HOUSE BILL REPORT

ESHB 2237

As Passed Legislature

Title: An act relating to planning and management of state facilities.

Brief Description: Improving the efficiency of state facilities and the capital budget process.

Sponsors: By House Committee on Capital Budget (originally sponsored by Representatives Wang, Ogden, Sehlin, Silver, Linville, King, Flemming, Pruitt, Karahalios, Romero, Dunshee, Eide and Springer).

Brief History:
Reported by House Committee on:
Capital Budget, February 2, 1994, DPS;
Passed House, February 10, 1994, 88-5;
Amended by Senate;
Conference Committee Report adopted;
Passed Legislature, March 9, 1994, 64-32.

HOUSE COMMITTEE ON CAPITAL BUDGET

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 13 members: Representatives Wang, Chair; Ogden, Vice Chair; Sehlin, Ranking Minority Member; McMorris, Assistant Ranking Minority Member; Eide; R. Fisher; Jacobsen; Jones; Moak; Romero; Silver; Sommers and B. Thomas.

Minority Report: Do not pass. Signed by 1 member: Representative Heavey.

Staff: Bill Robinson (786-7140).

Background: The state of Washington utilizes a wide variety of facilities to deliver programs and conduct business. The state obtains facilities through purchase, construction or by leasing from private owners. Most state leases run for five year terms.

The capital budget provides funding to state agencies to purchase, construct or refurbish state facilities. The operating budget provides funding for the operation and maintenance of facilities, including payments for leased or lease-purchased facilities.

In Thurston County about one-half of the total space used by the state is leased from the private sector and one-half is owned by the state. Those agencies occupying leased space pay lease costs from their operating budgets. Most agencies occupying state-owned space, however, pay nothing toward the capital costs of the buildings they occupy.

The management and planning responsibility for state facilities is currently spread across several state agencies, including the Office of Financial Management (OFM), the Department of General Administration (GA), the Higher Education Coordinating Board (HECB) and the State Board for Community and Technical Colleges (SBCTC). The Governor, through OFM, is responsible for developing a long-range statewide capital plan. GA is responsible for providing central construction management and lease procurement services to other agencies. GA also manages and operates facilities on the capitol campus.

Over the past decade more than a dozen studies have been conducted by executive, legislative and private agencies to evaluate the state's capital budgeting and facility procurement processes. Several of the recommendations from those studies have been implemented or are in the process of being implemented, and others are not yet complete. The following changes have been completed:

1. creation of a separate Capital Budget Committee in the House of Representatives;

2. identification and appropriation of debt service costs in the operating budget;

3. inclusion of reimbursement bonds that are paid from sources inside the state treasury within the 7 percent statutory debt limit. (Chapter 12, Laws of 1993, 1st Ex. Sess.);

4. development by the Governor of a 10-year capital spending plan and detailed six-year program plan listing specific projects. (Chapter 284, Laws of 1991);

5. addition of professional staff (architect and engineer) within the Office of Financial Management (OFM) to review facility plans and funding requests;

6. adoption of a two-phase funding process for large capital projects that requires OFM to review and

approve facility plans before construction funding is made available; and

7. creation of an accounting system within OFM to monitor capital project expenditures and schedules.

The following changes have been initiated but are not yet complete:

1. establishment of a system to charge agencies which occupy state-owned space for the capital costs of that space. (OFM and GA were directed in the 1991-93 bond authorization act and the 1991-93 capital budget to develop a plan for assessing such charges);

2. establishment of a statewide inventory system to account for state-owned or leased facilities. OFM was directed to establish an inventory system by Chapter 325, Laws of 1993; and

3. collocation and consolidation of state facilities. The 1991-93 capital budget provided funding for GA to identify opportunities to collocate and consolidate state facilities.

Summary of Bill: Several changes are made to the procedures used in developing the capital budget, acquiring state-owned and leased facilities, and accounting for the cost of those facilities.

The Governor and the Office of Financial Management (OFM) are required to develop a long-range facilities plan for the state that identifies and includes the highest-priority needs within affordable spending levels. To the extent possible, the Governor's capital budget proposal must reflect previous capital plans to provide a reliable long-range planning tool for the Legislature and state agencies. The capital budget document must disclose standard cost information for each capital project valued over $5 million. The following costs must be itemized: acquisition, design services, construction, equipment and project management. Operating budget impacts resulting from capital projects, including facility staffing and maintenance costs, must also be disclosed in the capital budget document.

Agencies must separately identify fiscal impacts on the operating and capital budgets when preparing fiscal notes on proposed legislation. Fiscal impacts must be calculated using procedures issued by OFM.

OFM must adopt procedures for reviewing major capital construction projects at the predesign stage to reduce long-term costs and increase facility efficiency. The procedures must include facility program evaluation, comparison to cost, quality and performance standards, value-engineering, and constructability review. No expenditure may be authorized for a major construction project until the allotment of funds is approved by OFM.

The Governor, through OFM, is authorized to transfer appropriations in excess of the amount needed to complete a project to another project within the same agency that has insufficient funds if express authority to make such transfers is provided in the Capital Appropriations Act. OFM must report any transfers to the fiscal committees of the Legislature.

Facilities acquired by the Department of General Administration (GA) for use by state agencies must meet standards approved by OFM governing efficiency unless the facility is specifically exempted from the standards by the director of GA.

GA is authorized to enter into leases greater than five years if the lease, as determined by OFM, provides a more favorable rate, the facility is necessary for the longer term, and the facility meets GA's standards. GA is authorized to enter into leases greater than 10 years in duration upon approval by OFM if a life-cycle cost analysis demonstrates that the lease is less costly than purchasing or constructing the facility.

It is the policy of the state to encourage the physical collocation and consolidation of state services. GA is to provide long-range planning services to identify collocation opportunities and develop procedures, in consultation with OFM, for implementing collocation and consolidation of state facilities.

GA must evaluate facility designs and budgets using life-cycle cost analysis and value-engineering prior to constructing or improving buildings.

GA is directed to assess a capital projects surcharge to agencies occupying GA owned and managed facilities in Thurston County beginning July 1, 1995. The surcharge does not apply to agencies that agree to pay all future improvements and repairs to the building they occupy or to agencies with existing agreements for a similar purpose. Surcharge rates must reflect differences in facility type and quality and may gradually increase over time. The initial surcharge will be $1 per square foot and then increase over time to $5 or the market rate for leased space whichever is less. Proceeds from the surcharge must be deposited into a new "Thurston County Capital Facilities Account" created in the state treasury. Funds in the account are subject to appropriation and may be expended for capital rehabilitation projects in state facilities.

Beginning July 1, 1995, all occupants in new or substantially renovated state buildings in Thurston County shall proportionally share the debt service costs associated with the construction of renovation of the building. The charge may be less than the full cost of principal and interest if the charge is greater than market rates in the area. OFM is to develop procedures for the charge and report their recommendations to the Legislature. The amount of the charge shall be included in future budget documents.

The Superintendent of Public Instruction shall conduct a study of potential savings by building schools from standardized school construction designs.

The State Board of Education shall adopt rules to exclude space that has been donated to the school from other public or private entities when determining the amount of space for eligibility for state assistance for school construction.

OFM is directed to study the need for and potential responsibilities of a central facilities authority to increase the efficiency and quality of state facility decisions. OFM must report on the results of the study by January 10, 1995. OFM is also directed to review the state's public works bonding requirements and determine if alternative forms of security would provide the same level of protection to the state at lower cost.

Several expired bond authorization sections in existing statute are repealed.

Fiscal Note: Available.

Effective Date: Sections 12 and 13 contain an emergency clause and take effect immediately; the remainder of the bill takes effect ninety days after adjournment of session is which bill is enacted.

Testimony For: Many of the elements in the bill to improve the efficiency of the state capital budget process are currently being implemented. Codifying these processes is a clear statement of public policy, and the executive branch would like to work with the committee to clarify language to resolve any confusion. The goal of the capital facilities surcharge, its use, the rate and its application to the Department of Transportation needs to be more clear. An investigation needs to be undertaken to determine if the capital surcharge can be passed on to federal reimbursement programs. The long-term leasing provisions should be changed to require the Office of Financial Management (OFM) approval and the underlying purposes of the collocation policy can be accomplished without giving the Department of General Administration (GA) independent authority to force collocation on an agency.

Testimony Against: None.

Witnesses: John Fricke, Office of Financial Management; Fred DeBolt, Department of Transportation; John Reynolds, Department of Social and Health Services; and Grant Fredricks, Department of General Administration.