



CAPITAL FACILITIES RESERVE FUNDS

CAPITAL FACILITIES AND GOVERNMENT OPERATIONS APPROPRIATIONS SUBCOMMITTEE
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ISSUE BRIEF

SUMMARY

The Division of Facilities, Construction, and Management oversees two Reserve funds for capital facilities that allow the Division to reallocate state funds from projects that come in under budget to projects that go over budget. The Contingency Reserve Fund has a historical balance of about \$6 million, but currently has a balance of \$11,747,160. The large balance is due to the addition of \$114 million of construction projects authorized by the 2009 General Session in addition to two USTAR building projects that exceed \$150 million. The balance in the Contingency Reserve Fund increases proportionally as the State adds construction projects. This balance does not reflect a change order on the USTAR project of \$2.3 million. The Analyst recommends that the Legislature keep the Contingency Reserve Fund at its current level.

The Project Reserve Fund gradually increased over time to the current balance of \$9,825,010. Expenditures from the Project Reserve Fund are more predictable based on the current construction market than are expenditures from the Contingency Reserve Fund. The current balance does not reflect a probable draw of \$1.8 million for the Multi-Agency building. The Analyst recommends that the Legislature consider reducing the fund balance in the Project Reserve Fund by \$5 million because of the favorable bid environment and the large balance in the Fund.

BACKGROUND

Utah Code 63A-5-209 gives the director of the Division of Facilities, Construction and Management (DFCM) oversight of two reserve funds for capital facilities projects – the Contingency Reserve Fund and the Project Reserve Fund. The Legislature created these funds to allow savings on capital facility projects to offset unexpected costs (beyond the budgeted amount) on other projects.

The Contingency Reserve Fund receives 4.5% to 6.5% of the budgeted amount of all new construction projects and 6% to 9.5% of the budgeted amount for remodeling projects. Expenditures out of the Fund cover contingencies above and beyond the amounts budgeted for planning, engineering, architectural, site, and construction. These funds cover the cost of change orders and other unforeseen, but necessary costs budgeted for a capital facility project.

The Project Reserve Fund accumulates funds from bid savings (when the actual construction bid is less than the amount budgeted for construction) and the amount of budget left over after completion of a project. The director may use these funds only if an awarded construction contract exceeds the amount budgeted for construction. Each year the Legislature reviews the use of these funds and may reappropriate excess amounts to other priorities.

DISCUSSION AND ANALYSIS

Contingency Reserve Fund

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Beginning Balance	\$ 6,402,564	\$ 6,762,892	\$ 5,762,870	\$ 6,649,638	\$ 7,523,962
Increases	3,140,448	6,352,016	5,886,688	10,014,491	14,291,325
Decreases	(2,780,120)	(7,352,038)	(4,999,920)	(9,140,167)	(18,464,998)
New Construction Costs	(954,357)	(1,206,882)	(2,492,382)	(4,775,115)	(13,498,619)
Remodeling Costs	(1,330,575)	(2,545,956)	(2,425,238)	(2,282,752)	(1,884,079)
Legislative Reappropriation	(495,188)	(3,599,200)	(82,300)	(2,082,300)	(3,082,300)
Ending Balance	\$ 6,762,892	\$ 5,762,870	\$ 6,649,638	\$ 7,523,962	\$ 3,350,289

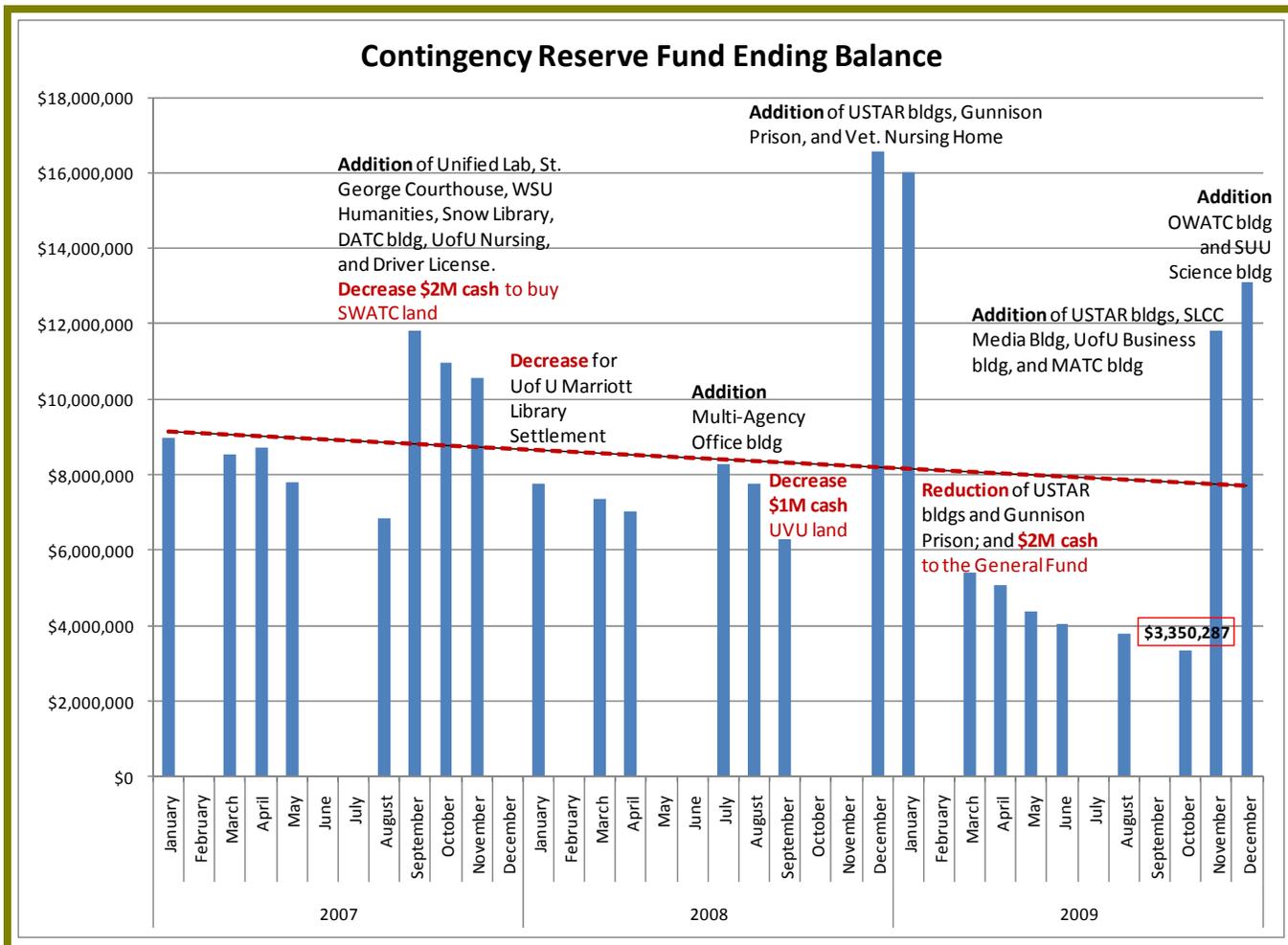
CAPITAL FACILITIES RESERVE FUNDS

Increases to the Contingency Reserve Fund consist primarily of the percentage of construction budgeted for contingencies (between 4.5% and 9.5% of the cost of the project). Decreases to the Fund balance include change orders for new construction, change orders for remodeling costs, and Legislative appropriations for other uses (which include the DFCM administrative budget, new capital projects, and transfers to the General Fund).

The Legislature made the following reductions to the Contingency Reserve Fund:

- FY 2006 - \$694,000 to construct the DNR Fire Management Service Facility
- FY 2006 - \$225,000 to purchase land for a courthouse in Provo
- FY 2006 - \$1,500,000 transfer to the Project Reserve Fund
- FY 2008 - \$2,000,000 to purchase land for the Southwest Applied Technology Collage
- FY 2009 - \$1,000,000 to purchase land for Utah Valley University
- FY 2009 - \$2,000,000 transfer to the General Fund

Over the last several years the average balance in the Contingency Reserve Fund has been about \$6.2 million. The FY 2009 closing balance, however; was only \$3.4 million after the transfer of \$3 million out of the fund and the reduction of three major projects – Gunnison prison expansion, USTAR building at the University of Utah, and USTAR building at Utah State University. The current balance in the Contingency Reserve Fund is \$11,747,160 (as of January, 2009). The following chart shows how the Fund’s balance changes over time.



The Contingency Reserve Fund grows every time the Legislature approves a state-funded project because statute requires DFCM to contribute a percentage of the project to the Fund for contingent expenses. The large increases in August 2007, December 2008, and November 2009, correspond to multiple large projects funded by the Legislature. When the Legislature removed funding for the Gunnison prison expansion and the USTAR projects at the UofU and USU (in addition to removing \$2 million of cash from the Fund), the Fund balance dropped significantly.

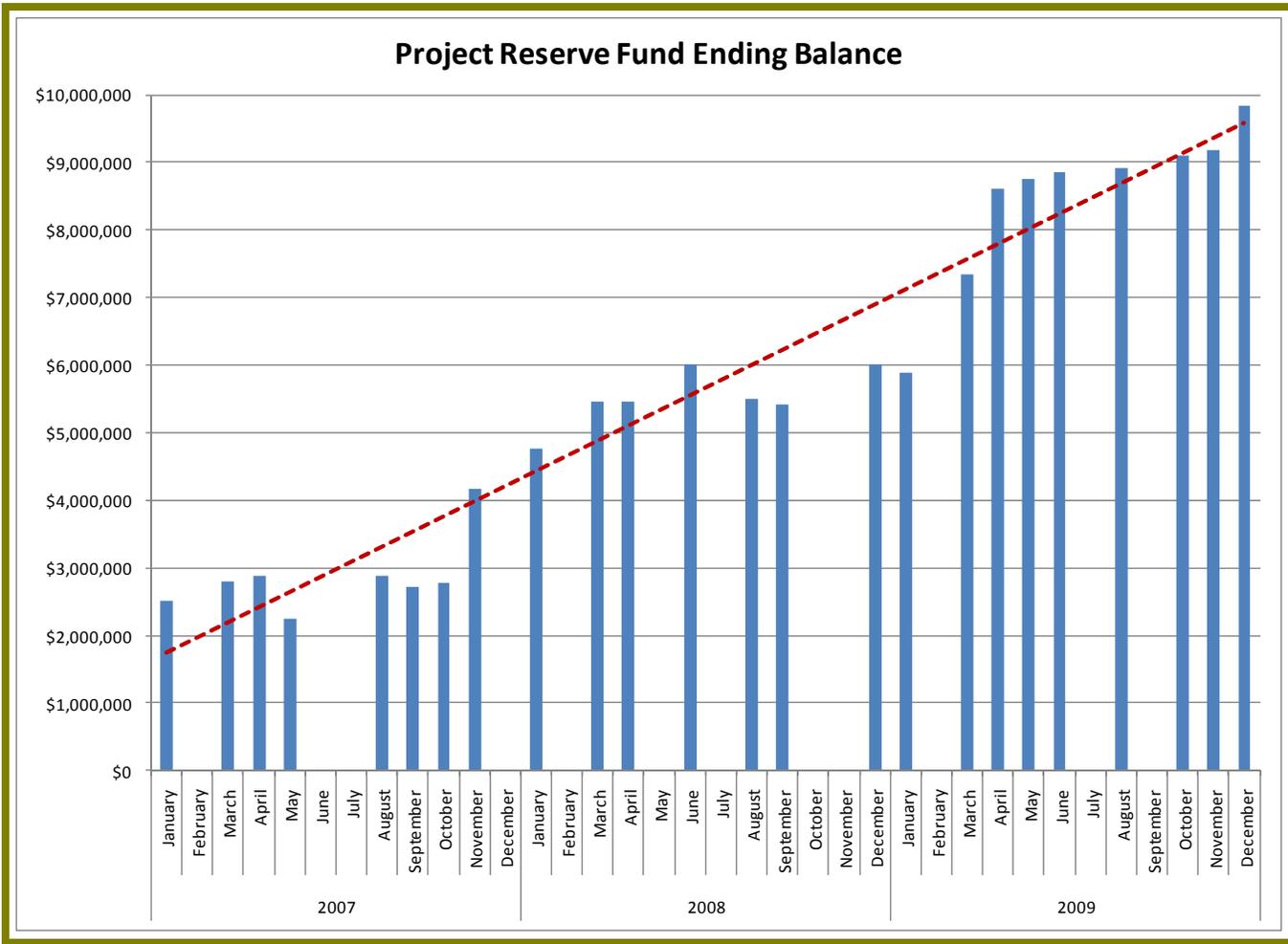
The large current Fund balance of over \$11.7 million should not necessarily be viewed as a potential source of funds. The three year detail shown in the chart above shows the necessity to keep the Fund balance at a healthy level to pay for future contingencies associated with the multiple large projects currently approved by the Legislature. One large project can consume a substantial portion of the balance as can be seen by the University of Utah Marriott Library project, which required \$2.3 million to settle contingent issues. Likewise, the detail behind the chart shows that small contingencies on multiple projects add up over time and slowly reduce the balance. The current USTAR project at the University of Utah has encountered multiple problems with soils, tunneling, and sewer; which will likely result in change orders of \$3.5 million (\$2.275 million of which would be the State’s share to be taken out of the reserve fund). The Analyst recommends caution in making significant decreases to the Contingency Reserve Fund.

Project Reserve Fund

The following table shows the historical balance in the Project Reserve Fund including increases and decreases to the Fund. Increases to the Fund consist of savings from bids coming in under budget and the residual amounts left over after completion of a project. Decreases to the Fund balance include costs of bids coming in over the budgeted amount and Legislative appropriations for other uses (typically to DFCM for project administration). In FY 2006 contract costs exceeded contract savings by \$5.6 million and necessitated a transfer of \$1.5 million from the Contingency Reserve Fund by the Legislature. Contract costs continued to exceed bid savings in FY 2007; however, the decline of the housing market in FY 2008 reversed that trend such that bid savings exceeded contract costs by almost \$1 million. Project residuals continue to outpace contract costs in FY 2009 and the Analyst expects the favorable bid environment to continue in FY 2010.

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Beginning Balance	\$ 4,430,849	\$ 5,706,188	\$ 3,079,106	\$ 2,906,982	\$ 5,613,765
Increases	3,950,994	2,778,475	2,201,828	3,854,286	4,754,533
Bid Savings	744,968	1,108,670	647,160	1,877,432	-
Project Close-out	3,206,026	1,669,805	1,554,668	1,976,854	4,754,533
Decreases	(2,675,655)	(5,405,557)	(2,373,952)	(1,147,503)	(1,256,486)
Contract Costs	(725,704)	(6,705,557)	(2,173,952)	(947,503)	(1,056,486)
Legislative Reappropriation	(1,949,951)	1,300,000	(200,000)	(200,000)	(200,000)
Ending Balance	\$ 5,706,188	\$ 3,079,106	\$ 2,906,982	\$ 5,613,765	\$ 9,111,812

The current balance in the Project Reserve Fund is \$9,825,010 (as of January, 2009). The following chart shows the detail of how the Fund balance increased over the last three years. The red line plots the linear trend (R² of 0.94) of how the Fund balance increased from \$2.5 million in January 2007 to \$9.8 million in December 2009. The Analyst recommends the Legislature consider re-appropriating part of the Fund balance.



RECOMMENDATIONS

The Analyst recommends the Legislature consider:

1. A reappropriation from Project Reserve Fund of \$5 million. Such a reduction would reduce the Fund balance to the FY 2007 level, which has been more than sufficient in the current favorable bid climate. This reappropriation could be used to off-set cuts to the Capital Improvement line item.
2. Keeping the Contingency Reserve Fund at the current level. The Analyst recommends caution in reducing this Fund any further because the several large construction projects outstanding that could have large contingent expenses.