



STATE OF WASHINGTON
OFFICE OF FINANCIAL MANAGEMENT

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January 13, 2016

TO: The Honorable Jim Honeyford, Capital Budget Chair
The Honorable Karen Keiser, Ranking Member, Capital Budget
Senate Ways & Means Committee

The Honorable Barbara Bailey, Chair
The Honorable Jeanne Kohl-Welles, Ranking Member
Senate Higher Education Committee

The Honorable Steve Tharinger, Chair
The Honorable Richard DeBolt, Ranking Member
House Capital Budget Committee

The Honorable Drew Hansen, Chair
The Honorable Hans Zeiger, Ranking Member
House Higher Education Committee

FROM: David Schumacher
Director

**SUBJECT: REPORT OF THE FOUR-YEAR PRIORITIZED CAPITAL PROJECT
LIST TECHNICAL WORK GROUP**

Pursuant to Section 704 of Second Engrossed House Bill 1115 (the 2015-17 capital budget), I am transmitting the Report of the Four-year Prioritized Capital Project List Technical Work Group. This list is the product of the technical work group established by the Office of Financial Management and completed in collaboration with legislative staff, staff with the four-year institutions of higher education, and the Council of Presidents. It is available online at http://www.ofm.wa.gov/budget/capital/4year_prioritized_capital_project_work_group_report.pdf.

If you have any questions, please contact Gene Emmans, OFM Capital Budget Assistant, at (360) 902-3068.

cc: The Honorable Jay Inslee, Governor
Meg Van Schoorl, House Capital Budget Coordinator
Christine Thomas, House Capital Budget Committee
Megan Mulvihill, House Higher Education Committee
Richard Ramsey, Senate Ways and Means Committee
Clint McCarthy, Senate Higher Education Committee
Paul Francis, Council of Presidents
Cody Eccles, Council of Presidents

Council of Presidents

REPRESENTING WASHINGTON'S PUBLIC BACCALAUREATE INSTITUTIONS

To: Members of the Legislature

From: Council of Presidents

December 15, 2015

Dear Governor Inslee and Members of the Legislature:

We would like to thank policy makers, legislative staff, and the Office of Financial Management for their efforts in reviewing the higher education capital project scoring and ranking practices. Updating the current practices will allow for a more efficient process and be a more useful tool for policy makers. While we appreciate the collaborative process, there are number of items we would like to highlight that go beyond the official taskforce recommendations.

First, we ask that the each Legislature take consecutive funding of full Design and Construction appropriations into consideration when determining which major construction projects are funded. This recommendation is consistent with the taskforce recommendation to score projects only once, upon the completion of the Predesign phase. While we recognize that one Legislature cannot commit to what a future Legislature will decide, this approach will save the State money in construction costs through more predictable construction schedules and capital planning.

Historically, once a project was approved for the Predesign phase, it was funded for Design and Construction in consecutive biennia. Since the economic downturn of 2008, this has not been possible. The dollar amount of construction-ready projects has exceeded what the State debt capacity can support. The impact of this has been not only fewer projects being funded, but projects skipping biennia between each phase (Predesign, Design, Construction) extending a 3-biennia project to 6 biennia or more.

The 4-year public baccalaureate institutions understand that the legislature has very difficult choices to make but skipping a biennium between Design and Construction or having construction appropriations reduced are not cost effective solutions.

There is less of a cost impact to stop a project after the Predesign phase instead of after the Design phase. More has been invested in a project by the time the Design phase has been completed, approximately 10% of the total project cost vs. 1%ⁱ. To skip a biennium before Construction begins is more detrimental to a project than to postpone Design and Construction until such time when the Design and Construction phases can be funded in consecutive biennia based on debt capacity projections of Office of Financial Management (OFM) and the Office of the State Treasurer.

Each biennium construction is delayed; the project incurs another biennium of escalation at 3% per year (as set by OFM), consequently costing the state more money to build. If the construction appropriation is not increased to compensate for the escalation, then the state is essentially building less for more money.

Lastly on this topic, funding Design and Construction in consecutive biennia is consistent with best practices and integrated project delivery (General Contractor/Construction Manager (GC/CM), Design-Build), alternative public works methods that require the involvement of the General Contractor prior to the construction phase.

Second, we would like to note that there are substantial negative impacts to reducing construction appropriations. Reduced construction appropriations were utilized as a cost-management approach since the Great Recession. This

approach worked in the earlier years after the Great Recession, as Washington was still suffering the impact of the recession and construction bids were competitive. As the market has slowly started to improve, the industry is experiencing higher bids. Consequently, a reduced appropriation will have a more damaging impact now. Reducing an appropriation causes a project to be delayed to redesign to a reduced scope; additional architectural fees are incurred for this service, further reducing the project budget, again building less for more money. An alternative result is that an institution runs out of construction dollars, leaves some scope incomplete and then comes back with a funding request to finish out the project in the following biennium, thus incurring another biennium of escalation on that portion of the project.

These two issues have significant impacts on our ability to operate successful capital construction campaigns. The end goal of these two measures is to ensure stable and predictable projects that meet the needs of the students.

Respectfully,

Cody Eccles
Associate Director
Council of Presidents

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ⁱ Based on predesigns funded for the public baccalaureates in 2013-15 and 2015-17.