A REPORT BY

THE 2011-2012 CONTRA COSTA COUNTY GRAND JURY

725 Court Street
Martinez, California 94553

Report 1203

DEFERRED MAINTENANCE

How Much Longer Can It Be Deferred?

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Lloyd D. Bell
LLOYD D. BELL
GRAND JURY FOREPERSON

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John T. Laettner
JOHN T. LAETTNER
JUDGE OF THE SUPERIOR COURT

Contact: Lloyd Bell
Foreperson
925-957-5638

Contra Costa County Grand Jury Report 1203

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TO: Contra Costa County Board of Supervisors

SUMMARY

Contra Costa County (County) is currently confronted by a large and growing backlog of work needed to properly maintain the condition of its buildings and facilities. This backlog is called deferred maintenance. This work should be completed to ensure the continued safe and efficient utilization of these assets.

The County has faced several years of significant financial challenge. The national recession, reduced growth in local property taxes, and the state's ongoing budget deficit have diminished available resources. At the same time, the County has experienced greater demand by residents for County services, including employment, healthcare and social services. As a result, the County Board of Supervisors (Board) has been required to make difficult decisions regarding which services and programs to fund, and in what amount, and which to defer until economic conditions improve at some unidentified future time.

One of the programs that the Board has chosen to defer for the past four years is the normal maintenance and renewal of most of its buildings and facilities. The County needs to adequately maintain its infrastructure to provide high quality and accessible services to its residents. Continually deferring facility maintenance, renewal, and modernization needs has resulted in a deferred maintenance financial liability to the County estimated to be between $251 million and $265 million at the time of this report. The Board has not followed the recommendations of a study contracted by the County in 2007. The County has not implemented or achieved the specified actions, objectives, and goals called for in its own plan and strategy. The Board has not stated when or how they intend to address the issue.

Failure to perform the projects identified in the study and activities outlined in the plan and strategy documents could lead to asset deterioration and ultimately asset impairment.

Compounding the monetary implications of the County's decision is the related health and safety exposure to the public and employees. Some items classified as critical have been deferred.

Unlike other financial matters of concern to the citizens, current accounting practices allow the County to choose the amount of detail and in what manner it discloses the seriousness of deferred maintenance. There are very few places in any County documents or presentations that

refer to the deferred maintenance issue and, as a result, the citizens may be unaware of its significance and potential future impact on operations and services.

BACKGROUND

Maintenance is the activity of keeping buildings and facilities in acceptable condition. It includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable service and achieve its expected life. Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, those originally intended.

Deferred maintenance refers to expenditures for repairs that were not accomplished as a part of preventive maintenance or normal repairs and which have accumulated to the point that facility deterioration is evident and could impair the proper functioning of the facility. Deferred maintenance projects represent catch-up expenses. Failure to perform needed repairs will likely result in higher repair costs when the repairs are finally undertaken.

Accumulated deferred maintenance develops for several reasons. Underfunding of routine maintenance can cause neglect that allows minor repair work to evolve into more serious conditions. The problem is further compounded by choices made during austere financial times when routine maintenance is often deferred in order to meet more pressing fiscal requirements. Another cause is the failure to take care of major repair and/or restore facilities or building components that have reached the end of their useful life.

In 2007, the General Services Department of the County engaged ISES Corporation to conduct a comprehensive evaluation of the overall condition of 93 County-owned facilities. Facilities inspected included office buildings, detention facilities, hospitals, clinics, homeless shelters, animal shelters, libraries, and maintenance facilities. The resulting Facilities Life Cycle Investment Program (FLIP) report identified deferred maintenance issues and projects that needed to be completed in areas related to accessibility improvements, electrical systems, exterior/structural rehabilitation, fire/life/safety, heating/ventilation/air conditioning systems, interior finishes/systems, plumbing systems, and general site improvements.

Projects were ranked from Priority 1 through Priority 4. Priority 1 projects were defined as needing immediate action to return a facility to normal operation, stop accelerated deterioration, or correct a safety hazard. Priority 2 projects were defined as needing correction within a year to avoid intermittent interruptions, rapid deterioration, or potential safety hazards. Priority 3 projects included conditions requiring appropriate attention to prevent predictable deterioration or potential downtime and the associated damage or higher costs if deferred further. Priority 4 projects included items that represented a sensible improvement to existing conditions, enhancing overall usability and/or reducing long-term maintenance.

The FLIP report further classified the projects into categories, estimated costs per project, and provided the following summary table:

Table 1: FLIP Report Summary Table

Description	PRIORITIES 2008-2017				Estimated Cost
	1	2	3	4	
ACCESSIBILITY	$362,029	$2,388,206	$5,704,842	$449,994	$8,905,073
ELECTRICAL	0	464,506	27,618,416	7,178,716	35,261,638
EXTERIOR STRUCTURE	82,351	3,274,020	22,306,486	10,802,040	36,464,896
FIRE/LIFE/SAFETY	825,187	7,944,612	3,463,937	598,433	12,832,168
HEALTH	60,489	44,526	1,843,978	2,154,759	4,103,752
HEAT/AIR/ VENTILATION	0	59,878	57,844,995	14,627,824	72,532,697
INTERIOR FINISHES/ SYSTEMS	729,856	10,535,049	40,048,391	9,744,041	61,057,338
PLUMBING	0	86,189	12,339,773	1,988,541	14,414,503
SITE ISSUES	0	201,027	1,513,385	221,926	1,936,337
VERTICAL TRANSPORTATION	0	883,865	2,367,969	414,294	366,128
Totals	$2,059,913	$25,881,877	$175,052,172	$48,180,568	$251,174,530

In 2007, the total deferred facility maintenance liability exposure was estimated to be $251 million. The FLIP report further advised that "many high cost systems would be due for replacement within the next ten years and that the County would be wise to prepare itself for these expenditures since the aging systems would not provide reliable and efficient service much further beyond their statistical life cycles." The report also recommended that in order to maintain the condition status of the facilities at that time, an investment of approximately $24.6 million annually for the next ten years would be necessary. The report called attention to the fact that allowing the overall condition to degrade over that period would create an undesirable scenario for the County, given the expenditure projection for the subsequent ten-year period.

In recognition of the importance of this issue, the County Budget Policy adopted in November, 2006 includes two requirements with respect to facility maintenance, as follows:

- "The annual budget process will include funding decisions for maintaining the County's facility assets, allowing the Board of Supervisors to weigh competing funding decisions using credible information."

- "Beginning in FY 2008-09, the annual budget process will include a strategic planning and financing process for facilities renewal…and establishment of a comprehensive management program for the County's general government real estate assets relative to acquisition, use, disposition, and maintenance."

The Board directed County personnel to prepare and implement the referenced management program by FY 2008-09.

After receiving the FLIP report and its recommendations, the County included a special section in the FY 2008-09 Budget Summary publicly acknowledging the report and referencing the $251 million exposure. The Summary states that a plan to address the issue was being implemented.

In August of FY 2009-10, the plan, containing 13 objectives and 11 specific actions, was completed and submitted for approval and adoption, first to the Board Finance Committee and then to the full Board. The Board adopted the program, the Real Estate Asset Management Program (RAMP), and directed County personnel to implement the program. The Board noted at that time, "If the proposed RAMP goals and objectives are not implemented, there will be less coordinated and efficient opportunities to optimize the use, preservation and value of the County's real estate assets."

Beginning with the Budget Summary Report for FY 2008-09, and each year thereafter through FY 2011-12, the County has stated that the issue is being addressed and referenced the amount of $251 million from the 2007 consultant report as an indicator of the magnitude of the deferred maintenance problem, even though it may have changed during the four-year period due to few projects being completed, projects being added to the list, and the impact of inflation on costs.

Due to significant budget constraints, the County budget for fiscal years 2009-10, 2010-11, and 2011-12 did not include appropriations for deferred maintenance. In FY 2008-09, $1 million was used from the Criminal Justice Construction Fund to address issues in Sheriff, Probation, and Public Defender facilities. The County also received some small grants from the federal government that were used on specific projects from the 2007 list. In total, it is estimated that $3 million has been spent on deferred maintenance projects during the past three to four years. The FLIP report called for expenditures of over $70 million during that period.

In the last status update to the Board Finance Committee in February, 2011, the General Services Department acknowledged the lack of progress being made and the growing magnitude of the deferred maintenance issue. This update estimated that the cost of the problem had increased to $265 million as follows in table 2A below:

Table 2A: General Services Department Status Update Summary Table

TOTAL DEFERRED MAINTENANCE/CAPITAL RENEWAL FOR COUNTY FACILITIES					
System Description	**PRIORITIES 2008 - 2017**				**Estimated Cost**
	1	**2**	**3**	**4**	
ACCESSIBILITY	$343,232	$1,785,650	$5,703,867	$480,672	$8,313,421
ELECTRICAL	0	241,212	29,173,520	7,722,510	37,137,242
EXTERIOR STRUCTURE	77,723	3,020,957	23,456,546	11,392,813	37,948,039
FIRE/LIFE/SAFETY	853,746	7,756,226	3,621,202	643,741	12,874,915
HEALTH	65,071	25,922	1,969,028	2,317,753	4,377,774
HEAT/AIR/ VENTILATION	0	4,563	60,687,883	15,565,453	76,257,899
INTERIOR FINISHES/ SYSTEMS	785,142	11,237,154	42,234,803	10,888,087	65,145,186
PLUMBING	0	86,005	12,938,395	2,106,645	15,131,045
SITE ISSUES	0	154,482	1,553,842	221,859	1,930,183
SECURITY SYSTEMS	100,690	0	0	0	100,690
VERTICAL TRANSPORTATION	0	2,272,032	2,551,268	914,640	5,737,940
Totals	$2,225,604	$26,584,203	$183,890,354	$52,254,173	$264,954,334

In that same status update to the Board Finance Committee, special emphasis was given to the need to complete Priority 1 and Priority 2 projects, as shown below in table 2B:

Table 2B: General Services Department Table of High Priorities

PRIORITY 1 AND 2 DEFICIENCIES WHICH SHOULD BE COMPLETED AND ASSOCIATED COSTS

System Description	PRIORITIES		ESTIMATED COST
	1	**2**	
ACCESSIBILITY	$343,232	$1,785,650	$2,128,882
ELECTRICAL	0	241,212	241,212
EXTERIOR STRUCTURE	77,723	3,020,957	3,098,690
FIRE/LIFE/SAFETY	853,746	7,756,226	8,609,972
HEALTH	65,071	25,922	90,993
HEAT/AC/VENTILLATION	0	4,563	4,563
INTERIOR FINISHES/ SYSTEMS	785,142	11,237,154	12,022,296
PLUMBING	0	86,005	86,005
SITE ISSUES	0	154,482	154,482
SECURITY SYSTEMS	100,690	0	100,690
VERTICAL TRANSPORTATION	0	2,272,032	2,272,032
TOTALS	$ 2,225,604	$ 26,584,203	$ 28,809,807

In response, the Committee offered no advice or direction regarding what specific actions should be taken to address the lack of progress. Despite being several years behind schedule in terms of implementing their plan and the recommendations from the study, the most recent guidance being given by the Board to county staff is to "stay on schedule."

FINDINGS

1. To date, four years after the FLIP report was completed and primarily because of budget constraints, very little progress in program implementation has occurred and the magnitude of the deferred maintenance problem has not been reduced.

2. Most of the actions included in the RAMP document have not been taken and few of the objectives and goals of the plan have been achieved.

3. Fewer than half of the health and safety related needs identified in the FLIP report have been addressed.

4. There is a lack of direction being provided by the Board concerning what actions should be taken to address the lack of progress on completing needed maintenance that has been deferred.

5. The County has made little progress addressing the issue of deferred maintenance and the citizens have not been clearly informed regarding the status and magnitude of the problem.

RECOMMENDATIONS

1. The County should determine a way to measure progress of the implementation of the RAMP directives and use that measure annually as a quantitative way of advising the citizens of the progress achieved.

2. The County should consider acknowledging the growing magnitude of the deferred maintenance issue, review the RAMP objectives and actions, and develop a realistic approach.

3. Beginning with the FY 2012-13 Budget Summary, the County should consider providing citizens a complete and accurate update of its progress in addressing deferred maintenance and include disclosure of near-term plans, especially with respect to the critical and highest priority needs.

REQUIRED RESPONSES

Findings

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Recommendations

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