

# Multiple Agency Fiscal Note Summary

<b>Bill Number:</b> 5456 S SB	<b>Title:</b> American or recycled steel
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## Estimated Cash Receipts

NONE

Local Gov. Courts					
Loc School dist-SPI					
Local Gov. Other					
Local Gov. Total					

## Estimated Operating Expenditures

Agency Name	2019-21			2021-23			2023-25		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Department of Enterprise Services	.0	0	0	.0	0	0	.0	0	0
Department of Transportation	Non-zero but indeterminate cost and/or savings. Please see discussion.								
SWF Statewide Fiscal Note - OFM	.0	0	0	.0	0	0	.0	0	0
<b>Total \$</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>

Local Gov. Courts									
Loc School dist-SPI									
Local Gov. Other	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Local Gov. Total									

## Estimated Capital Budget Expenditures

Agency Name	2019-21			2021-23			2023-25		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Department of Enterprise Services	.0	0	0	.0	0	0	.0	0	0
Department of Transportation	.0	0	0	.0	0	0	.0	0	0
SWF Statewide Fiscal Note - OFM	Non-zero but indeterminate cost and/or savings. Please see discussion.								
<b>Total \$</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>

## Estimated Capital Budget Breakout

NONE

<b>Prepared by:</b> Carly Kujath, OFM	<b>Phone:</b> (360) 902-7301	<b>Date Published:</b> Final 3/ 8/2019
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# Individual State Agency Fiscal Note

Revised

<b>Bill Number:</b> 5456 S SB	<b>Title:</b> American or recycled steel	<b>Agency:</b> 179-Department of Enterprise Services
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## Part I: Estimates

☒ No Fiscal Impact

*The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.*

Check applicable boxes and follow corresponding instructions:

- ☐ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- ☐ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- ☐ Capital budget impact, complete Part IV.
- ☐ Requires new rule making, complete Part V.

Legislative Contact: Melissa Van Gorkom	Phone: 360-786-7491	Date: 02/22/2019
Agency Preparation: Ronell Witt	Phone: (360) 407-9321	Date: 03/06/2019
Agency Approval: Ronell Witt	Phone: (360) 407-9321	Date: 03/06/2019
OFM Review: Carly Kujath	Phone: (360) 902-7301	Date: 03/07/2019

## Part II: Narrative Explanation

### II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

*Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.*

Section 1(2) requires public works contracts to use steel products that are produced in the United States, or in a country where 65% of their total steel output is by means of electric arc furnaces using postconsumer scrap metal.

Section 1(3) waives the requirements of Section 1(2) if there is an insufficient supply of qualifying steel to meet the needs of the project, or the acquisition of qualifying steel will increase the total project cost by more than 20%.

Incorporating these changes in the public work contracting documents to comply with this legislation will be done within routine business processes. Therefore this has no fiscal impact.

### II. B - Cash receipts Impact

*Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.*

### II. C - Expenditures

*Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.*

## Part III: Expenditure Detail

## Part IV: Capital Budget Impact

NONE

## Part V: New Rule Making Required

*Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.*

# Individual State Agency Fiscal Note

Revised

<b>Bill Number:</b> 5456 S SB	<b>Title:</b> American or recycled steel	<b>Agency:</b> 405-Department of Transportation
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## Part I: Estimates

☐

No Fiscal Impact

### Estimated Cash Receipts to:

NONE

### Estimated Operating Expenditures from:

Non-zero but indeterminate cost. Please see discussion.

*The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.*

Check applicable boxes and follow corresponding instructions:

☒

If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐

If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐

Capital budget impact, complete Part IV.

☒

Requires new rule making, complete Part V.

Legislative Contact: Melissa Van Gorkom	Phone: 360-786-7491	Date: 02/22/2019
Agency Preparation: Jon Deffenbacher	Phone: 360-7057829	Date: 03/07/2019
Agency Approval: Craig McDaniel	Phone: 360-705-7823	Date: 03/07/2019
OFM Review: Alyssa Ball	Phone: (360) 902-0419	Date: 03/08/2019

## Part II: Narrative Explanation

### II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

*Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.*

See attached WSDOT Fiscal Note.

### II. B - Cash receipts Impact

*Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.*

See attached WSDOT fiscal note.

### II. C - Expenditures

*Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.*

See attached WSDOT Fiscal Note.

## Part III: Expenditure Detail

## Part IV: Capital Budget Impact

NONE

## Part V: New Rule Making Required

*Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.*

See attached WSDOT Fiscal Note.

# Individual State Agency Fiscal Note

<b>Bill Number:</b> SSB 5456	<b>Title:</b> American/Recycled Steel in Pub Works Projects	<b>Agency:</b> 405-Department of Transportation
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## Part I: Estimates

Use the fiscal tables provided below to show fiscal impact by account, object, and program (if necessary), **add rows if needed**. If no fiscal impact, check the box below, skip fiscal tables, and go to Part II to explain briefly, why the program believes there will be no fiscal impact to the department.

- ☐ No Fiscal Impact (Explain in section II. A)  
☐ Indeterminate Cash Receipts Impact (Explain in section II. B)  
☒ Indeterminate Expenditure Impact (Explain in section II. C)

**Non-zero but indeterminate cost. Please see discussion.**

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

## Part I: Estimates (continued)

Check applicable boxes and follow corresponding instructions:

- ☐ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, provide an explanation in Section I and II. A)  
☒ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.  
☐ Capital budget impact, complete Part IV.  
☒ Requires new rule making, complete Part V.

## Agency Contacts:

Agency Preparer: Jon Deffenbacher	Phone: 360-705-7829	Date: 3/7/2019
Agency Approval: Craig McDaniel	Phone: 360-705-7823	Date: 3/7/2019
Agency Budget Analyst: Doug Clouse	Phone: 360-705-7535	Date: 3/7/2019

## Part II: Narrative Explanation

### II. A - Brief description of what the measure does that has fiscal impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

Section 1 of the bill requires WSDOT to include provisions for all contracts and subcontracts that the steel used in the performance of the project is from an American producer that meets EPA requirements. This requirement limits the available market for steel products on all public works projects. Limited supply and increased demand typically results in higher prices for the material, which will be reflected in bid prices to WSDOT.

The requirement of Section 1 to use American or recycled steel on projects obligates WSDOT to verify contractor conformance with this added contract provision. WSDOT would perform this by requiring contractors to submit documentation on all steel products, and WSDOT staff would have to review those documents.

# Individual State Agency Fiscal Note

## II. B - Cash receipts Impact

*Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.*

N/A

## II. C - Expenditures

*Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.*

### Construction Program

The bill distinguishes between permanent and temporary steel used in the construction of the project. In addition to the steel products that are permanently incorporated in the project (rebar, steel girders, etc.), contractors own or rent other temporary steel materials in the construction of the project.

#### For Permanent Highway Steel

WSDOT currently pays about 1.5 percent of highway contract cost for permanent steel items in its construction. It is estimated that percentage will not vary in future years. State funding for construction, minus 15 percent for engineering and administrative costs is estimated as follows for Connecting Washington funding and the Governor's budget:

<b>FY2020</b>	<b>FY2021</b>	<b>2019-21</b>	<b>2021-23</b>	<b>2023-25</b>
\$1.055 Billion	\$1.190 Billion	\$2.245 Billion	\$2.351 Billion	\$2.038 Billion

Accordingly the estimated permanent steel costs at 1.5 percent for future years are:

<b>FY2020</b>	<b>FY2021</b>	<b>2019-21</b>	<b>2021-23</b>	<b>2023-25</b>
\$15.8 Million	\$17.8 Million	\$33.7 Million	\$35.3 Million	\$30.6 Million

It is assumed that requiring all permanent Steel in State funded jobs to be US sourced could increase the contract cost for steel by 30 percent based on current market conditions. Accordingly, the estimated permanent steel cost for State funded projects would be 30% of the total permanent steel cost above or:

<b>FY2020</b>	<b>FY2021</b>	<b>2019-21</b>	<b>2021-23</b>	<b>2023-25</b>
\$4.7 Million	\$5.4 Million	\$10.1 Million	\$10.6 Million	\$9.2 Million

Section 1, Item 2(b) of the proposed bill allows the use of recycled steel, both foreign and domestic, in the performance of public works contracts. There are provisions to document that American steel is not available in sufficient quantity or that it would increase the project cost by 20 percent. This section would force contractors to use domestic sources, allowing those domestic sources to charge more for their product knowing that foreign steel is not allowed. Recycled steel is not likely to be used, as the bill requires that a country is producing at least 65 percent of its steel from recycled stock using electric arc furnaces. WSDOT is unable to determine the extent contractors would use the recycled steel under the proposed bill. **Therefore, the cost impact of recycled steel is indeterminate and not included in WSDOT's cost estimates.**



# Individual State Agency Fiscal Note

Section 1 would require WSDOT to collect and verify records of steel material origin. This is a similar effort as required on federally funded highway projects. This is an impact to Project Engineering staff that are responsible for administering WSDOT construction projects.

It is estimated that two hours per week, for six months per year on average, would be required for the additional documentation.

Biennial cost for TE2 2hrs/wk. for 6mo/year = \$5,496 (using WSDOT Budget Office 19/21 Labor Pricing Template)

Thirty-five project offices would administer the contract provisions

Total biennial cost = \$5,496 \* 35 = \$192,000 USE \$0.2 million

Total Estimated Biennial Cost for permanent steel = \$3.2M + 0.2M = \$3.4M (**does not include the indeterminate cost of temporary steel used for the performance of the project**)

## For Temporary Highway Steel

Based on Construction Administration experience and Engineering judgement, it is estimated that a heavy civil contractor that collects \$150 million in revenue in Washington State pays approximately \$2 million annually to replace temporary steel components. These components include things like sheet piles, beams, braces, towers, and forms.

Assume that 50 percent of the contractor's revenue comes from WSDOT projects. Therefore 50 percent of the steel replacement cost would be assigned and recovered on WSDOT projects through the bid items.

WSDOT assigned replacement total = \$2 million \* 0.50 = \$1 million

Assume that 70 percent of the contractor's existing temporary steel stock is made up of foreign steel. Therefore, 70 percent of the replacement cost will be affected by the proposed American steel requirement. It is also assumed the contractor will pay a 30 percent premium on American Steel due to market conditions and availability. The result is a replacement cost premium, a portion of which will be assigned and collected on WSDOT projects.

Replacement premium assigned to WSDOT = \$1 million \* 0.70 \* 0.3 = \$210,000

The WSDOT assigned replacement premium per revenue dollar per year = \$210,000/\$150,000,000 = \$0.00084/dollar/year

Following is three years of Total WSDOT Contract payments to contractors

2016 \$1,006,209,000

2017 \$871,717,000

2018 \$784,066,000

Average annual contract payments = \$887,330,000/year

Multiplying the replacement premium per revenue dollar per year by total contract payments represents the estimated annual cost that WSDOT would pay toward the cost of replacing temporary steel components entirely with American steel.

WSDOT annual replacement premium = \$745,000 USE \$750,000/year

Estimated Biennial cost impact for temporary steel = \$1.5 million

## Ferries Construction

This bill is likely to increase the funding requirements for the construction phases of Washington State Ferries capital projects. It is assumed that requiring all permanent Steel in State funded ferry projects to be US sourced could increase the contract cost for steel by 30 percent based on current market conditions. Accordingly, the estimated steel cost under Ferries construction contracts would increase by \$2.5 million over the 2019-25 six-year period. This is an average biennial increase of \$818,000. This estimate is based on the following methodology:

# Individual State Agency Fiscal Note

1. The planned expenditures during the 2019-25 six-year period are based on the Program W project list adopted by the 2018 Legislature (TEIS File 18LEGFIN). The 2018 project list does not include funding for new vessel construction under current law revenue assumptions.
2. Projects with federal funds are subject to “Buy America” and similar provisions. These provisions have roughly the same impact on project costs as this bill. Consequently, projects with federal funds will not experience any increases because of this bill, only projects funded in the construction phase solely by state dollars.

## For Terminal Projects

State funding programmed for the construction phases of terminal projects should be reduced on average to 75 percent of total construction phase budgets to focus on construction contract costs. Approximately 3 percent of the construction contract costs are attributable to raw steel. This bill is estimated to increase the cost of raw steel by 30 percent. Using these assumptions, the bill is projected to increase terminal construction costs by \$1.3 million over the 2019-25 six-year period for an average of \$416,000 per biennium, with the 2019-21 biennium-estimated costs at \$239,000.

## For Vessel Projects

State funding programmed for the construction phases of vessel projects should be reduced on average to 90 percent of total construction phase budgets to focus on construction contract costs. Approximately 10 percent of the construction contract costs are attributable to raw steel. The bill is estimated to increase the cost of raw steel by 30 percent. Using these assumptions, vessel construction costs will increase by \$1 million over the 2019-25 six-year period for an average of \$338,000 per biennium, with the 2019-21 biennium estimated cost at \$47,000.

## For Emergency Repair

State funding programmed for the construction phases of emergency repair projects should be reduced on average to 85 percent of total construction phase budgets to focus on construction contract costs. Approximately 5 percent of the construction contract costs are attributable to raw steel. This bill is estimated to increase the cost of raw steel by 30 percent. Using these assumptions, the projected increase to emergency repair construction costs is \$191,000 over the 2019-25 six-year period for an average of \$64,000 per biennium, with the estimated 2019-21 biennium cost at \$64,000.

Combining the three types of Ferries construction, terminal projects, vessel projects and emergency repair projects, the department projects Ferries construction costs will increase by \$2.5 million over the 2019-25 six-year period for an average of \$818,000 per biennium, with the estimated cost for the 2019-21 biennium at \$350,000.

## Part III: Expenditure Detail

### III. A - Expenditures by Object or Purpose

## Part IV: Capital Budget Impact

N/A

## Part V: New Rule Making Required

*Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.*

New section 1 may require rulemaking to define the procedures for determining if a foreign producer of recycled steel meets the requirement that 65 percent of a county’s total crude output is produced using electric arc furnaces and using postconsumer scrap metal.

# LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

<b>Bill Number:</b> 5456 S SB	<b>Title:</b> American or recycled steel
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## Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

### Legislation Impacts:

- ☒ Cities: Cities would have limited sourcing options and more oversight requirements for public works utilizing steel.
- ☒ Counties: Same as above
- ☒ Special Districts: Same as above
- ☐ Specific jurisdictions only:
- ☐ Variance occurs due to:

## Part II: Estimates

- ☐ No fiscal impacts.
- ☐ Expenditures represent one-time costs:
- ☐ Legislation provides local option:
- ☐ Key variables cannot be estimated with certainty at this time:

### Estimated revenue impacts to:

None

### Estimated expenditure impacts to:

Indeterminate Impact
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## Part III: Preparation and Approval

Fiscal Note Analyst: Tom Gilmore	Phone: 360-725-5038	Date: 02/25/2019
Leg. Committee Contact: Melissa Van Gorkom	Phone: 360-786-7491	Date: 02/22/2019
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 02/25/2019
OFM Review: Carly Kujath	Phone: (360) 902-7301	Date: 03/06/2019

## Part IV: Analysis

### A. SUMMARY OF BILL

*Provide a clear, succinct description of the bill with an emphasis on how it impacts local government.*

#### CHANGES FROM PREVIOUS VERSION

This version of the bill states provides exceptions for steel used in temporary structure for transportation projects purchased before the effective date, or de minis incidental components comprising no more than five percent of total cost of materials and not more than one percent of total project costs.

#### CURRENT BILL VERSION

This bill would require contracts for public works to include a provision that steel products used or supplied in the performance of the contract and any subcontract must be produced in the United States, at a facility regulated by the Environmental Protection Agency or be the product of a country where more than sixty-five percent of the country's total crude steel output is produced through the use of electric arc furnace (EAF).

Subsection 3 of this bill provides an exemption in cases where a sufficient quantity of steel could not be sourced under the requirements of this bill, or the added cost of sourcing steel based on the requirements of this bill would be greater than twenty percent to the total project cost. This subsection would also provide exceptions for steel used in temporary structure for transportation projects purchased before the effective date, or de minis incidental components comprising no more than five percent of total cost of materials and not more than one percent of total project costs.

#### BACKGROUND:

Based on a World Steel Association 2015 report none of the top ten steel producing nations meet this requirement, with only the United States (the fourth largest steel producer globally) approaching this threshold. Within the top twenty producers, only Italy (11th), Mexico (13th), Iran (14th) and Spain (16th) produce steel at qualifying levels utilizing EAF. These countries combine to produce 71.1 million tonnes (Mt) of crude steel annually, which is less than U.S steel production and an order of magnitude lower than that of global production leader the People's Republic of China.

### B. SUMMARY OF EXPENDITURE IMPACTS

*Briefly describe and quantify the expenditure impacts of the legislation on local governments, identifying the expenditure provisions by section number, and when appropriate, the detail of expenditures. Delineate between city, county and special district impacts.*

This bill would have indeterminate impact on local government expenditures. This bill would limit the total number of eligible sources of steel for public works projects.

Based on information from the US Department of Commerce and the World Steel Association only one of the top five import sources of steel in the United States would be an eligible source of steel for public work projects. This bill would still permit the use of domestically produced steel.

This bill would likely result in less competitive pricing of resources for public works project steel resources, resulting in higher project costs.

### C. SUMMARY OF REVENUE IMPACTS

*Briefly describe and quantify the revenue impacts of the legislation on local governments, identifying the revenue provisions by section number, and when appropriate, the detail of revenue sources. Delineate between city, county and special district impacts.*

This bill would not impact local government revenues.

#### SOURCES

United States Department of Commerce  
World Steel Association

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 5456 S SB	<b>Title:</b> American or recycled steel	<b>Agency:</b> SWF-SWF Statewide Fiscal Note - OFM
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## Part I: Estimates

☐

No Fiscal Impact

### Estimated Cash Receipts to:

NONE

### Estimated Operating Expenditures from:

NONE

*The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.*

Check applicable boxes and follow corresponding instructions:

☒

If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐

If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐

Capital budget impact, complete Part IV.

☐

Requires new rule making, complete Part V.

Legislative Contact: Melissa Van Gorkom	Phone: 360-786-7491	Date: 02/22/2019
Agency Preparation: Jim Jenkins	Phone: 360-902-0403	Date: 03/05/2019
Agency Approval: Aaron Butcher	Phone: (360) 902-5555	Date: 03/05/2019
OFM Review: Carly Kujath	Phone: (360) 902-7301	Date: 03/06/2019

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

Section 1 (2) requires that public works contracts must include a provision requiring all steel products used or supplied in the performance of the contract and in any related subcontract to be:

- Produced in the United States, at a facility regulated by the United States environmental protection agency; or
- Produced in a country where more than sixty-five percent of that country’s total crude steel output is produced by means of electric arc furnaces that use postconsumer steel material as the major feedstock.

Section 1 (3) provides exceptions to this requirement if the state or municipality entering into the contract determines, in writing, that the steel products required:

- Are not produced in, or available in sufficient quantity to meet the requirements of the contract; or
- Will increase the total cost of the project by more than twenty percent;
- Are de minimis incidental components (e.g., small washers, nails, screws, fasteners, hinges) that comprise no more than five percent of the total cost of the materials used in and incorporated into a project, the cost of an individual item may not exceed one percent of the total cost of materials used and incorporated into a project.

Section 1 (4) specifies that this requirement does not apply to existing trade agreements.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

NONE

III. B - Expenditures by Object Or Purpose

NONE

Part IV: Capital Budget Impact

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

Non-zero but indeterminate cost. Please see discussion.

It is anticipated that this bill will result in higher project costs for prime contractors and subcontractors, which will be passed on to public works projects in the form of higher bids. However, because the price of steel in the global markets fluctuate as does the quantity of steel used in projects, the impact is indeterminate.

The increased costs are expected to vary depending the market price of American versus foreign steel. For example, in January 2019, steel (hot rolled band) produced in the USA cost \$773 per metric tonne compared to steel produced in China at \$474 per metric tonne and Western Europe at \$515 per metric tonne. In general American steel is more expensive than foreign steel but there have been historical scenarios where the price of foreign steel is similar or greater in cost than US steel. As American steel is currently 38% more expensive than Chinese steel and 27% more expensive than steel from Western Europe, it is assumed that American steel would be approximately 30% more expensive than foreign steel.

Cost impacts to capital projects will further depend on the amount of steel required in a project, which varies greatly as shown with the attached project cost table, based on an analysis of invoices and estimates of select construction projects over \$10 million from the 2017-19 enacted budget. Steel costs were specifically estimated based on values provided for structural steel, interior stud walls, steel stairs and railings, metal siding, and standing seam roofing, where information was available. Rebar, electrical raceway, fire protection piping, HVAC ductwork, fasteners, and doors were not specifically estimated as these components were not typically evident from invoices and estimates. To account for these items, an additional 3% was added onto the specific estimated values for steel.

While there is an exception to this requirement if the state or municipality entering into the contract determines, in writing, that the steel products required are not produced in, or available in sufficient quantity to meet the requirements of the contract, this may still constrain the amount of American steel available. Reduced quantity typically results in higher costs. This may be exacerbated in a scenario where a large project occupies a disproportionate amount of steel, leaving very little left for multiple firms to compete for access in the market.

There are countries who produce more than sixty-five percent of their total crude steel output by means of electric arc furnaces, including parts of Europe, North America, Africa, and the Middle East. Electric arc furnaces generally used scrap metal as their primary feedback but they can also be used to process blast metal or direct-reduced iron. Therefore, it is not clear to what extent recycled steel would be used in lieu of American steel. Although a constrained number of countries would likely result in a reduced available supply and reduced supply typically results in higher cost.

The state does have obligations under international trade agreements, which include government procurement agreements with Canada, the European Union, South Korea, Japan, Germany, and Taiwan. This may mitigate the constraints of a “buy American” policy on the steel market but, as it is unclear to the extent steel from these countries is being utilized now, the impact of this is indeterminate.

## **Part V: New Rule Making Required**

*Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.*

<b>Project</b>	<b>Construction Value</b>	<b>Steel Portion of Construction</b>	<b>Steel Cost of Construction</b>	<b>Construction Cost with 30% Steel Cost Increase</b>	<b>Cost Increase to Construction</b>
Student Housing - GCCM	\$24,690,000	3.90%	\$962,910	\$25,941,783	5%
Student Housing Facility	\$25,283,000	4.40%	\$1,112,452	\$26,729,188	6%
Learning Commons	\$23,079,400	7.60%	\$1,754,034	\$25,359,645	10%
Thurston County Readiness Center	\$35,733,600	10.50%	\$3,752,028	\$40,611,236	14%
Professional Technical Education Facilities	\$41,090,100	12.60%	\$5,177,353	\$47,820,658	16%
Health & Wellness Center Renovation & Addition	\$11,534,000	13.70%	\$1,580,158	\$13,588,205	18%