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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

	2023-24	2024-25
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

	2023-24	2024-25
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	-325,400	-325,400
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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