

Office of the
Legislative Fiscal Analyst

FY 2004 Budget Recommendations

Joint Appropriations Subcommittee for
Capital Facilities and Administrative Services

Capital Budget

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1.0 Summary: Capital Budget

The Capital Budget funds new construction, major remodeling, roofing and paving projects. Capital Development projects are projects that add new square footage or cost more than \$1,500,000. Capital Improvements (also called alterations, repair and improvement or AR&I) are remodeling projects that cost less than \$1,500,000 and do not add new square footage.

The ongoing portion of the Capital Budget base is made up of General Fund and Income Tax – but the State can take advantage of bonds, donations and federal funds to pay for projects. The base budget for FY 2003 is approximately \$89.4 million in tax funds.

	Analyst FY 2004 Base	Analyst FY 2004 Changes	Analyst FY 2004 Total
Financing			
General Fund	33,082,300		33,082,300
Income Tax	17,200,000		17,200,000
Total	\$50,282,300	\$0	\$50,282,300
Programs			
Capital Improvements	49,386,000	(6,723,100)	42,662,900
Capital Development Fund	896,300	6,723,100	7,619,400
Total	\$50,282,300	\$0	\$50,282,300

2.0 Issues

2.1 Recommended State Projects

The projects listed in the table below comprise the Analyst’s recommendation for approval in the 2003 General Session. The recommendation focuses on continuing to address the maintenance backlog through capital improvement funding and providing additional budget flexibility through use of the development budget.

Capital Improvements	State Funds	G.O. Bond	Trans. Fund	Inst. Funds	Revenue Bond	Total Project
Capital Improvements Statutory Level	\$52,143,000					\$52,143,000
SB 5005 Adjustment to Capital Improvements	<u>(9,480,100)</u>					<u>(9,480,100)</u>
<i>Capital Improvement Recommendation</i>	<u>\$42,662,900</u>					<u>42,662,900</u>
Capital Developments						0
Department of Corrections Promontory Bond Payments	\$2,805,000					\$2,805,000
College of Eastern Utah Student Housing Bond Payments	2,515,900					2,515,900
Archives Lease	250,000					250,000
DPS West Valley Driver License Replacement					\$1,242,000	1,242,000
USU Lab Animal Research Center				\$600,000		600,000
USU Biology/Natural Resources Building				1,900,000		1,900,000
Capital Budget Recommendation	<u>\$48,233,800</u>	<u>\$0</u>	<u>\$0</u>	<u>\$2,500,000</u>	<u>\$1,242,000</u>	<u>\$51,975,800</u>

2.2 Capital Improvements

Capital Improvements - also called alterations, repairs and improvements – must be funded before any new capital development project can be approved. During the 2001 General Session the Legislature increased the minimum funding formula from 0.9 percent to 1.1 percent of the value of all state buildings. As revenue projections went unmet, the Legislature amended statute to allow for more flexibility in the capital improvement program by funding at the original 0.9 percent level during a time of “operating deficits.” **The Analyst Recommendation includes the assumption of an operating deficit in FY 2004 and sets the Capital Improvement program at \$42,662,900 instead of the 1.1 percent level of \$52,143,000.**

2.3 Capital Development Recommendation

During the 2001 and 2002 General Session the Legislature funded a significant amount of projects using expected one-time funds and some ongoing cash. As revenue flows slowed the Legislature used these projects as a sort of “facility rainy day fund” and replaced the cash with bond authorizations in the amount of \$256 million. In the Sixth Special Session the Legislature’s bond proceeds supplied funding to projects while redirecting \$23,228,700 in ongoing capital funds to other programs. This change lowered the Capital Budget base to below even the Capital Improvement minimum. **With no development budget available and unprecedented bond authorizations the Analyst recommends no state funded development projects in FY 2004.**

2.4 Using Capital Budget to Enhance Ongoing Revenue

The Legislature addressed revenue shortfalls for Fiscal Year 2002 and 2003 by using one time funds to fill gaps in ongoing budgets. This creates structural imbalance in the FY 2004 budget as agency programs continue even though there may be no funds available. In two cases the Legislature can use savings created through the Capital Improvement adjustment to free up more than \$1 million in ongoing funds.

CEU Dormitory debt drains \$215,000 annually

During the 1990s the College of Eastern Utah added dormitories to its campuses in Price and Blanding by taking out traditional mortgages through the CEU Foundation. The Regents, College and Foundation expected student growth to provide ample revenue to amortize the mortgages. Unfortunately the student growth never appeared and the College struggled to make payments, ultimately providing tuition scholarships to students who agreed to live in the dormitories and pay rent. A one time payment of \$2,515,900 will allow the College to begin to make scholarship decisions based on academic mission rather than budgetary plight and will free up \$215,000 in ongoing funds.

College of Eastern Utah Dormitory Mortgages	
Tucker	\$191,112
Tucker	\$26,674
San Juan Center	\$426,821
Aaron Jones - Phase I	\$514,268
Aaron Jones - Phase II	\$562,440
Aaron Jones - Phase III	\$794,534
Total	<u><u>\$2,515,849</u></u>

Dormitories operate as auxiliary enterprises on college campuses. Auxiliary enterprises generally do not receive state funds for operations but rely instead on revenue from rent, sales or fees. In normal circumstances the Analyst would not recommend state funds to offset costs associated with auxiliary functions. Given the fact that CEU auxiliary enterprises are creating financial problems for the school's Education and General budget, **the Analyst recommends transferring \$2,515,900 from the Capital Budget to the College of Eastern Utah for the purpose of paying off outstanding mortgages on campus dormitories.**

UDC must make three facility payments of \$935,000

As part of the budget reduction process in FY 2003 the Department of Corrections, in cooperation with the Board of Pardons, accelerated a program to manage non-violent offenders in the community rather than housing them in prison. The resulting flattening of inmate counts led the Department to postpone the planned opening of a new prison in Gunnison and to the closure of the Promontory Prison in Draper. A private provider managed the state-owned Promontory Prison as a minimum security facility and the Department of Corrections made annual debt service payments to the State Building Ownership Authority out of its annual budget. Even with closure of the facility the Department still must make payments of \$935,000 in May of 2003, 2004 and 2005 to retire the bond. A transfer of \$2,805,000 to the debt service budget in FY 2004 will provide funds for the final three payments while freeing up significant ongoing funds for the Department.

	Impact of UDC Bond Payoff			
	<i>FY 2003</i>	<i>FY 2004</i>	<i>FY 2005</i>	<i>Three Year Change</i>
BOA Debt Service	(\$935,000)	\$935,000		\$0
UDC Operating Budget	\$935,000	\$935,000	\$935,000	\$2,805,000
Capital Budget (One-time)		(\$2,805,000)		(\$2,805,000)
Annual Total	\$0	(\$935,000)	\$935,000	\$0

Since Capital Budget funds become available in FY 2004 another source with a non-lapsing balance must be used in FY 2003 to make the current year payment. Once the payment is made, the funds appropriated in FY 2004 can be used to restore the FY 03 funding source. The Debt Service Account holds sufficient non-lapsing balances to make the current year payment so long as those funds are restored in FY 2004. In order to move the state closer to structural balance in ongoing revenue, **the Analyst recommends a one-time transfer of \$2,805,000 to the Debt Service Account in FY 2004.** IN order to ensure proper compliance with bond covenants, the Division of Finance requests the following intent language to govern the transfer:

It is the intent of the Legislature that DFCM is not required to collect rent from the Department of Corrections for the Promontory Facility in FY 2003 if the Legislature in the 2003 general session appropriates funds to debt service for FY 2004 to replace the uncollected rent.

It is further the intent of the Legislature that the Division of Finance use available cash balances in the debt service fund to make the debt service payment in FY 2003 if the Legislature in the 2003 General Session has appropriated funds for FY 2004 to debt service to replace the rent not collected from the Department of Corrections in FY 2003.

2.5 Alternatives to Capital Construction

Every year the Legislature tries to solve the dilemma of determining if programs drive facilities or if facilities drive programs. Over the course of the 2001 Interim the Analyst has become increasingly concerned that agencies and institutions are not doing all they can to ensure that capital costs are minimized. Agencies request new buildings without addressing opportunities to change business practices through creative use of technology. Some colleges and universities seek to expand campuses without addressing opportunities to consolidate programs. Even worse, some schools continue to add new programs and degrees seemingly with little consideration for impacts on space allocations. In many cases this comes from disincentives to eliminate inexpensive programs that subsidize important but costly missions.

Utah is a small state that must manage its resources carefully. The Analyst believes that the Legislature should work with agencies and institutions to find solutions that do not require expensive new facilities and added programs. In some cases programs could be eliminated or consolidated in a way that rewards the agency and encourages creative thinking. In the short term, it may seem like the state is paying a premium for some programs, but in the long term the state will be able to count on a capital budget that is manageable, efficient and dedicated to funding only the highest priorities.

2.6 Rotating Research Institution Projects

The Utah System of Higher Education occupies approximately two-thirds of all state space. Among the USHE, the University of Utah and Utah State University occupy the most (and oldest) space. One of the real difficulties that arises in the facility approval process is competition between the two research universities for development funds. This year the top priorities at the U of U and USU total more than half of the entire USHE request.

With two large institutions competing for such large amounts of funds, the Legislature should consider establishing an alternating system that would fund the top priority of one school one year, then the top priority of the other school in the following year, assuming availability of funds. This would recognize political reality of facility funding and could remove the facility “bottleneck,” allowing smaller schools compete on a more level playing field for funding.

2.7 Engineering Bond Options

In the 2002 General Session, the Legislature authorized bonds for engineering buildings at the University of Utah and Utah State University. The authorization totaled \$20,943,500 and carried a stipulation that each institution would raise matching funds before the bonds could be issued. To date neither institution has met the requirements for issuance and the bonds remain authorized but not yet issued.

The bonds still count against the state's constitutional and statutory cap even though they remain un-issued. The Legislature may consider redirecting this authorization to other projects in FY 2004 since fiscal impact has already been accounted for in previous years. If the Legislature chooses to redirect the funds, it will need make a decision as to the future of the engineering buildings. Without the bond authorization it will be nearly impossible for the institutions to fund construction of a new facility.

3.0 Programs: Capital Budget

3.1 Capital Improvements

The Analyst is recommending Capital Improvement funding of \$42,662,900. If the Legislature approves this statutory minimum it will represent the largest single Capital Improvement appropriation ever.

	2002	2003	2004	Est/Analyst
Financing	Actual	Estimated	Analyst	Difference
General Fund	22,594,000	32,386,000	25,662,900	(6,723,100)
General Fund, One-time		(8,979,300)		8,979,300
Income Tax	17,000,000	17,000,000	17,000,000	
Total	\$39,594,000	\$40,406,700	\$42,662,900	\$2,256,200
Expenditures				
Other Charges/Pass Thru	39,594,000	40,406,700	42,662,900	2,256,200
Total	\$39,594,000	\$40,406,700	\$42,662,900	\$2,256,200

*General and school funds as revised by Supplemental Bills I-V, 2002 General and Special Sessions. Other funds as estimated by agency

Capital Improvements are major alteration, repair and improvements (AR&I) of the State's fixed capital assets. Capital improvement funds may not be used for program equipment or routine maintenance.

Minimum funding levels for Capital Improvements are set in statute:

The Legislature may not fund the design or construction of any new capital development projects, except to complete the funding of projects for which partial funding has been previously provided, until the Legislature has appropriated 1.1 percent of the replacement cost of existing State facilities to capital improvements (UCA 63A-5-104(5))

Maintenance Backlog

As reported by the Analyst during the 1999 interim, the State's maintenance backlog approaches \$400 million. Capital Improvement funds help to reduce the backlog but cannot address all issues. Many facilities have significant problems that require more than the \$1,500,000 statutory cap allowed for capital improvements (examples include the Marriott and Merrill Libraries, the Eccles-Graff Fine Arts Building and the State Capitol). In these cases, funds must be used from the Capital Development portion of this budget. The Building Board and DFCM should be commended for their focus on Capital Improvements. However, it is important to note that Capital Improvements alone cannot alleviate the maintenance backlog. The Capital Facilities and Administrative Services Committee should continue to focus on large projects that need Capital Development funds to correct massive problems that inflate maintenance backlog totals.

*AR&I Funding
Supports Higher
Education*

If the Legislature funded Capital Improvements at 1.1 percent, the \$52.1 million level for would eclipse the highest funding amount by nearly twenty five percent. If Capital Improvements are funded at the lower rate of 0.9 percent the FY 2004 level will still be the most ever appropriated to specifically address the maintenance backlog. More than half of all Capital Improvement dollars go to projects that benefit Higher Education and the Utah College of Applied Technology. This is money that is rarely accounted for in considering state support of education even though the direct beneficiaries of the program are students.

Capital Improvement Expenditures						
	Higher UCAT/Public Education Education		General Government	Law Enforcement	Statewide Issues	Total
FY 2003	21,312,000	2,044,500	10,093,800	3,946,000	3,090,400	40,486,700
<i>FY 03 %</i>	<i>53%</i>	<i>5%</i>	<i>25%</i>	<i>10%</i>	<i>8%</i>	
FY 2002*	23,839,909	1,915,800	8,667,458	3,848,761	4,140,000	42,411,928
<i>FY 02 %</i>	<i>56%</i>	<i>5%</i>	<i>20%</i>	<i>9%</i>	<i>10%</i>	
FY 2001	17,462,500	1,270,500	10,760,500	2,708,700	4,550,800	36,753,000
<i>FY 01 %</i>	<i>48%</i>	<i>3%</i>	<i>29%</i>	<i>7%</i>	<i>12%</i>	
FY 2000	15,842,300	1,687,800	8,429,400	2,983,800	4,614,700	33,558,000
<i>FY 00 %</i>	<i>47%</i>	<i>5%</i>	<i>25%</i>	<i>9%</i>	<i>14%</i>	
FY 1999	17,231,543	2,638,435	8,565,535	3,037,937	1,000,000	32,473,450
<i>FY 99 %</i>	<i>53%</i>	<i>8%</i>	<i>26%</i>	<i>9%</i>	<i>3%</i>	
FY 1998	13,235,366	2,938,200	10,346,675	1,681,900	3,850,957	32,053,098
<i>FY 98 %</i>	<i>41%</i>	<i>9%</i>	<i>32%</i>	<i>5%</i>	<i>12%</i>	
FY 1997	12,667,800	1,969,200	12,171,500	2,333,100		29,141,600
<i>FY 97 %</i>	<i>43%</i>	<i>7%</i>	<i>42%</i>	<i>8%</i>		
FY 1996	9,059,350	1,069,900	6,431,550	1,963,800		18,524,600
<i>FY 96 %</i>	<i>49%</i>	<i>6%</i>	<i>35%</i>	<i>11%</i>		
FY 1995	5,605,100	555,000	7,678,100	1,465,000		15,303,200
<i>FY 95 %</i>	<i>37%</i>	<i>4%</i>	<i>50%</i>	<i>10%</i>		
FY 1994	4,536,600	635,700	7,270,200	1,894,400		14,336,900
<i>FY 94 %</i>	<i>32%</i>	<i>4%</i>	<i>51%</i>	<i>13%</i>		
Total Expenditur	Higher Education	Public Education	General Government	Law Enforcement	Statewide Issues	Total FY 94-03
FY 94-03	\$140,792,468	\$16,725,035	\$90,414,718	\$25,863,398	\$21,246,857	\$295,042,476
Average %						
FY 94-03	48%	6%	31%	9%	7%	

1994-1997: Law enforcement category includes Courts, Corrections and Public Safety.
 1998-2002: Law enforcement category includes above plus Youth Corrections.
 * FY 2002 Funding includes \$2.8 million in transfers

Statewide AR&I Issues

In FY 2003 the Building Board allocated more than \$3 million in capital improvement funds for “Statewide funding issues.” Statewide funding issues are listed in the table below.

Project	FY 2000	FY 2001	FY 2002	FY 2003
Facility Audits	\$215,000	\$215,000	\$220,000	\$220,000
Condition Assessments	700,000	950,000	1,000,000	735,000
Energy Program	815,700	800,000	150,000	
Scanning of Documents	80,000	125,300	-	
Topographical Surveying	50,000	42,000	-	
DFCM CAD Standards	150,000	132,000	170,000	
Hazardous Materials	850,000	801,500	700,000	650,000
Emergency Power Source (Generators)	354,000		-	
Paving PM	250,000	350,000	350,000	295,000
Paving UCI	150,000	235,000	250,000	250,000
Roofing PM	200,000	500,000	400,000	300,000
Roofing UCI	300,000	300,000	300,000	100,000
Roofing - Seismic		300,000	300,000	100,000
Emergency Roofing	200,000	300,000	-	140,400
Emergency Funds	300,000	200,000	200,000	200,000
Land Option		100,000	100,000	100,000
Total - Statewide Issues	\$4,614,700	\$5,350,800	\$ 4,140,000	\$ 3,090,400

One of the larger items addressed in the statewide issues category is the condition assessment program. DFCM contracts for engineering studies to provide key data on the condition of state owned facilities. The Legislative Auditor determined that more than eighty percent of capital improvement projects come from assessments prioritized in this program. The Analyst believes that this program is paying long term dividends and will continue to monitor and report on its progress.

Funding continues to increase

Funding for Capital Improvements will again climb to a new high, even assuming the Analyst recommendation of \$42.6 million. The Utah system of funding alterations, repairs and improvements relies on replacement value of facilities. This means that inflation and new facilities drive program increases every year. Many states ignore such funding issues or fund on a fixed cost that does not keep up with growth. The Utah system is one of the most creative solutions available to any level of government.

Capital Improvement Funding (Tax Funds)			
<i>Year</i>	<i>Amount</i>	<i>Increase</i>	<i>% Change</i>
FY 2004 (Rec.)	42,662,900	2,176,200	5.38%
FY 2003	40,486,700	892,700	2.25%
FY 2002	39,594,000	2,841,000	7.73%
FY 2001	36,753,000	3,195,000	9.52%
FY 2000	33,558,000	1,084,550	3.34%
FY 1999	32,473,450	420,352	1.31%
FY 1998	32,053,098	2,911,498	9.99%
FY 1997	29,141,600	10,617,000	57.31%
FY 1996	18,524,600	3,221,400	21.05%
FY 1995	15,303,200	966,300	6.74%
FY 1994	14,336,900		

AR&I alone will not eliminate maintenance backlog

Even with the record level of funding, DFCM estimates that the state still carries \$254 million in immediate needs that can not be addressed in the current year. Utah is not alone in carrying huge maintenance backlogs. Most, if not all, government entities attempt to forestall capital costs by keeping buildings longer than they are designed for or by postponing major repairs. However, just because the backlog is large does not mean that the Utah system is insufficient to fix the problem. Nearly forty percent of Utah facilities are over 25 years old, so the natural replacement cycle will accelerate the elimination of the backlog. The Legislature should continue to place emphasis on Capital Development projects that replace aging and worn space. Over the past three years development projects such as the Dixie College Fine Arts Center, the USU Heat Plant Replacement and the UU Cowles Building Remodel allowed the state to remove millions from the maintenance backlog.

Maintenance Backlog Estimates				
<i>Building Repairs</i>	<i>Immediate</i>	<i>5-Year</i>	<i>10-Year</i>	<i>Total</i>
Bldgs Inspected	\$180,645,000	\$370,673,000	\$191,065,000	\$742,383,000
Estimated	\$22,326,000	\$45,813,000	\$23,614,000	\$91,753,000
Total Bldg.	\$202,971,000	\$416,486,000	\$214,679,000	\$834,136,000
<i>Infrastructure Repairs</i>				
Infrastructure	\$10,263,000	\$30,879,000	\$16,087,000	\$57,229,000
Estimated	\$41,052,000	\$123,516,000	\$64,348,000	\$228,916,000
Total	\$51,315,000	\$154,395,000	\$80,435,000	\$286,145,000
Total Bldg + Infrast.	\$254,286,000	\$570,881,000	\$295,114,000	\$1,120,281,000

Source: DFCM Five Year Book, page iii

3.2 Capital Planning

The Analyst recommendation does not recommend any state funded planning.

	2002	2003	2004	Est/Analyst
Financing	Actual	Estimated	Analyst	Difference
General Fund	40,000	12,951,000		(12,951,000)
General Fund, One-time		(12,951,000)		12,951,000
Total	\$40,000	\$0	\$0	\$0
Expenditures				
Other Charges/Pass Thru	40,000			
Total	\$40,000	\$0	\$0	\$0

*General and school funds as revised by Supplemental Bills I-V, 2002 General and Special Sessions. Other funds as estimated by agency

3.3 State Funded Capital Development

	2002	2003	2004	Est/Analyst
	Actual	Estimated	Analyst	Difference
Financing				
General Fund			7,419,400	7,419,400
Income Tax		8,049,000	200,000	(7,849,000)
Income Tax, One-time		(8,049,000)		8,049,000
Federal Funds		7,900,300		(7,900,300)
Dedicated Credits - GO Bonds	34,750,400	3,125,000		(3,125,000)
GFR - Special Administrative Expense	1,186,700			
Project Reserve Fund		800,000		(800,000)
Total	<u>\$35,937,100</u>	<u>\$11,825,300</u>	<u>\$7,619,400</u>	<u>(\$4,205,900)</u>
Expenditures				
Other Charges/Pass Thru	<u>35,937,100</u>	<u>11,825,300</u>	<u>7,619,400</u>	<u>(4,205,900)</u>
Total	<u>\$35,937,100</u>	<u>\$11,825,300</u>	<u>\$7,619,400</u>	<u>(\$4,205,900)</u>

*General and school funds as revised by Supplemental Bills I-V, 2002 General and Special Sessions. Other funds as estimated by agency

3.3.1 Capital Development Issues

The Legislature allocated most of the base Capital Budget to various areas of state government in order to balance Fiscal Years 2003 and 2004. For projects previously funded with cash the Legislature authorized bonds sufficient to fund all projects rather than eliminate any previously authorized facility. With the base budget reduced to a fraction of its previous level and outstanding indebtedness at historic highs, the Analyst recommendation includes no new capital development projects. Even if no projects are funded this year there are still many policy issues to consider in planning for the future.

The items below highlight state funded requests with significant policy implications and offer recommendations for “non-state” projects.

Capitol Preservation Board – Capitol Restoration Project

Decision on Capitol Project needed

Last year the Legislature approved design funds for the base isolation and restoration of the Capitol, allowing the Capitol Preservation Board to move forward with engineering and architectural design for the Capitol Building during the eighteen month construction of the expansion wings. As presented last year, the appropriation provided sufficient funds for the project to stay on track through FY 2004. The appropriation assumed continued progress in phases, including the closure of the Capitol in 2004 as staff moved into the expansion wings.



The final phase of the project includes razing of the current Archives Building to construct a new heat plant on Capitol Hill. The current heat plant lacks capacity to serve the new expansion wings and the Capitol. If the Legislature wants to postpone the main restoration project, the heat plant will need to be funded this year in order to keep all three buildings open. The master plan developed by the Board and approved by the Legislature will now provide three options for funding in FY 2004:

1. Continue with original plan to fund the balance of the Capitol project in the 2004 General Session – this would assume funding of restoration in the 2004 Session (does not bind a future legislature since the same Legislature will meet for its second term in 2004);
2. Provide funding for a new heat plant during the 2003 General Session – this will provide more options for funding the project in the 2004 Session;
3. Continue with master plan into 2004 General Session and decide then whether to proceed with restoration – this will mean that the Capitol will be closed until a decision is made to add a heat plant or proceed.

Utah State University Merrill Library Replacement (\$42.2m)

The central library at Utah State University was built in three phases, with each of the last two phases essentially adding a building to the existing structure. The result is a facility that contains significant egress problems that would make exiting in an emergency extremely difficult. In addition to life safety problems, the building is aging and can not be readily retro-fitted for new technology, movable stacks or group learning areas.

The current facility dates to the 1930s and restoration or remodeling would cost more than erection of a new facility. Officials at the University designated a site adjacent to the Science and Technology Library for construction of a new facility. The new facility will integrate new technology and provide three times more storage space than the current facility while occupying a similarly sized footprint.



The Legislature provided \$800,000 in design funds last year to get started on the project. At that time the base budget for capital projects included \$21 million over the capital improvement base budget, approximately half of the additional \$42.2 million needed to fund the new library. With ongoing cuts made since the 2002 General Session, only \$7.6 million remains for development projects.

With less than \$8 million available for projects, phased funding would not be an option. However, the Legislature could authorize a bond sufficient to cover the whole project and direct DFCM to draw on the funds through two or three issuances. In effect this would create a “phased bonding” program. The downside to pursuing this would be the added cost of issuance if no other bond authorizations were available.

University of Utah Marriott Library (\$41.4m)

Following the 2001 General Session, the University of Utah anticipated placing a Marriott Library remodel at number two on their priority list for FY 2003 consideration. An engineering study funded by the University determined that the life safety problems within the library warranted placement at the top of the institutional priority list. The remodeling project as anticipated by the University was found to be unworkable due to severe seismic needs within the existing structure. Instead of requesting \$12 million in state funds to match \$6 million in donations, the cost of the project jumped to \$41.4 million and the institution promised to fund \$17 million from gifts.



The restoration design includes a high volume automated storage and retrieval system (ARS). Automated retrieval systems allow libraries to consolidate seldom used materials into one area, creating increased demand overall for holdings that normally would take shelf space from high usage materials. Since the ARS will be built next to the main library, it would be possible to build it as an initial phase of the total restoration. If the project were phased the approval of the high volume system would not obligate further funds since the ARS system can integrate to the existing library indefinitely.

Utah State Archives (\$8.9m)

A key component of the Capitol Restoration is the demolition of the current Archives Building to make way for a new heat plant. The Capitol project merely provides an acceleration to the need – the Archives Building no longer meets the needs of the state and will need to be replaced regardless of decisions made on the Capitol. After years of changing proposals DFCM and the Building Board believe that the best option calls for moving the Archives into a 46,000 square foot facility adjacent to the north end of the Rio Grande Depot. While this may be a long term solution, the Analyst believes that this is not the time to quadruple the space currently occupied by the Archives and believes that suitable lease space may be found in downtown Salt Lake City.

Downtown location provides options

Leasing downtown provides a short term solution for a small incremental cost. Available space in downtown is at an all time high, allowing the state to take advantage of favorable lease rates. Leasing in the City Center also allows the Archives to locate near the Genealogical Society and the proposed Cultural Center. Such an arrangement offers the promise of a centralized arts and historical area that will bring people into downtown.

DFCM estimates an annual increase to the Archives O&M budget of \$143,200 once the proposed building is completed. Given the state average of \$14.55 per square foot for office space in Salt Lake City, a lease to match the current size of the Archives Building (10,000 square feet) would approximate the estimated O&M costs of the proposed facility. With lease rates at their most competitive ever, the State should be able to negotiate a favorable lease that may increase square footage to provide more appropriate space for the Archives. Over ten years the cost to own may actually be more than the cost to lease. Assuming a favorable interest rate of 3.9%, bond costs for five years will total \$1.7 million in the first five years. Operations and maintenance add another \$1.4 million, bringing the total to just over \$3.1 million over ten years.

<i>Archives: Lease vs. Build</i>		
	Build	Lease
Construction Cost	\$8,947,000	
O&M	\$143,200	
Lease		\$250,000
Debt Service	\$348,933	
Ten Year Cost	\$3,176,665	\$2,500,000

The analyst recommends that the Legislature direct \$250,000 from the capital budget to the Division of Archives to lease space as a short term solution to their facility problem.

Utah National Guard Armory (\$2.5m)

The Utah National Guard recently sold its Murray Armory, relocating three units to its Camp Williams Facility. With the transfer of a Medical Area Support Company to Utah, the Guard faces the need of constructing a new readiness center. The federal government provides a three to one match on stat funds for new armories, but insists that funding be in place prior to allocation of funds. In the past the Legislature provided assurances for funding by authorizing bonds to be issued only upon receipt of anticipated federal funds. The Guard believes that the addition of the new unit will allow them to move to the “front of the line” in receiving federal funds so long as they can show a state commitment. The Analyst believes that it would be in the interest of the state to offer matching funds. **If any facility or highway bond is approved during the 2003 General Session, the Analyst recommends adding an authorization of \$2,500,000 for a new National Guard Armory to be placed in North Salt Lake.** The Analyst also recommends adding language to the bond bill that allows issuance only upon receipt of federal funds in the amount of \$7,800,000 to fund the balance of the project.

Transportation Projects

The Department of Transportation seeks authorization to purchase two parcels of land totaling \$500,000. Given the current budget situation, the Analyst recommends that this amount be funded through the Transportation Appropriation Subcommittee as part of the overall UDOT budget.

3.4 Non-State Funded Projects

The table below shows projects recommended for funding from sources other than State funds. The Analyst is concerned that current facilities carry maintenance backlogs as the State continues to accept donated buildings or approve fee-driven projects. The Analyst also recognizes that many donated or fee-driven projects provide extraordinary value to the State.

Recommended "Other Fund" Projects			
Project	Amount	Source of Funds	O/M
West Valley Driver's License	\$1,242,000	Revenue Bond	
USU Lab Animal Research Addition	600,000	Grants/Inst. Funds	\$12,200
USU Biology/Natural Resources Addition	1,900,000	Donations	\$28,100
Courts - West Jordan Complex	14,573,800	Lease/Lease-Purchase	393,800
Courts - Tooele Courthouse	8,150,000	Revenue Bond	225,000
	<u>\$26,465,800</u>		<u>\$659,100</u>

Recommended O&M

As facilities come online they carry an impact for routine operation and maintenance. Legislative policy requires agencies to acknowledge State funded obligations when requesting non-State funded buildings. In the past, the Legislature expressed concern that O&M funds were not considered in acceptance of non-state funded buildings. Agencies also expressed frustration that O&M funds often were not appropriated once facilities were approved. To bridge this gap, committee chairs of the Capital Facilities and Administrative Services subcommittee now communicate with chairs of operational committees that will be affected by future O&M requests. While this is not a guarantee of future funding, it is an attempt to use as much information as possible in accepting buildings.

Regional Centers

DFCM presented information to the Building Board detailing the need for central locations of services in Cache, Washington and Weber Counties. The state has a number of leases in each county, many of which will expire soon. With growth in both counties, it may be cheaper for the state to co-locate services in an owned facility.



At the time of printing DFCM was finalizing recommendations for Revenue Bonds and will present them to the Legislature during the regular hearing process. The Analyst recommends the impact on agency leases, local tax bases and long term needs in considering proposals.

Court Facilities

South Salt Lake County

Last year the Legislature appropriated \$475,000 to study options for court needs in the southern portion of Salt Lake County. At the time it seemed likely that the Courts would expand its four court facility in Sandy City by eight courts. After exploring options it seems like the best option may be to sell the current Sandy City facility and move to a twelve court facility in West Jordan. The City of West Jordan expressed interest in building a courts complex that the state could occupy through a lease or a lease-purchase. If this can be worked out between the Courts, DFCM and West Jordan, it may provide the best option for the future as growth in Salt Lake County continues to move south and west. **The Analyst recommends approval of a lease-purchase arrangement in which West Jordan City provides \$14,573,800 to be matched against proceeds from the sale of the Sandy City Court facility.** It is assumed that the Sandy City Court will bring no less than \$4.5 million to the state.

Tooele County

The Third District Court shares space with Tooele County at the Tooele Complex. The facility design prevents establishment of basic security measures and creates a situation where accused criminals share hallways with jurors, victims and the public. With significant growth in Tooele County the Courts now needs to expand its facilities. After exploring several options, it appears that a lease-purchase funded through court fees offers the best option to provide new space. One difficulty with this plan is that the court fees anticipated to be used for this project have been shifted to filling gaps in the current budget year. With no ability to provide additional state funds, the Analyst recommends approval of the \$8.15 million project with the conditions outlined in the following language:

It is the intent of the Legislature that the Executive Office of the Courts use available court fees to fund a lease-purchase for new court facilities in Tooele. It is further the intent of the Legislature that the Executive Office of the Courts certify the ability to provide such funds prior to entering into an agreement with Tooele County for new space.

West Valley Driver’s License Facility

The Department of Public Safety is headquartered in the Calvin Rampton Building in West Valley City, near I-215 and 4700 South. Administrative space is tight, with cubicles set up in maze-like fashion and cramped to a size that is significantly smaller than state space standards. However, administrative space restrictions are not as pronounced as the undersized driver’s license facility across the street. The license issuance office was built in 1975 – since then Salt Lake County has grown by seventy-two percent. Waiting time for customers routinely exceeds two hours and the office is packed every day.



The level of service demanded results in daily “cut-offs” for customers that make it difficult for patrons to arrive at 4:30 or later and receive services. The Division believes it can solve its primary and immediate problems with a new facility near the Rampton Building. **The Analyst recommends approval of a revenue bond in the amount of \$1,242,000 to be funded from restricted accounts.**

While the facility addresses immediate needs and will offer the option of creating “express lines,” the Analyst is not convinced that a new facility will solve all issues. New online renewals should provide some relief and the Analyst believes that other technologies could offer better service for patrons. Restaurants and amusement parks employ electronic devices that reserve a window of time for service. The same system could be employed for those seeking new licenses or who have problems that take more than a couple of minutes. Such a system could allow customers to tend to other business and return to the center at a pre-determined time, eliminating the seemingly endless line in the building.

3.5 Lease Report

Three entities have leasing authority in Utah: DFCM, the Courts and the Utah System of Higher Education. DFCM bears the responsibility for coordinating and reporting lease activity:

63A-5-303. Lease reporting and coordination.

(1) The director shall:

(a) prepare a standard form upon which agencies and other state institutions and entities can report their current and proposed lease activity, including any lease renewals; and

(b) develop procedures and mechanisms within the division to:

(i) obtain and share information about each agency's real property needs; and

(ii) provide oversight and review of lessors and lessees during the term of each lease.

(2) Each agency, the Judicial Council, and the Board of Regents for each institution of higher education shall report all current and proposed lease activity on the standard form prepared by the division to:

(a) the State Building Board; and

(b) the Office of Legislative Fiscal Analyst.

Each year DFCM presents a lease report as part of the Five Year Book. The Legislature provides a flexible system of reporting that allows agencies to manage their programs with leases when appropriate by simply reporting their intention rather than gaining formal approval for each lease. Current statute requires DFCM or Judicial Council oversight for high cost leases, defined as a lease that:

(a) has an initial term including any agency optional term of ten years or more; or

(b) will require lease payments of more than \$1,000,000 over the term of the lease including any agency optional term. (*UCA 63A-5-301*)

This provision is not applicable to the Utah System of Higher Education which has the ability to establish its own policies:

63A-5-305 Leasing by higher education institutions.

(1) The Board of Regents shall establish written policies and procedures governing leasing by higher education institutions.

(2) Each higher education institution shall comply with the procedures and requirements of the Board of Regents' policies before signing or renewing any lease.

*Regent Leasing
Policy*

In meeting their statutory goal, the Regents commit to:

Review and approve institutional requests for plans to lease capital facilities space with state-appropriated funds for programs of instruction, research, or service when contracts for leasing such facilities: (1) exceed \$50,000 per year; (2) commit the institution to space rentals for a 5-year duration or beyond; or (3) lead to the establishment of regular state-supported daytime programs of instruction in leased space. An annual report of all space leased by the institutions, including space leased for off-campus continuing education programs and space leased in research parks, shall be compiled by the Commissioner's Office for review by the Board of Regents and forwarding to the State Building Board for possible inclusion its comprehensive 5-year building plan. (*Regent Policy 4.5.7. - Leased Space*)

*Further reporting
recommended for the
interim*

In compiling data for this report, the Analyst found that there may be some confusion regarding leasing policy, approval and reporting. The amount of information available regarding this issue is too complex to handle in the tight time frame of the Legislative session. Therefore the Analyst recommends that that the Legislature direct staff to prepare a more comprehensive report for inclusion on the Executive Appropriations agenda.

It is the intent of the Legislature that the Office of the Legislative Fiscal Analyst shall prepare a report on leased space. The report should include information on lease types, approval requirements, funding sources and appropriate use. It is assumed that this report will be presented to the Executive Appropriations committee no later than August of 2003.

Statewide Lease Data

Leasing offers the state a substantial value when used appropriately. Lease space can offer low cost and flexibility while tying the cost of facilities directly to agency budgets. The tables below present data on leases held by the courts, state agencies and the USHE.

Overall, Utah leases more than six million square feet. However, one-third of that amount is at the State Fair Park and significant amounts are tied up in land leases and federal grants. By removing UDOT, the State Fair and the National Guard, the state’s average cost per square foot totals \$8.55.

Utah Lease Space By Agency (Does not include USHE)			
<i>Agency</i>	<i>Square Feet</i>	<i>Annual Rent</i>	<i>\$/ Sq. Ft.</i>
DABC	56,382	\$593,548	\$10.53
Atty. General	19,616	272,801	\$13.91
Agriculture	1,335	3,528	\$2.64
CCJJ	4,093	28,651	\$7.00
Commerce	137	2,083	\$15.21
Corrections	116,048	464,044	\$4.00
Courts	269,297	2,653,520	\$9.85
DAS	244,016	534,303	\$2.19
DCED	42,534	624,912	\$14.69
DEQ	23,050	108,075	\$4.69
DHS	470,426	5,947,061	\$12.64
DNR	120,653	298,726	\$2.48
DWS	282,643	3,281,216	\$11.61
State Fair	2,534,768	10	\$0.00
Financial Inst.	8,735	107,671	\$12.33
Governor	648	26,392	\$40.73
Health	40,467	562,085	\$13.89
Insurance	4,419	88,986	\$20.14
JCC	739	9,977	\$13.50
Navajo	1,224	17,699	\$14.46
National Guard	1,231,016	54,555	\$0.04
Public Ed	92,791	974,763	\$10.50
Public Safety	283,034	964,109	\$3.41
State Treasurer	7,576	108,716	\$14.35
SITLA	23,200	401,907	\$17.32
Tax Commission	40,406	328,406	\$8.13
UDOT	310,557	124,199	\$0.40
Grand Total	6,229,810	\$18,581,941	\$2.98
<i>Total w/o Fair/Guard/UDOT:</i>			
	<i>2,153,469</i>	<i>\$18,403,177</i>	<i>\$8.55</i>

The state leases many different types of property, the bulk of which is land. Office space accounts for nearly 1.3 million square feet of total space.

Utah Leases By Type (Does not include USHE)			
<i>Lease Type</i>	<i>Square Feet</i>	<i>Annual Rent</i>	<i>\$/Sq. Foot</i>
Air Monitoring Station	2,080	\$7,500	\$3.61
Classrooms	686	3,000	\$4.37
Court/Office	190,924	1,786,345	\$9.36
Free Office	13,299	0	\$0.00
Ground Lease	4,306,790	51,514	\$0.01
Hangar	1,175	3,078	\$2.62
Hangar/Office	94,535	35,246	\$0.37
Human Resource	34,677	255,531	\$7.37
Library	6,390	5,319	\$0.83
Office	984,443	14,350,812	\$14.58
Office/Other	79,770	649,712	\$8.14
Office/Sublease	21,132	238,476	\$11.29
Parking	155,050	151,142	\$0.97
Stock Pile Yard	105,450	75	\$0.00
Storage	38,371	94,683	\$2.47
Storage/Other	81,584	354,830	\$4.35
Store	50,382	591,458	\$11.74
Trailer Space	8,400	2,020	\$0.24
Transmit Sta.	54,672	1,200	\$0.02
Grand Total	6,229,810	\$18,581,941	\$2.98

The Utah System of Higher Education leases an additional 1.5 million square feet. The table below shows changes from 2001 to 2002. A significant portion of space leased by the University of Utah is part of research park.

USHE Lease Report						
	<i>2001 Leases</i>	<i>2001 Sq. Ft</i>	<i>2001 Rent</i>	<i>2002 Leases</i>	<i>2002 Sq. Ft</i>	<i>2002 Rent</i>
University of Utah	81	779,763	\$9,332,712	85	838,282	\$10,305,216
Utah State University	14	107,409	853,634	15	99,133	744,556
Weber State University	7	51,974	120,790	8	54,442	134,894
Southern Utah University	18	40,546	273,913	22	42,506	290,024
Snow College	0	0	0	0	0	0
Dixie State College of Utah	1	5,840	125	1	5,840	125
College of Eastern Utah	3	26,725	60,116	4	32,325	60,126
Utah Valley State College	17	182,868	718,826	17	200,097	736,994
Salt Lake Community College	9	67,879	604,138	9	107,283	649,623
Utah College of Applied Technology		n/a	n/a	10	184,241	941,805
<i>Mountainland ATC</i>				3	97,924	239,901
<i>Salt Lake/Tooele ATC</i>				3	29,076	418,720
<i>Southeast ATC</i>				2	47,241	223,484
<i>Uintah Basin ATC</i>				1		24,000
<i>Davis ATC</i>				1	10,000	35,700
USHE TOTAL	150	1,263,004	\$11,964,254	171	1,564,149	\$13,863,363
<i>Total Leases Added:</i>				29	309,175	\$1,925,123
<i>Total Leases Ended:</i>				8	(37,600)	(\$373,760)
<i>Total Leases Changed:</i>				80	26,570	\$346,876
<i>Total Increase:</i>				21	301,145	\$1,899,109

UCAT Leases to be reported as part of USHE

UCAT began reporting its leases along with the USHE this year. Currently there are still some reporting errors that prevent the two reports from tying together on totals. The Analyst is working with the USHE to ensure better reporting in the future.

	UCAT Leasing			
	<i>FY 2003</i>	<i>FY 2003</i>	<i>FY 2004</i>	<i>FY 2004</i>
	<i>Square Feet</i>	<i>Total Rent</i>	<i>Square Feet</i>	<i>Rent</i>
Bridgerland	-	-	-	-
Central	-	-	-	-
Dixie	-	-	-	-
Mountainland	97,924	\$239,901	97,924	\$239,901
Ogden-Weber	-	-	-	-
Salt Lake - Tooele	32,157	298,500	60,757	406,499
Southeast	2,241	23,484	3,200	33,600
Southwest	45,000	130,000	45,000	130,000
Uintah Basin	-	24,000	0	24,000
Davis	10,000	35,700	10,000	35,700
UCAT Total	187,322	\$751,585	216,881	\$869,700

FY 2003 Analyst Recommendation – All Projects

Project	State Funds	Federal Funds	Inst. Funds	Rev. Bond	Total Project	Est. O&M
Capital Improvements	\$42,662,900				\$42,662,900	
Department of Corrections Promontory Bond Payments	\$2,805,000				2,805,000	
College of Eastern Utah Student Housing Bond Payments	2,515,900				2,515,900	
Archives Lease	250,000				250,000	250,000
West Valley Driver's License				\$1,242,000	1,242,000	
USU Lab Animal Research Addition			600,000		600,000	\$12,200
USU Biology/Natural Resources Addition			1,900,000		1,900,000	\$28,100
Courts - West Jordan Complex				14,573,800	14,573,800	393,800
Courts - Tooele Courthouse				8,150,000	8,150,000	225,000
	<u>\$48,233,800</u>	<u>\$0</u>	<u>\$2,500,000</u>	<u>\$23,965,800</u>	<u>\$74,699,600</u>	<u>\$909,100</u>

Building Board Ranking and USHE Priority List

Building Board FY 2004 Priority List					
BB Rank	Agency/ Institution	Project	Total Project Amount	State Funds Requested	Cumulative Total
1	Statewide	Capital Improvement Funding	\$ 52,143,500	\$ 52,143,500	\$ 52,143,500
2	DAS	Archives Admin. & Permanent Storage	9,367,600	9,367,600	61,511,100
3	USU	Merrill Library Replacement	43,000,000	42,200,000	103,711,100
4	Dixie	Health Sciences Bldg (Program Only)	15,716,100	140,000	103,851,100
5	WSU	Swenson Gymnasium Renovation	8,499,300	5,499,300	109,350,400
6	SUU	Teacher Education Building	15,295,800	15,295,800	124,646,200
7	Multi-Agency	St. George Regional Center (B)	7,566,000	7,516,000	132,162,200
8	Multi-Agency	New Ogden Regional Center (B)	11,728,700	11,678,700	143,840,900
9	UofU	Marriott Library Renovation	58,189,300	41,189,300	185,030,200
10	CEU	Fine Arts Complex	12,491,400	11,491,400	196,521,600
11	Courts	Tooele Courthouse (C)	6,570,400	6,570,400	203,092,000
12	UCAT	UBATC/USU Vernal Campus	10,524,500	10,524,500	213,616,500
13	Courts	West Jordan District & Juvenile Court	18,020,500	11,045,500	224,662,000
14	National Guard	Salt Lake/Davis Readiness Center	10,438,100	2,542,000	227,204,000
15	DNR/Corrections	Special Forces Facility Replacement	1,304,600	996,600	228,200,600
16	Courts	Cedar Court Land Purchase	281,000	281,000	228,481,600
17	UVSC	Vineyard School & Alpine Ctr Purchase	9,000,000	9,000,000	237,481,600
18	SLCC	Health Sciences Building	19,154,700	19,154,700	256,636,300
19	Dixie	Health Sciences Building (Full Project)	15,716,100	15,716,100	272,352,400
20	Snow	Classroom Building	5,222,900	4,472,900	276,825,300
21	UCAT	BATC Advanced Technology Bldg.	6,691,900	6,691,900	283,517,200
22	DNR	Parks - Four New Campgrounds	5,000,000	5,000,000	288,517,200
(A)	Capitol Pres. Brd.	Capitol Building Renovation Partial Funding	20,000,000	20,000,000	308,517,200
TOTALS			\$ 361,922,400	\$ 308,517,200	

Notes:

(A) The Building Board expressed its support for this project but did not include it in its rankings due to the unique circumstances of the project with this amount being a phase of funding on a project that is already underway.

(B) These projects could be financed on a lease revenue bond using existing rent budgets to cover debt service.

(C) Courts have proposed that this project be a lease purchase with Tooele County providing the financing.

USHE Facility Priority List		
<i>Rank</i>	<i>Project</i>	<i>State Funds</i>
1	USU Merrill Library	\$42,200,000
2	UU Marriott Library	41,416,000
2	WSU Swenson Gymnasium	5,499,000
3	CEU Fine Arts Complex	11,491,000
5	UVSC Vineyard School Purchase	9,000,000
6	SLCC Health Science Building	19,155,000
7	DSC Health Sciences	15,716,000
7	SUU Teacher Education	15,296,000
9	Snow Classroom Building	4,473,000
USHE Total Request		\$164,246,000

4.0 Funding History

	2000	2001	2002	2003	2004
	Actual	Actual	Actual	Estimated*	Analyst
Financing					
General Fund	47,310,300	35,505,300	22,634,000	45,337,000	33,082,300
General Fund, One-time		13,400,000		(21,930,300)	
Uniform School Fund	8,134,000	11,816,100			
Income Tax	3,682,100		17,000,000	25,049,000	17,200,000
Income Tax, One-time		82,546,000		(8,049,000)	
Transportation Fund		611,000			
Federal Funds	3,662,500	1,170,000		7,900,300	
Dedicated Credits Revenue	9,028,000	428,000			
Dedicated Credits - GO Bonds	54,501,200	8,600,000	34,750,400	3,125,000	
GFR - Special Administrative Expense			1,186,700		
Transfers	4,949,000				
Project Reserve Fund				800,000	
Transfers - Youth Corrections		2,319,200			
Total	\$131,267,100	\$156,432,100	\$75,571,100	\$52,232,000	\$50,282,300
Programs					
Capital Improvements	33,558,000	36,753,000	39,594,000	40,406,700	42,662,900
Capital Planning	50,000	2,086,500	40,000		
Capital Development Fund	97,659,100	117,592,600	35,937,100	11,825,300	7,619,400
Total	\$131,267,100	\$156,432,100	\$75,571,100	\$52,232,000	\$50,282,300
Expenditures					
Other Charges/Pass Thru	131,267,100	156,432,100	75,571,100	52,232,000	50,282,300
Total	\$131,267,100	\$156,432,100	\$75,571,100	\$52,232,000	\$50,282,300

*General and school funds as revised by Supplemental Bills I-V, 2002 General and Special Sessions. Other funds as estimated by agency.