The Cost of Moving Forward

The Cost of Doing Nothing
...you cannot escape the responsibility of tomorrow by evading it today...

Abraham Lincoln
Picture if you will ...
A world where we have ...

**Zero** deferred maintenance

**Ample** funding for repairs & renovation

**Decrease** in energy cost
A world where we have...

- Zero deferred maintenance
- Ample funding for repairs & renovation
- Decrease in energy cost

The reality...

- $4.4 B deferred maintenance
- Buildings on life support
- 2X energy cost
How do we move forward?
HOW DO WE MOVE FORWARD?

- **Divest** asset portfolio
- **Pay off the debt** of deferred maintenance
- **Invest “enough”** in annual facility care
- **Spend wisely** based on life cycle cost
Who are these guys?

Introductions
WHO ARE THESE GUYS?

• Roger Woods Jr, PE

• Matt Parker, PE

• Chris Martin Jr, PE

• Bill Smith Jr, PE
What led us to this point?

State of North Carolina
WHAT LED US TO THIS POINT?

The Cost Of Doing Nothing

State of North Carolina

$630 M
required annual investment to adequately care for facilities

$1.4 B
annual waste due to underfunded repairs, maintenance and conservation
QUESTION: What are the recommended annual repair & renovation cost needs of a facility:

ANSWER: 2 – 4% of facility replacement cost

3% = $630M
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ANSWER: 2 – 4 % of facility replacement cost

3% = $630M

QUESTION: Based on proposed State budget for repair & renovation funding, how is NC funding these needs:

ANSWER: 0.3 % of facility replacement cost
WHAT LED US TO THIS POINT?

Report Card: State of North Carolina

History of “repair & renovation” funding
WHAT LED US TO THIS POINT?

Report Card: State of North Carolina

Is the facility inventory becoming obsolete?

- Facility Condition Index (FCI) = Backlog Repair Cost / Facility Value
- Good < 5%
- Fair (5% - 10%),
- Poor (10% - 30%)
- Critical (over 30%) *
WHAT LED US TO THIS POINT?

Report Card: State of North Carolina

Is the facility inventory becoming obsolete?

- Facility Condition Index (FCI) = Backlog Repair Cost / Facility Value

- Good < 5%
- Fair (5% - 10%),
- Poor (10% - 30%)
- Critical (over 30%) *

- State of North Carolina overall **POOR at 21%**
Facility Assets

The State of North Carolina

- Nearly 12,000 buildings
- 119M SF
- and this number is growing ...
Facility Assets

The State of North Carolina

- Nearly 12,000 buildings
- 119M SF
- and this number is growing ...

The 2016 Bond will likely add 8M SF (7% increase)... another $45M in repair & renovation needs annually
Facility Assets

If you build it, they will come
Facility Assets

*If you don’t take care of it, it will fail ... and use more energy*
WHAT LED US TO THIS POINT?

Energy Cost

The State of North Carolina

• $2.21 per SF average

• $1 B over three years

Total energy expenses have doubled since 2003
Sponsoring a new conversation

State of North Carolina
Conversation (kon-ver-sey-shuh-n) noun
Chatting it up with the budget authority (subsequently known as **BA**) about how broke you really are.
SPONSORING A NEW CONVERSATION

The OLD “kon-ver-sey-shuh-n”

Sam

Budget

Rufus

Energy Conservation

Dilbert

Repair & Renovation

Jane

Maintenance

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ESTABLISHING A NEW FINANCIAL PARADIGM

“Current Funding Stream”

The colors of money

- Routine Maintenance
- Repair & Renovation
- Energy Conservation

Departmental & funding barriers

- Routine Maintenance
- Repair & Renovation
- Energy Conservation

Ignored savings

- Routine Maintenance
- Repair & Renovation
- Energy Conservation

BUDGET MAKER → INSTITUTIONAL AUTHORITY → BOOTS ON GROUND → PROJECTS & PROCESS → SAVINGS

State Construction Conference – March 24, 2016
ESTABLISHING A NEW FINANCIAL PARADIGM

“Current Funding Stream”

DON'T CROSS STREAMS! EVER!
ESTABLISHING A NEW FINANCIAL PARADIGM

“New Funding Stream” EXAMPLE

BUDGET MAKER → INSTITUTIONAL AUTHORITY → BOOTS ON GROUND → PROJECTS & PROCESS → SAVINGS

Routine Maintenance
Repair & Renovation
Energy Conservation

Use outcomes to inform future decisions

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The NEW “kon-ver-sey-shuh-n”
SPONSORING A NEW CONVERSATION
Calculating a new outcome

State of North Carolina

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CALCULATING A NEW OUTCOME

“Life Cycle Cost Analysis”

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<thead>
<tr>
<th>Maintenance</th>
<th>Repair &amp; Renovation</th>
<th>Energy Conservation</th>
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<tr>
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OUTCOME

- Energy Usage
- Asset Value
- Facility Condition Index (Deferred Maintenance)
OK, now what?
OK, now what?

“The Cost of Moving Forward”

4 POINT PLAN
1. GET RID OF IT!
1. GET RID OF IT!

PROBLEM: If the State will not significantly change how it cares for its facility assets then ...

2. FIX IT!
2.  **FIX IT!**

**PROBLEM:**  $4.4B backlog of repairs

**SOLUTION:**  $4.4B REPAIR & RENOVATION Bond
3. INVEST IN IT!
3. INVEST IN IT!

PROBLEM: History of inadequate annual funding for care of facilities

SOLUTION: Automatic annual investment
R&R: 3% of facility value
Maintenance: APPA 2 Level
Energy Conservation: 40% target
4. MANAGE IT!
4. MANAGE IT!

PROBLEM: Silo-based decisions and near-sighted budgeting. No regard to potential shared benefits.

SOLUTION: Base financial decisions on total cost of ownership. Combine funding streams to enable a new conversation.
A CONCLUDING THOUGHT...
If it ain’t broke, don’t fix it is the slogan of the complacent, the arrogant, or the scared. It is an excuse for inaction, a call to non-arms.

Colin Powell