

October 17, 2013

Memo from Bill Dikis

Re: Governor's Committee on Government Spending Reform – Final Report, November 1996

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[http://publications.iowa.gov/10346/1/governor's\\_committee\\_on\\_gov\\_spending\\_1996009.pdf](http://publications.iowa.gov/10346/1/governor's_committee_on_gov_spending_1996009.pdf)

Also known as “The Fisher Commission” (named for Chairman David Fisher), the Committee included 23 prominent Iowans. Its scope of study included:

- 1) Budgeting Practices, including biennial budgeting and technology funding
- 2) Infrastructure, including definition, scope of assets, identification and prioritization, and allocation of resources.

Infrastructure was co-chaired by Ed Hansell (Nyemaster Law Firm) and Janet Phipps (Dept. of General Services Director). I served on the Infrastructure subcommittee with 11 others.

HF 2421 of the 76<sup>th</sup> General Assembly (1995-1996) had created the Rebuild Iowa Infrastructure Fund (RIIF) to provide dedicated funding for “vertical” infrastructure repairs.

I personally researched and wrote major portions of the Infrastructure report, working with Dennis Hart of the Dept. of Management. Resources to inform the report about deferred maintenance and infrastructure were very difficult to find in 1996. To establish recommended levels of funding for proper maintenance, I relied on a publication by the Education Writers Association, “Wolves at the Schoolhouse Door”.

The Committee recommended 3 priorities for the use of RIIF:

1. **Stop the bleeding** – adequately fund maintenance for all state facilities
2. **Eliminate the backlog** – consistently fund deferred maintenance at a considerably elevated level
3. **Manage future investments** – require all new construction and renovation to provide for future costs of proper maintenance, including dedicated funding

Definitions were offered for terms not defined in state law and regulations, including:

- Vertical infrastructure
- Maintenance, ROUTINE
- Maintenance, PREVENTIVE
- Maintenance, DEFERRED
- Repair and replacement

A number of recommendations were offered, including:

- An ongoing inventory of state assets,
- Criteria and preferences for use of infrastructure funds,
- Annual publication of current replacement value from available national data
- Development of an ongoing annual comprehensive 5 year strategic facility plan for maintenance, repair/replacement, and renovation.

One of the most important conclusions of my research from the “Wolves....” report was to develop the recommendations for:

- 1) a requirement that annual departmental operating budgets provide for routine and preventive maintenance at a minimum of 1.5% of current replacement value
- 2) a requirement that a reserve fund for repair and replacement of finishes, systems, equipment and property over the design life of the facility be funded at 3.5% of current replacement value

To put this recommendation into current perspective, consider the Judicial Building, 124,000 gross square feet (GSF<sup>1</sup>) completed in 2003 at a reported cost of about \$26.5million (\$214 per GSF). Assume the cost of construction has increased since 2003 at an average of 3.5% per year<sup>2</sup>. This results in a current replacement value (CRV) in 2014 of about \$38,700,000. Using the 1996 recommendations, in 2014, Legislative funding would provide:

- \$580,000 (1.5% of CRV, or \$4.68/GSF) for routine and preventive maintenance, and,
- \$1,350,000 (3.5% of CRV, or \$10.92/GSF), placed into an ongoing dedicated fund for repair and replacement of systems, finishes, equipment and property. This latter would address component parts of the building as they reach their useful life, for example, such things as a 40 year life for HVAC, 20 year life for roofing, 7 years for carpet, etc.

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A more sophisticated study was performed by the Baker Group in February, 2013: “State of Iowa Capitol Complex, Deferred Maintenance Review, A White Paper”.

In brief, it reports:

- Current allocation for repair, maintenance and non-capital improvements is allocated at \$3.31 per “rentable<sup>3</sup>” square foot.
- Similar Midwest governmental buildings range from \$4.96 to \$5.90 per SF, an average of \$5.43.
- Generally accepted industry standard is 1.5% to 2.5% of current replacement value for operational maintenance funding.
- The report does not attempt to identify a funding amount to eliminate deferred maintenance, other than to recognize that it is a monumental problem for state-owned facilities and urge that strategies be developed to address it.

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<sup>1</sup> “Gross” area means the entire square footage of a building to the outside wall limits, including all floors.

<sup>2</sup> My most recent construction inflation study was in March of 2009. Using RS Means Cost Data as a resource and considering the years of 2001 through 2009, the annual percentage increase ranged from 2.56% (2003) to 8.86% (2004), and an annual average of slightly more than 5%. Previous analyses over longer periods (20 years) suggested a lower annual average of 3.5% to 4%. This

<sup>3</sup> “Rentable area” means the area actually occupied by a tenant, plus a pro rata share of common space that is also used by other tenants. For a multi-tenant building, the sum of all rentable area generally includes the entire building and is approximately the same as the “gross area” used in the conventional calculation of construction costs.