

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Fiscal Note

BILL NUMBER: House Bill 73 (First Edition)

SHORT TITLE: Improve State Construction Process.

SPONSOR(S): Representatives Michaux, Owens, and Justice

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>FY 2011-12</u>
EXPENDITURES:					
General Fund					
Department of Insurance	\$777,386	\$729,386	\$772,420	\$817,993	\$864,618
Office of State Personnel	No Anticipated Impact				
SAVINGS:	Potential savings could be as high as \$946,578 per year				
POSITIONS (cumulative):	8	8	8	8	8
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: State Construction Office; Office of State Personnel; Department of Insurance; any agency affected by the Capital Budget.					
EFFECTIVE DATE: Upon ratification; Section 7 becomes effective July 1, 2007.					

BILL SUMMARY: Appropriates \$777,386 for 2007-08 and \$729,386 for 2008-09 from the General Fund to the Department of Insurance to fund engineer and enforcement officer positions. Directs the State Building Commission to review the State capital improvement process to establish or change the guidelines for the design and inspection of State building projects and plan review in order to increase accountability and to document standards and processes. Requires the commission to report to the General Assembly by April 30, 2008, and December 31, 2008, concerning (1) the capital improvement process guidelines and (2) the commission's progress in implementing the recommendations of the Legislative Study Commission on State Construction Inspections. Requires the State Personnel Office to work with the Department of Administration, Department of Insurance, and other agencies to conduct a market study on architect and engineer salaries and position classifications, to be completed no later than six months after the act becomes

law. Amends GS 143-129(a) to increase the statutory floor for formal contacts from \$300,000 to \$500,000. Amends GS 44A-26(a) to increase the bonding requirements for projects greater than \$300,000 to projects greater than \$500,000. Amends GS 143-64.34 to exempt from Article 3D (procurement of architectural, engineering, and surveying services) capital improvement projects of less than \$500,000 for state agencies, the University of North Carolina, and community colleges. Bidding, bonding, and project exemption changes are effective for projects funded by the General Assembly on or after July 1, 2007. Appropriation is effective July 1, 2007

Source: Bill Digest H.B. 73 (02/05/0200).

ASSUMPTIONS AND METHODOLOGY:

Section 1: This section establishes guidelines for the State Building Commission to follow in carrying out the provisions of this bill. There is no impact on either savings or expenditures in this section.

Section 2: This section details the topics to be included in the reports the State Building Commission is required to file. There is no impact on either savings or expenditures in this section.

Section 3: This section requires the State Personnel Office to perform a market study of architect and engineer salaries and position classifications. There is no impact on either savings or expenditures in this section, as the report can be completed with existing resources.

Section 4: This section increases the statutory floor for formal contacts from \$300,000 to \$500,000. According to the State Construction Office, the change to the bidding floor proposed in this section of the legislation would affect 33 projects per year. From 1/1/02 to 12/31/06, the average price of these projects was \$391,726. The current inflationary escalation of 8% per year translates to 0.0219% per day. The State Construction Office estimates that 14 days of advertising time would be saved per project, on average, as a result of the proposed change to the bidding floor. Thus, the changes proposed in this section of the legislation could save \$86 per day, \$1,201 per project, and \$39,634 overall per year.

According to University of North Carolina General Administration, the change to the bidding floor proposed in this section of the legislation would affect 55 projects per year. The average price of these projects is \$317,513. The current inflationary escalation of 8% per year translates to 0.0219% per day. University of North Carolina General Administration estimates that 30 days would be saved per project, on average, as a result of the proposed change to the bidding floor. Thus, the changes proposed in this section of the legislation could save \$70 per day, \$2,086 per project, and \$114,733 overall per year.

The total projected savings are \$155 per day, \$3,287 per project, and \$154,367 per year as a result of this section of the legislation.

Section 5: This section increases the bonding requirements for projects greater than \$300,000 to projects greater than \$500,000. According to the State Construction Office, this section of the legislation would affect 33 projects per year at an average cost of \$391,726 each. Depending on a contractor's bond rating, and assuming the state would pay an average of 1.5% per bond, the State could save \$5,876 per project and \$193,904 per year as a result of this section of the legislation.

According to University of North Carolina General Administration, this section of the legislation would affect 55 projects per year at an average cost of \$317,513 each. Depending on a contractor's bond rating, and assuming the state would pay an average of 1.5% per bond, the State could save \$4,673 per project and \$261,948 per year as a result of this legislation.

The total projected savings are \$455,853 per year as a result of this section of the legislation.

Section 6: This section exempts capital improvement projects of less than \$500,000 for state agencies, the University of North Carolina, and community colleges from Article 3D, which concerns the procurement of architectural, engineering, and surveying services. According to the State Construction Office, the new exemptions proposed in this section of the legislation would affect 33 projects per year. From 1/1/02 to 12/31/06, the average price of these projects was \$246,510. The current inflationary escalation of 8% per year translates to 0.0219% per day. The State Construction Office estimates that 60 days of selection time would be saved per project, on average, as a result of the proposed new exemptions. Thus, the changes proposed in this section of the legislation could save \$54 per day, \$3,239 per project, and \$106,892 overall per year on projects for state agencies.

According to University of North Carolina General Administration, the new exemptions proposed in this section of the legislation would affect 55 projects per year. The average price of these projects is \$317,513. The current inflationary escalation of 8% per year translates to 0.0219% per day. University of North Carolina General Administration estimates that 60 days would be saved per project, on average, as a result of the proposed new exemptions. Thus, the changes proposed in this section of the legislation could save \$70 per day, \$4,172 per project, and \$226,467 overall per year.

The total projected savings are \$124 per day, \$7,411 per project, and \$336,358 per year as a result of this section of the legislation.

Section 7: This section appropriates from the General Fund of \$777,386 for the 2007-2008 fiscal year and \$729,386 for the 2008-2009 fiscal year to establish eight new positions in the Department of Insurance.

Section 8: This section details the implementation schedule of the legislation. There is no impact on either savings or expenditures in this section.

Other: The Department of Administration has recommended an appropriation from the General Fund of \$318,287 recurring and \$16,000 nonrecurring in the Governor's Budget for the 2007-2008 fiscal year and \$318,287 recurring in the Governor's Budget for the 2008-2009 fiscal year to establish an additional Design Review Team in the State Construction Office, which would

accelerate the review process and allow construction to begin more quickly. As these positions were not included in the bill, their fiscal impact is not included in this fiscal note. They will, however, contribute to an indeterminable amount of future savings.

SOURCES OF DATA: State Construction Office; Department of Insurance; University of North Carolina General Administration; State Personnel Office.

TECHNICAL CONSIDERATIONS: All positions in the Department of Insurance are funded by receipts from the Insurance Regulatory Fund, by reimbursing the General Fund quarterly. As this bill is written, the eight positions created in Section 7 would be funded from the General Fund, with no provision for reimbursement. Thus, these positions would be funded differently than all other positions within the Department.

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DATE: March 21, 2007



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