

MINUTES OF THE MEETING OF THE JOINT APPROPRIATION SUBCOMMITTEE
ON LONG RANGE BUILDING
February 7, 1981

The meeting was called to order at 1:05 p.m. by JACK K. MOORE, Chairman in Room 104. All Committee members were present. Also in attendance was BOB ROBINSON, Legislative Fiscal Analyst.

Testimony was given by DAVE HUNTER, Director of the Department of Labor; DON GRUEL, Highway Department; PHIL HAUCK, Administrator of Architecture and Engineering Division; BILL PALMER and LAURY LEWIS, Workers, Compensation Divison, RUSSELL RITTER, City Commissioner; BOB ERICKSON, City Manager of Helena; RICH BROWN, Helena Mayor.

The CHAIRMAN stated they would be discussing construction on two Job Service Offices, the Worker's Compensation Building, and four Highway projects.

JOB SERVICE

MR. HUNTER, Director of the Department of Labor handed out EXHIBIT 7, explaining this was an amendment to the original construction estimate. He also noted there is a section of new language indicating there may be federal funds available for the construction of the Job Service facilities. At this time they are not sure the federal funds are available, but would like to have this language included in the bill. He gave a brief overview of the Job Service offices in Polson and Hamilton. He explained in both places there are 10 full time staff members and the buildings are currently being rented. These buildings are quite small for current needs, and expensive. He explained these two areas are among the most rapidly growing in the state. In the past 10 years they have an increase in work load of 55% in Hamilton and 57% in the Polson area.

REPRESENTATIVE BARDANOUE asked what type of building would these be. MR. HAUCK stated these would be very simple one story offices, similar to the one in Helena. He stated the land would have to be purchased. MR. HUNTER stated the land cost was put into the estimate. MR. HAUCK stated the total cost would be \$60 per square foot based on a 3800 square foot building.

SENATOR HIMSL asked when they would know about the availability of federal funds. MR. HUNTER stated if it will be available, they will know very shortly, and will be in a lump sum payment. The question is if it will be available.

SENATOR HIMSL asked is this required front end money, and if we were certain about federal funds, the state money could go somewhere else. REP. BARDANOUE asked if there was enough rent money to pay for the bonds. MR. HUNTER stated the federal government provides the money for rental or amortization for funds for Job Service space, and they do not anticipate any

problems on this. REP. BARDANOUE asked after 20 years, who will own these buildings. MR. HUNTER stated as long as the Employment Security Department continues to be funded by the federal government and if the buildings are used for employment offices there should be no problem. Should that change, there would be negotiations on that property. He noted the Department is responsible for maintaining on going repairs.

The CHAIRMAN stated it was his understanding that if we secured the bonds, the bond payment would be made by the rent from the buildings, which would be federal money, and would not involve any state money. He asked what guarantee we have that the federal government will keep this up and continue funding for these buildings. MR. HUNTER stated we do not have a guarantee.

The CHAIRMAN asked to discuss the Workmen's Compensation Building.

WORKER'S COMPENSATION BUILDING

MR. PALMER, Assistant Administrator at Worker's Compensation Division explained he has been involved in securing a building for quite awhile now. He noted they were turned down in 1977, and in 1979 the issued was approved. See EXHIBIT 8, Page 2. The building in the proposal would house the entire division of Worker's Compensation. He stated they have currently three (3) buildings, an old Safeway store approximately 14,500 square feet, a rebuilt apartment house with 4000 square feet, and a Logan Street building with 6,000 square feet. He stated in the last proposal, state compensation fund money was to finance the building. The Board of Investments later decided that it may be cheaper, if they went through the Long Range Building Bond Program. He stated there is a great need to get justification into one large building, due to the projected growth, and the separate utility bills, not to mention the inconvenience of having buildings spread out. In a recent study, it was decided it was better to construct a building rather than continue renting. MR. LEWIS stated it has been recommended that they seek another building site. There is some indication there might be some renewal problems on the lease, and it is an administrator's nightmare due to the separate buildings. He feels they have done a good job of keeping the Worker's Compensation rate low, but because of this low rate there is an increased workload due to greater numbers being insured.

MR. RITTER, City Commissioner stated he would like to request approval of this building if it is within the Montana state budget. He specifically requested they look to the available space downtown, because this would be in the best interest of the city, state and county. To help out they have gone on record with a resolution, EXHIBIT 9, that they would like to

offer the space for a building of this type with no funds involved to the state of Montana in an appropriate place in the downtown area. He feels this would help augment the many thousands of federal dollars that went into downtown development. He stated they are willing to give the land to the state.

REP. BARDANOUVE asked about the availability of parking for the employees. MR. ERICKSON, City Manager of Helena stated that it would be necessary to work on long range needs and he feels the parking needs can be met. At this time, he cannot promise anything 10 years down the road. There are several good sites available, and any problems could be worked out. He noted they are starting bus service which would cost approximately \$20 a month. There is a plan to go to a 6 bus system in the near future. They are presently considering going to free parking in the downtown area. He feels the downtown will be a good service and financial district.

REP. BARDANOUVE asked for projections on the future employment. MR. HUNTER stated there are 150 FTE's authorized now and feel there would be approximately 225 employees in a 10 years time.

REP. BARDANOUVE stated before he would approve a downtown building, he would like to have absolute assurance there will be adequate parking in 10 years time. MR. ERICKSON stated these details have not been discussed at this time. He feels it is premature to say if the employees are going to have to pay for parking in the future or not. He feels the site proposed would have to consider these aspects. REP. BARDANOUVE asked if there was an alternative site proposed possibly within the state complex. MR. HAUCK stated there is land available within the capitol complex, but this particular building has not been considered for that site.

REP. BARDANOUVE stated he would like to have the recommendations of Architecture & Engineering where they feel an adequate site might be.

MAYOR RICH BROWN stated establishing a state building downtown would not be setting a precedent since others are already located there. He noted that the downtown area is in the center of Helena and within walking distance of 2/3 of the population. He stated in talking to some of the state people, they would rather be located downtown. He noted where ever you would locate there will be costs associated with fire and police protection. He stated the state complex has maximized traffic capacity at peak times and the downtown area would be more capable of carrying these loads.

SENATOR HAFNEY asked if there was a state plan with regard to facility location in the Helena area. MR. HAUCK explained there was a 1969 state plan that is being followed and the space is being used faster than anticipated.

The CHAIRMAN asked for the total rental costs. MR. PALMER stated for all three (3) buildings being rented the cost is approximately \$145,000. The CHAIRMAN asked what the utility costs were. He asked if the building is built, who is going to pay for it. MR. PALMER stated they would pay for it by retiring the bonds from rental fees. The state does not pay for the building. They have an assessment that they levy against the insurance companies, this goes into an earmarked revenue fund and is used for operations. The CHAIRMAN stated then all we do is sell bonds to finance this, the bonding from the general fund would provide the front end money and be paid for by earmarked revenue account. MR. PALMER stated that is correct. SEN. HIMSL asked what happened to the original plan of taking this away from general fund money, and financing your own program. MR. LEWIS explained this proposal was looked at by the Board of Investments and they felt it would be more economical to sell revenue bonds, than tie up their corporate securities. He stated last year the yield was 9% overall. He noted they have some 5% bonds and some 16% bonds. It was felt they would have to have at least 11% on the investment. He stated they can borrow money for 8% and receive approximately 16% on what they now currently have invested.

The CHAIRMAN noted this was one of seven add-on projects in Governor Schwinden's budget. He stated where there is cash money, he would like to see cash money used and not run into long term indebtedness. He asked to now discuss the Department of Highways projects.

DEPARTMENT OF HIGHWAYS

MR. GRUEL, Administrator of the Maintenance Division stated the Department of Highways has four items in the Long Range Building Program. The first item is to repair and maintain buildings throughout the state including roof repair, insulation and other general repairs. Also included are the equipment storage garages at six (6) different locations, these are Clearwater, St. Regis, Lost Trail Pass, Hot Springs, Big Timber and Lodge Grass. The total appropriations for these would be \$221,700. The next item was sand houses in six (6) different locations for \$126,750. These locations are Big Timber, Lodge Grass, Bridger, Wyola, Moccasin and Landusky. Next would be \$100,000 to improve the gasoline storage and road oil storage tanks. It is necessary to enlarge the fuel storage tanks because at present, they cannot take advantage of the maximum loads of the trucking industry.

MINUTES OF THE MEETING OF THE JOINT APPROPRIATION
SUBCOMMITTEE ON LONG RANGE BUILDING
February 7, 1981

Page 5

REPRESENTATIVE HURWITZ asked if this was earmarked funds. MR. GRUEL stated this was all earmarked funds. He noted these were the only projects the Highway Department was requesting this biennium.

There being no further discussion or comments, the meeting was adjourned at 2:03 p.m.



JACK K. MOORE, CHAIRMAN

mg

Proposed Changes for Long Range Building Program

Department of Labor and Industry

Amend:

| | |
|-------------------------------------|--------------------|
| Construct Polson Job Service Office | 500,000 |
| | 755,000 |
| Construct Hamilton Job Service | 500,000 |
| | 755,000 |

New Section:

Section __. Federal Funding of Job Service Construction. If federal funds are made available for the construction of Job Service facilities prior to the sale of Long Range Building Bonds, provided for in section 8; federal funds shall be substituted for the amounts appropriated in section 8.

Members of the Long Range Building Committee
Page Two
February 5, 1981

Architecture and Engineering, therefore, prepared a program which included square feet requirements and building cost estimates for the facility. It was recognized that the need for the structure was even more justified than it had been two years earlier. This time, the needs were reviewed by a building consultant, a CPA firm, and the State Fund's actuarial consultant. Material was then compiled in various forms and presented to the Office of Budget and Program Planning, the Division of Architecture and Engineering, and eventually incorporated as part of the Executive Building Proposal to the 46th Legislature. The legislative proposal itself took the form of Senate Joint Resolution Number 11 sponsored by Senator Blaylock. The resolution was referred to the Senate Labor Committee for consideration and was passed there by a vote of five to four. The primary concern in that committee was the investment yield of 6%. There seemed to be misapprehensions about the justification because all factors, building life, investment yield, and the rate of inflation were projected on a conservative basis.

The Long Range Building Committee passed the resolution eight to zero. Senate Finance and Claims passed it eleven to one. On second reading in the Senate, it passed 29 to 19. In the House, the Appropriation Committee approved the resolution 13 to 1. It passed the second reading by a vote of 63 to 19, and third reading by a vote of 72 to 18. The only question raised in any of the proceedings concerned the yield of the investment, which seemed to be satisfied when the Fiscal Analyst was requested by Senator Lowe to add language to the resolution which would allow the Board of Investments to concur on the interest yield of the facility. The need issue, because of the material presented, never arose. As you can see, most of the votes on these committees were overwhelming, as a sizeable majority of the people involved felt that the need for the facility was definitely justified.

Once the session was completed, a proposal was then presented to the Board of Investments during its spring meeting in Helena. At that time, the investment board requested some particulars about the building, including the treatment of the building appreciation, actuarial assumptions and its effect on the Trust Fund Balance Sheet, the availability of existing office space in Helena which would be comparable to the needs of the Division, a projected need of office space, a listing of various leases now in existence, an attorney's opinion on the three year lease issue, and whether or not competitive bids would be required to lease the space between state agencies. Responses were provided, but the Division took the position that legislative intent was to have the Board of Investments determine a proper rate of return on the facility. We were extremely anxious to get the approval of the Board of Investments at the spring meeting because the lease on the current building was due to expire within two months. There was an option on that lease which allowed us to renew at the same rate for another ten years, and should we not exercise that option, additional rental costs would no doubt be forthcoming.

Members of the Long Range Building Committee
Page Three
February 5, 1981

As it turned out, the Board of Investments did not move on the item until some time later, and the division felt that it could not lease the facility for another ten years, anticipating approval of the proposal. Rental on the facility was negotiated for a shorter three year term at \$1.25 more per square foot, which eventually cost the Division an additional \$32,000 a year. At its fall meeting, Senator Blaylock appeared to testify as to the legislative intent on the responsibility of the Board of Investments in determining a rate of return. However, at that meeting, the Board of Investments felt that their responsibility not only was to determine a rate of return, but also the building site and the propriety of the State Trust Fund owning a real estate facility.

NEED STILL APPARENT

The rest of the story is history. You can understand our bewilderment. As of this date, nothing has changed since that first day in 1976 when the Division Administrator, in concert with his staff, realized that something had to be done. It is now 1981, and we are continuing to experience the same problems. The growth of the State Fund in terms of premium dollars and workload factors is continuing to spiral. We have demonstrated to the Office of Budget and Program Planning, which has been very receptive to our needs, that staffing in this area will have to be considerably increased during the next biennium in order for us to continue to pay benefits and accommodate employers in an efficient way. The Division currently has 164 FTE's authorized and has budget office approval for an additional 28 during the next biennium.

As was explained during the Executive Planning Process, growth of the State Compensation Insurance Fund has led to a tremendous increase in workload factors. In a period of less than seven years, earned premium has increased almost two and one-half times. Claims expense has increased three and one-half times, as has compensation paid. Dividends have increased from a little over \$650,000 to better than \$6.6 million annually. Enrollments have increased by 30% since the initial spurt when coverage became compulsory in 1973. Accidents reported have increased from 10,000 in 1974 to better than 19,000 in fiscal 1980. Projections indicate that these workload factors, as well as the Division in general, will continue to grow. Part of the reason for the growth is that a great number of firms have been transferred from the private insurance companies to the State Insurance Fund because of the more favorable rates and better benefit and claims handling.

The need for expanded facilities was apparent in 1976, again in 1978 and 1979, and is even more so today. The way the Division has approached the building problem has essentially been very simple. In fact the reason for its complication is the system that it has had to follow. Mr. Grosfield made a very profound statement in his letter of July 29, 1976, to the Division's (then) attorney, Mr. Tim W. Reardon:

Members of the Long Range Building Committee
Page Four
February 5, 1981

"It is my belief that instead of going through the complicated mortgage system, or mortgage-lease system, or some other system that could be established by the bureaucracy, I believe the State Fund could merely pay for the building out of its reserves while it is being built. However, such a system would, apparently, be so simple that the Department of Administration would not accept it and nobody could understand how we could do it."

It now appears that Mr. Grosfield was entirely correct. The system was simple and the Legislature understood it. It is now apparent that construction is not the issue but rather the method of financing. In a letter dated September 6, 1979, to the Legislative Finance Committee, Mrs. Rippingale states in her summary remarks:

"The building's financing would be more feasible through issuing long range building bonds. These bonds would need to be approved by the 1981 legislature."

Our impression from the Board of Investments is that it also supports the Legislative Fiscal Analyst's suggestion that financing the construction of the facility would be best accomplished by issuing long range building bonds.

Our desire is to once again approach the legislature with the facility problem, find a solution, and solve the need.

I would be happy to provide you with any additional information you may need.

Very truly yours,



LAURY M. LEWIS
Administrator

LML/nmb

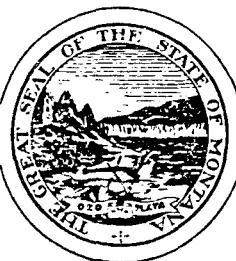


**DIVISION OF
WORKERS'
COMPENSATION**



~~XXXXXXXXXXXXXXXXXXXX~~ Ted Schwinden, Governor

815 FRONT STREET



STATE OF MONTANA

HELENA, MONTANA 59601

February 7, 1981

WORKERS' COMPENSATION BUILDING PROPOSAL

Background

The Division of Workers' Compensation presently consists of four bureaus. The operating units of these bureaus are presently located in three separate rental facilities in Helena. The scattering of the Division's responsibilities in three separate facilities creates many problems in terms of management efficiency and effectiveness and, as discussed later in this memorandum, a combined facility will greatly resolve many of these problems.

Proposal

This proposal is to construct a new facility to provide office space for all units of the Division. The Department of Administration estimates the cost of the new facility, excluding land acquisition, at \$3,915,302. The facility will house approximately 195 employees and allow for a 15% expansion. The construction of the new facility will be funded by issuing bonds through the Long Range Building Program. Rather than pay rent for a facility, the Division will retire the bonds from its operating budget.

Justification

In planning for the construction of the new facility, an analysis was made of the project in terms of the problems encountered with the Division's activities and responsibilities located in three different rental facilities. The feasibility of the building proposal was measured against several criteria.

Efficiency and Effectiveness of Customer Service

All of the Division's programs deal directly with numerous public interests. A new facility would improve the efficiency and effectiveness of public access to program personnel and records, referrals between activities, and handling of informal appeals and complaints.

Energy Conservation

A new facility should reduce the electric and gas consumption because of better ventilation and insulation, lower ceilings, improved office design (including indirect lighting), and modern efficient heating systems. Gasoline consumption should also be reduced because of the discontinuance of the need to transfer records and personnel between the rental facilities.

Management Efficiency and Effectiveness

Under existing conditions, the Division cannot consolidate some of the in-house services. If the Division was in one facility, consideration could be given to the consolidation of receptionists, telephone system, and photo copying.

The access to records by agency personnel and the transmitting and storage of records will greatly improve in a consolidated facility.

Top management is responsible to control the activities of their employees, and the facility would provide the Administrator with improved access to the Division's management, and in turn, they would have better access to their supervisory personnel. This improved communication will allow top management to make timely decisions, correct problems before they become serious, and create an environment where complaints, either by the employees or the public, can be immediately referred to the proper source.

Efficient and Effective Personnel Management

A combined facility will allow for the improvement of personnel procedures in the areas of recruiting, interviewing, and training. In addition, the Division will have better control to insure that the equal employment opportunity requirements are met.

All program activities experience peak and valley work loads. Through the cross-utilization of personnel, the Division will be able to meet the peak loads of one activity by using personnel from other activities. Cross-utilization of personnel is almost impossible under the present conditions.

A new facility should improve employee morale and performance. The working conditions in some of the existing rental facilities do not promote or encourage efficient and effective employee performance. It is also difficult for employees to become aware of the total responsibility of the Division, because they are not in day to day contact with other employees serving in other areas. The ability of the employee to identify with the entire Division's responsibilities and be aware of the responsibilities of other activities within the Division should go a long way to improve employee performance.

Economic Criteria

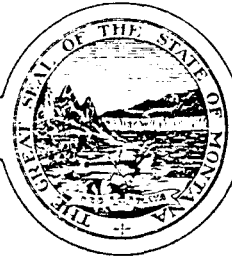
Although the other criteria and advantages discussed above, in the Division's view, justify the construction of this new facility, it is of extreme importance to consider the economic benefits that would be achieved. Using a present value technique, a comparison was made of the total construction and maintenance cost of a new facility with the cost of continuing to rent the existing facilities. The analysis was made for a twenty-year period, assuming a 6% rate of return for the present value technique and allowing for minimal increases in rental costs, and some expansion over the period. The analysis shows that the construction option results in an economic savings over continuing to lease the existing facilities. This will result in savings to all employers insured under all three of the compensation plans under the Workers' Compensation Act.

This economic analysis was extremely conservative because the useful life of a new facility would, undoubtedly, be longer than 20 years, and any extension beyond that time greatly increases the savings to the state. In addition, the analysis does not include the savings that would be generated through the consolidation of services and equipment or the cross-utilization of personnel. The savings could be very substantial when considering these other factors and the total useful life of the facility.

Conclusion

The Division believes that using the objective criteria proposed, a combined facility will improve the Division's operation, and consequently, state government's efficiency and effectiveness. The facility can be constructed without using general revenue dollars or moneys available for the construction of other projects. It will also result in an overall economic savings to the Division and provide an excellent investment of state moneys.

DEPARTMENT OF ADMINISTRATION
ARCHITECTURE & ENGINEERING DIVISION



THOMAS L. JUDGE, GOVERNOR

1500 EAST SIXTH AVENUE

STATE OF MONTANA

(406) 449-3104

HELENA, MONTANA 59601

December 18, 1980

RECEIVED
7 DEC 19 1980
DIVISION OF WORKERS'
COMPENSATION

Mr. William R. Palmer
Assistant Administrator
Workers' Compensation Division
Department of Labor & Industry
815 Front Street
Helena, Montana 59601

Dear Bill:

Attached is the estimate you requested for a 48,685 sq.ft. Workers' Compensation Division Building. Please note that the estimate assumes a July 1982 bid date and does not include a provision to purchase land. Basically, the estimate is an update of those prepared during the last four years, so if there are any new requirements or changes I have overlooked, please let me know.

Sincerely,

Tom

THOMAS B. O'CONNELL, Chief
Facility Planning Bureau

TBO/lmh

P.S. You may not have a building yet but you're a runaway for having the biggest L.R.B.P. file with the most estimates in the office. Maybe the Christmas spirit will help with the approval this time.

cc: David Lewis
Gene Huntington

PRELIMINARY ESTIMATE
PROPOSED WCD BUILDING
HELENA, MONTANA

| | | |
|----|---|--------------------|
| 1. | Building as proposed by area requirements: | |
| | 48,685 sq.ft. @ \$56.36 | \$2,743,886 |
| 2. | Estimated Construction Cost, December 1980 | |
| | 1980-1981 @ 9% - 246,950 | 2,990,836 |
| | 1981-1982 @ 6% - 179,450 | 3,170,286 |
| | By assuming July, 1982 bid date, the Construction Cost will be: | \$3,170,286 |
| 3. | Architects Fees | 237,771 |
| 4. | Administration, advertising, contingency, etc. @ 5% of Construction Cost | 158,514 |
| 5. | Site work/Landscaping @ 4% of Construction Cost | 126,811 |
| 6. | Furnishings @ 7% of Construction Cost | <u>221,920</u> |
| | TOTAL | <u>\$3,915,302</u> |

Resolutions of City of Helena, Montana
RESOLUTION No. 9272 (R-81)A RESOLUTION CALLING FOR THE SALE TO THE
STATE OF MONTANA OF A PARCEL OF LAND IN
THE URBAN RENEWAL AREA OF DOWNTOWN HELENA

WHEREAS, The Honorable Ted Schwinden, Governor of the State of Montana, in amendments to the Executive Budget for the State of Montana for the 1982-1983 Biennium has indicated that the State of Montana intends to construct a new building in the Helena area to house the Workers Compensation Division of the Department of Labor and Industry of the State of Montana;

WHEREAS, the construction of said building will benefit not only the State of Montana, but also will benefit the people of the City of Helena, Montana;

WHEREAS, the City of Helena, Montana, owns several parcels of land in the Urban Renewal District of Downtown Helena that would be suitable for the construction of such a building;

WHEREAS, the location of said building in the Urban Renewal District of the City of Helena, Montana, would place said building within close proximity to the Montana State Capitol Complex and would place said building in a location close to most residential neighborhoods in the City of Helena, Montana;

WHEREAS, locating said building in close proximity to the State Capitol Complex and most residential neighborhoods in the City of Helena, would be in the public interest, since said placement of said building would save energy and be most convenient to the public;

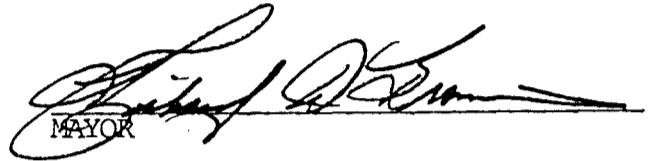
WHEREAS; locating said building within the Urban Renewal District of Downtown Helena would complement the general growth pattern of the City of Helena, and would be in compliance with all zoning regulations of said City, including the Comprehensive Plan of the City of Helena.

NOW, THEREFORE, BE IT RESOLVED BY THE COMMISSION OF THE CITY OF HELENA:


SECTION ONE) That by reason of the aforesaid it would be in the best interests of the State of Montana and of the City of Helena and the people thereof, if the State of Montana were to construct, in Downtown Helena, the newly proposed building to house the Workers Compensation Division of the Department of Labor and Industry of the State of Montana.

SECTION TWO) That the Commission of the City of Helena hereby directs and authorizes appropriate City officials to offer for sale to the State of Montana, for a nominal consideration, a suitable building site in the Urban Renewal District of the City of Helena, Montana, for the construction of the newly proposed building to house the Workers Compensation Division of the Department of Labor and Industry of the State of Montana.

PASSED AND EFFECTIVE this 26th day of January, 1981.


MAYOR

ATTEST:


CLERK OF THE CITY COMMISSION