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Economic Affairs Interim Committee

61st Montana Legislature

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May 10, 2010

To: Members of the Economic Affairs Interim Committee
From: Hope Stockwell, Research Analyst, LSD
Re: SJR 14 state labs study

In advance of your May meeting, I've prepared answers to the below questions raised by the EAIC in March. Please feel free to contact me if you have further questions.

1) What would be the cost of losing accreditation for the Veterinary Diagnostic Lab (VDL) in Bozeman? The VDL's accreditation with the American Association of Veterinary Laboratory Diagnosticians, Inc. (AAVLD) is at risk due to the condition of its facility and funding. It's difficult to determine the exact cost of losing that accreditation, but VDL Director Dr. Bill Layton and legislative staff have contemplated several possible impacts, including the loss of federal funding for equipment and personnel, and increased wait times and fees for producers who have to send samples to accredited laboratories out of state. Please note:

- **Accreditation is required to maintain affiliation with the National Animal Health Laboratory Network** through which the VDL:
  - has received $90,317 for equipment, proficiency testing, and IT support;
  - will receive $110,000 over the next two years for salaries and benefits;
  - can compete for surveillance testing contracts. In the last 3 years, the VDL has derived $150,000 for H5N1 testing in birds with US Wildlife Services.
  - anticipates receiving income for Pseudorabies (conducted on all slaughter pigs in Montana), Foot and Mouth Disease, and Class Swine Fever testing.
- **Accreditation has been helpful in obtaining federal grants**, including:
  - $120,000 from Emergency and Homeland Security funding for equipment purchases; and
  - $50,000 from CDC for West Nile Virus test development.
- **Accreditation allows the VDL to conduct tests for animals crossing state lines.** For trichinosis alone, the VDL has earned at least $75,000.
- Barb Smith with LFD is researching whether any of the equipment grants would have to be repaid if accreditation is lost.
- Dr. Layton's memo about the importance of retaining accreditation is **Appendix B** of the SJR 14 draft study report that EAIC members received in March.

2) What would the cost of designing a new laboratory be? If a new $7.6 million facility were constructed to house the VDL, the Wildlife Lab, and the Analytical Lab, as estimated in **Appendix J** of the SJR 14 draft study report, approximately 12%, or $912,000, would be used for planning, design, blueprints, bidding, and construction administration. Of that $912,000, Jim Whaley, Bureau Chief of the Design and Construction Bureau for the Department of Administration, estimates about $319,000 would be needed for planning and design, $319,000 would be used to develop blueprints, and $273,600 would go to bidding and administration of the actual construction.

3) What is the cost per type of biosecurity? There are four levels of biosecurity. BSL-1 is the most basic and BSL-4 is the most stringent. Dr. Layton indicates his lab currently is considered a BSL-2 facility.

As discussed on page 11 of the SJR 14 draft study report, the VDL would benefit from having an in-house BSL-3 facility. In **Appendix J** of the SJR 14 draft study report, Jim Whaley estimated the cost of BSL-3 space at $234.00 per square foot. For comparison, the cost of BSL-3 lab space used by the MSU Department of Veterinary Molecular Biology was about $760 per square foot.

Regarding BSL-4 space, Dr. Layton says this high level of security is above and beyond what the VDL requires. Staff had difficulty determining a cost per square footage, but found one engineering report (http://hpac.com/ventilation-iaq/biosafety_level_labs) that put it in the range of $700 to $1,200. The same report noted additional cost considerations. For instance, a BSL-4 lab requires a bigger "support space" than a lower security lab. The report states one kind of BSL-4 lab requires 6,460 square feet of support space for every 1,000 square feet of BSL-4 space compared to 1,890 square feet of support space for every 1,000 square feet of BSL-2 space.

4) Can space and people be consolidated in a new facility? In **Appendix J** of the SJR 14 draft study report, Jim Whaley provided a preliminary analysis of space needs, but stated that without an in-depth programming exercise (part of the first stage of a construction project's planning and design) it wouldn't be prudent to make any changes. Preliminarily, Whaley indicated that at the:

- **Analytical Lab**, a new building of equal size would accommodate the existing programs with room for growth. There may be some opportunity for minimal size reduction. There are some inherent inefficiencies with the layout and configuration of existing spaces, because the building was converted from other uses.
- **VDL**, a new building of equal size would accommodate the existing programs and integration of the Wildlife lab and necropsy functions. Individual space requirements may require some modest increase in area. There are some inherent inefficiencies with the layout and configuration of existing spaces, because the building was converted from other uses.
- **Wildlife Lab**, lab and office space are adequate but fully utilized. The necropsy area doesn't have adequate hoist and rails to facilitate efficient movement and storage of large carcasses and lacks bio-security.

Regarding a consolidation of people, due to the varied mission, type of work conducted, and workload of each lab, it appears there would be minimal opportunities to consolidate FTE. To further contemplate this question, an analysis beyond the scope of SJR 14 would be required.

5) What are potential funding sources for a new laboratory facility? As detailed on page 21 of the SJR 14 draft study report, finance options include:

- a general fund appropriation by the legislature;
- issuance of a general obligation bond, typically for a 20 year term;
- use of the Build America Bonds program (detailed in Question 6);
- financing through the Board of Investments (BOI). The BOI could either finance a new

building via a mortgage, as it did with the existing Department of Public Health and Human Services Building, or purchase and hold the building as an investment in the pension portfolios. A minimum of 7.5 to 8 percent return would likely be required by the BOI. Debt service would be structured according to the requirements of the BOI; and

- a public-private partnership, which could be structured in several ways. One option is to contract with a private developer to construct a new building according to the state's specifications. The state would then lease the building from the developer. A lease/purchase agreement could be structured to provide the state an option to purchase the building at the end of some specified period of time. Lease payments would be paid by the agencies occupying space in the new building.

6) What are Build America Bonds? As part of the American Recovery and Reinvestment Act of 2009, the U.S. Department of Treasury announced the Build America Bonds program, which allows state and local governments to issue taxable bonds in 2009 and 2010 to finance capital projects for which they could otherwise issue tax-exempt bonds. Through the program, the governmental issuer receives a direct federal subsidy payment for a portion of the borrowing costs in an amount equal to 35% of the interest payment on the bonds. For example, if a state were to issue Build America Bonds at a 10% taxable interest rate, the Treasury would make a payment directly to the state of 3.5% of that interest and the state's net borrowing cost would be only 6.5%. The idea is to make the bonds attractive to a broader group of investors. Please note:

- On March 24, 2010, as part of H.R. 4849, the U.S. House of Representatives approved a three-year extension of the program, set to expire December 31, 2010, while reducing the subsidy to 33% in 2011, 31% in 2012, and 30% in 2013.
- A report by Bloomberg in November 2009 found state and local governments have paid an average of 37% more in underwriting costs for Build America Bonds ($7.39 per $1000) than tax-exempt bonds ($5.40 per $1000).
- Many governmental issuers appear to be using a mix of tax-exempt and Build America Bonds in financing packages.

7) Could a new, joint laboratory be located in another community? Could other communities bid on the project? Currently, the labs considered in the SJR 14 analysis are located in Bozeman, Helena, and Great Falls. Movement of any laboratory to another community would require the legislature to consider whether an entire staff could be moved or whether the new community could provide a trained workforce for the labs' services and programs. This also would require a cost-of-living analysis for the new community and whether a laboratory's budget and pay bands could accommodate such changes.

Communities could bid on such a project, much like has been done for the southwestern Montana state veterans' home (HB 213, 2009). This would require a bill to establish a selection committee and provide a funding source for the bidding and selection process.

In March, EAIC members raised two other questions: 1) Are the involved state agencies and MSU willing to play ball on building a new, joint laboratory? and 2) Could the Grain and Seed Labs be included in SJR 14? These questions will be addressed during the May EAIC meeting.