HOUSE BILL ANALYSIS
HB 2481

Title: An act relating to capital projects.

Brief Description: Requiring predesign review of capital projects to consider leasing space as an alternative.

Sponsors: Representatives Koster, Edmonds, Esser, O'Brien, Schoesler, Barlean, Alexander, Dunn, Thomas and Ruderman.

Brief Summary of Bill

- Requires a predesign review for all capital projects valued at two million dollars or more involving the construction, alteration, or improvement of a building used for office space or as a warehouse.
- Requires the predesign study to include an evaluation of the cost savings that would be realized by leasing comparable space.

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Background:

Major capital projects costing $5 million or more are generally proposed in phases. In the first phase, state agencies request funds for a predesign study. The requirements of a predesign are detailed in the Office of Financial Management's *Predesign Manual*. A predesign study typically describes the problem and options for solving the problem, program requirements, size, location, and cost. The main purpose of the predesign is to define the project prior to the actual design of the building. The next phases include funding for the design and construction of the project.

In 1991, *The Master Plan for the Capitol* was developed to plan for and anticipate future state office space needs in Thurston County. The Master Plan recommended a 20-year guideline for the construction of state buildings on the capitol campus and the development of three satellite campuses to meet the future growth of state services. In addition, the Master Plan called for a leasing strategy to be devised to improve the cost-effectiveness and manageability of the remaining leased property.–

In December 1995, the Legislative Budget Committee (LBC) - now known as the Joint Legislative Audit and Review Committee - issued an audit to the Legislature on the economic analysis that the state used to evaluate leasing and ownership alternatives for government facilities. The LBC found that the analysis of past projects approved by the Legislature could have benefitted from a thorough economic analysis that identified all of the costs to state government, as well as the taxpaying public. In response to the audit, the Joint Legislative Audit
and Review Committee (JLARC) developed an economic model to quantify and compare all costs involved with state facilities.

The JLARC model can predict the long-term cost differences between state ownership (or construction) and leasing of buildings. It includes sensitivity analysis that demonstrates how the results might change given the uncertainty of some assumptions (e.g., lease rate escalation and building occupancy rates). Decision makers can use this information, along with other factors, to choose among alternatives. Other factors might include qualitative issues (such as location and possible client service improvements from collocating government offices) or budgetary considerations (such as the difference in cash outlays between one alternative and another). The Department of General Administration currently uses this model to evaluate long-term lease requests that are greater than ten years in duration and financial contracts to purchase a building.

During the 1999 interim, a House Capital Budget Subcommittee on State Leasing Policy was formed in response to the concern that the state has no formally adopted lease policies for quality of space, location of space, growth management issues, or coordination of budget practices. One of the recommendations of this Subcommittee was endorsement of the continued use of the JLARC model to provide cost information about leasing and ownership alternatives for state facilities. The Subcommittee recommended that the Office of Financial Management include in its budget instructions to state agencies a requirement that the JLARC model be used as one of the analysis tools for long-term lease requests of more than 10 years and for financial contracts that require a building to be built or purchased.

Summary of Bill:

A predesign review is required for all capital projects valued at two million dollars or more involving the construction, alteration, or improvement of a building used for office space or warehouse space.

The predesign document must evaluate the program, site, and cost analysis of the project in accordance with the predesign manual adopted by the Office of Financial Management, including an evaluation of the cost savings that would be realized by leasing comparable space. The Office of Financial Management cannot approve additional funds for the project until it has reviewed and approved the agency's predesign study and approved an allotment for the project. Contracts may not be executed that call for expenditures in excess of the approved allotment.

State agencies are required to submit major capital project status reports twice a year to the Office of Financial Management and the fiscal committees of the House of Representatives and the Senate.

Appropriation: None

Fiscal Note: Not requested.

Agency Rule Making Impact: None.

Effective Date: Ninety days after adjournment of the legislative session in which the bill is enacted.