Issue Brief – Capital Improvement Funding

NUMBER CFGO-08-07

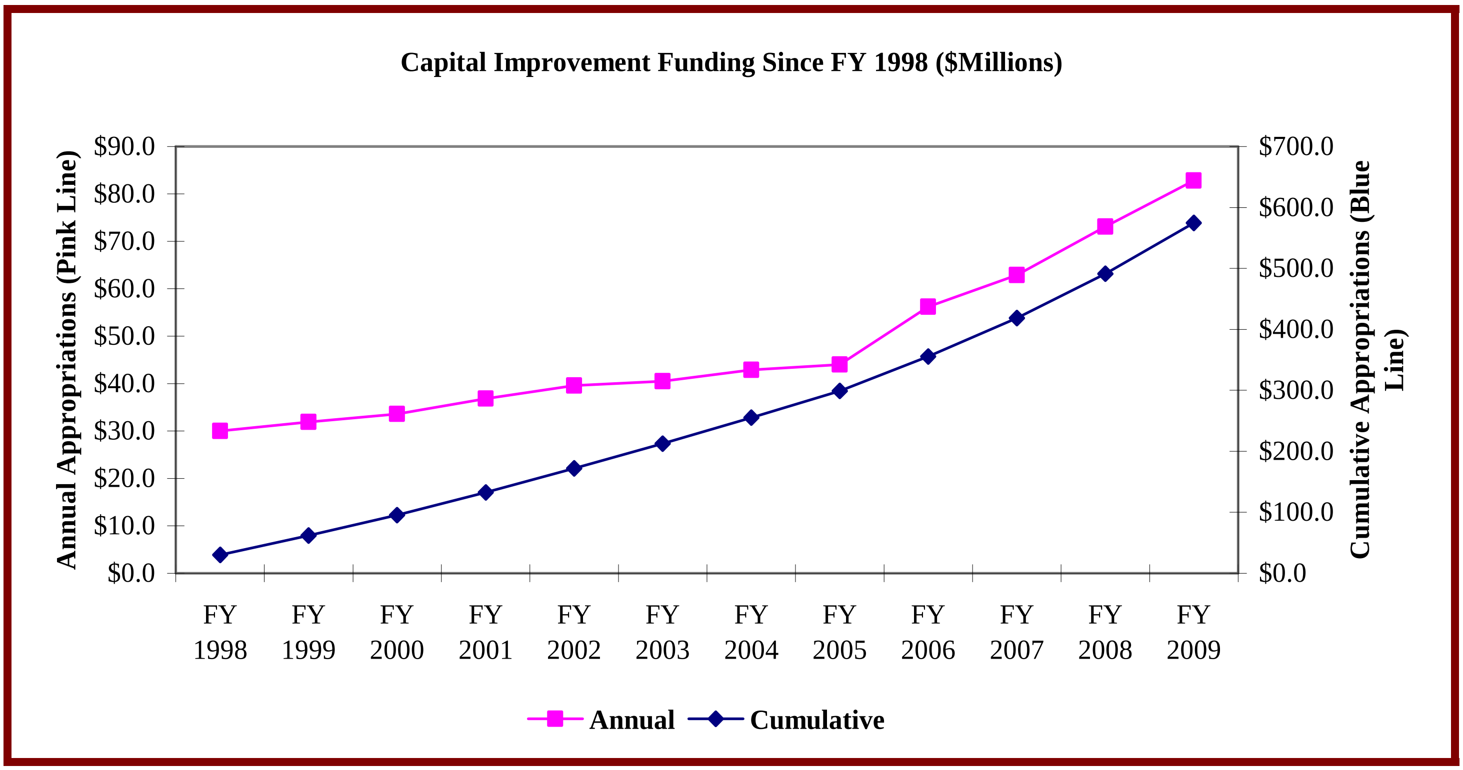
SUMMARY

During the last four years the capital improvement funding requirement has increased by approximately $10 million per year, reaching almost $83 million in FY 2009 and becoming a significant item in the state budget. The Legislature has granted broad powers to the Building Board to oversee how funds are spent, with the mandate to consider independent professional evaluations of needs. As the appropriation continues to grow each year, the Analyst recommends the Legislature consider whether it should tighten its delegation of the funds.

DISCUSSION AND ANALYSIS

Statute requires capital improvements to be funded at a level equal to 1.1 percent of the replacement value of existing state buildings prior to any new capital development project being approved. During budget deficits the statute allows funding at 0.9 percent. A capital project is defined as a project on an existing structure or site costing $2.5 million or less, or a new facility costing $500,000 or less.

Under the statutory formula, funding for capital improvements will almost always climb to new highs each year due to inflation and new facilities coming on line. Inflation on construction projects has been particularly high in the last four fiscal years, thus driving up the replacement cost of existing buildings. During the last four years the funding requirement has increased by approximately $10 million per year and has become a significant item in the state budget. The required amount of funding for FY 2009 is $82,838,200, which is $9,778,300 more than the FY 2008 appropriation of $73,059,900.



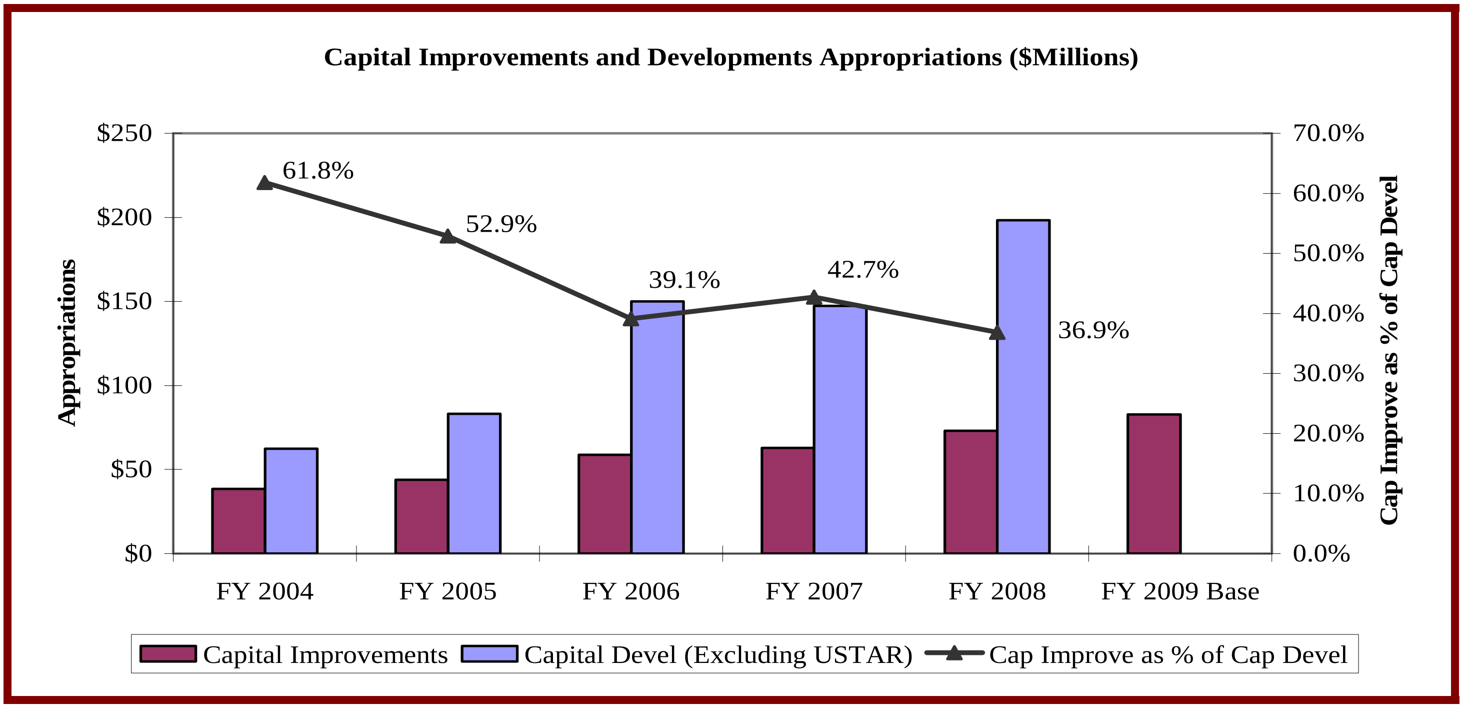
The Legislature has delegated broad powers to the State Building Board to determine how capital improvement appropriations are spent. The requirements on the Building Board are:

- Submit a list of anticipated capital improvement requirements to the Legislature by January 15 of each year. The Building Board complies by including this information in the Five Year Program document.

- Unless otherwise directed by the Legislature, prioritize capital improvements from the list submitted to the Legislature up to the level of appropriation.
- When prioritizing projects, consider the results of facility evaluations completed by an architect/engineer as stipulated by the board's facilities maintenance standards.

Utah's approach is nationally recognized and innovative because it allows for annual growth in improvement funding and leaves the decisions to professional building managers.

In spite of the rapid growth in funding for capital improvements, growth has not occurred as quickly as overall (ongoing plus one-time) growth in capital development funding, even excluding $160 million appropriated for USTAR in FY 2007. The reasoning for increases in the capital development budget also applies to the capital improvements budget, namely that inflation in construction projects has eroded purchasing power.



Ongoing funding for capital developments has remained flat at $30,000,000 since FY 2007, down from $37,698,000 in FY 2006. In contrast, ongoing funding for capital improvements has increased rapidly in the same timeframe, to the point where capital improvement funding is now almost three times as large as the ongoing funding for capital developments. Capital development projects receive a great deal of legislative attention while a growing number of capital improvement projects receive little legislative oversight.

LEGISLATIVE ACTION

The Analyst recommends the Legislature consider ways to improve oversight of capital improvement projects without amending the statutory formula or creating the political problem of requiring legislative approval of each project. Some alternatives include amending statute to:

1. Specifically state that a project exceeding the $2.5 million cap cannot be broken into smaller pieces that each fit under the cap. A project that exceeds $2.5 million should be a capital development.
2. State that a project exceeding the $2.5 million cannot be phase funded over the course of multiple years so each phase can fit under the cap.
3. Create a tier of project types that cost between $2.5 million and approximately $7 million for projects that exceed the current capital improvement cap but can't realistically compete with projects on the capital development list. Allow capital improvement dollars to be spent on these projects with specific legislative approval.