

ANALYSIS

Item 65: Department of Transportation Headquarters HVAC Upgrade

Analyst: Ben Ruef

Request: Increase Other Funds capital construction expenditure limitation by \$2,250,000 to address the Regions 3-5 Headquarters heating, ventilation, and air conditioning (HVAC) Upgrades project cost increases.

Analysis: The Oregon Department of Transportation's (ODOT) Facilities Services Branch is seeking an increase in Other Funds expenditure limitation of \$2.25 million for the Region 3-5 Headquarters HVAC Upgrades capital construction project, initially approved at \$3.8 million in the 2021 legislative session.

Originally, the funding was intended to replace HVAC systems in four buildings across three regions; however, the \$3.8 million was only enough to cover two priority buildings in Regions 3 and 5 due to inflation reflected in the bids received. This resulted in two buildings in Region 4 remaining with safety and comfort issues, lacking funding for necessary upgrades.

One of the buildings, the Region 4 Headquarters (Building K), constructed in 1953, has multiple outdated HVAC systems leading to poor energy performance and comfort issues. Replacing these systems with an efficient one is estimated at \$1.25 million. Another building, the Project Delivery building (Building M), has a failing HVAC system causing temperature fluctuations and safety risks. Temporary fixes cost \$72,000 during the 2021-23 period, with an estimated replacement cost of \$1 million.

The requested increase aims to address the HVAC concerns in the two remaining Region 4 buildings by allowing comprehensive upgrades. Proceeds from the sale of the ODOT Springfield facility in September 2023 support the additional costs. Approval of the limitation increase facilitates adding the Region 4 buildings to the existing contract at a fixed bid price, ensuring completion of all four buildings as one project. Waiting until the 2025-27 biennium would require a new contract at a potentially higher cost.

Recommendation: The Legislative Fiscal Office recommends that the Joint Interim Committee on Ways and Means recommend including an increase of \$2,250,000 in the Other Funds capital construction expenditure limitation for the Department of Transportation in a budget reconciliation bill during the 2024 legislative session for the Region 3-5 Headquarters HVAC Upgrades project to complete Region 4 buildings.

Request: Increase Capital Construction Other Funds expenditure limitation by \$2,250,000 to address the 2021 Regions 3 through 5 Headquarters heating, ventilation, and air conditioning project cost increases.

Recommendation: Approve the request during the 2024 Legislative Session.

Discussion: The Oregon Department of Transportation (ODOT) received \$3.8 million Other Funds expenditure limitation during the 2021 Legislative Session to address heating, ventilation, and air conditioning (HVAC) system upgrades to region 3 (southern Oregon), region 4 (central Oregon), and 5 (eastern Oregon). The funding they received was able to address the HVAC system needs in regions 3 and 5. This request would allow ODOT to address the HVAC system needs in region 4 headquarters, located in Bend, Oregon. The revenue to support this request comes from the sale of the Springfield facility to the Oregon State Police in September 2023.

The additional limitation would allow ODOT to secure fixed bid pricing with the existing contractor currently working on the regions 3 and 5 capital improvements. Cost increases due to multiple factors related to inflationary costs for labor and material costs, were not anticipated in their 2021 legislative request. Without this limitation increase, ODOT would need to wait until the 2025-27 biennium to send the project out for a new procurement, which would cost more than incorporating into the current contract.

Legal Reference: Increase the Capital Construction Other Funds expenditure limitation established by chapter 659, section 1 (6)(c), Oregon Laws 2021, for the Oregon Department of Transportation, by \$2,250,000 for the 2023-25 biennium.



Oregon

Tina Kotek, Governor

Department of Transportation

Office of the Director

355 Capitol St. NE

Salem, OR 97301

December 4, 2023

Senator Elizabeth Steiner, Co-Chair
Representative Tawna Sanchez, Co-Chair
Interim Joint Committee on Ways and Means
900 Court Street NE
H-178 State Capitol
Salem, OR 97301-4048

Dear Co-Chairs:

NATURE OF THE REQUEST

The Oregon Department of Transportation (ODOT) Facilities Services Branch requests additional Other Funds expenditure limitation of \$2,250,000 for the 2021 Region 3-5 Headquarters HVAC Upgrades capital construction limitation originally part of SB 5506 from the 2021 session, now cited as chapter 659, Oregon Laws 2021.

AGENCY ACTION

The original policy option package submitted in ODOT's 2021-23 Agency Request Budget was to replace the HVAC systems in four buildings, spread out across three operating regions. However, the original funding request ended up being sufficient only to fund two of the buildings considered to be the priority in Regions 3 (Southern Oregon) and 5 (Eastern Oregon) due to inflation reflected in the bids received. That left two buildings in ODOT's Region 4 (Central Oregon) complex with outstanding safety and comfort concerns and no funding to make upgrades.

The Region 4 Headquarters building (Building K) was originally built in 1953, with multiple repairs and changes to the HVAC system over the years and resulting in *twelve* separate HVAC systems in the building. ODOT's Energy Analyst stated, "In terms of energy intensity, Building K is one of our poorest performing facilities." Replacing these multiple systems with one energy efficient system will greatly improve occupancy comfort and energy performance. The HVAC replacement for the Region Headquarters building is estimated to cost \$1,250,000.

The newer Project Delivery building (Building M) has an HVAC system that is failing, causing severe temperature fluctuations and occupant discomfort. Twice during these failures, the freon in the system has leaked out into the building, causing an occupant safety risk. During the 2021-23 biennium, \$72,000 was spent on temporary fixes to keep the system running in Building M. These costs are anticipated to grow until the system is no longer repairable, ending in complete system failure. The HVAC replacement for the Project Delivery building is estimated to cost \$1,000,000.

The requested increase of \$2,250,000 will allow ODOT to advance the remaining two buildings' critical HVAC repair and replacement projects at the Region 4 headquarters in Bend, resulting in improved air quality for employees and energy/cost efficiency gains for the agency. The revenue to support this limitation increase will come from the sale of the ODOT Springfield facility that occurred in September 2023.

With this additional limitation, the Region 4 buildings can be added to the existing contract at the fixed bid price, allowing all four building to be completed as one project. If limitation is not approved, only the Region 3 and 5 buildings will be complete. The Region 4 buildings would have to wait until the 2025-27 biennium to be bid again in a separate project and likely cost \$500,000 more at that time due to inflation, contractor overhead, and project management costs. If the Project Delivery building HVAC system fails prior to that biennium, the agency would need to pursue an emergency project, which would push the costs even higher.

ACTION REQUESTED

ODOT requests that the Interim Joint Committee on Ways and Means increase the 2021 Region 3-5 Headquarters HVAC Upgrades Other Funds capital construction expenditure limitation by \$2,250,000.

LEGISLATION AFFECTED

Amend section 1(6)(c), chapter 659, Oregon Laws 2021 to increase the Region 3-5 Headquarters HVAC Upgrades Other Funds expenditure limitation by \$2,250,000.

Sincerely,



Kristopher W. Strickler
Director