



CAPITAL IMPROVEMENTS AND DEFERRED MAINTENANCE

EXECUTIVE APPROPRIATIONS COMMITTEE
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ISSUE BRIEF

SUMMARY

Utah is one of few states that uses ongoing appropriations for and has a statutory requirement to fund capital improvements. Bond rating agencies view this policy positively. During the economic downturn, the Legislature re-allocated capital improvement funding to other budget needs. Capital improvement appropriations have decreased over the last four years while deferred maintenance and requests for improvements have increased. Current law requires capital improvement funding to increase by approximately \$55 million in FY 2014 before the state can build any new buildings.

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.

ISSUES

Capital Improvement Funding

Statute requires the Legislature 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, statute allows funding at 0.9% of the replacement value of existing state buildings. For FY 2013, capital improvement funding will be just over 0.84%. Figure 1 at right shows the funding history of capital improvements for the past ten years.

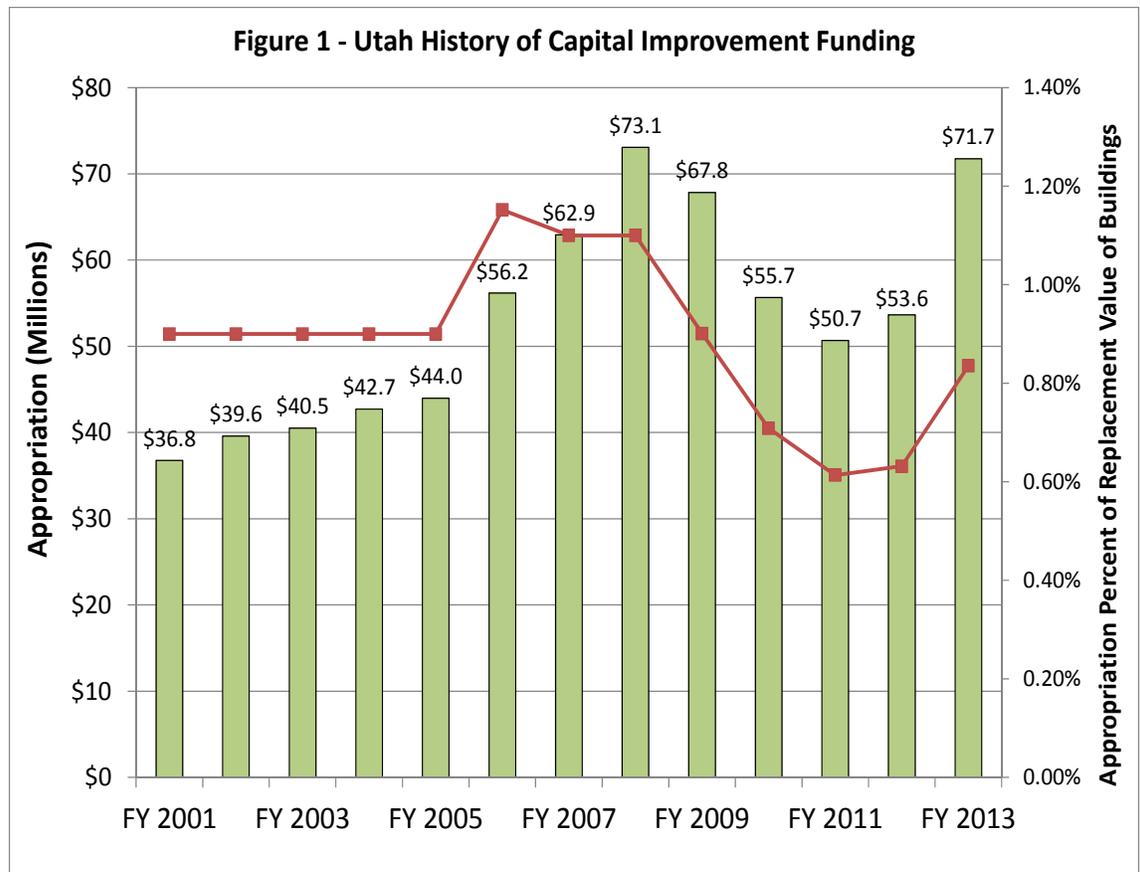


Figure 1

The Legislature appropriated more than 1.1% of the replacement value of buildings to capital improvements in FY 2006 (see Figure 1 on the previous page) and maintained 1.1% funding for the next two years. However, declining revenues resulted in budget reductions over the last four years. The Legislature amended statute for fiscal years 2009 to 2013 to allow funding for capital improvements to drop below 1.1% of the replacement value of buildings.

The required capital improvement funding for FY 2013 was \$94,476,400 at the 1.1% level; however, the Legislature instead appropriated \$71,739,100 of which \$41,739,100 is ongoing and \$30,000,000 is one-time. This represents 0.84% of the replacement value of buildings in FY 2013.

CONCLUSION

While deferring maintenance projects was necessary to preserve other government programs during the recession, it is not a viable long-term strategy. Further, a commitment to maintaining current facilities contributes to Utah's AAA bond rating. As policymakers weigh capital budget options in the coming years, they might consider capital improvement funding a priority as revenues increase.

Deferred maintenance on buildings continues to increase which may result in premature aging of state assets. Bond rating agencies pay particular attention to the needs and funding of state infrastructure and will be watching future capital improvement funding. Additionally, capital improvement projects are typically completed within the fiscal year appropriated and provide immediate economic benefit to the construction sector.

The current base budget for capital improvements is 0.44% of the replacement value of state buildings. To get to the 1.1% level in FY 2014 the Legislature will need to appropriate approximately \$55 million more to the budget. If the Legislature does not fund capital improvements at the 1.1% level the Legislature may pass a bill to modify the statute for FY 2014 or may not fund any capital development in FY 2014.