

# CAPITAL IMPROVEMENTS

INFRASTRUCTURE AND GENERAL GOVERNMENT APPROPRIATIONS SUBCOMMITTEE  
STAFF: RICHARD AMON

BUDGET BRIEF

## SUMMARY

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.

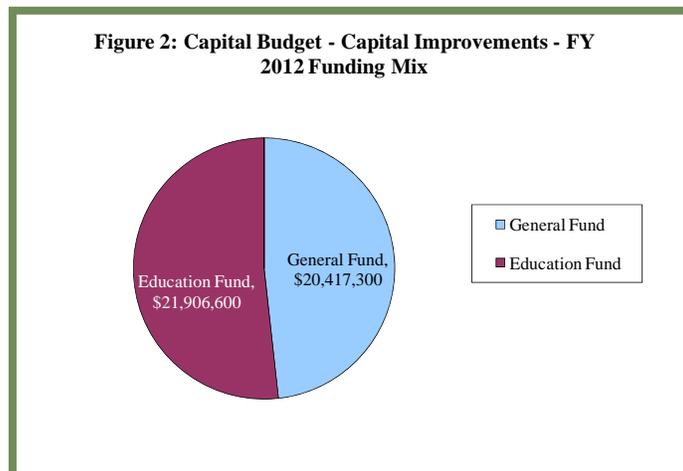
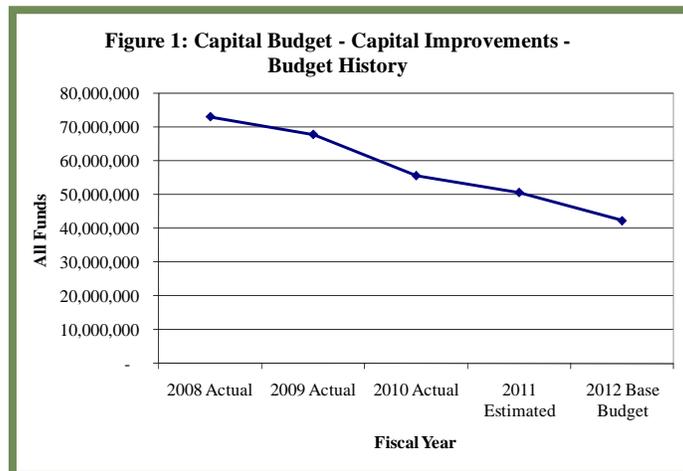
State statute requires the Legislature to fund capital improvements at a level equal to 1.1% of the replacement value of existing state buildings before the Legislature may approve new capital development projects. During budget deficits the statute allows funding at 0.9% of the replacement value of existing state buildings. For FY 2009 thru FY 2011 the Legislature amended the statute to allow funding below the 0.9% level.

## ISSUES AND RECOMMENDATIONS

### Allocations by Major Area

Each year the Legislature appropriates a fixed amount to the Capital Improvements line item. Then, in the spring following the General Session, the State Building Board meets and makes specific allocations to state agencies and institutions of higher education based on need and on the percentage of buildings maintained. The projects for which the Building Board allocates funding must have first been reviewed and approved by the Legislature.

The table at right depicts the FY 2011 allocation of capital improvement funds by the State Building Board. Over the past five years the allocation of capital improvement funds has remained consistent. Higher Education receives an average of 56% of the capital improvement appropriation, state agencies



**Table 1: FY 2011 Capital Improvements Allocations**

College of Eastern Utah	\$1,120,000	Courts	\$2,305,766
Dixie State College	\$1,125,000	DFCM	\$2,822,600
Salt Lake Commun Coll	\$2,207,585	Enviro Quality	\$89,192
Snow College	\$1,046,500	Fairpark	\$174,000
Southern Utah Univ	\$1,750,000	Health	\$540,000
University of Utah	\$10,252,000	Human Services	\$2,048,945
Utah State University	\$4,970,000	National Guard	\$975,476
Utah Valley State Coll	\$2,411,000	Natural Resources	\$1,527,382
Weber State University	\$2,449,500	Office of Education	\$189,472
Utah Coll of Applied Tech	\$1,867,000	Public Safety	\$255,000
<b>Subtotal Higher Ed</b>	<b>\$29,198,585</b>	Tax Commission	\$342,663
Agriculture	\$172,760	Transportation	\$1,322,000
Alcoholic Beverage Ctrl	\$234,909	Veterans Affairs	\$0
Capitol Preserv Board	\$1,842,000	Workforce Services	\$477,750
Community & Culture	\$240,000	Statewide Programs	\$3,450,000
Corrections	\$2,476,900	<b>Subtotal Agencies</b>	<b>\$21,486,815</b>
		<b>Grand Total</b>	<b>\$50,685,400</b>

receive 36%, and DFCM receives 8% to use for statewide improvements and reserves for emergency projects. Figure 3 below shows the allocation of capital improvement funds for the past five years.

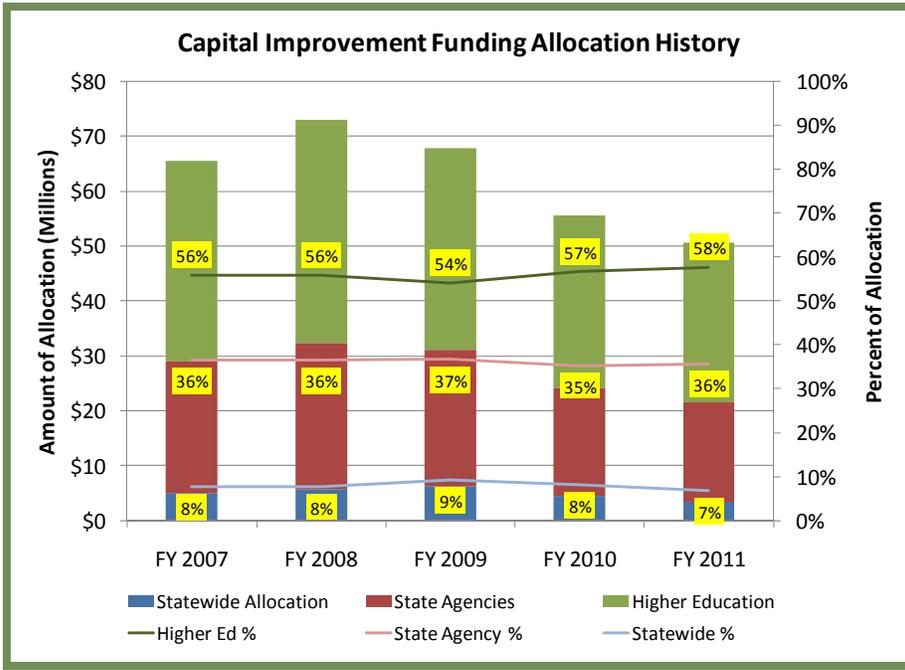


Figure 3

**FY 2012 Funding Level**

The statutorily required amount of funding for FY 2012 is \$93,452,800 at the 1.1% level and \$76,461,400 at the 0.9% level. These amounts represent a 2.8% increase over the required amounts for FY 2011. Most of this increase results from the addition of buildings (constructed or otherwise) to the insured values currently owned by the state. The FY 2011 ending base for Capital Improvements was \$50,685,400 which represented 0.6% of the replacement value of buildings in FY 2011. Figure 4 below shows the funding history of capital improvements for the past ten years.

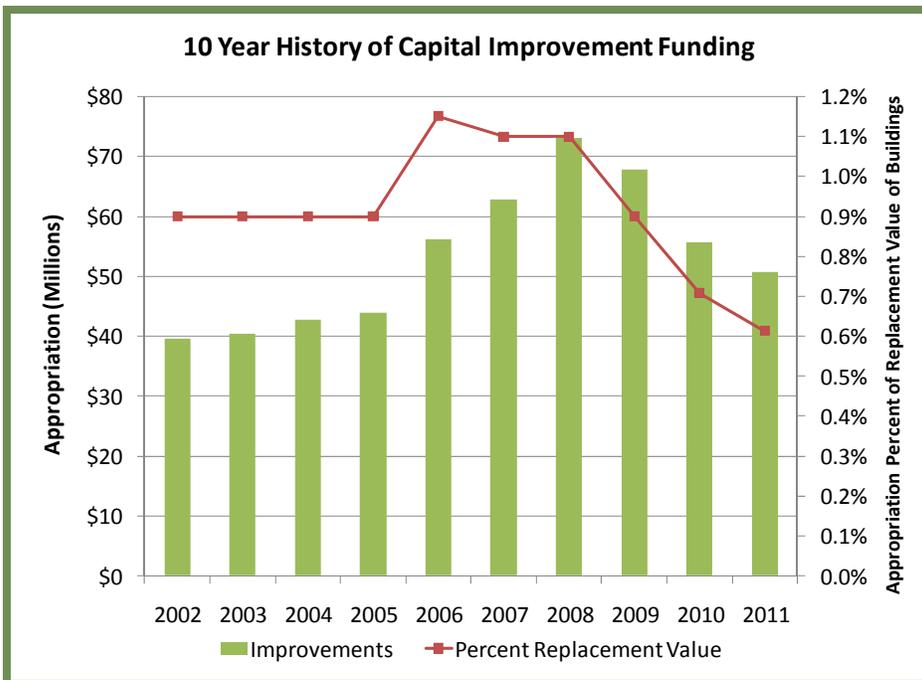


Figure 4

**Capital Improvement Project Requests**

Each year state law (UCA 63A-5-104(4)) requires the Building Board to “submit a list of anticipated capital improvement requirements to the Legislature for review and approval.” The list of capital improvement requests for FY 2012 is included in the Building Board’s *Five Year Building Program* publication on pages 72-92 and in the *Capital Improvement FY 2012 Requests Issue Brief*. The total number of requests for FY 2012 amount to close to \$206 million while the total ending budget from FY 2011 was \$50.7 million. The Analyst recommends the Legislature approve this list so that the Building Board may allocate improvement funds to the most critical projects.

**Maintenance Backlog**

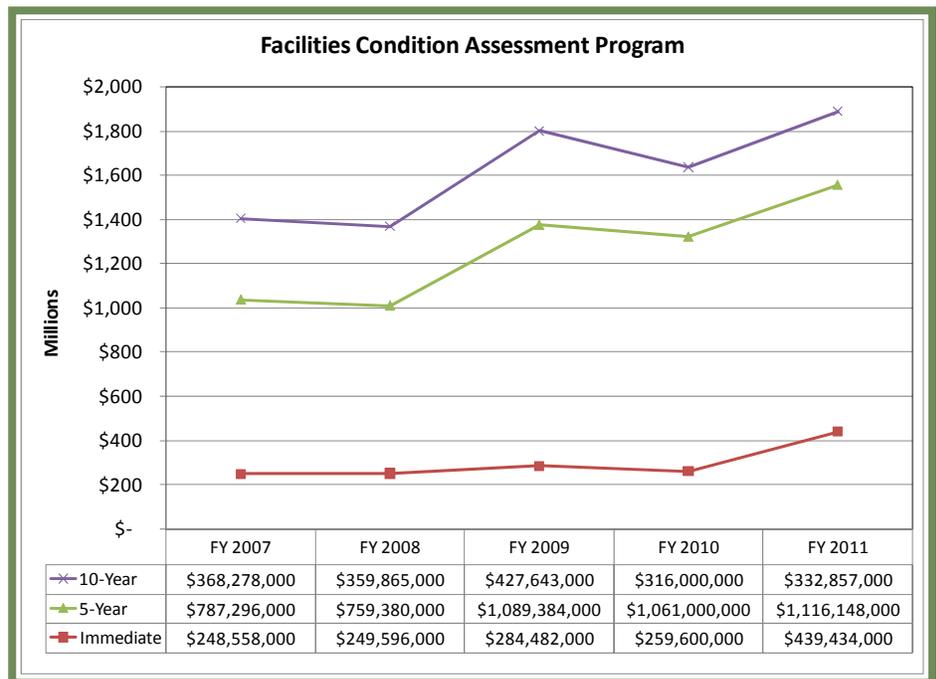
DFCM monitors the condition of current state-owned facilities and forecasts future repairs needed to adequately maintain those buildings. This program, known as Facility Condition Assessment, annually identifies deficiencies in mechanical and electrical systems, general building conditions and code compliance, parking lots, utility tunnels, and heat plants.

<b>Facilities Condition Assessment</b>				
	<b>Immediate</b>	<b>5-Year</b>	<b>10-Year</b>	<b>Total</b>
Building Repairs	\$ 416,065,000	\$ 1,055,352,000	\$ 280,105,000	\$ 1,751,522,000
Infrastructure	\$ 23,369,000	\$ 60,796,000	\$ 52,752,000	\$ 136,917,000
<b>Total</b>	<b>\$ 439,434,000</b>	<b>\$ 1,116,148,000</b>	<b>\$ 332,857,000</b>	<b>\$ 1,888,439,000</b>

**Table 4**

As shown in Table 4 above, the most recent Facility Condition Assessment program identified \$439 million in “immediate” repair needs to buildings and infrastructure and almost \$1.9 billion in needs over the next ten years (see page 111 of the 2011 *5-year book*). Capital improvement funds cannot address all issues, since many problems cost more than \$2.5 million to correct. In those cases, the Legislature would need to fund capital development projects to either repair the problem or replace the building.

Figure 5 at right depicts the five year history of the Facilities Condition Assessment Program. The large increase in FY 2009 and the subsequent decrease in FY 2010 are largely attributable to construction inflation, recently completed reassessments on several buildings, and the number of buildings reviewed by the program. The increase in FY 2011 could partially be due to different methodology used by a different consultant, but mostly reflects low capital improvement funding and subsequent deterioration of infrastructure. The “immediate needs” averaged \$296 million over the last five years.



**Figure 5**

**BUDGET DETAIL**

During the 2008 General Session the Legislature appropriated an additional \$9.8 million to this line item, bringing the new total to \$82,838,200. Had this funding remained, it would have completed the fourth consecutive year that capital improvements were funded at the 1.1% level. However, budget reductions during the September 2008 Special Session and subsequent Legislative sessions have reduced the budget to \$50,685,400.

The initial FY 2012 base budget reduces the Capital Improvements line item by an additional \$8.4 million. The Executive Appropriations Committee requested that the Fiscal Analyst draft a base budget bill that would balance the structural deficit in FY 2012. This translates into a seven percent across-the-board reduction of state funds in budget line items. However, because state funds in the Debt Service line item pay debt obligations that cannot be reduced, the base budget bill reduces the Capital Improvements line item additionally by that amount (\$4,813,500).

**LEGISLATIVE ACTION**

The Analyst recommends the Legislature consider:

1. Adopting the list of anticipated capital improvement projects as found on pages 72-92 of the Building Board's 5-year book and also contained in the *Capital Improvement FY 2012 Requests Issue Brief*.

**BUDGET DETAIL TABLE**

Capital Budget - Capital Improvements						
Sources of Finance	FY 2010 Actual	FY 2011 Appropriated	Changes	FY 2011 Revised	Changes	FY 2012* Base Budget
General Fund	25,394,400	20,417,300	0	20,417,300	0	20,417,300
General Fund, One-time	(5,000,000)	0	0	0	0	0
Education Fund	30,268,100	30,268,100	0	30,268,100	(8,361,500)	21,906,600
Project Reserve Fund	5,000,000	0	0	0	0	0
<b>Total</b>	<b>\$55,662,500</b>	<b>\$50,685,400</b>	<b>\$0</b>	<b>\$50,685,400</b>	<b>(\$8,361,500)</b>	<b>\$42,323,900</b>
<b>Programs</b>						
Capital Improvements	55,662,500	50,685,400	0	50,685,400	(8,361,500)	42,323,900
<b>Total</b>	<b>\$55,662,500</b>	<b>\$50,685,400</b>	<b>\$0</b>	<b>\$50,685,400</b>	<b>(\$8,361,500)</b>	<b>\$42,323,900</b>
<b>Categories of Expenditure</b>						
Other Charges/Pass Thru	55,662,500	50,685,400	0	50,685,400	(8,361,500)	42,323,900
<b>Total</b>	<b>\$55,662,500</b>	<b>\$50,685,400</b>	<b>\$0</b>	<b>\$50,685,400</b>	<b>(\$8,361,500)</b>	<b>\$42,323,900</b>

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