
Capital Budget Committee

HB 2366

Brief Description: Requiring oversight of state agency housing decisions.

Sponsors: Representatives Dunshee, Jarrett, Ormsby, Hunter and Kenney.

Brief Summary of Bill

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| <ul style="list-style-type: none">Improves the oversight, management, and financial analysis of state agency facilities. |
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Hearing Date: 3/1/07

Staff: Nona Snell (786-7153).

Background:

The Department of General Administration's Statutory Authority for Leasing Facilities

The Department of General Administration (GA) has the statutory authority to acquire, lease, purchase and dispose of real estate on behalf of all state agencies except for four-year universities, the Department of Transportation, the Department of Fish and Wildlife, the Department of Natural Resources, the State Parks and Recreation Commission, and the Liquor Control Board. This authority includes determining the location, size, and design of real estate and improvements. The director of GA is required to adopt standards for facilities that must be approved by the Office of Financial Management (OFM). The director of GA may grant exceptions to the standards and must report to OFM annually on the exemptions granted.

GA may delegate their statutory authority for acquiring space for agencies. GA also charges a fee for services provided for in statute. GA may not enter into leases longer than 20 years.

Ten-Year Plan

The State Budgeting, Accounting, and Reporting System (RCW 43.88) mandates long-range capital budget planning. State agencies and institutions must submit a 10-year plan of proposed capital spending that is designed to identify future needs and propose capital projects addressing those needs. OFM's budget capital budget instructions require submittal of the plan.

Life-cycle Model

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.

The Joint Legislative Audit and Review Committee (JLARC), in response to a 1996 audit on the cost differences between leased and state owned offices, developed an economic model to quantify and compare all costs involved with state facilities. The model is a tool used to predict the long-term cost differences between state ownership (construction) and leasing of buildings. It includes sensitivity analysis that demonstrates how the results might change give the uncertainty of some assumptions (e.g. lease rate escalation and building occupancy rates). In January 2007, JLARC completed an update of the model assumptions and built in new capabilities.

OFM's capital budget instructions require the use of the lease versus ownership decision model for projects using alternative financing (e.g. Certificates of Participation and 63-20 financing). Statute authorizes GA to enter into long-term leases greater than 10 years if an analysis shows that the life-cycle cost of leasing the facility is less than the life-cycle cost of purchasing or constructing a facility in lieu of leasing the facility. Leases greater than 10 years in duration require approval from the director of OFM. Statute also requires GA to conduct an evaluation of facility design and budget using life-cycle cost analysis, value engineering, and other techniques to maximize the long-term effectiveness and efficiency of the facility prior to construction of new or improvement of existing facilities under its management.

JLARC's 2007 report to the Legislature includes three recommendations: 1) OFM should maintain the updated life-cycle cost model and should establish clear policies and standards regarding the use of the model in particular, and life-cycle cost analyses in general, as part of the state's capital project review process; 2) OFM should review all life-cycle cost analyses to ensure that the established policies and standards have been followed and that analyses have been conducted in a manner that is technically sound and accurate; and 3) OFM should regularly update the cost assumptions in the life cycle cost model.

History of Studies

Since 1977, at least five studies/reports and a Capital Budget Subcommittee have been tasked with reviewing space utilization policies and practices:

1. 1977 Performance Audit by the Legislative Budget Committee (now JLARC)
2. 1987 Office Space Study by the Legislative Budget Committee (now JLARC)
3. 1991 Department of General Administration Property Development Study by the Washington State Commission for Efficiency and Accountability in Government
4. 1995 Performance Audit regarding Capital Planning and Budgeting: Study of Leasing Versus Ownership Costs by the Legislative Budget Committee (now JLARC)
5. 1999 House Capital Budget Subcommittee on State Leasing Policy
6. 2001 Analysis of Thurston County Lease and Space Planning by GA.

The reports include similar conclusions and recommendations, including:

- Short and long term facilities plan analysis, development, evaluation, and implementation is necessary.
- Clearly delineated and comprehensive state management policy of space utilization should be developed.
- Comprehensive goals and objectives are needed.
- Coordination between leasing activities, and capital facilities planning and budgeting should be improved.
- Facilities space management and capital construction reporting system development to forecast growth and evaluate space utilization is necessary.

- Delegated authority should be analyzed to assure that it provides controls necessary for acquisition of leased space that is within stated standards and provides economical, efficient, and effective operation of state agencies.
- Economic analysis of lease versus owned facilities is necessary.

The 1999 House Capital Budget Subcommittee (Subcommittee) on State Leasing Policy addressed these issues by recommending that state agencies be restricted from entering into lease agreements prior to constructing a building. In addition, the Subcommittee recommended that GA not enter into lease agreements on buildings larger than 20,000 square feet that are in the construction or planning stage of development unless the lease is specifically approved by the Legislature. No action has been taken by the Legislature or GA on this recommendation.

OFM Best Practices Report

The 2006 supplemental capital budget required the OFM to report to the Legislature by September 1, 2007 on best practices for managing capital project costs; best practices in the state's capital budgeting process and public works contracting procedures; appropriate uses of alternative capital project financing; and risk management.

Data Systems

There are three main data systems for tracking state owned and occupied facilities throughout the state: 1) GA's facilities data system; 2) OFM's Facility Inventory System; and 3) OFM's statewide accounting system.

1. GA's facilities data system: GA's facilities data includes facilities leased, purchased or owned by GA on behalf of agencies and delegated leased space entered into by agencies.
2. OFM's Facility Inventory System: Statute requires agencies to provide an annual inventory of owned and leased facilities to OFM who must develop and maintain an inventory system to account for all owned or leased facilities used by state government. OFM is required to publish a report summarizing the information contained in the inventory system by October 1st every year.
3. OFM's statewide accounting system: The state's accounting system has one subobject that commingles facility leases with other types of leases including furnishings, equipment, and software.

Summary of Bill:

By October 1, 2007, OFM must consult with the Legislature to prepare an implementation plan to improve the oversight and management of state agency space. The plan must be submitted to the Governor and the Legislature

By October 1, 2008, OFM must, in consultation with the Legislature, design and implement a life-cycle cost analysis model based on the work completed by JLARC in January 2007. OFM must do the following with the life-cycle cost model:

- Make it available for use by state agencies;
- Update it periodically; and
- Establish policies, standards, and procedures regarding its use.

OFM must design and implement a modified predesign process for space requests to lease, purchase, or build facilities for new state programs, expanded programs, or the relocation of

programs including the consolidation of multiple state agency tenants into one facility. OFM will define facilities that meet this criteria. The modified predesign must include a problem statement, an analysis of alternatives to address programmatic and space requirements, proposed locations and a financial assessment, and it must be submitted to OFM and the Legislature. Projects that are smaller than 20,000 square feet may provide a cost-benefit analysis rather than a life-cycle cost analysis. Major projects, costing five million dollars or more, are not required to prepare a modified predesign.

OFM's 10-year capital budget plan is required to include agencies' plans for major leased facilities, and agencies may not enter into new or renewed leases of more than one million dollars per year unless the leases have been approved by OFM, except in the case of an emergency. Agencies must identify operational costs savings, and may not enter into lease agreements for privately owned buildings that under development unless the director of the OFM gives prior approval.

OFM must work with GA and other agencies to determine long-term facility needs to develop a six-year facilities plan to be submitted to the Legislature by January 1st every odd-numbered year, beginning in 2009. The six-year plan must include agency space requirements and other data necessary for facility planning.

The statute requiring OFM to develop and maintain a facility inventory system is amended to require the inclusion of facility owners and for a report of the system to be submitted to the Legislature annually. OFM must also report to the Legislature by September 1, 2008 on recommendations to improve the system, including the cost and implementation schedule. The report must include recommendations regarding accountability improvements and recommendations to assist in the evaluation of budget requests and facility management.

Before GA acquires property through leases, purchases, rent or other means they must consult with OFM.

GA is required to report to the Legislature and OFM annually on exemptions granted to facility efficiency standards, on delegated leases, and all facility leases executed for all agencies in the preceding year.

Appropriation: None.

Fiscal Note: Requested on 2/27/07.

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