



# CAPITAL IMPROVEMENTS AND DEFERRED MAINTENANCE

EXECUTIVE APPROPRIATIONS COMMITTEE  
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ISSUE BRIEF

**SUMMARY**

Utah is one of few states that uses ongoing appropriations for and has a statutory requirement to fund capital improvements. Bond rating agencies view this policy positively. During the economic downturn, the Legislature re-allocated capital improvement funding to other budget needs. Capital improvement appropriations have decreased over the last four years while deferred maintenance and requests for improvements have increased. Current law requires capital improvement funding to increase by approximately \$52 million in FY 2013 before the state can build any new buildings.

**BACKGROUND**

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.

**ISSUES**

**Capital Improvement Funding**

Statute requires the Legislature 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, statute allows funding at 0.9% of the replacement value of existing state buildings. For FY 2012, capital improvement funding will be just over 0.6%. Figure 1 at right shows the funding history of capital improvements for the past ten years.

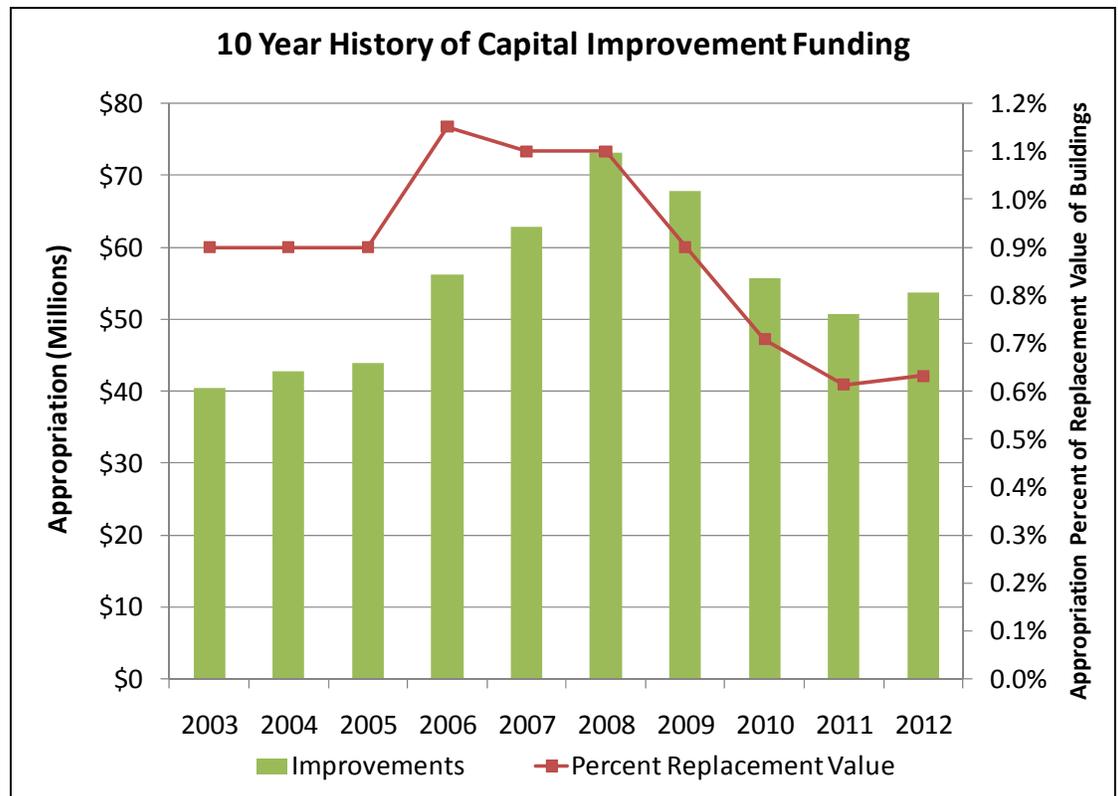


Figure 1

## CAPITAL IMPROVEMENTS AND DEFERRED MAINTENANCE

The Legislature appropriated more than 1.1% of the replacement value of buildings to capital improvements in FY 2006 (see Figure 1 on the previous page) and maintained 1.1% funding for the next two years. However, declining revenues resulted in budget reductions over the last four years. The Legislature amended statute for fiscal years 2009 to 2012 to allow funding for capital improvements to drop below 0.9% of the replacement value of buildings.

The required capital improvement funding for FY 2012 was \$93,452,800 at the 1.1% level; however, the Legislature instead appropriated \$42,648,600 ongoing and \$11,659,500 one-time. This represents 0.63% of the replacement value of buildings in FY 2012. Unless the Legislature appropriates additional funds in FY 2013, the funded percentage of the base budget will fall below 0.5% of the replacement value of buildings.

### Capital Improvement Project Requests

Each year statute 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 *Capital Improvement FY 2012 Requests Issue Brief*. The total number of requests for FY 2012 amount to \$206 million while the appropriation to this line item in FY 2012 was \$53.7 million

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012*
Improvements & Repairs	\$ 140,359,800	\$ 142,406,000	\$ 160,647,400	\$ 132,829,300	\$ 170,194,000	\$ 178,764,600
Roofing Improvements	\$ 11,678,600	\$ 7,303,000	\$ 12,131,400	\$ 14,082,400	\$ 3,748,000	\$ 11,885,700
Paving Improvements	\$ 9,367,300	\$ 13,005,000	\$ 16,876,500	\$ 12,764,500	\$ 7,942,000	\$ 14,372,000
Hazardous Materials	\$ 1,120,000	\$ 1,080,000	\$ 692,500	\$ 1,015,500	\$ 422,000	\$ 1,061,600
<b>Total Request</b>	<b>\$ 162,525,700</b>	<b>\$ 163,794,000</b>	<b>\$ 190,347,800</b>	<b>\$ 160,691,700</b>	<b>\$ 182,306,000</b>	<b>\$ 206,084,000</b>
<b>Legislative Appropriation</b>	<b>\$65,593,300</b>	<b>\$ 73,059,900</b>	<b>\$ 67,838,100</b>	<b>\$ 55,662,500</b>	<b>\$ 50,685,400</b>	<b>\$ 53,648,600</b>
<b>Difference</b>	<b>(\$96,932,400)</b>	<b>(\$90,734,100)</b>	<b>(\$122,509,700)</b>	<b>(\$105,029,200)</b>	<b>(\$131,620,600)</b>	<b>(\$152,435,400)</b>

\* DFCM did not categorize improvement requests for FY 2012 like it did in previous years. The analyst estimated the breakout using historical averages.

Table 1

### Allocations by Major Area

In the spring following each 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. Table 2 displays the Building Board’s allocation of capital improvement funds for FY 2012 by institution and agency.

College of Eastern Utah	\$910,000	Courts	\$2,514,092
Dixie State College	\$1,323,100	DFCM	\$2,831,350
Salt Lake Commun Coll	\$2,260,000	Enviro Quality	\$0
Snow College	\$1,244,000	Fairpark	\$250,457
Southern Utah Univ	\$1,646,000	Health	\$245,381
University of Utah	\$11,124,000	Human Services	\$2,072,000
Utah State University	\$5,059,000	National Guard	\$1,008,264
Utah Valley State Coll	\$2,125,000	Natural Resources	\$2,669,000
Weber State University	\$2,417,000	Office of Education	\$256,418
Utah Coll of Applied Tech	\$1,462,555	Public Safety	\$353,423
<b>Subtotal Higher Ed</b>	<b>\$29,570,655</b>	Tax Commission	\$326,776
Agriculture	\$215,982	Transportation	\$1,260,000
Alcoholic Beverage Ctrl	\$267,484	Veterans Affairs	\$120,000
Capitol Preserv Board	\$2,560,500	Workforce Services	\$408,949
Community & Culture	\$80,000	Statewide Programs	\$4,250,000
Corrections	\$2,387,869	<b>Subtotal Agencies</b>	<b>\$24,077,945</b>
		<b>Grand Total</b>	<b>\$53,648,600</b>

Table 2

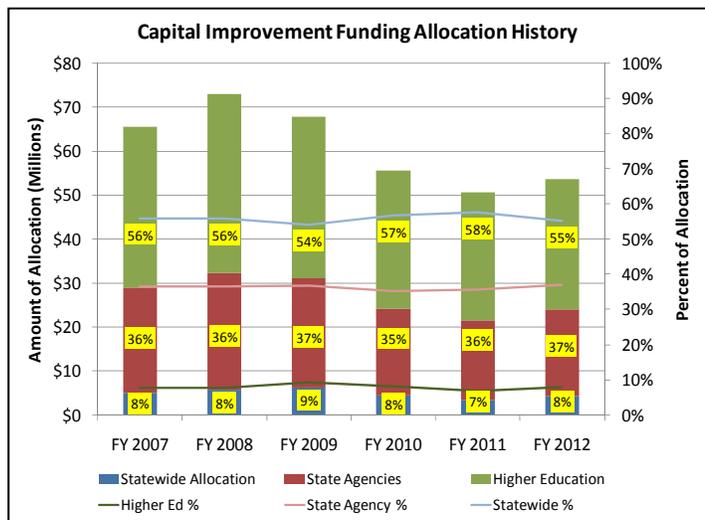


Figure 2

Over the past six years the allocation of capital improvement funds has remained consistent (see Figure 2). Higher Education receives an average of 56% of the capital improvement appropriation, state agencies receive 36%, and DFCM receives 8% to use for statewide improvements (such as preventative maintenance and audits) and reserves for emergency projects.

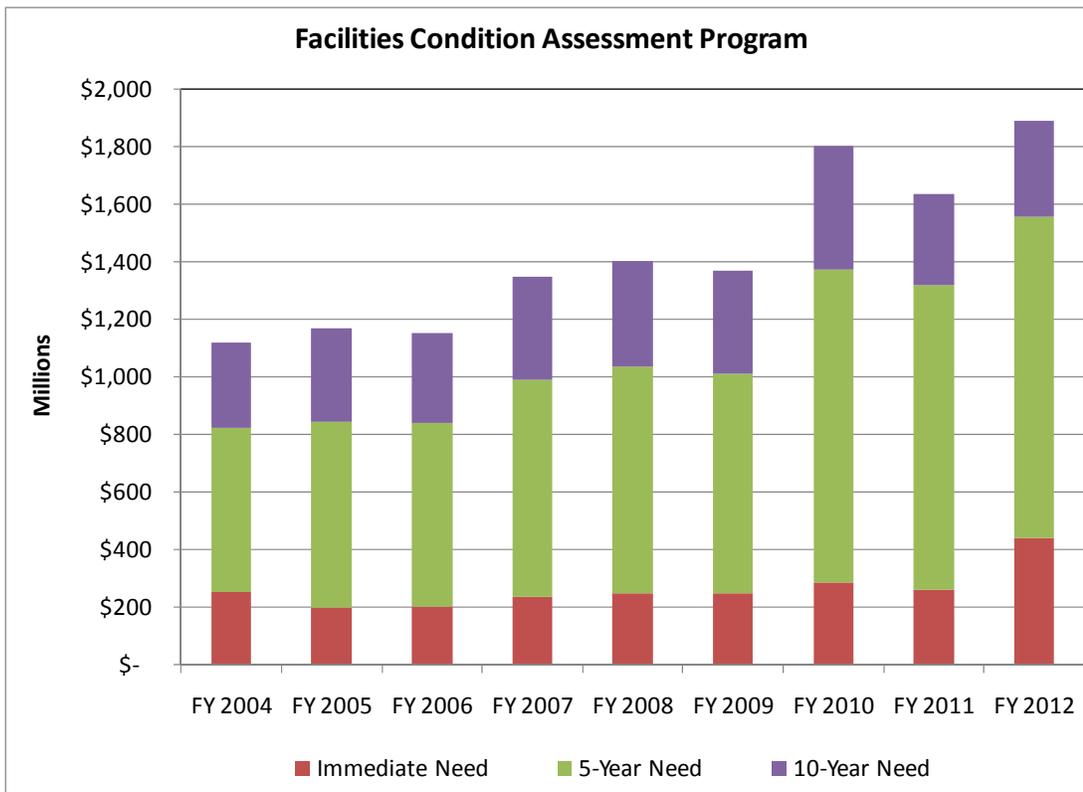
**Deferred Maintenance**

With assistance from a private consultant, 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.

Facilities Condition Assessment History					
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Immediate Need	\$ 248,558,000	\$ 249,596,000	\$ 284,482,000	\$ 259,600,000	\$ 439,434,000
5-Year Need	\$ 787,296,000	\$ 759,380,000	\$ 1,089,384,000	\$ 1,061,000,000	\$ 1,116,148,000
10-Year Need	\$ 368,278,000	\$ 359,865,000	\$ 427,643,000	\$ 316,000,000	\$ 332,857,000
<b>Total</b>	<b>\$ 1,404,132,000</b>	<b>\$ 1,368,841,000</b>	<b>\$ 1,801,509,000</b>	<b>\$ 1,636,600,000</b>	<b>\$ 1,888,439,000</b>
Building Repairs	\$ 1,085,138,000	\$ 1,058,479,000	\$ 1,463,666,000	\$ 1,383,100,000	\$ 1,751,522,000
Infrastructure	\$ 318,994,000	\$ 310,362,000	\$ 337,843,000	\$ 253,500,000	\$ 136,917,000
	<b>\$ 1,404,132,000</b>	<b>\$ 1,368,841,000</b>	<b>\$ 1,801,509,000</b>	<b>\$ 1,636,600,000</b>	<b>\$ 1,888,439,000</b>

**Table 3**

As shown in Table 3 above, the most recent Facility Condition Assessment program identified \$439 million in “immediate” repair needs to buildings and infrastructure and \$1.4 billion of additional needs in the next five to ten years. 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 3**

Figure 3 depicts the history of the Facilities Condition Assessment Program. The large increase in FY 2010 and the subsequent decrease in FY 2011 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 2012 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.

### **CONCLUSION**

While deferring maintenance projects was necessary to preserve other government programs during the recession, it is not a viable long-term strategy. Further, a commitment to maintaining current facilities contributes to Utah’s AAA bond rating. As policymakers weigh capital budget options in the coming years, they might consider capital improvement funding a priority as revenues increase.

Deferred maintenance on buildings continues to increase which may result in premature aging of state assets. Bond rating agencies pay particular attention to the needs and funding of state infrastructure and will be watching future capital improvement funding. Additionally, capital improvement projects are typically completed within the fiscal year appropriated and provide immediate economic benefit to the construction sector.

The current base budget for capital improvements is 0.5% of the replacement value of state buildings. To get to the 1.1% level in FY 2013 the Legislature will need to appropriate approximately \$52 million more to the budget. If the Legislature does not fund capital improvements at the 1.1% level the Legislature may pass a bill to modify the statute for FY 2013 or may not fund any capital development in FY 2013.