

February 23, 1993
ILR 93-A

President Arnold Christensen
Utah State Senate
State Capitol
Salt Lake City, Utah 84114

Dear President Christensen:

Subject: Expenditure Trends in Use of Outside Consultants

This letter report responds to your request to determine the trends in state expenditures for outside consultants. The Utah Department of Transportation (UDOT) has increased its use of outside engineers since 1988 and the Division of Facilities Construction and Management (DFCM) has increased its use of outside architects and engineers since 1984. The increased use of consultants in UDOT is, at least in part, related to the early retirement program passed by the Legislature in 1988. The increased use of outside architects and engineers by DFCM is mostly related to the state's growing facilities construction program. The outside consultant expenditures in the other state funds is less obvious, but appear to have grown as well. The growth in all funds are due, in part, to inflation and also likely were impacted by legislative and executive pressures to privatize state work.

In all funds, it is difficult to accurately determine the amount of growth in the use of outside consultants because the accounting code definitions are broad, sometimes allowing unusual construction or maintenance contracts to be charged to categories normally used for consultant contracting. Further, this survey analysis is based entirely on the Division of Finance's year-end expenditure records; we have done no field work in the agencies. Still, some idea of trends in the use of outside consultants can be obtained from the expenditure data summarized herein.

To determine trends in consultant contracting, the expenditure history for various contracting categories was utilized. The categories with significant expenditures were Contractual Services (usually provided by independent contractors), Professional and Technical Services, and Architectural and Engineering Services. The category of Architectural and Engineering Services appears to be the most accurate for this review

President Arnold Christensen
February 23, 1993
Page 2

because it includes nothing but architectural and engineering services; However, it might be understated since such services can also be charged under Professional and Technical Services.

The following charts and the accompanying narrative show the contractual trends for the following state funds: Transportation Fund, DFCM Capital Fund, General Fund, and Uniform School Fund.

Transportation Fund Contracting

Figure I shows the Transportation Fund non-construction contracting costs during the period of 1982-1992.

Figure I Transportation Fund Contracting (Excludes Construction Contracts)

President Arnold Christensen
February 23, 1993
Page 3

The above chart shows that the Transportation Fund's Contractual Services increased steadily since 1983, most of which represents the increase in road maintenance by contractors as urged by the Legislature. Regular highway construction contracts are not included in these data. Although Professional and Technical Services have been relatively stable, Architectural and Engineering Services expenditures grew rapidly from 1988 through 1991, reaching \$10.3 million that year, then declined to \$7.8 million in 1992. The department states that growth in the use of contract engineers is related to the early retirement law of 1988, which brought about the premature retirement of large numbers of the department's engineers.

DFCM Capital Construction Fund

Figure II shows the DFCM Capital Contracting costs for 1982-1992.

Figure II DFCM Capital Funds Contracting

President Arnold Christensen
February 23, 1993
Page 4

In Figure II above, the West Desert Pumping Project accounted for \$42 million of the 1987 increase in contractual services. Other than the 1987 experience, the only significant increase has been in Architectural and Engineering services, which grew from \$3.8 million in 1984 to \$ 7.7 million in 1992. This increase in Architectural and Engineering services is partly due to the increase in the capital facilities program which grew 48 percent between 1986 and 1992. It may also be the result of increased privatization.

General Fund Contracting

Figure III summarizes the General Fund 1982-1992 contractual expenditures.

Figure III General Fund Contracting

Except for the unusually large expenditures during the 1985-1987 period, General Fund contractual costs increased 100 percent in 1983, then gradually increased another 67 percent over the next nine years, or about 7 percent per year. According to the Division of Finance, the large expenditures in 1985-1987 are related to flood control efforts on the Great Salt Lake and flood assistance to local units of government.

Uniform School Fund Contracting

Figure IV summarizes the Uniform School Fund 1982-1992 contractual expenditures.

Figure IV Uniform School Fund Contracting

President Arnold Christensen
February 23, 1993
Page 6

The above chart shows that the Uniform School Fund contracting costs actually declined in 1983 and 1985, then began to increase to \$3.9 million by 1992. This represents an overall increase of 55 percent, or an average of 5.5 percent per year from 1982 to 1992.

We hope this brief study, utilizing available Division of Finance information, will be helpful to you. If you have any questions or need additional information, please let us know.

Sincerely,

Wayne L Welsh
Auditor General

WLW:BRP/lm