

CAPITAL CONSTRUCTION

Research Notes are prepared by Legislative Council Staff's nonpartisan research and committee staff. Research notes provide a summary of the bill, background information on the bill, and information on committee hearings and amendments adopted on the bill as it moves through the legislative process. Legislative Council Staff prepares final research notes for bills passed by the General Assembly as well as select bills that were considered but not adopted, and may be accessed through the links below. Research notes are provided for informational purposes only and should not be relied upon as an official record of action by the General Assembly.

Capital Construction

HB 15-1280 (Enacted)

Capital Reserve in Certain Cash Funds

HB 15-1333 (Enacted)

Regional Center Depreciation Account
in Capital Construction Fund

SB 15-207 (Enacted)

Refinance Authority for CBI Grand
Junction Lab

SB 15-208 (Enacted)

Capital-related Expenditures

SB 15-211 (Enacted)

Automatic Funding for Capital Assets

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Legislative Council Staff

Research Note

Bill Number: HB15-1333

Short Title: *Regional Ctr Depreciation Acct In Cap Constr Fund*

Prime Sponsors: Representative Vigil
Senator Baumgardner

Research Analyst: Matt Becker (x4785)

Current Status

This research note reflects the final version of the bill, which was signed by the Governor and became effective on June 5, 2015.

Summary

The bill creates the Regional Center Depreciation Account (account) within the Capital Construction Fund. The account consists of all federal moneys received by the Department of Health Care Policy and Financing (HCPF) for the annual calculated depreciation of the state's regional centers, which are operated by the Department of Human Services (DHS). Spending from the account is subject to appropriation and approval by the Capital Development Committee (CDC). Funds in the account may be spent for regional center controlled maintenance, capital renewal, and capital construction. The bill also requires DHS to annually report the total calculated depreciation amount credited to the account to the Joint Budget Committee (JBC) no later than 35 days after the close of a fiscal year.

For FY 2014-15, the bill appropriates \$594,750 to DHS for controlled maintenance related to installation of heat-detection fire alarm systems at the regional centers. For FY 2015-16, the bill appropriates \$730,510 to DHS for capital construction related to the Kipling Village security perimeter fence.

Background

DHS calculates annual depreciation as part of its federal cost reporting and these calculated depreciation amounts are included in the daily provider rates paid by HCPF. The full amount paid by

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HCPF through the daily provider rates is spent by DHS. Beginning with the 2015 Long Bill, the amount of the daily rate attributable to calculated depreciation is identified as a separate line item for each regional center.

With this new line item, the State Controller will be able to annually transfer all moneys related to depreciation of the state's regional centers to the account. Once approved by the CDC and appropriated by the General Assembly, DHS can use funds in the account for related controlled maintenance, capital renewal, and capital construction projects.

House Action

House Finance Committee (April 23, 2015). The bill replaces a similar bill, House Bill 15-1279, which was recommended by the CDC. HB 15-1279 was postponed indefinitely on March 24 due to a technical drafting error. No public testimony occurred on the bill. The committee adopted amendment L.001, which changes the reporting requirement to the JBC from 45 days to 35 days after the close of the fiscal year. The bill was referred to the House Appropriations Committee.

House Appropriations Committee (April 24, 2015). The bill was referred to the House Committee of the Whole with no additional amendments.

House second reading (April 27, 2015). The House Committee of the Whole adopted the House Finance Committee and House Appropriations Committee reports.

House third reading (April 28, 2015). The House adopted the bill on third reading with no additional amendments.

Senate Action

Senate Finance Committee (April 30, 2015). The committee referred the bill unamended to the Senate Appropriations Committee.

Senate Appropriations Committee (May 1, 2015). The bill was referred to the Senate Committee of the Whole with no amendments.

Senate second reading (May 1, 2015). The Senate Committee of the Whole adopted the bill with no amendments.

Senate third reading (May 4, 2015). The Senate adopted the bill on third reading with no amendments.

Relevant Research

Department of Human Services Briefing with the Joint Budget Committee:
http://www.tornado.state.co.us/gov_dir/leg_dir/jbc/2014-15/humbrf1.pdf

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Research Note

Bill Number: HB15-1280

Short Title: *Capital Reserve In Certain Cash Funds*

Prime Sponsors: Representative Young
Senator Grantham

Research Analyst: Matt Becker (x4785)

Current Status

This research note reflects the final version of the bill, which was signed by the Governor and became effective on May 11, 2015.

Summary

The bill, which was recommended by the **Joint Budget Committee (JBC)**, requires state agencies, beginning in the current fiscal year, to identify a capital reserve for most appropriated cash funds used to pay costs associated with the acquisition, repair, improvement, replacement, renovation, or construction of a capital asset. State agencies are required to calculate, and annually set aside in a capital reserve, an amount equal to the depreciable costs attributable to a capital asset or assets paid from the cash fund. Funds in the capital reserve are subject to appropriation and must be used for capital outlay, capital construction, capital renewal, or controlled maintenance. The balance of a capital reserve account is not counted toward the 16.5 percent reserve limit assigned to many cash funds. The bill also requires the State Controller to report the amount of the capital reserve that is excluded from the reserve limit.

Background

There is a general consensus that the state has underfunded capital investment in recent years and that it lacks an automatic funding mechanism to meet capital need. The federal government typically pays for capital projects by recovering costs through depreciation expenses. Contrarily, the state usually funds capital projects upfront through annual certificates of participation lease payments or transfers from the General Fund to the Capital Construction Fund. Setting aside funds in a capital reserve equal to the amount of depreciation for a capital asset is standard practice for cash-funded projects for many higher education institutions. It is also consistent with private

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sector financing practices for commercial buildings.

Most cash-funded capital assets are depreciated for accounting purposes under federal requirements outlined by the Governmental Accounting Standards Board. These annual depreciation costs can be recovered from fees for services provided by cash-funded programs. As fee revenue is collected, depreciation monies accumulate in cash funds, contributing to excess reserves in those funds. Under current law, once the balance of certain cash funds exceeds 16.5 percent of annual fund expenditures at the end of a fiscal year, the program funded by the cash fund must reduce fees in order not to exceed the allowable 16.5 percent reserve. In this way, depreciation costs related to capital assets are subsidizing operating costs by lowering associated fees.

House Action

House Appropriations Committee (March 20, 2015). No public testimony occurred on the bill. The committee adopted amendment L.001, which clarifies the definition of a cash fund and makes other technical changes. The bill was referred to the House Committee of the Whole.

House second reading (March 23, 2015). The House Committee of the Whole adopted the Appropriations Committee Report.

House third reading (March 24, 2015). The House adopted the bill on third reading with no additional amendments.

Senate Action

Senate Appropriations Committee (April 10, 2015). No public testimony occurred on the bill. The bill was referred to the Senate Committee of the Whole with no amendments.

Senate second reading (April 13, 2015). The Senate Committee of the Whole adopted amendment L.004, which clarifies the definitions of depreciation, depreciation period, and capital reserve.

Senate third reading (April 14, 2015). The Senate adopted the bill on third reading with no additional amendments.

Relevant Research

2015 JBC Briefing Document for Capital Construction:
http://www.tornado.state.co.us/gov_dir/leg_dir/jbc/2014-15/capbrf.pdf

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Legislative Council Staff

Research Note

Bill Number: SB 15-211

Short Title: *Automatic Funding for Capital Assets*

Prime Sponsors: Senator Lambert
Representative Rankin

Research Analyst: Matt Becker (x4785)

Current Status

This research note reflects the final version of the bill, which was signed by the Governor and became effective on May 11, 2015.

Summary

The bill, which was recommended by the Joint Budget Committee, creates a process to annually set aside an amount equivalent to the calculated depreciation of a capital asset funded through the capital construction section of the annual Long Bill. Beginning with projects funded in the 2015 Long Bill, the bill establishes three set-aside mechanisms based on how a project is funded. The set-aside amounts may be appropriated for future capital expenses such as routine maintenance, equipment replacement, or the construction of a new building.

State agency projects paid in whole or part from cash fund sources. This set-aside mechanism only applies to state departments; it does not apply to higher education institutions. If a state agency project is paid in whole or part from a cash fund source, the state agency is required to calculate the depreciable cost of the project and, once the depreciation period begins, to set aside an amount equal to the calculated depreciation in a capital reserve account created within the cash fund. A companion bill, House Bill 15-1280, requires the creation of capital reserve accounts for any cash fund used to pay for capital costs. Money in a capital reserve account is subject to appropriation and may be spent for future capital expenses such as routine maintenance, equipment replacement, or the construction of a new building. If a project is funded from more than one cash fund or from a cash fund and from state funds, the amount equivalent to the depreciable cost is shared proportionately between the various fund sources.

Example: A state department builds a new office building using an existing cash fund. The total project cost is \$23 million. The full project cost cannot be depreciated because

it includes non-depreciable items such as professional services. Of the total project cost, \$15 million is identified as depreciable. The useful life of the facility, otherwise known as the depreciation period, is 30 years. Therefore, the amount that must be set aside in a capital reserve account is $\$15\text{ million}/30 = \$500,000$ a year for 30 years.

State-funded projects. This set-aside mechanism applies to state departments and higher education institutions. If a capital construction or controlled maintenance project is funded from state funds, which includes the General Fund, Capital Construction Fund (CCF), and Controlled Maintenance Trust Fund (CMTF), a department or institution is required to calculate the depreciable cost of the project. Once the depreciation period begins for each project, the amount equal to the calculated depreciation is identified in the state operating budget each year of the depreciation period and transferred to the CCF and CMTF. Of the transfer amount, 1 percent of the project cost that can be depreciated is transferred to the CMTF. The remaining funds are transferred to the CCF.

Example: A state department builds a new office building and the costs are paid from the CCF. The total project cost is \$23 million. The full project cost cannot be depreciated because it includes non-depreciable items such as professional services. Of the total project cost, \$15 million is identified as depreciable. The useful life of the facility, otherwise known as the depreciation period, is 30 years. Therefore, the amount that must be set aside is $\$15\text{ million}/30 = \$500,000$ a year for 30 years. One percent of the total project cost identified as depreciable is \$150,000 or $\$15,000,000 \times .01$. Thus, \$150,000 is transferred to the CMTF and the remaining amount, \$350,000, or $\$500,000 - \$150,000$, is transferred to the CCF annually.

Projects financed through the issuance of certificates of participation. This set-aside mechanism applies to all state department projects and to higher education institution projects if they are funded from state funds. If a capital construction project is financed through the issuance of certificates of participation (COPs), a department or institution is required to calculate the depreciable cost of the financed project. Once the depreciation period begins for each project, 1 percent of the total project cost that can be depreciated is set aside in a capital reserve account for cash-funded projects or transferred to the CMTF for state-funded projects.

Example: A state department builds a new office building and the costs are paid through a COP issuance that will be repaid from the CCF. The total project cost is \$23 million. The full project cost cannot be depreciated because it includes non-depreciable items such as professional services. Of the total project cost, \$15 million is identified as depreciable. One percent of the total depreciable project cost is \$150,000 or $\$15,000,000 \times .01$. Thus, \$150,000 must be transferred annually to the CMTF during the depreciation period.

Background

Depreciation is an accounting mechanism used to calculate the reduction in the value of a capital asset over time due to wear and tear and other factors. Typically, the cost of a capital asset is recovered over an assumed depreciation period. The depreciation period for capital assets is determined by fiscal procedures issued by the State Controller or institutions of higher education. The

depreciation period is based on the anticipated useful life of a capital asset. The length of a depreciation period will vary according to the type of asset being depreciated. Newly purchased furniture has a shorter depreciation period than a new roof, which has a shorter depreciation period than a new building. This bill uses the calculation of depreciation to identify the amount of money that should be set aside each year to fund future capital needs. Depreciation of capital assets is regularly calculated and recorded for tax reporting purposes.

Senate Action

Senate Appropriations Committee (March 13, 2015). The committee adopted Amendments L.001, L.002, and L.004. Amendment L.001 exempts information technology projects from the requirements of the bill, clarifies the definition of a cash fund, defines depreciation in accordance with generally accepted accounting principles, and makes other technical changes. Amendments L.002 and L.004 make further technical changes regarding the set-aside mechanisms. No witness testimony was heard on the bill. The bill was referred to the Senate Committee of the Whole as amended.

Senate second reading (March 18, 2015). The Senate Committee of the Whole adopted Amendments L.005 and L.006. Amendment L.005 makes a technical change related to the set-aside mechanism for projects financed by COPs. It also exempts the depreciation-lease equivalent transfers to the CCF and CMTF resulting from the required set asides from the General Fund appropriations used to compute the statutory General Fund reserve requirement. Amendment L.006 adds a legislative declaration to encourage higher education institutions to set aside funding for future capital needs for their cash-funded projects in a similar manner as set forth in the bill for cash funds managed by state agencies. The bill was adopted on second reading.

Senate third reading (March 19, 2015). The full Senate adopted the bill on third reading.

Senate consideration of House amendments (April 10, 2015). The full Senate voted to concur with House amendments and repassed the bill.

House Action

House Appropriations Committee (April 2, 2015). The bill was referred unamended to the House Committee of the Whole. No witness testimony was heard.

House second reading (April 6, 2015). The House Committee of the Whole adopted Amendment L.007, which made technical changes related to how depreciation is calculated and established a statutory deadline of June 30 for the State Controller to transfer the required set asides to the CCF and CMTF. The bill was adopted on second reading.

House third reading (April 7, 2015). The full House adopted the bill on third reading.

Relevant Research

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State Fiscal Rules: <https://www.colorado.gov/pacific/osc/fiscalrules>

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Research Note

Bill Number: SB15-208

Short Title: *Capital-Related Expenditures*

Prime Sponsors: Senator Kefalas
Representative Brown

Research Analyst: Matt Becker (x4785)

Current Status

This research note reflects the final version of the bill, which was signed by the Governor and became effective on May 29, 2015.

Summary

The bill, recommended by the Capital Development Committee (CDC), adds to the current list of allowable reasons an emergency supplemental request related to a capital appropriation may be heard and acted upon during the interim between legislative sessions. In addition, the bill clarifies that capital construction projects cannot be exempted from the requirement to allocate 1 percent of state-funded construction costs to the Art in Public Places (AIPP) program without CDC approval. It allows the CDC, in consultation with the Council on Creative Industries (CCI), to waive the AIPP requirements for certain reasons specified in law.

Background

Under current law, emergency supplemental requests are used to make adjustments to a capital project's appropriation. The bill allows the process to be used to make certain non-monetary adjustments to appropriated projects, such as extending the amount of time an agency has to spend an appropriation or changing a project's authorized scope. Current law also allows an exemption from the AIPP requirements for certain projects, including controlled maintenance projects such as the replacement of underground water or sewer lines.

Senate Action

Senate Finance Committee (March 17, 2015). The committee adopted Amendment L.001,

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which requires the CDC to consult with CCI in order to waive the AIPP allocation requirement. No witness testimony was heard on the bill. The bill was referred to the Senate Committee of the Whole as amended.

Senate second reading (March 20, 2015). The Senate Committee of the Whole adopted the bill on second reading with no additional amendments.

Senate third reading (March 23, 2015). Amendment L.002 was adopted. The amendment requires an affirmative vote by the CDC to waive the AIPP requirement for a capital project for one of the exemptions already specified in statute. The full Senate adopted the bill on third reading.

House Action

House Finance Committee (April 16, 2015). The bill was referred to the House Committee of the Whole. No witness testimony was heard.

House second reading (April 20, 2015). The House Committee of the Whole adopted the bill on second reading with no amendments.

House third reading (April 21, 2015). The full House adopted the bill on third reading.

Relevant Research

Budget Instructions, Governor's Office of State Planning and Budgeting:
<https://sites.google.com/a/state.co.us/ospb-live/image-heavy-page>

AIPP: <http://www.coloradocreativeindustries.org/public-art/state-colorado-public-art-program>

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Research Note

Bill Number: SB15-207

Short Title: *Refinance Authority for CBI Grand Junction Lab*

Prime Sponsors: Senator Baumgardner
Representative Brown

Research Analyst: Matt Becker (x4785)

Current Status

This research note reflects the final version of the bill, which was signed by the Governor and became effective on May 29, 2015.

Summary

The bill, recommended by the Capital Development Committee, authorizes the State Treasurer to enter into lease-purchase agreements on behalf of the Colorado Bureau of Investigation (CBI) within the Department of Public Safety for a period of up to 18 years to refinance revenue bonds used to construct the CBI Grand Junction forensic laboratory and regional office. The bill authorizes the issuance of certificates of participation (COPs) in the amount of \$11.0 million, plus reasonable administrative expenses for the costs of issuance and monitoring. The refinancing is estimated to generate present-value savings of about \$1.17 million over the repayment period.

Background

In 2006, the CBI entered into an agreement with the City of Grand Junction to form a special purpose entity to issue revenue bonds to finance the construction of a new forensic laboratory and regional office in Grand Junction. The building was completed and occupied in 2008. The CBI makes annual lease payments from the General Fund through its operating budget to the special purpose entity.

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Senate Action

Senate Finance Committee (March 19, 2015). At the hearing, the Deputy State Treasurer addressed technical questions about the proposed refinancing and the anticipated savings. The bill was referred to the Senate Appropriations Committee.

Senate Appropriations Committee (April 10, 2015). The bill was referred to the Senate Committee of the Whole.

Senate second reading (April 13, 2015). The Senate Committee of the Whole adopted the bill on second reading with no amendments.

Senate third reading (April 14, 2015). The full Senate adopted the bill on third reading.

House Action

House Local Government Committee (April 22, 2015). At the hearing, the Deputy State Treasurer responded to questions regarding the financing of COPs. The committee also received a letter of support from the Mesa County Board of Commissioners. The bill was referred to the House Appropriations Committee.

House Appropriations Committee (April 29, 2015). The bill was referred to the House Committee of the Whole.

House second reading (April 29, 2015). The House Committee of the Whole adopted the bill on second reading with no amendments.

House third reading (April 30, 2015). The full House adopted the bill on third reading.

Relevant Research

CBI Grand Junction: <https://www.colorado.gov/pacific/cbi/grand-jujction-0>

Refinancing Schematic, State Treasurer's Office: <http://tinyurl.com/nbh28me>