

Financing Deferred Maintenance in Connecticut



State of Connecticut
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Presentation Summary

- ❑ System Context
- ❑ Connecticut's Capital "Renaissance"
- ❑ Funding Mechanisms and Pitfalls
- ❑ Accountability - Asset Protection Program
- ❑ Challenges and Lessons Learned



Definition of Deferred

- To “defer” means to put off or postpone
- Not always a negative thing:
 - Deferred gratification – good things come to those who wait
 - Deferred compensation – I can be rich when I retire



Definition of Deferred Maintenance

From *Wikipedia*:

Deferred maintenance is a practice of allowing machinery or infrastructure to deteriorate by postponing prudent but non-essential repairs to save cost, labor and/or material. The failure to perform needed repair, maintenance, and renewal by normal maintenance management creates deferred maintenance. Generally, a policy of continuing deferred maintenance will result in higher costs or failure than if normal maintenance had occurred.

Maintenance competes for funding with other programs and is often deferred because appropriations are not available or were redirected to other priorities or projects. *Deferred maintenance is often not immediately reported -- and sometimes, not at all. Maintenance which is deferred because of insufficient funding may result in increased safety hazards, poor service to the public, higher costs in the future, and inefficient operations.*



State Context

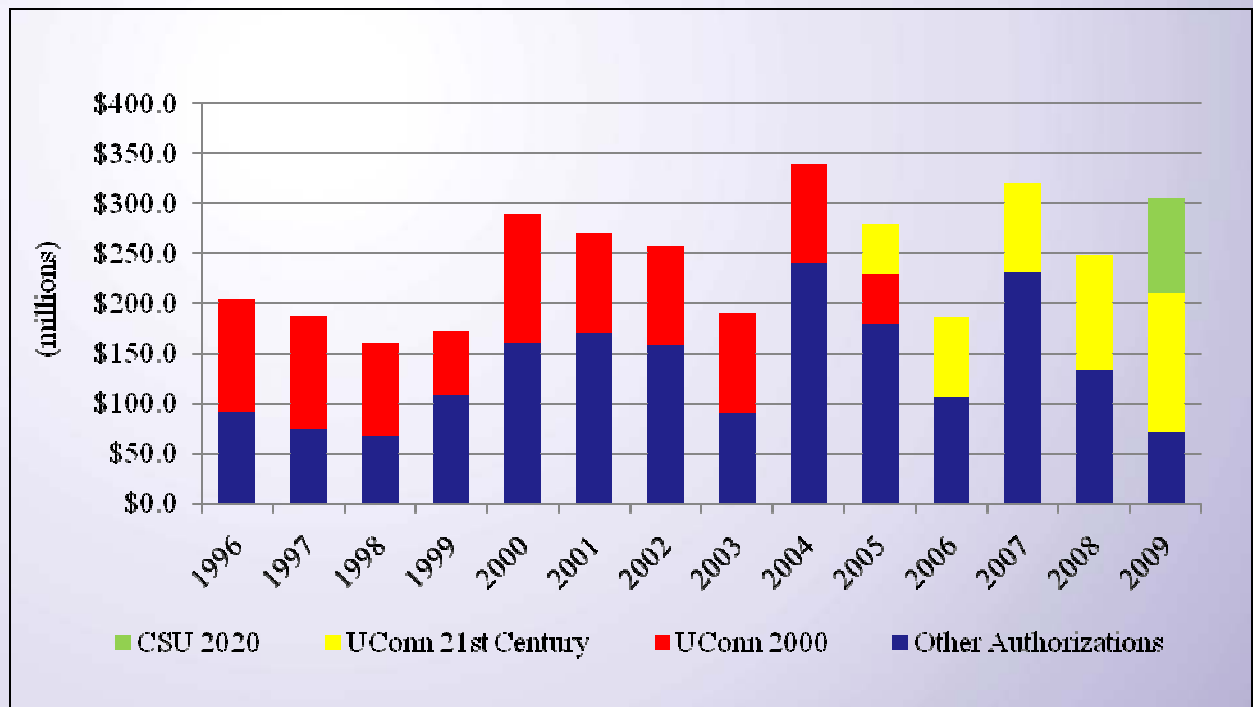
- Public system consists of
 - 1 research university (UConn)
 - 4 comprehensive universities (CSUS)
 - 12 community-technical colleges
 - 1 external-degree granting institution
- Over 800 buildings and more than 29.1 million GSF
- Age of buildings vary from new to over 100 years old
- UConn and now CSUS have special bonding programs



Capital Spending in Connecticut

- System in the midst of a capital “renaissance”
- Investment of over \$3.1 billion since 1996
- Another \$2.0 billion expected through 2018.

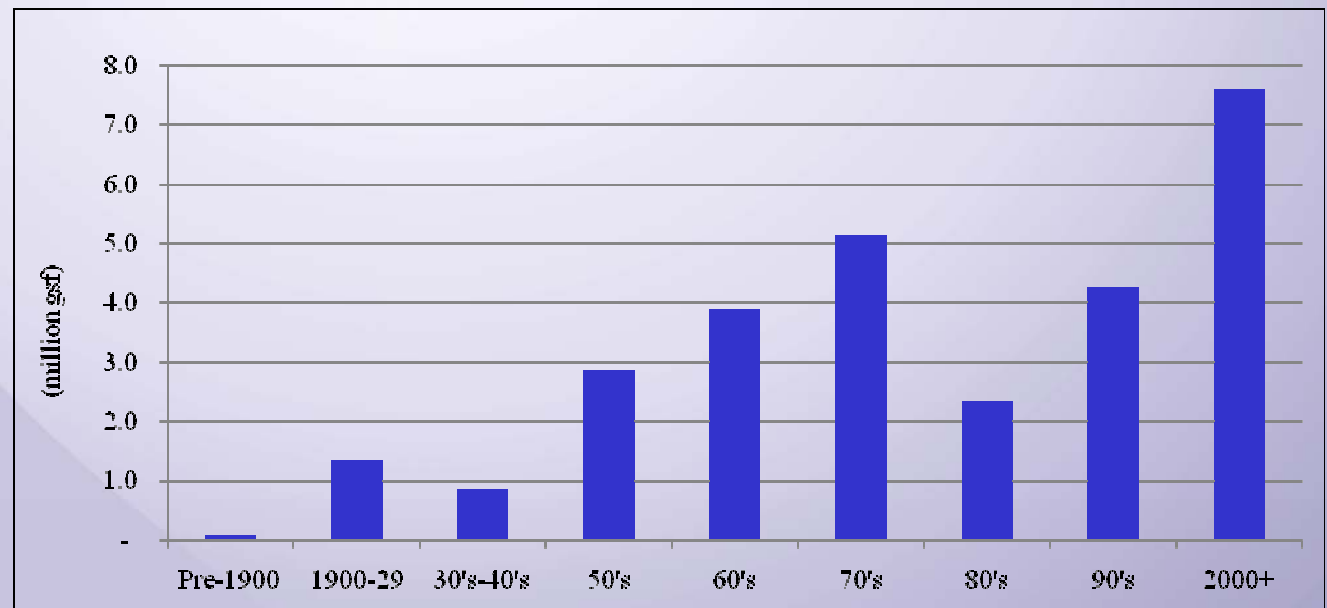
General Obligation, UConn 2000 & 21st Century Bond Authorizations



Capital Spending in Connecticut

- System has added another 11.8 million square feet or 42% more space since the mid-1990s
- Funds have been used for new construction, renovation, code compliance and deferred maintenance, land acquisitions and equipment (including library books)

Facilities by Decade



Financing of Deferred Maintenance

- “Lump sum” authorizations and allocations for code compliance/renovations/deferred maintenance
- Made at the constituent unit level, not institutional level
- Part of comprehensive multi-year capital plans that include separate authorizations for new construction, major renovation and/or equipment purchasing projects
- \$291 million in clearly defined authorizations since 1996 versus \$3.3 billion in total authorizations



Pitfalls of Lump Sum Approach

- Not tied to any strategic goal or benchmark to reduce deferred maintenance liability
- Great temptation to use funds for other purposes:
 - Supplement general renovation projects that went over budget.
 - Estimated that only 9% has been spent on clearly identifiable deferred maintenance projects.



Asset Protection: Great Idea, Bad Karma

- Required accountability measure
- Program Goal:
 - To create an Asset Protection Program that will facilitate the repair, maintenance and preservation of the public's significant new investment in higher education facilities.



Program Objectives

- Provide constituent units and policy makers with accurate and consistent data regarding present condition of higher education facilities.
- Use this data to make recommendations for allocating resources to institutions based on their relative level of need.
- Use facilities lifecycle capital planning to accurately assess and forecast past-due, current and upcoming capital needs.
- Establish guidelines and procedures that can be applied to non-higher agencies.



Program Benefits

- Standard web-based system for public higher education
- Single assessment methodology
- Centralized system to avoid duplication
- Savings from single application purchase
- Accountability and financial reporting compliance
- Leverage collective buying power
- Provide data for benchmarking
- Lifecycle and capital planning tool



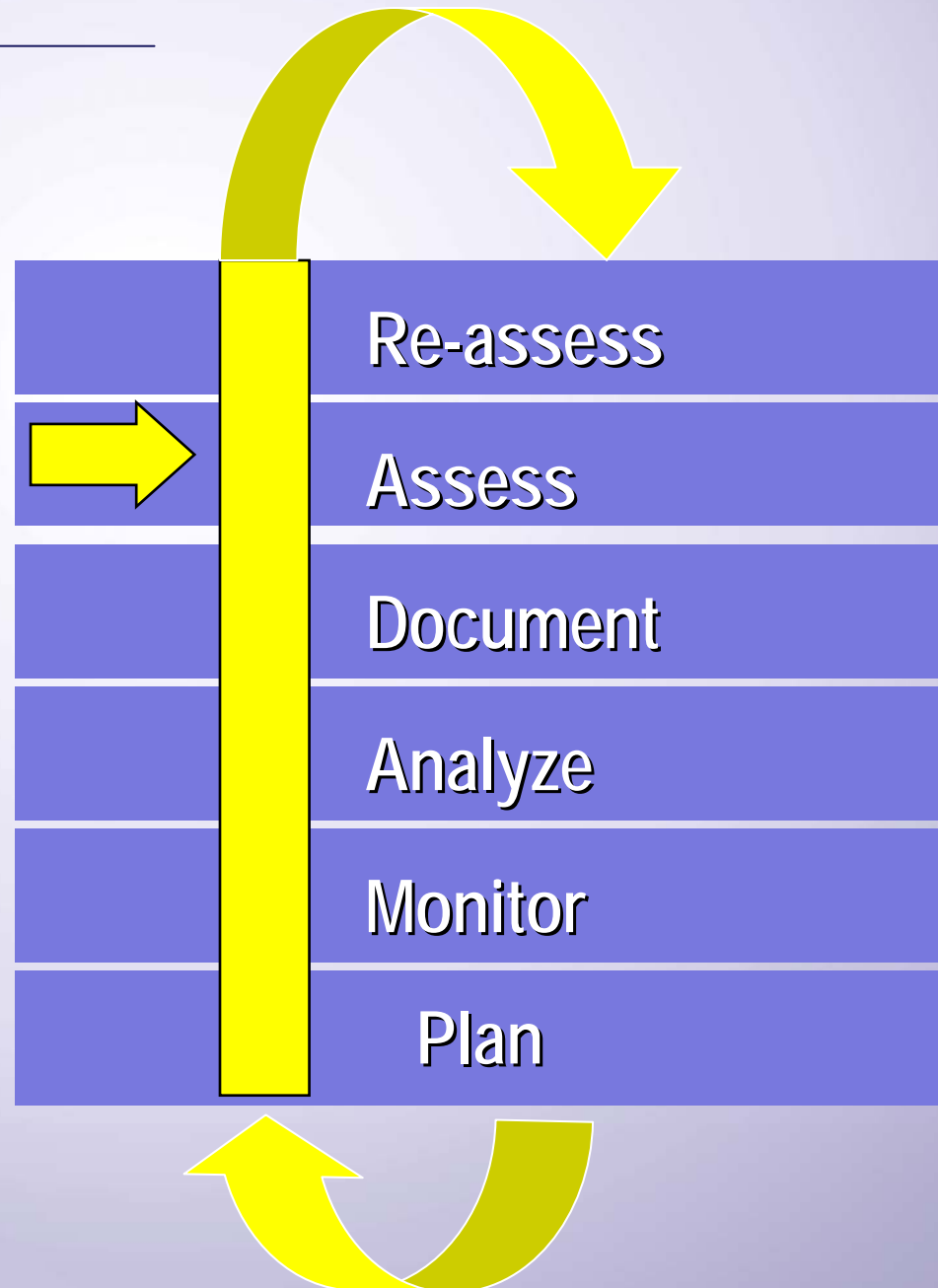
Facility Audits

- What do we own?
- What is it worth?
- What is its condition?
- What is the deferred maintenance?
- What is the remaining service life?
- What do we fix/invest in first?
- What are our funding requirements?



Asset Protection Model

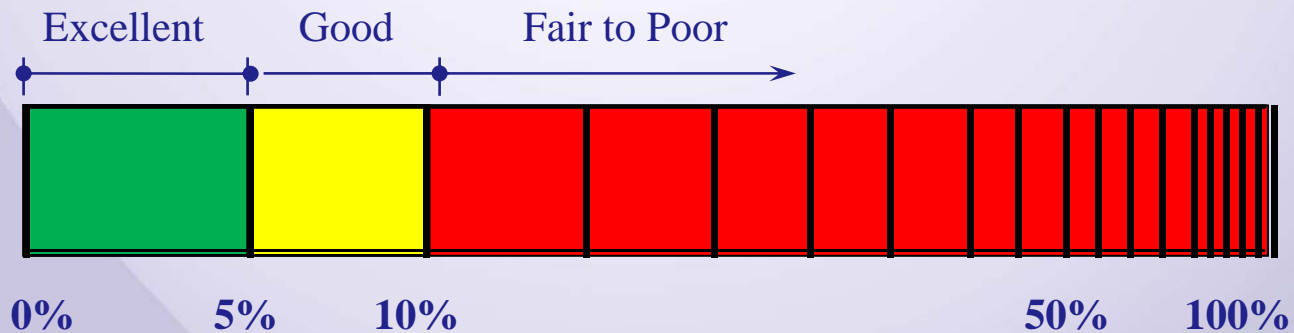
- Capital Planning
Management System
Facilities Lifecycle Mgt
Strategic Capital
Planning



Benchmarks/Metrics

Facility Condition Index (FCI) is an industry standard method for comparison of relative building condition.

$$FCI = \frac{\text{total cost of existing deficiencies}}{\text{current replacement value}}$$

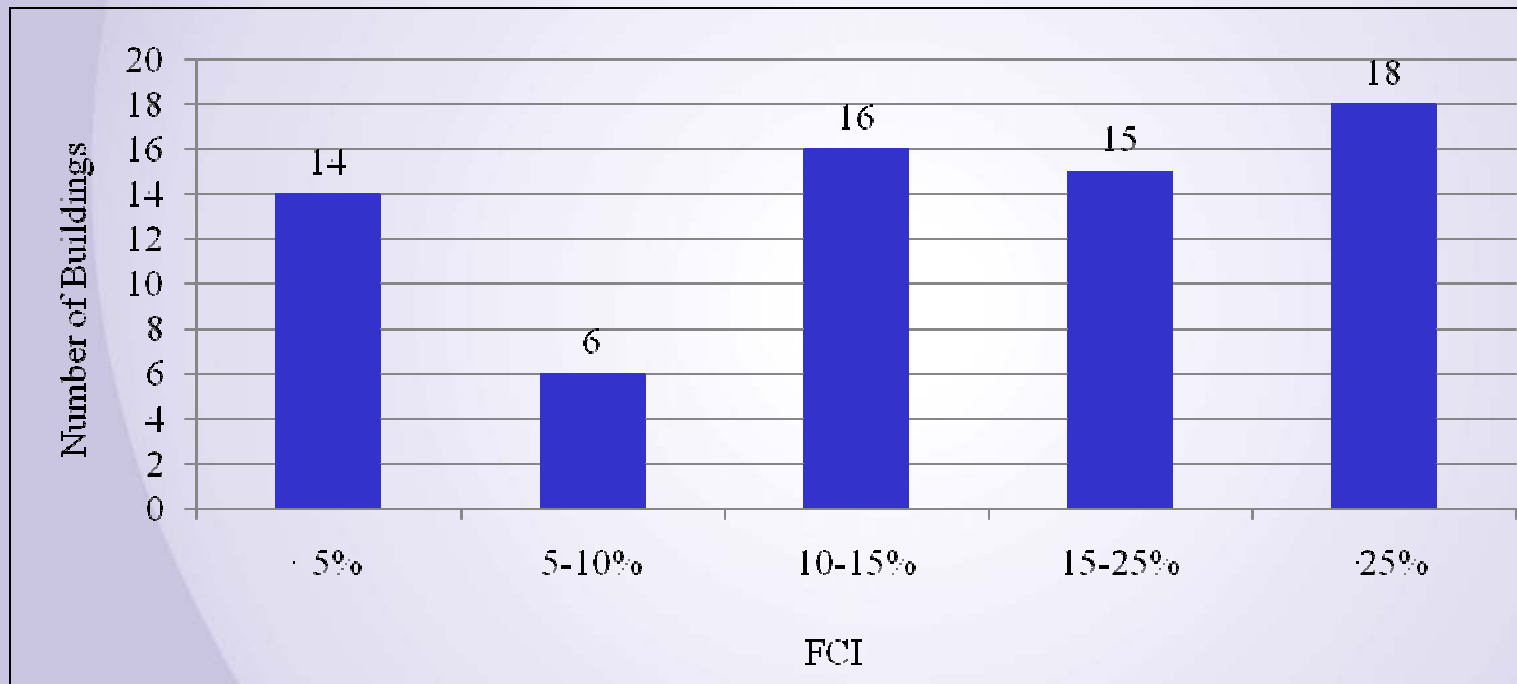


Phase 1: Project Scope

- Southern Connecticut State University
- Charter Oak State College
- 11 Community Colleges
- \$440,000 – including facility condition assessment and 2-year Application Service Provider fees
- 4 million gross square feet



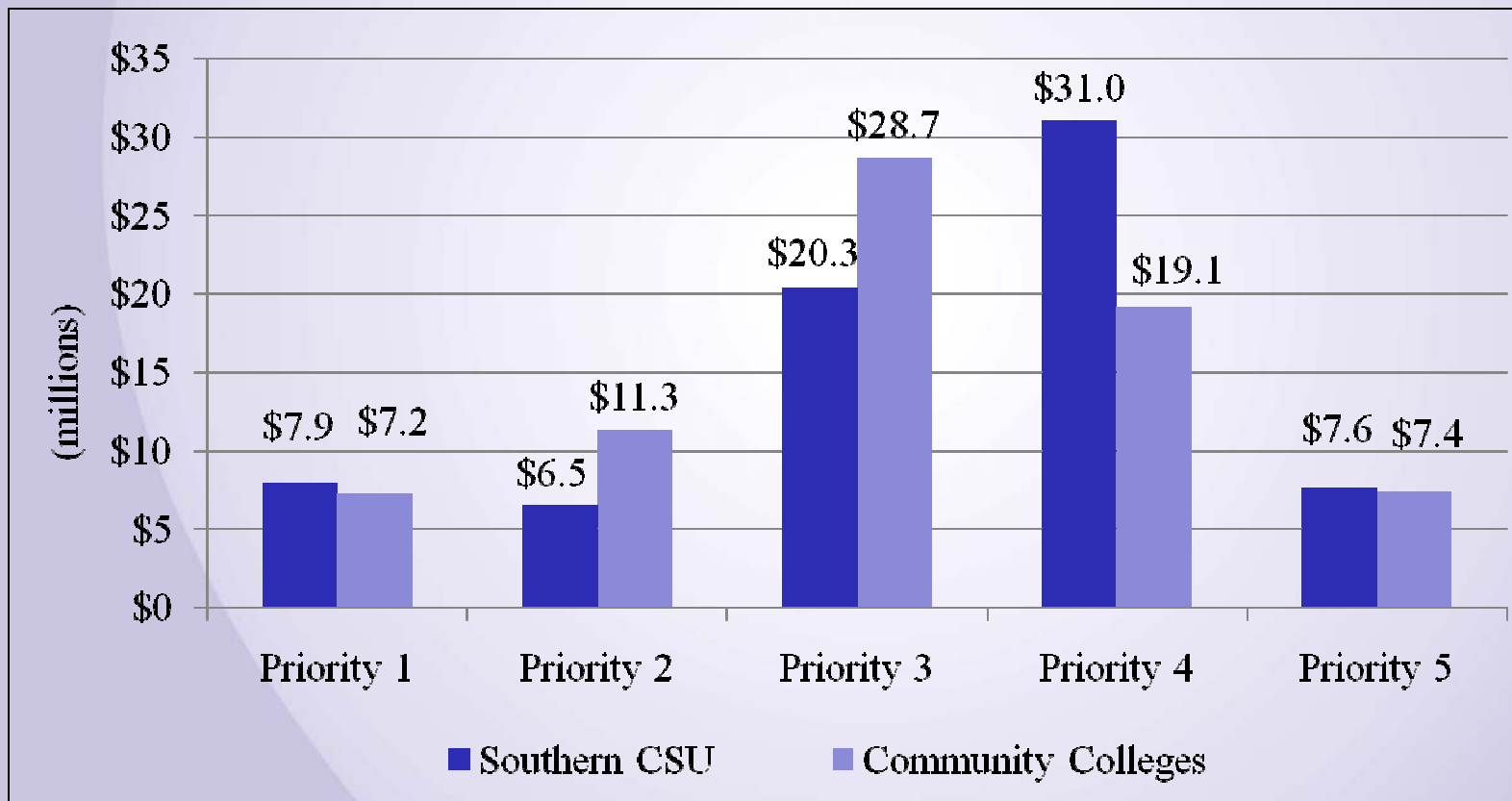
Distribution of FCI



- Average Building FCI – 19.7%
- Lowest FCI – 0.0%
- Highest FCI – 111%



Deficiency - \$147 Million



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- Priority 1 – Critical (Immediate)
- Priority 2 – Potentially Critical (Year 1 or 2)
- Priority 3 – Necessary – Not Yet Critical (years 3-5)
- Priority 4 – Recommended Improvements
- Priority 5 – Grandfathered Code Compliance Issues

Phase 2: Dreams Die Hard

- Option 1: Requested \$50,000 a year to maintain hosting and access to data
- Option 2: \$1 million a year for 2 years to roll out to entire system
- No funds appropriated for either option
- System “turned off” in early 2006



Challenges

- Constituent units have been successful in obtaining funds without accountability
- No one wants to focus on leaky roofs, they want new buildings which are much more glamorous
- Fear of too much information
- Support from only one key legislator
- Constituent units want to maintain autonomy and resist system approaches
- CT has no legislation requiring a funding mechanism for deferred maintenance



Lessons

- DHE lacked a cohesive public/legislative relations campaign
- Sometimes some good comes out of not getting what you want:
 - New requirements for UConn under Public Act 06-143 requires all deferred maintenance funds to be used for that purpose and annual reporting
- Don't underestimate the power of personal relationships – CSU 2020 surprised everyone
- We still don't have a statewide perspective on deferred maintenance liability

