



## Legislative Fiscal Bureau

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May 30, 2007

Joint Committee on Finance

Paper #102

### **State-Owned Office Rent Supplement Appropriations (DOA -- General Agency Provisions and Program Supplements)**

#### *Bill Section*

[LFB 2007-09 Budget Summary: Page 23, #7 and Page 454, #2]

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#### **CURRENT LAW**

There is a single GPR appropriation under Program Supplements for state agencies' costs of rent in private leased space and for DOA-directed moves. No funding was provided under this annual appropriation in the 2005-07 biennium. There are also two other existing appropriations to allow comparable supplements from program revenue and segregated revenue funding sources.

The Department of Administration manages a program revenue facilities operations and maintenance appropriation in which the Department assesses agencies that are housed in state facilities for their share of costs for space occupied by the agency, including maintenance, custodial services, minor projects, utilities, fuel, heating and cooling costs, and capital police services.

#### **GOVERNOR**

Provide \$1,851,800 GPR annually in the program supplements appropriation for state-owned facility rental increases. The appropriation is utilized to supplement state agencies' GPR appropriations for the increased costs of space occupied in state-owned office buildings. Currently, no funding is provided under this appropriation.

Provide \$2,405,300 PR in 2007-08 and \$2,952,500 PR in 2008-09 for facility operations and maintenance and police protection functions, including the following: (a) \$1,862,900 PR in

2007-08 and \$2,410,100 PR in 2008-09 for fuel and utility increases; and (b) \$542,400 PR annually for the Continuity of Operations Plan and the Continuity of Government initiative, related to emergency operations space and supplies and services for disaster response and preparedness planning personnel.

**DISCUSSION POINTS**

1. The program supplements appropriations section of the statutes allows the establishment of reserve appropriations, particularly GPR-funded appropriations, for the supplementation of individual state agency appropriations. Generally, these reserve appropriations are established to fund costs that state agencies are anticipated to bear, but for which the precise amount of increased funding needed by individual agencies is not determinable at the time that the budget is under consideration.

2. State building rent supplements could be requested from all funding sources, however this recommendation would set aside only GPR funding to ensure that general fund revenue is available to GPR-supported agency appropriations should DOA need to increase rental rates. It is estimated that 33.5% of rental increases would be supported from the general fund. The following table identifies estimated expenditures and revenues for state building operations and management, and the resulting estimated state building GPR rent supplement for the 2007-09 biennium.

**Estimated Rent Supplement Need Calculation  
2007-09 Biennium**

	<u>2007-08</u>	<u>2008-09</u>
Base Expenditures	\$54,933,400	\$54,933,400
Estimated Increases		
Fuel and Utilities	\$1,862,900	\$2,410,100
Debt Service	515,400	28,600
COOP & COG*	542,400	542,400
Pay Plan and Health Insurance Reserves	<u>501,700</u>	<u>942,100</u>
	\$58,355,800	\$58,856,600
Base Revenues	\$53,334,300	\$53,334,300
Estimated Supplement Need	\$5,021,500	\$5,522,300
Estimated GPR Need (33.5% of total need)	\$1,682,200	\$1,850,000
Governor's Recommendation	\$1,851,800	\$1,851,800
Change Compared to Department's Estimate	-\$169,600	-\$1,800

\*Continuity of Operations Plan and Continuity of Government initiatives.

3. Based on these revised estimates, the Committee could choose to reduce the GPR rent supplements by \$169,600 GPR in 2007-08 and \$1,800 GPR in 2008-09.

4. The program supplement appropriation provides supplementation of agencies' space costs due to increases in rental rates within state-owned buildings. In the case of rental costs in state-owned buildings, this is largely under the control of DOA. The costs of operation and maintenance of state buildings are financed out of a central account called the space rental account. The revenues for this account come primarily from the rents assessed to state agencies that occupy space in those buildings. Increases in rental rates are sought whenever the revenues to the space rental account are projected to be insufficient to cover costs, as determined by DOA. The State Building Commission must approve any increases proposed by DOA. The Department assesses a largely uniform rate for space in all of its state office buildings.

5. As is discussed in a budget paper related to the sale of state-owned property, the potential sale of state buildings could have an impact on the amount of rent paid by state agencies. The amounts that may be needed for supplements could be affected by the following: (a) which buildings are sold and their relative costs (operational costs of the current facility versus a new facility); (b) the time of sale; (c) the type of alternative space used to house the current staff; and (d) whether the cash balances from the sale are used to offset future construction costs.

6. The sale of state buildings could increase the rental costs paid by state agencies, if the net proceeds (purchase price less outstanding debt) from the sale of the buildings are not used to offset the construction costs of new state-buildings.

7. The Department of Administration has not yet requested an increase in space rates. However, to the extent that higher rates are requested and approved, state agencies may experience increased costs. The amount of increase is currently unknown. Given the uncertain nature of the rent increases, it could be argued that the Committee should approve the rent supplements as recommended by the Governor. Supplements would be used, as necessary, to fund any increased agency costs.

8. Alternatively, given the current constraint on general fund revenues, it could be argued that funds should only be made available and released once rental rates and actual necessary supplements are known. Under this alternative, funds could be transferred to the Committee's GPR supplemental appropriation for possible subsequent release to the Department.

9. On the other hand, the Committee could delete the general fund rent supplements and require the agencies to fund rent increases through transfers of base revenues from other program operations appropriations. The Department could request the transfer of such revenues under s. 13.10 of the statutes.

### **Support of the Continuity of Operations Plan and Continuity of Government Initiatives**

10. In addition to rent supplements, the Governor would provide \$542,400 PR annually

for a Continuity of Operations Plan (COOP) and Continuity of Government (COG) initiative, which would include: (a) \$408,200 PR in 2007-08 and \$421,600 PR in 2008-09 for space rented at the Department of Corrections building at 3099 East Washington in Madison; and (b) \$134,200 PR in 2007-08 and \$120,800 PR in 2008-09 for supplies and services. These amounts would be recovered through assessments to state agencies as part of their rent payments.

11. The Department states that COOP and COG initiatives were created in response to the Governor's 2004 Executive Order #81, which required state agencies to adopt the National Incident Management System (NIMS) as the state standard for incident management and recommend that all local and tribal agencies also adopt NIMS as their standard for incident management.

12. According to the Department, the COOP and COG initiatives are an effort to ensure that some basic state services can continue in the event of a natural disaster. Under these plans, buildings at alternate sites are designated for use if the primary site was unavailable. The alternate site would have to include voice and data communication system, and the site would store key records and essential office supplies. The Department states that 24 state agencies have completed COOP plans for 244 essential services and staff has conducted more than a hundred exercises.

13. In cases where agencies are housed in multiple locations, other agency buildings serve as the primary backup. However, DOA has identified 12 agencies (the Departments of Agriculture, Trade and Consumer Protection, Tourism, Workforce Development, Revenue, Financial Institutions, and Regulation and Licensing, Employee Trust Funds, Public Service Commission, Office of State Employment Relations, Commissioner of Insurance, State Laboratory of Hygiene, and State Treasurer) that would not have backup facilities. As a result, the Department uses approximately 16,200 square feet in the Corrections Building. Corrections is then reimbursed for the space costs.

14. The Department is currently staffing the initiatives with 3.0 FTE that are funded under current law from the facility operations and maintenance and police protection functions appropriation (2.75 PR FTE) and the materials and services to state agencies appropriation (0.25 PR FTE). The rent costs and the supplies and services costs have been funded from the facility operations and maintenance and police protection functions appropriation [\$495,000 PR in 2005-06 and \$454,600 PR in 2006-07 (thru April 16, 2007)] and the general program operations appropriation \$286,200 GPR in 2006-07 (thru April 16, 2007)].

15. The Department indicates that the rental fees would continue to be a reimbursement to the Department of Corrections for the rent that Corrections currently pays as part of their private lease on the facility. In addition, DOA is utilizing approximately 5,400 square feet in this building for the integrated business information system (IBIS), and reimbursing Corrections in a similar manner (estimated at \$136,000 in 2007-08 and \$140,500 PR in 2008-09). It could be argued that since Corrections is receiving a portion of its lease costs from COOP/COG and IBIS reimbursement amounts, Corrections operations budget should be reduced by a corresponding amount (\$544,200 GPR in 2007-08 and \$562,100 GPR in 2008-09).

16. If the Committee disagrees with providing additional funding from COOP and COG, the Committee could reduce the amount provided for GPR rent supplements by 33.5% of the total COOP and COG costs (\$181,700 GPR annually) since there would be no additional costs relating to supplying this space.

**ALTERNATIVES TO BILL**

**A. General Fund Rent Supplements**

1. Approve the Governor's recommendation to provide \$1,851,800 GPR annually in the program supplements appropriation for state-owned facility rental increases.

<b>ALT A1</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
GPR	\$0	\$3,703,600

2. Modify the Governor's recommendation by -\$169,600 GPR in 2007-08 and -\$1,800 GPR in 2008-09, based on the Department's estimate of potential supplemental need.

<b>ALT A2</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
GPR	-\$171,400	\$3,532,200

3. Modify the Governor's recommendation by placing \$1,682,200 in 2007-08 and \$1,850,000 GPR in 2008-09 in the Joint Committee on Finance's general fund supplemental appropriation. Under this alternative, the Department may request release of state agency rent supplements funding under provisions of s. 13.10 once costs are known. [In conjuncture with Alternative A2]

<b>ALT A3</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
GPR	-\$171,400	\$3,532,200

4. Delete provision.

<b>ALT A4</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
GPR	-\$3,703,600	\$0

**B. Continuity of Operations Plan and Continuity of Government Initiatives**

1. Approve the Governor's recommendation to provide \$542,400 PR annually for a Continuity of Operations Plan and Continuity of Government initiative.

<b>ALT B1</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
PR	\$0	\$1,084,800

2. In addition to Alternative B1, modify the Governor's recommendation by deleting \$544,200 GPR in 2007-08 and \$562,100 GPR in 2008-09 from the Department of Corrections general program operations appropriation associated with rent paid by the Department of Administration.

<b>ALT B2</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
GPR	-\$1,106,300	-\$1,106,300

3. Delete the Governor's recommendation to provide funding for the Continuity of Operations Plan and the Continuity of Government initiatives and reduce the estimated GPR rent supplement related to these initiatives (\$181,700 GPR annually).

<b>ALT B3</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
GPR	-\$363,400	-\$363,400
PR	<u>- 1,084,800</u>	<u>- 1,084,800</u>
Total	-\$1,448,200	-\$1,448,200

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