FISCAL ISSUE BRIEF

State of Minnesota
Building Ownership and Leasing

Senate Office of Fiscal Policy Analysis — *October 2000*

Questions

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Introduction

The purpose of this fiscal brief is to provide a summary of state facility ownership and leasing. Data in this brief mainly came from the Department of Administration, Department of Finance, Military Affairs and the two higher education institutions in Minnesota. The chief focus of this document will be state agencies, with only limited information on the Minnesota State Colleges and Universities (MNSCU) and the University of Minnesota (UM). The following areas will be addressed:

(1) state owned and non-state owned office and storage space,

(2) rental rates for state owned buildings under custodial control of Department of Administration,

(3) maintenance and preservation of state buildings,

(4) asset preservation funding sources,

(5) benefits of state ownership of buildings, and

(6) the strategic plan for locating state agencies.

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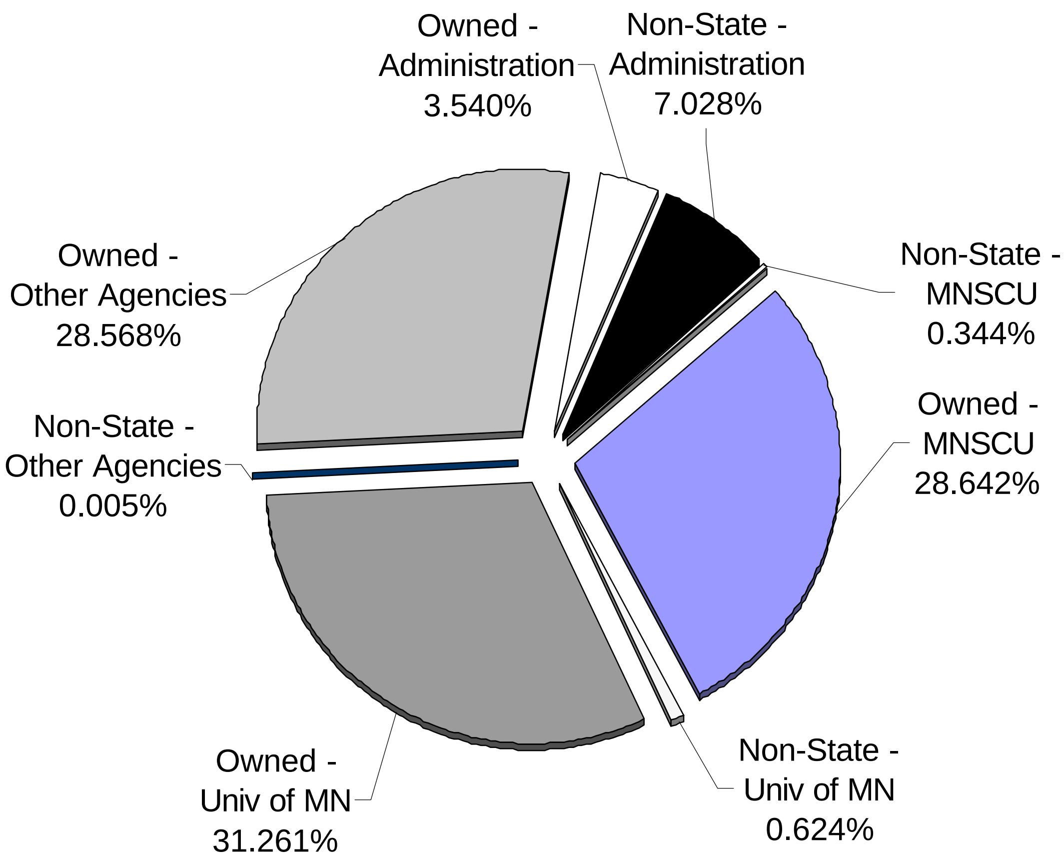
1. State Owned and Non-State Owned Office and Storage Space

The State of Minnesota currently makes use of over 56.5 million usable square feet of space for state agency and higher education office and storage space. This includes both state owned and non-state owned leased space. No one authority is responsible for the management of all this space. The two

Exhibit 1: **State of Minnesota Statewide Usable Space State Owned and Non-State Owned**



a g e n c y with custodial control

	Administration	Univ of MN	MNSCU	Other	Total
State Owned	2,001,897	17,677,536	16,196,273	16,154,283	**52,029,989**
Non-State Owned	3,974,428	353,050	194,826	2,597	**4,524,901**
Total	**5,976,325**	**18,030,586**	**16,391,099**	**16,156,880**	**56,554,890**

Note: *State Owned-Other breakdown in Exhibit 3, Non-State Owned-Other is solely MN Historical Society* higher education systems are responsible for management of all owned and non-owned leased facilities under their control. When it comes to state agency facilities, the Department of Administration has custodial control over 21 buildings, but this is not all state owned buildings. The majority of commercial leases for non-state owned buildings are under the control of the Department of Administration, however a few agencies do have statutory authority to enter into leases. These agencies are Military Affairs/ Armories, the Minnesota Historical Society, MNSCU, and the University of Minnesota.

Non-state space largely consists of executive office space, while state owned space is more likely to be program space. Program space refers to space used for such things as correctional facilities and regional treatment centers. Exhibit 1 breaks down the usable square feet of space by custodial control and shows the amount of non-state owned and state owned space on a statewide basis.

***Exhibit 2*: Understanding Square Footage Terms**

Gross Space is defined as the building space derived from measurements taken from the outer finished surface of the exterior building walls. No deductions are made from this area.

Rentable Space is defined as the floor space derived from measurements taken from the inside finished surface of the exterior walls, excluding any vertical penetrations of the floor such as stairwells, elevator shafts, mechanical and plumbing shafts.

Usable Space is defined as the floor space derived from measurements taken from the inside finished surface of exterior walls to the inside finished surface of building corridor and other permanent walls or to the center of walls separating the Leased Premises from other tenant space. If more than 50% of an exterior wall is glass, the dimension is taken from the glass line. Vertical shafts, elevators, stairwells, dock areas, mechanical rooms, and utility and janitor rooms are excluded. Restrooms, corridors, lobbies and receiving areas which are accessible to the general public or used in common with other tenants are also excluded. No deductions are made for columns, pilasters or other projections into the space if each is less than four (4) square feet.

For conversion purposes in this report usable square footage numbers are equal to 70 percent of the gross square footage numbers. This conversion was necessary, in some cases, as only gross square footage numbers were reported by some agencies.

Management of State Space by the Department of Administration

The Department of Administration is authorized to maintain and operate state-owned buildings under its custodial control and, when advisable and practical, any other buildings or premises owned or rented by the state for use by a state agency. MS 16B.24 provides the general authority for the management of state property. Within the Department's Facilities Management Bureau, the Real Estate Management Division is responsible for leasing and the Plant Management Division is responsible for the maintenance of state owned buildings under its custodial control. A number of agencies and the higher education institutions are exempted either directly or indirectly from the requirements of MS 16B.24 and are responsible for their own leases and buildings. Exhibit 3 shows state owned buildings by agency with custodial control.

The Real Estate Management Division is currently responsible for leasing over 3.974 million usable square feet of non-state owned space for use by approximately 75 state agencies. It currently leases

1.550 million usable square feet of state owned space under the custodial control of Administration to state agencies and non-state entities including the media and other units of government. For state-owned property, the Real Estate Management Division enters into leases with state agencies in the same manner as it does with owners of non-state owned property.

Exhibit 3: State Owned Buildings by Agency Control

Agency	*Gross*	*Usable*
Administration	2,849,027	2,001,897
University of Minnesota	25,253,623	17,677,536
MNSCU	23,137,533	16,196,273
Other as shown in Exhibit 1		
Center for Arts Education	175,987	123,191
Corrections	4,758,419	3,330,893
Economic Security	188,822	132,175
Historical Society	858,076	600,653
Human Services	4,234,711	2,964,298
IRRRB	179,245	125,472
Military Affairs	4,039,013	2,827,309
Natural Resources	2,159,580	1,511,706
Residential Academies	384,313	269,019
Transportation	4,546,815	3,182,771
Minnesota Veterans Home Board	799,284	559,499
MN Zoological Gardens	481,381	336,967
MN Amateur Sports Commission	271,900	190,330
TOTAL Building Square Feet	**74,317,729**	**52,029,989**

includes all buildings - office, lab, warehouse, classrooms, auditoriums, hospitals, residential, utility plants, dorms, and correctional facilities. State Fair Buildings and Ford Robotics Technical Training Facility are not included.

The Real Estate Management Division manages approximately 700 commercial leases of non-state owned property and 300 leases of state-owned property. Of the state owned leases, 200 are for space leased out to non-state entities. This type of lease is known as an income lease since the receipts are normally deposited with the agency having custodial control of the property. Correctional facilities, Human Services regional treatment centers and Department of Natural Resources regional headquarters are examples of typical users of this type of lease. The remaining 100 state owned leases are for facilities under the custodial control of the Department of Administration with receipts deposited into the Plant Management Internal Service Fund. No leases exist for In-lieu of Rent space, which is explained later in this brief on page 8, and space such as common conference rooms, vacant space and cafeterias. This area totals 452,000 usable square feet.

Revenues for state owned office/production/storage space under the custodial control of Administration are $26.4 million or an average rental rate of $16.03 per square foot. The Capitol building has a space use efficiency ratio of 45 percent compared to an 80 percent efficiency ratio in a normal office building. Administration's average rent per square foot excluding the Capitol is $12.87. Non-state owned leases for office space currently total $52.7 million or an average rent of $14.91 per square foot. The yearly increase in non-state owned leased space rental rates since 1995 has averaged 4.1% in the metro area and 2.1% in Greater Minnesota. In addition to leasing both state owned and non-state owned real property, the division is also responsible for:

- ✦generating revenue by leasing state-owned property temporarily not needed for state use,

- ✦providing space programming and monitoring of leasehold improvement work for compliance with terms and conditions of leases,

✦assisting agencies in acquiring and disposing of real property, issuing easements and permits, and transferring custodial control of property between agencies, and

✦managing the Capitol Child Care Center vendor contract.

The Plant Management Division is responsible for over two million usable square feet in 21 state buildings that are under the custodial control of the Department of Administration. This division also maintains the surrounding grounds and parking areas, promotes energy conservation, administers the state recycling program, alternate transportation, bus passes, commuter vans and provides traditional trade service repairs, known as "repair and other jobs", such as electrical, carpentry, pipe work and keys. Plant Management also undertakes materials transfer, which includes small moves, and delivery of central mail, central stores items, and printcomm supplies.

The Plant Management Division also provides management services to buildings under the control of other state entities. This is the case with the Minnesota History Center, as the control of the building is under the Minnesota Historical Society and represented as such in Exhibit 3. Authority for this management agreement is given in MS 138.94 Subdivision 1. It is expected that this may also be the situation with the Minnesota State Retirement Systems building under construction in the Empire Builder Industrial Park in St. Paul and expected to be completed in late 2001 *(Laws of 1999, Chapter 222, Article 22)*. The situation with this building is somewhat unusual as the title is in the name of the State of Minnesota but it is held in trust for the three pension funds (Minnesota State Retirement System, Public Employees Retirement Association and Teachers Retirement Association). An agreement between the three funds addresses the legal agreement in regard to payment of the bonds and management of the facility. This agreement states that all the costs regarding the facility are the responsibility of the retirement systems as outlined in the co-tenancy agreement among the three retirement systems. Each system is responsible for its proportionate share (based on amount of space occupied) of debt service, capital, operating and parking expenses. This building is not included in the square footage numbers in this report.

Appendix A presents a composite of the non-state owned and state owned facilities of 14 state agencies. The agencies selected were chosen based on the fact that they lease 50,000 square feet or more of usable space statewide through the Department of Administration. The total space used by each agency in 1992, 1996 and 2000 is shown. Major programs changes that have increased or decreased space requirements are also highlighted.

2. Rental Rates for Buildings Under the Custodial Control of the Department of Administration

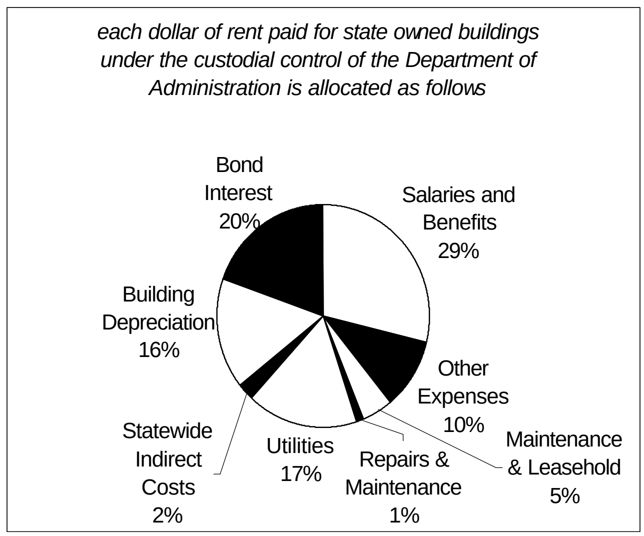
For buildings under the custodial control of the Department of Administration, Plant Management acts as the building manager and charges a rental rate to state agencies. Dollars are appropriated to individual agencies in the same manner as to agencies that lease non-state owned buildings and the agencies in turn pay rent to Plant Management. Rates are set by the Department of Administration and approved by the Department of Finance for each biennium. This portion of Plant Management is operated as an Internal Service Fund (ISF), which means the fees generated through services provided to agencies cover the direct and overhead costs of operation. The fund then operates on a revolving basis under the assumption that setting up an ISF rather than directly appropriating money to Plant Management for services attains a greater economy and efficiency. The cost of acquisition and distribution of building management services utilized by state agencies is shared on an equitable basis among agencies.

Major cost drivers responsible for lease rate increases since FY 1996 include salaries, statewide indirect costs and building depreciation. The direct and the overhead costs that make up the rates charged to agencies are detailed in Exhibit 4. Historically base adjustments for rent increases have been made to agency base budgets during the biennial budget process. Exhibit 5 shows changes in rental rates from FY 1996 and includes the approved rates for FY 2002 and FY 2003.

***Exhibit 4:* Plant Management Lease Budget FY 2001**

Salaries and Benefits	**10,950,205**
Other Expenses	**3,865,270**
Maintenance & Leasehold	**1,713,128**
Repairs & Maintenance	**487,134**
Utilities	**6,271,422**
Statewide Indirect Costs	**928,691**
Building Depreciation	**6,132,465**
Bond Interest	**7,448,598**
Total Expenses	**37,796,913**

FY 01 budget has been revised to reflect the revised rate at 600 N. Robert (Stassen), addition of Ely facility and removal of Labor Interpretative Center



Rental Rate Allocation Terminology

Salaries & Benefits: Plant Management staff salaries including the state's share of benefits such as insurance, retirement and taxes. Department of Administration agency allocation costs are also included.

Other Expenses: rent (Plant Management space and equipment rental), insurance, printing of forms and newsletters, staff recruiting advertising, professional/technical and computer services, purchased services such as mops, towels, uniform rental and city fees, communications, travel, employee development, supplies, interest, equipment depreciation and other miscellaneous expenses.

Maintenance & Leasehold: used for carpet replacement, paint, window treatment replacement.

Repairs & Maintenance: expenses paid to private vendors for items such as elevator and chiller maintenance, and equipment and vehicle repairs.

Utilities: includes electric, District Energy, steam, gas for heating and water.

Statewide Indirect Costs: lease share cost of state general overhead services paid to the Department of Finance.

Building Depreciation: annual expense based on building life expectancy and value.

Bond Interest: payment of interest when bonds are used.

Exhibit 5: Plant Management Lease Rate History

Building	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
Administration	11.87	12.34	13.47	13.82	16.46	16.79	17.47	17.99
Capitol	20.83	20.61	22.06	22.18	26.67	26.67	30.66	31.58
Centennial	11.47	11.66	11.34	11.50	12.95	12.95	14.28	14.71
Ford - Office	13.75	14.26	17.67	18.10	18.75	18.75	19.76	20.75
Ford - Service (Printcomm)[1]	3.25	3.25	3.50	3.50	6.50	8.00	10.00	12.00
Governor's Residence [2]	0.00	0.00	34.82	35.46	19.48	19.48	29.75	31.47
Grove, 321- Bldg 1 Central Stores, Plant Mgmt Materials Transfer [3]	0.00	0.00	8.87	9.01	10.34	10.62	10.83	11.05
Grove, 321- Bldg 2 Plant Mgmt Vehicle Repair [3]	0.00	0.00	3.50	3.50	6.93	6.76	9.00	9.50
Health	9.74	10.31	12.71	13.06	15.09	15.41	16.95	18.65
State Office Building	10.25	10.52	10.66	10.85	14.53	14.53	15.26	15.72
Transportation	9.05	9.43	12.41	12.72	14.03	14.13	15.54	16.00
Veterans Service	11.29	11.85	12.40	12.80	13.36	14.07	15.48	17.03
Robert, 600 N - Stassen Revenue Building [4]	0.00	0.00	0.00	18.89	20.29	19.48	17.05	17.05
Robert, 625 N - Plant Mgmt Complex Operations	12.64	13.24	12.29	11.72	9.17	9.09	13.00	13.50
Robert, 635 N - Plant Mgmt Grounds [5]	0.00	0.00	0.00	0.00	9.84	9.77	10.50	10.82
Robert, 671 N - Capitol Child Care [6]	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Robert, 691 N - Plant Mgmt Tech Services [5]	0.00	0.00	0.00	0.00	9.50	9.41	10.63	11.69
University, 1246 - Bureau of Criminal Apprehension	9.95	10.34	10.97	11.26	13.23	13.64	11.75	11.75
Duluth Government Center	10.89	10.29	9.74	9.78	10.03	10.03	10.03	10.03
Judicial Center	23.13	23.54	22.11	22.77	22.99	22.99	23.91	24.63
History Center	18.63	19.06	19.14	19.45	20.10	20.10	21.59	22.02
Ely Revenue [7]	0.00	0.00	0.00	0.00	14.53	14.53	13.53	13.53
Storage - All Buildings	3.25	3.25	3.50	3.50	5.00	5.50	6.00	6.50

[1]FY 96 thru FY 99 rates were at the storage space rate. The FY 00 rate was adjusted to cover production costs. FY 01 and beyond rates were adjusted again to reflect the services provided, which are the same as with office space.

[2] Prior to FY 98, a cost per square foot was not established and lump sum appropriation was requested and applied to the Governor's Residence. The FY 98 rate was established using square footage of the Governor's Residence. When rates were prepared for FY 00 and beyond, it was determined it was more accurate to use square footage that also included the carriage house and storage building.

[3] The State of Minnesota did not own the property in FY 96 and FY 97

[4] Department of Revenue occupied the building in FY 99 upon its completion.

[5] Under the accounting system used prior to Minnesota Accounting and Procurement System (MAPS), Plant Management was unable to charge themselves rent; therefore, no rates were established for facilities where Plant Management was the only tenant.

[6] All expenses related to the Capitol Child Care Center are tracked and spread through rates to all Capitol Complex state owned buildings under the Department of Administration's custodial control based on each agency's percentage of total usable square feet. Recent allocations: $128,482 in FY 00, $130, 482 in FY01, $134,451 in FY 02 and $137,425 in FY 03.

[7]Department of Revenue Minnesota Collection Enterprise occupied building in FY 00 upon its completion.

In addition to agency rent payments, a direct general fund appropriation is made to the ISF based on the approved rental rates. In FY 2001, $6.728 million was appropriated. This appropriation, known as In-Lieu of Rent, covers the following types of space:

◆<u>Ceremonial:</u> which includes ceremonial space in the Capitol such as the rotunda, the Governor's Residence, the ceremonial mall/grounds and monuments/memorials in the Capitol area,

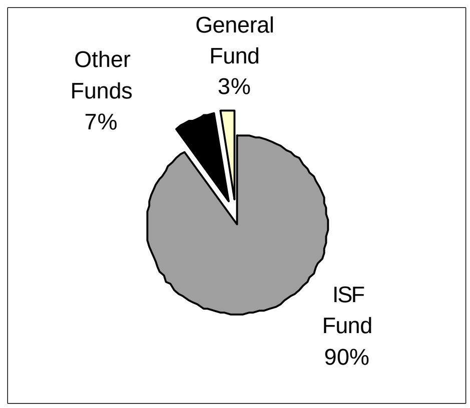
◆<u>Services for the Blind:</u> space occupied by blind vending operators in Administration controlled buildings, and

◆<u>Rent Waived:</u> space occupied in the Capitol, State Office Building, and Veterans Services Building by the House of Representatives, Senate, Revisor of Statutes, Legislative Reference Library and Congressionally Chartered Veterans Groups.

In addition to the revolving fund revenues of Plant Management, the division is appropriated dollars from the general fund for the resource recovery program and energy management. Two additional small ISF activities operate within the same ISF as leases, they are "materials transfer" and "repair and other jobs". Dedicated and non-dedicated receipts are received for recycling/resource recovery, energy management, bus and parking programs. Exhibit 6 shows the projected sources of revenue in FY 2001 for Plant Management.

Exhibit 6: **Plant Management Projected Revenue FY 2001**

ISF Fund	38,237,903
Other Funds	2,942,401
General Fund	1,120,000
Total	**42,300,304**



<u>**ISF Fund**</u> includes projected revenue from Leases including in-lieu of rent, Materials Transfer and "Repair and Other Jobs"

<u>**Other Funds**</u> includes projected revenue from Energy, Resource Recovery and Parking

<u>**General Fund**</u> includes general fund appropriations for Energy and Resource Recovery

3. Maintenance and Preservation of State Buildings

In 1998, MS 16A.11 was amended by adding the following subdivision:

Subd. 6. Building maintenance. The detailed operating budget must include amounts necessary to maintain state buildings. The commissioner of finance, in consultation with the commissioner of administration, the board of trustees of the Minnesota state colleges and universities, and the regents of the University of Minnesota, shall establish budget guidelines for building maintenance *appropriations. Unless otherwise provided by the commissioner of finance, the amount to be budgeted each year for building maintenance is two percent of the cost of the building, adjusted up or down depending on the age and condition of the building.*

One of the driving factors in this statutory change was a program evaluation report on State Building Maintenance released by the Legislative Auditor in February 1998. Exhibit 7 explains the key findings of the report and possible solutions.

***Exhibit 7:* Office of the Legislative Auditor Program Evaluation Report on State Building Maintenance - February 16, 1998**

Key Findings

❶ State agencies and higher education institutions rated most of their building components in good physical condition.

❷ Statewide, deferred maintenance attributed to physical deterioration is estimated between $300 and $600 million. If the costs are included of upgrading buildings to meet current code standards (fire/life safety, accessibility, energy conservation, environmental health, and electrical) that have changed since a building was constructed, the total may reach $2 billion.

❸ Many state entities do not adequately schedule or document preventive maintenance.

❹ Ninety-six percent of physical plant managers said they should be doing more preventive maintenance.

Possible Solutions

❶ State agencies and higher education institutions should improve their preventive maintenance programs.

❷ Greater emphasis on operating spending would allow agencies to address maintenance on a continuous basis rather than waiting for problems to develop.

❸ The Legislature may want to adopt a formula to fund maintenance within operating budgets. The formula should reflect the variation in maintenance requirements among state buildings.

The complete report is available at the Legislative Auditor's website: http://www.auditor.leg.state.mn.us/ped/1998/pe9804.htm

In response to the change to MS 16A.11, the Department of Finance instructed the Statewide Facilities Management Group (SFMG) to establish budget guidelines. SFMG consists of representatives from fifteen agencies who manage and maintain the state's capital assets. This group was originally formed in response to legislation that directed the Commissioner of Administration to identify the condition and suitability of state buildings and office space, report findings to the legislature, and set up the asset preservation programs known as CAPRA and HEAPR. A report issued by SFMG in May 1999 outlined the development of a building reinvestment cycle cost analysis for use in determining the amount of funds needed to maintain buildings. Through this formula it was estimated that the annual amount needed for maintenance of the current building inventory was $271 million. The amount allotted in agency operating budgets for repair and replacement was estimated in FY 1998 to be $32 million. Therefore the building maintenance funding required in FY 1998 to meet the current inventory was short $239 million. The guidelines developed did not address the issue of deferred maintenance, which at the time of the report was estimated at between $1.5 and 2 billion. Exhibit 8 identifies the recommendations contained in the SFMG report prepared for the Department of Finance.

***Exhibit 8:* Statewide Facilities Management Group Building Maintenance Guidelines Recommendations - May 1999**

❶ Building maintenance funding should be allocated to agencies and distributed to facilities based on need.

❷ Agency building maintenance funding expenditures should be reported to Department of Finance and Legislature annually

❸ Building maintenance funding should be allocated in such a way that it can only be spent for maintenance activities

❹ Building maintenance funding should be set up in a sinking fund allowing agencies to bank or carry forward funds for large projects.

❺ CAPRA, HEAPR, and asset preservation allocations should be continued at approximately the same funding levels as 1998 ($43 million), for the next 8-10 years to shrink the deferred maintenance backlog, in order for building maintenance guideline funding to properly maintain all state owned buildings.

Exhibit 9 details more recent estimates of asset preservation needs of state-owned buildings, by agency, and the ongoing amounts designated for asset preservation in agency budgets.

Exhibit 9 Asset Preservation Dollars in Agency Base Budgets

Agency	Needs	FY 02-03 Base Budget	Funding Gap
University of Minnesota	184,655,084	26,964,000	157,691,084
MNSCU	123,552,000	61,588,582	61,963,418
Corrections	70,755,046	3,226,000	67,529,046
Military Affairs	22,885,042	2,730,000	20,155,042
Human Services	26,403,034	5,164,000	21,239,034
Natural Resources	12,738,078	3,700,000	9,038,078
Transportation	12,124,054	5,700,000	6,424,054
Veterans Home Board	6,126,114	2,380,000	3,746,114
MN Zoological Gardens	6,747,418	1,236,000	5,511,418
Residential Academies	3,205,338	450,000	2,755,338
Economic Security	1,244,764	100,000	1,144,764
Center For Arts Education	1,282,640	340,000	942,640
Historical Society	1,921,162	1,266,000	655,162
Administration (Facility Repair/Replacement Account)	26,137,268	12,117,313	14,019,955
TOTAL	**499,777,042**	**126,961,895**	**372,815,147**

The Department of Administration maintains an ongoing list of asset preservation projects that are prioritized into high, medium, and low categories. In 2000, the legislature enacted language (MS 16A.633) requiring state agencies to provide the data necessary for the Department to maintain its database on the location, description, and condition of state-owned facilities. The data is required to be provided by September 1 each year beginning in 2001. The database must maintain both the current inventory data and historical data. In order to ensure compliance, a state agency is not eligible to receive capital funding unless the agency has provided the data required. This language also applies to MNSCU and the University of Minnesota.

4. Asset Preservation Funding Sources

Dollars for the maintenance of state buildings comes from many different sources. An individual agency's base budget is one source. Another source is Plant Management's lease dollars which are allocated for Maintenance and Leasehold, as shown in Exhibit 4. Historically, some of the Maintenance and Leasehold account dollars were used for facility asset preservation, but with the building depreciation change in the facility repair/replacement account that takes effect in FY 2002 (explained below), the Department expects to concentrate on smaller maintenance projects such as carpet, paint, and window coverings. Sources to be covered in this section include: Capital Asset Preservation and Replacement Account (CAPRA), Asset Preservation Appropriations for Specific Purposes, Asset Preservation Appropriations for Unspecified Purposes, Statewide Building Access, the Facility Repair/Replacement Account, and Federal and Local Sources. Many of these sources are managed by the Division of State Building Construction within the Department of Administration.

Capital Asset Preservation and Replacement Account (CAPRA)

This is a statewide account established in MS 16A.632, managed by the Department of Administration's Division of Building Construction. Eligibility guidelines for funding CAPRA projects are typically between $25,000 and $350,000. Higher education is funded separately under the Higher Education Asset Preservation and Renewal program (HEAPR). CAPRA appropriations are used for asset preservation purposes as defined below:

***Exhibit 10*: 2000 CAPRA Requests**

Agency	Request
Administration	5,801,683
Center for Arts Education	615,000
Corrections	12,609,175
Economic Security	550,000
Historical Society	674,000
Human Services	19,326,000
Military Affairs	3,250,000
Natural Resources	24,357,796
Residential Academies - Faribault	775,000
Veterans Home Board	3,673,000
MN Zoological Gardens	1,580,000
Total Request	**73,211,654**

✦ unanticipated emergencies

✦removal of life safety hazards, replacement of mechanical systems, building code violations, or structural defects

✦elimination or containment of hazardous substances such as asbestos or PCBs

✦replacement and repair of roofs, windows, tuck pointing, and structural members necessary to preserve the exterior and interior of existing buildings

Projects not eligible for CAPRA dollars fall below $25,000 or exceed $350,000 in cost and include new construction, program expansion, road and parking lot repair and replacement, tennis court repair and replacement, landscaping, land acquisition and normal recurring maintenance.

The Department of Administration is required to submit a list of projects in each agency that were funded from CAPRA during the preceding calendar year and a list of priority projects for which a CAPRA appropriation will be sought. According to the CAPRA Summary Report of January 2000, current agency CAPRA requests total over $73 million. A listing of agencies that make up these requests is shown in Exhibit 10. Seventy-three percent of the $3 million 1999 CAPRA appropriation was allocated to two primary project types: mechanical, such as boiler replacement or repair (49%) and roofs (24%). In the 2000 bonding bill *(Laws of 2000, Chapter 492, Article 1, Section 12, Subdivision 2, Section 2, Subdivision 2 and Section 3, Subdivision 2)*, $10 million from general obligation bond funds was appropriated to the Department of Administration for CAPRA projects with HEAPR appropriations for higher education totaling $39 million.

Asset Preservation Appropriations for Specific Purposes

The legislature appropriates dollars for specific building-related asset preservation projects that are identified in law. Asset preservation is defined as unanticipated emergencies, removal of life safety hazards, replacement of mechanical systems, building code violations, structural defects, elimination or containment of hazardous substances such as asbestos or PCBs, replacement and repair of roofs, windows, tuck pointing, and structural members necessary to preserve the exterior and interior of existing buildings. Not included within this definition is construction or remodeling within existing state buildings to accommodate agency program changes or expansion, even though the work done includes bringing the space under construction up to the current building code for life and safety. The construction of new buildings to replace old buildings is, also, not included in this definition. Exhibit 11 looks at specific agency asset preservation projects, with the exceptions of MNSCU and the University of Minnesota, funded in the 2000 bonding bill.

Exhibit 11: 2000 Asset Preservation Appropriations for Specific Purposes

Agency	**Amount**
Center for Arts Education	
Delta Dormitory Upgrades	296,000
Air Conditioning Gaia Bldg	81,000
Natural Resources	
State Park & Rec Area Bldg Rehab	1,900,000
MN Zoological Gardens	
Heating & Cooling Systems	1,000,000
Administration	
Electrical Utility Infrastructure	2,500,000
Health Building, 717 Delaware Street	4,000,000
Military Affairs	
Kitchen Renovation	1,000,000
Human Services	
Systemwide Roof Repairs & Replace	1,971,000
Veterans Home Board	
Hastings Veterans Home	7,000,000
Minneapolis Veterans Home	1,700,000
Corrections	
Sewer Repair, MCF-Faribault	7,500,000
Stillwater, Perimeter Wall Repair	1,000,000
Total Asset Preservation	**29,948,000**

Laws of 2000, Chapter 492 (excludes UM & MNSCU)

Asset Preservation Appropriations for Unspecified Purposes

Unspecified asset preservation dollars are, also, appropriated to the Department of Administration and other agencies. With the exception of appropriations to Military Affairs, Natural Resources, Transportation, MNSCU and the University of Minnesota, dollars appropriated are managed by the Plant Management Division within Administration. The specific purpose of these one time appropriations is not identified in law, although agencies typically have a list of projects to which these dollars will be applied and which the appropriation is based upon. Exhibit 12 identifies asset preservation appropriations made in the 2000 bonding bill by agency and appropriation amount.

Exhibit 12: **2000 Asset Preservation Appropriations**

Agency	**Amount**
Administration	3,000,000
Center for the Arts Education	500,000
Minnesota State Academies	1,000,000
Natural Resources	2,000,000
Military Affairs	1,500,000
Human Services	3,000,000
Veterans Home Board	3,000,000
Historical Society	1,750,000
total appropriated	**15,750,000**

Laws of 2000, Chapter 492

Exhibit 13: ADA Appropriations & Allocations

ADA Appropriations	
Laws of 1989, Chapter 300	29,000,000
Laws of 1994, Chapter 643	11,500,000
Laws of 1996, Chapter 463	9,000,000
Laws of 2000, Chapter 492	2,000,000
Total Appropriations	**51,500,000**
ADA Allocations by Agency	
Administration Controlled Buildings	5,221,000
Center for the Arts	966,000
Human Services	4,490,000
Economic Security	600,000
Corrections	6,677,340
Residential Academies CFL	1,429,500
Veterans Home Board	1,867,660
IRRRB	1,070,500
Transportation	3,418,500
MN Historical Society	1,240,000
MN Zoological Gardens	1,743,000
Administration - Bldg Const Consulting	2,100,000
Military Affairs	1,815,000
Natural Resources	7,611,500
MNSCU	11,250,000
Total Allocations	**51,500,000**
ADA Requests Unfunded	
MN Zoological Gardens	1,305,000
Military Affairs	4,615,000
Natural Resources	10,000,000
MNSCU	13,495,000
Total Unfunded	**29,415,000**

Statewide Building Access (SBA)

Statewide Building Access funds are also referred to as Americans with Disabilities Act (ADA) funds. This is a statewide account for removal of architectural barriers to allow access to public facilities. Exhibit 13 shows appropriations made for ADA and those agencies with outstanding needs.

Facility Repair/Replacement Account

In 1997, the legislature authorized the Department of Administration to use CAPRA and statewide building access (ADA) depreciation and bond interest dollars recovered through rent for asset preservation projects. In 1999, the legislature expanded upon this and allowed the Department to use depreciation dollars recovered through rent for asset preservation effective July

1, 2001. This applies only to projects funded by bond proceeds under the custodial control of the Department of Administration and not projects where general fund cash is used. Prior to these law changes (MS 16B.24, Subd. 5(e)), these dollars were credited to the general fund. Money collected as rent to recover bond interest costs of buildings funded from the state bond proceeds fund continues to be credited to the general fund. Money collected as rent to recover the depreciation and interest costs of a building built with other state dedicated funds, namely the trunk highway fund, is credited to the dedicated fund which funded the original acquisition or construction. Exhibit 14 details the transfers to the general or trunk highway fund and the facility repair/replacement account.

Exhibit 14: General/ Trunk Highway Fund and Facility Repair and Replacement Distribution

	FY00*	FY01*	FY02	FY03
Bldg Depreciation Transferred to General Fund	*4,061,510*	*4,778,615*	*286,024*	*286,024*
Bldg Depreciation Transferred to Trunk Highway Fund	*978,657*	*985,939*	*1,069,728*	*1,069,728*
Bond Interest Transferred to General Fund	*7,148,735*	*7,167,325*	*7,020,915*	*6,666,429*
Total Transferred to General or Trunk Highway Fund	***12,188,902***	***12,931,879***	***8,376,667***	***8,022,181***
Bldg Depreciation Transferred to Spec Rev Fund - non CAPRA/ADA	0	0	5,323,693	5,323,693
Bldg Depreciation Transferred to Spec Rev Fund - CAPRA/ADA	367,911	367,911	445,266	445,266
Bond Interest Transferred to Spec Rev Fund - CAPRA/ADA	281,273	281,273	293,575	285,820
Total Transferred to Facility Repair & Replacement Fund	**649,184**	**649,184**	**6,062,534**	**6,054,779**

*FY 00 and 01 are based on revised budget information and FY 00 is reduced by $643,246 for deferred depreciation to cover FY 00 In-Lieu of Rent deficiency as appropriation request excluded ceremonial space/grounds and Services for the Blind funding

NOTE: Italicized area represents money that passes through the Lease account and is transferred to either the General Fund or Trunk Highway Fund

Federal and Local Sources

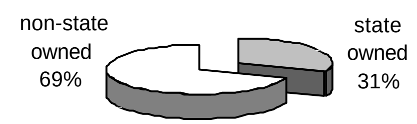
In addition to the sources described above, some agencies have been able to leverage state funds to get federal and local funding for asset preservation. For example, the Department of Military Affairs has used state CAPRA and asset preservation dollars totaling $7,658,140 to leverage $5,174,050 in federal funds in the time period from FY 1996 through FY 2001. In the case of the Minnesota Amateur Sports Commission (MASC), the state and local governments jointly financed and use the Super Rink ice arena located at the MASC complex in Blaine. An agreement was worked out whereby the local governments would be responsible for maintenance and repairs on this one facility. Military Affairs, also, has similar cooperative agreements with local governments that requires payment of a portion of major repair projects for facilities in Cottage Grove, Monticello, Bloomington and Brooklyn Park among others.

5. Benefits of State Ownership of Buildings

As part of the development of the 1993 Strategic Plan for Locating State Agencies, the Department of Administration in consultation with Zimmer Gunsul Frasca Partnership looked at the issue of ownership versus leasing and recommended the state increase the amount of state owned space. A number of benefits were identified with ownership:

- ✦ *Lower life-cycle costs*
- ✦ *Higher quality space*
- ✦ *Long-term residual value*
- ✦ *Renovation and expansion flexibility*
- ✦ *Improved maintenance and security*
- ✦ *Efficient space utilization*
- ✦ *Lower operating costs*

Exhibit 15: **Seven County Metro Area Non-state Owned & State Owned Buildings**
includes only buildings under custodial control of the Department of Administration



The long-term cost savings associated with state ownership are the result of five factors:

❶ Long-term financing is available to the state at a rate that is approximately two-thirds that of the private sector financing rate.

❷ A return, or profit, on initial capital investment is not required

❸ Generally, 10-15 percent less space is needed by having tighter control over space planning and assignments and by utilizing buildings with larger floor areas than are typically available in leased buildings.

❹ A long-term residual value that is between 10 to 15 percent of the total present value life-cycle cost is realized even assuming a future renovation cost equal to 40 percent of the cost of equivalent new construction.

❺ No property tax is paid by the state, although in lieu of taxes may be negotiated.

The 1993 Strategic Plan makes recommendations; however, many have not been implemented. In the seven country metro area, the state has not made progress enough to realize the goal of achieving 70 percent state ownership by the year 2013. Currently, the state owns 31 percent of its space and leases 69 percent of its space in non-state owned buildings, as shown in Exhibit 15.

6. Strategic Plan for Locating State Agencies

The strategic plan provides a flexible framework for meeting state agencies' space needs for a period of 20 years. Under this plan, current and projected needs of state agencies and the capacity of existing state-owned facilities, sites and infrastructures are determined. The need for agencies to share, co-locate or consolidate are identified. This strategic approach is specific to geographic areas and the development potential of the Capitol area, Capital city and the Capital region. Appendix B illustrates site development options within the Capitol Area. MS 16B.24, subd. 1, requires a regular update of this plan. The original plan was completed in 1993 and updated in 1995. A request for funding for an update in 2000 was denied by the 2000 state legislature. The Department of Administration is currently working to develop a process for strategic planning that builds on the existing plan. The goal is to have this process partially in place by the 2002 bonding session.

During the 2000 legislative session, two appropriations were made to look at the co-location of offices. The first was a $1 million appropriation to the Department of Administration *(Laws of 2000, Chapter 492, Sec. 12, Subd. 9)* for the purpose of predesign of new facilities to house the principal administrative offices of the Health and Human Service Departments. The predesign must consider the co-location of the two agencies and also consider shared laboratory facilities with the Department of Agriculture. Currently these three agencies pay $16.8 million annually to rent 741,382 of usable square feet in 11 buildings in St. Paul and one in Roseville. The Health Department also owns a 125,000 usable square foot building near the Minneapolis campus of the UM.

The second co-location appropriation was $500,000 given to the Department of Corrections *(Laws of 2000, Chapter 488, Art. 4, Sec. 7)* for the predesign of a joint headquarters building for the Departments of Corrections and Public Safety. These departments currently lease about 260,000 usable square feet of space in three St. Paul buildings.

The legislature also approved $58 million *(Laws of 2000, Chapter 492, Art. 1, Sec. 12, Subd. 6)* for the construction, furnishing and equipping of a new Bureau of Criminal Apprehension (BCA) facility on the east side of St. Paul that includes offices and forensic laboratories. The BCA is presently located in a 78,000 gross square foot state-owned facility at 1246 University Avenue in St. Paul.

Appendix A: **Minnesota State Agency Office and Storage Space Statewide (square feet)**
The 14 agencies shown in this appendix were chosen because they represent the larger state agencies with a mix of state owned and non-state owned leases. All agencies represented lease 50,000 square feet or more of usable space.

	1992	***1996***	***2000***	***Percent Change 1992 to 2000***
Agriculture				
state owned				
Admin control	871	871	871	0.0%
Agency control	2,204	15,004	17,914	712.8%
total state owned	**3,075**	**15,875**	**18,785**	**510.9%**
non-state owned				
Admin control	99,811	104,257	107,140	7.3%
Agency control	0	0	0	0.0%
total non-state	**99,811**	**104,257**	**107,140**	**7.3%**
grand total	**102,886**	**120,132**	**125,925**	**22.4%**
Reasons for Change: *Additional offices in Greater Minnesota*.				

	1992	***1996***	***2000***	***Percent Change 1992 to 2000***
Children, Families and Learning				
state owned				
Admin control	97,782	99,522	804	-99.2%
Agency control	0	0	0	0.0%
total state owned	**97,782**	**99,522**	**804**	**-99.2%**
non-state owned				
Admin control	3,975	11,854	165,338	4059.4%
Agency control	0	0	0	0.0%
total non-state	**3,975**	**11,854**	**165,338**	**4059.4%**
grand total	**101,757**	**111,376**	**166,142**	**63.3%**
Reasons for Change: *Move from state owned to non-state owned building, restructured Department.*				

	1992	***1996***	***2000***	***Percent Change 1992 to 2000***
Commerce				
state owned				
Admin control	0	0	0	0.0%
Agency control	0	0	0	0.0%
total state owned	**0**	**0**	**0**	**0.0%**
non-state owned				
Admin control	52,434	52,324	84,182	60.5%
Agency control	0	0	0	0.0%
total non-state	**52,434**	**52,324**	**84,182**	**60.5%**
grand total	**52,434**	**52,324**	**84,182**	**60.5%**
Reasons for Change: *Department of Public Service merger*.				

	1992	1996	2000	Percent Change 1992 to 2000
Corrections				
state owned				
Admin control	0	0	0	0.0%
Agency control	2,094,015	2,991,333	3,330,893	59.1%
total state owned	**2,094,015**	**2,991,333**	**3,330,893**	**59.1%**
non-state owned				
Admin control	68,776	116,966	118,568	72.4%
Agency control	0	0	0	0.0%
total non-state	**68,776**	**116,966**	**118,568**	**72.4%**
grand total	**2,162,791**	**3,108,299**	**3,449,461**	**59.5%**

Reasons for Change: *Increased sentencing guidelines, added Rush City prison, acquired properties from Human Services at Moose Lake and Faribault.* *NOTE: Includes prison space, admin, shops, garage, probation, office space*.

	1992	1996	2000	Percent Change 1992 to 2000
Economic Security				
state owned				
Admin control	12,929	12,832	14,293	10.5%
Agency control	132,175	132,175	132,175	0.0%
total state owned	**145,104**	**145,007**	**146,468**	**0.9%**
non-state owned				
Admin control	377,589	375,138	359,240	-4.9%
Agency control	0	0	0	0.0%
total non-state	**377,589**	**375,138**	**359,240**	**-4.9%**
grand total	**522,693**	**520,145**	**505,708**	**-3.2%**

Reasons for Change: *An additional 87,487 sf of space is subleased to Workforce Center's city, county and non-profit partners.*

	1992	1996	2000	Percent Change 1992 to 2000
Health				
state owned				
Admin control	127,324	128,437	129,463	1.7%
Agency control	0	0	0	0.0%
total state owned	**127,324**	**128,437**	**129,463**	**1.7%**
non-state owned				
Admin control	80,223	129,848	263,057	227.9%
Agency control	0	0	0	0.0%
total non-state	**80,223**	**129,848**	**263,057**	**227.9%**
grand total	**207,547**	**258,285**	**392,520**	**89.1%**

Reasons for Change: *To eliminate overcrowding in 1990, accommodate 35% program growth, and create a conference center.*

	1992	1996	2000	Percent Change 1992 to 2000
Human Services				
state owned				
Admin control	2,509	2,350	2,350	-6.3%
Agency control	3,542,543	3,557,769	2,964,298	-16.3%
total state owned	**3,545,052**	**3,560,119**	**2,966,648**	**-16.3%**
non-state owned				
Admin control	328,418	418,545	570,891	73.8%
Agency control	0	0	0	0.0%
total non-state	**328,418**	**418,545**	**570,891**	**73.8%**
grand total	**3,873,470**	**3,978,664**	**3,537,539**	**-8.7%**

Reasons for Change: *Transferred properties to Corrections at Moose Lake and Faribault*.

	1992	1996	2000	Percent Change 1992 to 2000
Labor and Industry				
state owned				
Admin control	2,016	1,776	0	-100.0%
Agency control	0	0	0	0.0%
total state owned	**2,016**	**1,776**	**0**	**-100.0%**
non-state owned				
Admin control	104,066	121,225	120,472	15.8%
Agency control	0	0	0	0.0%
total non-state	**104,066**	**121,225**	**120,472**	**15.8%**
grand total	**106,082**	**123,001**	**120,472**	**13.6%**

Reasons for Change: *The transfer of a program from Economic Security and the creation of a new activity within the Agency.*

	1992	1996	2000	Percent Change 1992 to 2000
Natural Resources				
state owned				
Admin control	0	0	0	0.0%
Agency control	1,360,535	1,421,002	1,511,706	11.1%
total state owned	**1,360,535**	**1,421,002**	**1,511,706**	**11.1%**
non-state owned				
Admin control	213,009	158,692	159,558	-25.1%
Agency control	0	0	0	0.0%
total non-state	**213,009**	**158,692**	**159,558**	**-25.1%**
grand total	**1,573,544**	**1,579,694**	**1,671,264**	**6.2%**

Reasons for Change: *Moved from nonstate owned to state owned in Greater Minnesota.*

	1992	1996	2000	Percent Change 1992 to 2000
Pollution Control				
state owned				
Admin control	3,346	5,284	0	-100.0%
Agency control	0	0	0	0.0%
total state owned	**3,346**	**5,284**	**0**	**-100.0%**
non-state owned				
Admin control	135,537	174,214	208,087	53.5%
Agency control	0	0	0	0.0%
total non-state	**135,537**	**174,214**	**208,087**	**53.5%**
grand total	**138,883**	**179,498**	**208,087**	**49.8%**

Reasons for Change: *Change in strategic directions and an increase in regional presence.*

	1992	1996	2000	Percent Change 1992 to 2000
Public Safety				
state owned				
Admin control	135,886	117,587	65,286	-52.0%
Agency control	0	0	0	0.0%
total state owned	**135,886**	**117,587**	**65,286**	**-52.0%**
non-state owned				
Admin control	120,211	186,448	331,377	175.7%
Agency control	0	0	0	0.0%
total non-state	**120,211**	**186,448**	**331,377**	**175.7%**
grand total	**256,097**	**304,035**	**396,663**	**54.9%**

Reasons for Change: *Moved from state owned to nonstate owned.*

	1992	1996	2000	Percent Change 1992 to 2000
Revenue				
state owned				
Admin control	2,231	2,231	357,482	15923.4%
Agency control	0	0	0	0.0%
total state owned	**2,231**	**2,231**	**357,482**	**15923.4%**
non-state owned				
Admin control	332,663	356,221	47,026	-85.9%
Agency control	0	0	0	0.0%
total non-state	**332,663**	**356,221**	**47,026**	**-85.9%**
grand total	**334,894**	**358,452**	**404,508**	**20.8%**

Reasons for Change: *New state owned buildings*.

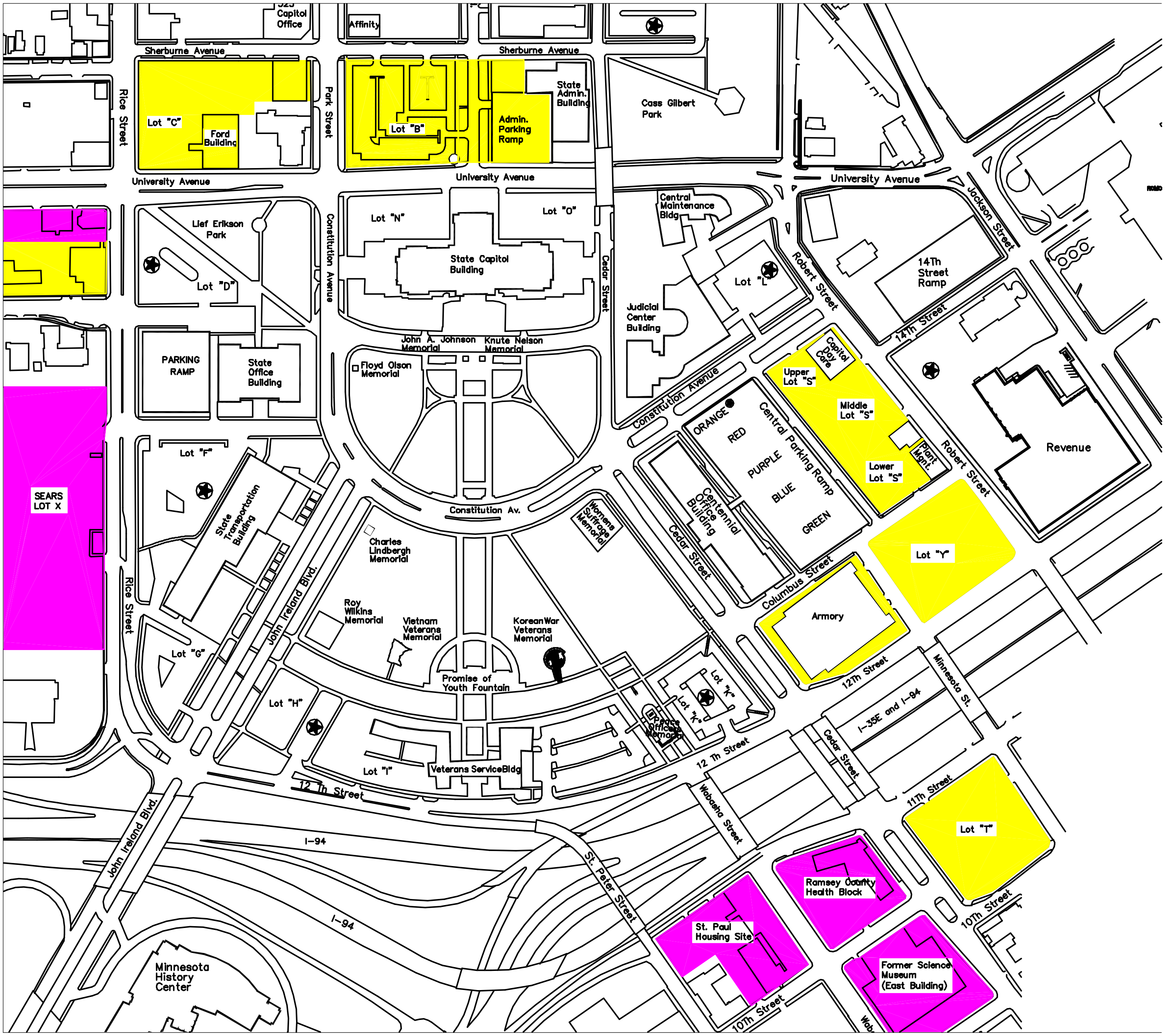
	1992	*1996*	*2000*	*Percent Change 1992 to 2000*
Trade and Economic Development				
state owned				
Admin control	885	885	885	0.0%
Agency control	0	0	0	0.0%
total state owned	**885**	**885**	**885**	**0.0%**
non-state owned				
Admin control	81,100	80,334	80,354	-0.9%
Agency control	0	0	0	0.0%
total non-state	**81,100**	**80,334**	**80,354**	**-0.9%**
grand total	**81,985**	**81,219**	**81,239**	**-0.9%**

Reasons for Change: *Space needs have remained fairly static. NOTE: Of space identified 3,225 sf is sublet to others.*

	1992	*1996*	*2000*	*Percent Change 1992 to 2000*
Transportation				
state owned				
Admin control	201,127	198,500	233,159	15.9%
Agency control	3,728,582	4,316,242	4,974,007	33.4%
total state owned	**3,929,709**	**4,514,742**	**5,207,166**	**32.5%**
non-state owned				
Admin control	187,513	99,343	100,300	-46.5%
Agency control	0	0	0	0.0%
total non-state	**187,513**	**99,343**	**100,300**	**-46.5%**
grand total	**4,117,222**	**4,614,085**	**5,307,466**	**28.9%**

Reasons for Change: *Additional salt sheds, cold storage buildings, vehicle storage buildings, and office space*.

Appendix B: Site Development Options in the Capitol Area



Potential Development Sites (State Owned)	Potential Development Sites (Non-State owned)
· Lots T, S*, and Y	· Rice and University Block (Northeast)
· Lot B and Admin Ramp*	· Ramsey County Health Block
· Armory Site*	· 321 East Grove Street Block (North)**
· Lot C and Ford Building	· Sears Block
· Rice and University Block (Southeast)	· Saxon Properties**
· 321 East Grove Street Block (South)**	· St. Paul Housing Site
* Requires relocation and demolition	· Former Science Museum (East Building)
**Not depicted	**Not depicted

Current Funding

Laws of MN 1998, Chp. 404, Sec. 13, Subd. 10	Laws of MN 2000, Chp. 492, Sec. 12, Subd. 12
Appropriation: $2,800,000	Appropriation: $1,000,000
Remaining Balance: $1,400,000	Remaining Balance: $500,000

The remaining balances for property acquisition listed above are being used to acquire smaller properties that become available in the market and to demolish any non-usable buildings on those sites. No funding is currently available to acquire the larger sites denoted in the non-state owned column.