

# 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

## 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	Fiscal note not available								
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>

Agency Name	2019-21			2021-23			2023-25		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
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	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Department of Transportation	Fiscal note not available								
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

Department of Enterprise Services	Non-zero but indeterminate cost and/or savings. Please see discussion.
SWF Statewide Fiscal Note - OFM	Non-zero but indeterminate cost and/or savings. Please see discussion.

<b>Prepared by:</b> Jennifer Masterson, OFM	<b>Phone:</b> (360) 902-0579	<b>Date Published:</b> Preliminary 2/ 7/2020
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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**

### Estimated Cash Receipts to:

NONE

### Estimated Operating Expenditures from:

NONE

### Estimated Capital Budget Impact:

**Non-zero but indeterminate cost and/or savings. 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:	Phone:	Date: 02/03/2020
Agency Preparation: Kenneth McBroom	Phone: (360) 407-8261	Date: 02/07/2020
Agency Approval: Michael Diaz	Phone: (360) 407-8131	Date: 02/07/2020
OFM Review: Jennifer Masterson	Phone: (360) 902-0579	Date: 02/07/2020

## 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.*

This Bill requires the use of steel produced in the United States or, if produced in another country, to meet specific production requirements for public works with certain conditions available allowing for those requirements to be waived if they do not affect the obligations of international agreements.

Section 1(2) requires public works contracts to use steel produced in the United States and regulated by the Environmental Protection Agency (EPA) or from other countries where 65% of the total steel output is produced in electric arc furnaces using postconsumer scrap steel material as its major feedstock.

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, the acquisition of qualifying steel will increase the total project cost by more than 20% or if the requirements affect the obligations of international agreements.

Incorporating these changes into the public works contracting documents created by the Department of Enterprise Services Engineering & Architectural Services program will become part of routine business processes. Therefore, this has no operating budget fiscal impact.

The capital impact of this bill to the Department of Enterprise Services (DES) is indeterminate. DES assumes this would increase the cost of steel for capital projects because contractors and suppliers will pass along additional costs, however DES has no way to estimate what these future costs will be, therefore the fiscal impact is indeterminate.

### 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

**III. C - Operating FTE Detail:** *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

Non-zero but indeterminate cost and/or savings. Please see discussion.

IV. B - Expenditures by Object Or Purpose

Non-zero but indeterminate cost and/or savings. Please see discussion.

IV. C - Capital Budget Breakout

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods

Non-zero but indeterminate cost and/or savings. Please see discussion.

The capital impact of this bill to the Department of Enterprise Services (DES) is indeterminate. DES assumes this would increase the cost of steel for capital projects because contractors and suppliers will pass along additional costs, however DES has no way to estimate what these future costs will be, therefore the fiscal impact is indeterminate.

Part V: New Rule Making Required

# 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: Counties would have limited sourcing options and more oversight requirements for public works utilizing steel
- ☒ Special Districts: Special districts would have limited sourcing options and more oversight requirements for public works utilizing steel
- ☐ 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: number of projects affected by this legislation, price of steel effect on project bids

**Estimated revenue impacts to:**

None

**Estimated expenditure impacts to:**

Non-zero but indeterminate cost and/or savings. Please see discussion.

**Part III: Preparation and Approval**

Fiscal Note Analyst: Tammi Vellinga	Phone: 360-725-5038	Date: 02/03/2020
Leg. Committee Contact:	Phone:	Date: 02/03/2020
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 02/03/2020
OFM Review: Jennifer Masterson	Phone: (360) 902-0579	Date: 02/05/2020

## **Part IV: Analysis**

### **A. SUMMARY OF BILL**

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

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 minimis 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:**

Local Government Fiscal Note, S SB 5456 (2019)

United States Department of Commerce

World Steel Association

# Individual State Agency Fiscal Note

Revised

<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

### Estimated Capital Budget Impact:

Non-zero but indeterminate cost and/or savings. 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:

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- ☒ Capital budget impact, complete Part IV.
- ☐ Requires new rule making, complete Part V.

Legislative Contact:	Phone:	Date: 02/03/2020
Agency Preparation: Jim Jenkins	Phone: 360-902-0403	Date: 02/06/2020
Agency Approval: Aaron Butcher	Phone: (360) 902-5555	Date: 02/06/2020
OFM Review: Jennifer Masterson	Phone: (360) 902-0579	Date: 02/06/2020



## 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

**III. C - Operating FTE Detail:** *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

NONE

### III. D - Expenditures By Program (optional)

NONE

## Part IV: Capital Budget Impact

### IV. A - Capital Budget Expenditures

**Non-zero but indeterminate cost and/or savings. Please see discussion.**

#### **IV. B - Expenditures by Object Or Purpose**

**Non-zero but indeterminate cost and/or savings. Please see discussion.**

#### **IV. C - Capital Budget Breakout**

*Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods*

**Non-zero but indeterminate cost and/or savings. 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 2020, steel (hot rolled band) produced in the USA cost \$659 per metric tonne compared to steel produced in China at \$467 per metric tonne and Western Europe at \$480 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 34% more expensive than Chinese steel and 31% 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**