework (Legislature).	Implemented	The 2003-05 Capital Budget directs JLARC to accomplish this in collaboration with legislative, executive, and higher education organizations.
2. Establish minimum preservation expenditure thresholds and improve reporting of expenditures (OFM).	Not Implemented ¹	The importance of tracking expenditures and setting formal benchmarks may grow in 2003-05 and beyond due to ongoing operating budget pressures and a greater reliance on capital funds to finance the state’s share of preservation costs.
3. Establish preservation funding policies (OFM).	Not Implemented ¹	The Legislature expresses intent in its 2003-05 Capital Budget that “non-appropriated resources should be used to help meet preservation needs in the spirit of Recommendation 3.” ²
4. Create backlog reduction funding process (Legislature).	Implemented	The Legislature appropriated \$152 million in capital funds for backlog reduction, tied to an expectation that facility conditions, as measured by the FCI, stabilize and improve.

¹ At JLARC’s August 6 meeting, Wolfgang Opitz, Deputy Director of OFM, provided brief testimony indicating that OFM will strive to implement Recommendations 2 and 3, but that additional time may be needed to adjust to the new approaches to preservation budgeting and accountability initiated by the Legislature during the 2003 Session.

² Section 925, 2003-05 Capital Budget (see Appendix 2 for the full text of this section).

II. 2003 LEGISLATIVE SESSION

The JLARC study played an important role in capital budget discussions during the 2003 Legislative Session. JLARC staff formally presented the study to four legislative committees and workgroups before and during the session, in addition to briefing members and committee staff individually throughout the session.

Major Legislative Actions

The Legislature began implementing the study recommendations through appropriations and provisos in its 2003-05 Capital Budget:

- **Providing funding and direction to JLARC to continue and expand the Comparable Framework.** The Legislature directed JLARC to focus on filling in gaps in information about campus infrastructure and facility renewal and replacement dates. The budget also instructs JLARC to begin to address the issue of building modernization. JLARC also is to link the framework with new capital asset accounting standards promulgated nationally by the Governmental Accounting Standards Board (GASB). Finally, the Legislature charged JLARC to work with the Legislative Evaluation and Accountability Program (LEAP) Committee on developing electronic (e.g., web-based) reporting of comparable framework data on an ongoing basis to improve the oversight and analysis of higher education preservation efforts.³
- **Establishing clear intent** to reduce backlogs, measure the progress of preservation efforts using the Facility Condition Index (FCI), begin implementing the JLARC recommendations, and adopt uniform preservation definitions.⁴
- **Providing over \$283 million in preservation funding to higher education institutions in the capital budget**, including \$152 million specifically for backlog reduction in older and more deteriorated buildings, and \$53 million to cover a portion of preservation costs previously paid from General Fund appropriations in the Operating Budget.⁵

The Legislature also passed two bills related to higher education facility preservation.

- The Legislature authorized \$772 million in new **“Gardner-Evans Bonds”** (ESSB 5908). The funds provide additional instruction and research capacity at colleges and universities and pay for major preservation projects that support instruction and research. Of this amount, \$170 million was appropriated in the 2003-05 Capital Budget. The remaining \$600 million is reserved for future appropriation by the Legislature. (See Appendix 3 for the full text of ESSB 5908.)
- The Legislature approved 2ESHB 2151, which restructures and clarifies the process used to set **priorities for future state higher education capital investments**. This legislation also directs JLARC to provide consultation to the Higher Education Coordination Board in developing common definitions for universities and colleges to use in developing their coordinated project lists. (See Appendix 4 for the full text of 2ESHB 2151.)

³ See Appendix 1 for more detail.

⁴ See Appendix 2 for full text of this Capital Budget language.

⁵ The Legislature transferred about 85 percent of the estimated preservation costs previously paid from the General Fund to the Capital Budget. This reduced state operating appropriations to institutions by \$53 million and increased capital appropriations by the same amount.

Capital Budget Highlights

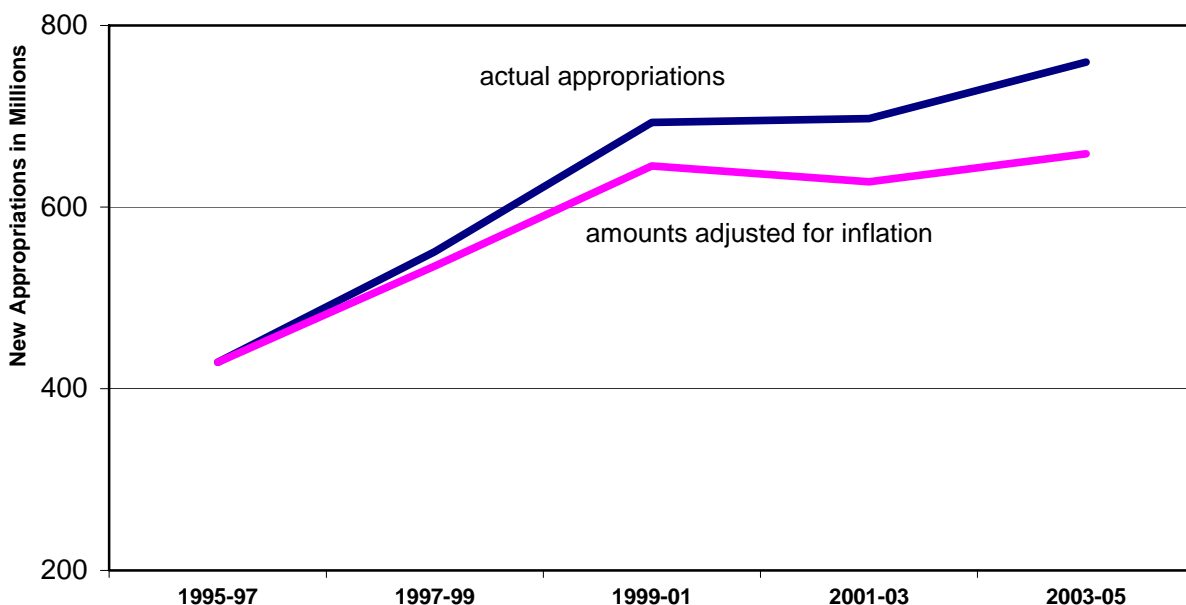
Figures 2 through 5, below and on the following pages, summarize the Legislature's major 2003-05 Capital Budget actions to improve preservation of the state's higher education facilities.

Figure 2: Proviso Excerpts from Section 925 of the Final 2003-05 Capital Budget

The 2003 Legislature ...

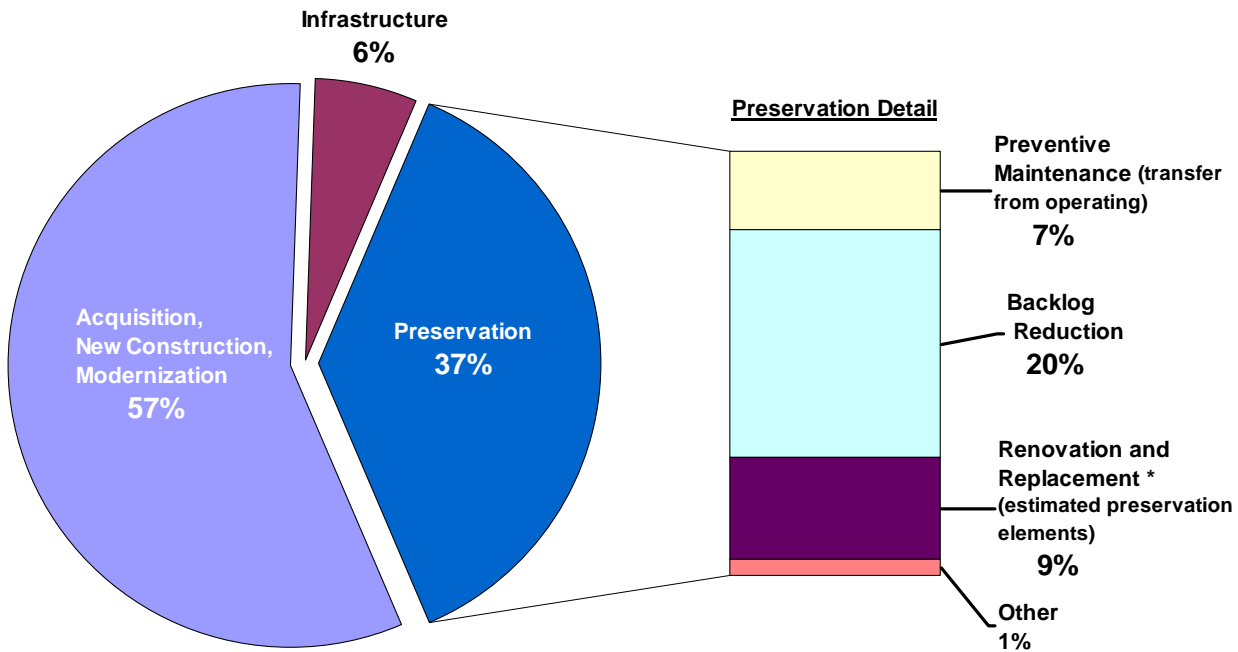
- ✓ “affirms the importance of reducing the significant higher education preservation backlog, of instilling a greater sense of stewardship regarding these important state assets, and of preventing the current backlog from reoccurring.”
- ✓ “is directing a substantial share of state capital resources to reduce the backlog in facility preservation, focusing on the worst and most critical facilities first.”
- ✓ “intends that each higher education institution and the community and technical colleges system stabilize and improve the average facility condition index as compared to levels reported by [JLARC's] Higher Education Preservation Study in January 2003.”
- ✓ “intends that non-appropriated resources should be used to help meet preservation needs in the spirit of recommendation 3 from the Joint Legislative Audit and Review Committee's Report 03-1.”

Figure 3: Higher Education Capital Budget Funding Remains High



Source: Compiled by JLARC from data in LEAP Fiscal Reporting System.

Figure 4: \$759 Million in New 03-05 Higher Ed Capital Appropriations



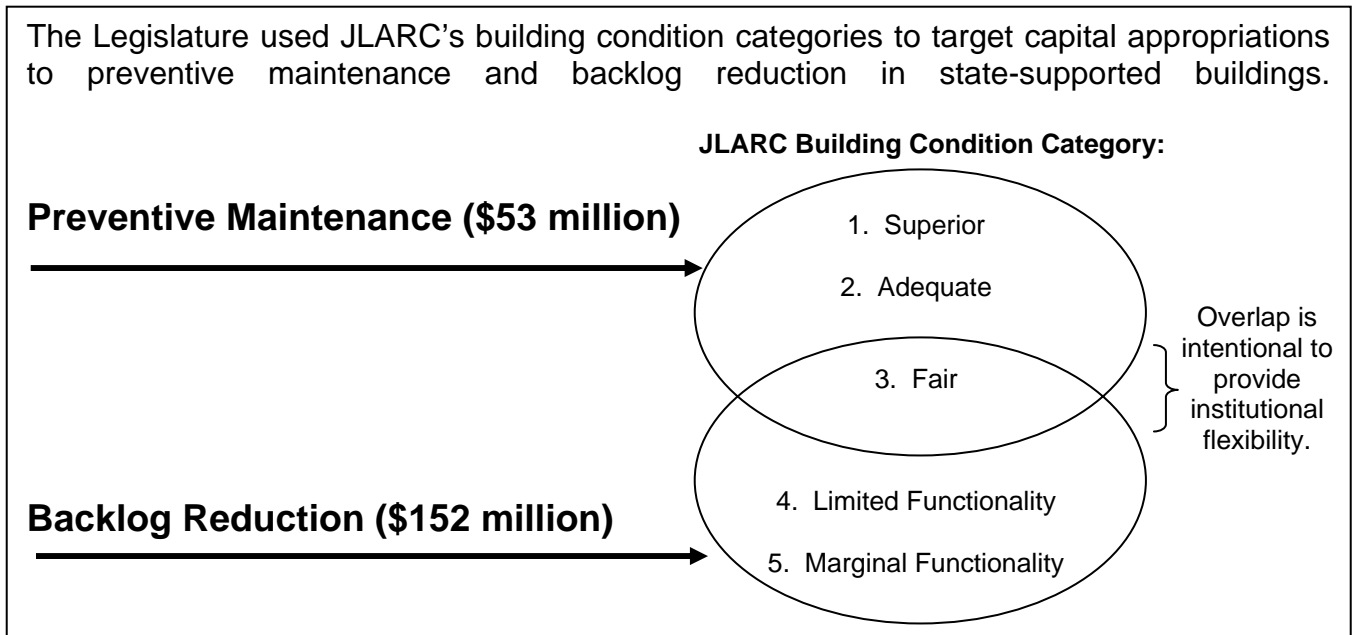
All Capital Appropriations		
Project Type	Amount	%
Preservation	\$283,397,616	37%
Acquisition, New Construction, Modernization	\$431,565,950	57%
Infrastructure	\$44,472,631	6%
TOTAL	\$759,436,197	100%

Preservation Detail		
Project Type	Amount	%
Preventive Maintenance	\$52,898,000	7%
Backlog Reduction	\$151,900,000	20%
Renovation & Replacement*	\$67,333,939	9%
Other	\$11,265,677	1%
TOTAL	\$283,397,616	37%

*NOTE: Renovation and replacement appropriations total \$204 million. Initial estimates are that one-third (\$67 million) is attributable to preservation, and two-thirds (\$137 million) to modernization.

Source: Compiled by JLARC from data in LEAP Fiscal Reporting System.

Figure 5: Targeting of 2003-05 Capital Preservation Funds



Source: JLARC, based on 2003-05 Capital Budget Provisos.

III. PRESERVATION BUDGETING MODEL

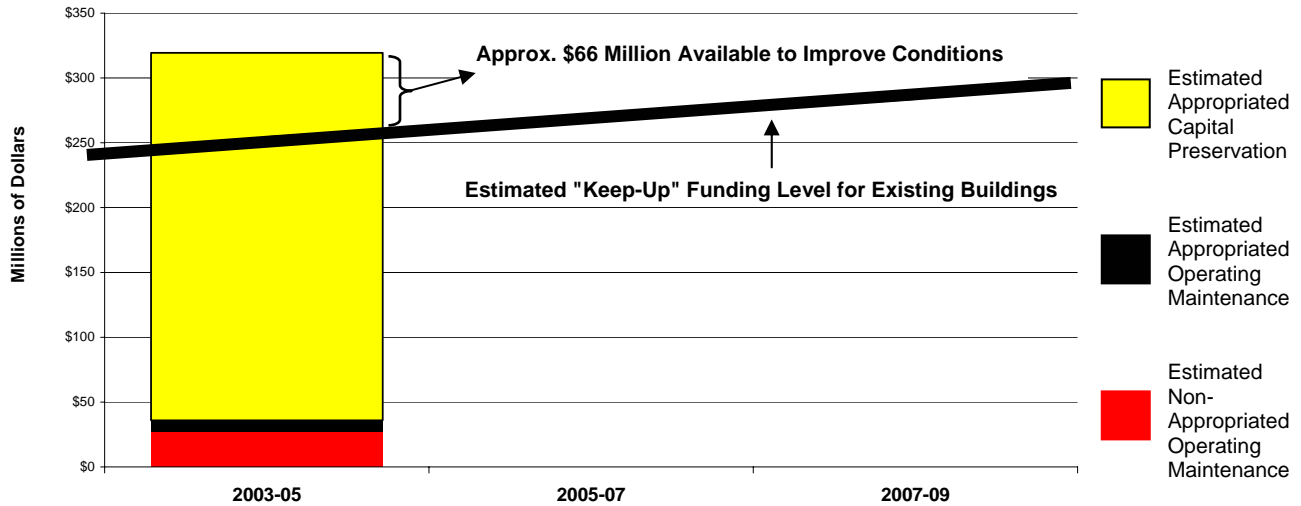
During the 2003 Session, JLARC staff worked with legislative fiscal staff to develop a way to analyze preservation budget resources and forecast future higher education building conditions. This approach, or model, draws upon the inventory and condition information within the Comparable Framework and performs several functions:

- Calculates funding required to keep up with ongoing preservation activities and projects in order to maintain conditions in existing buildings;
- Estimates the amount of funding actually available to colleges and universities for preservation projects and activities from all sources, including appropriated capital funds, appropriated operating funds, and non-appropriated operating funds; and
- Forecasts future building conditions by comparing available funding to the estimated “keep up” levels.

Model Findings

- Initial modeling indicates that approximately **\$253 million** in “keep up” funding from all sources (capital and operating, appropriated and non-appropriated funds) will be required in 2003-05 to maintain current higher education building conditions. This compares to an estimated **\$319 million** that will be available to institutions during the biennium for building preservation from all funding sources — **about \$66 million above forecasted “keep up” levels**. These additional funds can be invested to improve conditions and reduce preservation backlogs. (See Figure 6 on the following page for more detail.)
- If similar funding levels are continued for six years (i.e., the 2003-05 through 2007-09 period envisioned for the Gardner-Evans bonds) — and if institutions spend this preservation funding efficiently — **building conditions could improve markedly**, moving from a current FCI of 11.6 percent to an FCI of 10.0 percent in 2009. (See Figure 7 on page 11.)
- These initial forecasts provide a way to understand institutional progress in improving facility conditions, and establish clear accountability measures for this important area of public investment. JLARC will work with legislative fiscal staff, OFM, HECB, the State Board for Community and Technical Colleges, and individual colleges and universities to refine and identify further applications of the preservation budgeting model in the future.

Figure 6: 2003-05 Higher Education Preservation Funding

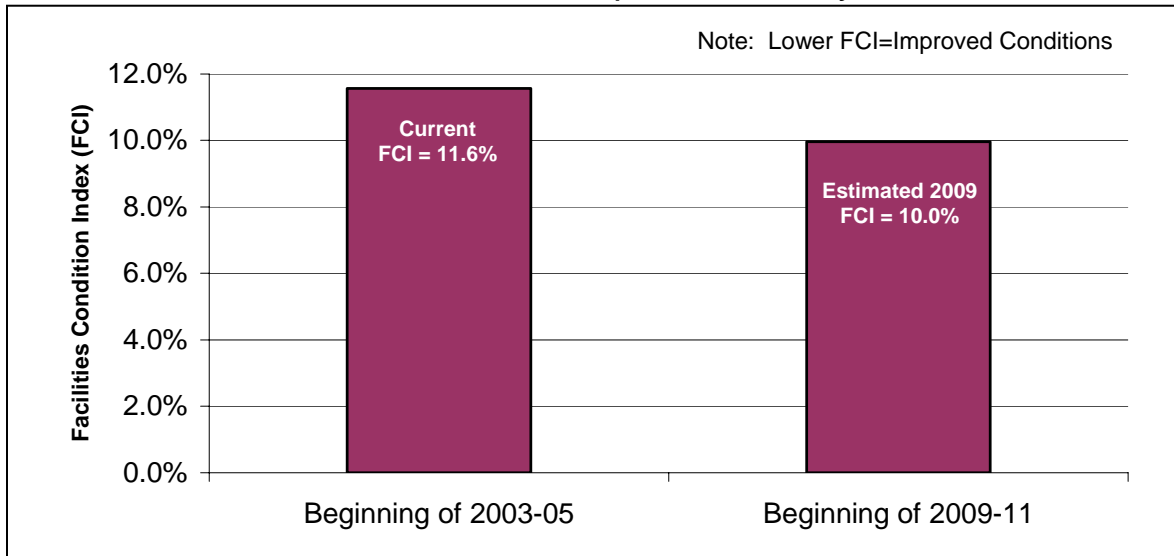


Preservation Funding Estimates for All Colleges and Universities	2003-05
Estimated "Keep-Up" Funding Level (40 million square feet of existing state-supported higher education buildings, and, on average, \$3.16 per square foot per year)	\$253 million
State Capital Budget Preservation	\$283 million
Projected Appropriated Operating Maintenance	\$9 million*
Projected Non-Appropriated Operating Maintenance	\$27 million*
TOTAL ESTIMATED PRESERVATION FUNDING AVAILABLE	\$319 million
Estimated Amount Above "Keep-Up" Level (Available to Improve Conditions)	\$66 million

Source: JLARC.

* NOTE: Projected appropriated and non-appropriated operating maintenance amounts are based on legislative staff estimates. Higher education institutions will control how much is actually spent. If institutions spend less than these estimates, the amount available to improve conditions will be reduced.

Figure 7: Higher Education Facility Conditions Could Improve If 2003-05 Preservation Funding Levels Are Sustained through 2007-09 and Funds Are Spent Efficiently



	Beginning of 2003-05	Beginning of 2009-11
Estimated Preservation Backlog	\$1,326,000,000	\$1,364,000,000
Estimated Current Replacement Value (CRV)	\$11,463,000,000	\$13,687,000,000
Estimated Facilities Condition Index (FCI)	11.6%	10.0%

Source: JLARC.

IV. PREVIEW OF JLARC'S UPCOMING WORK

JLARC received funding and direction in the 2003-05 Capital Budget to sustain and expand the comparable framework to support state budgeting, policy development, and performance measurement and accountability in the future. Major upcoming tasks include:

1. Collecting, verifying, translating, and assembling campus and site infrastructure information.
2. Exploring how to incorporate the dates of renewal and replacement of major building and infrastructure systems into the framework.
3. Expanding the framework, if feasible, to facility modernization, in order to quantify modernization backlogs across institutions.
4. Integrating framework data and reporting with government accounting standards for accountability promulgated nationally by the Governmental Accounting Standards Board (GASB).
5. Revising and updating the comparable framework database and developing web-based reporting capabilities, in collaboration with the Legislative Evaluation and Accountability Program (LEAP).

(See Appendix 1 for more detail on JLARC's ongoing responsibilities with the Comparable Framework.)

Coordination with Related Projects:

In addition to the work associated with expansion of the Comparable Framework, JLARC was directed to carry out **two other capital budget studies in 2003-05: a performance audit of the state capital construction process, and an evaluation of the General Contractor/Construction Manager (GC/CM) form of public works contracting.** (See Appendix 5 for the text of this additional 2003-05 Capital Budget directive.) JLARC staff will coordinate study logistics among these three projects to the extent possible, including formation of a Legislative Advisory Group and Technical Review Panel, site visits, surveys and other information requests to agencies, contracted consulting services, etc. In addition, JLARC will collaborate with the Office of Financial Management, Higher Education Coordinating Board, State Board for Community and Technical Colleges, Council of Presidents, and individual institutions to identify opportunities for coordination with related agency activities, such as the development of 2005-07 budget instructions, budget requests, and higher education capital project prioritization under 2ESHB 2151.

Full discussions of the scope, objectives, and directions of these coordinated 2003-05 Capital Budget Studies will be presented at JLARC's December 3rd meeting.

Thomas M. Sykes
Legislative Auditor

On August 6, 2003, this follow-up report was presented to the Joint Legislative Audit and Review Committee.

APPENDIX 1 – SECTION 924 OF THE 2003-05 CAPITAL BUDGET

Continuation and Expansion of the Higher Education Comparable Framework

NEW SECTION. Sec. 924. The joint legislative audit and review committee, in collaboration with the legislative evaluation and accountability program, shall accomplish the following higher education comparable framework tasks and projects during the 2003-05 biennium:

- (1) Fill in comparable framework gaps related to infrastructure.
 - (a) Develop inventory and condition protocols/standards;
 - (b) Develop infrastructure cost factors;
 - (c) Facilitate institution data collection and reporting;
 - (d) Field-verify data on a sample basis;
 - (e) Develop translation protocols;
 - (f) Translate data and populate comparable framework.
- (2) Explore the feasibility of including dates of renewal and replacement of major building systems in the comparable framework.
 - (a) Develop protocols/standards;
 - (b) Facilitate institution data collection and reporting;
 - (c) Field-verify data on a sample basis;
 - (d) Develop translation protocols;
 - (e) Translate data and populate comparable framework.
- (3) Explore how the comparable framework could be expanded to facility modernization.
 - (a) Analyze the feasibility of and approaches to quantifying modernization backlogs across institutions;
 - (b) Describe current modernization rating processes used by individual institutions including how they fit into master plans, program delivery choices, and other manifestations related to the development of requests for capital support from the state;
 - (c) Explore models used in other government sectors;
 - (d) Assess benefits and costs of potential approaches.
- (4) Explore how to integrate the comparable framework with governmental accounting standards for accountability related to the efficiency and effectiveness of managing public assets.
- (5) Revise and update the comparable framework data base.
 - (a) Modify and/or develop, as needed, tables, queries, and reports;
 - (b) Develop reporting capabilities to share data with other legislative agencies, the office of financial management, the higher education coordinating board, the state board for community and technical colleges, and state institutions of higher education.

In executing these tasks, the joint legislative audit and review committee shall seek technical advice and input from stakeholder groups including but not limited to the office of financial management, the higher education coordinating board, the state board for community and technical colleges, and the council of presidents. As a general condition upon appropriations provided to higher education institutions in part five of this act, higher education institutions, the higher education

coordinating board, the office of financial management, and the state board for community and technical colleges shall provide any requested information to the joint legislative audit and review committee in a timely manner to enable its completion of the above tasks and projects so assigned.

APPENDIX 2 – SECTION 925 OF THE 2003-05 CAPITAL BUDGET

Legislative Intent on Higher Education Building Preservation

NEW SECTION. Sec. 925. (1) In concert with a commitment to increase higher education funding levels significantly above historic levels in this biennium and the following two biennia for primarily access-related projects, the legislature is directing a substantial share of state capital resources to reduce the backlog in facility preservation, focusing on the worst and most critical facilities first. The first commitment is dependent on the latter. To that end and through this act, the legislature begins to address findings and recommendations from the higher education preservation study by the joint legislative audit and review committee, report 03-1, by taking the following actions:

(a) The 2003 legislature affirms that proactive and ongoing facility maintenance, properly supported, can prevent and mitigate preservation backlogs and maximize the useful life of physical assets supported by, used by, and beneficial to state taxpayers. As a step toward that end, the legislature appropriates in this act a portion of the facilities operating and maintenance costs for building maintenance traditionally appropriated in the omnibus operating budget. This is done in "preventative facility maintenance and building system repairs" sections for each four-year institution and the community and technical college system.

(b) The 2003 legislature affirms the importance of reducing the significant higher education preservation backlog, of instilling a greater sense of stewardship regarding these important state assets, and of preventing the current backlog from reoccurring. The legislature recognizes that the preservation backlog took many years to develop and will take several years to address. The legislature intends that each higher education institution and the community and technical college system stabilize and improve the average facility condition index as compared to levels reported by the higher education preservation study in January 2003.

(c) The 2003 legislature affirms the importance of continuing to address these preservation issues, including developing a comparable framework. Section 924 of this act (JLARC work) is intended to build a foundation for capital budget policy and funding deliberations in the 2005-07 biennium, and beyond.

(2) The emphasis on higher education facility preservation described in subsections (1)(a) and (b) of this section provide extra resources for projects that traditionally fall into minor works categories for "preservation" and health/safety/code requirements" but not to the exclusion of providing state capital funds for minor works "program" and "infrastructure preservation" projects, separately appropriated. The legislature intends to review infrastructure needs for college and university campuses comprehensively, with the assistance of the joint legislative audit and review committee, the office of financial management, and stakeholder institutions and boards during the interim leading up to the 2005-07 biennium. Until comprehensive, comparable data is collected to inform deliberations, higher education institutions may find it necessary to use local, nonappropriated resources to augment 2003-05 biennial funds given the legislature's intent and focus in this act on the deferred renewal needs of aging college facilities. Nonappropriated resources should be used to help meet preservation needs in the spirit of recommendation 3 from the joint legislative audit and review committee's report 03-1.

(3) For projects that address significant preservation needs through major renovations or replacement facilities and that also enhance access by maintaining or improving the usefulness of existing space for important programs, the Gardner-Evans initiative may be appropriate to help fund these projects.

(4) For the purposes of this section and sections that specifically refer to this section by number, the following definitions apply unless the context clearly requires otherwise:

(a) "Auxiliary programs" in the context of higher education means those that are secondary to the missions of state institutions and, being enterprise in character, draw supporting revenue from user fees and charges. Examples include housing and dining; food services; vehicular parking; infirmaries; hospitals; recreation and student-activity centers; campus stores retailing textbooks, supplies, clothing, and objects bearing institutional logos or emblems; and media reproduction centers, among others.

(b) "Average facility condition index" means the index developed in the joint legislative audit and review committee's report number 03-1.

(c) "Comparable framework" means methods and systems to collect, crosswalk, calibrate, verify on a sample basis, and assemble facilities information produced and maintained by institutions of higher education and other state agencies into a data framework that can be used to understand and budget for state and mixed facilities.

(d) "Educational and general programs" in the context of higher education means those that support the primary missions of state institutions: Student instruction, faculty research, and educational public service.

(e) "Facility rating" is a score that reflects an individual building's ability to support its current use as measured against one out of five condition classes as follows:

(i) "One" or "superior" means a building with major systems that are in extremely good condition and functioning well;

(ii) "Two" or "adequate" means a building with major systems in good condition, functioning adequately, and within their expected life cycles;

(iii) "Three" or "fair" means a building with some older major systems that, though still functional, are approaching the end of their expected life cycles;

(iv) "Four" or "limited functionality" means a building with some major systems that are in poor condition, exceed expected life cycles, and require immediate attention to prevent or mitigate impacts on function;

(v) "Five" or "marginal functionality" means a building with some major systems that are failing and significantly restrict continued use of the building.

(f) "Gardner-Evans initiative" means the bonds authorized in chapter . . . (Substitute Senate Bill No. 5908), Laws of 2003.

(g) "Major building system" refers to foundations, building structure, roofs, interior construction and finishes, heating, ventilation, and air conditioning systems, electrical systems, plumbing, and other components necessary for safe and normal plant operation.

- (h) "Mixed facilities" in the context of higher education means a state-owned building structure where education and general and auxiliary programs are jointly housed, and includes infrastructure necessary for safe and normal operations by its occupants.
- (i) "Preservation" means routine and preventive inspection, mechanical adjustments, and minor work to replace or repair systems, surfaces, or materials undertaken to maintain a building and its existing, internal infrastructure for current use by current occupants.
- (j) "State facilities" in the context of higher education means a state-owned building structure exclusively housing educational and general programs, and includes infrastructure necessary for safe and normal operation by its occupants.
- (k) "Stewardship" means the collective action undertaken with appropriated and nonappropriated funds by institutional authorities to keep facilities in safe and functional condition for occupants, without deterioration for lack of attention or resources, that optimize the useful life of installed building systems and material construction, given advancing age.

APPENDIX 5 – SECTION 923 OF THE 2003-05 CAPITAL BUDGET

Directive to JLARC Regarding New 2003-05 Capital Budget Studies

NEW SECTION. Sec. 923. (1) The joint legislative audit and review committee shall conduct a performance audit of state capital planning, design, and construction processes. In conducting this study, the committee shall select a sample of major capital projects from the 1995-97 through the 2003-05 biennia in higher education, corrections, social and health services, and other state agencies. Capital projects selected for this sample shall accommodate regional differences within the state. The committee shall consider the following topics in conducting this performance audit:

- (a) Agency development, evaluation, and justification of the cost drivers and cost elements associated with each of the major phases of a capital project: General or master planning, predesign, design, construction, and postconstruction review;
- (b) Evaluation of the management and fiscal controls surrounding agency capital project decision making and implementation processes, such as policy goals, planning procedures, budget limits, cost and performance standards, criteria for selecting project priorities, written instructions, review processes, as well as management, oversight, reporting, and accountability systems;
- (c) Processes and standards for cost-effective and efficient design and construction contracting, management, oversight, and review;
- (d) Assignment of agency staff and administrative costs to major capital construction projects and the relationship of such agency costs to project delivery;
- (e) Extent of the practice of including equipment as part of the basic capital project costs, and how equipment costs are estimated and evaluated for inclusion in projects; and
- (f) Comparison of costs to public and private sector benchmarks, when available and where appropriate, in establishing cost parameters for state capital construction projects.

(2) To the extent resources permit, the audit shall include a review of public works projects utilizing the general contractor/construction manager procedure. This may include: An inventory of the state agencies and local jurisdictions that have used the general contractor/construction manager procedure, including the number, size, type, and cost of public works projects built or being built using the procedure; an examination of the ways the general contractor/construction manager procedure may affect public benefits and costs associated with public works projects; and, if feasible, based on a sample of public works projects built after June 9, 1994, an analysis of the costs and benefits of using the general contractor/construction manager procedure as opposed to other public works contracting procedures.

(3) State agencies, including state public higher education institutions, shall provide any requested information concerning the planning, selection, design, contracting, implementation, management, costs, performance, and outcomes of projects to the joint legislative audit and review committee in a timely manner, including relevant proprietary information that may be associated with individual firms. However, any proprietary information provided to the committee for this performance audit shall be deemed confidential and shall not be subject to public disclosure.

(4) In conducting this performance audit, the committee shall work closely with the appropriate legislative fiscal committees and shall consult with the office of financial management, the department of general administration, the department of corrections, the department of social and health services, the higher education coordinating board, the state board for community and technical colleges, individual higher education institutions, and other agencies as appropriate. The committee may contract for consulting services in conducting this performance audit. In its final report, the committee shall make recommendations as appropriate. The committee shall provide a progress report to the appropriate legislative committees by January 9, 2004, and a final report by January 8, 2005.

