



CAPITAL IMPROVEMENTS AND DEFERRED MAINTENANCE

EXECUTIVE APPROPRIATIONS COMMITTEE
STAFF: ANGELA J. OH

ISSUE BRIEF

SUMMARY

Utah has a statutory requirement to fund capital improvements; and is one of few states that use ongoing appropriations to do so. Current law (UCA 63A-5-104(7)) requires capital improvement funding to be 1.1 percent of combined building values before the State can build any new buildings. This policy is viewed positively by budget experts and bond rating agencies. This also helps build up a working rainy day fund that policymakers can access during an economic downturn.

During the last economic downturn, the Legislature reallocated capital improvement funding to fund other pressing budget needs. The Legislature successfully restored ongoing appropriations to the required 1.1 percent of value in FY 2016. However, requests for capital improvements and deferred maintenance continue to outpace appropriations. Industry's standard for capital maintenance is 2 percent of value.

The Analyst recommends that the Legislature consider: 1) increasing the capital improvement appropriation from 1.1 percent to 2 percent of replacement value; and 2) funding capital improvements prospectively when new buildings are approved and funded.

BACKGROUND

Capital improvements, formerly known as alterations, repairs, and improvements (AR&I), consist of projects costing less than \$2.5 million 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.

Dixie State University	\$ 1,954,409	Environmental Quality	-
Salt Lake Community Col.	\$ 4,354,648	Fairpark	\$ 1,737,839
Snow College	\$ 2,235,065	Health	\$ 1,131,779
Southern Utah University	\$ 3,001,830	Human Services	\$ 5,279,033
University of Utah	\$ 24,760,402	National Guard	\$ 2,800,610
Utah State University	\$ 11,255,000	Natural Resources	\$ 760,296
Utah Valley University	\$ 4,010,961	Parks and Recreation	\$ 3,032,767
Weber State University	\$ 4,394,000	Wildlife Resources	\$ 2,170,652
Utah Col. of Applied Tech.	\$ 5,609,668	Office of Education	\$ 1,828,700
<i>Subtotal Higher Education</i>	<i>\$ 61,575,983</i>	Public Safety	\$ 775,129
Agriculture	\$ 215,000	Tax Commission	\$ 1,051,091
Alcoholic Beverage Control	\$ 459,049	Transportation	\$ 1,128,428
Capitol Preservation Board	\$ 1,617,550	Veterans Affairs	\$ 202,590
Community and Culture	\$ 80,922	Workforce Services	\$ 970,107
Corrections	\$ 3,757,918	Statewide Programs	\$ 5,669,900
Courts	\$ 3,982,057	Critical Needs	\$ 5,700,000
DFCM	\$ 5,619,440	<i>Subtotal Agencies</i>	<i>\$ 49,970,857</i>
		Grand Total	\$ 111,546,840

Table 1

ISSUES

Capital Improvement Funding

Table 1 on the previous page shows the FY 2016 allocation of capital improvements by the State Building Board. This year, Higher Education will receive about 61 percent of capital improvement funding while state agencies will receive about 39 percent. Figure 1 shows the allocation of capital improvement funding for the past 10 years.

Statute requires the Legislature to fund capital improvements at a level equal to 1.1 percent of the replacement value of existing state buildings before the Legislature may approve new capital development projects. During budget deficits, statute allows funding to fall below the 1.1 percent replacement value of existing state buildings to 0.9 percent.

Figure 2 provides a 10 year history of capital improvement appropriations and the percentage of replacement value. For FY 2015 and FY 2016, the appropriation is at the 1.1 percent level. During FY 2011 and FY 2012, the Legislature reduced appropriations for capital improvements and those two years experienced the lowest appropriations as a percentage of replacement value in the last 10 years.

The State Building Board anticipates that at current funding levels, only the highest priority needs can be met. For instance, during the 2015 General Session, the State Building Board received capital improvement requests totaling \$174.1 million while the total allocation was \$111.5 million.

CONCLUSION AND RECOMMENDATIONS

While deferring maintenance projects was necessary to preserve other government programs during the recession, it is not a viable long-term strategy. Deferred maintenance on buildings continues to increase which may result in premature aging of state assets. Further, a commitment to maintaining current facilities contributes to Utah’s AAA bond rating. Bond rating agencies pay particular attention to the needs and funding of state infrastructure and will be watching future capital improvement funding.

The Analyst recommends that the Legislature consider the following:

1. Increasing the capital improvement appropriation from 1.1 percent to 2 percent of replacement value; and
2. Funding capital improvements prospectively when new buildings are approved and funded.

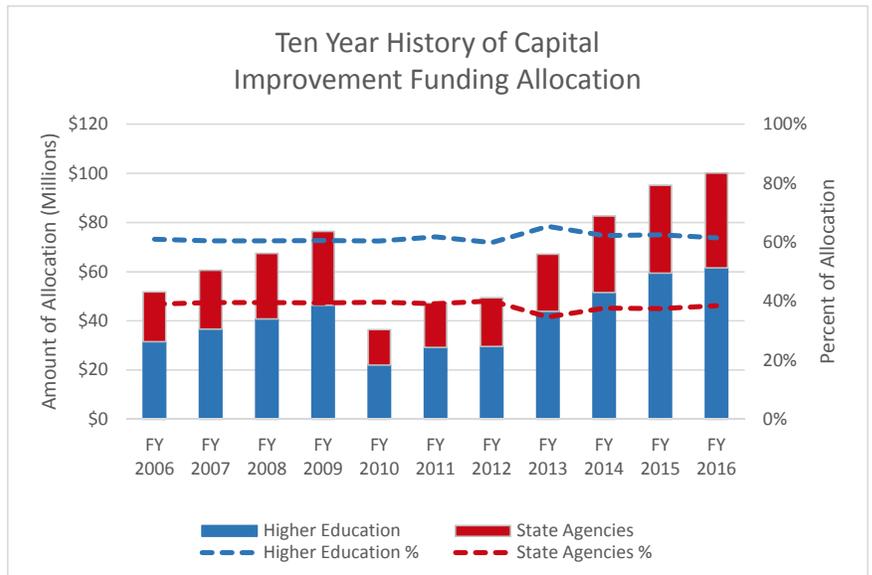


Figure 1

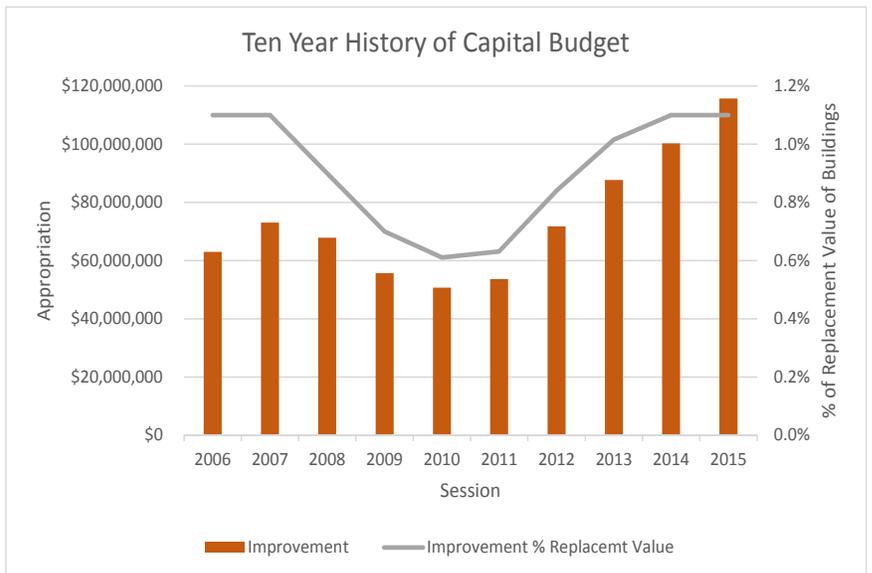


Figure 2