

Budget Brief – Capital Improvements

NUMBER CFAS-05-22A

SUMMARY

Capital Improvements—formerly known as “alteration, repair and improvements” or AR&I—are improvements of the state’s fixed assets and may not be used for program equipment or routine maintenance. Statute requires capital improvements to be funded prior to any new capital development project being approved. During the 2001 General Session the Legislature increased the minimum improvement funding formula from 0.9 percent to 1.1 percent of the replacement value of all state buildings. However, as revenue projections went unmet in FY 2002 and FY 2003, the Legislature amended statute to allow more flexibility in this program. The change allowed the Legislature to fund the program at the original 0.9 percent level during times of operating deficits.

Utah has never actually funded capital improvements at the 1.1 percent level. Funds up to 1.1 percent were appropriated in FY 2002, but shortly thereafter were cut back to the 0.9 percent level.

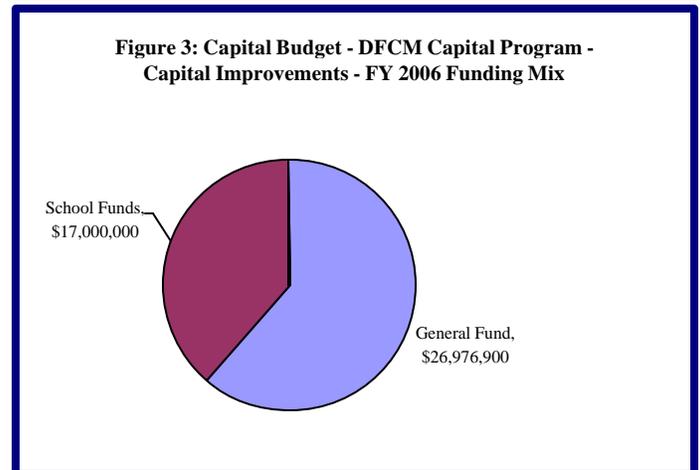
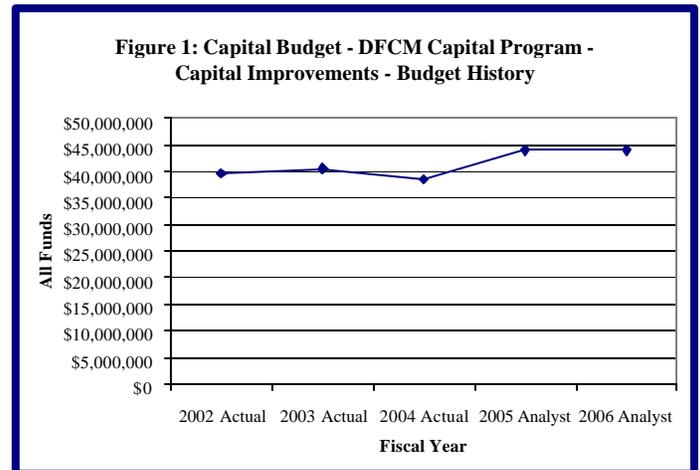
ISSUES AND RECOMMENDATIONS

Increase Funding to 1.1 Percent

Capital improvement statute defines “operating deficit” as estimated General Fund or Uniform School Fund revenues being less than budgeted for the current or next fiscal year. Since it is reasonable to conclude the state is not meeting this definition, the Analyst recommends funding Capital Improvements at the 1.1 percent level. This would be an increase of \$9,655,200 over the current funding base. If the Legislature approves this recommendation, total capital improvement funding will increase to \$53,632,100, the highest level ever. The Legislature may fund this increase with a combination of General Funds, School Funds, and perhaps even some Transportation Funds, depending on balancing needs. However, General Funds provide the most flexibility because they can be used on any kind of facility.

Capital Improvements Support Higher Education

Since more than half the square footage owned by the state is in higher education, over half of all capital improvement funding goes to projects that benefit higher education and the Utah College of Applied Technology. In FY 2005 higher education is programmed to receive over \$24.6 million. This money is not always accounted for in considering state support of education, though students benefit directly from the program.



Reallocate Unused Oxbow Capital Improvement Funds

During the 2004 General Session the Legislature passed intent language requiring DFCM to use up to \$1.5 million from capital improvement funds for remodeling Oxbow. When the Oxbow sale fell through, the Legislature (in special session) replaced the language with new language saying this \$1.5 million should only be used if federal VOI/TIS funds could not be used for capital improvements in Corrections. Later, the federal government approved the use of the VOI/TIS funds, which left the state funds unused. The Analyst recommends new intent language to reallocate these unused funds to the DFCM statewide emergency fund.

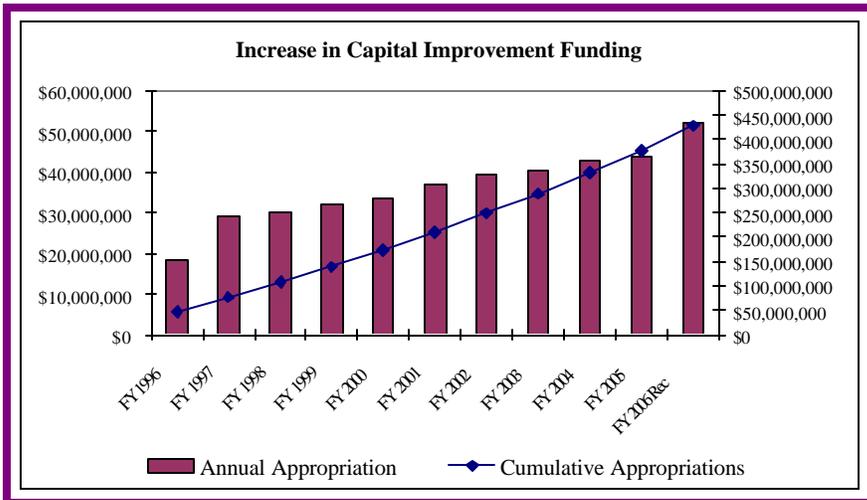
This year state agencies and institutions have experienced an unusually high number of emergencies which have depleted the emergency fund, leaving a balance of \$10,000 and requiring several reallocations from other projects to the emergency fund. The heaviest needs may be yet to come, as most requests for emergency funds come during winter months. Please see "Intent Language" section below.

ACCOUNTABILITY DETAIL

Funding by Major Area

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Higher Ed	\$17,231,500	\$15,842,300	\$17,499,500	\$25,703,600	\$18,596,600	\$22,040,300	\$23,690,100
Higher Ed %	53%	47%	48%	58%	52%	52%	54%
UCAT	\$2,428,400	\$1,577,800	\$1,942,700	\$1,812,800	\$1,394,500	\$1,712,700	\$883,700
UCAT %	7%	5%	5%	4%	4%	4%	2%
Public Ed	\$210,000	\$110,000	\$52,000	\$95,000	\$220,000	\$142,200	\$99,300
Public Ed %	1%	0.3%	0.1%	0.2%	1%	0.3%	0.2%
General Government	\$8,565,500	\$8,429,400	\$8,941,900	\$8,592,800	\$9,687,200	\$9,026,500	\$10,989,300
Gen Govt %	26%	25%	25%	19%	27%	21%	25%
Law Enforcement	\$3,037,900	\$2,983,800	\$3,448,000	\$4,315,400	\$3,118,000	\$6,002,900	\$4,950,200
Law Enf %	9%	9%	9%	10%	9%	14%	11%
Statewide Issues	\$1,000,000	\$4,614,700	\$4,500,800	\$4,140,000	\$3,090,400	\$3,790,100	\$3,444,300
Stwd Iss %	3%	14%	12%	9%	9%	9%	8%
Total	\$32,473,300	\$33,558,000	\$36,384,900	\$44,659,600	\$36,106,700	\$42,714,700	\$44,056,900
Other			\$1,485,815		\$4,400,000		

Increases in Capital Improvement Appropriations



Funding for capital improvements will almost always climb to new highs each year due to inflation and new facilities coming on line. Utah's system of funding capital improvements based on a percentage of replacement value is an effective way of keeping pace with growing needs. However, capital improvement funding alone cannot eliminate the backlog of needs. Therefore the Legislature has focused on using capital development funds to replace aging and worn space, rather than adding new space.

Progress on Maintenance Backlog

Facility Assessment: Progress on Backlog				Progress
Buildings	FY 2004	FY 2005	FY 2006	Since FY04
Immediate	\$202,971,000	\$167,164,000	\$170,558,000	\$32,413,000
Five Year	416,486,000	474,383,000	470,640,000	(54,154,000)
Ten Year	214,679,000	227,514,000	220,376,000	(5,697,000)
Total	\$834,136,000	\$869,061,000	\$861,574,000	(\$27,438,000)
Infrastructure				
Immediate	\$51,315,000	\$31,932,000	\$32,487,000	\$18,828,000
Five Year	154,395,000	169,960,000	165,360,000	(10,965,000)
Ten Year	80,435,000	99,194,000	94,447,000	(14,012,000)
	\$286,145,000	\$301,086,000	\$292,294,000	(\$6,149,000)
Total Backlog	\$1,120,281,000	\$1,170,147,000	\$1,153,868,000	(\$33,587,000)

Over the past two years the Legislature has reduced the “immediate” need backlog by \$51.2 million, although the five and ten year needs increased.

DFCM’s Facility Condition Assessment Program has identified over \$200 million in “immediate” repair needs to buildings and infrastructure, and more than \$1.1 billion in needs over the next ten years (not including the Capitol). Capital improvement funds can be used for projects with a total cost of less than \$1.5 million, or new facilities costing under \$250,000, so large renovation programs need to be undertaken with capital development funds.

BUDGET DETAIL

The base appropriation contains \$17 million from Income Tax revenues that can only be used for higher education facilities. This does not present a flexibility problem because the amount spent for higher education has been approximately \$24 million in recent years, and general funds can be used for the difference.

Budget Recommendation

The Analyst recommends a total FY 2006 Capital Improvement budget of \$53,632,100. This includes the base budget of \$43,976,900 plus an additional \$9,655,200. The additional funds are not built into the Analyst’s funding table because these funds have not yet been allocated to the subcommittee.

Intent Language

The Analyst recommends the Legislature adopt the following supplemental FY 2005 intent language:

It is the intent of the Legislature that the \$1.5 million in Capital Improvement Funds previously allocated to Oxbow remodeling be deposited instead in the Division of Facilities Construction and Management’s statewide emergency capital improvement fund.

LEGISLATIVE ACTION

This section is a summary of what actions might be taken if the Legislature wishes to adopt the recommendations of this brief. The Analyst recommends the Legislature consider adopting:

1. A total base budget of 43,976,900 for the Capital Improvement program.
2. A budget increase of \$8,134,700 from the General Fund and \$1,520,500 from the Transportation Fund to increase capital improvement funding to the 1.1 percent level of statewide facilities replacement value.
3. Intent language reallocating \$1.5 million from Oxbow remodeling to the statewide emergency capital improvement fund.

BUDGET DETAIL TABLE**Capital Budget - DFCM Capital Program - Capital Improvements**

Sources of Finance	FY 2004 Actual	FY 2005 Appropriated	Changes	FY 2005 Revised	Changes	FY 2006 Analyst*
General Fund	25,714,700	26,976,900	0	26,976,900	0	26,976,900
General Fund, One-time	(4,200,000)	0	0	0	0	0
Income Tax	17,000,000	17,000,000	0	17,000,000	0	17,000,000
Total	\$38,514,700	\$43,976,900	\$0	\$43,976,900	\$0	\$43,976,900
Categories of Expenditure						
Other Charges/Pass Thru	38,514,700	43,976,900	0	43,976,900	0	43,976,900
Total	\$38,514,700	\$43,976,900	\$0	\$43,976,900	\$0	\$43,976,900

Other Data

*Does not include amounts in excess of subcommittee's state fund allocation that may be recommended by the Fiscal Analyst.