

Administration

Facilities

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June 8, 2023

Joint Committee on Finance

Paper #150

Payment from Space Rental Account to Capital Improvement Fund (Administration -- Facilities)

[LFB 2023-25 Budget Summary: Page 43, #1]

CURRENT LAW

The Department of Administration's facility operations and maintenance, police and protection functions appropriation, which contains the space rental account, is funded with program revenue derived from rental charges to state agencies occupying state-owned space. Under current law, expenditures from the facility operations and maintenance, police and protection functions appropriation can be made for the following purposes: (a) financing the costs of operation of state-owned or -operated facilities that are not funded from other appropriations, including custodial and maintenance services; (b) minor projects; (c) utilities, fuel, heat, and air conditioning; (d) assessments levied by DOA for costs incurred and savings generated by financing energy conservation construction projects at agency facilities; (e) facility design services provided to agencies; (f) costs incurred for energy conservation audits and energy conservation construction projects at state-owned facilities; and (g) police and protection functions.

Under current law, all general obligation bond premiums, other than those associated with a refunding bond issue, must be deposited to the capital improvement fund to be used in lieu of issuing bonds in the future. Through December, 2022, \$847.1 million in bond premium proceeds have been deposited to the capital improvement fund.

DISCUSSION POINTS

1. In 2021 Act 58, base funding of \$4,508,900 annually for the Capitol building and executive residence maintenance appropriation was deleted. As a result, the Department has funded expenditures for maintenance, operation, and protection of the Capitol and executive residence using the PR generated by charging agencies for space rent in the space rental appropriation. At this time,

tenants of the Capitol (including the Legislature, Supreme Court, and Governor's Office) and executive residence (Governor) are not charged rent for occupying space in the buildings. The Department indicates that, if base funding is not restored for the Capitol building and executive residence maintenance appropriation during the 2023-25 budget, it would begin to charge the tenants of both facilities through the creation of a new rental space rate class(es) to reflect the unique costs of providing for the maintenance and upkeep of the facilities. It should be noted that Assembly Bill 43/Senate Bill 70 would not provide funding for this appropriation. In addition, changes to space rental rates, including the creation of new rates, must be approved by the State Building Commission.

2. Under AB 43/SB 70, a payment of \$40 million PR would be made from the space rental account to the capital improvement fund. The Administration indicates that the intent of the provision is for the deposit to be used as cash to support an item in the 2023-25 recommended capital budget, the renovation of the State Industry and Labor Building (GEF 1) and parking garage. The total budget for the project is \$141,407,000. Included in the project budget is funding to address code, safety, and deferred maintenance items. By providing \$40 million in PR-cash for the project, rather than bonding for the same amount, the state could save an estimated \$13.8 million, \$16.3 million, or \$19.7 million (based on interest rates of 3.0%, 3.5%, and 4.0%, respectively). If, instead, \$20 million in PR-cash was provided for the GEF 1 renovation project, the state could save an estimated \$6.9 million, \$8.1 million, or \$9.8 million (based on interest rates of 3.0%, 3.5%, and 4.0%, respectively). Note that the bill does not amend the purpose of the space rental account to include payments to the capital improvement fund, nor does it include nonstatutory language providing for a one-time transfer of revenue from the appropriation. Thus, additional bill language would be required for the payment to be made as proposed. However, the Department indicates that the intent of the provision is to transfer funds from a balance in the space rental account to the capital improvement fund for the GEF 1 project.

3. According to DOA, the renovation of GEF 1 and its parking garage is aligned with Vision 2030, the state's plan for consolidating state-owned facilities and leased space, addressing deferred maintenance, and increasing investments in innovation and workforce talent attraction and retention based on expanded statewide opportunities. Upon renovating GEF 1, DOA plans to consolidate office space for the Department of Workforce Development to one floor and move the Department of Health Services office space from 1 West Wilson to occupy the remaining space in the GEF 1 building. According to the Department's Vision 2030 report, the State Human Services Building at 1 West Wilson would then be put up for sale.

4. According to the Department, the space rental account has sufficient funding to support a transfer of \$40 million to the capital improvement fund. The Department estimates that in 2023-24, after expenditures are made (including the transfer to the capital improvement fund and expenditures for maintenance, operation, and protection of the Capitol and executive residence), \$26,199,200 would remain in the account in 2023-24 and the closing balance would be \$20,075,000 in 2024-25. Table 1 below provides the projected financial forecast of the space rental account in 2023-24 and 2024-25.

TABLE 1

**Projected 2023-25 Financial Forecast of Space Rental Account,
\$40 million Transfer/Payment to Capital Improvement Fund**

	<u>2023-24</u>	<u>2024-25</u>
Opening Balance	\$67,964,800	\$26,199,200
Collected Revenue	\$72,657,500	\$68,687,400
Transfers		
Debt Service Transfer	-\$24,193,400	-\$24,347,500
Van Pool Transfer	-98,900	-105,800
Mail Transportation Transfer	-309,200	-318,900
Transfer to Police & Protection Function*	-8,020,800	-8,064,600
Energy-Renewable Transfer	-325,400	-325,400
Subtotal Transfers	-\$32,947,700	-\$33,162,200
Net Revenue**	\$39,709,800	\$35,525,200
Expenditures***	\$81,475,400	\$41,649,400
Closing Balance	\$26,199,200	\$20,075,000

* Takes into account the removal of positions for the state Capitol police from further budget consideration.

** Collected revenue less transfers.

*** Includes payment of \$40 million to the capital improvement fund.

5. Note that projected expenditures in Table 1, excluding the proposed payment to the capital improvement fund, exceed net revenue by \$1.8 million in 2023-24 and \$6.1 million in 2024-25. Most of the difference between years is attributable to a reduction in collected revenue projected for the appropriation. However, as noted previously, since 2020-21, the costs to maintain the Capitol and executive residence are supported from the revenue balance of the appropriation, since rent is not charged for either facility and the GPR appropriation for this purpose is provided \$0 annually. The cost to maintain the Capitol and executive residence in the 2023-25 biennium is \$7,985,500 annually, based on an average of expenditures in 2021-22 and projected expenditures for 2022-23. These estimated costs are included in Table 1.

6. To the extent that revenue remains available in the balance of the appropriation, the balance could continue to support the costs of the Capitol and executive residence, and lessen the necessity to more frequently modify space rental charges to agencies. Rather than providing \$40 million from the balance of the appropriation, if a payment of \$20 million was made from the space rental account to the capital improvement fund, \$46,199,200 would remain in the account in 2023-24 and the closing balance would be \$40,075,000 in 2024-25. Table 2 below provides the projected financial forecast of the space rental account in 2023-24 and 2024-25 if a \$20 million payment to the capital improvement fund was made instead of a \$40 million payment.

TABLE 2

**Projected 2023-25 Financial Forecast of Space Rental Account,
\$20 million Transfer/Payment to Capital Improvement Fund**

	<u>2023-24</u>	<u>2024-25</u>
Opening Balance	\$67,964,800	\$46,199,200
Collected Revenue	\$72,657,500	\$68,687,400
Transfers		
Debt Service Transfer	-\$24,193,400	-\$24,347,500
Van Pool Transfer	-98,900	-105,800
Mail Transportation Transfer	-309,200	-318,900
Transfer to Police & Protection Function*	-8,020,800	-8,064,600
Energy-Renewable Transfer	<u>-325,400</u>	<u>-325,400</u>
Subtotal Transfers	-\$32,947,700	-\$33,162,200
Net Revenue**	\$39,709,800	\$35,525,200
Expenditures***	\$61,475,400	\$41,649,400
Closing Balance	\$46,199,200	\$40,075,000

* Takes into account the removal of positions for the state Capitol police from further budget consideration.

** Collected revenue less transfers.

*** Includes payment of \$20 million to the capital improvement fund.

7. As noted previously, the intent of the provision is to transfer funds on a one-time basis from a balance in the space rental account to the capital improvement fund for the GEF 1 project. Given that a transfer of revenue from the space rental account to the capital improvement fund could provide cash support for the renovation of the State Industry and Labor Building (GEF 1) and parking garage and, as a result, reduce the amount of debt service required for the project, the Committee could specify that nonstatutory language be included in the bill to provide for a one-time transfer of \$40 million PR from the space rental account to the capital improvement fund. [Alternative 1] Alternatively, the Committee could specify that a one-time transfer of \$20 million PR be made to the capital improvement fund from the space rental account. [Alternative 2] Regardless of the amount transferred, providing nonstatutory language for a one-time transfer would provide support for the renovation of the State Industry and Labor Building (GEF 1) and parking garage (if included in the 2023-25 capital budget) using PR from the space rental account while requiring approval for any such transfers in the future.

8. Finally, the Committee could choose to take no action. [Alternative 3] The renovation of the State Industry and Labor Building (GEF 1) and parking garage would require alternative funding. If debt service were used, the cost to the state would be greater over time than if the project were partially funded by cash. The balance of the space rental account would continue to be used only

for the purposes outlined under current law.

ALTERNATIVES

1. Create nonstatutory language providing for a one-time transfer of \$40 million PR in 2023-24 from the space rental account to the capital improvement fund.

ALT 1	Change to Base
PR-Transfer	\$40,000,000
SEG-Rev	\$40,000,000

2. Create nonstatutory language providing for a one-time transfer of \$20 million PR in 2023-24 from the space rental account to the capital improvement fund.

ALT 2	Change to Base
PR-Transfer	\$20,000,000
SEG-Rev	\$20,000,000

3. Take no action.

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June 8, 2023

Joint Committee on Finance

Paper #151

Transfer to the Building Trust Fund and Division of Facilities Development Positions (Administration -- Facilities)

[LFB 2023-25 Budget Summary: Page 44, #2 and 3]

CURRENT LAW

The Department of Administration's (DOA) Division of Facilities Development (DFD) is responsible for staffing the State Building Commission and developing and implementing the biennial State Building Program. The program includes the construction of new buildings and the remodeling and renovation of existing facilities for all state agencies and the University of Wisconsin System. The Division provides technical advice, project management, and field oversight of construction projects, as well as contracts for architecture/engineering services and construction work.

The capital planning and building construction services annual PR appropriation funds services provided through DFD. The appropriation is funded with program revenue derived from a 4% fee assessed on most state building project budgets. Base funding for the capital planning and building construction services appropriation is \$14,941,900 PR and 92.0 positions annually.

The state building trust fund is a segregated, nonlapsible fund that is used to finance advanced planning activities for projects enumerated in the state building program.

DISCUSSION POINTS

Transfer to Building Trust Fund

1. Under Assembly Bill 43/Senate Bill 70, \$18 million PR would be transferred from the capital planning and building construction services annual appropriation to the state building trust fund in 2023-24. The Administration indicates that the transfer would support building project design

efforts. According to DOA, there is currently enough funding in the building trust fund to fund design services for projects that are enumerated, but not for architecture and engineering pre-design services for projects being put forth for enumeration requests. The Department estimates that, as of March 31, 2023, \$19.9 million is available in the building trust fund and is allocated for the following purposes: (a) \$5.5 million for advanced planning, to be reimbursed from project funds; (b) \$11.9 million for contingencies; (c) \$1.2 million for small projects, including facility and utility improvements; and (d) \$1.3 million for all agency project plans.

2. The Administration indicates that most of the projects in the 2023-25 recommended capital budget do not receive architect and engineer services until after enumeration. As a result, approximations of actual project costs are initially utilized for these projects. If additional funding were provided to the building trust fund, DFD could support early design work (architecture and engineering pre-design services) for projects being requested for enumeration, which could result in more accurate scope, schedule, and budget estimates for projects and, in turn, shorten the time from enumeration to construction of projects. Project scope refers to the defined parameters and objectives of a project, such as what would be constructed, purchased, or achieved.

3. According to DOA, architecture and engineering pre-design services would provide a thorough analysis of the project, allowing the team to conduct programming sessions to assess alternatives based on key criteria, including: efficient space utilization; utilities and services availability; transportation; regulatory requirements; energy usage; environmental impacts; life-cycle cost; operating budget impacts; effects on existing spaces; and total cost of operation. The Administration indicates that architecture and engineering pre-design services help provide more accurate cost estimation, resource allocation, and schedule development, resulting in improved project outcomes and cost avoidance.

4. The Administration indicates that the \$18 million in 2023-24 that would be provided to the building trust fund under AB 43/SB 70 was determined by identifying the cash available in the capital planning and building construction services annual appropriation in the 2023-25 biennium. The intent was to provide a source of cash to move proposed projects into the design phase to appropriately prepare scope, schedules, and budgets for the future enumeration (the 2025-27 biennial budget). Table 1 below provides the revenue forecast of the capital planning and building construction services annual appropriation in the 2023-25 biennium, including the \$18 million transfer to the building trust fund in 2023-24 that would be made under AB 43/SB 70, as well as increased expenditures associated with 10.0 PR positions annually that would be provided to the appropriation to increase DFD staffing levels.

TABLE 1

Revenue Forecast of Capital Planning and Building Construction Services Appropriation

<u>Revenues and Expenditures</u>	<u>2023-24</u>	<u>2024-25</u>
Opening Balance	\$22,205,100	\$4,271,600
Collected Revenue	\$16,800,000	\$17,100,000
Transfer to the Building Trust Fund	<u>-18,000,000</u>	<u>0</u>
Net Revenue	-\$1,200,000	\$17,100,000
Expenditures	\$16,733,500	\$17,182,000
Closing Balance	\$4,271,600	\$4,189,600

5. Given that additional architecture and engineering pre-design for projects requested for enumeration could result in more accurate scope, schedule, and budget estimates for projects, the Committee could approve a transfer of \$18 million from the capital planning and building construction services annual appropriation to the building trust fund in 2023-24. [Alternative A1] If the Committee takes no action with regard to a transfer to the building trust fund, the revenue will remain in the balance of the appropriation. [Alternative A2]

Division of Facilities Development Positions

6. Since the 2015-17 biennium, capital budgets have generally grown in size. A total of \$1.7 billion in 2019-21 and \$1.4 billion in 2021-23 was enumerated for the capital budget. The Governor's recommendation for the capital budget in 2023-25 is \$3.3 billion. A contributing factor to the trend of growing capital budgets is that larger projects have become more complex, resulting in additional time and support requirements for proper execution. Increased project complexity can be attributed to the mechanical, electrical, plumbing, and fire protection systems that make facilities operational and safe for users. For example, agencies increasingly require facilities with complex spaces, such as spaces where highly-sensitive equipment is used, which may require unique mechanical systems.

7. Starting in 2021, DFD implemented a new integrated electronic design review process that is intended to identify design issues earlier in the process and ultimately avoid additional project cost or time overruns. The Department indicates that, although the process has been effective, it also requires additional time and staffing resources to execute properly.

8. According to DOA, DFD's staffing levels have not grown commensurately with the increase of projects and project complexity in the building program. Rather, position authority for DFD has fluctuated over time. In the 2013-15 biennium, DFD was authorized 103.75 positions. Under 2015 Act 55, 15.0 vacant positions were deleted from the capital planning and building construction services appropriation, reducing authority to 88.75 positions. Position authority was again reduced by

1.25 positions under 2017 Act 59 (to 87.5 positions), increased by 4.0 positions under 2019 Act 9 (to 91.5 positions), and increased by 0.5 position under 2021 Act 58 (to arrive at the current base number of 92.0 positions). At the same time, the number of active projects has increased. For example, in 2017-19, there were 1,898 active projects, while there are 2,220 active projects in the 2021-23 biennium (a 17% increase in projects compared to a 5% increase in position authority). The Department indicates that, as a result, DFD's workload to staff ratio is higher than it has been historically. In the 2021-23 biennium, DFD project managers had an average workload of 54 projects. According to DOA, local averages for construction project managers are 10 projects per project manager.

9. Under AB 43/SB 70, \$964,000 PR in 2023-24, \$1,285,400 PR in 2024-25, and 10.0 PR positions annually would be provided to the capital planning and building construction services annual appropriation. Table 2 below indicates the cost components of the additional positions. The new positions would include capital project principal managers (4.0 positions), construction representatives-senior (5.0 positions), and an enterprise contract officer (1.0 position). Capital project principal managers would provide management and technical oversight of construction projects, including new construction or remodeling projects. These positions work to ensure projects are delivered within project scope, on time, and within budget, and provide technical oversight of contractual architecture and engineering services and the actual design of projects. Construction representatives-senior would be responsible for overseeing the performance of consultants, contractors, and providers involved in the design, construction, renovation, and commissioning of multiple concurrent building projects authorized by the Building Commission. Duties include administering construction contracts and ensuring that work is completed in accordance with contract documents and conforms to applicable building codes. The workload includes multiple projects at various locations across the state with varying levels of complexity. The enterprise contract officer (ECO) would be responsible for advertisement, the bidding process, and execution of construction and architecture and engineering contracts. According to DOA, the number of contracts and the complexity of contracts as well as the selection and bidding process has increased in recent years.

TABLE 2

Cost Components of Additional DFD Positions under AB 43/SB 70

<u>Item</u>	<u>2023-24</u>	<u>2024-25</u>
Salaries and Fringe Benefits		
Capital Project Principal Managers (4.0)	\$355,600	\$474,200
Construction Representatives-Senior (5.0)	444,500	592,700
Enterprise Contract Officer (1.0)	88,900	118,500
Supplies and Services	<u>75,000</u>	<u>100,000</u>
Total	\$964,000	\$1,285,400

10. Currently, there is one enterprise contract officer at DFD. In 2021-22, the ECO wrote and offered over 390 architecture/engineering design contracts. From contract request to contract

offer, the ECO took an average of 39 days to complete a contract. By comparison, the construction contract specialist in DFD took six days to complete construction contracts. According to DOA, the difference in completion time between the two contract positions is related to workload. An additional ECO could allow architecture and engineering contracts to move through the initiation, writing, and approval stages more efficiently and quickly.

11. Given the increase in number and complexity of projects in the building program over time, the Committee could provide \$964,000 PR in 2023-24, \$1,285,400 PR in 2024-25, and 10.0 PR positions annually to the capital planning and building construction services annual appropriation to provide additional positions for the Division of Facilities Development. [Alternative B1]

12. Alternatively, the Committee could provide expenditure and position authority of \$482,000 PR in 2023-24, \$642,700 PR in 2024-25, and 5.0 PR positions annually to the capital planning and building construction services annual appropriation. [Alternative B2] Table 3 below indicates the cost components of this alternative.

TABLE 3

Cost Components of 5.0 Additional DFD Positions

<u>Item</u>	<u>2023-24</u>	<u>2024-25</u>
Salaries and Fringe Benefits		
Capital Project Principal Managers (2.0)	\$177,800	\$237,100
Construction Representatives-Senior (2.0)	177,800	237,100
Enterprise Contract Officer (1.0)	88,900	118,500
Supplies and Services	<u>37,500</u>	<u>50,000</u>
Total	\$482,000	\$642,700

13. Alternatively, the Committee could take no action. [Alternative B3] According to DOA, if funding and position authority for additional DFD staff is not provided, it may purchase project management services as a contractual service. It should be noted that, while this approach would help DFD address its increased workload, contracted staff would be approximately three times more expensive than permanent staff, which would increase project costs.

ALTERNATIVES

A. Transfer to the Building Trust Fund

1. Transfer \$18 million PR in 2023-24 from the capital planning and building construction services annual appropriation to the building trust fund.

ALT A1	Change to Base
PR-Transfer	\$18,000,000
SEG-Rev	\$18,000,000

2. Take no action with regard to a transfer from the capital planning and building construction services annual appropriation to the building trust fund.

B. Division of Facilities Development Positions

1. Provide \$964,000 PR in 2023-24, \$1,285,400 PR in 2024-25, and 10.0 PR positions annually to the capital planning and building construction services annual appropriation to provide additional positions for the Division of Facilities Development.

ALT B1	Change to Base	
	Funding	Positions
PR	\$2,249,400	10.00

2. Provide \$482,000 PR in 2023-24, \$642,700 PR in 2024-25, and 5.0 PR positions annually to the capital planning and building construction services annual appropriation to provide additional positions for the Division of Facilities Development.

ALT B2	Change to Base	
	Funding	Positions
PR	\$1,124,700	5.00

3. Take no action with regard to additional positions for the Division of Facilities Development.

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