SENATE BILL REPORT
SHB 2366

As Reported By Senate Committee On:
Ways & Means, April 2, 2007

Title: An act relating to accountability, efficiency, and oversight of state facility planning and management.

Brief Description: Requiring oversight of state agency housing decisions.

Sponsors: House Committee on Capital Budget (originally sponsored by Representatives Dunshee, Jarrett, Ormsby, Hunter and Kenney).

Brief History: Passed House: 3/14/07, 95-0.
Committee Activity: Ways & Means: 3/30/07, 4/02/07 [DP].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.
Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Pridemore, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Carrell, Fairley, Hatfield, Hobbs, Honeyford, Keiser, Kohl-Welles, Oemig, Parlette, Rasmussen, Regala, Roach, Rockefeller, Schoesler and Tom.

Staff: Brian Sims (786-7431)

Background: 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, certain facilities for 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 GA may delegate their statutory authority for acquiring space for agencies. The GA may not enter into leases longer than 20 years.

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 given the uncertainty of some assumptions (e.g. lease rate escalation and building occupancy rates). In January 2007, the JLARC completed an update of the model assumptions and built in new capabilities. The OFM's capital budget instructions require the use of the lease versus

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ownership decision model for projects using alternative financing (e.g. Certificates of Participation and 63-20 financing). Statute authorizes the GA to enter into long-term leases greater than ten 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 ten years in duration require approval from the Director of OFM. Statute also requires the 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.

The JLARC's 2007 report to the Legislature includes three recommendations: (1) the 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) the 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) the OFM should regularly update the cost assumptions in the life-cycle cost model. There are three main data systems for tracking state owned and occupied facilities throughout the state: (1) the GA's facilities data system; (2) the OFM's Facility Inventory System; and (3) the OFM's statewide accounting system.

Summary of Substitute Bill: By October 1, 2007, the 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, the OFM must, in consultation with the Legislature, design and implement a life-cycle cost analysis model based on the work completed by the JLARC in January 2007. The OFM must make the model available for use by state agencies, update it periodically, and establish policies, standards and procedures for its use.

The 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. The 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 the 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 $5 million or more, are not required to prepare a modified predesign.

The OFM's ten-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 $1 million per year unless the leases have been approved by the 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 are under development unless the Director of the OFM gives prior approval. The OFM must work with the 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 1 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 the 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. The 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 the GA acquires property through leases, purchases, rent or other means they must consult with the OFM. The GA is required to report to the Legislature and the 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: Available.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony: PRO: Concern about the amount of funds spent in the operating budget for debt service led to questions about how much of the operating budget is spent on facility leases and how decisions about leases or purchases are made. Lack of answers to these questions lead to the JLARC update of the life-cycle cost study model. The JLARC concluded that there are current problems with accountability, efficiency, and transparency. The bill requires that the Director of the OFM approve leases. This will lead to more accountability, efficiency, and transparency.

Persons Testifying: PRO: Representative Dunshee, prime sponsor.