



## **Legislative Fiscal Bureau**

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Joint Committee on Finance

Paper #265

### **Facility Operating Cost Estimates (Building Program)**

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#### **CURRENT LAW**

Whenever the Building Commission considers any proposal for the construction of a new correctional facility or the expansion of an existing facility, the Department of Administration (DOA) must provide the Commission with information concerning annual operating costs, including staffing costs, that will result from such construction or expansion in connection with consideration of that proposal.

#### **BUILDING COMMISSION**

No provision.

#### **DISCUSSION POINTS**

1. While the statutes require DOA to submit projections on the annual operating cost increases associated with any proposal for the construction of a new correctional facility or the expansion of an existing correctional facility, no such statutory requirement exists for other agency building projects or any local projects included in the state building program.

2. However, the Building Commission manual on 2001-03 capital budget requests indicates that it is essential to the analysis of the capital project to include a description of the impact that the project would have on the agency's operating budget. Agencies are instructed to address how these costs would be funded, such as internal reallocation, funding requests to be included in the 2001-03 operating budget, or in a future budget, and the source of funds (general purpose revenue, program revenue, segregated revenue or additional grants). The manual indicates that a

general statement that operating costs will be addressed in a future biennium is not sufficient. Specifically, the manual instructs agencies to identify potential operating budget increases or decreases and changes including: (a) increases or decreases number of staff and the types of work to be done, such as additional faculty or academic staff, student assistants, full time equivalent employees, including maintenance staff, administrative staff, and prison guards, or other staff costs; (b) changes in energy and maintenance costs; and (c) any other related costs.

3. The annual debt service amounts associated with bonding authorized for each project will eventually be charged to each agency's debt service appropriation. Annualized estimates of these costs are not required by the Building Commission to be included in the operating cost documentation compiled for each project.

4. DOA Division of Facilities Development documentation indicates that annual operating costs estimates were provided by state agencies for many of the projects recommended by the Commission as part of the 2001-03 building program. However, the degree of detail on the annual operating costs for the enumerated projects and the projected funding source for those costs varied, and no documentation exists on the operating costs estimates for several of the projects included in the building program recommendations. In addition, information on operating costs was provided to Building Commission members for only a few projects. As a result, as Building Commission members indicated in public testimony before the Joint Committee on Finance, Building Commission members did not in general review the annual operating costs of projects that were recommended for funding and enumeration in the 2001-03 state building program.

5. Each biennium the state makes a large capital investment in new and expanded facilities. While necessary, these capital improvement decisions also have a significant impact on the future amount of state services that will be provided and costs of providing those state services. As a result, while there may be a one or two biennium delay, agency operating budgets will eventually be impacted by the staffing and operational costs as well as the repayment of the debt associated with these new or expanded facilities. Therefore, it may be desirable that when making their decisions on these capital investments, the Building Commission and the Legislature have additional information on the projected increase in annual operating costs that may occur as a result of constructing a new facility or adding space to an existing facility.

6. To obtain additional information in the future, the Committee could require that no capital project for the construction of a new facility or the addition of space to an existing facility may be recommended by the Building Commission for enumeration in the state building program unless the increase in the project's annual operating costs, including annualized debt service costs, are identified. This could increase the level of scrutiny and provide for a better analysis of the overall costs to the state of carrying out a project.

7. Further, in order to better inform the Committee in its deliberations on the biennial budget and biennial state building program, the Committee could require that the Building Commission report on the projected increase in annual operating costs, including annualized debt service costs, associated with each capital project involving the construction of a new facility or the

addition of space to an existing state facility. The report could require that the projected funding sources for the increased costs to be identified. The report could be submitted by the first Tuesday in April in each odd-numbered year, which is when the building program recommendations are due.

## **ALTERNATIVES TO BASE**

1. Specify that no capital project for the construction of a new facility or the addition of space to an existing facility may be recommended for enumeration enumerated in state building program by the Building Commission unless the increase in the project's annual costs, including annualized debt service costs, are identified. Further, require that the Building Commission provide a report to the Joint Committee on Finance on the increase in annual operating costs, including annualized debt service costs, associated with each capital project involving the construction of a new facility or the addition of space to an existing state facility. Require that the report specify the projected funding sources for the operating costs identified. Specify that the report be submitted by the first Tuesday in April in each odd-numbered year, unless a later date is requested by the Building Commission and approved by the Joint Committee on Finance.

2. Take no action.

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