

State of Wisconsin

SENATE CHAIR
Alberta Darling

317 East, State Capitol
P.O. Box 7882
Madison, WI 53707-7882
Phone: (608) 266-5830



ASSEMBLY CHAIR
John Nygren

309 East, State Capitol
P.O. Box 8593
Madison, WI 53708-8953
Phone: (608) 266-2343

Joint Committee on Finance

MEMORANDUM

To: Members
Joint Committee on Finance

From: Senator Alberta Darling
Representative John Nygren

Date: June 21, 2017

Re: s. 16.515/16.505(2), Stats. Request

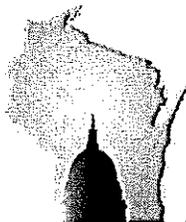
Attached is a copy of a request from the Department of Administration, received June 21, 2017, pursuant to s. 16.515/16.505(2), Stats.

Please review the material and notify **Senator Darling** or **Representative Nygren** no later than **Tuesday, July 11, 2017**, if you have any concerns about the request or if you would like the Committee to meet formally to consider it.

Also, please contact us if you need further information.

Attachments

AD:JN:jm



**WISCONSIN DEPARTMENT OF
ADMINISTRATION**

SCOTT WALKER
GOVERNOR
SCOTT A. NEITZEL
SECRETARY
Office of the Secretary
Post Office Box 7864
Madison, WI 53707-7864
Voice (608) 266-1741
Fax (608) 267-3842

Date: June 21, 2017
To: The Honorable Alberta Darling, Co-Chair
Joint Committee on Finance
The Honorable John Nygren, Co-Chair
Joint Committee on Finance
From: Scott A. Neitzel, Secretary
Department of Administration
Subject: s. 16.515/16.505(2) Request(s)

JUN 21 2017
J.A. Finance

Enclosed are request(s) that have been approved by this department under the authority granted in s. 16.515 and s. 16.505(2). The explanation for each request is included in the attached materials. Listed below is a summary of each item:

AGENCY	DESCRIPTION	2015-16		2016-17	
		AMOUNT	FTE	AMOUNT	FTE
DOA 20.505(5)(ka)	Facility operations and maintenance; police and protection functions			\$1,519,200*	
DOA 20.505(1)(kL)	Printing, mail, communication, and information technology services; state agencies; veterans services			(\$814,700)*	

*One-time expenditure authority.

As provided in s. 16.515, the request(s) will be approved on July 13, 2017, unless we are notified prior to that time that the Joint Committee on Finance wishes to meet in formal session about any of the requests.

Please contact Kirsten Grinde at 266-1353, or the analyst who reviewed the request in the Division of Executive Budget and Finance, if you have any additional questions.

Attachments

Date: June 19, 2017
To: Waylon Hurlburt
From: Cory Stinebrink
Subject: Section 16.515 Request

Attached is a s. 16.515 request analysis for your approval and processing. Listed below is a summary of each item:

DOA RECOMMENDATION:

<u>AGENCY</u>	<u>DESCRIPTION</u>	<u>2015-16</u>		<u>2016-17</u>	
		<u>AMOUNT</u>	<u>FTE</u>	<u>AMOUNT</u>	<u>FTE</u>
DOA 20.505(5)(ka)	Facility operations and maintenance; police and protection functions			\$1,519,200*	
DOA 20.505(1)(kL)	Printing, mail, communication, and information technology services; state agencies; veterans services			(\$814,700)*	

* One-time expenditure authority.

AGENCY REQUEST:

<u>AGENCY</u>	<u>DESCRIPTION</u>	<u>2015-16</u>		<u>2016-17</u>	
		<u>AMOUNT</u>	<u>FTE</u>	<u>AMOUNT</u>	<u>FTE</u>
DOA 20.505(5)(ka)	Facility operations and maintenance; police and protection functions			\$1,519,200*	
DOA 20.505(1)(kL)	Printing, mail, communication, and information technology services; state agencies; veterans services			(\$814,700)*	

* One-time expenditure authority.

WRH APPROVAL WRH (FORWARD TO GAIL TAPPEN)



**WISCONSIN DEPARTMENT OF
ADMINISTRATION**

SCOTT WALKER
GOVERNOR

SCOTT A. NEITZEL
SECRETARY

Office of the Secretary
Post Office Box 7864
Madison, WI 53707-7864
Voice (608) 266-1741
Fax (608) 267-3842

Date: June 19, 2017

To: Scott A. Neitzel, Secretary
Department of Administration

From: Cory Stinebrink, Executive Policy and Budget Analyst

Subject: Request under s. 16.515 from the Department of Administration for increased expenditure authority for the operation of state facilities.

Request:

The Department of Administration requests additional expenditure authority of \$1,519,200 PR-S in fiscal year 2016-17 in the department's facility operations and maintenance; police and protection functions appropriation under s. 20.505(5)(ka) to provide for the operation of the Femrite Data Center (Femrite). The request would reduce the department's printing, mail, communication, and information technology services; state agencies; veterans services appropriation under s. 20.505(1)(kL) by \$814,700 PR-S associated with reduced rent under state ownership of Femrite.

In total, the costs to the state will be lower than before the state purchased Femrite. Additional expenditure authority accounts for the internal billing arrangement between the two divisions within the department.

Revenue Sources for Appropriations:

The annual program revenue appropriation for facility operations and maintenance; police and protection functions under s. 20.505(5)(ka) is funded from rent charges to state agencies. The annual program revenue appropriation for printing, mail, communication, and information technology services; state agencies; veterans services under s. 20.505(1)(kL) is funded from fees from state agencies.

Background:

The 2013-15 biennial budget included an enumeration of \$27 million for the purchase of the Femrite Data Center. The Division of Facilities Management completed negotiations to purchase Femrite from Lokre Data Center, LLC, the previous landlord, for a purchase price of \$22.5 million in bond revenue and assumed ownership on June 9, 2016. The state estimates that it will save approximately \$35 million over the term of the bonds by owning Femrite rather than continuing to lease the space. The State Building Commission approved a rental rate for computer data centers in October 2016. In order to evaluate if any current expenditure authority could be reallocated to cover this new cost, the division did not immediately request the additional expenditure authority related to management of Femrite.

However, increases of \$1,557,193 PR-S in fiscal year 2017-18 and \$1,596,123 PR-S in fiscal year 2018-19 in the division's appropriation were included in the 2017-19 Executive Budget to support the ongoing costs associated with operating this facility. The budget also includes reductions of \$813,300 PR-S in fiscal year 2017-18 and \$764,600 PR-S in fiscal year 2018-19 in the Division of Enterprise Technology's appropriation to reflect its rent savings. These 2017-19 budget adjustments were approved by the Joint Committee on Finance at its May 23, 2017, executive session on the budget bills.

Analysis:

Under state ownership, the Division of Enterprise Technology will pay a total of \$3,699,000 PR-S in total rent and operating costs to the Division of Facilities Management in fiscal year 2016-17, which is an estimated savings \$814,700 compared to what the Division of Enterprise Technology would have paid under the private lease agreement.

The following table demonstrates the net savings to the state by comparing the costs that would have been paid in fiscal year 2016-17 had the state not assumed ownership of the Femrite Data Center to actual costs under the new arrangement with the costs split between the two divisions, with the Division of Facilities Management handling the operating costs and the Division of Enterprise Technology handling technology costs:

Estimated Costs Based on Continuing to Rent Femrite	FY17
Lokre Base Rent	\$ 2,125,900
Real Estate Taxes	\$ 409,900
Gas	\$ 30,200
Sewer & water	\$ 9,700
HVAC Reserve	\$ 54,000
Structural Maintenance	\$ 14,200
DET FY17 Operating Costs	\$ 1,869,800
Total Estimated Costs	\$ 4,513,700

Estimated Costs Based on State Ownership	FY17
Costs for DFM to operate Femrite	\$ 3,075,700
DET FY Operating Costs	\$ 623,300
Total DET FY17 Estimated Costs	\$ 3,699,000

Net Savings to DET	\$ 814,700
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As a reminder, the Division of Facilities Management covers its costs through a PR-S chargeback arrangement. Consequently, expenditure authority needs to be budgeted both for the Division of Facilities Management to manage the facility and for the Division of Enterprise Technology to pay for this through the rent that it pays. But in total, the actual cost is \$814,700 less than what the Division of Enterprise Technology was paying under the previous lease agreement.

Additional expenditure authority for operating costs that will now be managed by the Division of Facilities Management was not included in the 2015-17 budget as the division did not know how long it would take to negotiate the final purchase price and get approval from the Building Commission for the transaction, as well as the rental rate to cover the operational costs. With the purchase of Femrite closed, the division is now managing the facility and receiving rent payments from the Division of Enterprise Technology. Through May 2017, the department estimates that the existing expenditure authority will be insufficient by \$1.7 million. Of this, \$1.5 million is associated with the cost of operating Femrite. The department will manage any other projected shortfalls within their existing budget authority.

In the facilities operations and maintenance appropriation, the vast majority of expenditures are fixed costs that are associated with operating state facilities and cannot be deferred. Expenses for utilities and personnel account for nearly 70 percent of the appropriation's budget. The remainder of the appropriation funds maintenance and repair costs, supplies, assessments related to information technology, snow removal, garbage removal, and janitorial services.

Without an increase to expenditure authority in the facility operations and maintenance appropriation, the department would be unable to pay for all of the costs related to management of its portfolio of state-owned buildings and would have to withhold payments from the appropriation until expenditure authority is available in fiscal year 2017-18. This would require the use of expenditure authority in fiscal year 2017-18 to pay for expenses incurred in fiscal year 2016-17, which would be highlighted in any future audits. Finally, the facility operations and maintenance; police and protection functions appropriation has sufficient revenue to fund the expenditure authority increase.

Recommendation:

Approve the request.

Date: June 13, 2017

To: Waylon Hurlburt, State Budget Director
Division of Executive Budget and Finance

From: Scott A. Neitzel, Secretary
Department of Administration 

Subject: Request for Expenditure Authority Increase Under s. 16.515

Request

To implement the purchase and operation of the Femrite Data Center, which will save the state \$814,000 a year in costs, the Department of Administration (Department) requests a one-time increase of \$1,519,200 PR-S expenditure authority, in the Department's Division of Facilities Management (DFM) facility operations and maintenance appropriation under s. 20.505(5)(ka) in fiscal year 2016-17. The request is necessary to provide for the operation of the Femrite Data Center (Femrite), which was purchased by the State of Wisconsin in fiscal year 2015-16. A reduction of \$814,700 in the information technology services appropriation under s. 20.505 (1)(kL), is proposed to offset, in part, the requested increase in Department PR-S appropriations. The proposed reduction reflects savings to s. 20.505 (1)(kL), that are anticipated to be realized from state ownership of Femrite.

Increases of \$1,557,200 PR-S and \$1,596,100 PR-S for fiscal years 2017-18 and 2018-19, respectively, in s. 20.505(5)(ka), associated with the costs of operation of Femrite; and decreases of \$(813,300) PR-S and \$(764,600) PR-S for fiscal years 2017-18 and 2018-19, respectively, in s. 20.505 (1)(kL), associated with savings expected to be realized from state ownership of Femrite, were included in the 2017-19 Agency Request and Executive Budget.

BACKGROUND

In May 2016, the State Building Commission approved the purchase of the Femrite Data Center (Femrite) for \$22,500,000 PRSB, and the Department assumed ownership on June 9, 2016. This facility was previously owned by a private entity, and prior to FY 2016-17, the Department's Division of Enterprise Technology (DET) appropriation s. 20.505 (1)(kL) paid rent and other costs of occupancy (utilities, real estate taxes, maintenance, etc.) to the owner under the terms of a triple net lease.

With the purchase of Femrite, the costs of operating Femrite (estimated at \$1,519,200 for FY 2016-17) and for debt service associated with the building purchase (estimated to \$1,556,500 annually) are now paid by DFM facility operations and maintenance appropriation s. 20.505 (5)(ka) and principal repayment, interest and rebates appropriation s. 20.505 (5)(kc), respectively. Expenditure authority for the operation of Femrite has previously not been provided for as part of DFM's current budget authority, and therefore an increase is required in order to accommodate the costs. DET continues to pay rent for Femrite, although beginning with FY 2016-17, that rent is now paid to DFM's facility operations and maintenance appropriation. State ownership of Femrite is anticipated to save DET more than \$814,700 in FY 2016-17 as shown in Appendix 2.

The requested increase in expenditure authority in s. 20.505 (5)(ka)), will be supported by revenue collected through the space rental charges to DET. A FY 2016-17 space rental rate for Computer Data Centers (Data Center) of \$54.01/sq. ft. was approved by the State Building Commission in October 2016 and will cover both operating costs and debt service. No increase in expenditure authority for debt service under s. 20.505 (5)(kc) is required in FY 2016-17 as a result of the purchase of Femrite. Accordingly, none is included in this request.

JUSTIFICATION

The Division of Facilities Management is requesting a one-time increase in expenditure authority for FY 2016-17 in the amount of \$1,519,200 PR-S to operate the Femrite Data Center. The requested operating costs include personnel costs ; insurance; utilities; snow removal; and other maintenance and supplies costs. The projected FY 2016-17 costs in s. 20.505(5)(ka), by expenditure category are provided, in detail, in Appendix 1 to this request.

The Department did not request additional expenditure authority at the time of purchase of Femrite in June 2016 in order to better analyze the actual costs of ownership and determine the portion, if any, of the FY 2016-17 increase that could be absorbed within existing authority. Based on expenditures incurred in 20.505(5)(ka), through April 2017, the Department estimates the existing expenditure authority will be insufficient by \$1.5 million, or approximately the amount of the cost to operate Femrite. Accordingly, the Department is now requesting the required authority. Increased authority required for the operation of Femrite for the 2017-19 biennium was included in the Department's biennial budget submission and in the Executive Budget.

The purchase of Femrite has resulted in projected FY 2016-17 savings of approximately \$814,700 PR-S within s. 20.505(1)(kL) associated with decreased rental charges, and the Department is requesting a one-time decrease in expenditure authority for this amount. The estimated FY17 costs to 20.505(1)(kL) (information technology services) prior to state ownership of the facility were \$4,513,700, while the total FY17 costs under state ownership are projected to be \$3,699,000, with \$623,300 charged to information technology services under s. 20.505(1)(kL) and \$3,075,700 charged to facility operations and maintenance under s. 20.505(5)(ka) (see Appendix 2 for a breakdown of the cost savings). Decreased information technology services expenditure authority associated with the savings from state ownership of Femrite were included in the Department's 2017-19 biennial budget submission and the Executive Budget.

The net increase in PR-S authority requested by the Department in FY 2016-17 is \$709,200.

Appropriation	Requested Increase/ (Decrease)
s. 20.505(5)(ka)	\$1,519,200
s. 20.505(1)(kL)	\$ (814,700)
Net Increase	\$ 704,500

SUMMARY

The Department of Administration requests an increase in the Division of Facilities Management facility operations and maintenance appropriation under s. 20.505(5)(ka) in the amount of \$1,519,200 PR-S in fiscal year 2016-17 to fund the cost of operating the Femrite Data Center, which was purchased by the State of Wisconsin in June 2016. A fiscal year 2016-17 decrease in the Department's Division of Enterprise Technology appropriation s. 20.505(1)(kL), of \$814,700 PR-S is also requested as a result of savings that are anticipated to be realized from state ownership of Femrite.

The ongoing budget authority required to operate Femrite in 2017-18 and subsequent years has been requested through the 2017-19 Budget.

Thank you for your consideration of this request. Should you have any questions or require additional information, please contact Colleen Holtan at 266-1359.

cc: John Klenke, Interim Administrator, Division of Facilities Management
David Cagigal, Administrator, Division of Enterprise Technology
Colleen Holtan, Director, Bureau of Financial Management

Appendix 1

Projected FY 2016-17 Operating Costs
Femrite Data Center

Expenditures	Amount
Personnel/Salaries	\$154,000
Fringe Benefits	58,900
Supplies - Alternate Fuels	1,000
Contractual Services Expenses	2,000
Data Processing - State	3,000
Housekeeping/Janitorial Services	45,000
Indirect Cost Allowance (<i>DFM Division Admin, BBM & DCP services</i>)	110,400
Indirect Cost Allowance - DCP	76,000
Insurance	12,800
Maintenance & Repair - DP Equipment	60,000
Minor Equipment & Software	100
Maintenance & Repair - Land/Structure	151,700
Maintenance Supplies	15,700
Municipal Services	37,000
Other Admin & Operating	20,400
Printing	100
Rent Privately-Owned Space (<i>City of Madison fiber optic & MG&E conduit</i>)	52,900
Materials & Supplies - Other	43,600
Other Telecommunications	1,000
Travel & Training/In-State	100
Utilities - Electricity	643,700
Utilities - Gas	16,500
Utilities - Water & Sewage	13,300
Total	\$1,519,200

Appendix 2

Femrite Data Center Projected FY17 Savings

Operating Costs: Lease/Non-State Ownership	FY17 Estimate
Base Rent	\$ 2,125,900
Real Estate Taxes	\$ 409,900
Gas	\$ 30,200
Sewer & water	\$ 9,700
HVAC Reserve	\$ 54,000
Structural Maintenance	\$ 14,200
Operating Costs	\$ 1,869,800
FY17 Estimated Costs (charged to s.20.505(1)(kL))	\$ 4,513,700

Operating Costs: State Ownership	FY17 Estimate
Facilities Management Operating Costs & Debt Service (s.20.505(5)(ka)) <i>[charged as space rent to s.20.505(1)(kL)]</i>	\$ 3,075,700
Information Technology Operating Costs (s.20.505(1)(kL))	\$ 623,300
FY17 Estimated Costs	\$ 3,699,000

FY17 Projected Savings to s.20.505(1)(kL)	\$ 814,700
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