SENATE BILL REPORT

ESHB 2237

AS REPORTED BY COMMITTEE ON WAYS & MEANS, FEBRUARY 28, 1994

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

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

HOUSE COMMITTEE ON CAPITAL BUDGET

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended.
Signed by Senators Rinehart, Chairman; Quigley, Vice Chairman; Anderson, Bauer, Bluechel, Cantu, Gaspard, Hargrove, Hochstatter, Ludwig, McDonald, Moyer, Owen, Pelz, Roach, L. Smith, Snyder, Spanel, Sutherland, Talmadge, West, Williams and Wojahn.

Staff: Michael Groesch (786-7715)

Hearing Dates: February 24, 1994; February 28, 1994

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:

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. 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.

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.

SUMMARY OF PROPOSED COMMITTEE AMENDMENT:

The sections dealing with internal rents are deleted.

Appropriation transfers into omnibus minor works projects are restricted.

The OFM capital allotment approval role is clarified.

The State Board of Education shall study the potential for saving by constructing schools from prototypical school designs and report to the Legislature by December 15, 1994.

Appropriation: none

Revenue: none

Fiscal Note: available

Effective Date: Sections 12 and 13 contain an emergency clause and take effect immediately.

TESTIMONY FOR:

The internal rents provisions are intended to move towards a market-based assessment of space use. The surcharge will be applied gradually to minimize the effects on agency budgets.

The study required of OFM regarding the central facilities authority will require additional resources; however, the bill contains no appropriation to perform the study.

TESTIMONY AGAINST: None

TESTIFIED: PRO: John Fricke, OFM; Grant Fredricks, GA