

DE0201
Board of Public Works

Capital Budget Summary

State-owned *Capital Improvement Program*
(\$ in Millions)

Projects	Prior Auth.	2019 Request	2020 Est.	2021 Est.	2022 Est.	2023 Est.	Beyond CIP
Annapolis Post Office Renovation (Anne Arundel)	\$8.621	\$8.209	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
Replacement of Lawyer's Mall Underground Infrastructure (Anne Arundel)	0.120	2.000	2.500	2.500	0.000	0.000	0.000
Rehabilitation of the Shaw House (Anne Arundel)	0.000	0.000	0.000	0.530	5.088	0.000	0.000
Education Building – 200 West Baltimore Street Renovations (Baltimore City)	0.000	0.000	0.000	0.000	1.100	1.350	27.000
Total	\$8.741	\$10.209	\$2.500	\$3.030	\$6.188	\$1.350	\$27.000

Fund Source	Prior Auth.	2019 Request	2020 Est.	2021 Est.	2022 Est.	2023 Est.	Beyond CIP
GO Bonds	\$8.741	\$10.209	\$2.500	\$3.030	\$6.188	\$1.350	\$27.000
Total	\$8.741	\$10.209	\$2.500	\$3.030	\$6.188	\$1.350	\$27.000

CIP: *Capital Improvement Program*
GO: general obligation

Grant and Loan Capital Improvement Program
(\$ in Millions)

Program	2017 Approp.	2018 Approp.	2019 Request	2020 Est.	2021 Est.	2022 Est.	2023 Est.
Facilities Renewal Fund (Statewide)	\$0.000	\$15.014	\$20.540	\$15.728	\$18.568	\$18.000	\$18.000
Construction Contingency Fund (Statewide)	0.000	2.500	0.000	2.500	0.000	2.500	0.000
Fuel Storage Tank System Replacement Program (Statewide)	1.700	0.000	0.000	1.000	1.000	1.000	1.000
Total	\$1.700	\$17.514	\$20.540	\$19.228	\$19.568	\$21.500	\$19.000

Fund Source	2017 Approp.	2018 Approp.	2019 Request	2020 Est.	2021 Est.	2022 Est.	2023 Est.
GO Bonds	\$1.700	\$17.514	\$20.540	\$19.228	\$19.568	\$21.500	\$19.000
Total	\$1.700	\$17.514	\$20.540	\$19.228	\$19.568	\$21.500	\$19.000

GO: general obligation

Summary of Issues

Construction Contingency Fund Balance: The Construction Contingency Fund provides a source of supplementary funds for State-owned projects if prior authorized funds are insufficient to fund the initial construction award or to cover change orders that do not increase the scope of a project. The State periodically capitalizes the fund with general obligation (GO) bond authorizations depending on the level of use and projected end-of-year fund balance. Recent fund balances have ranged between \$5 million to \$6 million. Although this has been sufficient in recent years, risk factors suggest that greater use of the fund should be expected. While the current fund balance is likely to be sufficient through fiscal 2019, it is advisable to monitor construction costs and the factors that influence them so that the State is prepared if inflationary pressures increase.

Summary of Recommended Bond Actions

1. Facilities Renewal Program
Approve.
2. Annapolis Post Office
Approve.
3. Lawyer's Mall Underground Infrastructure
Approve.

Program Description

Facilities Renewal Fund: This program provides funds for the repair and rehabilitation of State-owned capital facilities that cost between \$100,000 and \$2,500,000, excluding higher education projects, which are funded through separate appropriations. Projects added to the program’s backlog are prioritized by urgency with the intent of preventing further deterioration, loss of assets, and facility closure.

Construction Contingency Fund: This is a supplementary funding source for State construction projects. Expenditures from the fund must be approved by the Board of Public Works and may only be used for State-owned capital projects that have already received funding authorization from the General Assembly in instances where the prior authorized funds are insufficient to fund the initial construction award or to cover change orders that do not increase the scope of a project.

Fuel Storage Tank System Replacement Program: This program funds the replacement and maintenance of fuel tanks that are currently at the end of their expected useful life, which is generally 30 years. Without replacement or repair of the tanks, State agencies may fail inspections conducted by the Maryland Department of the Environment (MDE), possibly incurring federal fines of up to \$100,000. Additionally, in the event that a tank fails, fuel leakage would contaminate groundwater resources.

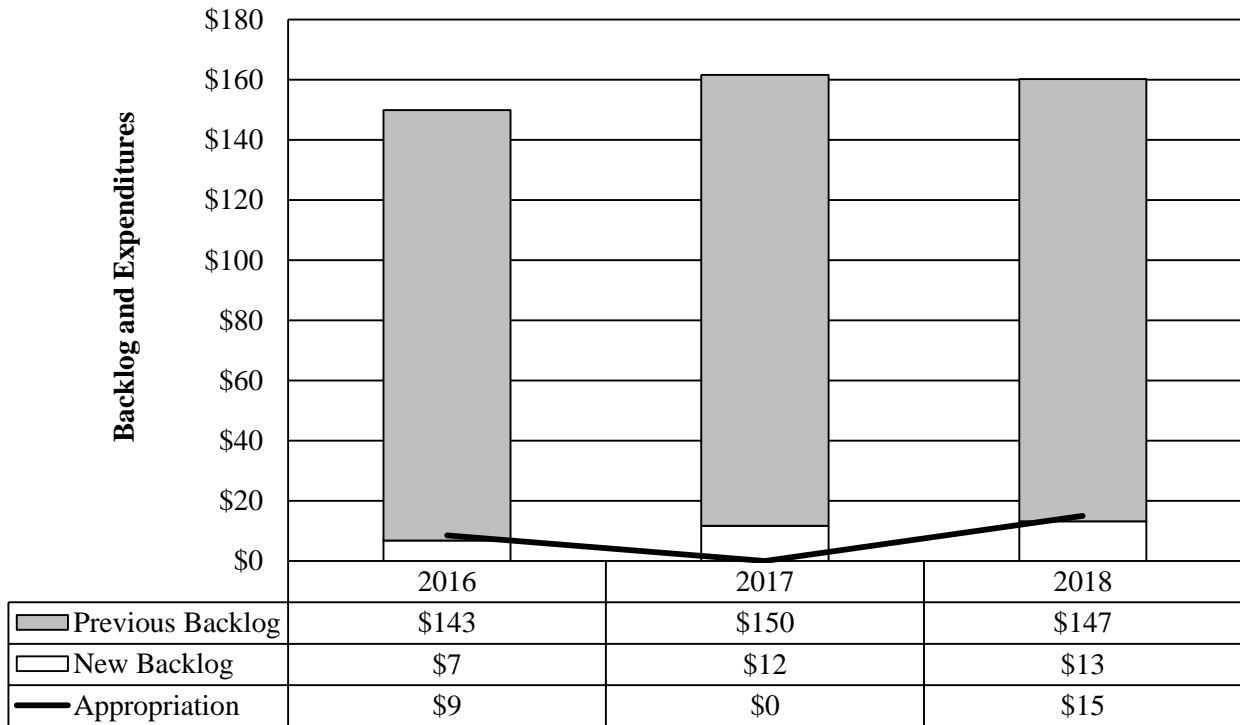
Budget Overview

Facilities Renewal Fund

Pursuant to Sections 4-407 and 4-408 of the State Finance and Procurement Article, the department is required to establish and supervise a comprehensive and continuing program of maintenance and repair of all public improvements. The Department of General Services’ (DGS) maintenance of State facilities efforts include both “critical maintenance” funded through the operating budget and “facilities renewal” funded through the capital budget. The Facilities Renewal Program provides funds for the repair and rehabilitation of State-owned capital facilities that cost between \$100,000 and \$2,500,000, excluding higher education projects.

Concerns about the size of the facility renewal backlog have persisted for years. **Exhibit 1** shows that the capital facilities renewal backlog totals \$149.9 million in fiscal 2017. Although additional funds are provided for facilities renewal in fiscal 2019, the capital program proposes \$20.5 million in GO bond authorizations, and the backlog remains substantial. Even a \$20 million appropriation is only one-eighth of the backlog and with upward of \$13.0 million in new projects added to the backlog and the inevitable emergency projects that will divert a portion of the fiscal 2019 funding, the proposed funding level will not materially reduce the backlog.

**Exhibit 1
Facilities Renewal Funding and Backlog
Fiscal 2016-2018
(\$ in Millions)**



Note: Facilities renewal projects are capital budget expenses for projects that cost more than \$100,000.

Source: Department of General Services

DGS has implemented new program procedures, and the project management unit is currently fully staffed, which has improved the time it takes to complete projects. This has enabled DGS to increase annual encumbrance levels from \$11.1 million in fiscal 2014 to an all-time high of \$28.6 million in fiscal 2017. Some of the increased encumbrance capacity is the result of program changes that raised the upper limit on projects that can be administered through the program from \$1.0 million to \$2.5 million, but this reduces the total number of projects that can be funded within the annual appropriation.

DGS annually identifies the list of projects that will be funded within the appropriation. The fiscal 2019 budget includes funding for 35 projects. Included on the list are 3 projects from fiscal 2018 in the amount of \$647,000 that were deferred to make room for emergency projects. These include:

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- \$125,000 to replace the roof at 500 North Hilton Street in Baltimore City;
- \$381,000 to replace the roof at the Baltimore City Detention Center Jail Industries Building; and
- \$141,000 to replace the roof at Spring Grove Hospital Center’s Maintenance Hall in Baltimore County.

One of the difficulties in administering the program is the impact of emergency projects. Between fiscal 2015 and 2017, DGS had to delay \$7.1 million in already approved projects in order to address emergency projects. This pulls staff resources away from projects already in some stage of design and procurement and delays project implementation. It is advisable that the annual funding for the program include setting aside funds in the range of \$4.0 million as a hedge against the inevitable need to fund emergencies. The fiscal 2019 budget provides no such set aside, which increases the likelihood that several projects on the list will not move forward in fiscal 2019.

Funding Increase Supports Laboratory Renovation

The Maryland Archaeological Conservation (MAC) Laboratory is an archaeological research, conservation, and curation facility housed at Jefferson Patterson Park and Museum. It is a clearinghouse for archaeological collections associated with land-based and underwater projects conducted by State and federal agencies and for major collections acquired through private donation.

Mold has been found in the building, and substantial renovations are required. The fiscal 2018 capital budget dedicated \$2.3 million for building envelope and heating, ventilation, and air conditioning (HVAC) renovations. **Exhibit 2** shows that this year’s facilities renewal budget provides \$5.6 million.

Exhibit 2
Maryland Archeological Conservation Laboratory Renovation Costs
Fiscal 2018-2019
(\$ in Thousands)

	<u>Prior Year</u> <u>Authorizations</u>	<u>Fiscal 2019</u> <u>Authorization</u>	<u>Total</u> <u>Authorization</u>
Mechanical System Upgrade	\$0	\$1,800	\$1,800
Metal Roof Replacement	0	2,250	2,250
Replace Foundation Waterproofing	861	1,125	1,986
Siding Replacement	0	439	439
Total	\$861	\$5,614	\$6,475

Source: Department of Budget and Management

Although the facilities renewal budget increases by \$5.3 million from fiscal 2018 to 2019, the increase is effectively being used to support the MAC Laboratory.

The laboratory's capacity is limited, and data provided projects that the laboratory is nearing capacity. To expand the laboratory, the *Capital Improvement Program (CIP)* proposes authorizing \$6.6 million from fiscal 2020 to 2022. Including fiscal 2018 planned spending and 2019 authorizations, MAC Laboratory authorizations total \$13.1 million. Breaking a large project into six pieces makes it difficult to track its progress. Initially, it also makes it difficult to get a sense of the scope of the work that needs to be done.

It is unusual that such a large project is divided into five facilities renewal projects and one additional capital expansion project. **The Department of Budget and Management (DBM) should be prepared to brief the committees on why a \$13 million project is broken up into six pieces.**

Annapolis Post Office Renovation

The Annapolis Post Office was acquired by the State of Maryland in 2013. The acquisition cost totaled \$3.2 million. The postal service vacated the property in August 2015 due to the poor structural and mechanical condition of the property. This property will remain vacant until significant renovations are made so that it may be occupied by State employees.

The DGS building condition assessment for this project has identified significant deficiencies, including the presence of hazardous substances such as mold, asbestos, and lead paint. The building's HVAC system and its mechanical and electrical systems are currently completely inoperable.

A complicating attribute is that the building, which was built in 1901, is on the National Register of Historical Places and is a landmark in downtown Annapolis. Maintaining historic features increases costs. Additionally, there are hazardous materials, such as asbestos, that need to be removed.

Initial renovation estimates underestimated costs. **Exhibit 3** shows that the costs budgeted in the CIP are now \$6.6 million more than last year's CIP.

DBM advises that the reasons for cost increases are that:

- the initial building assessment did not appreciate the full extent of the cost of remediating hazardous materials and renovating the building envelope;
- the historic nature of the building requires more construction funding to ensure preservation of historically significant features; and
- the construction market has picked up slightly, leading to some higher costs.

Exhibit 3
Comparing Costs
Fiscal 2017-2018 Capital Improvement Program
(\$ in Thousands)

	<u>Prior</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
2017 CIP Capital	\$4,883	\$5,238	\$150	\$10,271
Budget Bill Changes		-1,500	1,500	0
Fiscal 2018 Authorization		3,738	1,650	10,271
2018 CIP	8,621		8,209	16,830
Difference			\$6,559	\$6,559

CIP: *Capital Improvement Program*

Source: Department of Budget and Management

Building renovation has been divided into two phases. The first phase will remove mold and hazardous material. The second phase will address the building envelope and interior renovations.

Replacement of Lawyer’s Mall Underground Infrastructure

Lawyer’s Mall is adjacent to the Maryland State House, Government House, and the Legislative Services Building in Annapolis. The mall is an open area with sidewalks, benches, and statues, including the Thurgood Marshall statue. This project renovates existing steam and chilled water lines that are experiencing leaks and are failing and includes (1) the removal and replacement of pavement, concrete, and masonry sidewalks; (2) supplying and installing steam heating, condensation, and chilled water piping; (3) relocating all other utilities in the way of the existing piping; and (4) temporarily relocating and returning statues upon completion of the project. The telecommunications and electrical infrastructure are also at the end of their functional life and will be replaced at the same time. Prior funds for design were provided from the Facilities Renewal Program.

The utilities under the mall were installed as early as the 1970s and are beyond their useful life. Repairs have been made, but there are still steam leaks that require chimneys to allow the steam to escape. Should the chilled water or steam piping fail, DGS advises that most, if not all, of the heating and cooling in the State House, Government House, and the Legislative Services Building will be inoperable. This is a high priority that is too large for the Facilities Renewal Fund.

This project is complicated because it is intertwined with the annual legislative session and other Annapolis projects. The project's construction period is 18 months, from April 2019 to October 2020. Construction requires fencing off the open area by the State House for that period, which will disrupt traffic during the 2020 legislative session and possibly the 2021 session if there are delays. Although the CIP programs construction funds over multiple years stretching from fiscal 2019 through 2021, this reflects aligning the funding with the anticipated construction cash flows and does not suggest that the project will be completed in multiple phases.

Another building in Annapolis that needs to be renovated is the Legislative Services Building that provides office space for the Maryland General Assembly's staff. This 92,000 square foot building was constructed in 1976. The building's deficiencies include leaking water, mechanical and electrical systems, HVAC, fire protection sprinklers, and handicapped accessibility. This is also the only building in the Annapolis campus that still relies on the Central Services Building's chilled water plant due to its outdated and inefficient HVAC system. Since this is adjacent to Lawyer's Mall, it would be most cost effective and least disruptive for both of these projects to be renovated at the same time. However, the emergent nature of the failing steam distribution system makes aligning the two projects impossible.

Shaw House

The building houses units of the Executive Department, the Department of Information Technology, and the Maryland Department of Transportation. The project will renovate the historic Shaw House and annex located at 21 State Circle in Annapolis. The main structure was constructed in three major phases between 1723 and 1922, and the annex was constructed in 1950. The Shaw House is showing signs of (1) structural deterioration in the interior framing system and sagging floors; (2) chronic moisture penetration in the roof and foundation systems and the south chimney and wall; (3) deficient and uneven heating and cooling systems; (4) damaged and deteriorating walls and ceilings; and (5) limited Americans with Disabilities Act (ADA) accessibility. The project will also improve interior accessibility to the annex located immediately behind Shaw House. The 2018 CIP programs the project design funds in fiscal 2021 and construction funds in fiscal 2022.

Education Building

The building houses the administrative offices of the Maryland State Department of Education and the Maryland Higher Education Commission. The project renovates the 10-story, 217,000 gross square foot building at 200 West Baltimore Street in downtown Baltimore City. This includes an upgrade and replacement of the HVAC and electrical systems, ADA upgrades throughout the building, telecommunications enhancements, restoration of the main lobby, replacement windows, and an upgrade to the building exterior. The preliminary cost estimate of this project totals approximately \$30 million, and planning is funded to begin in fiscal 2020.

Issues

1. Construction Contingency Fund Balance

The Construction Contingency Fund provides a source of supplementary funds for State-owned projects if prior authorized funds are insufficient to fund the initial construction award or to cover change orders that do not increase the scope of a project. The State periodically capitalizes the fund with GO bond authorizations depending on the level of use and projected end-of-year fund balance. Recent fund balances have ranged between \$5 million to \$6 million. Although this has been sufficient in recent years, the risk that the fund will be insufficient is increasing as risk factors suggest that greater use of the fund should be expected. While the current fund balance is likely to be sufficient through fiscal 2019, it is advisable to monitor construction costs and the factors that influence them so that the State is prepared if inflationary pressures increase. Specifically:

- ***Large Projects Could Deplete the Fund Balance:*** DGS notes that it is aware of several current projects that could request substantial funding from the fund. There has also been general construction cost inflation. The Bureau of Labor Statistics estimates that Baltimore-Washington construction inflation was 7.2% in calendar 2017.
- ***Labor Markets Are Tightening:*** Although labor costs have increased slowly in this recovery, there are signs that labor costs could increase. The unemployment rate is at a 10-year low, which tends to increase labor costs.
- ***Inflation Is Likely to Increase:*** The Federal Open Market Committee has begun to increase interest rates to keep inflation low. If inflation rates increase, the cost of construction supplies and labor are also likely to increase.
- ***Natural Disasters Have the Potential to Draw Construction Contracts Out of State:*** Natural disasters, especially hurricanes on the East Coast, are followed by federal and private funds to rebuild infrastructure. This increases the demand in those areas and can divert resources out of Maryland.

Summary of Other Projects in the Capital Improvement Program

Projects Deferred in Fiscal 2019

Exhibit 4 shows that fuel tank replacement costs are deferred in fiscal 2019. The scope of the program has been reduced. The Maryland State Police had requested that DGS replace all underground fuel storage tanks at its barracks with aboveground tanks. The DGS analysis concluded that this would be expensive and that many tanks did not need replacement since the tanks passed the MDE inspection and were not at the end of their useful lives. However, DGS does project that an additional \$5 million will be needed through fiscal 2020 to replace tanks that are not leaking but are reaching their useful

life. Also, this leaves \$1.5 million in fund balance at the end of fiscal 2018, which does not provide any funding in case of an emergency.

**Exhibit 4
Projects Deferred
Fiscal 2019**

<u>Project</u>	<u>Description</u>	<u>Reason for Deferral</u>
Fuel Storage Tank System Replacement Program (Statewide)	Provide funds to remove, replace, or upgrade State-owned fuel storage tanks.	Previously encumbered funds were unencumbered.

Source: Department of Budget and Management, 2018 *Capital Improvement Program*

GO Bond Recommended Actions

1. Approve the \$20,540,000 general obligation bond authorization for the Facilities Renewal Program.
2. Approve the \$8,209,000 general obligation bond authorization for the Annapolis Post Office renovation project.
3. Approve the \$2,000,000 general obligation bond authorization for the Lawyer’s Mall project.