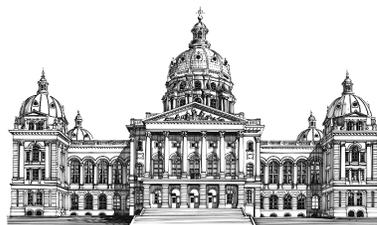

Iowa Legislative Fiscal Bureau

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State Capitol
Des Moines, IA 50319
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Department of General Services Project Management Services

ISSUE

Review the funding and activities of project management services provided by the Department of General Services (DGS) for infrastructure and maintenance projects.

AFFECTED AGENCIES

Executive Branch agencies that have received funding for construction, renovation, and maintenance of facilities and are required to use DGS for administration of capital projects. This includes all agencies except the Board of Regents, Iowa Public Employment Retirement System (IPERS), and the Departments of Natural Resources, Transportation, and Public Defense.

CODE AUTHORITY

Section 18.3(7), Code of Iowa

BACKGROUND

The Design and Construction Office of the DGS provides project management services to State agencies that have received funding for infrastructure-related projects. The project managers provide the following services:

- Represent the State to ensure that best professional practices, environmental regulations, building codes, warranties and legal requirements are met by client agencies, architectural/engineering and related consultants, and construction contractors.
- Provide fiscal and budgetary oversight on projects, and ensure that contractors and consultants perform their contractual responsibilities relating to project completion.
- Provide leadership to client agencies in planning and programming vertical infrastructure restoration and construction.
- Facilitate the development and award of architectural/engineering and other consultant services contracts and construction contracts.

A detailed description of services provided by the Project Managers is listed in **Attachment A**.

The Design and Construction Office is included within the Property Management Division of the DGS. Other offices of the Property Management Division include Capitol Complex Maintenance, Building Services, and Architectural Services. The Design and Construction Office operates on an annual budget of approximately \$1.0 million and 14.0 FTE positions.

The Design and Construction Office is responsible for architectural services, contracting for construction, and construction management for all State agencies' infrastructure projects except for projects of the Board of Regents, the Iowa Public Employees' Retirement System, and the Departments of Transportation, Public Defense, and Natural Resources. Section 18.3(7), Code of Iowa, requires the Department to provide architectural and construction services to all State agencies except for those mentioned above.

In addition, the Design and Construction Office is responsible for tracking project expenditures and disbursement of funds to vendors for work completed on infrastructure projects. The Code of Iowa requires all capital appropriations (with the exception of the agencies listed above) to be transferred to a Capital Fund under the administration and control of the Department.

FUNDING

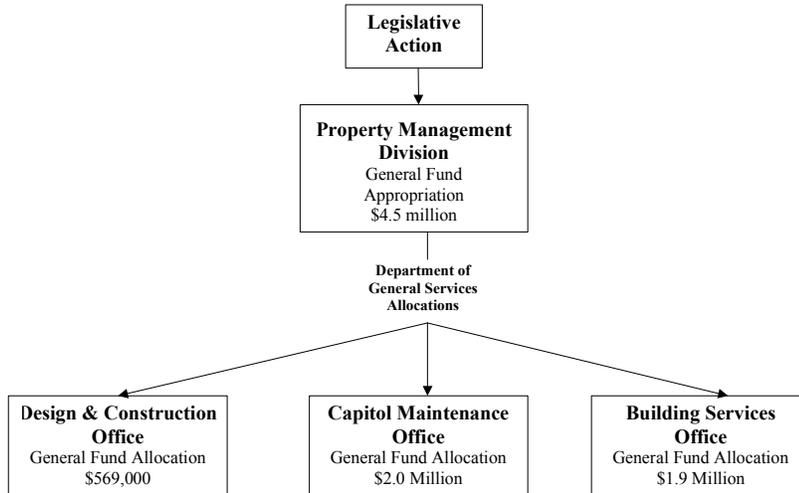
The General Assembly annually provides a General Fund appropriation to the Property Management Division for costs related to Design and Construction, Capitol Complex Maintenance, and Building Services. The Design and Construction Office receives a portion of this appropriation and also receives revenue from the Rebuild Iowa Infrastructure Fund appropriations for project management services.

Allocation of the General Fund Appropriation

The Department allocates the General Fund appropriation to the offices within the Property Management Division. (The Architectural Services Office is funded entirely from the Rebuild Iowa Infrastructure Fund).

In FY 2000, the General Assembly appropriated \$4.5 million to the Property Management Division from the General Fund. Of this, \$569,000 was allocated to the Design and Construction Office by the DGS. The remaining \$3.9 million was allocated to Capitol Complex Maintenance and Building Services. The following chart illustrates this process.

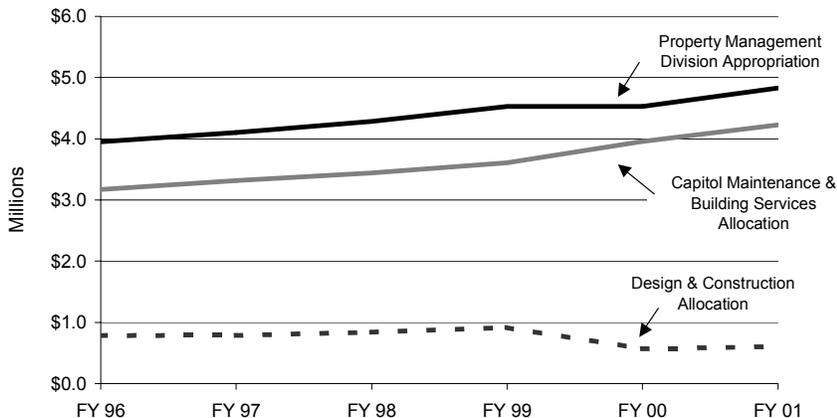
Department of General Services
 FY 2000 General Fund Appropriation
 Property Management Division



From FY 1996 to FY 2001, the General Fund appropriation to the Property Management Division has increased from \$3.9 million to \$4.8 million, approximately 4.1% annually. From FY 1996 to FY 1999 the General Fund allocation to the Design and Construction Office increased from \$785,000 to \$919,000, approximately 5.5% annually. In FY 2000, the allocation was reduced to \$569,000, a 38.1% decrease (\$350,000) compared to FY 1999. **Attachment B** shows appropriations and receipts of the Property Management Division from FY 1996 to FY 2001.

The following chart compares the appropriated funds to the Property Management Division and the Department’s allocations to the Design and Construction Office, and to the Capitol Maintenance and Building Services Offices.

**Property Management Division
 Budget Comparison
 General Fund Appropriation**



Design and Construction Office - Non-Appropriated Receipts

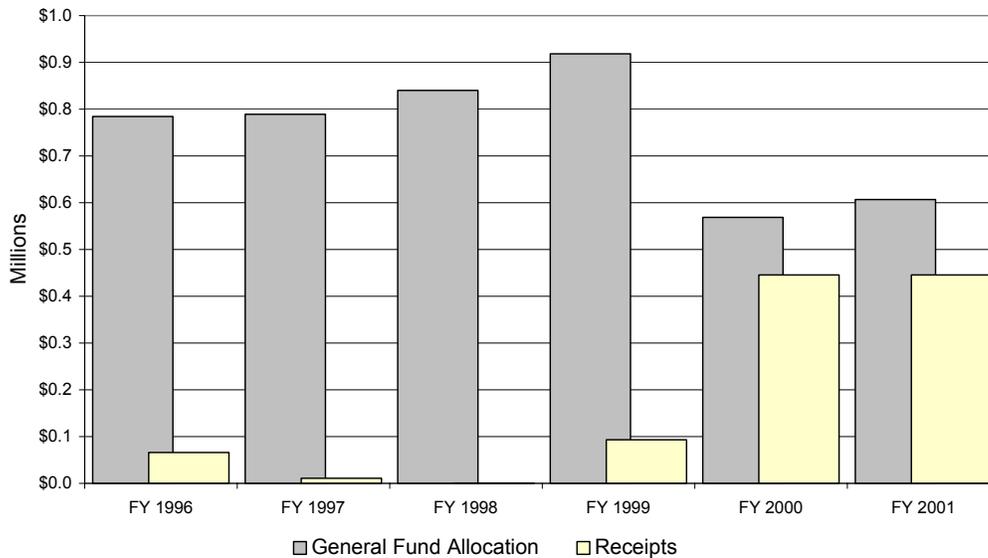
From FY 1996 to FY 1998, the annual receipts collected by the Design and Construction Office were relatively minimal ranging from less than \$1,000 to \$66,000 per year. In FY 1999, DGS began billing projects funded from the Rebuild Iowa Infrastructure Fund for project management services and collected \$92,000.

The billing method was revised in FY 2000 in order to generate \$445,000 in operating revenue for the Design and Construction Office to make up a budget shortfall created when the Department reduced the General Fund allocation to the Office. In FY 2000, the Department made the decision to reduce the General Fund allocation to the Design and Construction Division from the Property Management Division by \$350,000 (38.1%) and increased the allocations to the Capitol Complex Maintenance and Building Services Divisions by \$350,000 (9.7%).

Beginning in FY 2000, the Department's reliance on non-appropriated funds used for the operation of the Design and Construction Office increased significantly. From FY 1996 to FY 1999, the amount of receipts comprising the Office's budget ranged from less than 0.1% to 9.1%. In FY 2000, receipts made up 43.9% of the Design and Construction operating budget. For FY 2001, the Department has budgeted 42.3% of the operating revenues from receipts for Design and Construction. Since FY 1999, the receipts have come entirely from Rebuild Iowa Infrastructure Fund appropriations through the process of billing hours against infrastructure projects.

The following chart shows the relationship between the Office's appropriated funds and receipts from FY 1996 to FY 2001.

Design & Construction Office Funding



PROJECT MANAGEMENT BILLING METHODOLOGY

In FY 2000, the Department instituted a formal billing procedure to collect receipts on a fee-for-service basis for work performed on infrastructure projects. The billing method was established as follows:

The Department set the Design and Construction Office budget at \$1,013,908 in order to meet the authorized staffing level of 14.0 FTE positions and support costs. The Department allocated \$568,841 from the Property Management General Fund appropriation to the Design and Construction Office which funded approximately 7.85 FTE positions. The billing system was established to collect the remaining \$445,067 of the Office's budget. A uniform billing rate for project managers of \$65 per hour was established, and a project-based time-keeping system was instituted for project managers. The Department determined that 70.0% of the project managers' hourly rate would be required to match the budgeted receipt level ($[\text{hourly rate} \times .70] \times \text{direct labor hours} = \text{billable amount}$). Thirty percent of the project managers' billable amount is paid from the Design and Construction Office's General Fund allocation. The remaining 70.0% of hourly costs are billed against each of the infrastructure projects for which the project managers provide services.

ISSUES TO ADDRESS

- The Department uses funds from the Rebuild Iowa Infrastructure Fund for project management of infrastructure projects which support over 40.0% of the operation of the Design and Construction Division. This appears to be in conflict with Section 8.57(5)(c), Code of Iowa, which prohibits the use of Rebuild Iowa Infrastructure Fund moneys for "routine, recurring maintenance or operational expenses". The Department views project management services as an integral part of the construction and renovation process and, therefore, should be included as an eligible expense from the Fund. The General Assembly may wish to revise the definition of vertical infrastructure to clarify whether or not project management services are an eligible use of moneys from the Rebuild Iowa Infrastructure Fund. (See a separate **Issue Review** entitled "Vertical Infrastructure Definition".)
- The Department currently has the flexibility to allocate the Property Management Division's General Fund appropriation to the Capitol Complex Maintenance, Building Services, and Design and Construction. The General Assembly may wish to appropriate General Fund dollars directly to the Design and Construction Office as a means of controlling the expenditure of Rebuild Iowa Infrastructure Funds for project management services.

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Department of General Services Project Management Services

The Code of Iowa requires DGS to provide architectural and construction services to most agencies and departments¹ of the State (18.3(7))². This work extends not only to the Capitol complex but also to 16 State institutions and more than 50 other locations with over 900 buildings and 10.3 million square feet. Several agencies are specifically directed to utilize the services of the Department. The Departments of Corrections (904.314) and Human Services(218.58) and the Commission of Veterans Affairs (35A.IO) are required to call upon DGS to provide architectural services, contracting for construction and construction oversight. Additionally, the Code requires these departments to look to DGS for assistance in developing multi-year budget requests for building related projects exceeding \$25,000. The Department also performs work, when requested, for projects of less than \$25,000. The Design and Construction Division provides the professional and technical staff to fulfill these responsibilities.

The project managers in the Design and Construction Division fulfill the following statutorily imposed architectural and construction services:

- Serve as the primary representative of the State to ensure that best professional practices, environmental regulations, building codes, warranties and legal requirements are met by client agencies, architectural/engineering and related consultants and construction contractors;
- Provide fiscal and budgetary oversight on projects, and ensure that contractors and consultants perform their contractual responsibilities relating to project completion;
- Provide leadership to client agencies in planning and programming vertical infrastructure restoration and construction;
- Facilitate the development and award of architectural/engineering and other consultant services contracts and construction contracts.

The scope of responsibilities performed by the Design and Construction Division closely follows functions and procedures that have been described by the American Institute of Architects (AIA), the nationally known and recognized professional organization of architects. The AIA has developed generally known and accepted descriptions of the phases of project management, and the Design and Construction Division follows these principles. These principles of project management and associated owner's responsibilities are attached as Attachment 1.

Project managers in the Design and Construction Division provide a myriad of services during the life of a project. A typical project will include the following phases, in chronological order:

Planning Phase

- Consult with the agency, location or institution that has identified a facilities problem to determine an appropriate solution, preliminary costs and funding options.
- Develop a refined scope of work for the project, including estimated costs and projected schedules once funding has been obtained.
- Execute a project agreement with the agency, which defines the established scope, budget and schedule, and sets forth the responsibilities of DGS and the agency (instituted during fiscal year 2000).

¹ Exceptions are the Board of Regents, Department of Transportation, National Guard, Natural Resource Commission, and the Iowa Public Employees Retirement System.

² References in parentheses are to the applicable code section.

- Prepare a Request for Proposals (RFP) for selection of required consultants (architects/engineers), manage the selection process, select the consultants, and finalize the contracts.
- Coordinate the work in the planning phase that results in the commencement of the design phase.

Design Phase

- Manage the design process;
 - ensure the requirements of the project agreement are met;
 - review design documents to ensure that the project complies with applicable State laws and rules (including, but not limited to, the State building code, the Americans with Disabilities Act [ADA], fire, electrical, and mechanical codes, EPA and OSHA regulations, and elevator and boiler regulations).
 - evaluate fiscal constraints and implement value engineering, if necessary.
- Prepare the Invitation to Bid for selection of the general contractor, manage the selection process, select the contractor, and finalize the contracts.
- Coordinate the work in the design phase that results in the commencement of the construction phase.

Construction Phase

- Ensure compliance with the contract for the type, quantity and quality of materials.
- Review and approve invoices and pay applications from consultants and contractors. This includes verifying the claimed work has been accomplished and that claimed materials have been delivered.
- Inspect the project site as the owner's representative, in collaboration with the agency, to ensure the work is properly performed and on schedule.
- Collaborate with the agency to ensure its reasonable expectations are addressed.
- Prepare, or oversee and approve, the preparation of necessary change orders.
- Inspect projects at their completion with the consultants, contractors, and agency to develop a deficiency list and ensure that contractors make the corrections.
- Review and approve the final pay application to ensure all contract requirements (including lien waivers, warranties, sales tax refunds and other required documents) have been received.
- Coordinate the work in the construction phase that results in the commencement of the post-construction phase.

Post Construction Phase

- Ensure contractors perform any warranty work required.
- Consult with the agency, as appropriate, regarding building performance issues.

In all phases of the project, the project managers in the Design and Construction Division perform all of these tasks on a regular and on-going basis.

**Property Management Division
Revenue Sources**

	<u>Actual FY 1996</u>	<u>Actual FY 1997</u>	<u>Actual FY 1998</u>	<u>Actual FY 1999</u>	<u>Estimated FY 2000</u>	<u>Estimated FY 2001</u>
Capitol Complex Maintenance, Building Services, & Architectural Services						
General Fund Allocation	\$ 3,168,141	\$ 3,313,642	\$ 3,442,341	\$ 3,608,687	\$ 3,955,951	\$ 4,224,853
Receipts	412,940	477,269	373,591	240,998	432,085	487,960
Total	<u>\$ 3,581,081</u>	<u>\$ 3,790,911</u>	<u>\$ 3,815,932</u>	<u>\$ 3,849,685</u>	<u>\$ 4,388,036</u>	<u>\$ 4,712,813</u>
Design & Construction						
General Fund Allocation	\$ 784,753	\$ 789,387	\$ 840,025	\$ 918,803	\$ 568,841	\$ 606,506
Receipts	65,675	10,965	285	92,500	445,067	445,067
Total	<u>\$ 850,428</u>	<u>\$ 800,352</u>	<u>\$ 840,310</u>	<u>\$ 1,011,303</u>	<u>\$ 1,013,908</u>	<u>\$ 1,051,573</u>
Total						
General Fund Appropriation	\$ 3,952,894	\$ 4,103,029	\$ 4,282,366	\$ 4,527,490	\$ 4,524,792	\$ 4,831,359
Receipts	478,615	488,234	373,876	333,498	877,152	933,027
Total	<u><u>\$ 4,431,509</u></u>	<u><u>\$ 4,591,263</u></u>	<u><u>\$ 4,656,242</u></u>	<u><u>\$ 4,860,988</u></u>	<u><u>\$ 5,401,944</u></u>	<u><u>\$ 5,764,386</u></u>

ATTACHMENT B