

# HOUSE BILL REPORT

## ESHB 3329

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### As Amended by the Senate

**Title:** An act relating to the prioritization of public four-year institution capital project requests.

**Brief Description:** Prioritizing four-year higher education institutions' capital project requests.

**Sponsors:** By House Committee on Capital Budget (originally sponsored by Representatives Fromhold, McDonald, Ormsby, Wallace, Alexander, Sells and McIntire).

#### Brief History:

##### Committee Activity:

Capital Budget: 2/5/08, 2/12/08 [DPS].

##### Floor Activity:

Passed House: 2/15/08, 94-0.

Senate Amended.

Passed Senate: 3/11/08, 49-0.

#### Brief Summary of Engrossed Substitute Bill

- Directs the Office of Financial Management (OFM) to complete an objective analysis and scoring of all capital budget projects proposed by the public four-year institutions each biennium, beginning in 2008.
- Repeals the Council of Presidents' and the Higher Education Coordinating Board's (HECB) responsibilities with regard to prioritizing four-year institution capital projects.
- The OFM is required to submit a higher education capital facility financing study to the Governor and Legislature by December 1, 2008.

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#### HOUSE COMMITTEE ON CAPITAL BUDGET

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 20 members: Representatives Fromhold, Chair; Ormsby, Vice Chair; Schual-Berke, Vice Chair; McDonald, Ranking Minority Member; Appleton, Blake, Chase, Dunshee,

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

Eickmeyer, Flannigan, Hankins, Hasegawa, Kelley, McCune, Pearson, Pedersen, Sells, Skinner, Smith and Upthegrove.

**Staff:** Susan Howson (786-7142).

**Background:**

Washington adopts a biennial capital budget each odd-numbered year, appropriating moneys for a variety of capital projects and programs. State agencies, including higher education institutions, prepare and submit budget requests to the Office of Financial Management (OFM) in the fall of each even-numbered year for consideration in the biennial capital budget. The Governor evaluates the requests and submits a proposed budget to the Legislature prior to the legislative session.

Washington has six public four-year institutions of higher education: the University of Washington, Washington State University, Central Washington University, Eastern Washington University, The Evergreen State College, and Western Washington University. The state is budgeted to incur \$356 million of new general obligation bond indebtedness this biennium to support capital construction and renovation projects at these institutions. Additionally, the state will expend \$146 million from the Education Construction Account, student building fees, and other cash accounts to finance capital projects at the six four-year institutions.

For the past two biennial budget cycles, beginning in 2005-07, statute has required the six public institutions to work together to prepare a unified budget proposal that ranks all of the institutions' individual project proposals into a single prioritized list. The Higher Education Coordinating Board (HECB) establishes common definitions, project categories, and general priorities that the four-year institutions use in developing the prioritized list. The governing boards of each of the six institutions review and approve the single prioritized list. If one or more of the governing boards do not approve the proposed single list, the HECB is to prepare the prioritized list.

In 2005 and 2007, the Legislature provided additional guidance to refine the methodology used for the ranking of proposed four-year projects. Additional guidance included the following: (1) greater emphasis must be placed on the early review of project proposals at the pre-design phase and on the bow-wave implications of proposed projects; (2) the assignment of points should not be based on assigning an equal number of overall points to each four-year institution; (3) the ranking process must address statewide priorities; (4) the comparable facility condition information developed by the Joint Legislative Audit and Review Committee (JLARC) should be used; (5) projects must not be ranked on the basis of a project's proposed funding source; and (6) an explanation of how proportionality factors relate to statewide priorities must be provided to the Legislature.

The State Board of Community and Technical Colleges (SBCTC) also recommends a single prioritized list of all proposed community and technical college capital budget proposals. Under the SBCTC system, colleges do not score their own projects; individual colleges do not have the authority to veto the system-wide proposal; each project is scored and prioritized

within a single category according to its primary purpose; and system officials develop the single prioritized list based upon an assessment of the relative amount of resources that should be devoted to each type of project, with the goal of providing for an orderly and sequential expenditure pattern over the ensuing three biennia.

The HECB submits recommendations on the HECB's priorities and the proposed capital budgets of the community and technical colleges and four-year institutions by October 1 of each even-numbered year, and to the Legislature by January 1 of each odd-numbered year.

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### **Summary of Engrossed Substitute Bill:**

The current responsibilities of the HECB and the individual four-year institutions with regard to prioritizing capital project proposals are repealed. Instead, the OFM, in consultation with the legislative fiscal committees and the Joint Legislative Audit and Review Committee, must develop common definitions and a scoring system and process that is to be used for scoring the four-year institutions' project requests. The scoring system and process is based on the framework used by the SBCTC.

By October 15 of each even-numbered year, the OFM must complete an objective analysis and scoring of all capital budget projects proposed by the public four-year institutions, in consultation with the legislative fiscal committees and must submit the results of its scoring to the legislative fiscal committees, the HECB, and the four-year institutions. For 2008, the analysis and scoring process must be completed by November 1.

Each proposed project is to be scored within a single project category, according to its primary purpose. The project categories are: (1) enrollment growth; (2) replacement and renovation; (3) major campus infrastructure; (4) research projects that promote economic growth and innovation; and (5) other project categories as determined by the OFM and the legislative fiscal committees. The scoring of capital projects must occur within the context of performance agreements developed between the OFM and the four-year institutions.

The OFM must distribute common definitions, the scoring system, and other information required for project proposals and the scoring process as part of its biennial budget instructions. For the 2009-11 budget development cycle, this information must be distributed by the OFM by July 1, 2008.

In developing any scoring system for capital projects proposed by the four-year institutions, the OFM may utilize independent services to verify, sample, or evaluate information provided to the OFM by the four-year institutions.

By August 15 of each even-numbered year, beginning in 2008, each four-year institution must prepare and submit prioritized lists of the individual projects proposed by the institution for the ensuing six-year period in each project category, except for research institutions, which shall prepare two separate prioritized lists in each category, one for the main campus, and one

covering all of the institutions' branch campuses, to the OFM and the legislative fiscal committees.

The HECB's capital budget recommendations to the Governor and Legislature must include the relative share of the higher education capital budget that the board recommends be assigned to each project category and to minor works program and preservation projects.

The Office of Financial Management is required to conduct and submit a higher education capital facility financing study to the Governor and Legislature by December 1, 2008. In designing and conducting the study, the Office of Financial Management must consult with legislative and fiscal committee leadership, the Department of Revenue, the State Investment Board, the Higher Education Coordinating Board, the State Board for Community and Technical Colleges, and the public four-year institutions of higher education. The study must include: (1) a review of the methods that are used to fund higher education in other states; (2) an examination of alternatives for reducing facility construction and maintenance expenditures per student through various strategies; and (3) an assessment of the strengths and weaknesses of potential new revenue sources that might be applied to the funding of higher education facilities.

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#### **EFFECT OF SENATE AMENDMENT(S):**

The Senate's amendment requires one research university to prepare separate prioritized lists for its branch and main campuses on a pilot basis. In addition, the amendment provides for consideration of university center and distance learning as alternative approaches for meeting the need for enrollment growth.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed.

#### **Staff Summary of Public Testimony:**

(In support) The goal of the bill is to gather the best possible information available on project requests to assist the Governor and Legislature in making strategic decisions on higher education facility investments. The OFM intends to consult with legislative staff, higher education institutions, the HECB, and others in this important task and would like the opportunity to revisit the fiscal impact of taking on this process once the first round has been completed. In establishing the scoring process, this effort should be open and collaborative on the front end.

(In support with suggestions) The HECB is ready to work with the Legislature to change the process if that is the will of the Legislature. It is crucial to have a process that the Legislature and the Governor have full confidence in and that everyone believes is credible. Given the

governance structure and the independence of the four-year institutions, it has been an amazing feat to have all of the boards' of regents and trustees agree to a single prioritized list of projects over the last two biennia. Any current process or new processes can have unintended consequences and benefits. One of the unintended benefits from the current process has been the level of cooperation and collegiality that has occurred among the four-year institutions in the development of a single prioritized list.

The Legislature has spent considerable time over the last four years on the process for prioritizing four-year higher education projects. Perhaps the state is losing sight of some of the bigger picture issues that are very important to the four-year institutions, including financing higher education facility construction, as well as the importance of the projects that are brought forward to the Governor and the Legislature. This bill is a positive step if it realigns the focus back on the impact of these projects on the educational mission and on the task of determining how best to finance these worthwhile projects.

Stronger language should be added to the bill that ties the ongoing capital investment in higher education facilities to the policy objectives outlined in the strategic master plan for higher education. The committee is asked to reconsider the recommendation that the research institutions provide two separate prioritized lists, one for the main campus and one for the branch campuses. A sunset provision should be considered for addition to the bill. The community and technical colleges would like to continue working collaboratively with the four-year institutions and the Council of Presidents on the higher education facility funding study. The consultation language should be removed.

(Opposed) None.

**Persons Testifying:** (In support) Wolfgang Opitz and Tom Saelid, Office of Financial Management.

(In support with suggestions) Ann Daley, Higher Education Coordinating Board; Terry Teale, Council of Presidents; and Tom Henderson, State Board of Community and Technical Colleges.

**Persons Signed In To Testify But Not Testifying:** None.