



CAPITAL PLANNING AND ASSET MANAGEMENT
A COMPREHENSIVE APPROACH FOR STATE GOVERNMENT

DECEMBER 2012

**DIVISION OF CAPITAL ASSETS MANAGEMENT
OFFICE OF MANAGEMENT AND ENTERPRISE SERVICES**

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Foreword

For nearly a hundred years, the State of Oklahoma has acquired and built a vast inventory of land and buildings to support government services. At the same time state leaders are endeavoring to “right-size” government services and achieve efficiencies in core business processes. We are facing a crisis due to unsustainable practices in the way we have planned, funded, constructed and maintained the facility inventory necessary to support state agency missions.

Senate Bill 1052, passed by the 2012 legislature and signed into law by Governor Mary Fallin, recognized that steps must be taken to change the paradigm of independent capital facility decisions currently occurring across approximately 163 individual state agencies. It is time to take a broad look towards the future and chart a course towards optimization and efficiency in our approach to capital planning and asset management.

This report is a first step towards a new paradigm of planning globally, optimizing the facility inventory, leveraging available assets and preserving the value of the capital inventory paid for by the citizens of Oklahoma. The course of action outlined in this report builds upon current state processes, taps available resources and respects the mission of the state agencies involved. Most importantly, the recommendations, when implemented, will stop the cycle of deteriorating and dilapidated buildings that have too often become liabilities to the state.

Of particular note, this report does not recommend new funding to solve the impending crisis. Rather, a systematic approach to benchmarking, measuring and optimizing for efficiency is identified as the viable solution.

The Office of Enterprise and Management Services stands ready to assist all state agencies towards these goals. If you have questions or suggestions regarding the information in this report, please feel free to contact me.

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Introduction

Senate Bill 1052 from the 2011 Legislative session was signed into law by Governor Mary Fallin, amending the Public Building Construction and Planning Act. The bill set forth specific requirements for planning, budgeting and development of an Annual Capital Plan. Further, it required the Office of Management and Enterprise Services to produce a report "...containing recommendations for the streamlining, integration, and consolidation of State construction, maintenance, and real property management processes to maximize capital assets and achieve cost savings to the State." Collectively, the functions referenced comprise a process known as *Capital Asset Management*.

The process of developing this report was an opportunity to look at Oklahoma's current processes and resultant outcomes. Best practices of other states were also reviewed to find commonalities that promoted high performance. On the plus side, Oklahoma has effective processes and organizational strength as a foundation to build upon. In the minus column, there are a few key processes missing (or simply misaligned) from our system that have precipitated missed opportunities and lost value. This document recommends building on our foundation, not wholesale restructuring.

The *Overview and Lessons Learned* section summarizes the current paradigm, including our operational model and the roadblocks that prevent an integrated approach. Examples of unintentional outcomes are also highlighted.

The *Opportunities for Realignment* section examines best practices, and applies those core principles to a model for Oklahoma. Using existing State process, a new organization model is outlined, along with a financial model necessary for program accountability.

Recommendations for statutory and process revisions are also presented. These include:

- Amend the Public Building Construction and Planning Act to create a Real Estate Services Department; designate a State Facilities Director and establish standards for Facility Management;
- Consolidate, clarify and streamline overlapping statutory requirements for real estate process;
- Align and focus the duties of the Long Range Capital Planning Commission to ensure effective processes are used to develop an Annual Capital Plan;
- Commit to a separate Capital Budget.

The *Technical Supplement* provides an overview of the processes that comprise the overall planning process.

Although the backlog of facility needs statewide is enormous, this report does not specifically recommend new funding. Rather, the approach is to benchmark current capital spend and find new revenue from program efficiencies. Capital funds for new projects would be requested each year in the Capital Budgeting process.

Acronyms

CAP	Construction and Properties
CIP	Capital Improvement Plan
DCAM	Division of Capital Asset Management (OMES)
DCS	Department of Central Services
GSA	General Services Administration
LRPCPC	Long-range Capital Planning Commission
OFM	Office of Facilities Management (DCAM/OMES)
OMES	Office of Management and Enterprise Services
OSF	Office of State Finance
SLO	State Leasing Office (DCAM/OMES)

Overview and Lessons Learned from the Status Quo



Background

The State of Oklahoma is the single largest owner of buildings, land and leaseholds in Oklahoma with 7,900+ buildings totaling 76.1 million square feet, 1.2 million acres of land and another 6.6 million square feet of space leased from the private sector. The cost of operating and maintaining these properties is currently unknown but certainly a substantial component of the State's operating budget.

This enormous inventory of real property assets is currently managed as if the State is 163 separate organizations, without benefit of global perspective, optimization, shared risk or efficiencies gained through a comprehensive planning effort.

Decades of independent operation and maintenance have created an environment in which some facilities are maintained in good working order while other facilities are deteriorating rapidly, causing costly repairs that disrupt delivery of the Agency's core mission. Agencies facing limited resources have been forced to make difficult decisions to either defer maintenance or fund agency programs. This fact is not a negative reflection of any of the 163 State agencies involved; rather, it is indicative of the paradigm that has evolved through a century of policy development that no longer makes simple business sense.

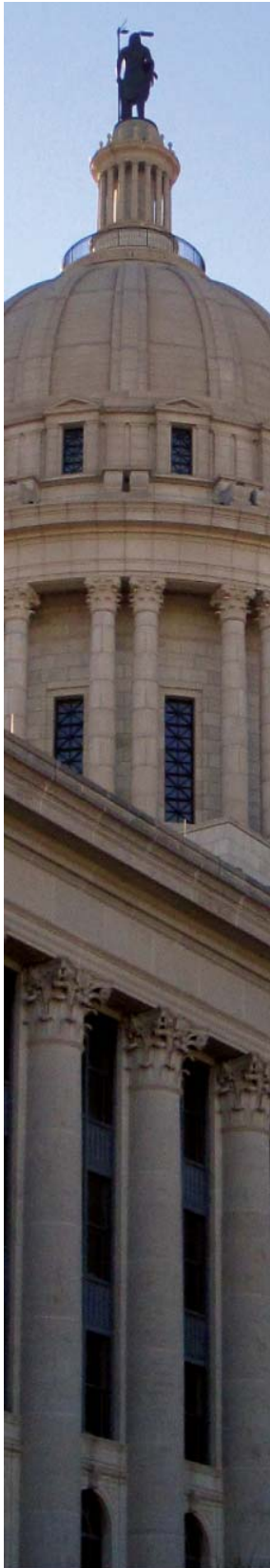
Current Statutory Provisions

Statutory guidance regarding real property management includes:

- **Public Building Construction and Planning Act** (O. S. 61, § 201): The Construction and Properties Division (CAP) was created as a part of OMES to provide central administration for facility planning, construction delivery, State leasing, property inventory and real estate brokerage services.
- **State Leasing** (O. S. 74, § 63; 94; and 163): OMES provides central administration for procurement and contracting of private space required by State government. Some agencies are exempt from these provisions and broker space needs independently.
- **Real Estate Brokerage** (O. S. 74 129.4): OMES provides services for acquisition and disposal of State owned property. Various other statutes contain additional requirements making navigation complex.
- **Authority to procure and implement** (O.S. 74 124.4f.): Implement a comprehensive statewide facilities management software program in order to effectively identify State-owned real property and to efficiently and fiscally manage the long-range

deferred maintenance funding requirements of such real property.

- **Long Range Capital Planning Commission** (O. S 62 § 901): Provides a mechanism for reporting of agency capital needs, prioritization and recommendation to the Governor and Legislature of a recommended capital plan. Administrative support for the commission is now provided by OMES with the advice of the State Bond Advisor's office, effective November 1, 2012. Historically, the legislature has not acted on the annual report issued by the Commission and the current process for capital requests lacks data validity. Note that the process implemented by the Commission's Rules currently collects capital budget requests for both real property and durable personal property.
- **Strategic Plan** (O.S. 62 § 45.3): requires departments, boards, commissions, and other entities within the executive branch, including higher education, to create a strategic plan.
- **Operation of State Buildings** (O.S. 74 § 63.B): charges OMES with the responsibility of construction, repair, maintenance, insurance and operation of all buildings owned, used or occupied by, or on behalf of the State, including buildings owned by the Oklahoma Capitol Improvement Authority. Implies that OMES has facility management authority for all State properties. Subsequent statutory provisions have provided contradictory information.
- **Management of buildings under OMES control** (O.S. 74 § 63.C): authorizes the director of OMES to purchase all material and perform all other duties necessary in the construction, repair, and maintenance of all buildings under the agency's management or control; directs OMES to execute all necessary contracts by or on behalf of the State for any buildings or rooms rented for the use of the State or any of the officers thereof; and states DCS shall have charge of the arrangement and allotment of space in such buildings among the different State offices. Acknowledges that OMES only operates certain buildings.
- **Oklahoma State Government Asset Reduction and Cost Savings Program** (O. S. 74 Section 61.7): Requires OMES to annually publish a report listing the inventory of all State-owned property with identification of the 5% most underutilized. At the time of this writing, the first annual report is scheduled for publication. The data contained in the new facility database will be invaluable as a starting point for comprehensive planning and identification of unneeded State property.



- **Oklahoma State Facilities Energy Conservation Program** (O.S. 27A, § 3-4-106.1): Requires OMES to select vendors to implement behavior-based energy conservation and performance contracting to implement a central effort for reduction in facility energy usage. The stated goal is 20% savings by the year 2020. As of this writing, OMES has issued an RFP for behavior-based services and expects a contract award by January 2013. This effort will, for the first time, benchmark annual State spend on utility services for State owned buildings and allow systemwide efforts to save and conserve.
- **Insurance:** By statute, the Risk Management Department of OMES/DCAM is responsible for property casualty insurance for all State property. Currently there is no direct measureable tie to mitigating the State's risk through participation in a facility planning process. The State is currently insuring dilapidated and vacant buildings, which increases the cost of potential losses and subsequently the annual premiums.

Current Organizational Models

The Construction and Properties Division (CAP), now a part of OMES, was created by the legislature in 1982 to centralize facility planning, construction delivery, State leasing, property inventory and real estate brokerage services (O.S. 61, Section 201 et. seq., Public Building Construction and Planning Act). Personnel from several agencies were transferred to CAP to carry out the prescribed duties. During the intervening years, statutory changes provided various agency exemptions and deleted specific requirements for planning and annual budgeting.

From 1982 to 2005, primarily due to attrition, CAP's primary duty was reduced to contracting for construction services at the request of agency customers. Since 2005, CAP has reestablished and improved its service model as an efficient contracting and project management operation, providing a variety of value-added services with measureable success.

In 2005, leasing and real estate brokerage services were removed from CAP's domain and assigned to the Department of Central Services as a general duty. In 2011, the Real Estate & Leasing Services Department's responsibilities for leasing, property inventory and brokerage services were administratively reassigned back to the Construction and Properties Department. This causes a disruption to the integration of services, which was done statutorily.

Senate Bill 1052 from the 2012 Legislative session requires specific duties for master planning and budget development to establish an annual capital plan that includes integral components of the Construction and Property Division, as well as elements of Real Estate & Leasing Services.

As of the effective date of SB1052, CAP is charged with several key components of a capital planning/asset management model. These include:

- Strategic Facility Planning
- Facility data acquisition
- Facility audits to determine critical and long range needs
- Facility Master Planning
- Budget development for annual capital projects
- Determination of facility construction standards
- Approval of construction project requests
- Procurement and management of Construction Services
- Administrative support for the Long Range Capital Planning Commission (administratively assigned)

To date, CAP has established a planning section and has a Planning Director and assistant on board to implement the facility planning process. CAP operates on a combination of appropriations and customer service fees. Leasing and real estate services have historically been appropriated functions while construction services have operated on customer fees for several years. Senate Bill 1052 added real estate services as allowable customer fees, and also provided that CAP's operations may be funded using a percentage of an annual capital plan.

As a result of other 2011 legislation, OMES has assumed responsibility for administrative support of the Long Range Capital Planning Commission (LRCPC) from the Office of the State Bond Advisor. The Annual Capital Plan is prepared annually by CAP, submitted to the LRCPC for review and approval and then submitted to the Legislature for line item approval.

Capital Budgeting Process

While the Long Range Capital Planning Commission collects project needs identified by individual State agencies, funds for operations, maintenance, capital improvements and capital development are generally not identified in the annual appropriation and budget development process. For example, OMES is appropriated a lump sum for general duties, including operations and maintenance of the 19 buildings currently under management. On an irregular and unpredictable basis, OMES (formerly DCS) has received separate appropriations to the State Facility Maintenance Fund for deferred maintenance needs.

Currently, each agency includes facility operations in their individual budget requests. The degree to which operations and maintenance costs are separately identified varies, but they are generally not specifically identified or tracked in a line item budget. Additionally, there is little standardization in the way expenditures are coded in the State finance system, making it problematic to determine the actual annual facilities spend. However, individual construction projects and property acquisitions are occasionally specified in budget bills.



Facility Operations and Maintenance Practices

Each State agency that owns real property administers their own planning, building operations, maintenance, land management and budget deployment. Pragmatic decisions are made regarding agency mission vs. facility needs. Most agencies do not capitalize depreciation, which can be handled by each operating unit paying rent to their own agency (a current practice of OMES). When budget cuts arrive, facilities are often the first to suffer, as it is easy not to pay yourself rent.

Many State agencies have, over a period of years, deferred maintenance until the sum of maintenance activities becomes a one-time capital improvement project. Projects are easier to submit as a budget request than the cost accounting necessary to identify regular operations and maintenance needs. Because this cycle is perpetual, many agencies have created projects out of regular maintenance activities as a method of requesting the funding necessary to keep the doors of their facilities open to employees and the public.

The final cost of rectifying deferred maintenance in this manner is substantially more than the cost for regular, ongoing preventative maintenance. By deferring maintenance, small problems pile up until a crisis point is reached. Deferment costs are higher than preventative maintenance due to inflation and the limited supply of replacement parts. Furthermore, maintenance occurring in crisis mode is rarely competitively bid, and cost-saving opportunities are missed. Unplanned maintenance events are time-sinks that can halt Agency delivery of core mission.

There are always options in times of budget cuts while adhering to a commitment to pay rent. Rent can be temporarily reduced (but not eliminated) by adjustments to operating hours (i.e. 4-day work week), closing part of a facility or strategic deferment of less critical items while still preserving property assets. Choices for meaningful reduction of facility services can be difficult to address within a single agency, but are more easily achieved when addressed globally.

OMES/DCAM Facility Management operates 19 buildings in the State Capitol Park and the Tulsa complex, providing comprehensive property management, building operations, groundskeeping and energy management services. There is no specific statutory requirement for much of these duties.

Of the buildings operated by OMES, some are considered “rent” buildings, where agency tenants pay monthly rent, and others are considered “appropriated”, where operational funds are provided through appropriations. Agency tenants do not pay rent in appropriated buildings. In practice, rent income is used to manage operations and maintenance of the buildings, and since appropriated buildings do not have a rent structure to manage maintenance, rental income from a few buildings must pay for maintenance for all buildings. This results in a systemwide underfunding of maintenance needs. Note that a rent-based model is

preferable as it provides a consistent and stable operating income, while more fully accounting for the true cost of State government operations.

Other components are general duties of OMES but have been administratively placed within CAP:

- Space Management and designation of quarters (partial, limited to capitol complex)
- State Leasing and Leasehold Management (partial, some agencies exempt)
- Real Estate Brokerage - acquisition, disposal, surface leases and easements (partial)
- Energy Management (SB1096, Energy Conservation Program)

OMES is considered the “owner and operator” of 18 out of the 30 buildings in the State Capitol Complex. A general statutory duty of OMES is the operation and maintenance of all State buildings. Whether this duty was intended to apply to all State buildings or only portions of the State Capitol Complex is unclear. OFM uses a modern enterprise platform to measure and track facility condition, deferred maintenance backlog, critical systems failure prediction, budget allocation, work order tracking, customer service feedback, energy management and total cost of ownership. This comprehensive program is comprised of the following functions:

- Facility Services
- Building Operations
- Landscaping and Grounds
- Housekeeping
- Central Maintenance Shop
- Energy Management & Sustainability
- Finance, purchasing and contract management

Financial Stability

Because the State does not currently identify or fund rent or another cost recovery model in the budget process, there is little stability in the way of funding. Financial stability is necessary for long term planning, maintenance and preservation of capital assets. The State is unintentionally allocating greater resources to basic services through reactive repair compared to costs associated with proactive planning and prioritization. The nature of budgeting for reactionary facilities maintenance shifts the obligation forward into future years. The annual appropriation process causes many agencies to focus on maintaining their core mission budgets, with no mechanism to allow them to plan years or decades into the future.

There is also a scheduling disconnect between the funding of agency operations and the need for maintenance projects, which are often time dependent. These projects are typically held in queue until enough of the year has passed to determine if remaining funds will cover the cost of the



project. When budget shortages occur, the entire project is held for another fiscal year. It's not just the project cost, but also the project value (return on investment) that suffers in this scenario.

Financial stability is necessary in order to plan and operate in a manner that both reduces deferred maintenance backlog and avoids future liability. The uncertainty of funding is a deterrent to planning. With certainty of a reasonably adequate funding stream, planning can yield favorable, cost-effective results.

In the December 2011 report, *Government Modernization: HB2140*, the Office of State Finance laid out a roadmap for the consolidation of five agencies of the Executive Branch. The affected agencies all provide enterprise-wide services for State government, and the consolidation plan was designed to implement leaner and more effective core administrative functions. In addition to organizing the consolidated agency for efficiency, the 2011 report identified key roadblocks to further improvements of the State's business processes. Accordingly, the report presented specific recommendations for comprehensive capital planning and modification of the way funding for facility operations are designated in the annual budget.

Statutory requirements for central planning and the delivery of construction services exist in the Public Building Construction and Planning Act, although processes for facility cost reporting are not defined. Other critical components of the asset management model are spread throughout State statutes as independent requirements and are unintegrated for effective implementation. These include the Reduction and Cost Savings Program, Energy Conservation Program, State Leasing and competing provisions governing real estate transactions. Outside of OMES, all other State agencies conduct their own planning and facility management programs.

Independent Findings

In April of 2012, the State Auditor and Inspector issued a report summarizing the results of a performance audit of the construction and facility management programs operated by the Department of Central Services through FY2011. All references to duties of DCS now refer to OMES. Key findings of this report include:

- *Oklahoma's capital asset management structure is decentralized, inconsistent and underfunded;*
- *Lack of commitment to address capital asset needs has resulted in deteriorating buildings, government service disruptions and increased risk to the public health;*
- *DCS manages only 17 [now 18 with the consolidation] of the approximately 30 buildings within the State Capitol Complex, yet has the statutory charge of construction, maintenance, and operation of all buildings owned or occupied by the State;*
 - *Efforts to construct a Capital Improvement*

Plan [via the Long Range Capital Planning Commission] have proven ineffectual. The audit found no evidence linking the CIP funding recommendations to actual legislative appropriations;

- *Agency accountability [for capital asset management] is not integrated with the appropriations process;*
- *Available methodologies for determining the 5% most underutilized State properties (HB1438) are ineffective due to the absence of agency strategic plans, facility master plans and incomplete inventory data (i.e. facility condition);*
- *Decentralized facility management has resulted in design and construction decisions that have caused inefficiencies and decreased value to the State;*
- *Decentralized facility management does not allow standardization of best practices or optimization of resources;*
- *DCS does not have an effective method to evaluate the State's capital needs due to statutory disconnects regarding strategic plans, master plans and capital improvement plan development;*
- *DCS does not have an effective funding mechanism (either inter-agency or statewide) for facility operations, maintenance or asset preservation.*

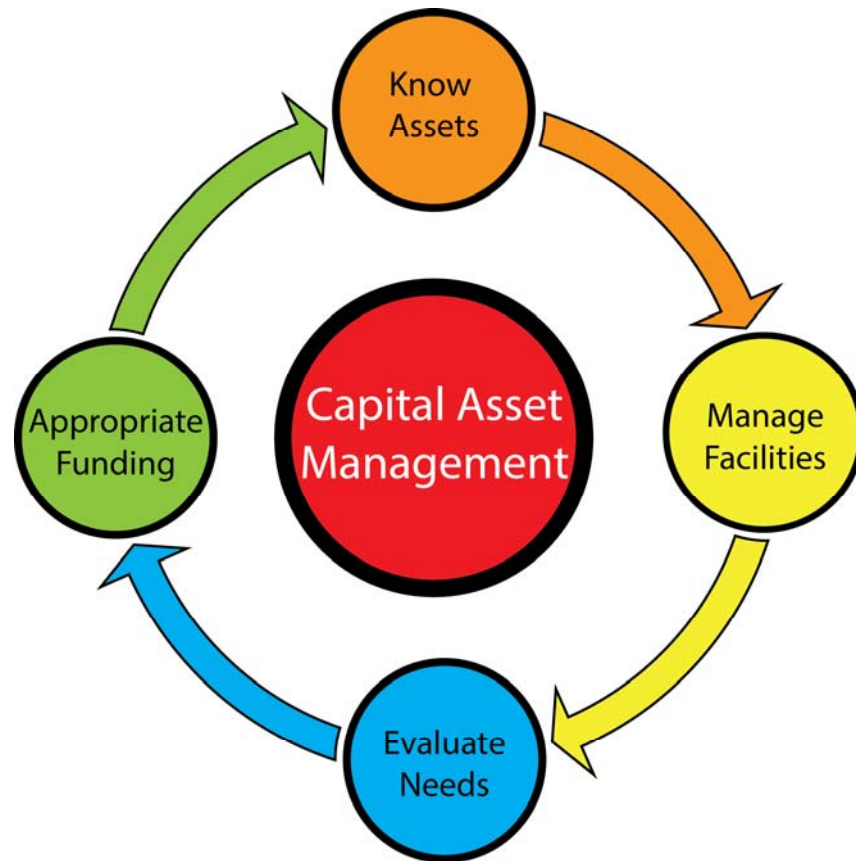


Diagram from the SAI's Performance Audit of DCS, April 2012

The audit report also made specific recommendations for structural and process changes necessary to rectify deficiencies and achieve accountability for capital asset management. These include:

- *Develop and maintain an integrated inventory database of all owned and leased properties that includes at least the location, value, useful life, and condition of facilities;*
- *Establish policies for uniform maintenance standards for all buildings statewide and analytical methods to document cost-benefit options and decisions;*
- *Provide training for agency personnel to accurately prepare capital outlay reports (need and budget development);*
- *Develop a statewide master plan using the inventory database, facility assessments, strategic plans and capital budget reports;*
- *Increase agency accountability through line-item appropriations or budget limits;*
- *Establish a permanent capital improvement fund with dedicated, consistent revenue;*
- *Adequately fund ongoing operations and maintenance using a cost-recovery rental rate model and/or adequate appropriations;*
- *Integrate the master plan with an analysis of cash flow needs to*

determine appropriate capital financing options, such as private-public, lease to own, pay as you go and debt financing.

These findings and recommendations from the Oklahoma State Auditor & Inspector offer an objective view of the past performance of DCS and succinctly highlight the inherent complexity of the issues at hand, as well as the importance of Capital Planning and a systemwide approach to asset management.

Lessons Learned

As discovered during the recently completed inventory of all State properties (HB1438 initiative), there are many examples of unintentional outcomes due to the inadequacy of current State processes. The outcomes have created liabilities, minimized the value of State assets, interrupted agency operations and generally reduced opportunities for the State to maximize effective use of available resources. These examples are not indictments of the individual agencies involved but instead highlight the absence of necessary State processes that would promote better outcomes. Two of the many examples include:

New Laboratory Building

- Agency planned new construction and requested bonds for financing
- New facility occupied and existing facility vacated
- Vacated facility (30,000 square feet of outdated lab space) is unsuited for office use and has remained vacant for over three years
- New facility's chiller was not zoned and runs 24/7 to support a small lab space that requires constant environmental controls
- Lessons learned:
 - A Facility Master Plan would have identified the need to renovate the existing facility for reuse, and would have planned the project accordingly
 - Integration with Facility Management would have provided for operational efficiencies, such as zoned environmental controls

New Health Services Complex

- Agency planned new construction and requested bonds for financing
- New facility completed and occupied
- Existing campus of 26 buildings vacated; now dilapidated and unusable
- Asbestos and physical hazards present liability; structures remain on the State's insurance roles, negatively impacting premium rates
- Current value of property is now less than the value of the land, due to investment required to abate hazards and demolish the buildings
- Lessons Learned:



- A cost-recovery rental structure and standards for facility management would have prevented the long decline of condition
- With central resource allocation, asbestos hazards could be addressed globally
- Facility Master Planning would have recognized plans to vacate facilities and prompted an Alternatives Analysis, well in advance, to determine options for reuse or disposal
- The absence of asset management accountability can create an unintentional liability, reducing the value of State property

Summary

The resources necessary to operate and maintain the State's real property holdings are a substantial, but currently unknown, percentage of the State budget. As in every other business venture, efficiencies and cost savings are not possible until the cost and efficiency of operations are benchmarked and standardization of best practices is deployed systemwide.

Statutory requirements regarding the requirement for central planning and the delivery of construction services are currently in place, although processes for effective capital budgeting are either not yet defined or spread among diverse, independent provisions of law.

Facility management, along with construction, energy management, real estate services and budgeting, is essential to an integrated approach for capital asset management. There are currently no efforts, processes, policies, rules or laws in place providing for facility operations and maintenance standards, benchmarking of facility condition; development and prioritization of needs or measurement and reporting of operational effectiveness. All of these components are part of a modern, data-driven facility program and essential for performance improvements. Provisions for capital budgeting and line item appropriation for an annual capital plan currently exist but are yet to be implemented.

Financial stability is vital to a viable planning effort, and planning is vital to achieving a sustainable facility business model. When facility expenditures are not transparent in the State budget, it is impossible to measure performance and accountability. Cost recovery in the form of rent payments is the simplest model to track facility income. If a facility is occupied, the tenant should pay rent, even in cases where an agency is paying itself. Expenditures for operations are then made from the rent income, with full transparency and accountability. Further, rent payments create a tenant-landlord relationship that enhances customer service and accountability.

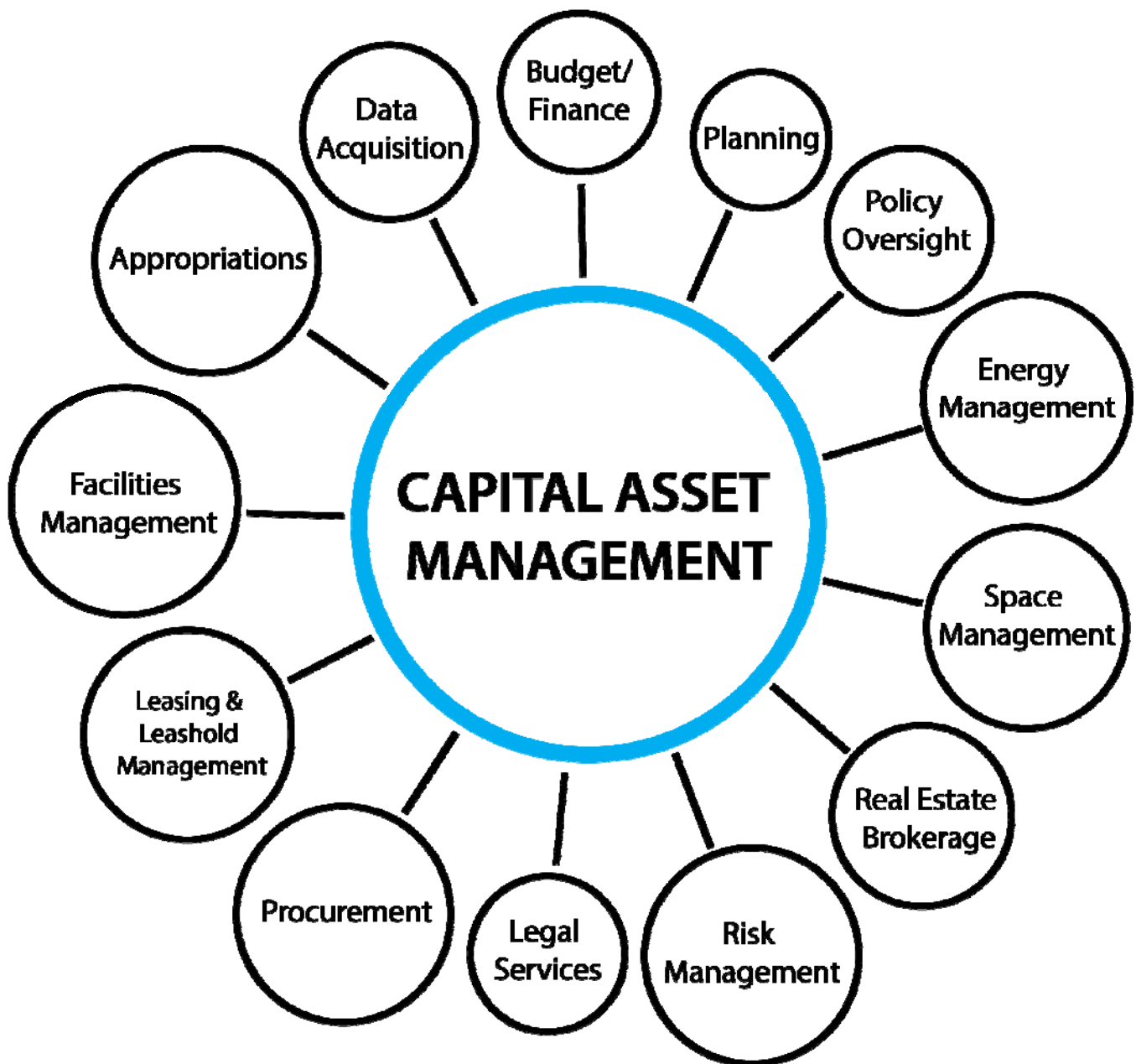
In its roadmap for agency consolidation, the Office of State Finance identified key deficiencies in the areas of facility planning and funding that distract from operational efficiencies. Finally, the State Auditor & Inspector has made a thorough study of the State's processes for planning, facility management and construction delivery and found them to be ineffective in terms of preserving the State's critical assets.

Opportunities for Realignment

Introduction

Capital Planning and Asset Management is a collection of processes and activities that reach across many functions of an organization. In the case of Oklahoma government, many of these functions are entrenched and not readily subject to reorganization. Examples are constitutional provisions, legislative processes, and Executive Branch processes for financial administration. As referenced earlier, State laws defining process, oversight and accountability have been developed over time in response to contemporaneous circumstances, sometimes unintentionally adding complexity to deployment of solutions that respond to current needs. Further, human interpretation, also contemporaneous in nature, has resulted in further complexity and divergence of intent with the development and subsequent entrenchment of administrative rules and operational policies. In order to be effective, flexible and sustainable, any new program for comprehensive capital facilities planning and asset management must be able to reach across silos of State processes, have clarity in legislative intent, have appropriate oversight and be transparent to all stakeholders. Most of all, processes and outcomes must be simple to understand and easy to measure.

The Division of Capital Asset Management of the Office of Enterprise and Management Services currently contains many of the resources needed for a capital asset management model. Other required resources are available in other divisions of OMES, but some critical components are either not in place or exist in other agencies. Therefore, a multi-level approach must optimize current resources by eliminating as many silos as possible, provide sustainability by clarifying State policy and provide for effective processes that bridge activities in the silos that remain.



Best Practices

A review of other states relative to managing capital facility assets at once reveals diversity of approach as well as commonalities in principles. Ohio, Utah, Colorado, California, Washington and others stand out as having high performing programs and the State Auditor and Inspector's report cites additional examples of model programs.

In some states, a central department owns and operates all state-owned properties while others operate successfully with varying degrees of decentralization. Regardless of this distinction, successful state programs all incorporate:

- Standardization of processes (inventory, assessment and planning)
- Performance benchmarking
- Centrally led budget development
- A stable funding model that ensures accountability

The diversity of operating models would suggest that successful outcomes are more dependent on alignment of process and transparency than on "ownership" of the facilities involved.

It is difficult to apply conditions in Oklahoma to another state's model and make projections for savings or immediate outcomes. Outside of Higher Education, the State annually spends approximately \$40 million for contract work costing greater than \$5,000, for all types of projects ranging from maintenance, repairs, replacement, alterations and new construction. Extensive efforts will be required to benchmark the State's spend relative to operations, maintenance, payroll and supplies. However, the State Facilities Energy Conservation Program will provide benchmark data on utility usage for all State agencies.

Between 2005 and 2008, DCS implemented systemwide best practices for facility management. Condition, spend and energy usage were all benchmarked and needs were identified and prioritized. Despite an overall reduction of funding from 2008 to 2012, the Office of Facility Management has improved overall efficiency of the operation, reduced critical system failures, reduced energy usage by 20% and overall deferred maintenance backlog by approximately 8%. Overall, this experience demonstrates that the most important steps are to benchmark, measure and plan. Adequate funding is certainly important, but it is more important to have a predictable funding source. Without predictability, planning is, more often than not, a wasted exercise. With predictability, less-than-optimum funding levels are manageable.

A Model for Oklahoma

Ownership of the various State facilities, supporting budgets and agency personnel who manage the properties is historically entrenched and,



without current performance data, it is not even logical to attempt sudden consolidation of facility operations into a single agency. It is vital, however, to immediately implement standardization of processes regarding benchmarking, assessment, planning, budget development, operations and performance measurement. A great leader once said that the most effective form of change is when everyone agrees that it happened naturally. To be successful, a model for building upon existing State processes and operating conditions is proposed, rather than dismantling and recreating systems from scratch.

Broadly, implementation and sustainable processes will require:

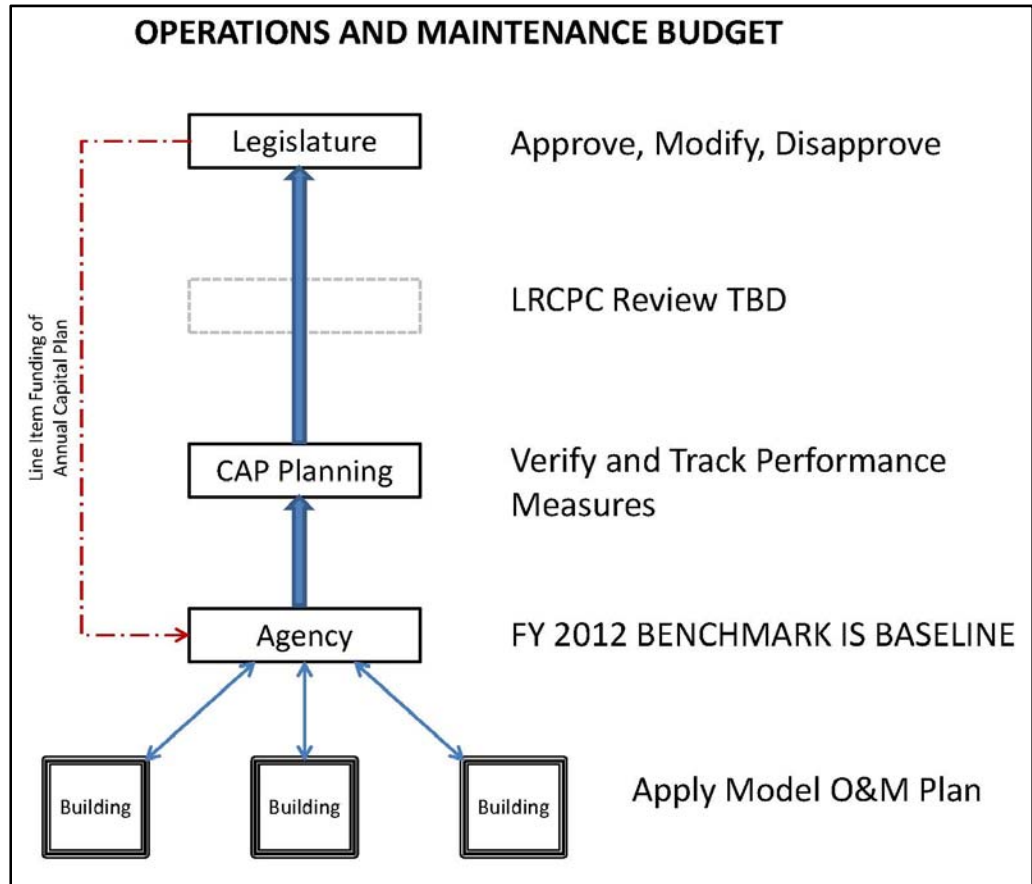
- Clarity of intent and sustainability: achieved by eliminating statutory duplication and overlap to provide clear requirements in a single Title of law where possible.
- Clarity of responsibility: achieved by integrating the missing components of capital asset management into the existing core functions of Construction and Properties.
- Flexibility and agility: achieved by adapting implementation to respond to varying Agency financial models and missions

Standardization and enterprise delivery of State processes are not new. Examples include finance, budget, procurement, information technology, human resources, benefits administration and others. Oklahoma has had success with a shared services model for financial services and this is a model that has merit for capital facilities management. The following describes program components and their relationship between a central office and the customer State agency:

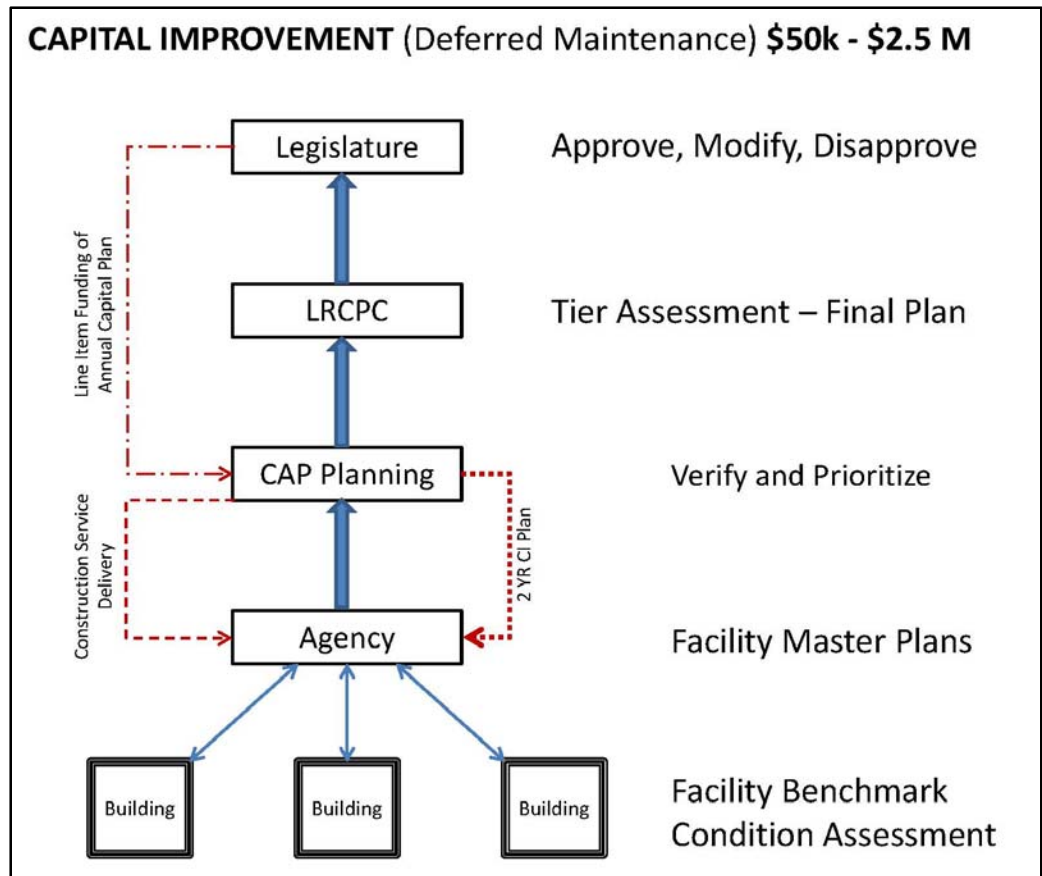
Function	Location
Standards and Metrics	Central function
Benchmark and Assessment	Assisted or local implementation
Strategic Planning	Centrally led; assisted or local implementation
Facility Master Plan	Assisted or local implementation
State Master Plan	Central maintenance
Budget Development	Central function, local or assisted input
Construction service delivery	Central function, local exceptions
Leasing and Brokerage	Central function, local exceptions
State Inventory	Central maintenance; local or assisted reporting
Performance Measurement	Central collection and reporting
Operations and Maintenance	Central, local, voluntary consignment; central assumption of low performing operations
Surplus Property Designation	Central determination via master plans and alternative analysis

Annually, each agency would develop a three component budget: operations and maintenance; capital improvement and capital

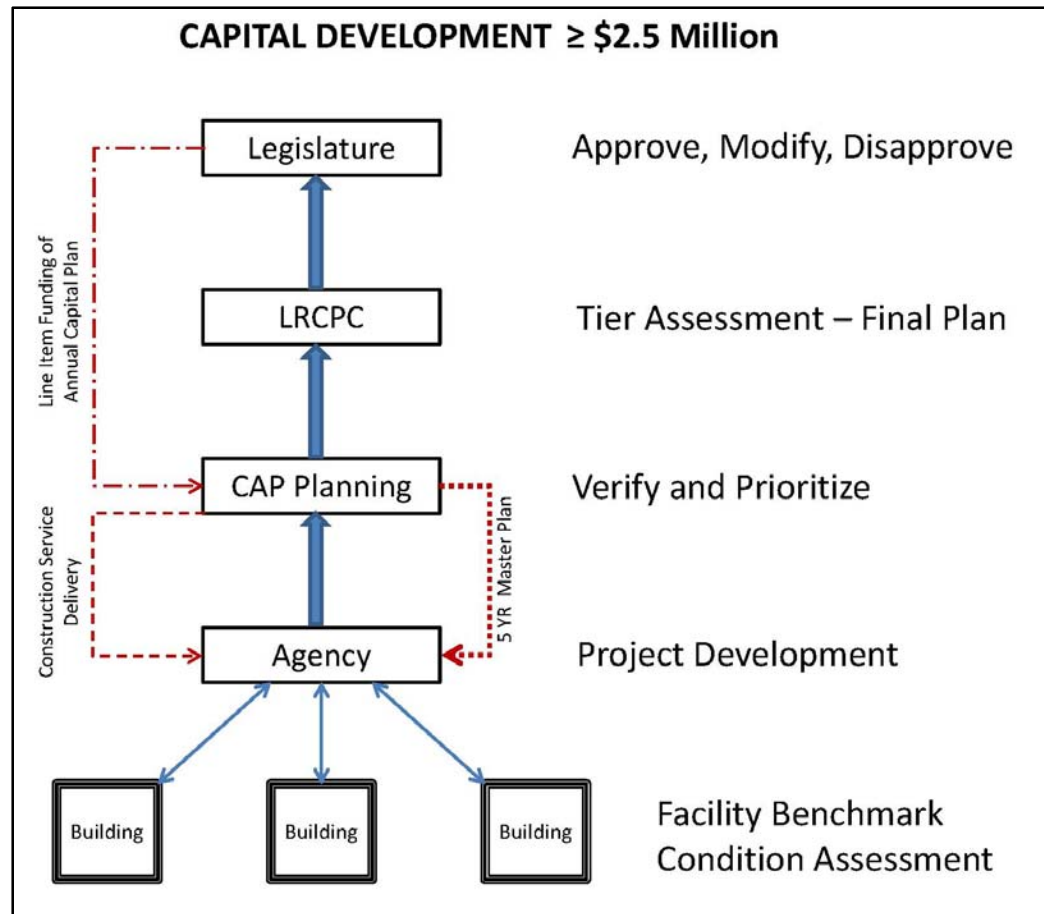
development. The diagrams below provide an overview of the processes involved:



Operations and Maintenance is comprised of rental payments, utilities, housekeeping, facility services, lease-purchase or other debt payments, service contracts, repairs and other minor projects costing less than \$5,000. This budget is initially established by benchmarking current expenditures. Facility assessments additionally identify missing components such as preventative maintenance and routine service contracts necessary to prevent further decline in condition or energy efficiency.



Capital Improvements are major deferred maintenance, equipment replacement, restoration or minor renovation costing between \$50,000 and \$2.5 million. Budgets for this category are developed from data collected during the assessment, life cycle analysis and master planning phases.



Capital Development consists of major projects costing more than \$2.5 million that may be funded from operational funds, lease-purchase, or bond obligations. Opportunities for alternative financing are also considered, such as income from asset divestiture, land swaps, internal investment sources or multi-agency pooling of resources. All capital developments are identified in facility master plans, as a result of alternative analysis or global analysis precipitated by an unexpected opportunity.

Refer to the *Technical Supplement* for an overview of Capital Planning processes.

New Financial Model

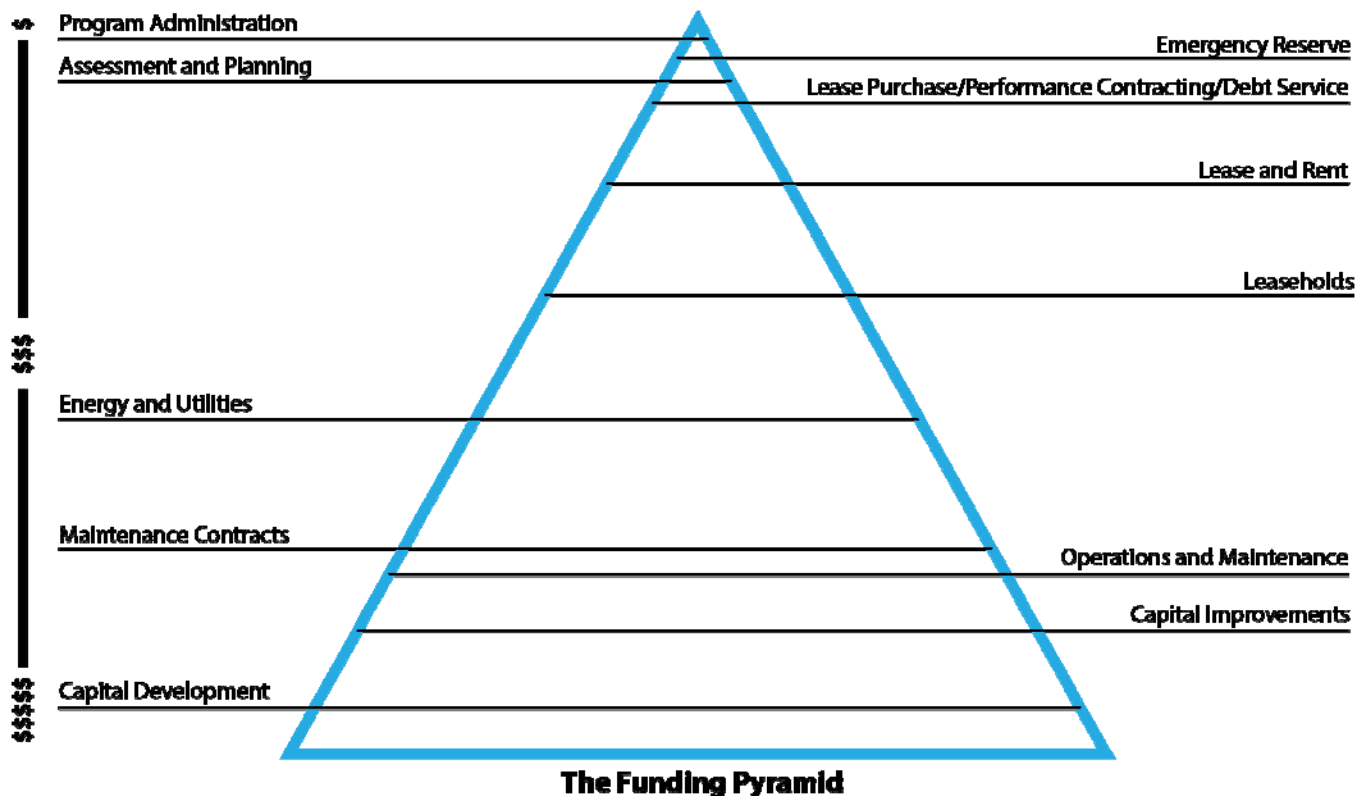
Centralization of a funding model presents opportunities for efficiencies and cost savings. Current State law provides funding for program administration to be designated as a percentage of an annual capital plan, which would provide greater services to all agencies at a fraction of the amount it would cost in each separate agency. Centralization can also provide flexibility and resilience. Some agencies will undoubtedly require assistance with assessments, benchmarking and planning services. As these are largely one-time occurrences, statewide service contracts would be more effective than staffing at the central office or

agency level. This statewide effort will be much more economical when addressed globally.

Funds for needed services can be identified as a result of immediate cost savings. For example, the State Energy Conservation Program requires savings compared to the FY2012 benchmark. By using this benchmark as a baseline for future State budgets, realized savings would represent a revenue stream for any needed service or improvement, including lease-purchase payments to support structural improvements using energy performance contracting.

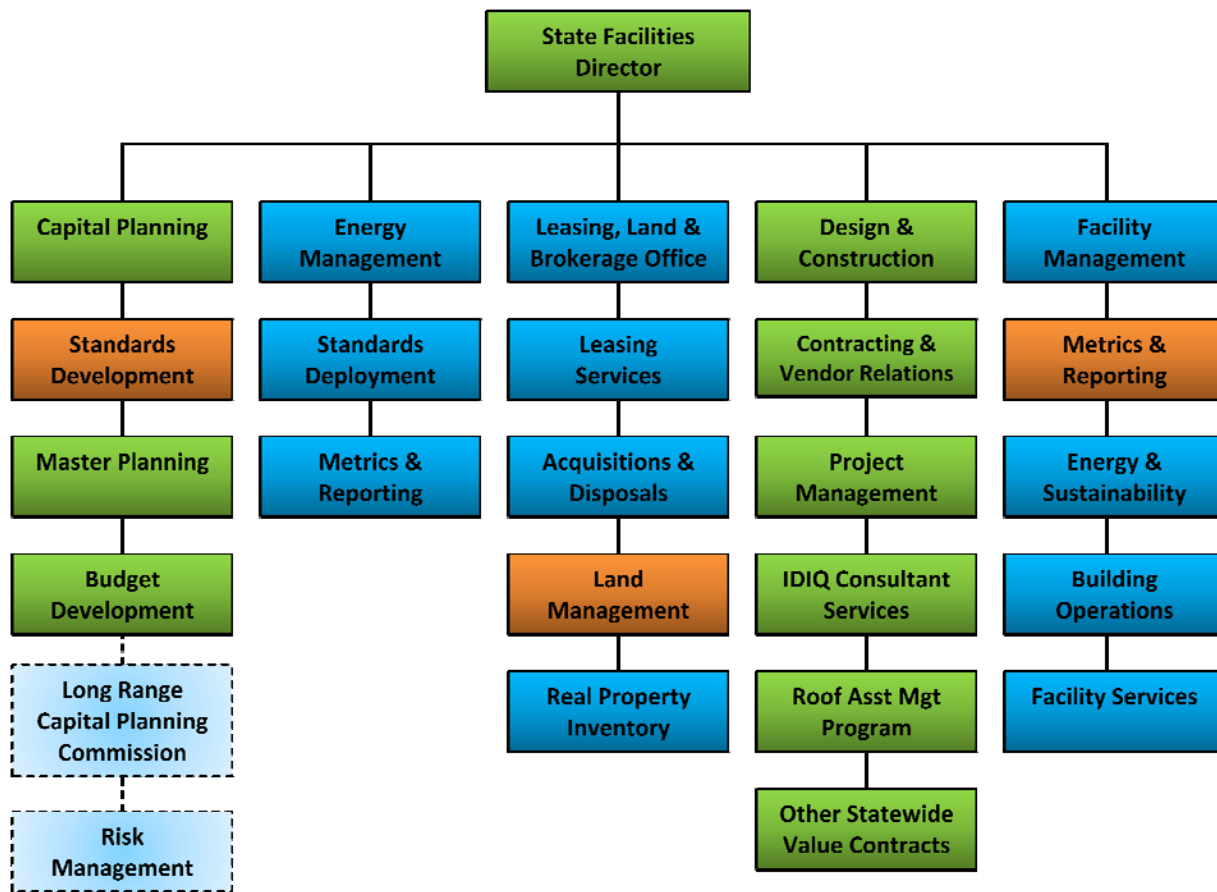
Overall, an annual capital budget should include operations & maintenance, capital improvement and capital development costs, plus administrative costs and contributions to reserves for contingencies and emergency response. A temporary percentage could be used for initial program implementation. A percentage of the annual capital plan would be used to fund these items and would be adjusted annually to consider cash balances, carry-over balances or shortfalls. This model would provide additional benefit in terms of risk management, as the State would have a greater ability to respond to emergency events, rather than each State agency bearing such risk. As a cost recovery model, limits on emergency or administrative reserves are governed by the State’s cost allocation plan for compliance with federal standards.

As a percentage of the statewide capital budget, program administration costs would be very small.



Organizational Structure

Building upon the current structure of Construction and Properties, the new organization model would combine and align the core components necessary for a sound asset management model. Under the direction of a State Facilities Director, CAP would be renamed as the Department of Real Estate Services.



Current CAP Duty
 Current OMES Duty
 New RES Duty

Department of Real Estate Services
 Division of Capital Assets Management

Office of Management and Enterprise Services

Recommendations



To fully implement an integrated, statewide model for comprehensive Capital Planning and Asset Management, four specific recommendations are made:

Recommendation #1: Amend the Public Building Construction and Planning Act:

- Rename *Construction and Properties* to become the *Department of Real Estate Services (DRES)* to reflect expanded and integrated duties;
- Rename the *State Construction Administrator* to become the *State Facilities Director* to reflected the position's duties as amended;
- Amend the *Duties of the Department* to include establishment of policies, procedures and standards for facility assessments, performance benchmarking, measurement, facility operations, maintenance programs, budget development and establishment of cost-recovery rental structures necessary for asset preservation;
- Amend the *Duties of the Department* to include responsibilities for leasing, leasehold management and real estate brokerage services;
- Authorize voluntary assignment of facility operations by a state agency to DRES for the performance of all duties related to facility operations;
- Authorize mandatory assumption of facility operations by DRES for low or non-performing facilities.
- Authorize Higher Education to operate independently from the Department of Real Estate Services as approved by the State Facilities Director, when such program has equivalent standards, performance measures, and reporting participation in the capital budgeting process.

Recommendation #2: Consolidate, Clarify and Streamline Overlapping Statutory Requirements for Real Estate Processes

- Renumber scattered statutory requirements for leasing and real estate duties of OMES and place in the Public Building Act to eliminate complexity and avoid future conflicts in law.
- Streamline processes for real estate acquisition, trade, lease and disposal to leverage opportunities for value-producing, alternative asset development.

Recommendation #3: Align and focus the duties of the Long Range Capital Planning Commission

- Narrow the scope of LRCPC to capital requirements for real property improvements (eliminate durable personal property and IT funding requests);
- Provide oversight to ensure processes and performance measures are effective (not merits of individual maintenance projects);

- Provide validation that a recommended Capital Plan is appropriate for the State budget.

Recommendation #4: Commit to a Capital Budget

- For the FY2015 budget process, validated planning and budget data will come on line for processing a separate capital budget.
- Transparency of Process and Budget = Accountability

As referenced in the December 2011 report, *Government Modernization: HB2140*, the goal of the newly consolidated agency, now OMES, was to become FAST: a Flatter, Agile, Streamlined and Technology-enabled agency. In the arena of capital facilities asset management, the State as a whole is not FAST (or effective) and has little prospect of improving under the current system. Additionally, there is only marginal opportunity for the current resources within OMES to add value to the State's capital assets due to silos of duplicated efforts, statutory complexity and lack of transparency and budget accountability. The proposed model achieves clarity of intent, clarity of responsibility and the flexibility to respond to unique needs and new opportunities.

Technical Supplement



The Technical Supplement to the 2012 Capital Planning report outlines the methods of arriving at the 5-year Annual Capital Plan and the component parts necessary to complete and maintain it.

Planning Methodology

Standard planning methods are used to assess, manage and provide objective solutions for complex facility needs. The Capital Facility Master Plan, Life Cycle Cost Analysis, Alternatives Analysis, and Location Strategy are all tools to determine the long-range strategic facility needs of the State of Oklahoma and prioritize the funding available.

Capital Facility Master Plan

The Capital Facility Master Plan is the first stage of assessing an individual building to establish the components that affect the overall performance of the structure. A Capital Facility Master Plan will incorporate both long term components (structural systems, building exterior, construction and occupancy type) as well as variable programmatic uses (public spaces, office square footage, technology and space utilization) to create a snapshot of the building at a single point in time. A detailed list of components is outlined below in the “Assessment Phase” of the Capital Planning model.

The Capital Facility Master Plan template will allow State agencies to self-report basic information while DRES planning staff complete the remaining plan details and verify the information with the agency. As changes are made to the facility, agency staff will be asked to modify the Capital Facility Master Plan to reflect those updates. The Capital Facility Master Plan is expected to be a guide for decision making by maintenance staff and to address the unique operations and maintenance needs for that facility. While a complete Facility Master Plan for each of the approximately 7,900 structures on the State rolls is not feasible in the first few years, structures that have utility service and permanent occupancy will be prioritized and cataloged.

Life Cycle Cost Analysis

A Life Cycle Cost Analysis (LCCA) is used to determine the actual cost of a structure over its anticipated life span and includes the replacement cost of the structure if it is removed from service. The LCCA takes into consideration the various accounting methods for reporting the asset value, terms of financing, present value of construction cost and the economic life of major components.

The State has an inherent obligation to maintain certain monument structures (Capitol Complex, museums, and historic sites) in perpetuity. These structures are positioned to make the best argument for the thoughtful and sustained long term maintenance practices to reduce the life cycle cost because the structures are considered irreplaceable. Other buildings, many of which were built during the 1960's and 1970's, are rapidly reaching their life expectancy and major alterations or renovations will be necessary to keep the building in service.

Capital Planning staff will be conducting the LCCA in conjunction with agencies staff based on the Facility Master Plans and projects submitted in the 5-year Capital Plan. The outcome of the LCCA is expected to identify buildings that have long exceeded their design life and have above-average operating expenses.

Additional information gathered during the Capital Planning process will inform the long-term vision of the State facilities and prepare a brief 20-year plan that will allow agency directors and legislators to better understand the viability of certain State facilities that may be nearing their designed life expectancy.

Not all facilities are made equal. Cost cutting efforts made during the design and construction phases to keep construction projects on budget have borne unexpected results. Value engineering and years of deferred maintenance have severely limited the planned life expectancy of many State buildings. Some facilities are perpetually in crisis mode, but not for lack of effort on the part of facility staff.

Studies have shown that when the "total" Life Cycle Cost of staff salaries and human capital contributions are included, the initial construction cost is approximately 25% of the Total Life Cycle Cost over the 30 year life of a unique facility. The longer the building is functionally maintained and operated, the lower the initial cost of construction will be relative to its expected life, and the longer the building can provide a return on the initial investment and subsequent investments from Capital Improvement and Capital Development projects. A high quality environment also has increased worker productivity, reduced absenteeism and has a significant impact on morale.

Alternatives Analysis

An Alternatives Analysis is a comprehensive view of where State government resources are best spent on new buildings, relocations of larger agencies and the useful repurposing of existing State properties. The purpose of an alternatives analysis is to measure the condition, adequacy and capacity of facilities based on specific and defined criteria. The benefit of an Alternatives Analysis is the open and transparent information gathering process that is used to arrive at a preferred alternative that includes and engages all affected parties.



The Alternatives Analysis is conducted through a series of public meetings and design charrettes that encourage creative thinking and rely heavily on input from a wide spectrum of participants. Basing big picture facility decisions on gut feeling is not an outcome of an Alternatives Analysis, and despite the perception of winners and losers in the context of a particular site or facility, the inclusion of all the stakeholders and clearly articulated metrics has created winning solutions to complex problems for businesses and governments alike.

Current legislation requires the assessment and prioritization of the 5% most underutilized properties owned by the State. The goal of the legislation is to divest the State of properties that are unoccupied or carry a negative value as a State-owned asset. The identified properties included in the annual list will be subjected to the Alternatives Analysis process to assist with the disinvestment or reassignment to another entity. The methodology used to return property to private ownership will also include metrics to identify those properties that have a high potential for success on the private market.

Location Strategy

The physical location of a State agency is determined by a combination of the following: mission of the organization, population served, access to qualified employees, and access to appropriate land/space. Some functions of government are directly related to the legislative activity and are naturally deemed appropriate to locate within close proximity to the State Capitol. Other functions need a physical separation from major population centers (Corrections, Wildlife, ODOT) to more effectively serve their missions. The concept of Location Strategy takes into account the tangible and intangible needs to locate certain services together and what benefits are achieved by operational adjacencies. While there is not – and will not be – an effort to centralize State services in Oklahoma City simply for the want of doing so, there will likely be opportunities to maximize the use of existing land and buildings currently in the real estate portfolio.

Highest and Best Use

The standard operating model for real estate assessment on the private market is determining the highest and best use for real estate based on its present and future conditions. When considering the highest and best use for a State-owned property, the limitations on the construction, renovation, disposition and sale of the property are numerous and technically challenging. While the challenges are not insurmountable, the timeline for completion is longer due to the levels of organizational structure that must be navigated to free the property from encumbrances.

Capital Planning Process



Phase One – Organize

Program Implementation

Structural Organization - HB 2392 requires the inclusion of clearly defined criteria into the Annual Capital Plan. The information required is:

- A comprehensive inventory of capital facilities,
- A projection of economic and demographic trends that influence the need for new or expanded capital facilities,
- An estimate of mandatory, essential, desirable and deferrable repair, replacement and expansions,
- Estimates of life cycle costs for new and substantially expanded or renovated facilities,
- An analysis of recent trends and projections of revenues available from GO and Revenue bonds, taxes used for capital facilities finance, user fees, the federal government and other sources,
- An analysis of the capacity of the State and local governments to incur debt or finance public capital facilities,
- A detailed list of all capital projects of the State which the LRCPC recommends to be undertaken or continued for any State agency in the next two (2) fiscal years, together with information regarding the effect of such capital projects on future operating expenses of the State, and with recommendations regarding the priority of such capital projects and the means of funding them,
- The forecasts of the LRCPC regarding the requirements for capital projects of State agencies for the three (3) fiscal years next following such two (2) fiscal years and for such additional periods, if any, as may be necessary or desirable for adequate presentation of particular capital projects, and a schedule for planning and implementation or construction of such capital projects,
- A schedule for the next fiscal year of recommended projects,
- Recommendations as to the maintenance of physical properties and equipment of State agencies, and
- Any other information the LRCPC deems relevant to the foregoing matters.

Some of the information described above is being collected by various agencies for the purposes of complying with existing legislative requirements, but the information resides within those agencies. The collection of this information into one comprehensive capital planning effort will take support from those agencies to transition into a new planning model, and ongoing support as changes occur.

In order to compile the remaining information described above, the existing online LRCPC submittal form (now being maintained by the

Oklahoma Bond Advisors Office) will be modified to include additional project data as projects enter into and exit the 5-year capital planning program. This will allow agencies access to their project data and provide a single-point-of-entry project delivery system to support the later stages of project execution once the project has been selected for funding and contracts have been awarded.

What follows in Phase Two and Phase Three of this report is a detailed list of the conditions and methodology used to arrive at the planning process model. As additional information becomes available, the process model will be adjusted according to the needs of the State and the documentation of improvements made to capital assets as a result of the planning effort.

Phase Two – Assess

Clear and simple is the truth. The State of Oklahoma is a complex organism with an array of moving parts and a constantly changing source of funding. State programs are a collection of the best and most valuable delivery methods of necessary services, and the 163 agencies are the experts within their field of service. Agencies have been tasked with accommodating the requirements of their programs, serving the public, and maintaining assets for their own benefit or on behalf of the State - with no clearly defined maintenance standard. Some State facilities exist in a nebulous area of quasi-ownership between the agency in charge of the operation and maintenance of the facilities and the State that incrementally appropriates funds for their upkeep. A handful of agencies have created organizational structures to uniformly assess and prioritize their real property resources. The procedural barriers to capturing the status and potential of State resources are not insurmountable, but each agency has a different operational model and organizational value placed on capital assets. Throughout the planning process, little if any distinction will be made between real property that is owned by the State and that which is owned and operated independently by a State agency. In the end, success will be measured by the sum total of improvements made by all agencies using the exact same metrics.

Assessment Phase - Baseline

Create Complete Inventory

1. Determine assessment tools
2. Space efficiency audits
3. Building efficiency audits
4. Program analysis and projections
5. Building Design, O&M Standards as baseline for FCI
 - a. life safety
 - b. structural

- c. HVAC
 - d. plumbing (hot, cold, steam, sewer, roof drains, gas)
 - e. electrical
 - f. lighting
 - g. roofing
 - h. windows and doors
 - i. flooring
 - j. technology, security, voice, data, wireless & wired systems
 - k. furniture fixtures and equipment
 - l. site, fencing, signage
 - m. parking
 - n. landscaping
 - o. storm water management
6. Data Analysis and Synthesis
 7. Reporting methodologies
 8. Facility Condition Index and Fit for Use

These types of systems are categories of facility maintenance plans and ultimately affect the condition of the facility and its value. Operations and maintenance is not a passive activity, but many simple tasks can and should be administered by existing staff. Some of the activities must be conducted by properly certified personnel and staff should be educated to respond to emergencies appropriately so that no harm is done to the general public if an emergency incident occurs.

The assessment phase will result in the creation of a Facility Condition Assessment and Life Cycle Cost Analysis for each State building.

Phase Three – Develop Plan

Project Ranking

Projects are ranked by the State Bond Advisors Office on a series of criteria to determine the appropriateness of the use of funds. The existing criteria are:

- Fiscal Impact/Cost Effectiveness,
- Legal Obligation/Health-Safety,
- Impact on service to public,
- Economic Impact/Job Creation,
- Urgency (emergency maintenance),
- Funding of prior phases,
- Departmental priority, and
- Impact on use of technology.

New scoring metrics will include those used previously as well as other quantitative criteria that fit within the scope and duration of the planning and construction timeline. These criteria include:

- Identification of the project in the adopted Facility Master Plan,

- Life safety, code violations, structural deficiencies, & ADA access,
- System replacement to improve efficiency, (HVAC, Roof, utilities)
- Renovation to include new, expanding or changing strategic plans,
- Results of the Life Cycle Cost Analysis,
- Facility Condition Index,
- Highest and best use of land and community needs,
- Project readiness, completed scope of work,
- Environmental clearances and remediation complete, and
- Potential to return State property to private ownership.

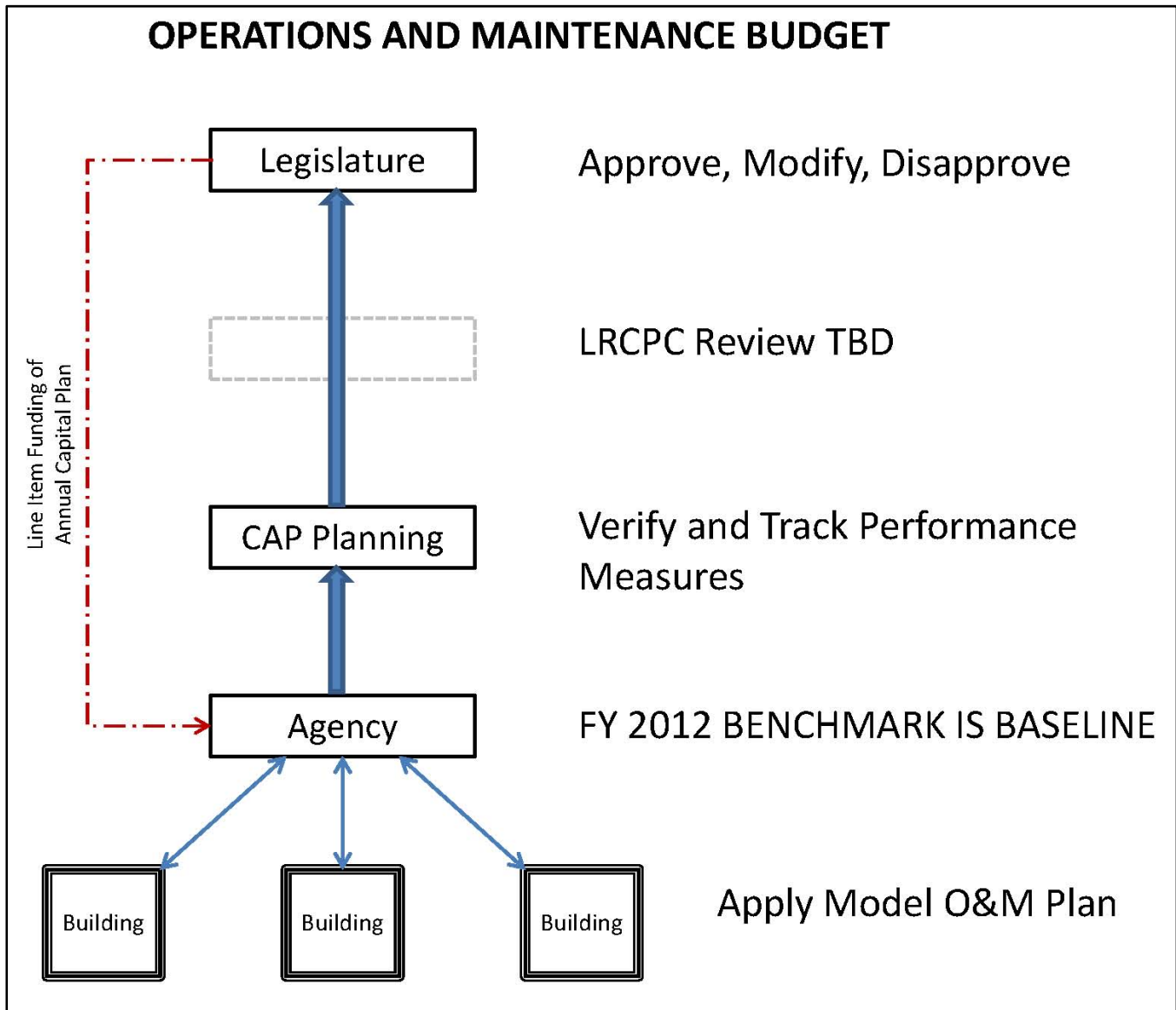
Agencies will also be asked to self-assess the quality of the type of repairs into the following categories, where the quality of repair type will be combined with the Facility Condition Assessment and Life Cycle Cost Analysis to rank the projects submitted to the Long Range Capital Planning Commission for approval. These categories are:

- Mandatory Repairs,
- Essential Repairs,
- Desirable Repairs,
- Deferrable Repairs,
- Replacement, and
- Expansions.

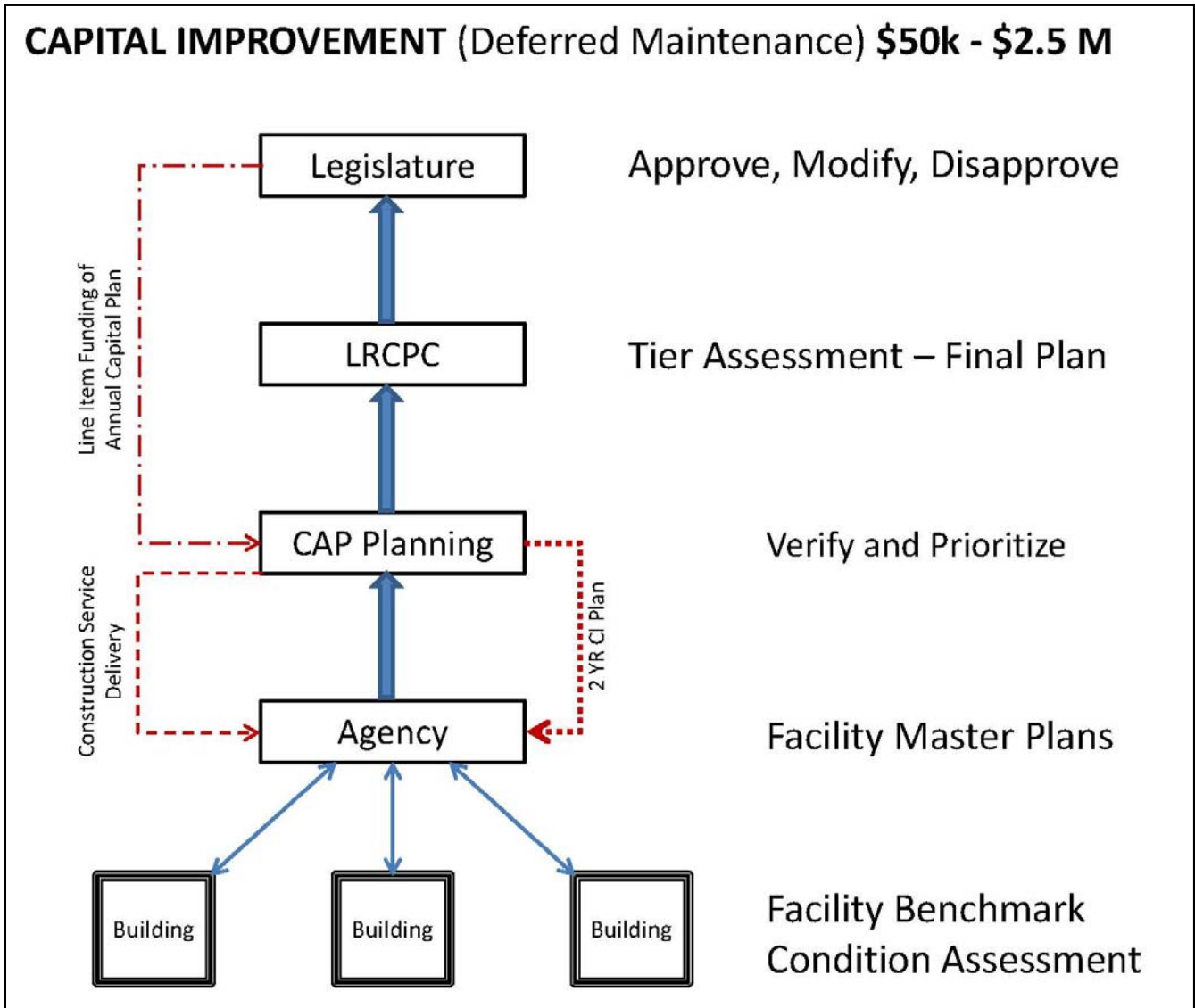
Additional rating criteria may be developed to distinguish between types of projects that have functional or systematic similarities in order to maximize economies of scale.

Project Categories

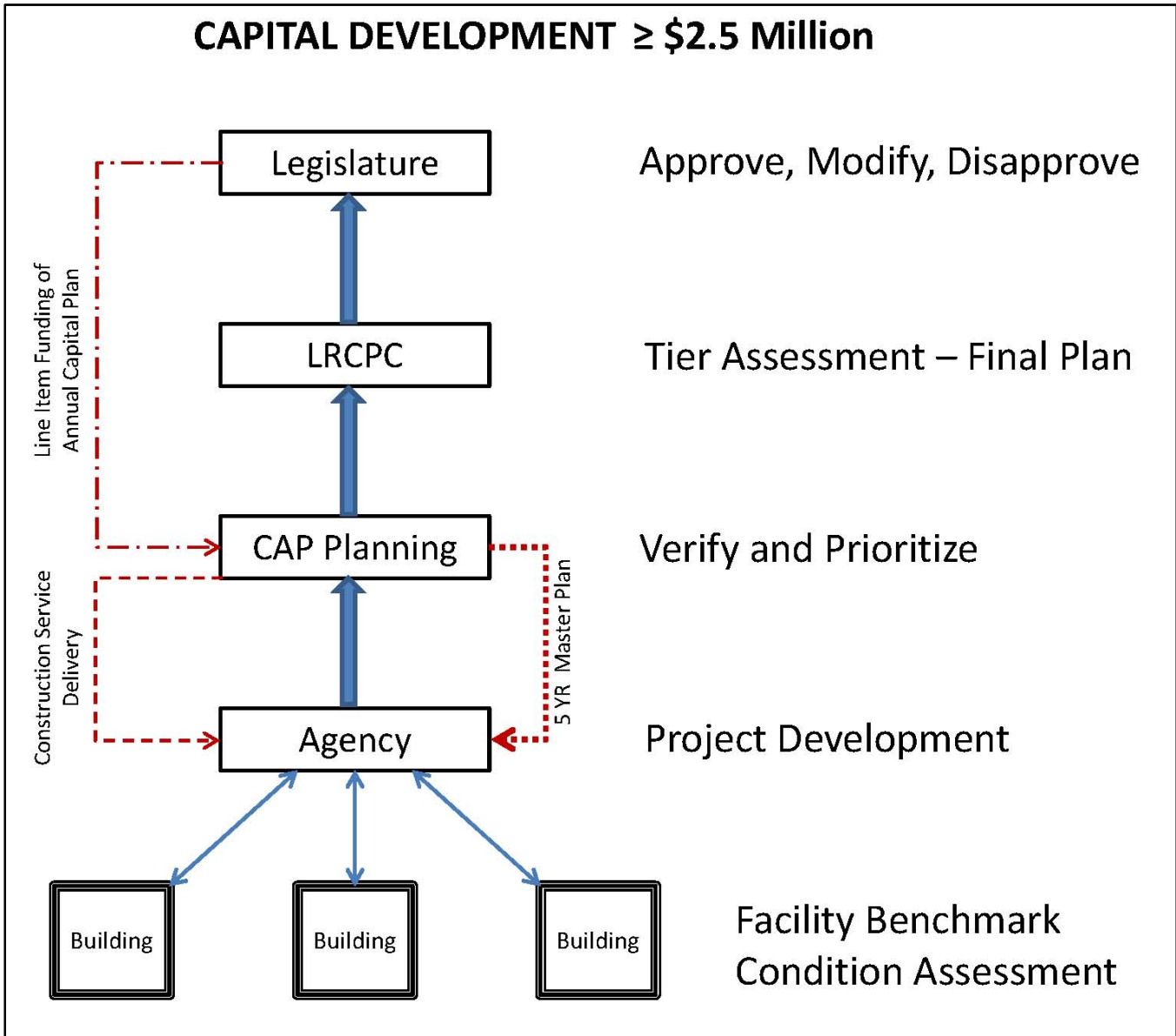
Ongoing Operations and Maintenance (O&M Renewal). The baseline for all State facilities is the ongoing O&M budget. The identification of the O&M Renewal budget within the existing accounting framework is the first step to identifying the actual cost of conducting day to day business of the State. The cost of turning on the lights and operating equipment varies seasonally but can be averaged during the year to arrive at a relatively static figure that is unique to the building size, occupancy and type of systems used to heat and cool. The O&M budget has the greatest potential for cost savings available to State agencies with existing time and personnel.



Capital Improvements >\$50,000 - \$2.5 Million. A large majority of projects submitted to the State Bond Advisors Office in 2012 are considered Capital Improvements and constitute a significant portion of deferred maintenance activities that were not funded through annual appropriations. These projects are anticipated to be scored using the project rankings identified above and systematically prioritized according to their value to the agency and the State.



Capital Developments >\$2.5 Million. Capital Developments are those that contribute a long term operation, maintenance and debt service to the State. A capital improvement can range in size from an interior renovation of an office space to a new multi-story building. Capital Developments will become an asset added to the facility list maintained by the Risk Management Division and contribute to the overall premium carried by the State.



Project Outcomes

The primary outcome of the planning process will be the Annual Capital Plan and the rolling 5-year (2+3 year) Strategic Facility Master Plan. The rolling 5-year Strategic Facility Master Plan is a comprehensive assessment of all construction related expenditures that will be authorized by the Legislature. This plan will use the Facility Condition Assessment, Life Cycle Cost Analysis and related site-specific data to create a systematic and reliable system of accounting for the forward looking years. The first two years are considered 'actionable' and will require agencies to have supporting documentation for projects readily available. While some funding will be necessary to retain professional design services, these projects should have basic programming completed and a defined scope of work before submission to the Strategic Facility Master Plan. The remaining three years of projects are necessary to establish a forecast of upcoming expenses so that future revenue decisions will be based on measurable and verifiable data.

In the first few years, projects will enter the Strategic Facility Master Plan as the project's documents are available while future year projects will enter in the last available year (five years away). A percentage of each Strategic Facility Plan cost allocation will be withheld to accommodate facility replacement and repair that occur due to a project being declared an emergency.

The Annual Capital Plan will be submitted to the Legislature for line item approval. If actionable projects (those in the upcoming two years) are not funded, they will be rolled to the next fiscal year. Each unfunded project is likely to increase in cost according to market conditions and further increase cost of deferment. Projects identified in the future years will remain in their designated year until deferred by the Legislature, or requested to be moved by the agency.

Example projects included in the Strategic Facility Master Plan include:

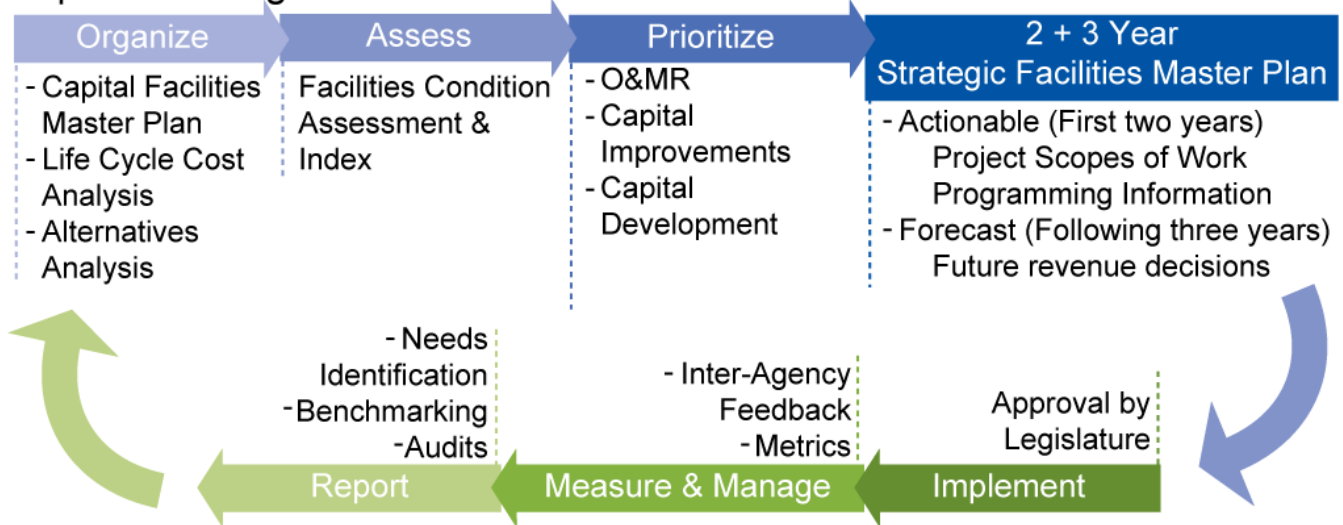
- Land or right-of-way acquisition
- Site improvements, new parking
- Construction of new structures or buildings
- Expansion of structures or buildings
- Furniture, fixtures & equipment for new buildings (20 year life span)
- Furniture, fixtures & equipment for expansions (20 year life span)
- Repair and renovation of facilities
- New or replaced utility systems
- Roof or exterior finish replacement
- Regulatory compliance (ADA, Building Code, Programmatic)
- Environmental remediation



Transition schedule to a rolling 5-year Strategic Planning model

- 2013 July 1st – Online Project Submission to LRCPC.
- 2013 Sept. 1st – Deadline for 2015-2020 Strategic Facility Plan
- 2013 Dec. 29th - Deadline for 2013 Capital Planning Report
- 2014 Sept. 1st – Deadline for 2016-2021 Strategic Facility Plan
- 2015 Sept. 1st – Deadline for 2017-2022 Strategic Facility Plan
- 2016 Sept. 1st – Deadline for 2018-2023 Strategic Facility Plan
- 2017 Sept. 1st – Deadline for 2019-2024 Strategic Facility Plan
- 2018 Sept. 1st – Deadline for 2020-2025 Strategic Facility Plan

Capital Planning Process Model



Phase Four – Implement

The initial implementation of the Capital Planning process is expected to bring strategic and high-level understanding of the resource allocation process to the long-term objectives of each State agency. The 5-year rolling model will allow agencies to prioritize long-term projects so that the work will support the continued preservation of our capital assets.

The first step of the planning process is concurrent with existing project timelines and begins on January 1st, 2013. This includes the pilot development of Capital Facility Plans for a handful of small, medium and large State agencies. The pilot program will establish the model for future plans and build the platform to systematically address the long-term operations and maintenance needs of each agency and subsequently each State building over a period of years.

The second step of the Capital Planning process will begin on July 1st, and end on September 1st, 2013 with the submission of Capital Improvement and Capital Development projects to the LRCPC. The

schedule will follow the existing timeline maintained by the Oklahoma Bond Advisors Office, and be completed for approval by the LRCPC before December 1st, 2013.

The third step of implementation will be the realignment of the Division of Capital Asset Management to bring the expertise related to real property needs into the Real Estate Services Department. The resources needed to coordinate the Annual Capital Plan are statutorily spread across different departments including as many as 25 people. The new Real Estate Services Department will include: Facilities, Central Operations, Project Management, Real Estate and Leasing, Programs and Services, as well as an ongoing relationship with personnel from Risk Management, Budget, Reporting and ISD. The Facilities group will continue to operate the properties included in the existing State Capitol Complex and voluntarily undertake the facility operations for agencies that request assistance from Real Estate Services Department. The addition of more buildings to the portfolio will depend on the outcome of the Capital Planning process and income generated from rent costs paid to the division.

Phase Five – Measure and Manage

A New Vision

The Capital Planning process will provide an opportunity for State administrators to reflect on the type and quality of construction that will return a value for each dollar spent and capitalize on the institutional knowledge of the existing State workforce. The ability for the planning effort to achieve measurable success depends on support and education of agency staff at all levels and will increase the potential to reap benefits for years to come. The actual implementation and success of transformed building stock still largely depends on the capacity of agency directors to secure funds for their facility needs. Due in large part to the current state of our facilities and the backlog for deferred maintenance, it is anticipated that the requests for capital planning and financial assistance will outstrip the available funding for a significant period of time into the future.

The establishment of a new system of prioritizing State resources is expected to be met with some resistance. Change is difficult, especially when the outcome is uncertain. Every effort will be made to clarify the large and complex nature of the problem and return results based on the adopted metrics. The Capital Planning process will consistently seek out cost saving strategies and opportunities with a high return on investment wherever possible.

The creation of a feedback system to receive comments and suggestions from agency staff will also improve the planning process and reinforce the goals and objectives identified in their Facility Master Plans.

Phase Six – Report

In future years, this report is expected to document the agencies served by the Capital Planning process to include;

- Report on each agencies facility needs,
- Condition and performance benchmarking,
- Audits of facilities, properties and leaseholds,
- Agency long-range strategic facility plans,
- Short-range programming requests for Capital Improvements, and
- The Annual Capital Plan for Legislature line-item approval.

Lastly, the effectiveness of the Capital Planning process and the subsequent success of the organizational realignment will be measured by the improvements to the State's facilities over a period of years. Early results, while important, must be increments to the larger goal of owning and maintaining a portfolio of high performing buildings that serve the mission of the State of Oklahoma.

Communications Plan

The core message:

The State of Oklahoma intends to operate and maintain high performance buildings that provide a fair return on investment to the people of Oklahoma.

The State is composed of many agencies and political subdivisions, where each is challenged with reducing the cost of services.

State-owned buildings account for a significant deferred maintenance burden, a burden that must be adequately funded.

The Capital Planning process is designed to prioritize and identify projects for funding of the Annual Capital Plan.

In order for the Capital Planning process to achieve identified objectives, a strong and consistent communications plan is vital. The planning team intends to deploy a series of communications efforts to ensure that all State agencies understand the purpose of the process and have the opportunity to fully utilize it to improve their agency's service delivery.

A core communications goal of the planning team will be to ensure that agency directors, department leadership and facilities operations teams understand the process and its goals, as well as support the effort to improve stewardship of State assets. This goal will be achieved through personal interviews and facility visits to the majority of the State's 163 agencies. Interviews and site visits will allow the planning team to



connect to agency leadership and see first-hand the challenges and successes within agency facilities.

A second communications goal is to identify and disseminate best management practices and standard operating procedures across all State agencies. The planning team will work closely with agencies that have established facilities management programs, particularly Higher Education, to ensure that high performance buildings can become a common experience for all agencies.

State agencies may lack the human capital and expertise to fully engage in the Capital Planning process, as well as identify facilities management deficiencies. The third goal of the communications plan is to provide these agencies with expertise in planning resources. The planning team will utilize the Facilities Conditions Assessment to identify agencies with the greatest needs and will prioritize planning resources, such as capacity building training and technical assistance, to those agencies with the largest backlog of deferred maintenance.

Finally, the planning team will utilize capacity building seminars and educational opportunities to coordinate best management practices with agencies that employ part-time facilities personnel with the goal of encouraging personnel to adopt best practices and take ownership of the Capital Planning process within their area of responsibility.

Goals and Objectives

Qualitative goals are used to guide the planning process and prioritize the activities necessary to achieve the intended objectives. Additionally a broad set of goals serves as a tool to unify the extraneous topics and create focus on critical issues.

Objectives are specific and measurable. The achievement of an objective is also intended to define completion of the goal. A list of objectives is included later below in conjunction with recommendations.

Goal 1. Account for and reduce the actual cost of facility operation and maintenance.

- Report facilities activities with correct object code by FY15.
- Perform maintenance activities according to manufacturer's specifications and established standard operating procedures.
- Create baseline for O&M Renewal line item in FY15 State budget.
- Develop and implement global budgeting process.

Goal 2. Remove barriers that prevent agencies from focusing on their core missions.

- Reduce agency staff time to coordinate and complete facility related

tasks according to industry standards.

- Create online submission form to streamline project requests, funding and implementation by July 2013.

Goal 3. Build resiliency and flexibility into State facilities.

- Define average square foot per State employee for individual occupancy types and recommend FFE best practices.
- Document construction types and space needs to build a case for construction of buildings that have 50+ year life spans.

Goal 4. Create a unified and supportive vision through collaborative planning.

- Hold quarterly planning sessions that involve agency staff, administrative personnel, maintenance crews and elected officials.
- Document feedback to continually improve planning process.

Goal 5. Instill pride and quality of work into State programs and facilities.

- Deliver highly reliable State facilities that serve agency needs.
- Implement best management practices.
- Substantially complete Facility Condition Assessments by FY15.

Goal 6. Maximize potential of construction activities and properties to serve agency needs.

- Realign Department of Construction and Properties into Department of Real Estate Services by FY 14.
- Export facilities and capital asset management process model for local or county governments by FY15

Goal 7. Create reliable, high performing and healthy environments for State employees and residents.

- Reduce staff turnover and absenteeism through improved work environments.
- Reduce service interruptions caused by building system malfunction or failure.
- Reduce risk liability by 5% for properties reaching end of life cycle.

Goal 8. Leverage annual operations and maintenance costs to maximize return on investment.

- Create funding pool for emergency maintenance needs from a percentage of annual Capital Improvement and Capital Development projects.
- Publicize use of existing Construction and Properties statewide contracts and Risk Managements' Modified Loss programs to reduce lead-time for necessary repairs and maintenance.

Goal 9. Improve efficiency of State investments through management of best practices and standards.

- Enhance quantitative criteria to determine the most appropriate projects selected for funding for FY15.
- Support efforts to reduce energy use through State adopted O&M standards.
- Optimize and align capital budget with agency missions.
- Document and maintain reliable performance metrics.

Goal 10. Educate State leaders and the general public regarding the need to maintain critical facilities.

- Publish best management practices and process models for public comment.
- Standardize funding for facilities activities by FY15.

Goal 11. Establish a results driven, measurable planning process to improve State facilities according to adopted legislation.

- Document a financial estimate of mandatory, essential, desirable and deferrable repair, replacement and expansion of State facilities and buildings by FY 15.
- Eliminate the deferred maintenance backlog by 50% by FY 18.
- Become a trusted resource for State agencies regarding capital planning needs.

Priorities

PRIORITY ONE: Current and Critical (Immediate)

- Modify the existing LRCPC process to establish single point of entry for all Capital Improvements and Capital Development projects.
- Each agency should account for Operations and Maintenance cost or rent/lease cost in Annual Budget request. This cost would be described annually as the O&M Renewal.
- Adequately account for financial transactions between building planning, service, operations, maintenance, and improvements made to State facilities.
- Fund Capital Improvement and Capital Development projects from appropriated pool.
- Align Capital Development project information with asset management database and FCI.
- Fund projects from source relative to payback model.
- Training for O&M activities related to specific building types, systems and occupancies.
- Adoption of State Facility Design Guidelines and O&M Standards for all State-owned and leased facilities.
- Integrate Components of Real Estate, Construction and Properties, Facilities, Risk, Finance and Energy Management into the Capital Planning and budgeting process into “Real Estate Services” Department.

PRIORITY TWO: Potentially Critical (FY 14)

- Funds for Capital Development and Capital Improvements should be held by the Division of Capital Asset Management through project development, contracting, and construction to confirm applications for payment match scope of work.
- Advise on consolidation and coordinate Real Estate legislation and services to simplify transactions.
- Funding of statewide digital database and map to include property information, land and mineral rights holdings. This map will be required to correlate to the State property database.

PRIORITY THREE: Necessary, Not yet critical (FY 15- FY 20)

- Market enterprise services to other entities and components of the State.

PRIORITY FOUR: Recommended, Not time dependent

- Construct new facilities to last generations.
- Maximize use of State-owned property in Lincoln Renaissance.

Terms and Definitions

Annual Capital Plan: The annual sum total of all O&M Renewal, Capital Improvement and Capital Development projects as well as other qualified expenses related to capital assets.

Capital Asset Management: A systematic management effort to ensure that all entity decisions and initiatives regarding capital assets are planned and executed to maximize the functionality and financial value of the capital asset portfolio.

Capital Budget: A process of determining needs for acquiring, constructing, improving, or purchasing capital assets.

Capital Facility Master Plan: A comprehensive analysis of an individual building and its components to support a 5-year Strategic Facility Plan.

Capital Improvement: Any building or infrastructure project that will be owned by the State and built with direct appropriations or with the proceeds of State issued bonds or paid from revenue sources other than general revenue at a cost of twenty-five thousand dollars or more and has a useful life of at least five years.

Capital Improvement Plan (CIP): A prioritized listing of capital projects selected for funding for the next five to ten years.

Capital Development: Planned renovation, expansion, or new construction of greater than \$2.5 million. Capital Development projects will contribute to the ongoing operations and maintenance obligation of the authorizing agency.

Charrette: A collaborative community planning and design process that brings stakeholders together in intensive work sessions to develop plans for a specific challenge.

Comprehensive Facility Master Plan: A series of graphic or written descriptions of a campus or collection of adjacent facilities along with a functional analysis of space requirements and shared services. The purpose of a Comprehensive Facility Master Plan is to identify and determine where efficiencies can be gained through combined asset management, shared improvements can be leveraged to benefit the campus environment and long term capital outlays can be coordinated to improve the efficiency and function of each building. The Capital Facility Master Plan should be adopted and maintained by the agency in conjunction with the Facility Condition Assessment.

Deferred Maintenance: Preventative maintenance activities that have been delayed due to lack of prioritization or funding.

Depreciation: A method of allocating the cost of a tangible asset over its useful life.

Energy Use Index: A unit of energy consumption based on a defined quantity, usually the square footage of the building measured per year.

Estimated Life Span: The scheduled life of a type of construction or piece of equipment based on industry standards.

Facility Condition Assessment (FCA): A process of gathering information for the input, storage, manipulation, and reporting of facility related information.

Facility Condition Index (FCI): A normalized assessment benchmark to compare the relative condition of a building or structure to create a record for the purposes of measuring performance. FCI does not take into account the unique features or use of a specific building. Mathematically the FCI represents the Maintenance, Repair and Replacement deficiencies relative to the current replacement value.

Facility Management: The integration and alignment of non-core services, including those relating to the grounds required to operate and maintain an entity and fully support an entity's programs and services.

Latent/Lost Capital Improvement: A project that was cancelled or removed from service prior to the completion of its life cycle or scheduled return on investment. This includes property or services sold below assessed value.

Life cycle cost: the cost for rehabilitation, repair or replacement of an asset.

Life Cycle Cost Analysis (LCCA): The cumulative discounted cost of designing, financing, constructing, operating, maintaining repairing and disposing of real property. Mathematically the LCCA is:

$$LCC = I + \text{Repl} - \text{Res} + E + W + \text{O\&M} + O$$

Where:

I = Present Value Investment costs

Repl = Replacement (Present value)

Res = Residual Value less disposal

E = Energy costs

W = Water / Utility Costs

O&M = non-fuel expenses

O = Other costs (e.g., contract costs, environmental)

Furniture, Fixtures and Equipment are included if their individual values are greater than \$2,500.00.

Long Range Capital Planning Commission (LRCPC): A State commission comprised of seven members that reviews and recommends the 5-year plan of capital expenditures to the Legislature.

Master Plan: A written or graphic guide to provide a long-term vision for the State to ensure its future capital asset needs will be met.

Operations and Maintenance (O&M): Costs consist of general physical facility maintenance, utilities, voice-data and security, grounds maintenance and monitoring, insurance and supporting services such as custodian services, mail services, and facility management.

O&M Renewal: The annual allocation of the previous year's O&M budget adjusted to a defined percentage increase or decrease according to market and climatic conditions.

Public Improvement: A fixture, building element or asset of at least \$25,000 in value that has a reasonable life expectancy of at least 10 years and may or may not contribute to the ongoing O&M expenses.

Preventative Maintenance: A program in which wear, tear, and change are anticipated and continuous corrective action is taken to ensure peak efficiency and minimize deterioration.

Programmatic Capital Improvement: is a legislatively mandated project that requires professional design services and includes an addition to ongoing O&M expenses.

Space Planning: The practice of allocating owned and leased space to promote practical, efficient, and optimum use of space.

Strategic Plan: Determines the direction and defines the mission of an entity.

Strategic Facility Master Plan: The rolling 5-year (2+3 year) schedule of Capital Improvements and Capital Development projects that are expected to be accomplished over the life-cycle of the building to inform and support the Annual Capital Plan and the Capital Facility Master Plan.

Total Life Cycle Cost Analysis: The combination of the Life Cycle Cost and the cost of staff salaries, facility administration and a representative value of human work conducted in the facility according to occupancy type and number of occupants.

References

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4. Operations and Maintenance Best Practices, a Guide to Achieving Operational Efficiency, August 2010. Release 3.0. Federal Energy Management Program. U.S. DOE.
5. HB 2140 Consolidation Report. Carol McFarland. OSF December 2011.