HOUSE BILL REPORT
HB 2481

As Reported By House Committee On:
Capital Budget

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 History:
Committee Activity:
Capital Budget: 2/8/00 [DPS].

Brief Summary of Substitute Bill

- Requires a predesign review for all major capital projects in accordance with the predesign manual adopted by the Office of Financial Management.
- Directs the Department of General Administration to conduct a financial life-cycle cost analysis, including an assessment of leasing comparable space, in the predesign phase of major capital projects involving construction or acquisition of office or warehouse facilities.

HOUSE COMMITTEE ON CAPITAL BUDGET

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 18 members: Representatives Alexander, Republican Co-Chair; Murray, Democratic Co-Chair; Edmonds, Democratic Vice Chair; Esser, Republican Vice Chair; Anderson; Barlean; Bush; Constantine; Dunshee; Hankins; Koster; Lantz; Mastin; Miloscia; O'Brien; Ogden; Schoesler and Woods.

Staff: Susan Howson (786-7142).

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 (JLARC) - 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, 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 10 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 Substitute Bill:

A predesign review is required for all major capital projects in accordance with the predesign manual adopted by the Office of Financial Management.

In the predesign phase of major capital projects involving construction or acquisition of office or warehouse facilities, the Department of General Administration will conduct a financial life-cycle cost analysis for the facility including an assessment of leasing comparable space. This model will be approved by JLARC.

The definition of a major capital project will be specified in the Governor's capital budget instructions to state agencies.

Substitute Bill Compared to Original Bill: A predesign review is required for all major capital projects, as opposed to only those projects involving the construction, alteration, or improvement of office or warehouse facilities. The $2 million dollar threshold for predesign review specified in the original bill is deleted.

The Department of General Administration is required to use the JLARC model in the predesign phase of major capital projects involving construction or acquisition of office or warehouse facilities.

The requirement that state agencies submit major capital project status reports twice a year to the Office of Financial Management and the fiscal committees of the Legislature is removed.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date of Substitute Bill: Ninety days after adjournment of session in which bill is passed.

Testimony For: (Substitute Bill) Unless decision-makers are provided a thorough economic analysis, they cannot identify the most cost-effective alternatives; nor are they in the best position to identify opportunities for improving the cost-effectiveness of selected alternatives. Use of the JLARC model will allow the Legislature to review all of the relevant cost considerations to state government, as well as the taxpaying public.

Testimony Against: (Substitute Bill) It is not necessary to codify today's predesign process because it is already working well administratively. Since the Department of General Administration is successfully using the JLARC model under the supervision of the Office of Financial Management, it is also unnecessary to codify the requirement for the model.

Testified: (In support) Richard Arscott and Mark Gjurasic, Government Building Owners and Lessors Association.

(Opposed) Grant Fredricks, Department of General Administration.