HOUSE BILL REPORT
SHB 1789

As Passed House:
March 11, 2003

Title: An act relating to capital budget project savings.

Brief Description: Concerning capital budget project savings.

Sponsors: By House Committee on Capital Budget (originally sponsored by Representatives Blake, Priest and Dunshee).

Brief History:
Committee Activity:
Capital Budget: 2/19/03, 3/3/03 [DPS].
Floor Activity:
Passed House: 3/11/03, 93-0.

Brief Summary of Substitute Bill

- The bill revises provisions pertaining to capital budget project savings, generally allowing agencies to use half of the savings for infrastructure improvements while the remaining savings go toward funding for common school construction.

- The transfer of project savings for infrastructure improvements applies to projects financed through the Education Construction Account or general obligation bonds.

HOUSE COMMITTEE ON CAPITAL BUDGET

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 25 members: Representatives Dunshee, Chair; Hunt, Vice Chair; Alexander, Ranking Minority Member; Priest, Assistant Ranking Minority Member; Armstrong, Benson, Blake, Bush, Chase, Flannigan, Hankins, Hinkle, Kirby, Lantz, Mastin, McIntire, Morrell, Murray, Newhouse, O'Brien, Orcutt, Schoesler, Simpson, Veloria and Woods.

Staff: Marziah Kiehn-Sanford (786-7349).

Background:

Under the Budgeting and Accounting Act, the Office of Financial Management (OFM) has oversight responsibility for agency expenditures of both capital and operating budget appropriations. Current authority through the capital budget authorizes the Director of the Office of Financial Management to transfer savings from one project to another within an agency provided certain conditions are met. Some of the conditions are contained in the Capital Budget; others are codified. Conditions on the transfer include an assurance of adequacy of funds to complete the donating project, the same fund source, and a restriction on not expanding the scope of the receiving project.

Transfers in excess of $250,000 require notification of legislative fiscal committees and a 30-day waiting period before the transfer can be finalized. Emergency transfers are exempt from the waiting period.

In 1996 the Legislature instituted infrastructure savings appropriations of $1 for several agencies; these appropriations have served as receiving projects for the transfer of project savings. Generally the agencies with these appropriations have been those with large projects which, through good project management, might realize savings.

An infrastructure savings appropriation (also known as a "dollar account") can be requested by any agency during budget development. The primary purpose of the fund transfer to the dollar account is to correct infrastructure deficiencies and avoid untimely capital or operating fund expenditures. The use of funds from infrastructure savings appropriations have traditionally been restricted to (1) road repair; (2) roof repair; (3) electrical system repair; (4) steam and utility distribution system repair; (5) plumbing system repair; (6) heating, ventilating, and air conditioning repairs; and (7) emergency repairs due to natural disasters or accidents.

There have been several large (over $1 million) requests from agencies in the 2001-03 biennium to transfer project savings. The OFM does not have authority or criteria to condition or restrict transfers. The OFM must report on cost overruns or underruns at the end of each fiscal year.

Summary of Substitute Bill:

Criteria for use of savings on a capital project is modified. No changes are made for transfer from one nearly completed project to a project in need of funds or for transfers less than $250,000. Transfers of excess appropriations from one project to another may occur only between projects funded from the same fund or account.

For projects with no scope reduction or project budget overestimation, the project savings are divided equally between the agency and the Common School Construction Account.

For all other projects, the portion of a project that has bid savings, savings as a result of scope reduction or that was overestimated, is transferred to the Common School Construction Account; the remainder is then divided equally between the agency and the Common School Construction Account.

Only projects financed through the Education Construction Account or through general obligation bonds may transfer funds to infrastructure savings appropriations if one exists for an agency. The use of infrastructure savings appropriations is clarified and standards are referenced for the use of funds for emergencies.

An annual report of significant cost overruns or underruns to legislative fiscal committees must be made by the OFM by the end of each calendar year. Significant cost overruns are defined as amounts larger than $250,000. Agencies are directed to incorporate the information the OFM will need for this report into their project management practices.

Appropriation: None.

Fiscal Note: Not Requested.

Effective Date: The bill contains an emergency clause and takes effect immediately.

Testimony For: The bill offers continuity on how project savings can be used to support infrastructure improvements. This is an attempt through the Office of Financial Management (OFM) to ensure there is no overbudgeting. The OFM performs an important audit function. Incentives should not be needed for agencies to do a good job of project management, but this process helps improve infrastructure.

Testimony Against: None.

(Concerns) The current process allows good works and the standards are not unreasonable; we ask that you consider minor changes to continue incentives. Savings earned by the agency should stay with the agency and not go to the Common School Construction Account. The current process does not need to be changed; it works well. Only fine tuning is needed, not a radical change. Dedicated funds would be swept away to support school construction under the original bill.

Testified: (In support) Representative Blake, prime sponsor; and Representative Priest.

(Concerns) Larry Ganders, Washington State University; Judy McNickle, Western Washington University; and Grant Fredericks, Department of General Administration.

(Neutral) Mike Roberts, Office of Financial Management.