



CAPITAL IMPROVEMENTS

INFRASTRUCTURE AND GENERAL GOVERNMENT APPROPRIATIONS SUBCOMMITTEE
STAFF: RICHARD AMON

BUDGET BRIEF

SUMMARY

The Analyst recommends a FY 2013 budget of \$41,989,100 for the Capital Improvements line item and adopting the list of anticipated capital improvement projects for FY 2013. The subcommittee might also forward a request to the Executive Appropriations Committee for consideration of an additional \$34,500,000 ongoing General Fund to the Capital Improvements line. If the Legislature determines to approve capital development projects in FY 2013, statute requires the Legislature either fund capital improvements at the full 1.1% of replacement value of buildings or pass legislation creating an exemption for FY 2013. These recommendations are detailed below, as well as in the funding table on page 4.

BACKGROUND

Capital Improvements – formerly known as “alteration, repair and improvements” (AR&I) – consist of projects costing less than \$2,500,000 to improve an existing facility or less than \$500,000 to construct a new facility. The Division of Facilities Construction and Management (DFCM), under the direction of the State Building Board, uses capital improvement funds to make critical repairs to state facilities and replace worn equipment. Typical improvement projects include repairs to utility tunnels, HVAC systems, electrical systems, roofs, and parking lots. Capital improvement funds may not be used for program equipment or routine maintenance.

State statute requires the Legislature to fund capital improvements at a level equal to 1.1% of the replacement value of existing state buildings before the Legislature may approve new capital development projects. During budget deficits the statute allows funding at 0.9% of the replacement value of existing state buildings. For FY 2009 thru FY 2012 the Legislature amended the statute to allow funding below the 0.9% level.

ISSUES AND RECOMMENDATIONS

Allocations by Major Area

Each year the Legislature appropriates a fixed amount to the Capital Improvements line item. Then, in the spring following the General Session, the State Building Board meets and makes specific allocations from the appropriation to state agencies and institutions of higher education based on need and on the percentage of buildings maintained. The projects for which the Building Board allocates funding must have first been reviewed and approved by the Legislature.

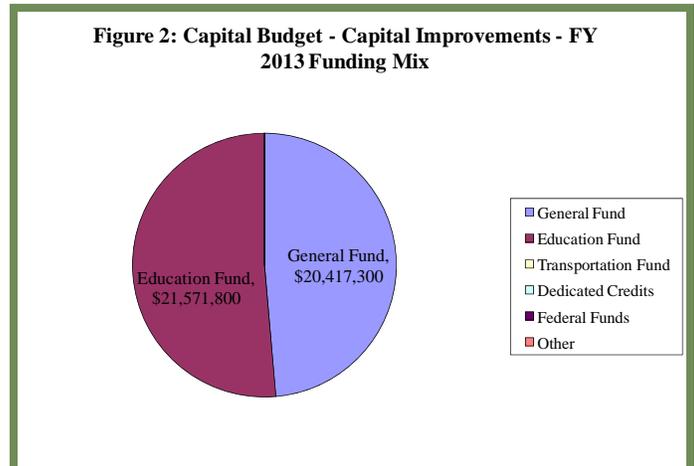
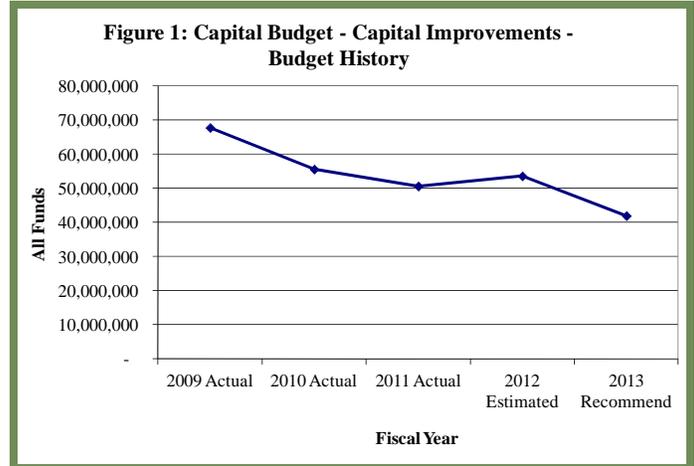


Table 1: FY 2012 Capital Improvements Allocations

College of Eastern Utah	\$910,000	Courts	\$2,514,092
Dixie State College	\$1,323,100	DFCM	\$2,831,350
Salt Lake Commun Coll	\$2,260,000	Enviro Quality	\$0
Snow College	\$1,244,000	Fairpark	\$250,457
Southern Utah Univ	\$1,646,000	Health	\$245,381
University of Utah	\$11,124,000	Human Services	\$2,072,000
Utah State University	\$5,059,000	National Guard	\$1,008,264
Utah Valley State Coll	\$2,125,000	Natural Resources	\$2,669,000
Weber State University	\$2,417,000	Office of Education	\$256,418
Utah Coll of Applied Tech	\$1,462,555	Public Safety	\$353,423
Subtotal Higher Ed	\$29,570,655	Tax Commission	\$326,776
Agriculture	\$215,982	Transportation	\$1,260,000
Alcoholic Beverage Ctrl	\$267,484	Veterans Affairs	\$120,000
Capitol Preserv Board	\$2,560,500	Workforce Services	\$408,949
Community & Culture	\$80,000	Statewide Programs	\$4,250,000
Corrections	\$2,387,869	Subtotal Agencies	\$24,077,945
		Grand Total	\$53,648,600

Table 1 on the previous page depicts the FY 2012 allocation of capital improvement funds by the State Building Board. Over the past five years the allocation of capital improvement funds has remained consistent. Higher Education receives an average of 56% of the capital improvement appropriation, state agencies receive 36%, and DFCM receives 8% to use for statewide improvements and reserves for emergency projects. Figure 3 below shows the allocation of capital improvement funds for the past five years.

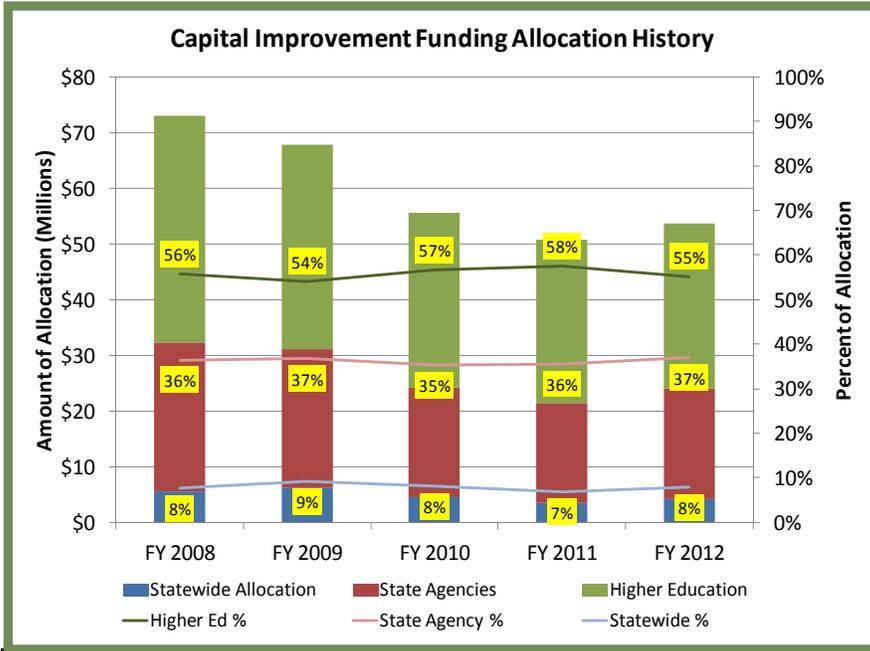


Figure 3
FY 2013 Funding Level

The statutorily required amount of funding for FY 2013 is \$94,476,400 at the 1.1% level and \$77,298,800 at the 0.9% level. These amounts represent a 1% increase over the required amounts for FY 2012. Most of this increase results from the addition of buildings (constructed or otherwise) to the insured values currently owned by the state. The FY 2013 beginning base for Capital Improvements is \$41,989,100 which represents 0.49% of the replacement value of buildings in FY 2013. Figure 4 below shows the funding history of capital improvements for the past ten years.

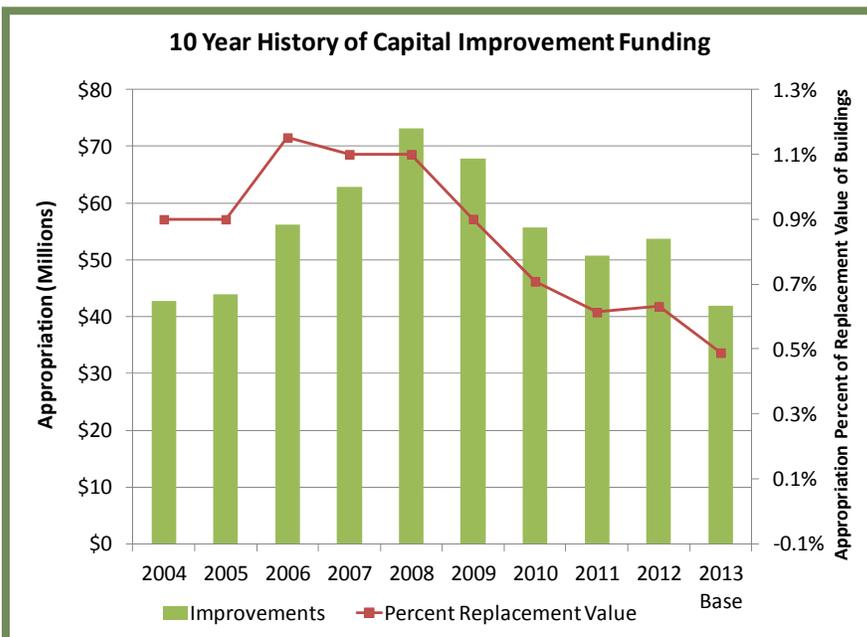


Figure 4

Capital Improvement Project Requests

Each year state law (UCA 63A-5-104(4)) requires the Building Board to “submit a list of anticipated capital improvement requirements to the Legislature for review and approval.” The list of capital improvement requests for FY 2013 is included in the Building Board’s *Five Year Building Program* publication on pages 68-85 and in the *Capital Improvement FY 2013 Requests* Issue Brief. The total number of requests for FY 2013 amount to \$195 million while the base budget for FY 2013 is \$42 million. The Analyst recommends the Legislature approve this list so that the Building Board may allocate improvement funds to the most critical projects.

Maintenance Backlog

DFCM monitors the condition of current state-owned facilities and forecasts future repairs needed to adequately maintain those buildings. This program, known as Facility Condition Assessment, annually identifies deficiencies in mechanical and electrical systems, general building conditions and code compliance, parking lots, utility tunnels, and heat plants.

Facilities Condition Assessment				
	Immediate	5-Year	10-Year	Total
Building Repairs	\$ 416,065,000	\$ 1,055,352,000	\$ 280,105,000	\$ 1,751,522,000
Infrastructure	\$ 23,369,000	\$ 60,796,000	\$ 52,752,000	\$ 136,917,000
Total	\$ 439,434,000	\$ 1,116,148,000	\$ 332,857,000	\$ 1,888,439,000

Table 2

As shown in Table 2 above, the most recent Facility Condition Assessment program identified \$439 million in “immediate” repair needs to buildings and infrastructure and almost \$1.9 billion in needs over the next ten years (see page 105 of the Building Board’s *5-year book*). Capital improvement funds cannot address all issues, since many problems cost more than \$2.5 million to correct. In those cases, the Legislature would need to fund capital development projects to either repair the problem or replace the building.

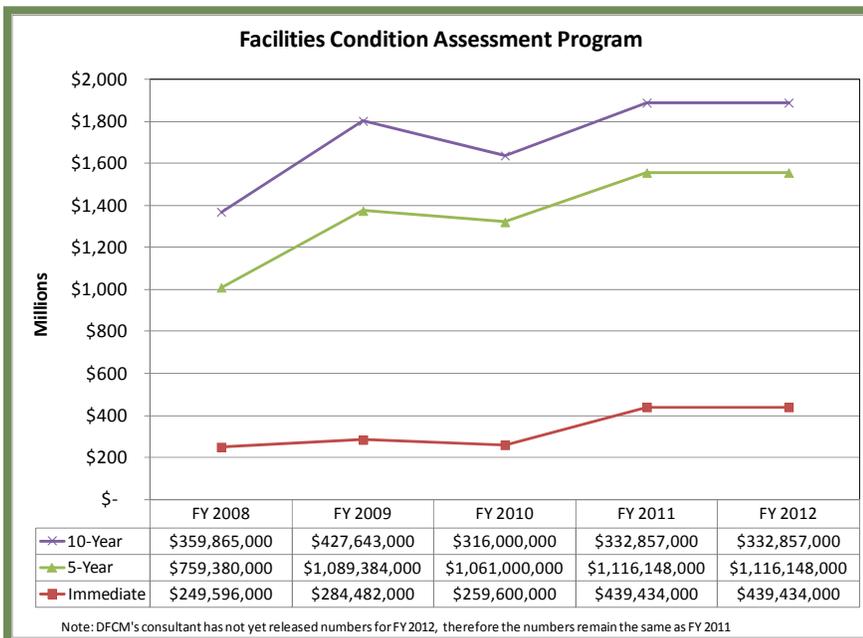


Figure 5

Figure 5 above depicts the five year history of the Facilities Condition Assessment Program. The large increase in FY 2009 and the subsequent decrease in FY 2010 are largely attributable to construction inflation, recently completed reassessments on several buildings, and the number of buildings reviewed by the program. The increase in FY 2011 could partially be due to different methodology used by a different consultant, but most probably reflects low capital improvement funding and subsequent deterioration of infrastructure. The “immediate needs” averaged \$300 million over the last five years.

CAPITAL IMPROVEMENTS

BUDGET DETAIL

During the 2008 General Session the Legislature appropriated an additional \$9.8 million to this line item, bringing the new total to \$82,838,200. Had this funding remained, it would have completed the fourth consecutive year that capital improvements were funded at the 1.1% level. However, budget reductions during the September 2008 Special Session and subsequent Legislative sessions have reduced the FY 2013 base budget to \$41,989,100.

LEGISLATIVE ACTION

The Analyst recommends the Legislature consider:

1. Adopting a FY 2013 budget of \$41,989,100 for this line item.
2. Adopting the list of anticipated capital improvement projects as found on pages 68-85 of the Building Board's 2012 General Session 5-year book and also contained in the *Capital Improvement FY 2013 Requests* Issue Brief.
3. Recommending to the Executive Appropriations Committee an increase of \$34,500,000 ongoing General Fund to the Capital Improvements line item.
4. Funding the Capital Improvement line item at the 1.1% level required by statute (an additional \$52,487,300), legislation exempting FY 2013 from the requirement, or not approving any capital development projects in FY 2013.

BUDGET DETAIL TABLE

Capital Budget - Capital Improvements

Sources of Finance	FY 2011 Actual	FY 2012 Appropriated	Changes	FY 2012 Revised	Changes	FY 2013* Recommended
General Fund	20,417,300	20,417,300	0	20,417,300	0	20,417,300
General Fund, One-time	0	(340,500)	0	(340,500)	340,500	0
Education Fund	30,268,100	21,571,800	0	21,571,800	0	21,571,800
Project Reserve Fund	0	12,000,000	0	12,000,000	(12,000,000)	0
Total	\$50,685,400	\$53,648,600	\$0	\$53,648,600	(\$11,659,500)	\$41,989,100
Programs						
Capital Improvements	50,685,400	53,648,600	0	53,648,600	(11,659,500)	41,989,100
Total	\$50,685,400	\$53,648,600	\$0	\$53,648,600	(\$11,659,500)	\$41,989,100
Categories of Expenditure						
Other Charges/Pass Thru	50,685,400	53,648,600	0	53,648,600	(11,659,500)	41,989,100
Total	\$50,685,400	\$53,648,600	\$0	\$53,648,600	(\$11,659,500)	\$41,989,100

*Does not include amounts in excess of subcommittee's state fund allocation that may be recommended by the Fiscal Analyst.