

UTAH'S Economy

A monthly report produced for COMMERCE REAL ESTATE SOLUTIONS by Jim Wood, Bureau of Economic and Business Research University of Utah

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To receive this newsletter by e-mail,
please contact Luane Cutler at
801-303-5445 or lcutler@comre.com

FEDERAL CONSTRUCTION TO OFFSET FEWER STATE AND PRIVATE PROJECTS

Three large federal government projects should help prevent more job losses for the nonresidential construction sector. The sector is particularly vulnerable due to the anticipated lower levels of state building and road construction, the completion of City Creek Center and the winding down of fiscal stimulus spending.

The most important project is the National Security Administration's (NSA) massive data center, which began construction in late 2010 near Camp Williams. In terms of construction value, the NSA building will be the largest building project in Utah's history. A few non-building projects have had higher value; Intermountain Power Project and I-15 Reconstruction, but no actual building projects. The construction of the data center will take three years (completion October 2013) at an estimated cost of \$1.2 billion. The site is located near Camp Williams at the northern boundary of Utah County and southern boundary of Salt Lake County. The primary purpose or use of the facility is data storage. Upon completion the operational employment will be just a few hundred employees. Construction employment estimates range from 8,000 to 10,000 over the three-year construction period. The total square footage of buildings is 1,000,000 square feet.

Two other large federal government buildings have recently began construction; the \$110 million Frank E. Moss Federal Courthouse in Salt Lake City and the \$75 million FBI field office at the Salt Lake International Center. These large federal construction projects should protect the nonresidential sector from further job losses.

Fiscal Stimulus

Utah received \$212 million in fiscal stimulus funds for transportation. That money is 98 percent spent. The largest project was less than \$15 million. Utah chose to spend the funds on small projects; a total of 135 different projects. Transportation officials felt small projects would maximize employment impacts.

Utah's Debt Limitation and State Construction

The Utah constitution imposes a cap on debt for the state at 1.5 percent of the fair market value of taxable property. In the last few years the taxable value has declined with the economic recession and loss of value in residential real estate. The most recent valuation was at \$280 billion putting the debt cap at around \$4.2 billion. The state is currently within 87 percent of the constitutional bonding limit or cap, leaving little room for bonding in fiscal years 2012 and 2013. Legislators have used 85 percent as a soft

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cap and are reluctant to go above that level; reserving the final 15 percent for emergencies (earthquake, flood).

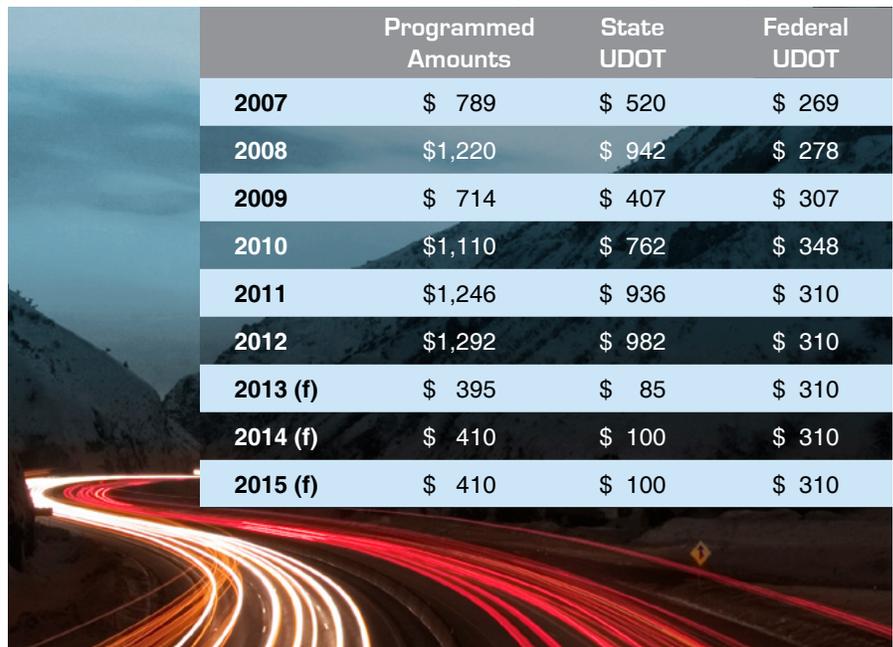
It is important to note that Utah's debt is relatively short-term. No bonds exceed 15 years and 75 percent have terms at 10 years or less. All bonds for buildings are on a 6 year-term. Consequently, debt is paid down rapidly. By 2013 and beyond about \$300 million will be added to bonding capacity due to debt maturing. The current bonding limit predicament is unusual and temporary. It was created by the declining value of taxable property and the extraordinary (for Utah) amount of debt taken on in the past few years for highway construction.

Utah's State Transportation Improvement Program (STIP) includes all major federal and state expenditures for highways and roads, *Table 1*. Utah was on a highway building binge from 2008 to 2012 with an average annual expenditure of \$1.1 billion. Fiscal stimulus added some, but not really significant. The state bonded for large projects; the largest project, the Utah County portion of I-15, for nearly \$2 billion, which is about 60 percent complete.

As the data in *Table 1* show, the level of expenditures for highway and road construction drops significantly after 2012. As Utah nears its constitutional bonding limit, the level of future expenditures will fall until the economy picks-up, state revenues improve and debt is paid down. In 2014 and 2015 the state will appropriate some funds, but undetermined at this point, likely in the \$100 million range, thus bringing the 2014 and 2015 programmed amounts to about \$400 million. Compared to the 2008-2012 period, highway construction spending will be down about 63 percent in the 2013-2015 period.

Utah State government is also a major source of new building construction as well as on-going rehab and maintenance of existing buildings (\$50 million

Table 1 Highway and Road Construction Expenditures (millions)

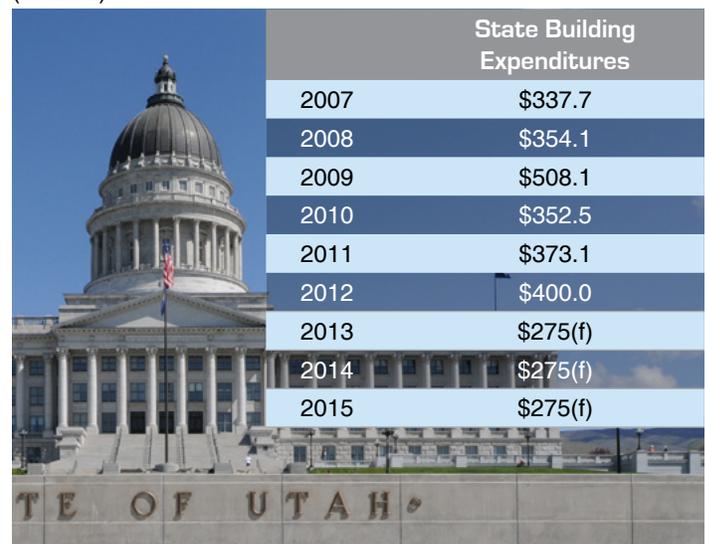


	Programmed Amounts	State UDOT	Federal UDOT
2007	\$ 789	\$ 520	\$ 269
2008	\$1,220	\$ 942	\$ 278
2009	\$ 714	\$ 407	\$ 307
2010	\$1,110	\$ 762	\$ 348
2011	\$1,246	\$ 936	\$ 310
2012	\$1,292	\$ 982	\$ 310
2013 (f)	\$ 395	\$ 85	\$ 310
2014 (f)	\$ 410	\$ 100	\$ 310
2015 (f)	\$ 410	\$ 100	\$ 310

Source: Legislative Fiscal Analyst Office and Utah Department of Transportation.

annually). Over the past several years the state ramped up spending on building as a countercyclical measure to the housing cycle. Interest rates and construction cost were very favorable. However, beginning in 2013 the level of state building construction will drop by around \$100 million annually, *Table 2*. The bonding limit is a factor here as well.

Table 2 Expenditures for Construction of State Buildings (millions)



	State Building Expenditures
2007	\$337.7
2008	\$354.1
2009	\$508.1
2010	\$352.5
2011	\$373.1
2012	\$400.0
2013	\$275(f)
2014	\$275(f)
2015	\$275(f)

Source: Legislative Fiscal Analyst's Office.

Another major builder of large projects has been Intermountain Healthcare. Intermountain has built two hospitals in the past three years (Riverton and Park City). In 2006 Intermountain finished the \$400 million Intermountain Medical Center in Murray. From 2011-2015 they have two major projects: reconstruction of the Salt Lake Clinic (\$40 million) and expansion of Primary Children's Hospital (\$75 million). Intermountain will not be expanding as rapidly in the 2011-2015 period as in the 2006-2010 period.

The loss of construction jobs over the past five years has been staggering. Since 2007 the number of construction jobs has declined nearly 40 percent, a loss of 38,000 jobs. Without the support of large public projects, job losses would continue this year and likely into next year. But \$1.5 billion in construction spending by the federal government will prevent further losses. Employment projections indicate the construction sector is expected to gain about 1,000 new jobs this year and grow by 3,000 jobs in 2012.