

Moving Forward
The Cost of ~~Doing Nothing~~

...you cannot escape the responsibility of
tomorrow by evading it today...

Abraham Lincoln

Picture if you will ...

State of North Carolina

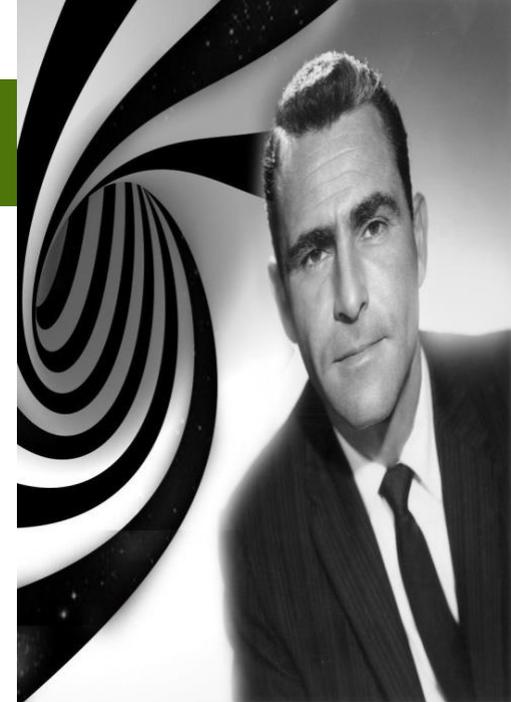
PICTURE IF YOU WILL ...

A world where we have ...

Zero deferred maintenance

Ample funding for repairs & renovation

Decrease in energy cost



PICTURE IF YOU WILL ...

~~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 ?

State of North Carolina

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



WHAT LED US TO THIS POINT ?

Report Card: State of North Carolina

QUESTION: What are the recommended annual repair & renovation cost needs of a facility:



ANSWER: 2 – 4 % of facility replacement cost

3% = \$630M



WHAT LED US TO THIS POINT ?

Report Card: State of North Carolina

QUESTION: What are the recommended annual repair & renovation cost needs of a facility:



ANSWER: 2 – 4 % of facility replacement cost

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



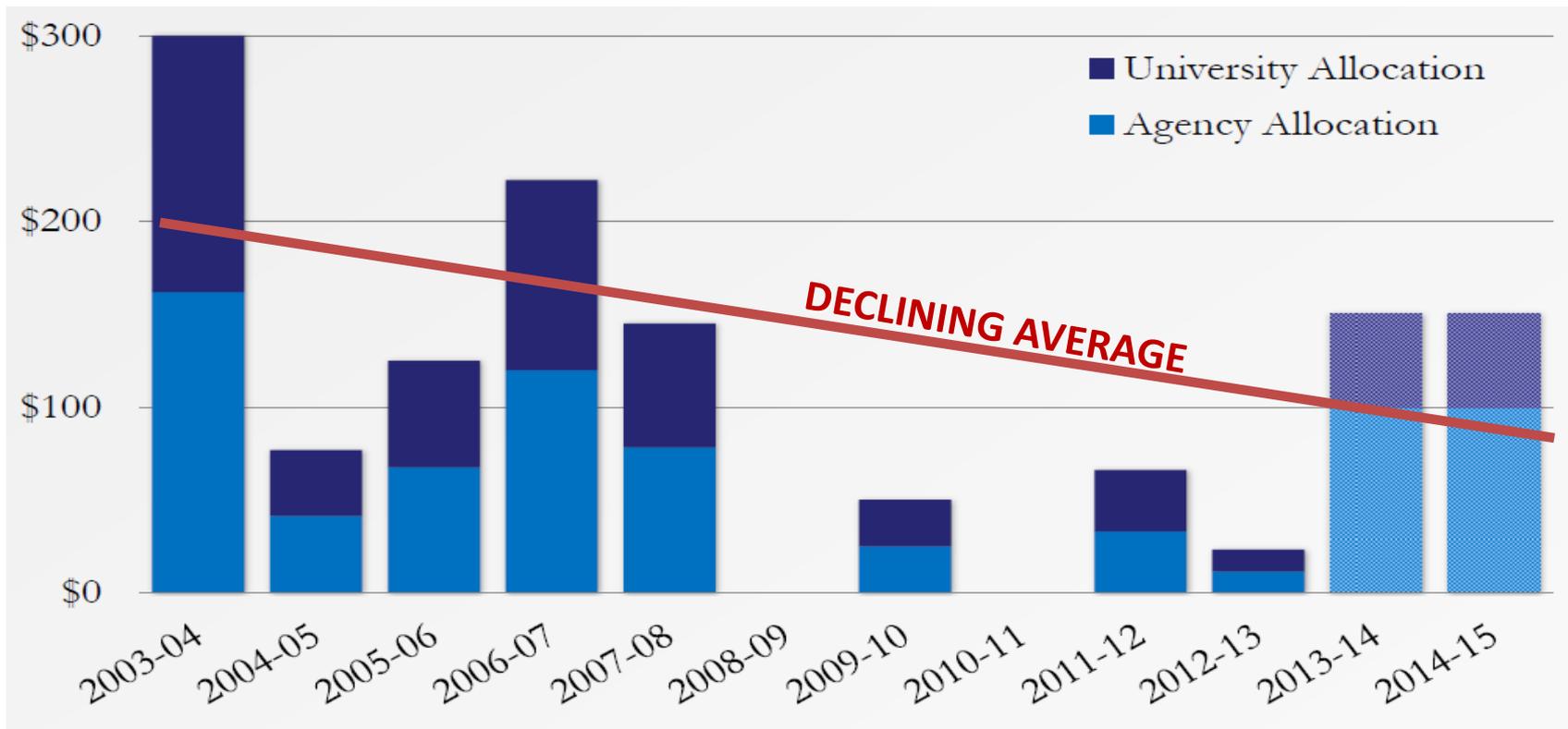
ANSWER: 0.3 % of facility replacement cost



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

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- Facility Condition Index (FCI) = Backlog Repair Cost / Facility Value
- Good < 5%
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Critical (over 30%) *
- State of North Carolina overall **POOR** at 21%**

WHAT LED US TO THIS POINT ?

Facility Assets

The State of North Carolina

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



WHAT LED US TO THIS POINT ?

Facility Assets

The State of North Carolina

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



WHAT LED US TO THIS POINT ?

Facility Assets



If you build it, they will come

WHAT LED US TO THIS POINT ?

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

SPONSORING A NEW CONVERSATION

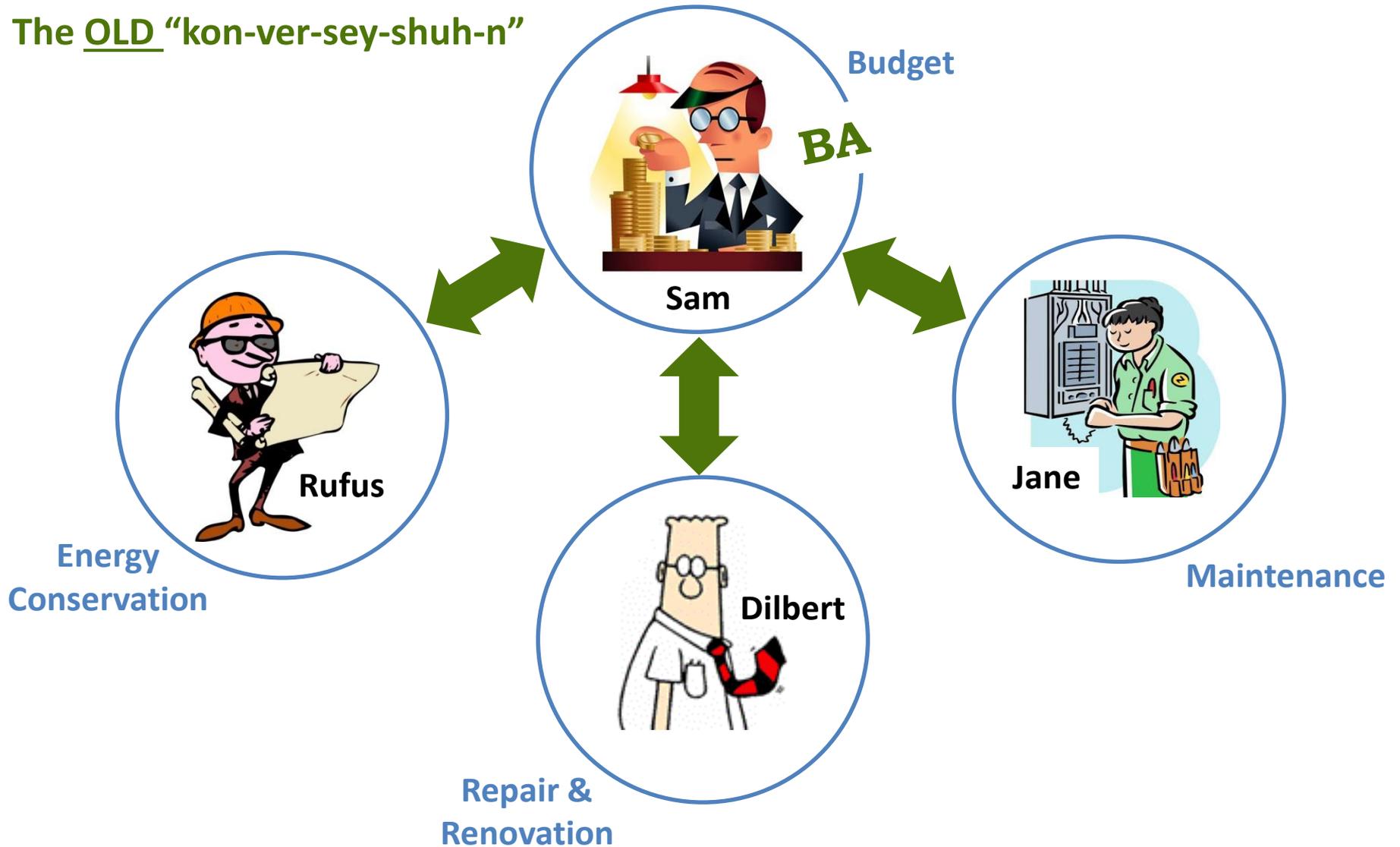
Conversation (kon-ver-sey-shuh-n) *noun*

Chatting it up with the budget authority (subsequently known as **BA**) about how broke you really are.



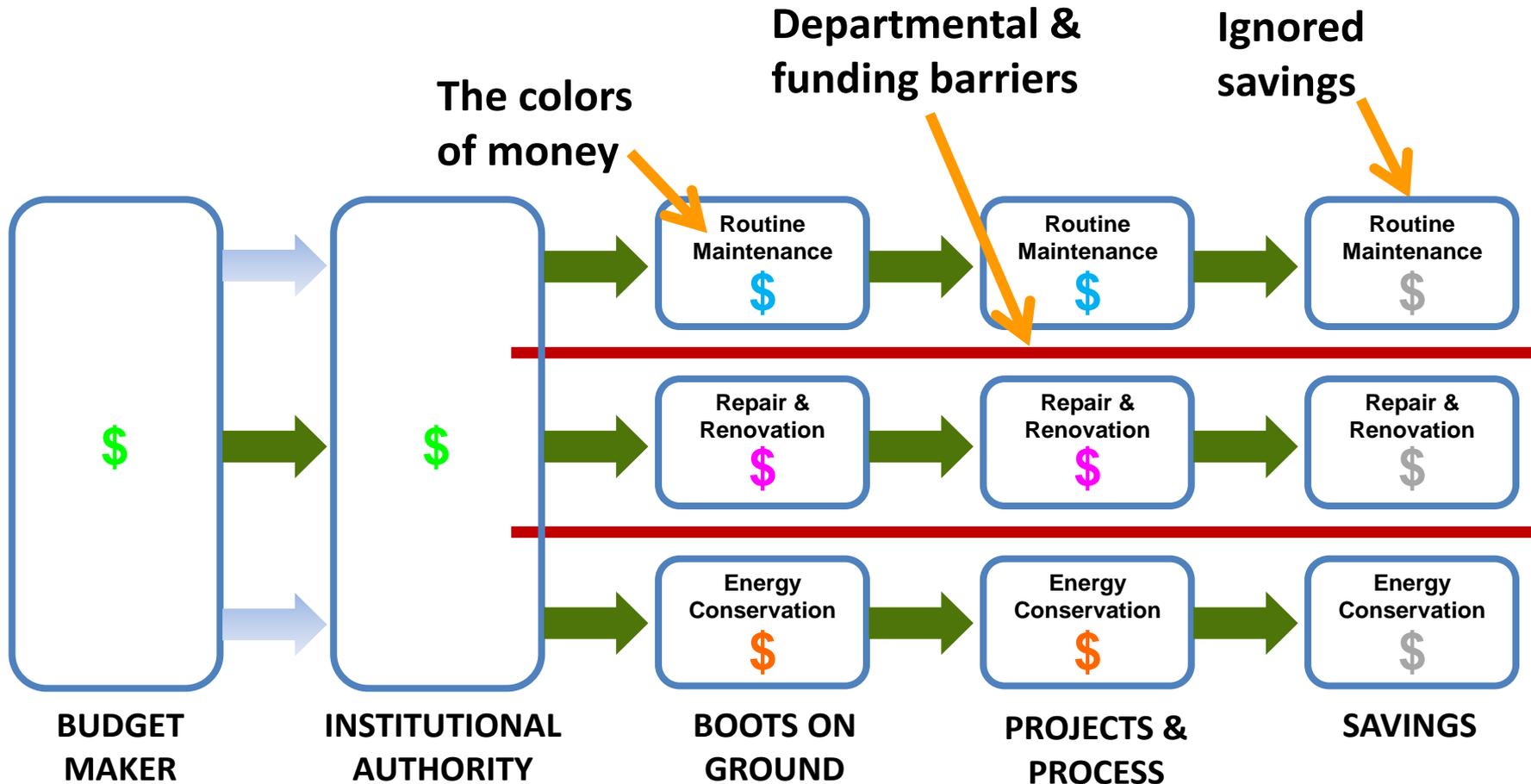
SPONSORING A NEW CONVERSATION

The OLD “kon-ver-sey-shuh-n”



ESTABLISHING A NEW FINANCIAL PARADIGM

“Current Funding Stream”



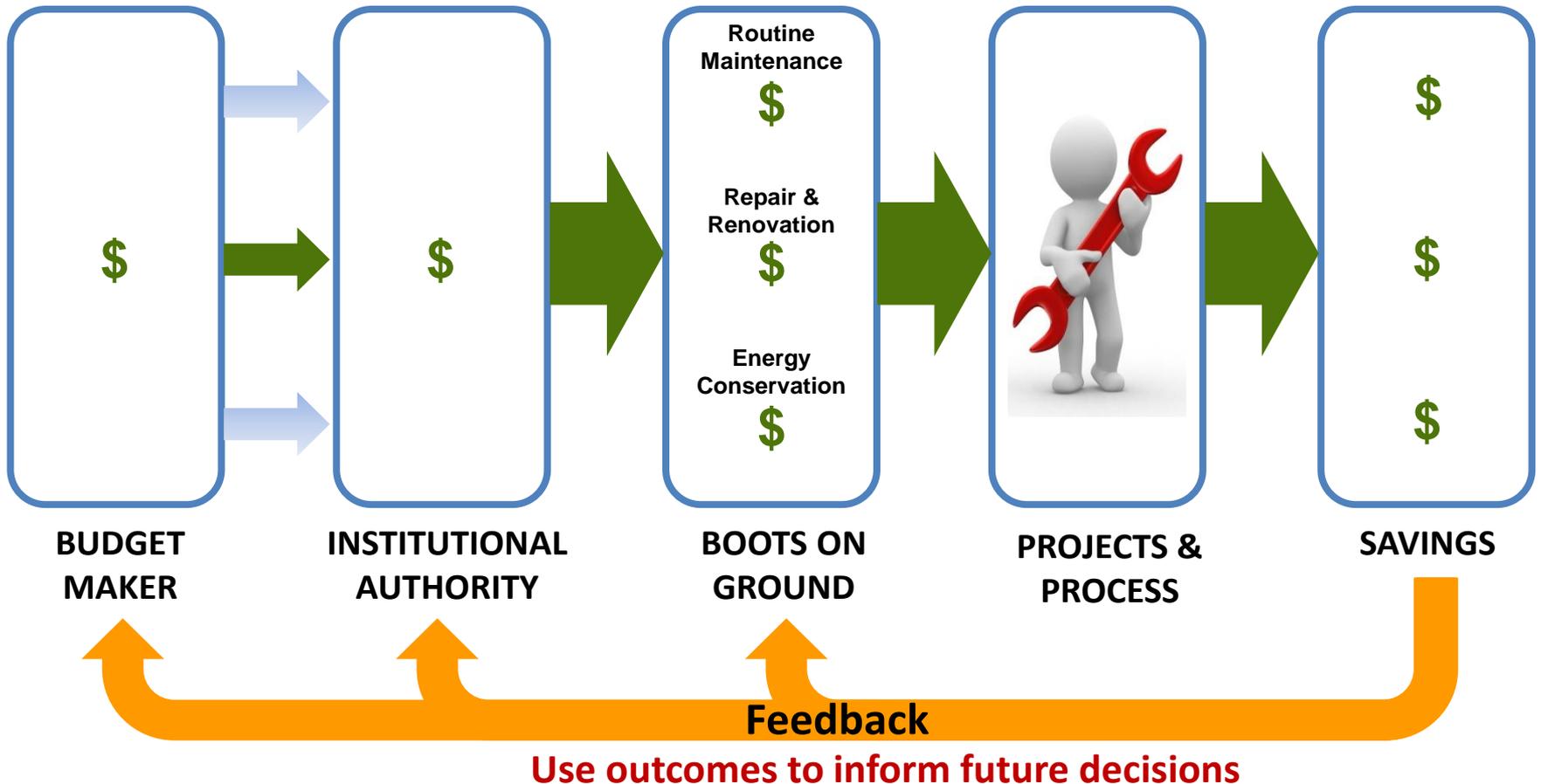
ESTABLISHING A NEW FINANCIAL PARADIGM

“Current Funding Stream”



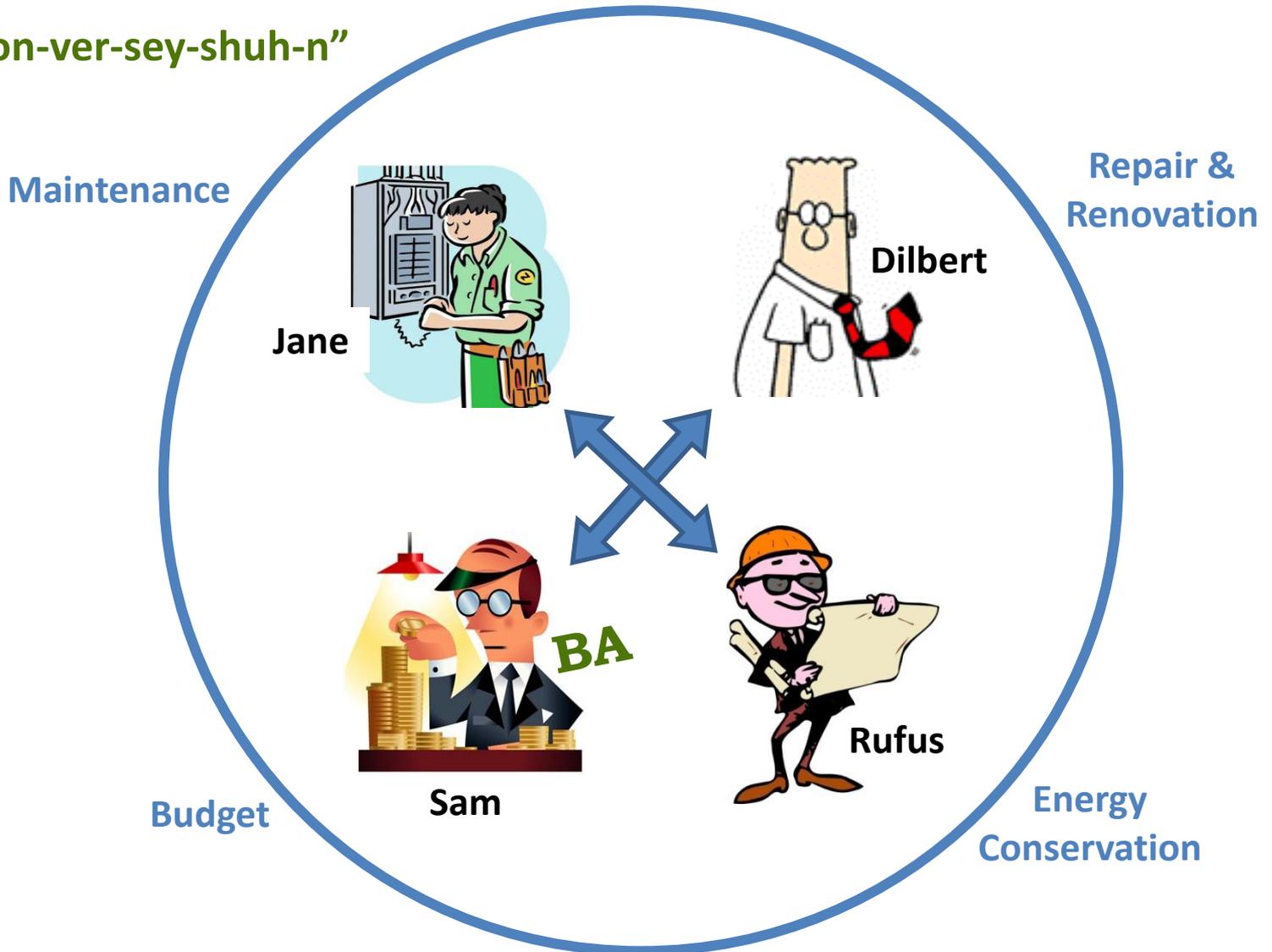
ESTABLISHING A NEW FINANCIAL PARADIGM

“New Funding Stream” EXAMPLE



SPONSORING A NEW CONVERSATION

The NEW “kon-ver-sey-shuh-n”



SPONSORING A NEW CONVERSATION

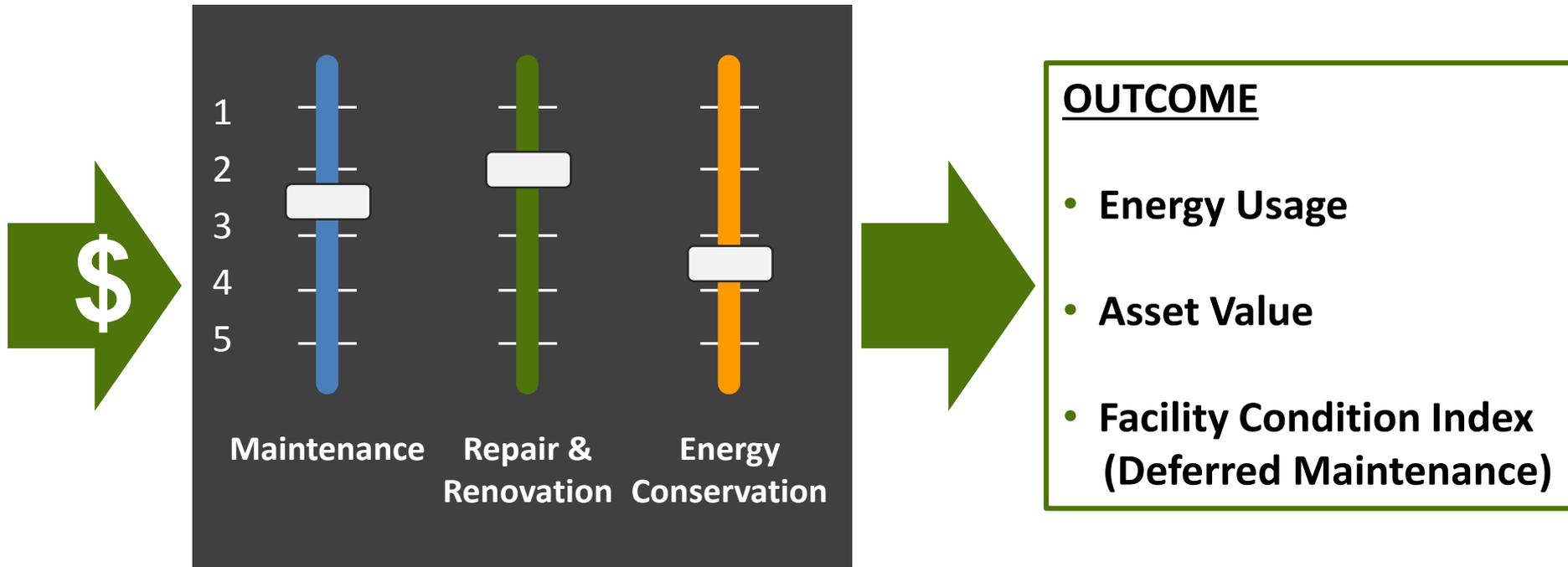


Calculating a new outcome

State of North Carolina

CALCULATING A NEW OUTCOME

“Life Cycle Cost Analysis”



OK, now what ?

State of North Carolina

OK, now what ?

“The Cost of Moving Forward”

4 POINT PLAN

1. GET RID OF IT!

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

SOLUTION: *Reduce facility inventory.
Consolidate. Divest. Lease instead of own.*

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