MAJOR ISSUES

Capital Outlay

✓ The State Needs to Overhaul Its Process for Planning and Financing Infrastructure

- The state faces a significant challenge over the next decade and beyond to address both the deficiencies of an aging public infrastructure and the need for new infrastructure to sustain a growing economy and population. To meet this challenge the state needs a well-defined process for planning, budgeting, and financing necessary infrastructure improvements.
- Unfortunately, decisions on state capital investment have been made more on an ad hoc basis. In addition, the lack of stable funding has led to an underinvestment in the state's infrastructure.
- We recommend the Legislature take several steps to overhaul the current process, including adopting a policy that dedicates 6 percent of annual General Fund revenues to infrastructure investment. (*The 1999-00 Budget: Perspectives and Issues*, Part V.)

✓ Maintain Level of "Pay-As-You-Go" Funding for Capital Outlay

- The budget proposes $195 million in direct General Fund appropriations for capital outlay in 1999-00.
- Given the current tight budget situation, it will be difficult to significantly increase these direct appropriations, but at least the level proposed by the Governor should be maintained.
- We recommend that, to the extent the Legislature accepts our recommendations to reduce the General Fund amounts appropriated for specific capital outlay projects, these funds be redirected to reduce the level of lease-payment bond authorizations proposed in the budget. (See page G-24.)

☑ Year-Round Operation in Higher Education Saves Capital Outlay Costs

- Enrollment projections indicate that the California State University, University of California, and community colleges will need to accommodate an additional 300,000 full-time equivalent students by 2007-08. To construct new facilities for these additional students would cost several billion dollars. This cost can, however, be avoided if the segments operate campuses year round.

- We recommend the Legislature direct the segments to implement year-round operation. This would allow existing campuses to accept one-third more students, before there will be a need for new instructional space. Accordingly, we recommend that the Legislature delete $9.5 million in the budget for projects that would not be needed under year-round operation. The estimated future cost of these projects is $10 million. (See page G-27.)

☑ Discontinue Practice of Providing Equal Amounts of Bond Funds to Each Segment of Higher Education

- In recent years, the administration has provided an equal amount of bond funds to each segment. This results in "grants" to each segment without regard to their mission or the condition of the facilities on each campus. It can also result in lower priority projects in one segment receiving funds while a higher priority project in another segment goes unfunded.

- The segments have developed five-year capital outlay plans that total over $6.4 billion. In contrast, the higher education bond act that was approved by the voters in November 1998 totals $2.5 billion. In order to assure that the bonds approved by the voters are spent on the highest statewide priorities, we recommend that the Legislature appropriate funds for higher education capital outlay on the merits of projects in the context of statewide priorities, rather than equal funding to each segment. (See page G-28.)

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Capital Outlay

OVERVIEW

Capital Outlay

Funding for capital outlay totals $1.1 billion, with over 80 percent of this amount supported by debt financing—a combination of general obligation bonds and lease-payment bonds. This significant reliance on debt financing continues a pattern established several years ago.

The *1999-00 Governor's Budget* proposes $1.1 billion for capital outlay programs (excluding highway and rail programs, which are discussed in the Transportation section of this *Analysis*).This is spending on physical assets—college lecture halls, parklands, and prisons. (Spending to pay off this debt on those assets financed with bonds is discussed later in this section.) The proposed amount is a decrease of $500 million (32 percent) from current-year appropriations.

Figure 1 compares the amounts appropriated for capital outlay in the current year to the amounts proposed in the budget for each general

Figure 1

State Capital Outlay Programs

1998-99 and 1999-00
(In Millions)

	1998-99	1999-00	Difference
Legislative, Judicial, and Executive	$30.5	$58.8	$28.3
State and Consumer Services	272.2	27.4	-244.8
Transportation (excluding highways and rail)	15.8	28.5	12.7
Resources	401.5	152.7	-248.8
Health and Social Services	167.5	49.1	-118.4
Youth and Adult Corrections	55.0	188.2[a]	133.2
Education (state special schools)	—	1.1	1.1
Higher Education	637.4	572.4	-65.0
General Government	25.1	17.5	-7.6
Totals	**$1,605.1**	**$1,095.6**	**-$509.5**

[a] Includes proposed fund shift of $62.4 million appropriated from the General Fund in 1998-99 to lease-payment bonds in 1999-00.

organizational area. As shown in the figure, the largest decreases are in the areas of Resources ($261 million), State and Consumer Services ($245 million), and Health and Social Services ($115 million). These decreases generally reflect three large current-year appropriations (one in each area) totaling $500 million—the Headwaters Forest acquisition ($230 million), a new state office building in Sacramento ($160 million), and a new public health laboratory in Richmond ($110 million).

The $133 million increase in the area of Youth and Adult Corrections includes a proposed $62 million shift in fund source—from the General Fund approved in the current year to lease-payment bonds proposed for the budget year—to construct ten administrative segregation housing units at various state prisons.

Figure 2 shows the amounts each department requested for capital outlay funding in 1999-00, the amounts approved for inclusion in the Governor's budget, and the future cost for the approved projects. As shown in the figure, an estimated $1 billion will need to be appropriated in the future in order to complete these projects. Thus, the request before the Legislature represents a total cost of $2.1 billion.

Figure 2

1999-00 Capital Outlay Summary

All Funds (In Thousands)

		Governor's Budget		
Department	**Requests**	**Proposed 1999-00**	**Future Cost[a]**	**Totals**
Legislative, Executive, and Judicial				
Emergency Services	$7,644	$6,720	—	$6,720
Justice	52,061	52,061	$6,653	58,714
State and Consumer Services				
California Science Center	$38	$38	—	
Franchise Tax Board	1,514	963	—	$963
General Services	149,022	26,429	—	26,429
Business, Housing, and Transportation				
Transportation	$4,376	$833	$5,507	$6,340
Highway Patrol	20,550	20,431	11,177	31,608
Motor Vehicles	8,024	7,209	9,282	16,491

Continued

Department	Requests	Governor's Budget: Proposed 1999-00	Governor's Budget: Future Cost[a]	Governor's Budget: Totals
Resources				
Tahoe Conservancy	$16,473	$16,473	—	$16,473
Conservation Corps	1,286	349	—	349
Forestry and Fire Protection	52,020	34,200	$74,151	108,351
Fish and Game	2,500	569	—	569
Wildlife Conservation Board	20,087	20,087	—	20,087
Boating and Waterways	8,343	8,192	6,448	14,640
Coastal Conservancy	24,346	24,346	—	24,346
Parks and Recreation	25,463	22,876	21,664	44,540
Coachella Valley Mountains Conservancy	100	100	—	100
Water Resources	44,449	25,495	—	25,495
Health and Welfare				
Health and Welfare Data Center	$5,526	$5,526	—	$5,526
Health Services	252	300	$2,312	2,612
Developmental Services	15,297	3,461	—	3,461
Mental Health	58,228	36,972	279,000	315,972
Employment Development	4,229	2,823	4,312	7,135
Youth and Adult Corrections				
Corrections	$125,751	$153,946	$82,816	$236,762
Youth Authority	35,837	34,222	9,938	44,160
Education				
Department of Education	$1,578	$1,078	$4,018	$5,096
Higher Education				
University of California	$209,819	$209,819	$109,163	$318,982
California State University	214,898	209,481	105,141	314,622
Community Colleges	170,340	153,127	306,892	460,019
General Government				
Food and Agriculture	$7,593	$7,593	$4,962	$12,555
Military	12,231	8,024	2,102	10,126
Veterans' Home of California	6,122	900	6,037	6,937
Unallocated Capital Outlay	1,000	1,000	—	1,000
Totals	**$1,306,997**	**$1,095,643**	**$1,051,575**	**$2,147,218**

[a] Department estimates.

BUDGET RELIES HEAVILY ON DEBT FINANCING

The Governor's budget proposes funding the capital outlay program from bonds, the General Fund, special funds, and federal funds. Figure 3 displays the proposed funding for each department by fund source. As the figure shows, the budget relies heavily on bonds—including $262 million in proposed new lease-payment bond authorizations—to finance capital improvements. Unlike general obligation bonds, the use of lease-payment bonds avoids the uncertainty of obtaining voter approval, but the state incurs significant interest costs with this financing method. As stated in our December 1998 report, *Overhauling the State's Infrastructure Planning and Financing Process* (reprinted in the *1999-00 Budget: Perspectives and Issues*), we believe a better balance is needed between bond financing and pay-as-you-go funding. Increasing pay-as-you-go funding will bring more stability to infrastructure investment and allow the state to get a "bigger-bang-for-the-buck" (by avoiding interest and issuance costs) with its infrastructure spending.

The following is a summary of the funding proposal from each state fund type.

Bonds. Almost 80 percent of all proposed funding for capital outlay ($844 million) is from bonds. This includes $582 million from currently authorized general obligation bonds, almost all of which are for higher education projects. The budget also includes $262 million from proposed lease-payment bond authorizations—$66 million less than in 1998-99. These funds will be used to fund projects in nine departments—including five criminalistic laboratories for the Department of Justice and health-care related buildings at several state prisons. (The debt service on all general obligation bonds and virtually all these lease-payment bonds would be a General Fund obligation.)

Direct General Fund Appropriations. The proposed $195 million from the General Fund is a reduction of $275 million from General Fund appropriations in the current year for capital outlay. The proposed funds are for projects in 20 departments, including land acquisition by the state conservancies, new fire stations, and various infrastructure and building-code related improvements.

Special Funds. The $52 million proposed from various special funds is a reduction of $18 million from current-year appropriations. These funds are mainly for resources programs (such as habitat acquisition) and transportation-related programs (such as offices for the California Highway Patrol and the Department of Motor Vehicles).

Figure 3

1999-00 Capital Outlay Programs Proposed Expenditures by Fund Type

(In Thousands)

Department	Bonds	General	Special	Federal	Total
Emergency Services	$6,720	—	—	—	$6,720
Justice	50,199	$1,862	—	—	52,061
California Science Center	—	38—	—	—	38
Franchise Tax Board	—	963	—	—	963
General Services (seismic retrofit)	788[a]	—	—	—	788
General Services (other)	21,098	4,543	—	—	25,641
Transportation	—	—	$833	—	833
Highway Patrol	11,214	—	9,217	—	20,431
Motor Vehicles	—	—	7,209	—	7,209
Tahoe Conservancy	—	12,416	4,057	—	16,473
Conservation Corps	—	—	349	—	349
Forestry and Fire Protection	7,192	27,008	—	—	34,200
Fish and Game	—	—	319	$250	569
Wildlife Conservation Board	—	17,290	2,797	—	20,087
Boating and Waterways	—	—	8,192	—	8,192
Coastal Conservancy	—	15,320	7,026	2,000	24,346
Parks and Recreation	841[a]	9,925	11,510	600	22,876
Coachella Valley Mountains Conservancy	—	—	100	—	100
Water Resources	3,270[a]	22,225	—	—	25,495
Health and Welfare Data Center	—	5,526	—	—	5,526
Health Services	—	300	—	—	300
Developmental Services	—	3,461	—	—	3,461
Mental Health	27,523	9,449	—	—	36,972
Employment Development	—	—	99	2,724	2,823
Corrections	124,270	29,676	—	—	153,946
Youth Authority	11,733	22,489	—	—	34,222
Education	—	1,078	—	—	1,078
University of California	209,819[a]	—	—	—	209,819
California State University	209,481[a]	—	—	—	209,481
Community Colleges	153,127[a]	—	—	—	153,127
Food and Agriculture	6,519	1,074	—	—	7,593
Military	—	7,988	—	36	8,024
Veterans' Home of California	—	900	—	—	900
Unallocated	—	1,000	—	—	1,000
Totals	**$843,794**	**$194,531**	**$51,708**	**$5,610**	**$1,095,643**

[a] General obligation bonds—all other bond proposals are lease-payment bonds.

BOND FUNDING AND DEBT PAYMENTS

Over the last several years, the majority of capital outlay has been funded with bonds. In the 1990s, the voters have authorized $25.6 billion in general obligation bonds. Most of these authorizations have been for K-12 schools ($13.1 billion), higher education ($4.8 billion), and transportation ($5 billion). In addition to these general obligation bonds, the Legislature has authorized $6.1 billion in lease-payment bonds since 1990. These bonds have funded higher education facilities, prisons, state office buildings, state laboratories, and state homes for veterans.

Debt Payments

The state's debt payments on bonds will be $2.7 billion in the budget year—an increase of 10 percent over current-year costs. There are two components of this debt:

- ***General Obligation Bonds.*** The estimated budget-year cost of debt payments on general obligation bonds is $2.1 billion from the General Fund—an increase of $164 million over current-year payments.

- ***Lease-Payment Bonds.*** The state's cost for debt on lease-payment bonds will be about $630 million in 1999-00—an increase of 19 percent over the current year. We estimate that about 92 percent of this debt is paid by the General Fund.

Debt for lease-payment bonds continues to become a greater portion of total debt costs. For example, lease-payment debt was 13 percent of total debt payments in 1990-91 and will increase to 23 percent in the budget year. Annual debt payments for the $262 million in lease-payment bonds proposed in the Governor's budget will total about $22 million. As shown in Figure 4, with sales of currently authorized bonds, total debt payments will increase to $3.3 billion in 2003-04 and decline thereafter if no new bonds are authorized.

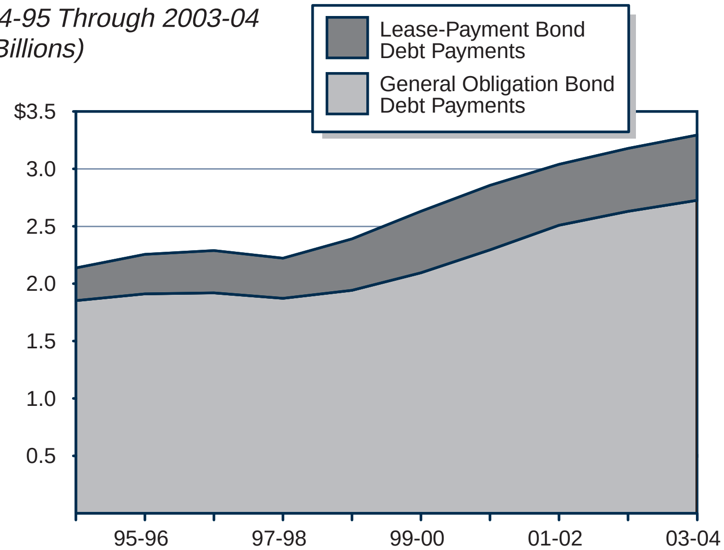
Debt Payments As a Percent of General Fund Revenue

We estimate that the amount of debt payments on General Fund-backed bonds as a percent of state General Fund revenue (that is, the state's *debt ratio*) will be 4.5 percent for the budget year. As shown in Figure 5, this ratio rose significantly in the early 1990s, and has declined for the last three years because of stronger General Fund revenue growth and relatively stable debt payments. We estimate that, as currently authorized bonds are sold, the debt ratio will increase to 4.6 percent in 2001-02 and decline thereafter (assuming no further bond authorizations).

Figure 4

General Fund Bond Debt Service[a]

1994-95 Through 2003-04
(In Billions)

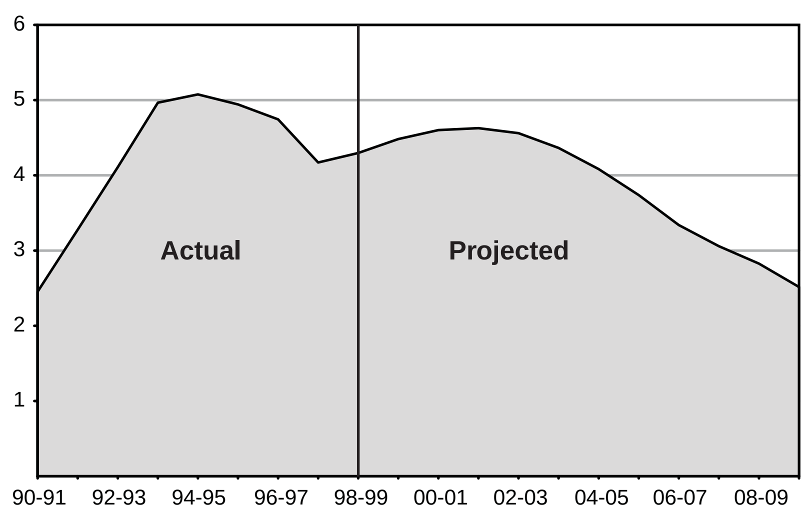


[a] Based on currently authorized bonds.

Figure 5

Debt Service Ratios[a]

1990-91 Through 2009-10



[a] Based on currently authorized bonds.

CROSSCUTTING ISSUES

Capital Outlay

INFRASTRUCTURE PLANNING AND FINANCING

The state needs to overhaul its process for planning, budgeting, and financing infrastructure. The Governor's establishment of a commission to examine this complex issue is a welcome first step. The commission faces a difficult challenge, however, to recommend a comprehensive bond package by May 1.

In our December 1998 report, *Overhauling the State's Infrastructure Planning and Financing Process* (reprinted in the *1999-00 Budget: Perspectives and Issues*), we discuss the challenge the state faces to address its infrastructure needs in order to sustain a growing economy and population. To effectively meet this challenge, the state needs a well-defined process for planning, budgeting, and financing necessary infrastructure improvements.

Unfortunately, the state's current capital investment process suffers from a myriad of problems:

- Neither the administration nor the Legislature evaluates statewide infrastructure needs and infrastructure investment as a program in and of itself.
- Proposals are reviewed in isolation of each functional area—an approach that does not allow examination of how competing proposals fit within a context of overall state infrastructure needs, priorities, and funding capabilities. The result is that capital investment decisions are made more on an ad hoc basis.

- The state lacks a stable funding source for its infrastructure programs. Thus, infrastructure investment suffers great variability and uncertainty even though the need to address infrastructure deficiencies is significant and ongoing. This has led to an underinvestment in the state's infrastructure.

To address these problems, we recommend that the Legislature overhaul the planning, budgeting, and financing of the state's infrastructure by:

- Developing an integrated statewide infrastructure plan.
- Adopting a policy that dedicates 6 percent of annual General Fund revenues to infrastructure investment and provides greater annual resources on a pay-as-you-go basis.
- Establishing legislative committees to oversee development and financing of the statewide infrastructure plan.

Governor's Proposed Commission

The Governor has also recognized the need to improve the planning and financing process in order to meet the state's infrastructure needs. To begin the development of a comprehensive multiyear plan, the budget stipulates that the Governor will establish a Commission on Building for the 21st Century by mid-February. According to the budget document, the commission will study the building needs of California for the next decade and will review several issues, including those listed in Figure 1.

The commission is to submit an initial report to the Governor by May 1, with its recommendation for "a comprehensive multi-year bond package to be placed on the 2000 ballot." The budget describes this as the first step in an effort to meet the state's public infrastructure needs. We applaud the Governor's proposal to begin addressing the state's infrastructure from a comprehensive and long-term perspective.

Given the general inadequacies in current planning and the need to determine the state's appropriate role in funding local infrastructure programs, the commission faces a difficult task to report back by May 1 with a comprehensive bond package. In view of the importance of this issue, however, every effort should be made by the administration and the Legislature to have the necessary planning and policies in place to develop an appropriate financing scheme by this fall. This will ensure that bond packages addressing the state's highest priority needs can be developed for future ballots.

Figure 1

Commission on Building for the 21st Century
Issues to Be Reviewed

- ☑ A balanced program of building activity which adequately addresses the entire range of needs of Californians—including education, housing, and general government.
- ☑ Approaches to project management and administration that will expedite project delivery.
- ☑ A majority vote for local school bond issues, and the vote requirement for other local government bond measures.
- ☑ Adjustments in the state-local match on building projects.
- ☑ Assumption of responsibilities of certain projects either totally by the state or totally by local governments.
- ☑ Identification of resources needed for debt payments.
- ☑ Reforms in the manner and method of construction which do not jeopardize the health and welfare of the citizens of the state.
- ☑ Linking eligibility for infrastructure funds to meeting performance criteria.
- ☑ Utilization of the State Infrastructure Bank to assist in financing state and local infrastructure.
- ☑ Dedication by both state and local governments of a set amount of funds for pay-as-you-go financing.
- ☑ Determination of a prudent level of bond debt service for the State of California.
- ☑ A rational prioritization of needs.

Source: *1999-00 Governor's Budget Summary* (page 24).

MANAGING THE CAPITAL OUTLAY PROGRAM

Preliminary plans are not complete for 111 previously funded projects that are proposed in the budget for working drawings and/or construction funding. We recommend approval of these 111 projects contingent on completion of preliminary plans that are consistent with the cost and scope previously approved by the Legislature. Because most of the projects funded in the current year are behind schedule, we recommend partial or full deferment of almost all new major capital outlay projects that would be managed by the Departments of General Services and Parks and Recreation. We also recommend that the Department of General Services (DGS) report to the budget committees on steps that could be taken to improve its ability to maintain project schedules. Because this issue affects several departments, we suggest that the budget committees consider hearing this issue in full committee or in a subcommittee that would review the entire capital outlay program.

Preliminary Plans Not Complete on Prior-Year Projects

We recommend approval of $382,188,000 for working drawings and/or construction for 111 projects contingent on completion of preliminary plans that are consistent with the cost and scope previously approved by the Legislature.

Our analysis indicates that the amounts proposed in the budget for 111 projects previously funded for acquisition, preliminary plans, and/or working drawings are consistent with prior legislative actions. These 111 projects involve 13 different departments. Figure 1 shows the number of projects and the budget totals for each department. The preliminary plans for these projects, however, had not been completed at the time this analysis was prepared. Therefore, we recommend approval contingent on receipt of completed preliminary plans that are consistent with the legislatively approved scope and cost.

Figure 1

Preliminary Plans Not Completed

(Dollars in Thousands)

Item	Department	Number of Projects	Budget Bill Amount
1760	General Services	1	$21,098
2740	Motor Vehicles	1	6,669
3540	Forestry and Fire Protection	11	12,564
3680	Boating and Waterways	4	4,048
3790	Parks and Recreation	4	2,811
4300	Developmental Services	1	1,000
4440	Mental Health	1	16,887
5100	Employment Development	1	2,079
5240	Corrections	40	144,047
5460	Youth Authority	18	29,218
6440	University of California	2	44,207
6870	Community Colleges	26	90,694
8570	Food and Agriculture	1	6,866
	Totals	**111**	**$382,188**

Defer Most New DGS-Managed Projects

We recommend deletion of $27.9 million for 77 new projects from various funds because the Department of General Services cannot manage these new projects in addition to its ongoing workload. The department should report to the budget committees on steps that could be taken to improve its ability expedite the delivery of capital outlay projects.

With the exception of higher education facilities and highway construction, the management of most other major capital outlay projects for state departments is done by the DGS. Most of these projects are designed by private sector architectural/engineering firms and built by private contractors. Project directors at DGS are responsible for (1) coordinating all work done by designers and contractors and (2) keeping projects on schedule and within the legislatively approved scope and cost.

Since last year, the number of projects being managed by DGS, as listed in its quarterly project status report, has increased from 185 to 271, or an increase of 46 percent. This increase is generally due to the relatively large number of new capital outlay projects that were funded in the *1998-99 Budget Act*. In order to address this increased workload, the budget authorized 15 new project director positions. Furthermore, the department notified the Legislature in October 1998 that it was using authority contained in provisional budget language to establish an *additional* nine project director positions.

Given the time necessary to hire qualified personnel for these positions, the DGS did not have sufficient staff to begin work on many of the new projects upon enactment of the budget. (Unless the design is to be done by state staff, the initial work on a new project involves advertising, selecting, and negotiating a contract with a design firm.) Moreover, of the 24 recently authorized project director positions, 14 were still vacant at the time this analysis was written. Of the 111 projects referred to in Figure 1, the DGS is managing 73 projects, or 66 percent, of the total. Almost all of these projects managed by the department are behind schedule, with preliminary plans to be completed between March and June 1999 instead of November and December 1998 as originally scheduled.

For 1999-00, the DGS will face a significant challenge to manage the state capital outlay program. This workload has three basic components: (1) the working drawing and/or construction phases—as proposed in the budget—for the 73 DGS-managed projects summarized in Figure 1; (2) other ongoing projects, such as various new state office buildings, that are already authorized for construction and in some cases are under construction; and (3) 94 new projects proposed in the budget. Given the magnitude of its ongoing workload, we recommend that most of the new DGS-managed capital outlay projects proposed for 1999-00 be deferred. Many of these new projects are meritorious capital improvements that should be funded in the future. The appropriation of funds for a capital program, however, should only be made to the extent the program can be implemented in a timely manner to spend those funds. There has to be a balance between the capital program and the ability to undertake and manage it. We believe that deferral of most new projects for one year will help bring the program into balance using authorized project management resources.

Figure 2 lists the number of new projects that we recommend deferring for each department in 1999-00. In our analyses of individual departments' capital outlay programs (later in this chapter), we also recommend deletion of certain projects or reductions to the amount proposed for some projects for reasons other than this management workload concern.

The administration's proposal to proceed with many new capital improvements at state facilities is laudable, but we believe, unattainable for 1999-00. We intend to work with the DGS and the Department of Finance (DOF) to examine how management resources could be kept in better balance to successfully implement the state capital outlay program. We recommend, as one step, that the DGS report to the budget committees on ways it could deliver projects more expeditiously. One possibility the department should consider is contracting with private sector individuals or firms with project director capabilities in order to meet workload peaks.

Figure 2

New DGS-Managed Capital Outlay Projects Recommended for Deferral

(Dollars in Thousands)

Budget Item	Department	Number of Projects	Budget Bill Amount
0820	Justice	1	$710
1730	Franchise Tax Board	3	963
1760	General Services	1	275
2660	Transportation	1	604
2720	Highway Patrol	5	3,499
3540	Forestry	45	15,881
3680	Boating and Waterways	2	175
5100	Employment Development	2	497
5240	Corrections	6	1,806
5460	Youth Authority	3	819
6110	Education (special schools)	2	860
8570	Food and Agriculture	1	411
8940	Military	3	944
8960	Veterans' Home	2	410
	Totals	**77**	**$27,854**

Partially Defer Some New DGS-Managed Projects

We recommend a reduction of $8.1 million from the General Fund to defer phases of ten new projects and to reduce the amount provided for unallocated capital outlay because the Department of General Services cannot manage its ongoing workload and implement all phases of these projects that are proposed in the budget.

In evaluating all of the new projects proposed for 1999-00, our review indicates that several projects should proceed in the budget year for various reasons. These projects are listed in Figure 3. In general, the projects in the figure address safety or security problems or can be accomplished with little impact to DGS' project management workload. While we believe that work on these projects should move forward in the budget year, given the DGS' large workload, we recommend the Legislature defer some of the project phases until the 2000-01. In general, our recommendations would (1) fund the acquisition phase and/or the preparation of preliminary plans and (2) defer the working drawing and/or construction phases.

Unallocated Capital Outlay. The budget also includes $1 million under Item 9860-301-0001 for unallocated capital outlay. These funds are provided to the DOF, but are mainly spent by DGS to prepare cost and scope estimates (referred to as budget packages) for future projects that DOF determines are meritorious for state funding. Because we recommend deferring most of the new projects proposed in 1999-00, there will be fewer additional projects needing budget packages for the 2000-01 budget. We therefore recommend reducing the unallocated amount to $500,000, as shown in Figure 3.

Approve Seven New Projects

We recommend approval of $3.1 million for seven new projects because the Department of General Services can accomplish the phases of these projects as proposed in the budget.

Figure 4 (see page 22) lists seven new life safety or security projects for which we would recommend approval as budgeted. We believe that the DGS can accomplish the phases of work as proposed in the budget because the projects are relatively small and not complex.

Refined Cost Estimates Pending

The Department of General Services is reviewing the cost estimates provided by the departments for many of the new projects proposed in the budget. More refined cost estimates should be available by the spring for the Legislature's review.

The cost estimates for many of the new projects proposed in the budget were prepared by the individual departments. These estimates generally contain insufficient detail to evaluate whether the proposed budget is appropriate. The DGS is reviewing the departments' estimates and preparing budget packages that will be available by the spring. We will review these budget packages and provide any recommendations as appropriate.

Figure 3

Projects Recommended for Partial Deferral

(In Thousands)

Item— Department: Project	Budget Bill Amount	LAO Amount	Comment
1760—General Services: Blue Anchor Building—fire/life safety and ADA corrections	$1,122	$74	Addresses code violations cited by State Fire Marshal.
1760—General Services: Resources Building—fire/life safety corrections	2,063	102	Addresses code violations cited by State Fire Marshal.
4260—Health Services: Southern California Laboratory—fire/life safety renovation	300	120	Addresses code deficiencies.
4300—Developmental Services: Agnews—Building 54 fire/life safety upgrades	2,461	117	Addresses code violations cited by State Fire Marshal.
5240—Corrections: CCI—New potable water source, Phase II	1,728	224	Second of two new wells needed to replace existing water supply system.
5240—Corrections: CIM—TB/HIV housing engineering controls	140	60	Improves ventilation to reduce chance of another tuberculosis outbreak.
5240—Corrections: CMF—TB/HIV housing engineering controls	140	60	Improves ventilation to reduce chance of another tuberculosis outbreak.
5460—Youth Authority: Nelles—Renovate Taft Adjustment Center	140	55	40-year-old building used as lock-up unit is severely deteriorated.
5460—Youth Authority: Stark—Fire alarm system for education area	195	75	Provides alarm system in education area.
8960—Veterans Home: Yountville—Remodel Holderman Activity Area	250	88	Corrects building deficiencies in hospital therapy area.
9860—Unallocated Capital Outlay	1,000	500	With deferral of new projects, fewer budget packages needed in 1999-00.
Totals	**$12,686**	**$4,622**	

Figure 4

New DGS-Managed Projects Recommended for Approval

(In Thousands)

Item— Department: Project	Phases[a]	Budget Bill Amount	Comment
2660—Transportation: Redding Office—seismic retrofit	PW	$79	Consistent with legislative policy to fund seismic risk level VI retrofits.
2740—Motor Vehicles: Sacramento—first floor asbestos abatement and seismic retrofit	P	440	Part of multiphase asbestos removal project.
5240—Corrections: CMC—Hospital air conditioning	PW	65	Hospital currently lacks air conditioning.
5240—Corrections: CRC—Perimeter fence	P	120	Corrects security problems.
5460—Youth Authority: Stark—Security lighting in ward rooms	PW	100	Current lighting fixtures easily tampered with and metal parts are used as weapons.
6110—Education: School for the Deaf, Riverside—Fire/life safety code corrections	PWC	218	Addresses deficiencies cited by State Fire Marshal (minor capital outlay project).
8940—Military: Bakersfield—Acquire new armory site	A	2,125	Site already identified. Existing buildings will need minimal alteration in 2000-01.
Total		**$3,147**	

[a] A=acquisition; C=construction; P=preliminary plans; and W=working drawings.

Parks and Recreation Workload

We recommend the Legislature delete $290,000 from the General Fund for two new projects proposed by the Department of Parks and Recreation because the department has a large backlog of design and construction work that should be completed before starting new projects. (Delete $130,000 from Item 3790-301-0001 [8] and $160,000 from Item 3790-301-0001 [10].)

The *1998-99 Budget Act* granted the Department of Parks and Recreation (DPR) the authority to acquire, plan, design, construct, and administer construction contracts in the same manner as the DGS. As discussed above for projects managed by the DGS, DPR has a large backlog of uncompleted capital outlay work. For example, during budget years 1992-93 through 1995-96 the department had to obtain reappropriation of funds for 64 of the 84 approved major projects (76 percent) because the department did not complete its work on schedule. Furthermore, these projects had to be reappropriated an average of twice before the work was completed and many of the department's projects have had to be reappropriated three, four, and five times.

In view of these chronic implementation problems, we recommend the Legislature not approve new major projects for the department until the backlog of work is substantially reduced. Accordingly, we recommend the following projects in the Governor's budget be deleted:

- Sonoma Coast State Beach: Trail Rehabilitation and Development—study and preliminary plans, $130,000.
- Sugar Pine State Park: Rehabilitate Day Use Area—preliminary plans and working drawings, $160,000.

PAY-AS-YOU-GO FOR CAPITAL OUTLAY

The Governor's budget proposes $195 million in direct General Fund appropriations for a variety of capital outlay projects. In recognition that the state should increase its use of pay-as-you-go funding, we recommend that the Legislature maintain direct General Fund spending at least at the level proposed by the Governor. Furthermore, we recommend that any funds "freed up" by legislative action to adopt our General Fund reductions to proposed projects be redirected to reduce the level of lease-payment bond authorizations in the budget.

In our December 1998 report, *Overhauling the State's Infrastructure Planning and Financing Process* (reprinted in *The 1999-00 Budget: Perspectives and Issues*), we indicate that, outside the transportation area, the state has devoted a minuscule amount of pay-as-you-go funding for infrastructure. Instead, the state has relied almost exclusively on bond authorizations to fund these needs. As discussed in the Overview of this chapter, the Governor's budget continues this trend. For example, out of the proposed $1.1 billion capital outlay program, $844 million are from bonds, including proposed authorizations of $262 million in new lease-payment bonds. The remaining $252 million are direct appropriations from the General Fund ($195 million) and other funds ($57 million) for pay-as-you-go funding.

In our December report, we recommend that the state (1) adopt an infrastructure investment policy that would devote 6 percent of General Fund revenues to infrastructure spending and (2) within this level dedicate a greater proportion for pay-as-you-go spending. Increasing direct General Fund spending will both provide more stable funding for infrastructure and allow the state to get a "bigger-bang-for-the-buck" with state expenditures (by avoiding the interest and other costs associated with bonds).

Given the state's current budget situation for 1999-00, we realize that significantly increasing General Fund spending on infrastructure will be difficult. We believe, however, that pay-as-you-go spending should at least be maintained at the level proposed by the Governor. In our analyses of the capital outlay projects proposed for pay-as-you-go funding, we have recommended General Fund reductions totaling $32.6 million. We recommend that the Legislature apply this amount to projects that are proposed to be funded with lease-payment bonds, which in turn will reduce future debt costs.

Figure 1 lists, by department, the lease-payment bonds proposed in the budget. Depending on legislative actions on our recommended General Fund reductions, the Legislature could redirect those funds to these departments' capital outlay programs for 1999-00. We recommend that the first priority for such redirection of General Fund support be $7 million to prepare the preliminary plans for the Department of Mental Health's sexually violent predator facility. As discussed in our analysis of the department's capital outlay program (later in this chapter), it makes little sense to incur the interest costs associated with lease-payment bond financing to perform design work on this project.

Figure 1

Departments with Proposed 1999-00 Lease-Payment Bonds

(In Thousands)

Item	Department	Amount
0690	Emergency Services	$6,720
0820	Justice	50,199
1760	General Services	21,098
2720	Highway Patrol	11,214
3540	Forestry	7,192
4440	Mental Health	22,687
5240	Corrections	124,270
5460	Youth Authority	11,733
8570	Food and Agriculture	6,519
	Total	**$261,632**

CAPITAL OUTLAY IN HIGHER EDUCATION

The Governor's budget includes $572 million from general obligation bonds for capital outlay in California's three segments of public higher education—University of California, California State University and California Community Colleges. The proposed amounts for each segment and our recommendation for each are summarized in Figure 1.

Figure 1

Higher Education Capital Outlay
1999-00 Budget Amount and Analyst Recommendations

(In Thousands)

Segment	Budget Amount	LAO Recommended Approval
University of California	$209,819	$159,794
California State University	209,481	125,853
California Community Colleges	153,127	140,614
Totals	**$572,427**	**$426,261**[a]

[a] Includes a total of $137.3 million for which we have withheld recommendation pending receipt of additional information.

As shown in the figure, we recommend the Legislature approve $426 million of the requested amount. In general, we have recommended approval of projects that address critical safety issues (such as seismic safety), renovate space to meet academic or other campus programs, provide research space, and correct infrastructure problems. On the other hand, we have recommended that the Legislature reduce the request by a total of $146 million by deleting or reducing projects if the segment has not substantiated either the need for or the cost of the project. Also, in several instances, the request is for new space that is not justified because the campus has sufficient space to accommodate current and projected enrollment. In other cases, the segment has proposed a project without providing sufficient detail to justify the need for the project or other alternatives that would be more cost effective. An additional issue we have raised this year is the year-round operation of campuses throughout higher education.

Year-Round Operation Saves Capital Outlay Costs

Our analysis indicates that operating higher education campuses on a year-round basis will result in a capital outlay savings of $19 million related to projects proposed in the budget and potentially several billion dollars over the next decade and beyond.

In our companion document *The 1999-00 Budget: Perspectives and Issues* (Part V), we recommend that the segments begin implementing year-round operation. Currently, no campus offers the full schedule of courses that is available in the normal three quarters (or two semesters). As a result, during the summer months, enrollment is limited and existing instructional space is vacant. Our analysis indicates that the projected enrollment growth in public higher education in California could be accommodated in existing instructional space well past the next decade if the campuses operated year round.

Consistent with our findings on year-round operation, we have recommended that the Legislature delete $9.5 million (future cost to complete of $10 million) from the proposed budget for projects that would not be needed under year-round operation. Over the next decade and beyond, year-round operation should result in several billions of dollars in savings related to the reduced need for new instructional space.

Legislature Should Consider Additional Projects

We recommend that the Legislature consider funding additional priority projects for higher education using any bond funds "freed up" by legislative action accepting our recommendations to reduce project costs in the Governor's budget.

As shown in Figure 1, we have recommended that the Legislature reduce the proposed budget for higher education capital outlay by $146 million. The three segments, however, have estimated that over the next five years a total of over $6 billion will be needed for capital improvements. Many of these projects are to renovate instructional space to accommodate changes in academic programs, address life safety issues such as seismic safety of buildings, correct infrastructure problems, and other facility deficiencies.

In view of these identified needs, we urge the segments to submit new proposals that address these other priority needs for legislative consideration for funding in the *1999-00 Budget Bill*. This would also allow the Legislature to assess the need for projects that are a priority for the segments but currently are not included in the Governor's budget. The Legislature could then consider funding these other projects with any amounts "freed up" by accepting our recommendations.

Discontinue Past Practice of Equal Bond Amounts for Each Segment

We recommend that the Legislature discontinue the past practice of providing an equal amount of bond funds to each segment because this practice does not address the highest-priority needs throughout higher education.

Appropriations Should Be Based on Project Merits Rather Than Equal Amounts to Each Segment. In recent years, the administration has had an agreement with the segments to provide an equal amount of total available bond funds to each segment (these amounts, however, may vary in any one year). This agreement results in "grants" to each segment without regard to the condition of the physical facilities on an individual campus or the merits or priority of individual projects . This can result in lower-priority projects in one segment receiving funds while a higher-priority project in another segment may go unfunded. As a result, the state's current practice of equal bond fund allocations neither addresses the highest-priority needs throughout higher education nor provides the Legislature the information it needs to assure that its actions in appropriating funds are meeting statewide needs.

Furthermore, we believe it is essential to target funding to the highest *statewide* priorities because there is a limited amount of bond funds dedicated to higher education. Proposition 1A, approved by the voters in November 1998, provides $2.5 billion in general obligation bonds for higher education. Of this amount, $1.25 billion cannot be issued or sold before July 1, 2000 and $165 million is dedicated to new campuses, campuses with enrollments less than 5,000 full-time equivalent students, and off-campus centers. As mentioned above, the three segments have developed five-year capital outlay plans that total over $6 billion. If, as we recommend, year-round operation is implemented, the five-year capital outlay need will be significantly reduced. However, the capital needs to correct seismic safety issues, renovate buildings to meet changes in academic programs, and provide other new space such as faculty/administrative offices and research space, will greatly exceed the available bond funds. Thus, in order to assure that the bonds approved by the voters are spent on the highest statewide priorities, we recommend that the Legislature appropriate funds for higher education on the merits of the projects in the context of statewide priorities rather than equal "grants" of funds to each segment.

DEPARTMENTAL ISSUES

Capital Outlay

DEPARTMENT OF JUSTICE (0820)

The Department of Justice (DOJ) operates ten regional criminalistic laboratories throughout the state. The laboratories provide analysis of all types of physical evidence and controlled substances and, when requested, assist local law enforcement agencies in processing and analyzing crime scenes (including clandestine drug laboratories). The department also operates a state DNA analysis laboratory in Berkeley.

The *1999-00 Governor's Budget* proposes $52.1 million—$1.9 million from the General Fund and $50.2 million from new lease-payment bond authorizations—for six new criminalistics laboratories to replace existing laboratories. Five of these projects have previously been considered by the Legislature. (We discuss below a concern with the costs of these five projects.) The sixth project—a replacement laboratory in Redding—is proposed for the first time. In our Crosscutting Issue, "Managing the Capital Outlay Program" (earlier in this chapter), we recommend deferral of $710,000 for land acquisition and preliminary plans for the Redding project due to delays in implementing the currently funded capital outlay program.

Crime Laboratory Replacement

We withhold recommendation on $51.4 million for five crime laboratory projects pending review with the department on modifications to

the projects to bring them in line with the budgets previously approved by the Legislature.

The budget proposes $51.4 million for projects to replace five crime laboratories. This total includes $1.2 million from the General Fund and $50.2 million in lease-payment bonds. Two of the projects—Central Valley and Riverside—were funded in the current year for construction. The other three projects—Fresno, Santa Barbara, and Santa Rosa—were funded in 1998-99 for acquisition and/or preliminary plans. Figure 1 shows the amount requested for each project.

Figure 1

Department of Justice
Laboratory Replacement Projects

(Dollars in Thousands)

Location	Building Size (Gross Square Feet)	Phases[a]	Budget Bill Amount
Central Valley	31,933	C	$11,694
Fresno	36,007	WC	14,132
Riverside	38,477	C	14,076
Santa Barbara	13,804	WC	5,572
Santa Rosa	14,646	WC	5,877
Total	—	—	**$51,351**

[a] W=working drawings and C=construction.

The amounts proposed in 1999-00 are 30 to 40 percent higher than the construction costs previously approved by the Legislature. These higher amounts are based on construction bids that were received in 1998 for the Central Valley laboratory (the only laboratory project that has been bid). This project was bid twice and both times the lowest bids were significantly higher than the budgeted amount, thus a construction contract could not be awarded.

Construction bids provide an indication of what contractors believe it will cost to build a project *as designed*. To the extent bids are much higher than anticipated, one must ask whether design changes could be made to reduce costs while still adequately addressing program requirements. In the case of the Central Valley laboratory, changes were made to the design after the initial bids were received. The second bidding of the project, however, still resulted in bids that were too high to award a contract.

After reviewing the design documents for the Central Valley project, we believe that the department can make additional changes to significantly reduce costs from the amounts proposed for each laboratory project. For example, the costs for electrical and mechanical systems in the laboratories are 70 percent of total building costs—an unusually high level. For a comparison, we reviewed three University of California (UC) laboratory building projects that the state has funded in recent years. (Two of the UC projects were medical research facilities and the third included teaching and research laboratories.) The combined electrical and mechanical systems costs for these three projects ranged from 38 to 53 percent of total building costs—far below the level proposed for the crime laboratories. In addition, the proposed laboratories include extensive security systems, such as electronic locks for most doors inside the building, motion detectors throughout the building, and closed circuit television surveillance inside and outside the building. Based on our review, significant savings could be achieved by revising these and other elements in the proposed laboratories.

Consequently, we withhold recommendation on all five laboratory projects pending a review with the department on modifications to the proposals to bring the projects in line with the budgets previously approved by the Legislature.

FRANCHISE TAX BOARD (1730)

Security Improvements

We recommend deletion of $963,000 for three security improvement projects because the Legislature should first consider what level of security is appropriate at state office sites frequently visited by the public. (Delete $963,000 from Item 1730-301-0001.)

The budget proposes $963,000 for security improvements at the following Franchise Tax Board (FTB) office sites: Los Angeles ($438,000), Santa Rosa ($249,000), and Stockton ($276,000). These FTB offices are located within the state office building in each city. The offices include public service counters where citizens can obtain tax information, file returns, and make payments. The security improvement projects include installing (1) bullet-resistant glass between the public waiting areas and the secured office space, (2) stainless steel nonricochet deal trays and bullet-resistant service windows, and (3) security video cameras in the public waiting areas.

The budget proposal indicates that in 1996 the three state tax agencies—FTB, the Board of Equalization, and the Employment Development Department—adopted facility design standards for physical security and information security sytems. The departments plan to incorporate the standards into new state-owned buildings and leased facilities when leases are renewed. These design standards have not been submitted to the Legislature for review or approval, and we are unaware of any capital outlay proposals from the other two tax agencies specifically for security improvements.

It is certainly necessary to provide a safe working place for state employees. The degree of security measures necessary to accomplish this, however, should be fully documented and justified. This information could then be reviewed by the Legislature to determine if it believes the measures are both necessary and create an environment that citizens should encounter when they visit a state service facility. One could also argue that the same security measures proposed by FTB should be adopted at all state public service counters, such as Department of Motor Vehicle field offices. Information to base such a determination, however, has not been submitted to the Legislature.

Instead of proceeding with these projects, we recommend that the administration submit (1) documentation and justification for the proposed security measures and (2) the administration's policy, plans, and rationale for security measures at similar state facilities with public counters. The Legislature could then consider whether such security measures are necessary at these and other state sites with public visitation.

For the above reasons, we recommend deletion of the three proposed projects. If the Legislature decides that the FTB's proposal is meritorious, we would nevertheless recommend a one-year deferral of these three projects due to delays in implementing the currently funded capital outlay program. (See our Crosscutting Issue, "Managing the Capital Outlay Program," earlier in this chapter.)

DEPARTMENT OF GENERAL SERVICES (1760)

The budget includes $25.6 million for the Department of General Services (DGS) capital outlay program. This amount includes $788,000 in general obligation bonds for continued management of projects to improve the earthquake safety of state buildings, $4.5 million from the General Fund, and $21.1 million in proposed lease-payment bonds.

The department's program consists of the following projects:

- Fire/life safety corrections to two buildings in Sacramento—the Blue Anchor Building ($1.1 million) and the Resources Building ($2.1 million). As discussed in our Crosscutting Issue, "Managing the Capital Outlay Program," due to delays in implementing the currently funded capital outlay program, we recommend deferral of most *new* projects proposed in the budget. Because these two projects address fire and life safety issues, we recommend proceeding with preliminary plans in 1999-00.
- A study ($275,000) of two state buildings in Sacramento that will be vacated upon completion of the new East End Complex. In the same Crosscutting Issue mentioned above, we recommend deferring this study in 1999-00. The East End project will not be completed until 2003, hence it is not necessary to begin the study next year.
- $21.1 million for renovation of the Food and Agriculture Building in Sacramento. We recommend approval of this project contingent on the receipt of preliminary plans that are consistent with the scope and cost approved by the Legislature.
- $1.1 million for asbestos abatement in the Los Angeles State Building. This proposal is discussed below.

Los Angeles State Building

We recommend deletion of $1.1 million for construction to remove hazardous materials because the department recently indicated that the project is being canceled. (Delete $1,083,000 from Item 1760-301-0001 [4].)

The budget proposes $1.1 million from the General Fund to remove hazardous materials (asbestos and lead paint) from the state office building at 107 South Broadway in Los Angeles. The building will be vacated this summer when the tenants move to a former department store in downtown Los Angeles that the state purchased and is completing renovations for state offices. In the *1998-99 Budget Act,* the Legislature appropriated $309,000 to prepare preliminary plans and working drawings for removal of the hazardous material. The removal of this material from the building was part of an agreement between the state, the County of Los Angeles, and the City of Los Angeles to convey the property to the Los Angeles Unified School District. (The school district would receive the property in exchange for district property that was made available to the federal government for military housing.) Under the agreement, the county and city were to share in the costs to remove the materials and then the district would take ownership of the building.

The DGS recently indicated that the federal government chose not to use the school district property, hence the agreement with the county, city, and school district is no longer in effect. The department intends to cancel this project and instead will sell the property, as is, on the open market. We therefore recommend deletion of the $1,083,000 under Item 1760-310-0001 (4).

DEPARTMENT OF TRANSPORTATION (2660)

The Department of Transportation (Caltrans) occupies 453 facilities, including 397 maintenance stations, 11 traffic management centers, 10 material laboratories, 22 equipment shops, and 13 general offices. The budget proposes $833,000 from the State Highway Account of the State Transportation Fund for three office projects. It also requests authority to enter into negotiations for a lease-with-purchase-option-agreement with a private developer to procure an office building in San Diego having an estimated future cost of $43 million.

Seismic Retrofit—Eureka Office

We recommend deletion of $604,000 for planning and working drawings for seismic strengthening of the Eureka office because the building is not a high priority seismic project. (Delete $604,000 from Item 2660-311-0042 [2].)

In 1990 the people approved the "Earthquake Safety and Public Buildings Rehabilitation Bond Act" (Proposition 122), which authorized $300 million in general obligation bonds. In response to that legislation, the Department of General Services (DGS), in consultation with the Seismic Safety Commission, established a methodology for evaluating seismic risk. It used the methodology to assess the risk associated with each of the state's 14,000 buildings (exclusive of the California State University [CSU] and the University of California [UC]). The DGS system defined seven levels of risk, I being lowest and VII highest. In this system the overriding consideration is life safety, and the acceptability of risk varies depending on its occupancy (as an example, a level IV risk is deemed "unacceptable" in a hospital but only "questionable" in an office building). Figure 1 summarizes the acceptability in office buildings of the risk to life associated with each of these risk levels.

The Legislature has not provided funding to seismically strengthen state buildings with a risk level lower than V. In 1998 it adopted supplemental report language expressing its intent not to fund seismic retrofit projects at the CSU, UC, and community colleges unless they similarly were evaluated to be risk level V or higher.

Figure 1

Department of General Services
Buildings Seismic Risk Evaluation System
Acceptability of Risk to Life in Office Buildings

Risk Level	Risk to Life	Acceptability of Risk
I	Negligible	Acceptable
II	Negligible	Acceptable
III	Minor	Acceptable
IV	Moderate	Questionable
V	Substantial	Questionable
VI	Extensive, but not imminent	Unacceptable
VII	Imminent	Unacceptable

This $604,000 proposal is for preliminary plans and working drawings to seismically strengthen the Caltrans Eureka District Office, which has been rated a level IV seismic risk by the DGS. The future cost for construction is estimated to be $5.1 million. As discussed above, risk level IV buildings are considered only a moderate life safety risk, and as such the Legislature has in the past only funded seismic improvements for buildings with a higher life safety risk. There is no apparent reason to make an exception for this building. Furthermore, DGS has surveyed 29 Caltrans facilities and has identified several as seismic risk level V or VI (see Figure 2, next page). Seismic strengthening of these buildings should be undertaken before consideration is given to strengthening any risk level IV buildings. Consequently, we recommend the Legislature delete this $604,000 request for planning and working drawings.

San Diego Office Building—Lease-With-Purchase-Option

We recommend the Legislature not authorize the department to negotiate a lease-with-purchase-option agreement with a developer to procure a new office building in San Diego because it is less expensive for the state to design and construct the building directly. (Delete Provision 6 under Item 2660-001-0042.)

Figure 2

Caltrans Buildings Rated Seismic Risk Level V or VI

Building	Seismic Risk Level
District 3, District Office Building, Marysville	V
District 4, District Office Building, Oakland	V
District 11, District Office Building, San Diego	VI
District 12, District Office Building, Santa Ana	VI
Headquarters, Annex I/II, Sacramento	V/VI
Equipment Shop, Sacramento	VI
Transportation Laboratory, Sacramento	VI

Proposed budget bill language would authorize the department to enter into negotiations for a lease with option to purchase agreement with a private developer to procure a new office building in San Diego (District 11). The District 11 headquarters is currently in a state-owned 105,000 gross square feet (gsf) building that has been evaluated by DGS as a level VI seismic risk. Caltrans estimates that it would cost $38.1 million to seismically retrofit the building. The building is located on 13 acres of state-owned land near Old Town San Diego. District 11 also leases space in ten other buildings in the San Diego area so that the current office space totals 199,000 gsf. The department proposes to acquire a new 200,000 gsf building having an estimated project cost of $43 million and consolidate all employees into the new building.

The DGS prepared an economic analysis for the project in which it compared three alternatives, all involving an agreement with a private developer. These were:

- ***Lease-With-Purchase-Option.*** The state would enter into an agreement with a private developer to construct a new building on state-owned land and lease it to the state for two years, at which time the state would purchase the building. Construction and interim financing for the two-year lease period would be by the developer at commercial rates. After two years the state would buy the building with a one-time appropriation from the State Highway Account (SHA) of the State Transportation Fund or finance the purchase price over 23 years with lease-payment bonds.

- ***Lease-Purchase.*** The state would enter into an agreement with a developer, as above, but the developer would lease the building to the state for 25 years, after which the state would take ownership. Construction and permanent financing for the 25-year period of the lease would be by the developer at commercial rates.
- ***Lease.*** A private developer would provide construction and permanent financing at commercial rates and construct and lease the building to the state for 25 years, and would retain ownership thereafter.

Of these alternatives, the DGS's analysis found the lease-with-purchase-option to be the most cost-effective, and this is the alternative Caltrans has proposed in the budget.

Caltrans and DGS, however, did not consider the option of the state designing and constructing the building using either direct appropriations from the SHA or lease-payment bonds. The interest rate for commercial construction and interim or permanent financing available to a developer is currently about 8 percent, which would be an average of about $2.3 million per year on a project of this size with a 25-year amortization period. Interest costs on state lease-payment bonds is about 5 percent, or an average of about $1.5 million per year over the same period. If a direct appropriation is used, these interest costs would be avoided. In addition to interest cost savings, the state would benefit by avoiding the developer's profit, which is likely to be substantial.

Caltrans is proposing to use a lease-with-option-to-purchase, in which the state would purchase the building after two years. Caltrans does not, however, commit to a specific method for financing the purchase at that time. It indicates it is investigating the capacity of the SHA to fund this project, but has not reached a conclusion. The department also indicates it may sell the eight acres underlying the new building to the developer, and may sell the remaining five acres of the parcel to the developer ". . . to reduce the overall development costs." Nothing in this proposal indicates the amount the state would receive for all or any part of this 13 acres of state-owned land or the amount of reduction there would be in overall development costs.

We believe it would not be prudent for the Legislature to authorize the proposed project without knowing how the state's purchase of the building would be funded and what benefit the state would receive in exchange for the land it owns. For these reasons, we recommend the Legislature not authorize Caltrans to negotiate the proposed lease-with-option-to-purchase agreement. Caltrans should instead develop a proposal for a new building with direct appropriations with state design and construction. (Delete Provision 6 under Item 2660-001-0042.)

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL (2720)

The California Highway Patrol (CHP) operates 166 major facilities in addition to its headquarters and academy. The department's five-year capital outlay plan totals $49.6 million. The Governor's budget proposes $20.4 million for major projects and $0.8 million for minor projects. The proposed funding consists of $4.8 million from the State Highway Account and $4.4 million from the Motor Vehicle Account of the State Transportation Fund, and $11.2 million from lease-payment bond funds.

We recommend that the Legislature not fund five projects totaling $3.5 million because of a large backlog of projects that are not completed. This issue is discussed in our Crosscutting Issue, "Managing the Capital Outlay Program," earlier in this section of the *Analysis.*

South Lake Tahoe and Monterey—New Facilities

We recommend the Legislature delete $2,730,000 from the Motor Vehicle Account for these projects because insufficient documentation has been provided to verify the scope and cost of the proposed facilities. If additional documentation is provided, the projects may warrant legislative consideration. (Delete $1,151,000 from Item 2720-301-0044 [4] and $1,579,000 from Item 2720-301-0044 [6].)

The budget includes $1.2 million and $1.6 million for land acquisition, preliminary plans, and working drawings for an area office in South Lake Tahoe and Monterey, respectively. The CHP has not identified the future cost to complete these projects.

The information submitted to justify these projects does not include definitive information about the scope of work, proposed location of the facility (other than the general area) or a detailed cost estimate. Lacking this information, the Legislature has no basis for determining if the scopes of the projects are appropriate or if the amounts requested are reasonable. Consequently, we recommend the Legislature not approve these requests. If such information is submitted, the projects may warrant legislative consideration.

DEPARTMENT OF FORESTRY AND FIRE PROTECTION (3540)

The budget proposes $34.2 million for capital outlay for the Department of Forestry and Fire Protection (DFFP). This amount includes $27 million for 49 major and 17 minor projects (less than $500,000 per project) to be funded from the General Fund and $7.2 million from lease-payment bond funds to fund seven projects. The future cost of the projects in the budget totals $114 million. The total cost of the department's five-year plan is $376 million.

We have recommended that 45 new projects in the budget be deleted because there is such a large backlog of work at the Department of General Services (DGS) and DFFP that needs to be completed before more new projects are added to the current workload. This issue is discussed under "Managing the Capital Outlay Program" in the Crosscutting Issues portion of this section.

No Master Plan for the Public Safety Microwave Network

We recommend that the Legislature (1) delete $5.3 million from the General Fund for new telecommunications towers and vaults and (2) not fund any additional tower and vault projects until a master plan is prepared to indicate the overall cost and schedule for upgrading the Public Safety Microwave Network. (Delete $5,253,000 under Item 3540-301-0001 [49].)

The budget requests $5.3 million from the General Fund for preliminary plans, working drawings, and construction of towers and vaults which are part of the Public Safety Microwave Network, which is a key communication system for public safety and other public agencies in California. It serves 36 state agencies, three federal agencies, and three counties. The DFFP is one of the major users of the network, using

17 percent of the "circuit-miles" of the network (that is, one circuit between two points one mile apart is one "circuit-mile").

The initial state microwave system was created in 1953 to support what is now the Office of Emergency Services. Other agencies then began creating their own, sometimes overlapping, microwave networks. In 1978, the Legislature enacted legislation which established the DGS as the central owner and manager of the network. In 1994, DGS undertook a study of the ability of the network to meet the needs of the users. Part of this study included an evaluation of the comparative merits of the existing analog network and a new digital network. The report concluded that the network should be converted to digital technology because of its substantially greater capability and a decreasing availability of analog equipment.

The *1995-96 Budget Act* appropriated $10 million for DFFP to replace 22 towers with ones having the proper configuration and structural capacity for digital technology. Bids for construction of towers funded by this appropriation came in substantially higher than estimated, and it was not possible to construct 22 towers as planned. Subsequently, in 1997 the Legislature adopted supplemental report language directing that the 1995-96 appropriation be used to fund the 11 highest priority towers and vaults. These projects are currently being implemented. The Legislature also appropriated $9.1 million in the *1998-99 Budget Act* to replace another nine towers. Thus, to date, $19.1 million has been appropriated to replace 20 towers.

Analyst's Concerns. In our analysis of DGS (please see the General Government chapter earlier in this *Analysis*), we point out several concerns about the future of the microwave network. Specifically, we note that DGS has significantly underestimated the costs of upgrading the towers and vaults consistent with its 1994 recommendations. We believe that the upgrades have now become a significant capital outlay program, for which the Legislature has not been given a comprehensive master plan that identifies the total cost of the program, a schedule for completion, and addresses the issue of how that cost burden should be allocated among state agencies and others that use the network.

In addition, we have concerns about how the analog-to-digital conversion should be allocated among the users of the network, both state and nonstate. The DFFP uses 17 percent of the network capacity compared to 44 percent by the California Highway Patrol (CHP) and 25 percent by the Department of Transportation (Caltrans). Current plans indicate DFFP will bear a larger proportion of the cost of upgrading tower and vault facilities than may be warranted by its use of the network. The CHP and

Caltrans do not appear to be bearing a proportion of this cost commensurate with their use of the network. This is an important consideration because of the different funding sources these departments use. The DFFP relies on the General Fund for funding whereas Caltrans and the CHP have the State Transportation Fund and federal funds as resources.

For these reasons, in our DGS analysis we recommend that the Legislature direct DGS—in cooperation with the network landlords, user state agencies, and nonstate users—to complete a comprehensive master plan of the microwave network by December 1, 1999. Further, we recommend that the Legislature not fund additional changes to the network until the master plan is completed. Thus, we recommend that the proposed funds be deleted. (We also have recommended deletion of the tower and vault projects in the budget because of the backlog of a large number of projects statewide, as discussed in the Crosscutting Issues portion of this section.)

DEPARTMENT OF PARKS AND RECREATION (3790)

The budget proposes $22.9 million for capital outlay for the Department of Parks and Recreation (DPR). This amount includes $7.4 million from the General Fund, $10.8 million from the Off-Highway Vehicle Trust Fund, $2.5 million from the Habitat Conservation Fund, $0.8 million from the California Wildlife, Coastal and Park Land Conservation Fund of 1988, $0.6 million in federal funds, $0.5 from the Recreation and Fish and Wildlife Enhancement Fund, and $0.3 million from the Environmental License Plate Fund. The budget also proposes $25.5 million in local assistance, which includes $2 million from the Habitat Conservation Fund, $16.6 million from the Off-Highway Vehicle Trust Fund, $4.5 million from the Recreational Trails Fund, and $2.4 million from the Federal Trust Fund.

We have recommended the deletion of two projects, one at Sonoma Coast State Beach and the other at Sugar Pine State Park, because the department has a large backlog of incomplete projects and we recommend no new projects be started until this backlog is reduced substantially. These projects are discussed further under Crosscutting Issues earlier in this section of the *Analysis.*

Budget Includes Double Funding For Capital Outlay Staff Work

We recommend the deletion of $488,000 that has been double-budgeted for staff work on six capital outlay projects. (Delete $15,000 from Item 3790-301-0001 [1], delete $133,000 from Item 3790-301-0001 [2], delete $44,000 from Item 3790-301-0001 [8], delete $28,000 from Item 3790-301-0001 [10], delete $31,000 from Item 3790-301-0001 [11], and delete $237,000 from Item 3790-301-0140.)

The budgets for the department are divided into three parts: support, local assistance, and capital outlay. The cost of salaries and wages of employees and their associated operating and equipment expenses are funded in the support items of the budget. The capital outlay portion of the budget covers the cost of service and construction contracts with private parties and interagency agreements with other public agencies. The capital outlay budget does *not* include salaries and wages for department employees unless the capital outlay appropriation reimburses the support appropriation.

The budgets for six of DPR's capital outlay projects contain funds for "salaries and wages" as an expense for "agency retained items." These costs are for work to be performed by the department's planning staff. The staff work will consist of the evaluation of cultural and natural heritage features of the project, development of mitigation strategies, environmental design, preparation of interpretive displays, and related activities. See Figure 1.

Figure 1

Salary and Wage Expenses Included in Capital Outlay Proposals

Project	Phase[a]	Salary and Wages Budgeted for:	Amount Budgeted
Morro Bay State Park (SP): Campground Rehabilitation and Day Use Area	W	Cultural and natural heritage and interpretative staff	$15,000
Cuyamacha Rancho SP: Rehabilitation of Paso Picacho Campground	C	Cultural and natural heritage and interpretive staff	133,000
Sonoma Coast SP: Trail Rehabilitation and Development	SP	Cultural and natural heritage and environmental design staff	44,000
Sugar Pine SP: Rehabilitation Day Use Area	PW	Cultural and natural heritage, interpretive, and environmental design staff	28,000
Bodie State Historic Park: Health and Safety Mitigation	PWC	Cultural heritage and environmental design staff	31,000
Anza Borrego Desert SP: General Plan	S	Cultural and natural heritage and environmental design	237,000
Total			**$488,000**

[a] S=study; P=preliminary plans; W=working drawings; and C=construction.

These requests duplicate funding for DPR staff that is already provided in the department's support budget. Consequently, we recommend the Legislature delete the $488,000 included in the proposed projects for this staff work. We also recommend the department be advised to review the cost estimates for projects in its five-year plan and delete similar salary and wage costs that may be included in future capital outlay project budgets.

Capital Outlay Projects Not Identified

We recommend the Legislature delete the request for a lump-sum $3 million General Fund appropriation and its related $3 million reimbursement because specific projects to be funded have not been identified. If projects are identified and the need for each substantiated, the proposal may warrant legislative consideration. In that case, however, we would recommend that any appropriation for these purposes be from the State Parks and Recreation Fund rather than the General Fund. (Delete $3,000,000 from Items 3790-301-0001 [6] and [12].)

The budget includes a proposed $3 million lump-sum appropriation from the General Fund for unspecified capital outlay projects, offset by reimbursements. The department indicates it has opportunities during the budget year to apply for grants from other departments and entities to fund projects, and that frequently the terms of the grant require the department to fund and complete the work before receiving the grant funds. Examples of programs that have provided such grant funding in the past are two administered by the state Department of Transportation—the federal Transportation Enhancement Activities Program (TEAP) and the Environmental Enhancement Mitigation Demonstration Program (EEMDP). In addition to the General Fund appropriation, proposed budget language under Item 3790-301-0001 would allow the DPR to borrow funds from the State Parks and Recreation Fund (SPRF) at no interest cost to advance cash for authorized reimbursement-funded projects.

Our first concern with this proposal is that no projects have been identified that the department proposes be funded by these grants. Without the projects at least being identified, the Legislature has no basis for evaluating their priority and appropriateness for the expenditure of state funds. There are also no scope definitions and cost estimates to document and verify the reasonableness of the requested amount.

If specific projects are identified and the need for each substantiated, the proposals may warrant legislative consideration. In this case, however, we would recommend the appropriation be from the SPRF, not the General Fund. The budget already contemplates using the SPRF to provide the interim funding needed to construct projects when grant reimbursements are not disbursed until construction is finished. Provision 1 to this item authorizes the department to borrow from the SPRF to provide interim financing for reimbursement-funded projects, so there is no need for a General Fund appropriation.

Fresno Area—Site Acquisition

We recommend the Legislature delete this $5.3 million request from the Off-Highway Vehicle Trust Fund for a study and acquisition of an off-highway vehicle recreation area in the Fresno/southern San Joaquin Valley region because it is uncertain if a site that has been identified by the department that can reasonably be acquired. (Delete $5,305,000 from Item 3790-301-0263 [3].)

The *1998-99 Budget Act* appropriated $295,000 for planning and acquisition of a site for an off-highway vehicle recreation area in the Fresno/southern San Joaquin Valley region. Up to $100,000 of this amount was to be available to obtain an option to purchase an appropriate site. The budget now proposes $5 million for acquisition of a site and $305,000 for an environmental impact report, but there is uncertainty about whether the site currently being evaluated by the department can be acquired. The future cost of the facility is estimated to be $4.2 million, for a total project cost of $9.8 million.

The funds appropriated in 1998 for planning were sufficient to identify the site, and to provide an acquisition cost estimate, conceptual development drawings, and development cost estimates. The $100,000 made available to purchase an option to buy specific land was intended to address the department's concern that lack of acquisition funding might result in it being unable to purchase a desirable site in a timely manner. The department has inquired as to the interest of the owners of specific properties near Hensley Lake in selling to the state. The department, however, has not provided information about the owners' response. Without at least an indication that specific property with probable willing sellers has been identified, the department has not completed the work funded by the 1998 planning appropriation. Consequently, we recommend the Legislature delete this $5.3 million request. If the department should provide additional information, the request for acquisition funds may warrant legislative consideration.

Oceano Dunes State Vehicular Recreation Area—LaGrande Tract

We recommend the Legislature delete this $2.2 million request because much of the property is owned by the County of San Luis Obispo and operated and managed by the Department of Parks and Recreation. Because the land is currently in public ownership and operated as an state vehicular recreation area, there is no need for the state to acquire title to the property. (Delete $2,200,000 from Item 3790-301-0263 [6].)

Oceano Dunes State Vehicular Recreation Area (SVRA) is located in San Luis Obispo County. It consists of two areas, north and south, with the 500 acre La Grande Tract located on beach sand dunes between the two. La Grande Tract became a subdivision at the turn of the century but was never successfully marketed and parcels totaling 317 acres are now owned by the County of San Luis Obispo. It has been managed as part of Oceano Dunes SVRA by the DPR since the early 1980s under the terms of an agreement with the county.

The department proposed last year to acquire the La Grande Tract parcels owned by San Luis Obispo County, but the proposal was not approved by the Legislature. The current proposal is identical to the one disapproved last year. We continue to recommend that, given the current public ownership and operating agreement, there is no reason for the state to spend $2.2 million to acquire title to the property. The property is open and available to the public for off-highway vehicle recreation and there would be no change if the state acquired the land. The department has not presented any information indicating that if the county-owned parcels are not acquired, the county will withdraw from its operating agreement with DPR and terminate the availability of the land for recreational use by the public. Consequently, we recommend that the Legislature delete this $2.2 million request.

Grants for Off-Highway Vehicle Projects Not Substantiated

We recommend deletion of $16.6 million of proposed grants from the Off-Highway Vehicle Trust Fund because no information has been provided to justify the expenditures. (Delete $16,555,000 from Item 3790-101-0263.)

The 1999-00 budget proposes $16.5 million for ". . . grants to cities, counties, or special districts . . . " as indicated in Figure 2.

Figure 2

Proposed Grants from the Off-Highway Vehicle Trust Fund

Recipient	Amount
U.S. Bureau of Land Management, Bureau of Reclamation and Forest Service—for operation and maintenance	$8,021,000
U.S. Bureau of Land Management, Bureau of Reclamation and Forest Service—for capital outlay	$7,789,200
California cities, counties, and special districts—for operation, maintenance and capital outlay	$744,000
Total	**$16,554,200**

No information has been submitted to substantiate the need for these expenditures and their amounts. One grant to the U.S. Bureau of Land Management is for $6.5 million and the only information provided about it is that it is for the "El Mirage Acquisition." The information about other grant proposals is equally slight. There is also no explanation for the state granting $7.8 million to the federal government for capital outlay projects and an additional $8 million for operation and maintenance. Without information to substantiate these expenditures, and an explanation of why the department is proposing to provide grants to the federal government, the Legislature cannot evaluate this proposal. Accordingly, we recommend the Legislature not approve this proposed $16.6 million appropriation. If additional information is submitted, the proposal may warrant legislative consideration. If grants to the federal government are determined to be warranted, we recommend the budget bill be amended to include the federal government among those entities eligible to receive grant funds under this appropriation.

HEALTH AND WELFARE AGENCY DATA CENTER (4130)

The Health and Welfare Agency Data Center (HWDC) provides computer processing and telecommunications services to those departments within the agency.

Acquisition of Leased Facility

We withhold recommendation on $5.5 million from the General Fund pending receipt of an economic analysis of the building's value to the state if the data center is relocated.

The budget proposes to exercise the purchase option on one of two buildings currently leased by the HWDC in Sacramento. The state cannot exercise the option on the smaller of the two buildings (75,000 square feet) before July 2000. The budget includes $5.5 million from the General Fund to exercise the option for the larger building (118,000 square feet) based on the purchase price as of July 1999. Of this amount, $4 million is a loan to be repaid from the HWDC Revolving Fund over the next six years.

The data center purchase was proposed in last year's budget, but was rejected by the Legislature. The Legislature did, however, adopt supplemental report language requiring the Department of Information Technology (DOIT) to develop a plan by January 1, 1999 to include a schedule and budget for siting and configuration of the state's data centers. In 1998, the state's other main data center (Stephen P. Teale Data Center—TDC) entered into a long-term lease agreement for a new facility that is currently under construction in Rancho Cordova. The facility is on a site that will allow for expansion if the two data centers eventually consolidate. The development of the plan by DOIT was a condition of the Joint Legislative Budget Committee's concurrence with the TDC lease proposal. (Under current law, the joint committee reviews all state leases with a five-year or longer firm term.) During the budget process, DOIT agreed to prepare the required plan, but in fall 1998 DOIT indicated that it would not be doing the study and that the issue of data center consolidation would be left for the new administration.

A major reason cited by the TDC in its request for a new facility was the need to move from its current location within the Sacramento flood plain. The HWDC building proposed for purchase is also located in the flood plain. Furthermore, a 1997 consultant's study on data center consolidation concluded that neither the prior TDC site nor the current HWDC site was preferred for *long-term* operations because of flood disaster exposure.

Due to decisions outside the control of HWDC, the Legislature is once again being asked to approve this acquisition without knowing the administration's position on data center consolidation. The budget proposal indicates that, regardless of whether the HWDC remains in the building, the purchase still makes sense because either (1) the state could use the entire building for general office space or (2) the state could sell the building for an amount greater than the purchase price. (A February 1997 appraisal concluded that the building is worth about $7 million.) If the data center moved from the building, however, renovation of the computer areas into office space would involve costs that were not accounted for in the appraisal. Moreover, the site has limited parking, which could become a barrier to more intensive state office use or to a potential buyer.

If the administration concludes—and the Legislature agrees—that the HWDC can remain within the flood plain for the long term, then the proposed purchase would make sense. If the data center were to relocate, and the administration can demonstrate that continued state use or sale of the facility would be an economic benefit to the state, then the purchase should go forward.

We therefore withhold recommendation on the $5.5 million pending receipt of an economic analysis of reusing the facility if the data center is relocated.

DEPARTMENT OF MENTAL HEALTH (4440)

The Department of Mental Health (DMH) operates four state hospitals—Atascadero, Metropolitan, Napa, and Patton. The department's capital outlay program totals $40.1 million, including: $9.5 million from the General Fund, $22.7 million from proposed lease-payment bonds, $4.8 million from currently authorized general obligation bonds, and $3.1 million in federal reimbursements. The program includes $536,000 for minor projects (less than $250,000 per project) and the following three major projects:

- Patton State Hosptial—EB Building fire and life safety improvements. Working drawings are scheduled to be completed in April and we recommend approval of $6.6 million proposed for construction.
- Metropolitan State Hospital—Replace "R and T" and administration buildings. As discussed in our Crosscutting Issue, "Managing the Capital Outlay Program" (earlier in this chapter), we recommend approval of construction funding for this project pending completion of preliminary plans that are consistent with the scope and cost approved by the Legislature.
- Sexually Violent Predator Facility. This proposal is discussed below.

Sexually Violent Predator Facility

We recommend deletion of $16 million in lease-payment bond funding for preliminary plans and working drawings because (1) only preliminary plans can be completed for this $300 million project in the budget year and (2) the preliminary plans should be funded from the General Fund. (Delete $16,025,000 from Item 4440-301-0660 [1] and add an Item 4440-301-0001 [4] for $7 million.)

The budget includes $16 million to prepare preliminary plans and working drawings for a new state facility to house sexually violent predators (SVPs). These individuals are currently housed at Atascadero State Hospital. By mid-2002, the total number of Judicially Committed/Penal Code patients (including SVPs) is projected to exceed the capacity of the four state hospitals where they are housed. Therefore, it was determined that a separate facility will be needed to house up to 1,500 SVPs. The current estimated cost of the facility is $297 million.

In the *1998-99 Budget Act*, the Legislature appropriated $5.5 million for activities related to locating and designing this facility. These activities are underway and include:

- Determination of the appropriate treatment program, licensing category, staffing ratio, and architectural programming for the facility.
- Search and evaluation of potential sites in order to select three alternative sites for the facility.
- For each of the alternatives, development of an environmental impact report, site master plan, conceptual facility design, and cost estimates.
- Conceptual construction phasing.

The Governor's budget indicates that the $16 million budget proposal for the SVP facility is a "placeholder" estimate, and it is our understanding that a revised proposal will be submitted in the spring. Assuming that the department is able to locate a suitable site for the facility, and make sufficient progress on the other work listed above, it would be appropriate to fund the preliminary plan phase of the project ($7 million) in 1999-00. Based on the size (current estimate is *one million* gross square feet of building space) and nature of this facility, we do not believe that funding will also be needed in 1999-00 for the working drawing phase.

In addition, the preliminary plans should not be funded with lease-payment bonds. Even if it is assumed that the construction phase of the project will also use this funding method, the bonds will probably not be sold for three to four years. In the interim, the state will pay for the preliminary plans by borrowing from the Pooled Money Investment Account (PMIA) and then will repay the borrowed amount plus interest to the PMIA when the lease-payment bonds are sold. The amount of funds repaid to the PMIA become part of the principal amount of the bonds, for which the state will then pay additional interest for up to 25 years. We think it makes little sense to incur these interest costs for project design activities and instead recommend a direct General Fund appropriation of $7 million.

Finally, as discussed in our Crosscutting Issue, “Pay-As-You-Go for Capital Outlay,” we recommend that the Legislature at least maintain the $195 million level of direct General Fund spending proposed by the Governor and that any General Fund savings from legislatively approved reductions to specific projects be redirected to reduce lease-payment authorizations. We recommend that the $7 million for the preliminary plans be the highest priority for these redirected funds.

DEPARTMENT OF CORRECTIONS
(5240)

The California Department of Corrections (CDC) operates 33 prisons and 38 fire and conservation camps throughout the state. The prison system also includes 14 community correctional facilities operated by private firms, cities, or counties under contract with the CDC and two county jails leased and operated by the department. As of December 31, 1998, the system housed 159,000 inmates.

The budget includes $154 million for capital improvements at existing state institutions. This total consists of $29.7 million from the General Fund and $124.3 million in lease-payment bonds. The estimated future cost to complete these projects is $82.8 million. The budget includes the following proposals:

- $62.4 million to construct ten administrative segregation housing units—one each at ten institutions. These projects were previously funded from the General Fund in Chapter 502, Statutes of 1998 (SB 491, Vasconcellos and Brulte). The budget proposes to change the fund source to lease-payment bonds.
- $49.8 million for 26 projects related to health care and mental health treatment programs.
- $34.8 million for 23 projects to renovate or replace buildings and infrastructure.
- $5.5 million for minor capital outlay projects (costs of less than $250,000 per project).
- $1.4 million for planning and studies.

Of the 51 major capital outlay projects in the budget, 40 were previously funded for preliminary plans and/or working drawings. The budget proposes to fund the working drawings and/or construction phases for these 40 projects. The 11 other major projects are proposed for initial funding. In our Crosscutting Issue, "Managing the Capital Outlay Program" (earlier in this chapter), we recommend:

- Approval of the 40 previously approved projects pending completion of preliminary plans that are consistent with the cost and scope recognized by the Legislature in the *Supplemental Report of the 1998-99 Budget Act*.
- Defer six new projects and only partially fund three new projects due to delays in implementing the currently funded capital outlay program.
- Approve two new projects as proposed in the budget.

In addition to the general workload problem discussed in the Crosscutting Issue, we have identified another issue with the project discussed below.

California Medical Facility— Cell Window Modifications

We recommend deletion of $174,000 for preliminary plans and working drawings because the construction of a lethal electrified fence at the institution should alleviate security concerns posed by the existing windows. Estimated future savings is $2.8 million. (Delete $174,000 under Item 5240-301-0001 [14]).

The budget proposes $174,000 for design costs related to replacing windows at the California Medical Facility in Vacaville. The project would replace 2,400 of the existing 39-inch by 57-inch windows with five-inch slit windows that are typical of those found in the state's new prisons. The estimated future construction cost for the project is $2.8 million. The department indicates that the slit windows are needed because the large windows are a potential security breach. The department cites two 1997 incidents in which inmates escaped from their cells by exiting through these windows. (One of these inmates escaped from the institution.)

We note, however, that the department is also requesting $2.3 million in the budget for the construction phase for a lethal electrified fence at the institution. Completion of the fence in August 2000 should essentially eliminate any risk of escape from the institution. We therefore recommend deletion of the $174,000 to modify all of the existing windows.

DEPARTMENT OF THE YOUTH AUTHORITY (5460)

The Department of the Youth Authority operates 11 institutions (including two reception centers) and six conservation camps throughout the state. The budget includes $34.2 million for the department's capital outlay program in 1999-00. This amount includes $22.5 million from the General Fund and $11.7 million in lease-payment bonds. The estimated future cost to complete these projects is $10 million. The budget includes the following proposals.

- $13.3 million for 11 projects for various security-related improvements, including new personal alarm systems at nine institutions.
- $8.5 million for five projects for new or expanded visiting facilities.
- $3.9 million for three projects to replace infrastructure and one project to renovate a 40-year-old building used as a lock-up.
- $3.3 million to renovate the infirmaries at two institutions.
- $1.4 million for two projects to build special education facilities.
- $3.5 million for minor capital outlay projects (less than $250,000 per project).
- $0.3 million for planning and studies.

Of the 24 major capital outlay projects in the budget, 18 were previously funded for preliminary plans and working drawings, and the budget proposes to fund the construction phase. The six other major projects are proposed for initial funding. In our Crosscutting Issue, "Managing the Capital Outlay Program" (earlier in this chapter), we recommend the Legislature:

- Approve the 18 previously approved projects pending receipt of preliminary plans that are consistent with the cost and scope recognized by the Legislature in the *Supplemental Report of the 1998-99 Budget Act*.

- Defer three new projects and only partially fund two new projects due to delays in implementing the currently funded capital outlay program.
- Approve one new project as proposed in the budget.

In addition to the workload problem discussed in the Crosscutting Issue, we have identified other issues with two of the new projects, as discussed below.

Heman G. Stark Youth Correctional Facility—Modify Ward Room Windows

We recommend deletion of $377,000 for preliminary plans and working drawings to modify the windows in ward rooms because the department should instead replace the existing windows in kind. Estimated future savings is $3.1 million. (Delete $377,000 under Item 5460-301-0001 [16].)

The budget proposes $377,000 to prepare preliminary plans and working drawings to replace 1,200 windows in the cells at the Heman G. Stark Youth Correctional Facility. The project would replace the existing 36-inch by 36-inch windows with narrower, 6-inch by 36-inch high prison-type windows and fill in the remaining space with concrete. The estimated future construction cost is $3.1 million.

The department indicates that the existing 39-year-old windows and screen frames have suffered from weather and ward abuse. Wards have removed aluminum flashing from the window frames to make weapons. This results both in assaults on staff and other wards and maintenance costs to constantly replace the flashing.

While the problems with the existing windows and screens are apparent, we believe that the department, instead of undertaking this expensive ($2,900 per window) proposal to modify the window opening, should instead use the less costly alternative of replacing the windows in kind. This alternative would also provide new windows and frames and thus would address the problem of wards using the deteriorated materials for weapons. We therefore recommend deletion of the budget proposal and recommend that the department submit a new proposal for this alternative for legislative consideration. Delete $377,000 under Item 5460-301-0001 (16).

El Paso de Robles Youth Correctional Facility— Special Education Classrooms

We withhold recommendation on $377,000 for preliminary plans and working drawings because the scope and cost of the project are to be revised in the spring.

The budget proposes $377,000 for preliminary plans and working drawings for a project to build special education classrooms and ancillary support space at the El Paso de Robles Youth Correctional Facility. The estimated future construction cost is $2.9 million. The department indicates that the project scope and cost will be revised in the spring. We therefore withhold recommendation on the project pending receipt and review of the revised project and cost estimate.

UNIVERSITY OF CALIFORNIA (6440)

The budget proposes $210 million from general obligation bonds to fund 22 projects under the University of California's (UC) 1999-00 capital outlay program. This amount is all from the Higher Education Capital Outlay Bond Fund of 1998. The estimated future cost to complete these projects is about $153 million.

As discussed in our companion document, *1999-00 Budget: Perspectives and Issues* (Part V), we recommend that UC and the other segments of public higher education in California implement year-round operation. Under year-round operations the segments should be able to accommodate up to a third more students in any one-year period. In turn, this will virtually eliminate the need for new instructional space at the UC until well after 2008.

For the 22 projects in the Governor's budget, we recommend approval of $159.8 million for 19 projects. A discussion and our recommendations on the other three projects follows. In the Crosscutting Issues section of this chapter we recommend that the university (as well as the other segments of higher education) submit new projects addressing other priorities for legislative consideration for funding in the budget year using any funds "freed up" by legislative action adopting any of our recommendations.

Reduce Scope of UC Davis Life Sciences Alteration

We recommend that the Legislature reduce the $466,000 requested for preliminary plans and working drawings to alter life sciences buildings by $86,000 because part of the proposed alterations are for a nonstate-funded research activity and space on campus is already being altered for this purpose. (Reduce Item 6440-301-0574 [4] by $86,000—future savings of $782,000.)

The budget includes $466,000 for preliminary plans and working drawings to renovate 49,000 assignable square feet (asf) of space in Robbins and Hutchison Halls. The estimated future cost for this project is $4.2 million. About 9,100 asf of this space, however, is proposed to be altered for the

Center for Engineering Plants for Resistance Against Pathogens, a research activity funded by the National Science Foundation (NSF) and currently housed in lease space off-campus. The NSF funds these off-campus costs and the state should not need to pay to alter space for this purpose. In view of the nonstate-funded activity, we recommend reducing the scope of this proposal by deleting the work associated with the center. Accordingly, we recommend a reduction of $86,000 for this project. This results in a future savings of $782,000 in the construction phase of the project.

Additional Space Not Needed

We recommend that the Legislature delete a total of $48 million for two projects—one on the Irvine campus and one on the Santa Barbara campus—because (1) there is a sufficient amount of research space on each campus and (2) the instructional space is not needed either at the current time or under year-round operation. (Delete Item 6440-301-0574 [9] for $1,226,000—future savings of $30.2 million and Item 6440-302-0574 [10] for $46,688,000—future savings of $3.8 million.)

The budget includes a total of $47,914,000 for construction of a new natural science building on the Irvine campus ($46,688,000) and design of a new engineering building on the Santa Barbara campus ($1,226,000). A summary of the proposals and the future estimated cost is shown in Figure 1. It shows that most of the proposed new space would be for research.

Figure 1

**University of California—
Proposed Projects at Irvine and Santa Barbara**

(Dollars in Thousands)

	Assignable Square Feet (Percent of Total)				
Project	**Research**	**Instruction**	**Offices And Other**	**Budget Amount**	**Future Cost**
Irvine, Natural Sciences, Unit 1	59,000 (82%)	2,900 (4%)	9,700 (14%)	$46,688	$3,750
Santa Barbara, Engineering-Science Building	36,570 (70%)	9,200 (18%)	6,230 (12%)	1,226	30,171
Totals	**95,570 (77%)**	**12,100 (10%)**	**15,930 (13%)**	**$47,914**	**$33,921**

As discussed below, our analysis of the UC space information indicates that neither the research space nor the instructional space proposed in these projects are needed.

Existing Amount of Research Space Is Adequate. Our analysis of the space information provided by UC indicates that these two campuses currently have a sufficient amount of research space. The UC Irvine currently has 748,000 asf of research space compared to 586,000 asf "needed" based on actual 1998-99 enrollment and faculty, a difference of 162,000 asf. The UC Santa Barbara has 781,000 asf compared to 668,000 asf "needed," a difference of 113,000 asf. Based on projected enrollments, this amount of space at each campus should be sufficient to accommodate students and faculty well into the next decade. The UC should consider altering existing space if necessary to address changes in research activities. Based on the amount of existing research space at these campuses, however, the proposed new buildings are not needed.

More Instructional Space Not Needed. Based on UC space information, the Irvine and Santa Barbara campuses have sufficient instructional space to accommodate an additional 1,100 full-time equivalent (FTE) students and 1,900 FTE students, respectively, above current enrollments.

Consequently, in view of the amount of research and instruction space on these campuses, we recommend the Legislature delete $48 million for the proposed new buildings. As discussed in the Crosscutting Issues section of this chapter, these funds could be used for other priority projects in higher education. (Delete Item 6440-301-0574 [9], $1,226,000—future savings of $30.2 million and Item 6440-302-0574 [10], $46,688,000—future savings of $3.8 million.)

Seismic Replacement Building Is Unnecessary

We recommend the Legislature delete the $2 million requested for the design of "Seismic Replacement Building 1" at the Berkeley campus because it would be less costly to repair existing buildings than to construct the proposed building. (Delete Item 6440-302-0574 [1] for $2,025,000—future savings of $15.5 million.)

The budget proposes $2 million for preliminary plans and working drawings for a 44,000 asf "Seismic Replacement Building 1" at the Berkeley campus. The estimated total project cost for this building is $17.5 million—nearly $400 per asf. The UC justified this building on the basis that it is needed to replace two buildings—2223 Fulton and Warren Hall tower—because each is considered a significant seismic risk to life (Level V on the Department of General Services' [DGS'] rating scale). The

UC has not, however, completed the evaluation of all of its buildings using the DGS' seismic risk assessment methodology. Thus, it is not clear that the Fulton and Warren buildings are the most critically deficient on the campus, or if there are others that should be accorded a higher priority for funding. The campus also indicates that it does not intend to vacate the Fulton and Warren buildings. Instead, the "replacement" building will be used to temporarily house activities moved from other campus buildings that are to be seismically strengthened over the next 20 to 30 years. Thus, UC appears to justify this building for two reasons: (1) a replacement for two seismically deficient buildings and (2) to provide space to temporarily locate various activities displaced by renovation work on campus buildings. As discussed below, the university has not substantiated the need for this new building for either purpose.

Less Expensive to Strengthen Fulton and Warren. It would be less expensive to seismically strengthen the Fulton and Warren buildings than to construct the replacement building. (Indeed, since the campus indicates it does not intend to demolish the Fulton and Warren buildings and they will continue to be occupied, the buildings will need to be seismically strengthened *even if* the replacement building is constructed.)

The estimated total project cost of $17.5 million for the replacement building includes $15 million for construction. According to UC, the construction costs to strengthen the Fulton and Warren buildings are $6.3 million and $6.2 million respectively, a total of $12.5 million, or $2.5 million less than the replacement building. Furthermore, it appears that these renovation costs are overstated. Specifically, our review of the cost estimates to alter the Fulton and Warren buildings leads us to believe the projects include improvements that are not necessary for structural strengthening. Figure 2 (see next page) indicates representative items taken from the cost estimates for these buildings that are beyond the scope of seismic retrofit.

The strengthening of the buildings could be accomplished without the construction of a replacement building. Based on our review, construction costs for structural retrofitting of the Fulton and Warren buildings could be undertaken for around $7.5 million—one-half the construction cost of the replacement building.

Building Not Justified as Long-Term Replacement Space. The Berkeley campus has undertaken a review of campus buildings to evaluate the vulnerability of the buildings in the event of an earthquake. The campus has concluded that 95 of the campus buildings, containing 2.25 million asf, need to be seismically strengthened. The UC plans to make these improvements over a 20- to 30-year period, at an estimated cost of at least

$1.2 billion. Apparently, then, the replacement building will be needed for the next 20 to 30 years.

Figure 2

Nonseismic Improvements to Fulton and Warren Buildings

(In Thousands)

Item	Fulton Cost	Warren Cost
Finish casework	$156	$20
Bathroom and miscellaneous specialties	127	131
Air conditioning	596	535
Replace fire sprinkler system	127	352
Electrical	405	326
Design contingency	1,054	1,035
Totals	**$2,465**	**$2,399**

The UC has provided no justification for constructing this building for temporary use. The campus could, as is done in most instances, make the building improvements without relocating the occupants. The campus could also, if necessary, relocate occupants to existing campus space during the time the alterations are being made. (The Berkeley campus has a total of eight million asf of building space.) In view of these less costly alternatives, we believe the building is not justified.

For these reasons, we recommend that the Legislature delete the $2 million requested for this project. This results in a future savings of $17.5 million. (Delete Item 6440-302-0574 [1], $2,025,000.)

California State University (6610)

The budget proposes $209 million from general obligation bonds to fund 24 projects under the California State University's (CSU) 1999-00 capital outlay program. This amount is all from the Higher Education Capital Outlay Bond Fund of 1998. The estimated future cost to complete these projects is about $113 million.

As discussed in our companion document, *The 1999-00 Budget: Perspectives and Issues* (Part V), we recommend that CSU and the other segments of public higher education in California implement year-round operations. Under year-round operations the segments should be able to accommodate a third more students in any one-year period. In turn, this will virtually eliminate the need for new instructional space at the CSU for well beyond the next decade.

For the 24 projects in the Governor's budget we recommend approval of 14 projects and $123.7 million. As discussed below, we have raised issue with the $244 million cost and justification for six telecommunications infrastructure projects, and the need for a new library at San Jose State University costing over $100 million. In addition, for ten of the projects we have recommended reductions in the amounts requested because of improper escalation of construction costs. In the Crosscutting Issues section of this chapter we recommend that the CSU (as well as the other segments of higher education) submit new projects addressing other priorities for legislative consideration for funding in the budget year using any funds "freed up" by legislative action adopting our recommendations.

BENEFITS OF INVESTMENT IN TELECOMMUNICATIONS INFRASTRUCTURE ARE NOT CLEAR

We withhold recommendation on $1.8 million requested for six telecommunications infrastructure projects (listed below) because insufficient information has been provided to identify the work to be done and the benefits that may be realized from investment in this technology. These six projects have a future cost of $50 million and are part of CSU's $244 million Integrated Technology Strategy-Technology Infrastructure Initiative.

The Governor's budget proposes spending $1.8 million in capital outlay funds to develop working drawings for technology infrastructure projects on six CSU campuses (See Figure 1). These initial capital outlay expenditures are part of a much larger technology program called the Integrated Technology Strategy-Technology Infrastructure Initiative (ITS-TII) which CSU described in its report, *The Integrated Technology Initiative: Technology Infrastructure Initiative, Status and Directions,* released in October 1998. According to CSU, the ITS-TII will cost $243.6 million to build and $83.4 million above current telecommunications support costs *annually* to maintain.

Figure 1

California State University
Proposed Telecommunications Infrastructure Projects

(In Thousands)

Item 6610-301-0574	Campus	Budget-Year Request	Future Cost
(2)	Dominguez Hills	$256	$7,494
(4)	Long Beach	422	13,093
(5)	Los Angeles	350	10,815
(7)	Northridge	220	5,634
(8)	Pomona	231	6,500
(9)	San Bernardino	278	6,894
Totals		**$1,757**	**$50,430**

Insufficient Information About Specific Campus Needs and Proposed Work

The budget proposals are to fund telecommunications infrastructure improvements at six campuses on the basis of a uniform $6.24 per assignable square foot (asf) of state-supported space on the campus. The CSU indicates this amount was determined to be appropriate for these projects because it was the amount spent to complete a 1993 telecommunications infrastructure project at CSU Fullerton which CSU believes provided a satisfactory level of infrastructure. This approach, however, does not take into account the fact that several campuses have already constructed a large portion of telecommunications infrastructure and should not need this funding level, while others campuses may need more because of different site conditions. In addition, the budget proposal appears premature because in fall 1999 the campuses will be updating their plans for information technology access, training, and support within the standards and framework of the segment's information technology master plan, the ITS-TII.

Specific Campus Needs Not Identified. The CSU indicates that some campuses have already achieved a certain level of telecommunications capability. As examples, Chico, Monterey, Pomona, Sacramento, and San Francisco all provide students with access to a computer laboratory 24 hours per day for a good part of the academic year. Long Beach has connected every full-time faculty office to its network. Northridge and Pomona report that all buildings are now connected to campus data, voice, and video networks. San Francisco expanded the capacity of its existing network to make more databases accessible to students and faculty both on-site and remotely. San Luis Obispo is expected to have all classrooms equipped with analog and digital data connections this year. The CSU has indicated that some campuses have achieved or are close to achieving the necessary capability in one or more of the ITS-TII components. There is clearly significant variability of need among the campuses and to fund all at the same unit cost per asf is simply not the best use of limited state funds. Funding proposals should be based on specific information technology needs at each campus, and site-specific plans and cost estimates for the infrastructure necessary to support them.

Campuses to Update Their IT Plans. The CSU's primary information technology plan was the "Baseline Hardware/Software Access, Training and Support" (BATS) initiative begun in 1996. Based on the BATS plan, campuses developed their individual plans for information technology access, training, and support. The CSU indicates BATS has now been superceded by the ITS-TII plan and that beginning in the fall of 1999 the campuses will be asked to update their plans to conform to the standards and framework of the ITS-TII. Since the specific campus needs for telecommunications infrastructure will be determined by these updated campus plans, it is unclear why funding for telecommunications infrastructure should be provided prior to the campus plans being updated.

CSU Has Not Provided Information Previously Required by Legislature

Four of the six projects in the budget were previously funded for preliminary plans (Long Beach, Los Angeles, Northridge, and Pomona) in the *1996-97 Budget Act*. In the *Supplemental Report of the 1996-97 Budget Act,* the Legislature directed that the preliminary plans contain, among other things:

- Necessary infrastructure to provide connectivity within campus buildings in the following priority order (1) main library/information center, (2) core academic buildings, and (3) faculty offices and other support services, with separately identified work items and costs.
- Detailed site plan showing existing telecommunication infrastructure and how the new system will interface with it.
- Room-by-room display for all state-supported buildings showing current and proposed connectivity.
- Specification of how the new capability will improve the academic activities on each campus and provide an assessment of the benefits.

The information submitted by CSU does not respond to this supplemental report language.

Legislature Needs Detailed Description of ITS-TII's Benefits

In order to make an informed decision about this high-cost investment, it is crucial that the Legislature understand all the costs and benefits associated with the project. A key element missing from CSU's ITS-TII proposal is a detailed description of the benefits which would result from ITS-TII's implementation. In particular, specific details regarding improvements in instructional efficiency are absent from the plan. The CSU's November 1998 report, *ITS-TII: The Network Installation Financing Program,* indicates: "The real issue is not quality (the learning outcomes will be roughly similar), but productivity in the learning process. In general, learning outcomes tend to be similar, with or without the use of technology. The real value of the infrastructure appears to be in terms of institutional efficiencies and personal productivity."

We believe CSU needs to provide specific, quantifiable productivity improvements for legislative review before funding these proposals. Lacking this information and without a CSU commitment to quantifiable improvements in efficiency and a timetable for achieving them, the Legislature cannot evaluate the benefits of this capital investment compared to other competing priorities.

ITS-TII Proposal Lacks Quantifiable Performance Measures

The ITS-TII proposal identifies general areas in which benefits would occur, such as "responsiveness in meeting campus and system-wide academic and administrative requirements and priorities" and "contributions to personal productivity." While these are reasonable benefits to expect, the plan falls short of identifying specifically how the proposed infrastructure will allow this to occur or how benefits will be measured. As discussed earlier, CSU indicates that learning outcomes are about the same at institutions with and without telecommunications infrastructure, but productivity improvements can be substantial with telecommunications infrastructure. Since productivity improvements are readily quantified, CSU should enunciate its improvement goals and a timetable for achieving them. Examples of quantifiable performance measures include faculty/student ratios, time-to-degree, and space-efficiency in serving students. Without this level of detail, it is impossible to estimate the proposed project's benefits or, in the event ITS-TII is funded, to measure its progress toward desired outcomes.

Recommendation

In view of the lack of information on (1) the specific projects in the budget and (2) the benefits that may be realized from the ultimate investment of $244 million for capital infrastructure and $83 million in additional operational costs annually, we cannot recommend approval at this time. The CSU should develop the information necessary for the Legislature to evaluate this extensive plan prior to budget hearings. Consequently, we withhold recommendation on the budget proposal pending receipt of the information.

Los Angeles: Renovate Physical Sciences Building

We recommend deletion of $696,000 for preliminary plans to renovate the Physical Sciences Building because insufficient information has been submitted about the specific improvements to be constructed, or the associated cost. (Delete Item 6610-301-0574 [6] for $696,000, with a future saving of $32.1 million.)

The budget requests $696,000 for preliminary plans to renovate the Physical Sciences Building at CSU Los Angeles. The estimated total project cost is almost $33 million. The CSU has provided limited information in support of the project and has not established that there are critical fire and life safety or seismic corrections that must be made.

The project documentation briefly describes proposed mechanical and electrical improvements in a general way but provides no specific information to document deficiencies. It also indicates that the building needs seismic strengthening but no documentation has been submitted to indicate it represents a significant risk to life (Level V or higher as determined by the Department of General Services' risk evaluation methodology and ranking system). Furthermore, no detailed cost estimate has been submitted to substantiate the cost of the project. A summary estimate, however, indicates the construction contract cost to be $24 million and the total project cost to be $33 million. The $9 million of nonconstruction costs also needs to be better substantiated.

Given these serious shortcomings in the request, we recommend the Legislature delete $696,000 for preliminary plans for this project.

Sonoma: Remodel Salazar Building

We recommend deletion of $371,000 for preliminary plans to renovate the Salazar building because the project cost is too high and CSU should reevaluate the proposed use of the building. (Delete Item 6610-301-0574 [12] for $371,000.)

The budget requests $371,000 for preliminary plans to renovate what is now the Salazar Library, which is being replaced by a new library currently under construction. This project will renovate the Salazar building to provide instructional space and offices for student services and administration. The estimated total project cost is $15.3 million. The proposed use of the space in the renovated building is shown in Figure 2.

Figure 2

Proposed Use of Renovated Salazar Building

Use	Assignable Square Feet	Gross Square Feet
Instruction	24,000	37,000
Student Services and Administration Offices	35,000	55,000
Cotati Rohnert Park High School	15,000	23,000

Clearly, there is a need to use this 115,000 gross square feet (gsf) building after the library is relocated. However, we have several concerns with the reuse plan proposed in the budget. These concerns include the high cost of the project, the amount of new instructional space, and the plan to allocate 23,000 gsf in the building for the Cotati Rohnert Park High School's use as a magnet technical high school.

Alterations Cost. The CSU indicates that nonstate funds will be used to renovate the portion of the building to be occupied by the high school. Thus, this $15.3 million proposal to renovate the university-occupied space amounts to $207 per asf or $133 per gsf—a very high unit cost. The CSU's current cost guidelines for construction of *new* classrooms is $167 per gsf and for new administrative offices is $176 per gsf. Thus, the proposed renovation cost is about 75 percent of the cost of a new building. No detailed cost estimate has been provided to substantiate this high cost, and the Legislature needs better cost information before funding this project.

Additional Instruction Space Not Needed. The renovation work to provide space for student services and administrative offices appears to be warranted. These activities are currently located in temporary buildings first occupied in 1969. We have concerns, however, with the renovation work proposed to provide instructional capacity for an additional 1,198 full-time equivalent (FTE) students.

In the *1999-00 Perspectives and Issues* (Part V), we are recommending that all three higher education segments implement year-round operations. Under year-round operations, the campus would be able to accommodate one-third more students during the year in *existing* facilities, therefore, the additional instructional space provided by this project would not be needed. (Even without year-round operations, this project would give the campus 18 percent more capacity than the campus would need for the foreseeable future.)

High School Use of Building. Before dedicating space for use as a magnet high school, the university should evaluate current and future needs for university activities to determine if they could be accommodated in this space. Although interaction between the university and high schools is encouraged, there needs to be assurance that additional space will not be needed in the future for university activities that could have used space in the Salazar building. Since the Cotati Rohnert Park High School is adjacent to the university campus, CSU should also advise the Legislature why the magnet high school cannot be located at the high school.

In view of the above issues, we recommend that the Legislature delete the funding for this project. The CSU should reexamine potential uses for this building that address other university needs such as additional student service activities and administrative offices, and resubmit a modified project for legislative consideration.

BAKERSFIELD: CLASSROOM/OFFICE BUILDING III

We recommend deletion of $8.7 million for preliminary plans, working drawings, and construction of a classroom and office building because it will not be needed under year-round operation. (Delete Item 6610-302-0574 [1] for $8,702,000, with a future saving of $401,000.)

The budget requests $8.7 million for preliminary plans, working drawings, and construction of this 37,590 gsf classroom/office building. The new building would increase the instructional capacity of the Bakersfield campus by 967 FTE. The campus' current capacity (4,552 FTE) is only slightly above its current enrollment (4,335 FTE). Given projected enrollment, this project would be justified under traditional operations at the campus. In the *1999-00 Perspectives and Issues* (Part V), however, we are recommending that all of the higher education segments move to year-round operations. Under year-round operation, the campus would be able to accommodate one-third more students each calendar year. This increased instructional productivity would be accomplished without any increase in instructional space or the number of students on campus at any time.

Thus, under year-round operation, this project would not be needed. Consequently, consistent with our recommendation to implement year-round operations throughout higher education, we recommend that the Legislature delete the $8.7 million requested for this project.

San Jose: Joint Library

We recommend deletion of this $70 million request for working drawings and construction of a new library on the San Jose campus because the campus has a sufficient amount of library space and because of questions that need to be addressed concerning ownership and operations of a library that will be owned as tenants-in-common with the City of San Jose. (Delete Item 6610-302-0574 [10] for $69,638,000, with a future saving of $33 million.)

The budget proposes $70 million for working drawings and construction of a library to be jointly developed, owned, and operated by the state and the Redevelopment Agency of the City of San Jose. The city and San Jose State University have signed a memorandum of understanding (MOU) for this project that, among other things, provides that the state will budget up to $101 million for the project and the city will contribute $70 million. According to CSU, the commitment of $101 million consists of: the $70 million in the budget; $16 million in additional higher education bond funds, of which $8 million is for equipment and $8 million is for an undesignated purpose; $5 million from the campus support budget for an undesignated purpose; and $10 million in donor funds. In addition, the CSU estimates that another $11.5 million will be required to alter one of the existing campus libraries upon completion of the new library. Thus, the estimated total state cost for this project is $102.5 million.

The library is proposed to be constructed on the campus on state-owned land that is now occupied by three buildings, Walquist North, South, and Central. These buildings, totaling 317,000 gsf, will need to be demolished in order to construct the new library. The MOU provides that the state will convey the land to the city and state as tenants-in-common and that ownership of the library building will likewise rest in the parties as tenants-in-common. The building is proposed to have 465,000 gsf (325,000 asf), of which 227,000 asf will be allocated to the university and 98,000 asf to the city.

New Library Not Needed and Is Too Costly

Existing Amount of Library Space Is Sufficient. The current campus library function at San Jose is located in two buildings, Clark Library and Walquist North Library (which will be demolished if the joint library is constructed). Wahlquist North was constructed in 1961 and renovated in 1993 at a cost of $3.6 million. Construction of Clark Library was completed in 1982. These two libraries have a combined total of 199,000 asf. The combined libraries were designed to accommodate an enrollment of 20,200 FTE, which compares to a current enrollment of less than 20,000 FTE. Consequently, the existing amount of library space should be sufficient for the campus enrollment and the campus has not substantiated the need for any additional library space.

Proposed Additional Space Is Costly. The net result of the state's $91 million investment (not including renovation of the existing library) in the new library would be an increase of 28,000 asf—a cost of $3,250 per asf of additional space. Using the CSU cost guidelines for library construction, a 28,000 asf addition would cost $6.2 million. Furthermore, in addition to spending $91 million for this purpose, the state would lose (1) about 96,000 gsf of space in Walquist South and Central because of demolition and (2) clear title to the land underlying the joint library site.

Joint Library Project Poses Operational and Ownership Questions

There are important operational and ownership questions raised by this proposal that CSU and the campus have not addressed. These are:

- The state's authority to spend state bond funds to construct a building in which the state will have only a tenant-in-common interest needs to be determined.
- The proposed library will utilize the campus' utility distribution systems but the MOU commits the city to pay only the cost of utilities delivered, without contribution to the development or maintenance cost of the campus' utilities system.
- Management responsibility for the planning, design, and construction process for the library is assigned by the MOU to the city, raising a question about the state's ability to monitor the expenditure of state funds and exert appropriate oversight authority.
- The Legislature needs to better understand the mechanism that could or would be used to unwind the tenant-in-common relationship if in the future the city and state should disagree on operational or cost matters.

According to CSU, there are few joint library projects in the United States and almost all involve one public entity contracting with another to operate the library. This is a much less problematic arrangement because the library building and land are owned by one entity and the other entity simply contracts for space and operating personnel. Such an arrangement can easily be disentangled if cost and operational disagreements arise. This proposal, on the other hand, is significantly more complex because of the tenants-in-common relationship that would be established between the city and state. We are aware of no such joint library arrangements in the U.S., and we believe the Legislature should consider the risks this may pose in the event of future disagreements between the parties.

Summary

The CSU has not justified the need to construct a new library on the San Jose campus. Moreover, the proposal in the budget is both too costly and raises questions over ownership and operation of a library owned as tenants-in-common with the city. Consequently, we recommend that the Legislature delete the $70 million request for a new library on the San Jose campus. (Delete Item 6610-302-0574 [10], for $69,638,000, with a future savings of $32.5 million.)

CONSTRUCTION COST ESCALATION IS INCORRECTLY APPLIED

We recommend reductions totaling $4.2 million in 12 project budgets because excessive construction cost escalation has been applied in calculating the amount of the capital outlay request.

In determining the amount to be requested to fund construction of a project, the segments and departments first estimate the cost of construction based on costs at the start of the budget year. For 12 projects, however, CSU has further escalated the amount requested to a date at the mid-point of construction, which ranges from an additional 6 to 18 months. This is not justified.

The price to the state is determined at the bid opening. If the winning bidder anticipates there will be increases in the price of labor and materials during the course of construction, this cost is included in the bid price. These anticipated increases are already included in the contractor's bid price which was first estimated by CSU. Accordingly, we recommend the reductions shown in Figure 3 (see next page).

Figure 3

California State University—Recommended Reductions to Correct Cost Escalation Errors

(In Thousands)

Item 6610-302-0574	Campus	Project	Recommended Reductions
(2)	Chico	Education Classroom/Faculty Office Addition	$521
(3)	Fullerton	Physical Education Renovation/Addition	1,031
(4)	Fullerton	Seismic Upgrade, Humanities	32
(5)	Long Beach	Fire/Life Safety Infrastructure	85
(6)	Northridge	Corporation Yard	113
(7)	Pomona	Sewer Infrastructure	92
(8)	San Francisco	Renovate Hensill Hall (Seismic)	616
(9)	San Francisco	Seismic Upgrade, Psychology Building	284
(11)	San Luis Obispo	Engineering and Architecture Renovation and Replacement Phase I	505
(12)	Stanislaus	Educational Services Building	942
		Total	**$4,221**

We have previously recommended deletion of the following projects. Should they be approved, we recommend reductions as follows to correct for incorrect cost escalations:

- (1) Bakersfield: Classroom/Office Building III—$384,000
- (10) San Jose: Joint Library—$5,197,000

California Community Colleges (6870)

The proposed 1999-00 capital outlay program for the California Community Colleges (CCCs) totals $153.1 million from the general obligation bonds approved by the voters in November 1998. This amount includes $117.3 million for 44 projects that have previously been funded by the Legislature and $35.8 million for 49 projects that are proposed to the Legislature for the first time. The estimated future cost to complete all projects in the budget is $307 million. In our Crosscutting Issue "Managing the Capital Outlay Program" (earlier in this chapter), we recommend approval of proposed construction funding for 26 community college projects contingent on receipt of preliminary plans that are consistent with the scope and cost previously approved by the Legislature. In the discussion below, we raise issues with 14 projects and withhold recommendation on two projects. We raise no issues with the remaining 51 projects proposed for 1999-00.

Five-Year Capital Outlay Plan

The community colleges' five-year capital outlay plan shows improvement over previous plans, but further refinements are needed to develop a plan that better reflects statewide needs and priorities for the community college system.

Background. In our *Analysis of the 1998-99 Budget Bill* (page H-90), we indicated that the community colleges' statewide five-year capital outlay plan (which totaled $3.6 billion) was essentially a compilation of the five-year plans submitted by the districts and did not evaluate or establish funding priorities for the system. Specifically it:

- Included projects to build additional space for lecture classrooms or teaching laboratories at districts that have considerable excess capacity. (Of the 71 community college districts, 66 currently have excess classroom capacity and 48 have excess laboratory capacity.)

- Listed multiple projects for a district that require funding simultaneously without considering the ability of districts to successfully manage several major building projects in this manner.

We indicated that if the Chancellor's Office evaluated the district's five-year plans more critically—including the deficiencies noted above—the five-year needs of the system would likely be considerably less than the $3.6 billion total. The Chancellor's Office committed to undertake this task in preparing the plan to be submitted in the fall 1998.

Current Five-Year Plan. The most recent five-year plan prepared by the Chancellor's Office—covering the period 1999-00 through 2003-04—totals $3 billion, or 20 percent less than the prior year's plan. The new five-year plan lists projects by district in alphabetical order and also in the priority order submitted by each district. The Chancellor's Office still has not taken into account whether some of the requested facilities are actually needed based on the capacity of existing district facilities or on other factors. The reduction in total cost of the new five-year plan is because the Chancellor's Office generally limited the number of *new* projects to two per year for each district. Thus, projects proposed in some district's five-year plans are deferred to beyond the five-year period in the statewide plan.

Better Plan Needed. Though the current five-year plan shows some improvement over prior plans, the Legislature still lacks a plan that shows *systemwide* needs and priorities. We also note that, as discussed in our companion document, *The 1999-00 Budget: Perspectives and Issues* (Part V), implementation of year-round operation at the community colleges will almost eliminate the need to build additional instructional capacity for the foreseeable future. The system, however, does have 18 million square feet of buildings that were built or renovated before 1970. Making improvements to many of these older facilities, in addition to addressing infrastructure and seismic safety deficiencies, will entail significant costs. While the new five-year plan shows improvement, the Chancellor's Office needs to make further improvements in its planning process in order to provide the Legislature with a better picture of its future funding requirements.

1999-00 Capital Outlay Program

Figure 1 shows the community college projects proposed in the budget year by type of project. Including the future costs, the total capital outlay program in the budget will cost $460 million. Over one-half of the program costs are for 12 library projects and 25 new child development centers. The category of mitigating code deficiencies includes five projects for renovation and three projects for replacement of buildings identified as seismic hazards. The replacement projects are at San Bernardino Valley College and are funded with 25 percent state funds and 75 percent federal funds (from the Federal Emergency Management Agency's hazard mitigation program).

Figure 1

California Community Colleges
1999-00 Capital Outlay Program

(Dollars in Thousands)

Category	Number of Projects	Budget Bill Amount	Estimated Future Cost	Total
Mitigate code deficiencies	9	$10,718	$14,945	$25,663
Equipment	18	26,836	—	26,836
Utilities/infrastructure	6	2,218	12,178	14,396
Add instructional facilities	6	14,230	40,823	55,053
Upgrade instructional facilities	5	6,784	3,143	9,927
Libraries	12	17,805	152,068	169,873
Two new off-campus centers	6	2,785	35,476	38,261
Child development centers	25	68,537	11,256	79,793
Other	6	3,214	37,003	40,217
Totals	**93**	**$153,127**	**$306,892**	**$460,019**

Library Projects

We recommend deletion of $10.7 million for 11 library projects because the districts should instead consider less costly proposals to build additions to existing libraries. (Reduce Item 6870-301-0574 by $10,736,000.)

The budget proposes $17.8 million for 12 library projections. Of this total, $7.1 million is for the construction phase of a project at Citrus College (Citrus Community College District [CCD]) for which we recommend approval. The remaining $10.7 million is for preliminary plans and working drawings for ten projects to build new libraries and one project to expand an existing library. The estimated future costs to complete these 11 projects is $151 million. In general, the districts indicate that their existing libraries are too small and lack the ability to be renovated for the technology-related requirements of a modern library.

Based on (1) existing space standards for libraries and media-related functions (instructional audio and visual services) and (2) each district's current inventory of these types of space, all 11 districts can justify building additional space. However, as shown in Figure 2, the districts are requesting to build only 145,000 additional assignable square feet (asf) classified as library and media space but are requesting buildings totaling 425,000 asf. Rather than proposing to add the incremental library and media space as shown in Figure 2, districts are proposing to build entirely new libraries and use the existing libraries for other purposes.

Figure 2

Space Requested in Library Projects

(Assignable Square Feet)

Community College District (CCD)—College	Additional Library and Media Space Requested	Total Proposed Building Space
Barstow CCD—Barstow College	11,129	19,976
Compton CCD—Compton College	7,080	30,000
Grossmont-Cuyamaca CCD—Grossmont College (library expansion)	16,696	44,716
Kern CCD—Cerro Coso College	14,082	27,232
Mira Costa CCD—Mira Costa College	3,043	34,441
Monterey Peninsula CCD—Monterey College	18,540	50,872
San Jose-Evergreen CCD—San Jose City College	9,434	37,377
Southwestern CCD—Southwestern College	28,077	64,730
Ventura CCD—Moorpark College	18,545	39,148
Ventura CCD—Ventura College	13,217	61,394
Yosemite CCD—Columbia College	5,142	15,530
Totals	**144,985**	**425,416**

We believe that the space deficiencies with the districts' existing facilities could be addressed at far less cost by constructing additions to the existing libraries. To address any problems with retrofitting the existing libraries for technology-related purposes, the districts could place the technology-intensive functions in a new building addition and keep the more traditional library functions—stack space and student study carrels—in the existing libraries. This is the approach being taken by Citrus

College, which has a library remodel and expansion project proposed for construction in the Governor's budget.

Another advantage of adding to an existing building is the lower cost required for utility and site development. For the ten new libraries proposed in Figure 2, these costs average about 10 percent of total estimated construction costs. For the one new library expansion project—at Grossmont College—these costs are only 4 percent of total construction costs.

While the alternative of incremental library expansion may appear less than optimal from each individual district's perspective, the significant savings realized through this approach can be used to fund other high priority projects for higher education, including other community college projects. We therefore recommend deletion of the $10.7 million proposed for the 11 projects. Proposals to expand the districts' existing libraries would merit legislative consideration.

Kern CCD, Bakersfield College—
Concrete Restoration

We recommend deletion of $685,000 to repair deteriorated concrete in several campus buildings because these repairs should be funded from operating funds rather than through the capital outlay program. (Delete $685,000 under Item 6870-301-0574 [30].)

The budget proposes $685,000 for preliminary plans, working drawings, and construction to repair deteriorated concrete at the base of 20 campus buildings, most of which are over 40 years old. The district indicates that weathering, soil conditions, and the use of concrete below current standards have led to this deterioration over the years. The district's proposal includes several photographs as evidence of the deterioration. While it is obvious that the district has a problem that should be addressed, we do not believe that the costs should be paid for with general obligation bonds. These are the types of normal repairs that districts fund through their annual operating budgets.

In addition, there is another funding source available to the district to fund this project. As in recent years, the Governor's budget includes $39 million in the community colleges' support budget for scheduled maintenance. These monies are matched by the districts on a dollar for dollar basis and are used for specific maintenance projects based on priorities established by the Chancellor's Office. This funding mechanism would be another way to address the district's problem.

For these reasons, we therefore recommend deletion of the $685,000 in bond funding under Item 6870-301-0574 (30).

Los Angeles CCD, Harbor College—
Fire Alarm Corrections

We recommend deletion of $337,000 for preliminary plans and working drawings because the district has not justified the need to completely replace the existing fire alarm system with a new $3 million system. (Delete $337,000 under Item 6870-301-0574 [38].)

The budget includes $337,000 to prepare preliminary plans and working drawings to completely replace the fire alarm system at Los Angeles Harbor College. The estimated future capital outlay construction costs are $2.8 million. The district indicates that the existing alarm system does not meet current code requirements and has several problems, including:

- Evacuation alarms are not audible throughout all areas of buildings.
- Smoke detectors are missing from building heating and cooling ducts.
- All campus buildings are evacuated simultaneously instead of evacuation just at the building where an alarm is triggered.
- The building from which an alarm was sounded cannot be immediately identified by campus security personnel.

While it is apparent that the campus has problems with the existing system, the district has not explained why improvements or repairs could not be made to the existing system to alleviate the major problems. Instead the district proposes a new alarm system involving almost every building on the campus—even buildings that are relatively small (under 3,000 square feet). We believe that the district could address its problems with modification to the existing alarm system at much less cost than the $3 million project submitted to the Legislature. We therefore recommend deletion of $337,000 under Item 6870-3101-0574 (38).

West Valley-Mission CCD, Mission College—
Science and Technology Complex

We recommend deletion of $755,000 for preliminary plans and working drawings because under year-round operation, the district will not need the additional laboratory space provided by the project. Estimated future savings are $9.5 million. (Delete $755,000 under Item 6870-301-0574 [90].)

The budget proposes $755,000 to prepare preliminary plans and working drawings for a 21,000 asf science building at Mission College. The project includes laboratories for chemistry, physics, engineering, and biology. The estimated future construction costs are $8.8 million. Based on the traditional way that the CCCs have used their facilities (that is—nine months out of the year), the district would need additional lab space and the project would be appropriate. However, in our companion document, *The 1999-00 Budget: Perspectives and Issues* (Part V), we recommend that the three segments of higher education begin implementing year-round operation. Under this approach, the segments could accommodate up to 33 percent more students in existing instructional space because campuses will be fully used in the summer. In the case of the West Valley—Mission Community College, the district's existing laboratory facilities are sufficient to accommodate projected enrollments under year-round operation. Consequently, the project would not be needed. We therefore recommend deletion of the $755,000 under Item 6870-301-0574 (90).

We note that there are five other community college projects proposed in the budget to add new instructional facilities to existing campuses that are justified even with implementation of year-round operation. Below, however, we raise an issue with the cost of one of these projects.

Antelope Valley CCD, Antelope Valley College—Technology Building

We withhold recommendation on $380,000 for preliminary plans and working drawings pending discussions with the district regarding the need for $1 million in utility and site development work for the project.

The budget includes $380,000 for preliminary plans and working drawings for a new 14,000 asf technology building at Antelope Valley College. The building would provide laboratories for the following programs: refrigeration; heating, ventilation, and air conditioning; fiberglass/composite technology; and materials fabrication. The estimated future construction costs are $5.1 million. As mentioned above, based on the district's current inventory of laboratory space, the additional proposed space is justified even after the transition to year-round operation. In addition, the estimated cost to construct the new building is appropriate. However, we question the need to spend $1 million, as proposed by the district, for utility and site development work associated with a relatively small new building.

The district's master plan indicates that the technology building and several future buildings will be located on the edge of the existing developed campus. The proposed project, however, includes infrastructure that is not needed for the technology building. It would instead serve future buildings. The infrastructure for these buildings should therefore be considered in the future—not with the technology building. The infrastructure directly related to the new technology building could be installed at much lower cost than that proposed by the district. We therefore withhold recommendation on the budget proposal, pending discussions with the district on the scope of utility and site development work for the project.

West Hills CCD, Kings County Center—Off-On Site Development

We withhold recommendation on $301,000 for preliminary plans and working drawings for site development at a new off-campus center pending discussions with the district on ways to reduce future construction costs of $3.6 million.

The budget includes $301,000 to develop preliminary plans and working drawings for utilities and site development related to the initial phase of a new off-campus center in Lemoore (Kings County). The estimated future construction cost is $3.6 million. Two other budget proposals would provide funding for costs related to a new 100-acre site and to design two buildings for the campus (total of 38,000 asf). The district has provided a detailed cost estimate and schematic drawings showing the utility and site development work. Based on our review of these materials, we believe that the scope of the proposed work exceeds that which is necessary to serve the two new buildings. For example, the drawings show utility lines and an access road being extended beyond the two buildings into areas planned for future expansion of the center. This work should instead be funded at the time that any future buildings are approved.

We intend to hold discussions with the district on ways that the scope and cost of the site development can be reduced. Pending these discussions, we withhold recommendation on the $301,000 proposed in the budget.

Construction Cost Escalation

We recommend that the Legislature direct the Chancellor's Office to reduce the budgets for those community college projects where excessive construction cost escalation has been applied in calculating the project budget.

Each year the amounts to be requested for construction are determined by first estimating the cost of construction at today's prices then escalating that price to the assumed cost on July 1 (the start of the fiscal year). Though projects do not typically bid on July 1, and instead are bid sometime later in the fiscal year, the administration's authority to augment appropriations by up to 20 percent provides a sufficient cushion to cover any cost escalation up to the bid date.

For some community college projects proposed in the budget, costs have been escalated to the mid-point of the construction period. This is inappropriate. The price to the state is determined at the bid opening. If the winning bidder anticipates there will be increases in the price of labor and materials during the course of construction, these additional costs are included in the contractor's bid. We therefore recommend that the Chancellor's Office be directed to reduce the construction budgets for any project proposals that include this improper cost escalation factor. These reduced amounts should be reflected in the project descriptions included in the supplemental report of the budget act.

DEPARTMENT OF FOOD AND AGRICULTURE (8570)

The California Department of Food and Agriculture (DFA) operates 21 major facilities—16 agricultural inspection stations, two veterinary laboratories, a chemistry and plant pest diagnostic laboratory, and two out-of-state pest laboratories in Arizona and Hawaii. The department's five-year capital outlay plan totals $36 million, with an additional $21 million required after five years to complete partially funded projects. It emphasizes relocation of agricultural inspection stations and the veterinary laboratories at Fresno and Turlock.

The Governor's budget proposes $7.3 million for two major projects and $0.3 million for minor projects, financed by $1.1 million from the General Fund and $6.5 million from lease-payment bonds. We have withheld a recommendation on one of the two major projects, relocation of the Truckee Agricultural Inspection Station pending receipt of preliminary plans and clarification of the status of land acquisition. This and other similarly situated projects are discussed in "Managing the Capital Outlay Program" under Crosscutting Issues in this capital outlay section.

Relocation—Yermo Agricultural Inspection Station

We recommend the Legislature delete the $411,000 requested from the General Fund for this project because more information is needed about the cost of the land and construction, and how costs of the Yermo "superstation" will be apportioned between the Department of Food and Agriculture and the California Highway Patrol. If this information is received, the project may warrant legislative consideration. (Delete $411,000 from Item 8570-301-0001 [1].)

The budget contains $411,000 for acquisition and preliminary plans for an agricultural inspection station at Yermo, San Bernardino County. The estimated total project cost is $8.2 million. The station would be part of a "superstation" that would also include a separate truck inspection station for the California Highway Patrol (CHP). Trucks and cars would exit

Interstate 15 using separate lanes and stop at the agricultural inspection station. After inspection by DFA, cars would leave the station and return to the freeway. Trucks leaving the agricultural inspection station would proceed to the CHP truck inspection station about 1,000 feet down the truck lane for further inspection by CHP if necessary. The proposal calls for the Department of Transportation (Caltrans) to design and manage construction of the facilities for both DFA and CHP.

The cost information submitted in support of this proposal is incomplete and unclear. It indicates the cost of acquisition and preliminary plans to be $462,000, but the budget requests only $411,000. The cost of acquiring the land is estimated to be $166,000 but there is no basis provided for this amount (such as information on comparable sales, an appraisal or an offer to sell from the current owner) and whether there is a willing seller. The documentation includes a cost estimate prepared by the Department of General Services (DGS) which estimates the total construction cost to be $6,679,800, but an accompanying letter from Caltrans indicates it has reviewed the DGS construction cost estimate and recommends it be increased to $7,198,000. If this is the case, then the total project cost would be about $8.7 million, not $8.2 million. The Caltrans letter also indicates it has included a 25 percent contingency because of ". . . the lack of drawings and no definitive program or scope of work . . ." upon which to base a more definitive estimate. A sufficiently specific program, scope of work, and more accurate cost estimate should be developed before the Legislature is asked to approve this proposal. It is also not clear how the cost of the traffic lanes and facilities are apportioned between DFA and the CHP. This apportionment is important because the DFA part of the work will likely be funded by the General Fund with the CHP portion funded from a special fund.

All of these points raise uncertainties about the cost and management plan for the project. Accordingly, we recommend that the Legislature not approve this proposal. If additional information is submitted, the project may warrant legislative consideration.

MILITARY DEPARTMENT (8940)

The Military Department is responsible for the command and management of the California Army and Air National Guard. To support its operations, the department maintains 127 armories and 38 maintenance operations throughout the state. These facilities total about 2.5 million square feet of building space. About 70 percent of this space was built before 1960.

The department's proposed capital outlay program for 1999-00 totals $8 million—virtually all from the General Fund except for $36,000 in federal funds. This total includes:

- $4.8 million for planning, design, and supervision of construction of projects for which the federal government fully funds the construction. In our Crosscutting Issue, "Managing the Capital Outlay Program," we recommend a one-year deferral of the study and preliminary plan phases for two of these projects—new maintenance shops in Riverside and San Francisco—due to delays in implementing the currently funded capital outlay program.
- $2.1 million to acquire a site, including existing facilities, for an armory in Bakersfield to replace the existing 45-year-old armory.
- $562,000 for minor capital outlay projects (cost of less than $250,000 per project).
- $545,000 for the second phase of an effort to develop a master plan for the department's facilities. In the Crosscutting Issue mentioned above, we also recommend deferring this project for one year. Below, we discuss a second reason for deferring this proposal.

Facilities Survey, Phase II

We recommend deletion of $545,000 from the General Fund for a second phase of the department's master plan because the initial phase will not be completed and available for legislative review until next year. (Delete $545,000 under Item 8940-301-0001 [3]).

The budget proposes $545,000 for the second phase of a statewide master planning effort for the department's armories and maintenance facilities. The purpose of this study is to develop a long-range plan for addressing the department's facilities needs on a statewide basis. In the *1998-99 Budget Act*, the Legislature appropriated $485,000 for the initial phase of this planning effort—a statewide survey to assess the condition of the department's facilities. The survey was supposed to be completed by June 1999. However, the Department of General Services (DGS), which will manage the consulting contract for the survey, indicated at the time this analysis was written, that a consultant would not be selected to start the survey until April 1999. The DGS anticipates that survey will not be completed until January 2000. We see no reason for the Legislature to fund the second phase of the plan until it has had an opportunity to review the information gathered in the first phase. Because the first phase is so far behind schedule, we recommend deferring funding for the second phase until 2000-01.

VETERANS' HOME OF CALIFORNIA— YOUNTVILLE (8960)

The Department of Veterans Affairs operates the Veterans' Home of California in Yountville. The Yountville facility provides five levels of care, ranging from residential to acute health care. The 1999-00 capital outlay program for the home totals $900,000 from the General Fund for the design costs of three major projects and for one minor project (cost of less than $250,000). The three major projects are:

- $250,000 to remodel the activity area in Holderman Hospital. The future construction cost is $1.8 million.
- $310,000 to correct code deficiencies in Section L of Jefferson Hall. The future construction cost is $2.4 million.
- $100,000 to convert a portion of the laundry building to warehouse space. Estimated future cost for working drawings and construction is $1.6 million.

In our Crosscutting Issue, "Managing the Capital Outlay Program," we discuss delays in implementing the currently funded capital outlay program. Because of these delays, we recommend deferring the Section L and laundry building projects and partially deferring the Holderman Hospital project by only funding the preliminary plans in 1999-00. Below, we discuss additional issues with the Section L and laundry building projects.

Correct Code Deficiencies in Section L

We recommend deletion of $310,000 for preliminary plans and working drawings because there are sufficient licensed beds for the home's current population and no plan exists for expanding the population at the home. (Delete $310,000 under Item 8960-301-0001 [1].)

The budget proposes $310,000 to prepare preliminary plans and working drawings for a renovation to meet fire and life safety and other building code requirements in Section L of Jefferson Hall. The estimated future construction costs are $2.4 million. The project will provide renovated space for 33 domiciliary beds and is part of a master plan to make such improvements to all living areas at the home.

Over the last 15 years, the state has funded several renovation projects at Yountville, and the number of beds at the home in renovated areas totals 1,477, including 762 domiciliary beds. The average population at the home is projected to total only 1,103 (613 domiciliary) in the current year and 1,125 (625 domiciliary) in the budget year. Thus, the home currently has about 150 extra domiciliary beds in renovated areas, and it currently does not have a plan for expanding its population. Finally, there are vacant domiciliary beds at the Veterans' Home in Barstow and the new 400-bed Veterans' Home in Chula Vista will open in spring 2000. Given the currently available capacity and the additional capacity from new construction in the Veterans' Home system, we recommend the Legislature disapprove this project. We therefore recommend deletion of $310,000 under Item 8960-301-0001 (1).

Convert Laundry Building to Warehouse Space

We recommend deletion of $100,000 for preliminary plans because the need for the project has not been justified and other, potentially less costly, alternatives should be considered. (Delete $100,000 under Item 8960-301-0001 [2].)

The budget proposes $100,000 from the General Fund to prepare preliminary plans for a project to convert a portion of the home's laundry building to warehouse space. The estimated future cost for working drawings and construction is $1.6 million. The department indicates that the home is required to provide storage space for the personal belongings of its members, and that the members and their families must have proper access to these items. The laundry building is available for use as a warehouse because the home recently began contracting out for laundry services.

We have two concerns with this proposal. First, the department has not identified what specific deficiencies are present in its current storage space. If such deficiencies are shown, it may be possible to address them by making improvements to the existing space at a much lower cost than the budget proposal. Second, if the home does need other storage space, it should evaluate whether constructing a new warehouse would be more cost-effective than the proposed renovation. For these reasons, we recommend deletion of $100,000 under Item 8960-301-0001 (2).

FINDINGS AND RECOMMENDATIONS

Capital Outlay

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Crosscutting Issues

Infrastructure Planning and Financing

1. **New Process Needed.** The state needs to overhaul its process for planning, budgeting, and financing infrastructure. The Governor's establishment of a commission to examine this complex issue is a welcome first step. The commission faces a difficult challenge, however, to recommend a comprehensive bond package by May 1. G-13

Managing the Capital Outlay Program

2. **Preliminary Plans Not Completed on Prior-Year Projects.** Recommend approval of $382,188,000 for working drawings and/or construction for 111 projects contingent on completion of preliminary plans that are consistent with the cost and scope previously approved by the Legislature. G-16

3. **Defer Most New Department of General Services (DGS)-Managed Projects.** Recommend deletion of $27.9 million for 77 new projects from various funds because the DGS cannot manage these new projects in addition to its ongoing workload. The department should report to the budget committees on steps that could be taken to improve its ability expedite the delivery of capital outlay projects. G-17

4. **Partially Defer Some New DGS-Managed Projects**. Recommend reduction of $8.1 million from the General Fund to defer phases of ten new projects and to reduce the amount provided for unallocated capital outlay because the DGS cannot manage its ongoing workload and implement all phases of these projects that are proposed in the budget. G-19

5. **Approve Seven New Projects.** Recommend approval of $3.1 million for seven new projects because the DGS can accomplish the phases of these projects as proposed in the budget. G-20

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6.	**Refined Cost Estimates Pending**. The DGS is reviewing the cost estimates provided by the departments for many of the new projects proposed in the budget. More refined cost estimates should be available by the spring for the Legislature's review.	G-20
7.	**Parks and Recreation Workload. Delete $130,000 From Item 3790-301-0001 (8) and $160,000 From Item 3790-301-0001 (10).** Recommend deletion of $290,000 from the General Fund for two new projects proposed by the Department of Parks and Recreation because the department has a large backlog of design and construction work that should be completed before starting new projects.	G-22

Pay-As-You-Go Financing

8.	**Funding Switch.** In recognition that the state should increase its use of pay-as-you-go funding, we recommend that the Legislature maintain direct General Fund spending at least at the level proposed by the Governor. Furthermore, we recommend that any funds "freed up" by legislative action to adopt our General Fund reductions to proposed projects be redirected to reduce the level of lease-payment bond authorizations in the budget.	G-24

Capital Outlay In Higher Education

9.	**Year-Round Operation Saves Capital Outlay Costs.** Our analysis indicates that operating higher education campuses on a year-round basis will result in a capital outlay savings of $19 million related to projects proposed in the budget and potentially several billions of dollars over the next decade and beyond.	G-27
10.	**Legislature Should Consider Additional Projects.** Recommend that the Legislature consider funding additional priority projects for higher education using any bond funds "freed up" by legislative action accepting our recommendations to reduce project costs in the Governor's budget.	G-27
11.	**Discontinue Past Practice of Equal Bond Amounts for Each Segment.** Recommend that the Legislature discontinue the past practice of providing an equal amount of bond funds to each segment because this practice does not address the highest-priority needs throughout higher education.	G-28

Department of Justice

12.	**Laboratory Replacement Projects.** Withhold recommendation on $51.4 million for five crime laboratory projects pending review with the	G-29

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department on modifications to bring these projects in line with the budgets previously approved by the Legislature.

Franchise Tax Board

13. **Security Improvements. Delete $963,000 From Item 1730-301-0001.** Recommend deletion of $963,000 for three security improvement projects because the Legislature should first consider what level of security is appropriate at state office sites frequently visited by the public. G-32

Department of General Services

14. **Los Angeles State Building. Delete $1,083,000 From Item 1760-301-0001 (4).** Recommend deletion of $1,083,000 million for construction to remove hazardous materials because the department recently indicated that the project is being canceled. G-35

Department of Transportation

15. **Seismic Retrofit—Eureka Office. Delete $604,000 From Item 2660-311-0042 (2).** Recommend deletion of $604,000 for planning and working drawings. G-36

16. **San Diego Office Building—Lease-With-Purchase-Option. Delete Provision 6 Under Item 6220-001-0042.** Recommend the Legislature not authorize the Department of Transportation to negotiate a lease-with-option-to-purchase agreement with a private developer for a new office building in San Diego. G-37

Department of the California Highway Patrol

17. **South Lake Tahoe and Monterey—New Facility. Delete $1,151,000 From Item 2720-301-0044 (4) and $1,579,000 From Item 2720-301-0044 (6).** Recommend deletion of funds for land acquisition, preliminary plans, and working drawings because insufficient information about the projects has been provided upon which the Legislature can make a funding decision. G-41

Department of Forestry and Fire Protection

18. **Public Safety Microwave Network Master Plan. Delete $5,253,000 Under Item 3540-301-0001 (49).** Recommend that the Legislature G-43

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(a) delete $5,253,000 requested for new telecommunications towers and vaults and (b) not fund any additional tower and vault projects until a master plan for the network has been prepared.

Department of Parks and Recreation

19. **Delete Double-Budgeted Support Funds. Delete $15,000 From Item 3790-301-0001 (1), Delete $133,000 From Item 3790-301-0001 (2), Delete $44,000 From Item 3790-301-0001 (8), Delete $28,000 From Item 3790-301-0001 (10), Delete $31,000 From Item 3790-301-0001 (11), and Delete $237,000 From Item 3790-301-0140.** Recommend deletion of $488,000 that has been double-budgeted for staff work on six capital outlay projects. G-46

20. **Capital Outlay Projects—Acquisition, Preliminary Plans, Working Drawings, and Construction. Delete $3,000,000 From Items 3790-301-0001 (6) and (12).** Recommend deletion of this proposal because projects have not been identified. If additional information is received and the need for the projects substantiated, the proposal may warrant legislative consideration. If funding is approved, however, we recommend that any appropriation for these purposes be from the State Parks and Recreation Fund rather than the General Fund. G-48

21. **Fresno Area/Southern San Joaquin Valley—Acquisition and Study. Delete $5,305,000 From Item 3790-301-0263 (3).** Recommend deletion of this proposal because a site has not been identified and planning work approved in 1998 has not been completed. G-49

22. **Oceano Dunes State Vehicular Recreation Area: La Grande Tract—Acquisition. Delete $2,200,000 From Item 3790-301-0263 (6).** Recommend deletion of funding for this project because the property is currently in public ownership and there is no reason for this expenditure just to acquire title. G-50

23. **Grants for Off-Highway Vehicle Projects. Delete $16,555,000 From Item 3790-101-0263.** Recommend deletion of this item because no information has been provided to justify the expenditures. G-50

Health and Welfare Agency Data Center

24. **Acquisition of Leased Facility.** Withhold recommendation on $5.5 million from the General Fund pending receipt of an economic analysis of the building's value if the data center is relocated. G-52

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Department of Mental Health

25. **Sexually Violent Predator Facility. Delete $16,025,000 From Item 4440-301-0660 (1) and Add an Item 4440-301-0001 (4) for $7,000,000.** Recommend deletion of $16 million in lease-payment bond funding for preliminary plans and working drawings because (a) only preliminary plans can be completed for this $300 million project in the budget year and (b) the preliminary plans should be funded from the General Fund. G-54

Department of Corrections

26. **California Medical Facility—Cell Window Modifications. Delete $174,000 Under Item 5240-301-0001 (14).** Recommend deletion of $174,000 for preliminary plans and working drawings because the construction of a lethal electrified fence at the institution should alleviate security concerns posed by the existing windows. Estimated future savings is $2.8 million. G-58

Department of the Youth Authority

27. **Heman G. Stark Youth Correctional Facility—Modify Ward Room Windows. Delete $377,000 Under Item 5460-301-0001 (16).** Recommend deletion of $377,000 for preliminary plans and working drawings to modify the windows in ward rooms because the department should instead replace the existing windows. G-60

28. **El Paso de Robles Youth Correctional Facility—Special Education Classrooms.** Withhold recommendation on $377,000 for preliminary plans and working drawings because the project scope and cost will be revised in the spring. G-61

University of California

29. **Reduce Scope of UC Davis Life Sciences Alternation. Reduce Item 6440-301-0574 (4) by $86,000—Future Savings of $782,000.** Recommend that the Legislature reduce the $466,000 requested for preliminary plans and working drawings to alter life sciences buildings by $86,000 because part of the proposed alterations are for a nonstate-funded research. G-62

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30.	**Additional Space Not Needed. Delete Item 6440-301-0574 (9) for $1,226,000—Future Savings of $30.2 Million and Item 6440-302-0574 (10) for $46,688,000—Future Savings of $3.8 Million.** Recommend that the Legislature delete a total of $48 million for two projects—one at Irvine and one at Santa Barbara—because (a) there is a sufficient amount of research space on each campus and (b) the instructional space is not needed either at the current time.	G-63
31.	**Seismic Replacement Building Is Unnecessary. Delete Item 6440-302-0574 (1) for $2,025,000—Future Savings of $15.5 Million.** Recommend the Legislature delete the $2 million requested for the design of "Seismic Replacement Building 1" at the Berkeley campus because it would be less costly to repair existing buildings than to construct the proposed building.	G-64

California State University

32.	**Telecommunications Projects.** Withhold recommendation on the six projects totaling $1,757,000 because the information the Legislature has received is insufficient for the Legislature to evaluate them.	G-68
33.	**Los Angeles: Renovate Physical Sciences Building. Delete Item 6610-301-0574 (6) for $696,000 With a Future Savings of $32.1 Million.** Recommend deletion of $696,000 for this project because insufficient information has been submitted about the specific improvements to be constructed or the associated cost.	G-72
34.	**Sonoma: Remodel Salazar Building. Delete Item 6610-301-0574 (12) for $371,000.** Recommend deletion of $371,000 for this proposal because the project cost is too high and the California State University should reevaluate the proposed use of the building.	G-72
35.	**Bakersfield: Classroom/Office Building III. Delete Item 6610-302-0574 (1) for $8,702,000 With a Future Savings of $401,000.** Recommend deletion of $8.7 million for this project because it is not needed under year-round operation. If year-round operation is not implemented, we would recommend approval.	G-74
36.	**San Jose: Joint Library. Delete Item 6610-302-0574 (10) for $69,638,000 With a Future Savings of $32.5 Million.** Recommend deletion of $69,638,000 for this proposal because the campus has a sufficient amount of library space and because of questions that need to be addressed concerning ownership and operations of a library that will be owned as tenant-in-common with the city.	G-75

	Analysis Page
37. **Construction Cost Escalation Is Incorrectly Applied**. Recommend reductions totaling $4.2 million in 12 projects because construction costs were incorrectly escalated.	G-77

California Community Colleges

38. **Five-Year Capital Outlay Plan.** The community colleges' five-year capital outlay plan shows improvement over previous plans, but further refinements are needed to develop a plan that better reflects statewide needs and priorities for the community college system.	G-79
39. **Library Projects. Reduce Item 6870-301-0574 by $10,736,000.** Recommend deletion of $10,736,000 for 11 library projects because the districts should instead consider less costly proposals to build additions to existing libraries.	G-81
40. **Kern Community College District (CCD), Bakersfield College—Concrete Restoration. Delete $685,000 Under Item 6870-301-0574 (30).** Recommend deletion of $685,000 to repair deteriorated concrete in several campus buildings because these repairs should be funded from operating funds rather than through the capital outlay program.	G-83
41. **Los Angeles CCD, Harbor College—Fire Alarm Corrections. Delete $337,000 Under Item 6870-301-0574 (38).** Recommend deletion of $337,000 for preliminary plans and working drawings because the district has not justified the need to completely replace the existing fire alarm system with a new $3 million system.	G-84
42. **West Valley-Mission CCD, Mission College—Science and Technology Complex. Delete $755,000 under Item 6870-301-0574 (90).** Recommend deletion of $755,000 for preliminary plans and working drawings because under year-round operations, the district will not need the additional laboratory space provided by the project. Estimated future savings are $9.5 million.	G-84
43. **Antelope Valley CCD, Antelope Valley College—Technology Building.** Withhold recommendation on $380,000 for preliminary plans and working drawings, pending discussions with the district regarding the need for $1 million in utility and site development work for the project.	G-85
44. **West Hills CCD, Kings County Center—Off-On Site Development.** Withhold recommendation on $301,000 for preliminary plans and working drawings for site development at a new off-campus center, pending discussions with the district on ways to reduce future construction costs of $3.6 million.	G-86

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45.	**Construction Cost Escalation.** Recommend that the Chancellor's Office be directed to reduce the budgets for those community college projects where excessive construction cost escalation has been applied in calculating the project budget.	G-86

Department of Food and Agriculture

46.	**Relocation—Yermo Agricultural Inspection Station. Delete $411,000 From Item 8570-301-0001 (1).** Recommend deletion of the $411,000 request for acquisition and preliminary plans because the information provided in support of the proposal is ambiguous and incomplete. If the necessary information is provided the project may warrant legislative consideration.	G-88

Military Department

47.	**Facilities Survey, Phase II. Delete $545,000 Under Item 8940-301-0001 (3).** Recommend deletion of $545,000 for a second phase of the department's master plan because the initial phase will not be completed and available for legislative review until next year.	G-90

Veterans' Home of California—Yountville

48.	**Correct Code Deficiencies in Section L. (Delete $310,000 Under Item 8960-301-0001 (1).** Recommend deletion of $310,000 for preliminary plans and working drawings because there are sufficient licensed beds for the home's current population and no plan exists for expanding the population at the home.	G-92
49.	**Convert Laundry Building to Warehouse Space. Delete $100,000 Under Item 8960-301-0001 (2).** Recommend deletion of $100,000 for preliminary plans because the need for the project has not been justified and other, potentially less costly, alternatives should be considered.	G-93