

Issue Brief – DFCM General Fund Partial Restoration

NUMBER CFAS-05-04

SUMMARY

The Analyst recommends the Legislature partially restore General Funds which were cut (and replaced with project reserve funds) from the DFCM Administration line item in FY 2002 on an ongoing basis. The Analyst recommends restoring \$1,075,000 of the \$3.1 million General Fund reduction/replacement. If the General Funds are restored, a concurrent reduction should be made to the Project Reserve Fund appropriation, since it would be a replacement. The adjustment would be as follows:

From General Fund	\$1,075,000
From Project Reserve Fund	(\$1,075,000)

DISCUSSION AND ANALYSIS

As a result of the previous economic recession, the DFCM General Fund appropriation was reduced from \$3.2M to \$81,300, a reduction of \$3.1M or 97%. The Legislature shifted all administrative costs (except maintenance of the governor’s residence) to the Project Reserve Fund and Contingency Reserve Fund. These are not stable long-term funding sources, but the Analyst is more concerned about using project funds for non-project related costs.

The Project Reserve Fund receives state funds resulting from construction bids coming in under the amount budgeted for construction, or from residual funds left over in the project. It may only be used by DFCM to award construction bids that exceed the amount budgeted, unless the Legislature appropriates it otherwise, as it has in the past three years.

The Contingency Reserve Fund receives state funds budgeted and built into construction projects for contingencies. The amount budgeted is based on a sliding scale percentage of construction costs ranging from 4.5 to 9.5 percent based on size and complexity. The fund may only be used for unforeseen project costs, such as change orders, unless the Legislature appropriates it otherwise, as it has in the past three years.

Use of reserve funds was intended to be temporary until the economy improved. The state was aided by favorable construction conditions, when bids were lower than normal due to increased competition among contractors. This allowed reserves to grow and replace General Funds. Now the economy has improved, it is likely that bid costs will increase and reserves will decline. According to McGraw Hill, the price of construction materials has risen sharply in recent months, with steel up 224%, wood products 15%, gypsum 30%, and cement 7% since January 2002.

The Analyst recommends restoring General Funds to the administrative subprograms shown with an asterisk below. Other subprograms can continue using present funding sources for a while longer. The Capital Improvement subprogram can continue to be funded from Capital Improvement funds and the Capital Developments subprogram can continue using reserve funds for at least another year. The Accounting/Procurement subprogram should probably be the next to have General Funds restored, but can continue on reserve funds for another year. The following costs are approximations upon which the Analyst’s recommendations are based:

Administration*	\$484,000	} Recommend restoring \$1,075,000 General Funds
Board*	8,300	
IT*	207,900	
Real Estate*	374,800	
Accounting/Procurement	340,300	Recommend continuing to use reserve funds
Capital Improvements	894,100	Recommend continuing to use capital improvement funds
Capital Developments	<u>784,200</u>	Recommend continuing to use reserve funds
Total	<u>\$3,093,600</u>	Total funded with General Funds prior to FY 2002