



CAPITAL FACILITIES RESERVE FUNDS

INFRASTRUCTURE AND GENERAL GOVERNMENT APPROPRIATIONS SUBCOMMITTEE
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ISSUE BRIEF

SUMMARY

The Division of Facilities, Construction, and Management (DFCM) oversees two reserve funds for capital facilities that allow the Division to reallocate state funds from projects that come in under budget to projects that go over budget. The Contingency Reserve Fund currently has a balance of \$14.5 million due to the addition of construction projects totaling over \$100 million each year for the past several years. The balance in the Contingency Reserve Fund increases proportionally as the State adds construction projects. The Analyst recommends that the Legislature keep the Contingency Reserve Fund at its current level.

The Project Reserve Fund gradually increased over time to the current balance of \$18 million. Expenditures from the Project Reserve Fund are more predictable based on the current construction market than are expenditures from the Contingency Reserve Fund. The Analyst recommends that the Legislature consider reducing the fund balance in the Project Reserve Fund by \$12 million because of the favorable bid environment and the large balance in the Fund.

BACKGROUND

Utah Code 63A-5-209 gives the director of the Division of Facilities, Construction and Management (DFCM) oversight of two reserve funds for capital facilities projects – the Contingency Reserve Fund and the Project Reserve Fund. The Legislature created these funds to allow savings on capital facility projects to offset unexpected costs (beyond the budgeted amount) on other projects.

The Contingency Reserve Fund receives 4.5% to 6.5% of the budgeted amount of all new construction projects and 6% to 9.5% of the budgeted amount for remodeling projects. Expenditures out of the Fund cover contingencies above and beyond the amounts budgeted for planning, engineering, architectural, site, and construction. These funds cover the cost of change orders and other unforeseen, but necessary costs budgeted for a capital facility project.

The Project Reserve Fund accumulates funds from bid savings (when the actual construction bid is less than the amount budgeted for construction) and the amount of budget left over after completion of a project. The director may use these funds only if an awarded construction contract exceeds the amount budgeted for construction. Each year the Legislature reviews the use of these funds and may reappropriate excess amounts to other priorities.

DISCUSSION AND ANALYSIS

Contingency Reserve Fund

Contingency Reserve Fund Historical Balance					
	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
Beginning Balance	\$ 6,762,892	\$ 5,762,870	\$ 6,649,638	\$ 7,523,962	\$ 3,350,289
Increases	6,352,016	5,886,688	10,014,491	14,291,325	12,556,800
Decreases	(7,352,038)	(4,999,920)	(9,140,167)	(18,464,998)	(8,827,603)
New Construction Costs	(1,206,882)	(2,492,382)	(4,775,115)	(13,498,619)	(7,127,606)
Remodeling Costs	(2,545,956)	(2,425,238)	(2,282,752)	(1,884,079)	(1,617,697)
Legislative Reappropriation	(3,599,200)	(82,300)	(2,082,300)	(3,082,300)	(82,300)
Ending Balance	\$ 5,762,870	\$ 6,649,638	\$ 7,523,962	\$ 3,350,289	\$ 7,079,486

Table 1

CAPITAL FACILITIES RESERVE FUNDS

Increases to the Contingency Reserve Fund consist primarily of the percentage of construction budgeted for contingencies (between 4.5% and 9.5% of the cost of the project). Decreases to the Fund balance include change orders for new construction, change orders for remodeling costs, and Legislative appropriations for other uses (which include the DFCM administrative budget, new capital projects, and transfers to the General Fund).

The Legislature made the following reductions to the Contingency Reserve Fund:

- FY 2006 - \$694,000 to construct the DNR Fire Management Service Facility
- FY 2006 - \$225,000 to purchase land for a courthouse in Provo
- FY 2006 - \$1,500,000 transfer to the Project Reserve Fund
- FY 2008 - \$2,000,000 to purchase land for the Southwest Applied Technology Collage
- FY 2009 - \$1,000,000 to purchase land for Utah Valley University
- FY 2009 - \$2,000,000 transfer to the General Fund

Over the last several years the average balance in the Contingency Reserve Fund was around \$6 million, but the monthly balance changes dramatically due to project additions and large contingent payments. The balance in the fund for FY 2010, for example, ranged from a low of \$3.4 million to a high of \$13 million. See Figure 1 for detail on these changes as well as a four year history. The current balance in the Contingency Reserve Fund is \$14,519,200 (as of January, 2011).

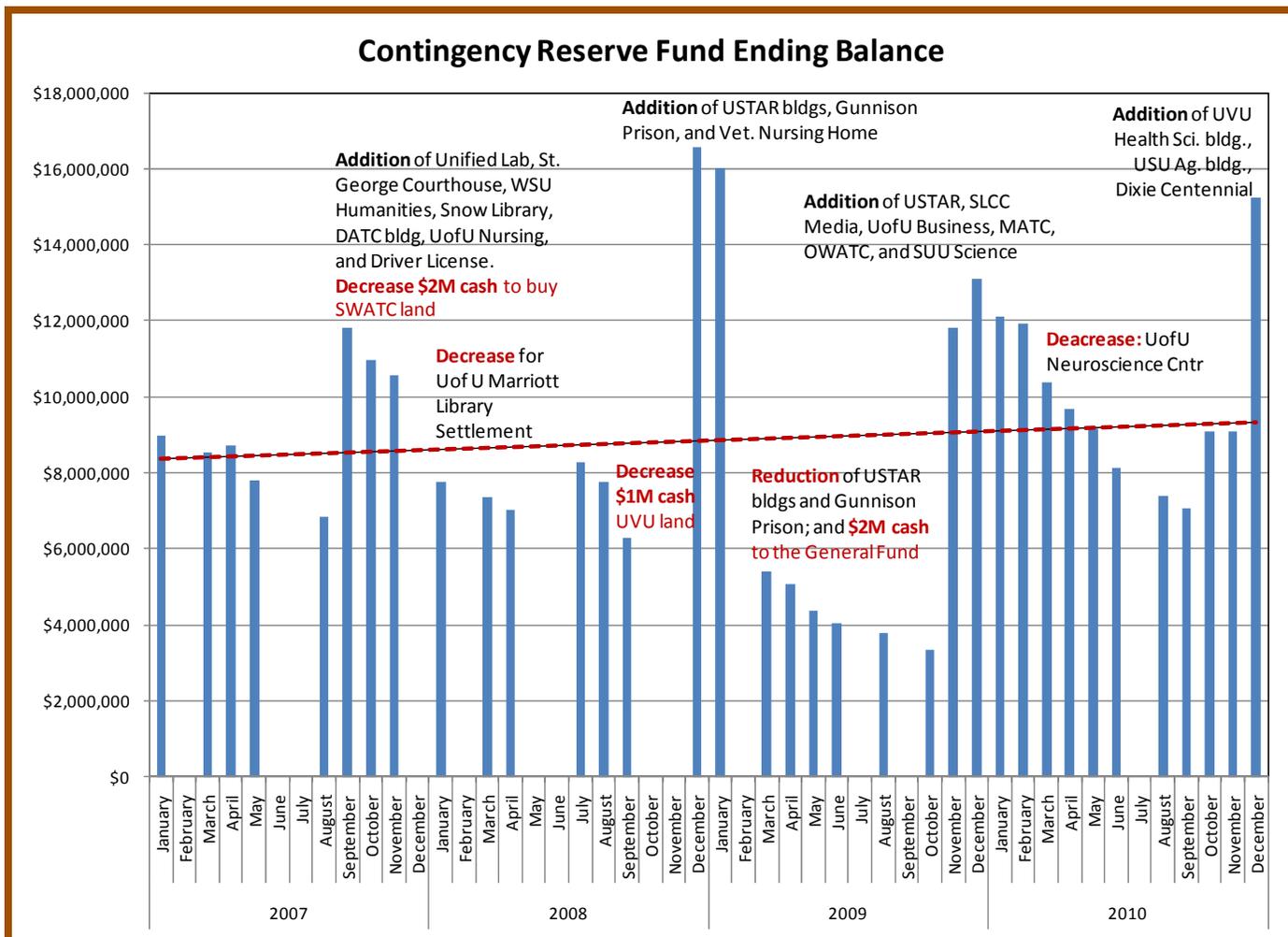


Figure 1

The Contingency Reserve Fund grows every time the Legislature approves a state-funded project because statute requires DFCM to contribute a percentage of the project to the Fund for contingent expenses. The large increases in August 2007, December 2008, and November 2009, correspond to multiple large projects funded by the Legislature. When the Legislature removed funding for the Gunnison prison expansion and the USTAR projects at the UofU and USU (in addition to removing \$2 million of cash from the Fund), the Fund balance dropped significantly.

The four year detail shown in Figure 1 demonstrates the necessity of maintaining a healthy fund balance. DFCM actively manages hundreds of projects from multi-million dollar construction to small capital improvements. Each project usually requires some expenditure for unforeseen contingencies. One large project can consume a substantial portion of the balance like the University of Utah Marriott Library project, which required \$2.3 million in FY 2008. Likewise, multiple small projects add up over time and slowly reduce the balance. In January 2011, DFCM paid out \$547,000 for two projects (UVU and MATC). The Analyst recommends caution in making significant decreases to the Contingency Reserve Fund.

Project Reserve Fund

Table 2 below shows the historical balance in the Project Reserve Fund including increases and decreases to the Fund. Increases to the Fund consist of savings from bids coming in under budget and the residual amounts left over after completion of a project. Decreases to the Fund balance include costs of bids coming in over the budgeted amount and Legislative appropriations for other uses (typically to DFCM for project administration). In FY 2006 contract costs exceeded contract savings by \$5.6 million and necessitated a transfer of \$1.5 million from the Contingency Reserve Fund by the Legislature. Contract costs continued to exceed bid savings in FY 2007; however, the decline of the housing market in FY 2008 reversed that trend such that bid savings exceeded contract costs by almost \$1 million.

In the last several months the Project Reserve Fund grew by \$12.5 million as a result of the favorable bid and construction climate. Specific projects contributing to this amount were:

1. Utah Valley University science building project - \$7.4 million
2. Southern Utah University science building project - \$2.3 million
3. Corrections security project - \$1.2 million

The State Building Board will reallocate some funds in the Project Reserve Fund for new capital improvements. During the 2010 General Session, the Legislature approved a change in statute (S.B. 189 *Capital Facilities Amendments*, Bramble) that allows the Building Board to reallocate funds in the Project Reserve Fund that come from capital improvement projects. This policy now allows the state to spend all of the appropriations to capital improvements rather than having a portion reside in the reserve fund. The Analyst estimates that approximately \$2 million of the current balance will be reallocated to capital improvement projects.

Project Reserve Fund Historical Balance					
	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
Beginning Balance	\$ 5,706,188	\$ 3,079,106	\$ 2,906,982	\$ 5,613,765	\$ 9,111,812
Increases	2,778,475	2,201,828	3,854,286	4,754,533	4,434,640
Bid Savings	1,108,670	647,160	1,877,432	-	2,468,836
Project Close-out	1,669,805	1,554,668	1,976,854	4,754,533	1,965,804
Decreases	(5,405,557)	(2,373,952)	(1,147,503)	(1,256,486)	(2,403,968)
Contract Costs	(6,705,557)	(2,173,952)	(947,503)	(1,056,486)	(2,203,968)
Legislative Reappropriation	1,300,000	(200,000)	(200,000)	(200,000)	(200,000)
Ending Balance	\$ 3,079,106	\$ 2,906,982	\$ 5,613,765	\$ 9,111,812	\$ 11,142,484

Table 2

During the 2010 General Session the Legislature reduced the project reserve fund by \$5 million and appropriated those funds to the capital improvement line item. The current balance in the Project Reserve Fund is \$18,068,000 (as of January, 2011). The following chart shows the detail of how the fund balance increased over the last four years. The red line plots the linear trend of how the fund balance increased from \$2.5 million in January 2007 to \$18 million in December 2010. The Analyst recommends the Legislature consider re-appropriating \$12 million of the current fund balance.

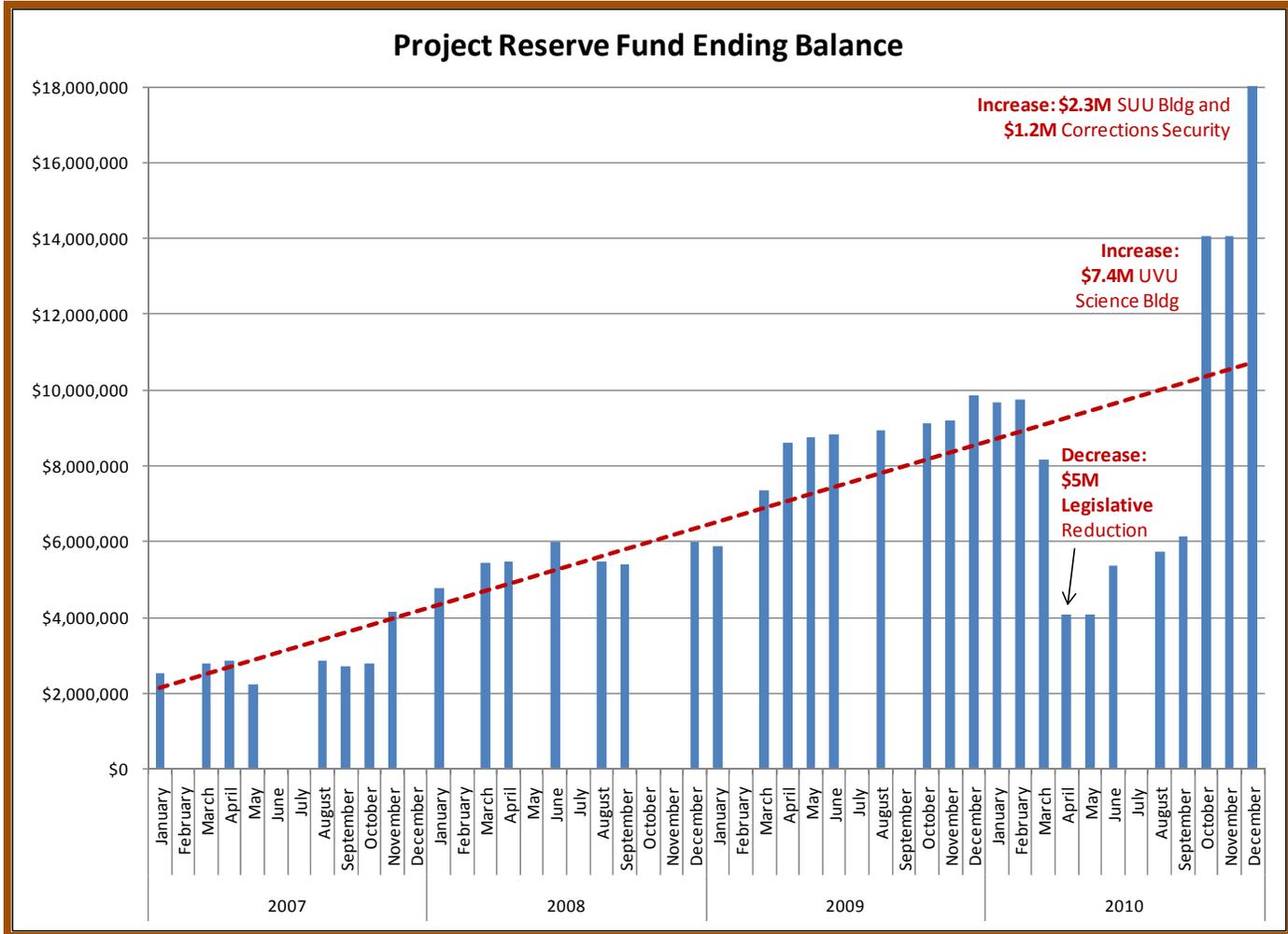


Figure 2

RECOMMENDATIONS

The Analyst recommends the Legislature consider:

1. A reappropriation from Project Reserve Fund of \$12 million. Such a reduction would reduce the Fund balance to the FY 2007 level, which has been more than sufficient in the current favorable bid climate. This reappropriation could be used to off-set cuts to the Capital Improvement line item.
2. Keeping the Contingency Reserve Fund at the current level. The Analyst recommends caution in reducing this Fund due to the many large construction projects outstanding that could have large contingent expenses.