
Issue Brief – Capitol Restoration Funding

NUMBER CFAS-05-03

SUMMARY

The Legislature has funded \$77 million of the \$212 million Capitol restoration project, leaving \$135M remaining in need of legislative action. During the 2004 General Session the Legislature authorized bonding in the amount of \$50 million, correctly anticipating this amount would be sufficient to cover first-year costs. However, phase funding is creating problems with the contractor, since the contractor needs to commit to suppliers and subcontractors for more than the \$50 million per year as currently authorized. Another problem is trying to hold the budget as building supplies increase in price without being able to contract for the full amount up front. State law doesn't allow for contracting beyond the legislative appropriation unless the Legislature specifically authorizes such action.

DISCUSSION AND ANALYSIS

Since it is unlikely the Legislature will terminate the project at this point, the Analyst suggests the following alternatives for completing the project.

One alternative would be to completely fund the project this year with one-time General Funds. Using cash would allow the state to avoid approximately \$13.1 million in interest costs over the next six years (if the state opts to pay off the bonds in six years as it usually does on buildings) or \$40 million in interest costs over a fifteen-year payoff, avoid bumping against the statutory bonding limit, and show a commitment to "pay as you go," which bond rating agencies like to see. However, it would consume a significant portion of the state's available surplus that could otherwise be placed in other one-time projects or the Rainy Day Fund.

Another option would be to authorize bonding for \$135 million. This could be accompanied by intent language requiring that bonds only be issued as needed, perhaps in increments of \$50M/\$50M/\$35M for the next three years. Authorizing the full amount of the bond would allow the CPB and the contractor to issue contracts for the remainder of the project. While general obligation bonds would have the lowest interest rate, lease-revenue bonding is an option if the Legislature wishes to avoid bumping against the statutory bonding limit. Lease revenue bonding would commit the state to approximately \$14 in interest costs over the next six years, or \$42 million over the next fifteen years.

Other alternatives would be using a mixture of bonding and cash for the full amount of the project, or a mixture of bonding and cash for partial funding of the project, accompanied by a statement from the Legislature authorizing CPB to enter into a contract for the full cost of the project while requiring that the contract include a provision for termination of the contract for the convenience of the state as required by UCA 63-56-40(4)(d). This would allow the contractor to lock in the full cost of the remaining construction while restricting the amount of cash flow allowed each fiscal year to a predetermined amount identified in the contract that matches the Legislature's intentions for authorized funding. This alternative would allow the Legislature to continue using phased funding. As an example, UCA 63A-5-207(2) allows DFCM to utilize this alternative if specifically authorized by the Legislature. This approach is sometimes used with major highway projects.