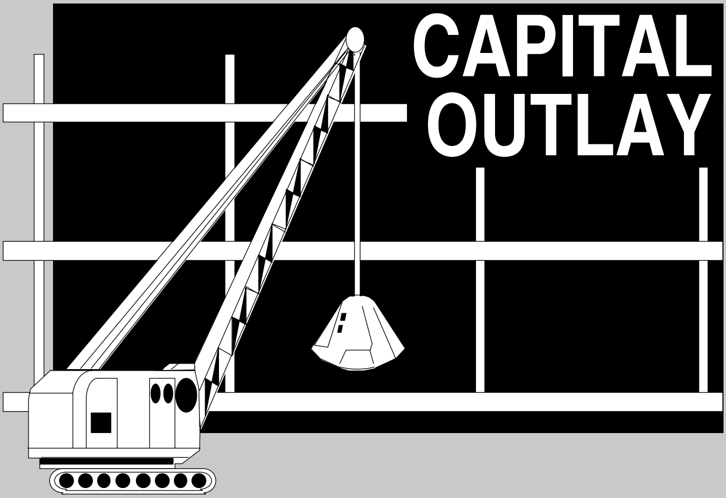

CAPITAL OUTLAY

LAO

65 YEARS OF SERVICE

2006-07 Analysis

MAJOR ISSUES

Capital Outlay

☑ **Strategic Growth Plan Not Backed by Infrastructure Plan**

- The Governor's Strategic Growth Plan calls for $68 billion in general obligation (GO) bonds for state infrastructure improvements. The funding proposal, however, is not supported with a statutorily required state infrastructure plan. We recommend the Legislature not approve the bond proposals pending receipt of the plan. We further recommend the Legislature not approve bonds beyond a five-year period because the state infrastructure plan only identifies capital outlay requirements for a five-year period (see page G-18).

☑ **Transfer of Trial Court Facilities Barely Happening**

- Current law requires the transfer of about 450 trial court facilities from the counties to the state by June 30, 2007. Only four have been transferred to date. The transfer is not proceeding primarily due to (1) disagreement over seismic retrofit payments and (2) complicated calculations of county facilities payments. We recommend the Legislature clarify statute regarding county responsibilities for seismic retrofit costs. We also recommend the Legislature consider simplifying the county facilities payment calculation (see pages G-27 and 29).

☑ **Fund Only Working Drawings for Wastewater Facility**

- The estimated date for completing working drawings of the Deuel Vocational Institute wastewater facility is overly optimistic, and funding for construction can wait until 2007-08. We recommend reducing $23 million in General Fund support for construction of the wastewater treatment facility (see page G-43).

☑ **Telemedicine Proposal Not in University of California (UC) Plan**

- The Governor's Strategic Growth Plan includes $400 million from proposed GO bonds to expand UC telemedicine programs and medical school enrollments. However, the telemedicine proposal is not included in UC's five-year capital outlay plan (see page G-45).

☑ **University of California Construction Costs Could Be Lowered**

- State costs for the university's capital improvement program can be reduced and the use of bond funds can be more cost-effective by (1) using construction cost guidelines similar to the California State University and other research institutions and (2) using university research overhead funds to the maximum extent possible (see pages G-46 and 48).

☑ **Community College Projects Include Excess Cost Factors**

- The community college five-year (2006-07 through 2010-11) capital outlay program initially submitted called for $512 million in state funding. This amount was increased by $74 million (14 percent) in a revised plan received in January 2006. The increase includes two factors—excess contingency amounts and an unsubstantiated 30 percent increase in building construction cost guidelines. We recommend the Legislature delete these added amounts from each project (see page G-58).

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Overview

Capital Outlay

The 2006-07 budget proposes total expenditures of about $2.9 billion for the state's capital outlay program (excluding highway and rail programs, which are discussed in the "Transportation" chapter of this **Analysis***). This is spending on physical assets, such as college buildings, state parks, prisons, and office space.*

Figure 1 summarizes the proposed 2006-07 expenditures for the capital outlay program. The proposed expenditure level represents a decrease of about $ 2.1 billion (42 percent) from the current-year level. The decrease occurs primarily in the resources and higher education areas because most of the funding from general obligation (GO) bonds approved to date has been spent or committed. Of the $1.6 billion in proposed expenditures for

Figure 1

State Capital Outlay Program by Major Program Area

All Funds (Dollars in Millions)

	Estimated 2005-06	Proposed 2006-07	Change	
			Amount	Percent
Legislative, Judicial and Executive	$45.1	$23.6	-$21.5	-47.7%
State and Consumer Services	253.9	148.3	-105.6	-41.6
Business, Transportation and Housing	25.6	68.1	42.5	166.0
Resources	1,467.6	564.6	-903.0	-61.5
Health and Human Services	52.4	122.9	70.5	134.5
Youth and Adult Corrections	371.7	223.8	-147.9	-39.8
Education	19.1	61.2	42.1	220.4
Higher Education	2,799.1	1,592.9	-1,206.2	-43.1
General Government	43.5	164.6	121.1	278.4
Totals	**$5,078.0**	**$2,970.0**	**-$2,108.0**	**-41.5%**

higher education capital outlay projects, the budget proposes $1 billion to be funded from a 2006 bond measure. The measure has yet to be authorized by the Legislature and approved by voters. Without these bond-funded expenditures, total statewide capital outlay expenditures for 2006-07 would be lower than the current-year level by roughly $3 billion.

Funding Sources for Capital Spending

The Governor's budget proposes funding the capital outlay program primarily from GO bonds and lease-revenue bonds. As shown in Figure 2, the budget requests $1.5 billion in funding from GO bonds and $855 million from lease-revenue bonds. In total, these bonds would make up about 79 percent of the program's funding in 2006-07. About $192 million in capital outlay projects would be supported directly from the General Fund, while special and federal funds and other sources would provide $422 million in project funding.

The budget proposes increasing the amount from the General Fund by about $62 million, mainly for capital outlay at various correctional institutions. The budget also shows a decrease in expenditures of $341 million from various other funds. The decrease will mainly be in expenditures on state parks, various land conservancies, and veteran affairs.

Figure 2

State Capital Outlay Program Source of Funding

(In Millions)

	Governor's Budget	
Funds	**2005-06**	**2006-07**
General Fund	$129.5	$191.8
General obligation bonds	3,009.5	1,501.0
Lease-revenue bonds	1,175.3	854.7
Other funds	763.7	422.5
Totals	**$5,078.0**	**$2,970.0**

Spending by Department

Figure 3 (see next page) shows the amounts proposed in the Governor's budget for each department's capital outlay program. In total, the budget proposes $ 2.9 billion for capital outlay projects in 2006-07. Completing all the projects will require an additional $1.7 billion in future costs. Thus, the capital outlay program proposed in the budget represents total expenditures of roughly $4.6 billion.

As the figure shows, the bulk of the proposed expenditures will be for capital improvements in the three segments of higher education—totaling $1.6 billion (or 54 percent of total) in 2006-07, with anticipated future costs of $879 million. (We note that higher education is the only programmatic area to include bond fund expenditures in 2006-07 from the Governor's Strategic Growth Plan. We discuss the plan in the "Crosscutting Issues" section of this chapter.) Other than higher education, the budget-year capital outlay program focuses on resources programs. The budget proposes $565 million in expenditures for these programs, including $208 million for the Department of Water Resources mainly for flood control, $207 million for the Department of Forestry and Fire Protection to replace and relocate various fire stations and facilities, and about $92 million for land acquisition by various conservancies. The resources projects will require a total of $391 million to complete in future years, mainly for flood control purposes.

For the Department of Corrections and Rehabilitation, the budget proposes capital outlay expenditures of $224 million in 2006-07. About 45 percent of the amount is for the construction of a condemned inmate unit at San Quentin. The remaining expenditures are primarily for projects to address deficiencies in water and wastewater treatment systems at various correctional institutions. The department's projects will require an additional $106 million in future costs to complete.

Figure 4 (see page 11) displays the proposed expenditures for each department, by funding source. This shows that most expenditures for higher education and resources programs would be paid from GO bonds, while expenditures for transportation (buildings) would come from other sources including special and federal funds. The General Fund and lease-revenue bonds are the main sources of funding for correctional and fire protection projects.

Bond Funding and Debt-Service Payments

Figure 5 (see page 12) shows the state's General Fund debt-service expenditures for bonds that support traditional capital outlay projects for the period 1997-98 through 2006-07. Debt-service expenses depend on several factors, including the volume of bonds sold and outstanding, their interest rates, and their maturity structures.

Figure 3

2006-07 Capital Outlay Program Budget-Year and Future Costs

All Funds (In Thousands)

Department	Proposed 2006-07	Future Costs	Totals
Legislative, Judicial and Executive			
Judicial Branch	$23,624	$28,263	$51,887
State and Consumer Services			
General Services	$148,289	$27,924	$176,213
Business, Transportation and Housing			
Transportation	$44,435	—	$44,435
California Highway Patrol	5,731	$33,497	39,228
Motor Vehicles	17,967	50,163	68,130
Resources			
Conservation Corps	$13,845	$3,429	$17,274
Forestry and Fire Protection	206,577	33,315	239,892
Fish and Game	1,299	—	1,229
Boating and Waterways	12,755	—	12,755
Parks and Recreation	29,405	3,854	32,625
Water Resources	207,995	350,882	558,877
Land conservancies	91,575	—	91,575
Air Resources	1,120	—	1,120
Health and Human Services			
Developmental Services	$80,283	$19,400	$99,683
Mental Health	42,629	17,834	60,463
Youth and Adult Corrections			
Corrections and Rehabilitation	$223,802	$106,153	$329,955
Education/Higher Education			
Education	$61,163	—	$61,163
UC	458,276	$383,000	841,276
CSU	370,100	226,000	596,100
Community Colleges	764,382	270,110	1,034,492
General Government			
Food and Agriculture	$26,419	—	$26,419
Military	11,820	$98,500	110,320
Veteran Affairs	126,331	12,044	138,375
Totals	**$2,969,822**	**$1,664,368**	**$4,634,190**

Figure 4

2006-07 Capital Outlay Program Funding Sources By Department

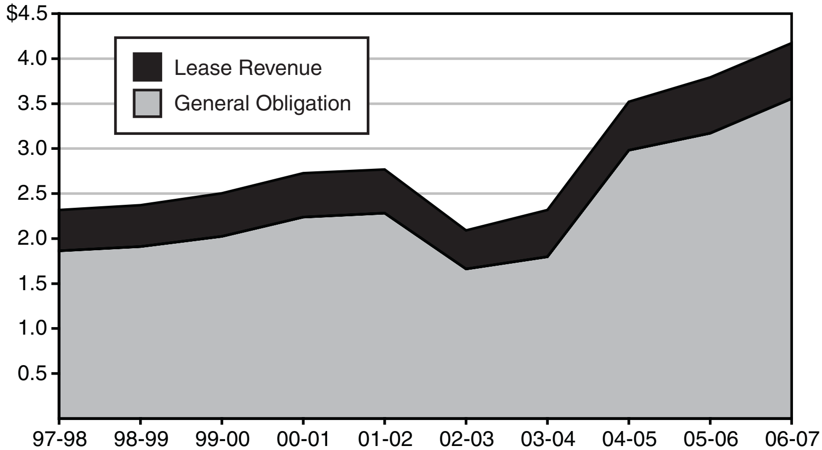
All Funds (In Thousands)

Department	GO Bonds	LR Bonds	General Fund	Other	Totals
Legislative, Judicial and Executive					
Judicial Branch	—	$21,178	—	$2,446	$23,624
State and Consumer Services					
General Services	$500	$144,122	$3,667	—	148,289
Business, Transportation and Housing					
Transportation	—	—	—	$44,435	$44,435
California Highway Patrol	—	—	—	5,731	5,731
Motor Vehicles	—	—	—	17,967	17,967
Resources					
Conservation Corps	—	$12,918	$927	—	$13,845
Forestry and Fire Protection	—	188,185	18,392	—	206,577
Fish and Game	$75	—	—	$1,224	1,299
Boating and Waterways	—	—	—	12,755	12,755
Parks and Recreation	17,738	—	—	11,667	29,405
Water Resources	44,400	—	31,383	132,212	207,995
Land conservancies	79,405	—	—	12,170	91,575
Air Resources Board	—	—	—	1,120	1,120
Health and Human Services					
Developmental Services	—	$79,106	$1,177	—	$80,283
Mental Health	—	41,682	947	—	42,629
Youth and Adult Corrections					
Corrections and Rehabilitation	—	$100,000	$123,802	—	$223,802
Education/Higher Education					
Education	—	$61,163	—	—	$61,163
UC	$315,339	116,050	$9,073	$17,814	458,276
CSU	283,413	—	—	86,687	370,100
Community Colleges	760,124	4,358	—	—	764,382
General Government					
Food and Agriculture	—	$17,556	—	$8,863	$26,419
Military	—	—	$1,919	9,901	11,820
Veteran Affairs	—	68,339	500	57,492	126,331
Totals	**$1,500,994**	**$854,657**	**$191,787**	**$422,484**	**$2,969,822**

Figure 5

General Fund Bond Debt Service for Traditional Capital Outlays[a]

(In Billions)



[a]Amounts for 2006-07 based on *2006-07 Governor's Budget* proposal.

The figure shows that these expenditures have increased in recent years, and are projected to reach $4.2 billion in the budget year, up by about $380 million from the current-year level. This total consists of $3.6 billion related to GO bonds and nearly $620 million related to lease-revenue bonds. The especially large jump in debt-service expenses that occurred between 2003-04 and 2004-05 partly relates to the conclusion of a two-year debt-refinancing program undertaken by the Treasurer to help deal with the General Fund budget shortfall. This resulted in the deferral of about $900 million in annual debt payments in both 2002-03 and 2003-04, and thus also largely explains the debt-service fall off for those two years. Growth in debt-service costs in recent years also reflects previous voter approval and state issuance of a substantial amount of new debt for schools, resources, and other purposes.

Budget-Related Borrowing Also Imposing Costs

In addition to the costs associated with capital-outlay-related bonds, the state is also incurring annual costs for budget-related debt. This began with $1.1 billion in 2004-05 and will involve increasing amounts thereafter for the repayment of the deficit-financing bonds that were authorized by Proposition 57 (approved by the voters in March 2004). Although the repayment of these bonds comes directly from a one-quarter-cent share of the sales and use tax transferred from local agencies, the General Fund is required to make equivalent Proposition 98 payments to schools to compensate them for their transfer of property tax revenues under the state's so-called "triple flip" budgetary arrangement. The budget proposes to accelerate the repayment of these bonds by using the transfers from the Budget Stabilization Account specified in Proposition 58. The budget projects that, as a result, these bonds would be paid off by 2010.

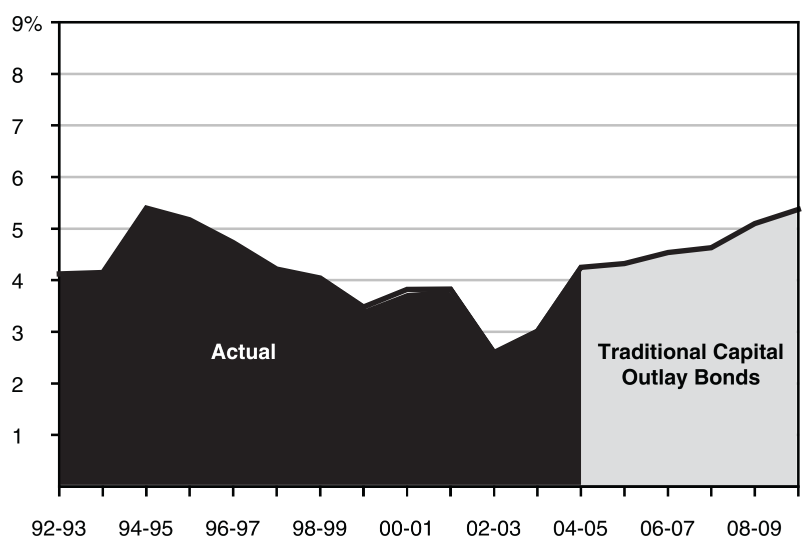
Debt-Service Ratio Trending Upward

The level of General Fund debt-service payments stated as a percent of state revenues is commonly referred to as the state's debt-service ratio (DSR). Although there is no correct answer about what a state's DSR should be, many policymakers and members of the investment community look at the DSR as one helpful indicator of the state's debt burden.

As shown in Figure 6, California's DSR for traditional capital outlay purposes peaked in the middle of the 1990s at about 5.4 percent before falling to below 3 percent in 2002-03, in part reflecting the deferral of debt payments discussed above. The DSR then rebounded beginning in 2003-04, and the budget projects that it will reach 4.3 percent in 2005-06. Thereafter, the budget projects that it will reach 5.4 percent in 2009-10.

Figure 6

California's Projected Debt-Service Ratio



CROSSCUTTING ISSUES

Capital Outlay

GOVERNOR'S STRATEGIC GROWTH PLAN

Together with the proposed 2006-07 budget, the Governor is proposing a Strategic Growth Plan (SGP), a ten-year funding plan to improve various aspects of the state infrastructure. Areas of capital improvement include: transportation, education (both K-12 and higher education), flood control and water supply, public safety and courts, and other public service infrastructure.

In this section, we summarize the key elements of the SGP, discuss the plan's positive aspects, and identify issues and concerns the plan raises that warrant legislative consideration. (In the "Crosscutting Issues" section of the "Transportation" chapter, we review the transportation component of the SGP within the context of overall funding for transportation programs.)

Key Elements of Strategic Growth Plan

The Governor's ten-year Strategic Growth Plan calls for $223 billion in capital outlay funding for various program areas. Funding would come from a combination of sources, including $68 billion in general obligation bonds, mainly for education (K-12 and higher education) and transportation.

Plan Calls for $223 Billion Infrastructure Funding Over Ten Years. Figure 1 (see next page) summarizes the funding proposed in the SGP for the various program areas. It indicates that about one-half of the funding ($107 billion) would be for transportation/air quality improvements and over one-fourth of the funding would be for K-12 and higher education facility improvements. Flood control and water supply improvements would account for 16 percent of total proposed funding, and the remaining 9 percent would be for public safety, mainly for local jail construction, and court improvements.

Figure 1

Governor's Strategic Growth Plan Funding Levels by Program Areas

(In Billions)

Program	Over Ten Years			
	General Obligation Bonds	Existing Sources	New Sources	Totals
Transportation/air quality	$12.0	$47.0	$48.0	$107.0
K-12	26.3	21.9	—	48.2
Higher education	11.7	—	—	11.7
Flood control and water supply	9.0	21.0	5.0	35.0
Public safety	6.8	5.1	5.5	17.4
Courts and others	2.2	0.7	0.4	3.3
Totals	**$68.0**	**$95.7**	**$58.9**	**$222.6**

Funding to Come From a Mix of Existing and New Sources, Including Bonds. The Governor proposes to fund the plan with a mix of existing and new fund sources. Specifically, about 43 percent ($96 billion) of the funding would be provided from existing resources, such as state and federal gas tax revenues and local school bonds. About 31 percent ($68 billion) of the funding would be provided from general obligation (GO) bonds. The remaining 27 percent of funding ($59 billion) would come from new sources, such as revenue bonds backed by gas tax and weight fee revenues, private investments in transportation facilities, and fees to be charged on water users.

Plan Includes a Total of $68 Billion in GO Bonds. A key element of the SGP is the use of GO bonds in all the program areas. Specifically, the plan calls for a total of $68 billion in GO bonds to be approved by voters between 2006 and 2014. Over one-third of that amount is proposed for authorization in 2006, with the remaining bonds to be authorized over four successive election cycles, as shown in Figure 2.

Of the amount to be authorized in 2006, about one-half ($12.4 billion) is proposed for education, and almost one-quarter ($6 billion) would be for transportation. The remaining amounts would pay for flood control and other water management projects, public safety, and court improvements. Over the ten-year period, the plan proposes $38 billion in GO bonds for education, accounting for 56 percent of all GO bonds proposed by the plan. Another $12 billion (18 percent) would fund transportation improvements, and the rest of the proposed bond funds would be split among flood control and water management, public safety, and courts.

Plan Proposes Constitutional Cap on Debt Service. In addition, the Governor proposes to place a cap on the costs the state would spend for debt service each year relative to the state's General Fund revenues. Specifically, the Governor proposes a constitutional amendment to set that limit at 6 percent.

Figure 2

Strategic Growth Plan
General Obligation Bond Proposals

(In Billions)

Program	2006	2008	2010	2012	2014	Totals
Transportation/air quality	$6.0	$6.0	—	—	—	$12.0
Education	12.4	4.2	$7.7	$8.7	$5.0	38.0
Flood control/water management	3.0	—	6.0	—	—	9.0
Public safety	2.6	—	4.2	—	—	6.8
Courts and other infrastructure	1.2	—	1.0	—	—	2.2
Totals	**$25.2**	**$10.2**	**$18.9**	**$8.7**	**$5.0**	**$68.0**

Growth Plan Has Positive Aspects

The Strategic Growth Plan takes into consideration the capital outlay requirements of different infrastructure, ranging from schools, to levees, to roads, and courts. The plan also takes a longer-term perspective in funding infrastructure than the state has done in the past, and it identifies some areas of infrastructure requirements that have been understated to date.

Plan Considers Funding Priorities of Different Infrastructure, Takes a Long-Term Perspective. The plan proposes funding for infrastructure in several key state program areas. By considering the funding requirements for each of the areas over ten years, the Governor's plan highlights the substantial amount of capital improvements the state should consider making over the long term in order to accommodate California's demand for services. The plan also reflects the administration's ranking of the relative funding priorities for the different areas of state infrastructure.

Plan Considers Multiple Funding Sources. The plan identifies a combination of sources for funding state capital improvements including user fees and private investment, instead of relying exclusively on bonds.

Plan Identifies Elements Previously Understated. The plan also identifies certain elements of capital improvements that have been understated or overlooked in the past. For instance, the plan addresses flood control-related infrastructure funding requirements at a level several times higher than previously identified. Similarly, the plan highlights the role of goods movement in transportation, an area the state has not focused much attention on previously.

Plan Provides Funding but Capital Outlay Requirements Not Defined

The $68 billion general obligation bond proposal is made without a supporting infrastructure plan that identifies specific capital outlay improvements in the various program areas. As a result, it is difficult for the Legislature to know how the bond proposal addresses the state's highest infrastructure priorities. We recommend that the Legislature not approve the Strategic Growth Plan until the administration provides a state infrastructure plan as required by current law.

State Infrastructure Plan Still Under Development. The SGP provides overall funding levels for large program areas. For many of these program areas, however, it is not known at this time what specific projects and types of capital improvements are to be funded. Chapter 606, Statutes of 1999 (AB 1473, Hertzberg), requires the Governor to submit to the Legislature annually in January, a five-year infrastructure development plan for state agencies, K-12 schools, and higher education institutions, along with a proposal for its funding.

While the plan was submitted in both 2002 and 2003, it has not been submitted for 2004, 2005, or 2006. According to the Department of Finance, the required 2006 plan will soon be made available. Without an infrastructure plan that identifies what capital outlay improvements are required over the five-year period, the Legislature cannot gauge how well the proposed funding meets the state's needs, and whether the administration's funding priorities correspond with legislative priorities. For instance:

- The SGP proposes to provide equal amounts of bond funds to each of the three higher education segments. It is not known what the administration proposes in capital improvements over the next five years to address modernization, enrollment growth, or other infrastructure needs. Consequently, it cannot be determined whether the proposed allocation of funds would address the highest priority capital outlay requirements for higher education.

- The SGP proposes $620 million for Central Valley and delta levee repairs and improvements, as well as $1 billion for integrated water management from a proposed 2006 bond measure. However, it is not known what the total requirements are to repair these levees. It is also not known how the proposed funding for integrated water management would address the state's water supply issues.

It is important that the Legislature have information on what capital outlay improvements the state needs to make to ensure that the state's infrastructure is preserved and that it can accommodate the state's demand for services. Based on this information, which is statutorily required to be available in the state infrastructure plan, the Legislature can then set funding priorities. The Legislature can also consider policy and programmatic changes to reduce the amount of capital investments the state has to fund.

Accordingly, in order that the Legislature can assess how SGP addresses the state's capital outlay requirements, we recommend that the Legislature not approve SGP bond proposals until a state infrastructure plan is made available that provides information called for by Chapter 606.

Statewide Needs Beyond 2010 Not Known. Even if the administration submits a five-year state infrastructure plan, however, the Legislature would still not be able to determine whether the total $68 billion bond proposal is warranted. This is because the SGP would provide funding for a longer, ten-year period than is covered by the statutorily required infrastructure plan. There is no comparable ten-year capital needs plan against which the SGP can be assessed. Most capital planning currently done by state agencies, including the higher education segments, is done on a five-year basis. Thus, no statewide data are available that provide a comprehensive assessment of what the state's capital outlay requirements are over ten years. Without that type of information, there is little basis to assess the levels of bond funding proposed in the SGP for various program areas for 2010 through 2014. Accordingly, we recommend that the Legislature not approve any bond proposals beyond the funding level identified in the five-year state infrastructure plan.

State Infrastructure Funding Should Align With State Responsibilities

The Strategic Growth Plan proposes funding certain local infrastructure. The Legislature should assess how the funding proposed aligns with the state's responsibilities for the provision of the services involved.

The SGP proposes to fund certain infrastructure that is under the control of local jurisdictions. The Legislature should first decide whether the program for which funding is proposed is a state, local, or shared responsibility. For instance:

- ***Funding of Local Jail Construction.*** The SGP would provide $12 billion over ten years to add approximately 83,000 jail beds throughout California. The funding consists of $4 billion in state GO bonds, $4 billion in other state "existing" resources, and $4 billion in matching funds from local governments. This raises fundamental questions about the roles and responsibilities of the state and local governments. Because law enforcement is a local responsibility in California, it generally makes sense that local governments bear the cost of building jails. However, given that state law established crimes and punishments, it may be appropriate for the state to share in the cost of jail construction. Although the administration has proposed to use one-third of the additional jail beds to relieve overcrowding in state prisons, it is not clear what the ongoing programmatic and fiscal implications are of this aspect of the SGP.
- ***California Community Colleges (CCC).*** The budget proposes almost $500 million from proposed bond funds for CCC in 2006-07. The budget notes that districts have committed $261 million of their own funds towards these projects. This raises the issue: What are the appropriate state and local shares of CCC facilities costs? The Legislature may want to consider placing in statute a funding scheme for these facilities similar to the current approach for K-12 facilities. This would involve specified matching ratios for new construction and modernization projects.

State Can Reduce Facilities Demand, Reduce Infrastructure Funding Requirements

There are policy and programmatic changes that the state can adopt to reduce the demand for infrastructure improvements.

The amount of investment spending identified in past state infrastructure plans generally assumed programs and services are provided in the same manner in the future as they are today. These spending requirements could be reduced if the state modifies the way some services are provided. For instance, in higher education, more extensive use of year-round education would accommodate a lot of new enrollment without any additional capital costs. The California State University system currently is at 9 percent of capacity in the summer, while the University of California (UC) is at about 20 percent. Furthermore, as we have recommended in past analyses, applying space utilization standards and cost guidelines can help limit the total cost of facilities.

Other policy changes, such as an increase in the state gas tax, would potentially reduce the amount of miles people drive, reducing the growth in congestion. As another example, the Legislature could enact legislation to more closely tie local land use decision making to flood risks and the related fiscal consequences of those decisions. Such an approach would potentially reduce the demand for state-funded flood control infrastructure.

As the 2006 infrastructure plan is not yet available, it cannot be known at this time what the plan assumes regarding how services will be provided throughout the five-year plan period and beyond. To the extent programmatic or policy changes are assumed, the administration should make these assumptions explicit so that the Legislature can better assess the funding levels proposed in the SGP.

Plan Relies on Some Questionable Assumptions

In addition to the bonds proposed, the Strategic Growth Plan (SGP) assumes that substantial amounts of new resources will be available for infrastructure in the next ten years. Whether all of the assumed resources would be forthcoming is questionable. If not, there would be a funding shortfall in the SGP.

In addition to the GO bonds proposed, the SGP also assumes significant amounts of existing and new funding sources, particularly for flood control and water supply, and transportation improvements. While undoubtedly the state will be receiving substantial portions of the assumed funding, some of the amounts are based on questionable assumptions. For instance, the SGP assumes that a majority of funding for flood control and water supply would come from existing federal and local sources—$5 billion and $16 billion, respectively, over the ten-year period. This level of federal and local investment is highly uncertain. As regards federal funding, the state has to get over two major hurdles. First, the federal government must authorize the projects. Second, funding has to be appropriated for the projects. Given the recent funding history of CalFED, it is risky to assume that all of the funds authorized for water projects will actually be appropriated.

Regarding local funding, it is also highly uncertain what the level of local investment for local water projects will be in future years. This is because the state does not generally track these local expenditures, and decision making related to these local investments is generally not part of a state planning process.

If the assumed new resources do not materialize, there would be a funding shortfall for projects or programs proposed in the SGP. The Legislature should consider its relative funding priorities and what would not be funded under those circumstances.

Balance Use of General Obligation Bonds With Other Fund Sources

The Strategic Growth Plan relies heavily on general obligation bonds for future state investment in capital outlay beyond what would be provided from existing resources. The Legislature may want to consider a combination of pay-as-you-go direct appropriations and revenue bonds to fund the state's infrastructure.

The SGP calls for a substantial amount of GO bonds to fund future state capital outlay improvements. Figure 3 shows the allocation of the proposed GO bonds to various purposes in five program areas. As the figure shows, the bulk of the $68 billion bond funds would be for education (including K-12 and higher education) and for transportation. While the SGP also proposes $800 million in lease-revenue bonds, mainly for public safety and various other state infrastructure, the amount is small by comparison to the amount of GO bonds proposed.

The state has funded capital outlay from a number of sources. While capital improvements for K-12 schools and higher education have traditionally relied on GO bond funding, that is not the case for other areas of state infrastructure. For instance, transportation investments have traditionally relied on user fees—including state excise taxes on gasoline and diesel, and weight fees—to provide pay-as-you-go funding. For public safety, the state has in recent years also relied on lease-revenue bonds, as well as direct appropriations from the General Fund, to pay for capital outlay improvements.

In responding to the SGP, the Legislature should consider how much other funding sources, besides GO bonds, are appropriate to use for capital outlay projects. For instance, the Legislature should consider the extent users of certain services should support the cost of the service. Where there is a clear nexus between users and the service provided, and where users fees can generate a stable stream of revenue, these revenues instead of the General Fund should be considered as an alternative. The Legislature should also consider setting aside some General Fund monies for pay-as-you-go spending. The state has many other program areas that would not be funded under the SGP, such as state office buildings. Having a certain level of General Fund revenues set aside would help the state address these other areas.

Figure 3

Strategic Growth Plan
General Obligation Bond Allocations by Programs

(In Millions)

	2006	2008	2010	2012	2014	Totals
K-12						
New construction	$1,700	$3,000	$2,000	$1,700	$1,000	$9,400
Modernization	3,300	1,200	2,164	2,368	3,068	12,100
Charters	1,000	—	468	466	466	2,400
Career Tech	1,000	—	468	466	466	2,400
Subtotals	($7,000)	($4,200)	($5,100)	($5,000)	($5,000)	($26,300)
Higher Education						
UC	$1,933	—	$1,000	$1,233	—	$4,166
CSU	1,733	—	800	1,233	—	3,767
CCC	1,733	—	800	1,233	—	3,767
Subtotals	($5,400)	—	($2,600)	($3,700)	—	($11,700)
Transportation/Air Quality						
Performance projects	$1,700	$3,600	—	—	—	$5,300
Rehabilitation	1,300	200	—	—	—	1,500
Corridor mobility	300	—	—	—	—	300
Intercity rail	400	100	—	—	—	500
Port mitigation	1,000	—	—	—	—	1,000
Goods movement	1,000	2,000	—	—	—	3,000
Others	300	100	—	—	—	400
Subtotals	($6,000)	($6,000)	—	—	—	($12,000)
Flood Control/Water Management						
Levees/flood control	$1,000	—	$1,500	—	—	$2,500
Water management	2,000	—	4,500	—	—	6,500
Subtotals	($3,000)	—	($6,000)	—	—	($9,000)
Public Safety						
Local jails	$2,000	—	$2,000	—	—	$4,000
Correctional facilities	170	—	1,100	—	—	1,270
Others	440	—	1,100	—	—	1,540
Subtotals	($2,610)	—	($4,200)	—	—	($6,810)
Courts and Other State Facilities						
Trial courts	$800	—	$1,000	—	—	$1,800
Other state facilities	427	—	—	—	—	427
Subtotals	($1,227)	—	($1,000)	—	—	($2,227)
Totals	**$25,237**	**$10,200**	**$18,900**	**$8,700**	**$5,000**	**$68,037**

Certain Areas of Infrastructure Improvements Not Included

The Strategic Growth Plan does not address certain areas of the state infrastructure, such as deferred maintenance in state parks.

While the SGP addresses certain key areas of the state's infrastructure, some other areas are not included. For instance, the state currently has significant deferred maintenance requirements in the state park system, which the Department of Parks and Recreation estimates to cost about $900 million. Similarly, improvements are needed to retrofit state hospitals and UC hospitals to seismic safety standards. Additionally, facility improvements may be needed for various state buildings over the next decade that are not included in the SGP. It is not clear whether the Governor plans to address these other capital outlay requirements separately, through future direct appropriations, lease-revenue bonds, or through other means.

Proposed State Debt-Service Ratio Cap Limits State's Responsiveness to Future Capital Outlay Needs. The SGP proposes a cap of 6 percent on the state's debt-service ratio. This ratio measures the amount of debt-service payments on GO bonds and lease-revenue bonds (which are primarily financed by the General Fund) relative to the state's annual General Fund revenue. To the extent the issuance of bonds proposed in the SGP results in the state debt-service ratio hitting the cap, the state would not be able to use additional GO and lease-revenue bonds (beyond those proposed in the SGP) to respond to unforeseen needs, such as those created by natural disasters, or fund other necessary capital outlay improvements that are not included in the SGP.

Elements of Bond Fund Allocation Need Justification

Some purposes for which the Strategic Growth Plan proposes to direct general obligation bond funding lack justification. Absent documentation that justifies the proposed use, we recommend that the Legislature reject the proposals.

The SGP proposes to allocate bond funds to a number of purposes for which documentation that justifies the allocation is lacking. For instance, the administration has not demonstrated the need for the proposed level of investment in career technical education, charter schools, and telemedicine. Similarly, there are no details to support the proposed allocation of $5.5 billion to water management grants. Without information that justifies these proposed uses of the bond funds, we recommend that they be rejected.

DEPARTMENTAL ISSUES

Capital Outlay

JUDICIAL BRANCH (0250)

The Judicial Branch is responsible for Supreme Court and Appellate Court facilities, and in accordance with the Trial Court Facilities Act of 2002, is in the process of assuming responsibility for all county trial court facilities statewide. The Judicial Branch has two Supreme Court buildings, one in San Francisco and the other in Sacramento. There are also ten Appellate Court facilities for the six District Courts of Appeal. These facilities altogether have over 567,000 square feet of space. Currently there are 451 trial court facilities in the state with about 10.1 million usable square feet of space.

For 2006-07, the budget requests $23.6 million for the Judicial Council's capital outlay program, including $2.4 million from the State Court Facilities Construction Fund, and $21.2 million from the Public Building Construction Fund. The funding would provide for three projects with combined future cost of $28.2 million. These projects include $21.1 million for construction of a new Fourth Appellate District courthouse in Santa Ana, and funding for two trial court construction projects. The trial court projects include $1.9 million for working drawings for a new Antioch courthouse in Contra Costa County and $481,000 for acquisition and preliminary plans for a new Plumas/Sierra Counties joint-use courthouse.

IMPLEMENTATION OF THE TRIAL COURT FACILITIES ACT

Until 1997, California's counties were entirely responsible for funding trial court operations. Funding for both court operations and facilities depended on the fiscal stability of the counties and varied widely from one county to another. The Legislature enacted Chapter 850, Statutes of 1997 (AB 233, Escutia and Pringle), which shifted fiscal responsibility for support of the trial courts from the counties to the state.

Chapter 1082, Statutes of 2002, (SB 1732, Escutia)—the Trial Court Facilities Act—shifted responsibility for trial court facilities from the counties to the state. It required the state to oversee the transfer of all existing county trial court facilities to the state and to fund the maintenance and future construction of trial court facilities. Specifically, Chapter 1082 requires the transfer of trial court facilities to the state by June 30, 2007. It also requires the state to negotiate with counties for the transfer of each facility. According to the Administrative Office of the Courts (AOC), it will have to negotiate the transfer of approximately 450 facilities statewide.

There are three possible types of facilities transfers: title transfer, lease transfer, and transfer of responsibility, as shown in Figure 1. The state would hold title, or ownership, of the facility only in the case of a title transfer. In the case of a lease transfer or transfer of responsibility, the state would not have ownership of the facility involved. We have also noted in Figure 1 which entity is liable for the facility and associated responsibilities.

Transfer Workload Is Complicated and Large. To negotiate the transfer of 451 facilities is a very large undertaking for both the counties and the state. Before a trial court facility can be transferred, often extensive work has to be done related to due diligence, seismic inspection, calculation of the county facilities payment (CFP) (discussed below), and conducting deferred maintenance projects. Many counties, especially smaller ones with fewer resources, are finding the process more complicated than initially conceived. Many counties did not hire additional staff to deal with the many due diligence and accounting requirements of the transfer process.

At the state level, the AOC created the Office of Court Construction and Management in 2003 to implement the facilities transfer. The Legislature authorized and funded positions for the office in 2003-04. By 2005, the authorized staffing level had increased to 128 but only 44 of those positions are currently filled.

Trial Court Facility Transfer Hindered by Seismic and Facilities Payment Concerns. As of January 2006, only four facilities—including two in Riverside County, one in Mono County, and one in San Joaquin County—had been transferred from the counties to the state. Given the rate of transfer to date, the deadline will not be met. In our discussions with various counties and court administrators as well as with AOC staff, it appears that in addition to the magnitude of the task, there are two significant factors hindering the transfer of court facilities. These are the liability for seismic retrofit requirements and calculation of the CFP. We discuss each of these factors below.

Figure 1

Courts Facility Transfers

Type of Transfer	Description	Liability Held by
Title transfer	• State becomes the titleholder to the property and is responsible for all liability. • State is also responsible for the maintenance and upkeep of the facility, while county annually pays fixed county facilities payment toward facility maintenance and upkeep.	State
Lease transfer	• State becomes the lessee of private property. • Third party building owner remains liable for the facility. • State is responsible for maintenance and upkeep, while the county annually pays a fixed county facilities payment toward facility maintenance and upkeep.	3rd Party Lessor
Transfer of Responsibility	• Only for shared-use and bonded facilities. • State is neither the titleholder nor lessee but becomes responsible for maintenance and upkeep. • Liability for the facility is shared by county and state according to transfer agreement. County remains titleholder. • County pays a fixed county facilities payment toward facility maintenance and upkeep.	County and State

Seismic Retrofit Requirements Holding Back Transfers

In order to facilitate the transfer of facilities, we recommend the Legislature clarify current law to explicitly specify that counties are responsible for the payment of seismic retrofits of existing court facilities and to allow the use of escrow accounts for these payments.

Before a court facility can be transferred to the state, the facility's seismic safety is assessed. Seismic safety ratings range from level 1 to level 7, with seismic level 5 and above buildings involving substantial risk to human life in a major earthquake. Consultant engineers hired by AOC have determined that up to 162, or about one-third, of the trial court facilities are level 5 or above seismic hazards. Chapter 1082 prohibits facilities rated level 5 or higher to be transferred unless provision is made for the correction of the seismic deficiency. (Buildings with less than 10,000 square feet can be transferred to the state regardless of seismic status.)

Given the large number of facilities deemed to be unacceptable in terms of seismic safety, the cost of seismically retrofitting these facilities is substantial. The AOC estimates the statewide costs for the seismic retrofit to be about $0.9 billion.

Counties Disagree With Seismic Retrofit Payments. In negotiating with the state, most counties disagree with AOC's position that they should pay for the cost of seismic retrofit. Some counties disagree with the state's assessment of the risk level of some facilities. Some counties—such as San Diego County—have hired independent evaluators who have refuted the state's analysis. Many counties were surprised by the AOC consultant's assessment of their court facilities' seismic condition. Still other counties are refusing to take on the seismic retrofit responsibility because they believe that if the state takes over the building, it should also take the liability that comes with that building.

Where counties are willing to pay, some disagree with the size of the seismic repair payments required. The negotiations over these seismic repair payments are slowing down the transfer of the court facilities to the state. Still other counties do not have the available funds to pay the costs. The payments for seismic retrofit vary by facility but most are at least in the millions of dollars. A county cannot pay for the seismic retrofit with bond funds backed by the building because that asset will be transferring to the state.

Older Seismically Unsafe Facilities Can Be Functionally Obsolete. Compounding the seismic retrofit problem is the fact that many of the older court facilities that are deemed seismically unsafe are also functionally obsolete. The state does not want court facilities that can no longer adequately serve their intended purpose. At a minimum, the state would have to make substantial interior renovations to increase the utility of the building for a modern court. These renovations could cost millions of dollars, depending on the size of the facility and extent of the renovation. Typically, the state considers new construction over renovation when the cost of renovation exceeds 60 percent of the cost for new construction. The combined costs of seismic retrofits and interior renovations could be so large that a replacement facility would be a better alternative. However, current law does not specify the alternatives available to counties in lieu of retrofitting a functionally obsolete building.

Recommend Current Law Be Clarified. We recommend that the Legislature clarify existing law to explicitly specify that counties are responsible for paying for the seismic retrofit of existing court facilities. Current law already requires counties to address serious deficiencies in their buildings before they are transferred. We believe the Legislature intended to include seismic problems in this category. The proposed clarification should facilitate negotiations for court facilities transfer.

In addition, we also recommend that the Legislature clarify how counties can meet their seismic requirements. For example, it is not clear if the law allows counties to place cash payments equal to the seismic retrofit cost into an escrow account to be applied toward the construction of a new facility. Such escrow accounts would avoid situations where a county believes it must physically retrofit a functionally deficient facility before it can transfer the facility to the state. Allowing the payments for seismic retrofit to be applied towards new facility construction would reduce the state's cost burden, if it determines that a new facility is more cost-effective than retrofitting a seismically unsafe building. Additionally, counties could make incremental payments to the escrow account.

Calculation of the County Facilities Payment

The current method of calculating county facility payments (CFPs) is cumbersome and onerous to some counties, as well as biased against counties with active maintenance programs. We recommend that the Legislature consider simplifying CFP calculations, using alternative methodologies such as basing the payment on a per-square-foot maintenance cost for the facilities.

Chapter 1082 requires counties to make, in perpetuity, CFPs to the state for court facility operation and maintenance costs. The CFP ensures that the state does not assume 100 percent of a very large facility maintenance expense burden. The CFP is calculated based on the average annual expenditures by a county to operate and maintain a court facility between 1995-96 and 1999-00, adjusted for inflation up to the month of the facility transfer. After a court facility is transferred, the county is locked into paying the same amount annually thereafter.

Complicated Calculations. The process for calculating a CFP is complicated and is onerous for some counties. Chapter 1082 specifies the maintenance cost items that will be included in the payment, including all maintenance and repair costs, purchases and installation costs, parking space maintenance, and landscaping. In addition, the CFP includes insurance costs calculated based on private provider rates. The CFP does not provide credit for such items as rental income that counties previously applied toward a facility's maintenance costs. Some counties have had difficulties retrieving all of the cost information required to do the calculations, such as utility bills and expenditure records for old repairs, due to their limited staff or poor record keeping.

Current CFP Methodology Biased Against Counties With Active Maintenance Programs. Since the CFP uses expenditures from specific years, counties that conducted major repairs during those years will have higher payments than counties with similar facilities that did not conduct repairs. For example, a county that installed new roofs and air conditioners in addition to routine maintenance would pay more in CFP than a county with similar size facilities that conducted minimal maintenance.

Consider Alternative Methodology to Simplify CFP Calculations, Evening Out County Responsibilities. Instead of the current cumbersome method of calculating CFPs, we recommend that the Legislature consider alternatives to simplify the calculation methodology. One such alternative would be to calculate the CFP based on a per-square-foot maintenance cost for an average facility, rather than accounting for individual expenditure items. Using a per-square-foot cost standard would eliminate bias against counties that have diligently maintained their facilities. Another option is to base the per-square-foot calculation on the number of judges in the county at the time of facility transfer, allowing for a standard amount of space per judge position. This approach assumes that counties should have provided and maintained adequate space for the number of judicial positions in the county, and should provide the same on an ongoing basis after the transfer of their court facilities to the state.

Expand New Antioch Courthouse

The plan for a new Antioch courthouse in Contra Costa County does not meet the current identified workload of the court. As planning and construction of major capital outlay projects takes multiple years, the proposed project will be obsolete in capacity before construction is complete. We withhold recommendation pending the submission of a plan by Judicial Council for a larger courthouse that accommodates workload demands in the near future.

Current Court Facility Does Not Meet Capacity Needs. Currently, the Pittsburg trial court facility in Contra Costa County operates with four full-time courtrooms. Due to the number of filings, the court also uses one converted jury room as a courtroom once a week. In 2005, the Pittsburg court handled about 55,400 filings, and had to direct 6,393 filings (about 10 percent of total filings) to the Martinez courthouse due to overcrowding. The Pittsburg court facility is in poor condition and no longer meets the needs of the court for safety, circulation, holding cell capacity, courtroom size, and Americans With Disabilities Act accessibility.

New Antioch Facility Is Too Small. The Governor's budget proposes to construct a new trial court facility in Antioch to replace the Pittsburg facility. The new Antioch facility would have four courtrooms. Our review, however, shows that the proposed facility will not provide adequate space to accommodate even the current filings of the Pittsburg court. The filings transferred to Martinez are entirely criminal felonies and family law filings that take up more judge time than other types of filings. If all the filings were now being handled at the Pittsburg facility, it would require more than the current number of courtrooms.

Planning for Future Growth. The planning and construction of a major capital outlay project routinely takes three to five years. Constructing a court facility that does not have the capacity to handle current filings is not a wise investment. Constructing courthouses that are too small or constrained to handle even slight increases in filings is not prudent planning.

Withhold Recommendation. Based on current workload and recent growth in filings, the proposed Antioch courthouse would be over capacity and unable to accommodate its filings workload by the time it is complete in 2009. In order to avoid building a court facility that is too small to accommodate all the filings when construction is complete, we withhold recommendation on the new Antioch courthouse until the department submits a revised proposal that provides adequate courtrooms for the workload that court is expected to handle in 2009.

Need for Budget Bill Language on Project Transfer

We recommend adoption of budget bill language requiring the transfer of the Contra Costa County Pittsburg trial court facility prior to the release of $2 million in State Court Facilities Construction Fund to prepare working drawings.

The Governor's budget proposes funding for two trial court facilities in 2006-07, including a new Antioch courthouse in Contra Costa County and a joint-use Plumas/Sierra Counties courthouse. However, neither county has transferred the existing courthouses to the state. The Judicial Council estimates that transfers will take place by late spring 2006. In order to encourage the speedy transfer of these court facilities, funding for the new courthouses should be available only upon the transfer of old trial court facilities. Currently, the budget bill includes language requiring the transfer of the Plumas County Portola trial court facility prior to the release of funds. We think that the same language should be applied to the Contra Costa County Pittsburg courthouse. Accordingly, we recommend the adoption of the following budget bill language:

"Notwithstanding any other provision of the law, County of Contra Costa shall transfer responsibility, or responsibility and title, for the Pittsburg Court facility to the state prior to the release of the funds identified in Schedule (1)."

DEPARTMENT OF PARKS AND RECREATION (3790)

The budget proposes $29.4 million for capital outlay for the Department of Parks and Recreation. This amount includes $17.7 million from bond funding, $2.7 million from the Off-Highway Vehicle Trust Fund (OHVF), $1 million from the Habitat Conservation Fund, and $8 million from federal funds and reimbursements.

Delete Six out of Seven Minor State Vehicular Recreation Area Projects

We recommend the Legislature delete funding for six minor capital outlay projects at State Vehicular Recreation Areas because the Off-Highway Motor Vehicle Recreation Commission, as required by statute, has not approved these projects. (Reduce Item 3790-301-0263 by $1.9 million.)

As shown in Figure 1 (see next page), the budget proposes seven minor capital outlay projects totaling $2.1 million (OHVF) to provide for improvements to existing facilities at various State Vehicular Recreation Areas. Current law requires all capital outlay projects funded from OHVF to be approved by the Off-Highway Motor Vehicle Recreation (OHMVR) Commission.

Recommend Deletion of Six Projects Lacking Required Commission Approval. At its December 2005 meeting, the OHMVR voted to reject six of the seven proposed minor capital outlay projects. Consistent with statute, we therefore recommend the Legislature reject these six proposals and reduce the appropriation for minor capital projects by a corresponding amount.

For a discussion of the Off-Highway Motor Vehicle Recreation Program, please see the "Department of Parks and Recreation (Item 3790)" write-up in the "Resources" chapter of this *Analysis.*

Figure 1

State Vehicular Recreation Areas Minor Projects

(In Thousands)

Proposed Projects	Amount	Commission Approval
Hungry Valley		
• Parking lot repaving	$483	No
• Restrooms	332	No
Oceano Dunes		
• Restrooms	143	No
• Vehicle wash rack	486	No
• Vehicle storage	191	No
Hollister Hills		
• Long Canyon Hill restoration	202	Yes
Octotillo Wells		
• Residence area development	230	No
Total Off Highway Vehicle Trust Funds	**$2,067**	

DEPARTMENT OF DEVELOPMENTAL SERVICES (4300)

The Department of Developmental Services operates five state-owned developmental centers (Agnews, Fairview, Lanterman, Porterville, and Sonoma) and two small leased developmental centers (Canyon Springs and Sierra Vista). All of the seven facilities are 24-hour residential care facilities with over 4,400 beds capacity. The state-owned developmental centers have about 5.3 million square feet of space. The budget includes $23.7 million for a new kitchen project at Porterville Developmental Center.

Fund Only Preliminary Plans for New Main Kitchen

We recommend the Legislature fund only preliminary plans for a new main kitchen at Porterville Developmental Center, requiring a funding shift from lease-revenue bonds to the General Fund. We recommend the Legislature not fund the satellite kitchens' preliminary plans because (1) the proposal does not specifically addresses the deficiencies that the department has noted and (2) the number of satellite kitchens could decrease within five years. (Reduce Item 4300-301-0660[1] by $22,557,000 and replace with $1,136,000 in General Fund. Also reduce Item 4300-301-0001[1] by $1,177,000.)

Porterville Kitchen Project. The Governor's budget includes $22.5 million in lease-revenue bonds to prepare preliminary plans and working drawings, and to construct a new main kitchen at Porterville Developmental Center. The new main kitchen would replace a seismically deficient kitchen with functionally deficient equipment. The budget also includes about $1.2 million from the General Fund for the department to prepare preliminary plans for the renovation of 24 satellite kitchens, one for each housing unit at Porterville. The estimated future cost of the satellite kitchens' renovation is $19.4 million (General Fund).

Current Food Preparation System. The Porterville facility currently has a cook-chill method of food preparation. Main kitchen staff cooks food in large batches that are quickly frozen in blast chillers. The frozen food is transported to the satellite kitchens where it is reheated and served on individual plates. Every day approximately 2,400 meals are served at Porterville.

Main Kitchen Requires Large-Scale Facility Repairs. The existing main kitchen has a number of deficiencies, such as a leaky roof and an inadequate air-conditioning system. The main kitchen is also seismically deficient. During an initial review, the Department of General Services determined that it would be more expensive to repair and seismically retrofit than to construct a new one. In addition, much of the main kitchen equipment is not functioning properly due to having exceeded the equipment's useful life and a lack of proper maintenance. The deficient equipment has led to many citations for health violations.

Preliminary Plans Provide Detailed Project Scope. Preliminary plans include a detailed project scope description (exactly what will be built and why), a site plan, architectural floor plans, building elevations, outline specifications, and a detailed cost estimate. The completion of preliminary plans is important because they provide the initial design documents used to prepare the construction documents. Without completed preliminary plans, any project cost estimate is merely a "best guess" estimate concerning the final scope and cost of the project.

Complete Preliminary Plans Prior to Funding Construction. The proposed new main kitchen and satellite kitchen renovation project is complex and large in scope, and will take several years to complete. If lease-revenue bonds are used to fund the project as requested, the Legislature would have to authorize funding for preliminary plans, working drawings, and construction at one time. This is because lease-revenue bonds cannot be used without the assurance that a project will be constructed. Thus, lease-revenue bonds cannot be used to fund only preliminary plans. However, authorizing a project's full funding prior to defining the project's scope reduces the Legislature's oversight of the project. To ensure project oversight, we recommend that the Legislature wait to fund the working drawings and construction phase of the project until it has had an opportunity to review preliminary plans. Funding only preliminary plans for the project would necessitate the use of General Fund money. Accordingly, we recommend funding the Porterville new main kitchen preliminary plans from the General Fund at a cost of $1,136,000. Once a detailed cost estimate from the preliminary plans is complete, the Legislature could provide funding for working drawings and construction of the project from lease-revenue bonds.

Satellite Kitchens Project Lacks Sufficient Information. The Porterville proposal does not include sufficient justification for renovating all of the 24 satellite kitchens, one in every housing unit. Nine of these satellite kitchens are inside the secure perimeter (where violent forensic patients are housed), and 15 are outside the secure perimeter. However, based on the department's population projections, Porterville may soon not need all of the 15 housing units outside the secure perimeter. The patient population outside of the secure perimeter fence has fallen from 518 to 422 in the last five years, and by 2007 the department projects it to drop to 368. By the time the proposed satellite kitchens renovation would be complete (in 2010), the patient population outside of the secure perimeter may require fewer housing units.

The proposal also did not sufficiently demonstrate why the satellite kitchens needed all the proposed extensive renovations. The department cites the following deficiencies in the satellite kitchens: insufficient freezer storage space, not enough sinks, and lack of air-conditioning. The proposal, however, calls for: new windows, equipment, and worktables; employee lockers; air conditioning installation; electrical upgrades; and replacement of flooring, ceiling, and wall finishes. Accordingly, we recommend the Legislature reject the proposed General Fund appropriation of $1.2 million for satellite kitchen renovation preliminary plans. The department should instead submit a proposal that addresses (1) the projected drop in patient population and (2) the specific deficiencies in the satellite kitchens that the department has noted.

DEPARTMENT OF MENTAL HEALTH
(4440)

The Department of Mental Health (DMH) operates five mental health hospitals and two correctional facility mental health programs. The five mental health hospitals have capacity of over 6,300 beds and approximately 6.4 million square feet of space. Four of the mental health hospitals were constructed more than 50 years ago. In 2005, DMH opened the Coalinga Mental Hospital with 1,500 beds for sexually violent predators.

Fund Only New Main Kitchen Preliminary Plans

We recommend the Legislature fund only preliminary plans for new main kitchens at Napa State Hospital and Patton State Hospital, requiring a funding shift from lease-revenue bonds to the General Fund. We withhold recommendation on the amount ($947,000) requested for preliminary plans to renovate satellite kitchens at the two hospitals pending review of the federal Civil Rights of Institutionalized Persons Act remediation agreement and in order to allow the department to submit a revised proposal.

Proposal for Napa State Hospital New Kitchen. The Governor's budget proposes $20.7 million in lease-revenue bonds to prepare preliminary plans and working drawings, and to construct a new main kitchen at Napa State Hospital. The purpose of the project is to implement a cook-chill method of food preparation and to replace the deteriorated main kitchen. The Governor's budget further proposes to fund preliminary plans for the renovation of 13 satellite kitchens at Napa. The proposed satellite kitchens each include food reheating capability and a dining room area. The satellite kitchen preliminary plans would be funded from the General Fund at $598,000. The future costs for working drawings and construction of the Napa satellite kitchens would be $11.3 million (General Fund).

Proposal for Patton State Hospital New Kitchen. The Governor's budget also proposes $21 million in lease-revenue bonds to prepare preliminary plans and working drawings, and to construct a new main kitchen at Patton State Hospital. The purpose of the project is to implement a cook-chill method of food preparation and to replace the deteriorated main kitchen. The Governor's budget further requests $349,000 from the General Fund for preliminary plans for the renovation of seven satellite kitchens at Patton. The future costs for working drawings and construction of the Patton satellite kitchens would be $6.5 million.

Cook-Chill Method Efficient for Large Institutions. Our review indicates that the new main kitchen projects for both hospitals are justified. The projects will enable both hospitals to address the failing equipment and inefficient workspace layout of the kitchen facilities. The current main kitchens were built in the 1950s and do not meet current health and safety codes in many areas. In addition, the projects will allow shifting the food preparation and delivery to the cook-chill method, which provides better food safety control.

The cook-chill method also could result in staff savings as multiple meals are cooked at one time so that fewer staff would be needed at every mealtime to prepare food. For instance, the state correctional facilities, which already use the cook-chill method, realized staff savings at implementation.

Preliminary Plans Provide Detailed Project Scope. Preliminary plans include a detailed project scope description (exactly what will be built and why), a site plan, architectural floor plans, building elevations, outline specifications, and a detailed cost estimate. The completion of preliminary plans is important because they provide the initial design documents used to prepare the construction documents. Without completed preliminary plans, any project cost estimate is merely a "best guess" estimate concerning the final scope and cost of the project.

Complete Preliminary Plans Prior to Funding Construction. The proposed new main kitchen and satellite kitchen renovation projects are complex and will take several years to complete. If lease-revenue bonds are used to fund these projects, as requested by the department, the Legislature would have to authorize funding for all three phases—preliminary plans, working drawings, and construction—at one time. This is because lease-revenue bonds cannot be used without the assurance that a project will be constructed. Thus, lease-revenue bond funds cannot be used to fund only preliminary plans. However, authorizing a project's full funding before the project scope is defined reduces the Legislature's oversight of the project's development. To ensure that oversight, we recommend that the Legislature wait to fund the working drawings and construction phases of the projects until after it has had an opportunity to review the plans. Funding only preliminary plans for these projects would necessitate the use of General Fund money. Accordingly, we recommend funding the Napa new main kitchen preliminary plans from the General Fund at a cost of $1,026,000, and the Patton new main kitchen preliminary plans from the General Fund at a cost of $904,000. Once the detailed cost estimates from the preliminary plans are complete, the Legislature can consider funding for working drawings and construction of the main kitchen projects from lease-revenue bonds.

Federal CRIPA Dispute. The department is currently involved in negotiations with the federal government over alleged violations of the federal Civil Rights of Institutionalized Persons Act (CRIPA). The final agreement between the state and the federal government on addressing CRIPA issues at DMH hospitals is anticipated in spring 2006. The remediation agreement could result in changes in programs and treatment models. Because these changes could have an impact on how the hospitals serve meals, they should be evaluated prior to the implementation of the satellite kitchen projects. For example, the federal government might require DMH to provide patients more time away from housing units—an action that might necessitate a differently configured dining-hall system.

Department Should Examine Alternatives. Our review also indicates that the department did not examine alternatives to renovating numerous satellite kitchens at two hospitals. For instance, the department did not consider consolidating some service kitchens. The satellite kitchen proposals include two service kitchens in some buildings, so patients would not have to walk between floors. Depending on the CRIPA agreement, there may be opportunities for the department to consolidate some of the service kitchens.

Wait for Revised Satellite Kitchen Proposal. We think that the department should await the federal CRIPA remediation agreement before it determines how the satellite kitchens of both Napa and Patton hospitals should be configured. Furthermore, the department should examine the cost and benefits of other alternatives, including consolidation of some satellite kitchens. After the CRIPA remediation agreement is released during spring 2006, DMH should submit a revised satellite kitchen proposal for legislative consideration. We withhold recommendation on the satellite kitchen proposal pending receipt of this information.

Department of Corrections and Rehabilitation (5225)

The California Department of Corrections and Rehabilitation (CDCR) operates 33 adult prisons, 8 youthful offender facilities, 43 fire and conservation camps, and 1 youth camp. Approximately 168,000 men, women, and youths are imprisoned in these facilities. The CDCR facilities comprise about 3,000 structures with 37 million gross square feet of building space. The CDCR also contracts for a variety of community-based services including 12 community correctional facilities, five prisoner-mother facilities, and various community reentry programs. In 2005, CDCR opened one new prison, the Kern Valley State Prison at Delano II.

For 2006-07, the budget requests $223.8 million for CDCR's capital outlay program, including $123.8 million from the General Fund and $100 million from the Public Buildings Construction Fund. The proposed funding includes:

- $100 million to construct the San Quentin Condemned Inmate Complex.
- $89.4 million for nine water and wastewater treatment projects.
- $13.9 million for two mental health Intermediate Care Facilities.
- $9.4 million for safety and facilities improvement-related projects.
- $2.2 million for Division of Juvenile Justice projects.
- $7.5 million for minor projects and $1.25 million to begin project planning.

Withhold Recommendation on CCC Wastewater Treatment Plant Modification

The California Correctional Center wastewater treatment plant modifications go far beyond the consultant's assessment of the necessary repairs. We withhold recommendation on the $1.5 million (General Fund) to prepare preliminary plans until the California Department of Corrections and Rehabilitation submits information showing the expanded scope of the project is necessary.

Consultant Assessment of CCC Wastewater. In February 2004, CDCR-hired consultants released a final assessment on the condition of the wastewater treatment plant at the California Correctional Center (CCC) in Susanville. The report lays out potential improvements that CDCR could undertake to ensure that the wastewater treatment plant is adequately cleaning the water before it is discharged. The report's recommendations for improvement also discuss how the facility can ensure sufficient wastewater treatment capacity. These improvements include installing effluent flow metering, replacement of effluent pumps, installing concrete lining for sedimentation ponds, replacing bar screens, replacing floating aerators, and constructing drying beds for pond solids. The consultant estimated in 2004 that the necessary repairs would cost the department $2.6 million.

Proposal for Wastewater Treatment Plant Improvements. The Governor's budget includes $1.5 million in General Fund to prepare preliminary plans for CCC wastewater treatment plant modifications. The future cost of the project would be $20.4 million. The proposal includes installation of new screening mechanisms, construction of secondary treatment ponds, storage ponds, effluent irrigation land, solids-handling equipment, and an emergency generator. The wastewater project goes far beyond the recommendations in the consultant report and includes expansion of capacity not identified in the consultant's assessment.

Withhold Recommendation Until Receive More Information. The proposal does not address why the consultant's recommendations were deemed insufficient to address CCC's wastewater problems and that a project of significantly larger scope and cost is warranted. Thus, we withhold recommendation until the department submits evidence showing that implementing only the consultant's recommendations would be insufficient for improving CCC's wastewater treatment.

Withhold Recommendation on Chuckawalla Wastewater Treatment Plant

We withhold recommendation on the $455,000 (General Fund) for preliminary plans for the Chuckawalla wastewater treatment plant

until the Regional Water Quality Control Board issues its decision on the discharge permit in March 2006.

The Governor's budget includes $455,000 in General Fund to prepare preliminary plans for a Chuckawalla Valley State Prison (CVSP) wastewater treatment plant renovation. The CVSP is currently out of compliance with its wastewater discharge permit due to discharging water that is not sufficiently clean. The project would replace worn equipment, and allow CVSP to treat its wastewater to the maximum level that the facility was designed to remove impurities from the water. However, even with fully functioning equipment, CVSP wastewater treatment plant would not meet the standards for water discharge cleanliness.

The Regional Water Quality Control Board is currently considering CVSP's request for a less restrictive wastewater discharge permit. The board is expected to announce its decision in March 2006. If the board rejects CVSP's request, the scope of the wastewater treatment plant project could be significantly larger and with higher cost. Accordingly, we withhold recommendation on CVSP wastewater treatment plant project until the board issues its decision.

Fund Only Working Drawings for DVI Wastewater Facility

We recommend reducing $23 million (General Fund) for construction of a wastewater treatment facility at the Deuel Vocational Institute. This is because the estimated date for completing working drawings of the facility is overly optimistic, and funding for construction can wait until 2007-08. (Reduce Item 5225-301-0001[7] by $22,979,000.)

Scope of the Project. The Governor's budget includes $24.3 million in General Fund to prepare working drawings and construct a new wastewater treatment facility at Deuel Vocational Institute (DVI) in Tracy. The new wastewater treatment facility would address current discharge violations and bring the facility into compliance with the National Pollutant Discharge Elimination System permit by the compliance deadline of March 1, 2008. The scope of the project is large, and would install at DVI a generally accepted wastewater treatment method with a membrane bioreactor, influent pumping station, cooling towers, ultraviolet light disinfection equipment, equipment for water extraction from bio-solids, new operations and maintenance buildings, and new electrical service and distribution gear.

Preliminary Plans for Project Not Yet Complete. The original project estimation stated that the preliminary plans would be complete in May 2006. According to the department, preliminary plans for the new wastewater treatment plant will not be ready for Public Works Board approval until June 2006. The rest of the project cannot move forward until the Public Works Board approves the preliminary plans.

Working Drawings Initially Projected to Take Eight Months. The department projects that the working drawings will be completed as early as January 2007. This would allow only six months for the preparation of working drawings. However, a September 2004 consultant's project estimate stated that the working drawings phase would take eight months to complete. Given this estimate, it is not clear how the department plans to shorten the working drawings phase by one-fourth of the time.

Working Drawings Frequently Late for Large-Scale Projects. Our review of a number of large-scale CDCR projects funded over the last five years shows that for construction projects such as a new wastewater treatment plant or a large air-conditioning system, preparation of working drawings has generally taken the department considerably longer than six months. In fact, the projects reviewed all took 12 months or longer to have working drawings completed. Furthermore, our review shows that the working drawings for these projects were completed between three and 11 months late from the projected original completion date. Based on the department's past records, we think that the department's estimate of January 2007 to complete working drawings of DVI wastewater treatment plant is overly optimistic. These drawings would likely not be complete until late 2006-07 or early 2007-08. Thus, it would be reasonable to fund only the working drawings for the project in 2006-07 and provide funding for construction in 2007-08. Accordingly, we recommend $23 million request for project construction be deleted for 2006-07.

UNIVERSITY OF CALIFORNIA
(6440)

The Governor's budget proposes $340 million for University of California (UC) capital outlay. This amount includes $315 million from a proposed 2006 higher education general obligation bond fund and $25 million from lease-revenue bonds. The proposal would finance 18 projects ($140 million) not previously reviewed by the Legislature and $200 million to continue work on 12 projects previously approved by the Legislature. UC's current estimated future state cost to complete the 30 projects totals $383 million.

Telemedicine Proposal and Expansion of Medical School Enrollments. The Governor's Strategic Growth Plan includes $400 million from proposed higher education general obligation bonds to expand UC telemedicine programs. The telemedicine plan expects expenditure of these funds over the next eight to ten years. The Governor's budget summary states that "…the funds will be used to provide facilities and state-of-the-art equipment, so that more physicians are trained and better qualified to meet health care needs in underserved areas, including rural and inner-city areas." The summary also indicates that expansion of the medical school facilities will support about a 10 percent increase in medical school enrollments (250 to 300 medical students plus an equal number of medical residents) and will help with expansion of nursing programs. Neither the university's five-year capital outlay plan nor the Governor's budget include any proposals to expand telemedicine.

UC Five-Year Capital Outlay Plan. The UC's five-year state-funded capital outlay plan (2006-07 through 2010-11) would require an estimated $2.4 billion to complete various capital improvements at each of its ten campuses. The Governor's budget proposal fully funds the first year of the current plan. This $2.4 billion total includes the $723 million UC indicates is needed to complete the projects in the budget plus $1.7 billion to complete a wide range of projects universitywide. Moreover, UC emphasizes in its five-year plan that the plan is based on its understanding of the level of state funding that may be available and does not address the university's total funding need. While all projects included in UC's plan may not warrant legislative approval, the Legislature will be faced with annual funding requests in the hundreds of millions of dollars. To assure that capital improvement projects at UC address the highest priority needs and result in the "biggest bang for the taxpayers' buck," it is critical that UC implement a cost-effective capital improvement program. Actions UC and the Legislature can take to improve the cost-effectiveness of the UC program include, but are not limited to: (1) reduce building costs to be in line with the California State University (CSU) and other research institutions, and (2) finance research to the maximum extent possible using research grant overhead funds that are available for capital outlay purposes. We discuss these issues further below.

University Construction Costs Are Too High

We recommend the Legislature fund current and future construction of buildings at the University of California based on building costs in line with those used by the California State University and other research institutions. For five projects in the budget, this would result in a budget-year savings of $5,967,000 and future savings of $26,258,000 (bond funds).

The UC capital outlay requests consistently include building construction costs that are higher than similar types of facilities at CSU and other research institutions. Figure 1 compares UC's proposed cost for several projects to the costs that would be expected for similar projects at CSU and other research institutions. For this comparison we used CSU's cost guidelines for spaces such as classrooms, teaching laboratories, libraries, and offices. For research space we compared the cost of nearly 400 research buildings throughout the nation that are comparable to those at UC, and used the cost at the 75th percentile (that is, the building that is costlier than 75 percent of the buildings in the group).

As shown in Figure 1, the state could reduce its cost for five UC buildings by $32 million (general obligation bonds) by providing funds at a level more consistent with costs for similar building at other institutions. Applying this level of funding to the projects in UC's five-year plan and beyond would significantly reduce state costs and result in a more cost effective use of state funds. If UC still wishes to pay for the more expensive buildings proposed, it has the flexibility to use other nonstate funds that are available to the university.

Therefore, we recommend the Legislature fund current and future UC building costs based on the comparison costs discussed above. Figure 2 summarizes the actions necessary to realize savings in the amounts proposed in the Governor's budget for the projects in Figure 1. The savings identified in Figure 2 include savings in fees and contingencies related to the reduced building cost.

Figure 1

UC Building Costs Exceed the Cost of Similar Buildings At Other Institutions

(In Thousands)

Project	UC Proposed Building Cost	Comparable Building Cost	Potential State Savings
Davis: Veterinary Medicine 3B	$68,092	$62,769	$5,323
Davis: King Hall Renovation and Expansion	12,410	9,495	2,915
Irvine: Humanities Building	17,378	15,185	2,193
Santa Barbara: Davidson Library Addition and Renewal	45,864	38,094	7,770
Santa Cruz: Biomedical Sciences Facility	57,188	43,164	14,024
Totals	**$200,932**	**$168,707**	**$32,225**

Figure 2

Budget Bill Reductions to Bring UC Building Costs in Line With Similar Buildings at Other Institutions

(In Thousands)

Project	Budget Bill Amount	LAO Recommended Funding Level	Budget Bill Reduction
Davis: Veterinary Medicine 3B	$3,100	$2,858	$242
Davis: King Hall Renovation and Expansion	17,925	14,225	3,700
Irvine: Humanities Building	1,749	1,528	221
Santa Barbara: Davidson Library Addition and Renewal	1,250	1,038	212
Santa Cruz: Biomedical Sciences Facility	6,490	4,898	1,592
Totals	**$30,514**	**$24,547**	**$5,967**

Use Research Overhead Funds for Research Space

We recommend the Legislature finance University of California research space using research overhead funds to the maximum extent possible.

In our 2004 report *Funding UC Faculty Research Facilities*, we point out that UC has a large revenue source in the facilities and administration overhead it charges sponsors of faculty research. Most of this revenue comes from the federal government and private for- and not-for-profit entities. This annual revenue has increased steadily for the past 20 years and is now around $3 billion, of which about 55 percent is from the federal government.

About 13 percent or roughly $390 million of the annual research revenue is provided specifically to cover the facilities costs associated with the research. We believe the Legislature should take into consideration the availability of these funds when deciding the state funding level for UC capital improvements.

Figure 3 includes four science/engineering projects that have not been previously reviewed by the Legislature. The figure shows the total cost of each project (which the administration proposes to be entirely state funded), the share of the project's costs that could be covered by research overhead, and the remaining share of costs (which would be state funded). As the figure shows, over 80 percent of the cost of these proposed buildings could be financed by research overhead funds instead of state funds.

Faced with multibillion capital improvement programs statewide and within higher education, we believe the Legislature and the administration need to consider all options for financing these programs. As discussed above, one option is to increase UC's share in the cost of their capital improvement program by more fully using research overhead funds that are available for capital outlay purposes. UC's share in the projects shown in Figure 3 could be met in two ways. UC could finance the research space up front by selling bonds backed by a pledge of the overhead revenue. This method would reduce the state's upfront appropriation of bond funds. An alternative would have the state finance the project cost using its bonds, with UC pledging to the state the overhead revenue to pay the annual General Fund debt payment costs for the associated research space. Under either method, assuming a 25-year bond repayment period for the four projects, UC would have an annual payment of about $17.5 million. This is less than 5 percent of the annual overhead revenue available for capital outlay. In turn, the state would realize a reduction in its annual General Fund debt payments.

Figure 3

Projects for Which UC Could Share Costs Using Research Overhead Revenue to Finance Research Space

(Dollars in Thousands)

Project	Percent Research Space	UC Proposed State Project Cost	Costs Recoverable From Research Overhead Funds	Remaining Costs (State)[a]
Davis: Veterinary Medicine 3B	87%	$65,500	$56,985	$8,515
Riverside: Boyce Hall and Webber Hall Renovations	84	31,000	26,040	4,960
San Diego: Structural and Materials Engineering Building	81	78,057	63,642	14,415
Santa Cruz: Biomedical Sciences Facility	84	74,200	62,330	11,960
Totals	—	**$248,757**	**$208,997**	**$39,760**

[a] The state's share would be less than the amount shown if the Legislature funds the nonresearch space based on CSU building cost guidelines.

In view of the increasing demand for capital improvements statewide and within higher education, coupled with the availability of UC research overhead revenue, we recommend the Legislature finance UC research space using the overhead revenue to the maximum extent possible.

Delete Funding From More Costly Lease-Revenue Bonds

We recommend the Legislature fund the seismic safety correction of Giannini Hall on the Berkeley campus from general obligation bonds rather than the more costly lease-revenue bonds. (Delete Item 6440-310-0660[1] in the amount of $24,616,000 and add Item 6440-302-6048[1.5] in the amount of $24,616,000).

Giannini Hall is a four-story, 46,009 square foot building housing various programs and three general assignment classrooms on the Berkeley campus. Last year, the Legislature provided $1.5 million from 2004 higher education general obligation (GO) bonds to prepare preliminary plans for seismic corrections to the building. The budget request would fund the working drawing and construction phases of the project using lease-revenue bonds. The UC's project schedule calls for completion of working drawings by March 2007, with construction starting in August 2007.

The current project cost and schedule is consistent with the project as approved by the Legislature in 2005. Consequently, we recommend the Legislature provide funding for the project in the budget year. However, there is no benefit to the state to use the more costly financing mechanism of lease-revenue bonds. These bonds are more costly than GO bonds and the debt payment on both types of bonds comes from the state's General Fund. Based on UC's project schedule, there should be no delay in the project by using the proposed 2006 GO bond fund (assuming these bonds are approved by the Legislature and the voters). In addition, we recommend the Legislature add the Giannini Hall project to UC's budget item that provides for "fast-tracking" the design and construction. Based on UC's schedule, this should save at least three months. Thus, any potential delay in securing funds under the 2006 bond program should be offset by the "fast-track" process.

CALIFORNIA STATE UNIVERSITY (6610)

The Governor's budget proposes $239 million to fund 18 projects in the California State University (CSU) capital outlay improvement program. This amount includes $5 million from the 2004 Higher Education Capital Outlay Bond Fund and $234 million from a proposed 2006 higher education general obligation bond fund. The proposal consists of eight projects totaling nearly $19 million for equipment to complete projects previously funded for construction, and ten projects totaling $226 million when completed.

CSU Five-Year Capital Outlay Plan. The CSU's five-year state-funded capital outlay program would require an estimated $6.4 billion to complete various capital improvements at each of its 23 campuses. For the budget year, the program includes 30 capital outlay proposals at an estimated cost of $377 million. These projects have future costs of $622 million. The Governor's budget would fund about two-thirds of the university's 2006-07 projects in its plan.

Unsubstantiated Cost Increases

We recommend the Legislature reduce the cost of three projects for which the California State University has requested cost increases that exceed inflation without justification. (Reduce Item 6610-301-6048[2] by $2,752,000, Item 6610-301-6048[4] by$11,470,000, and Item 6610-302-6048[6] by$8,957,000.)

The CSU has increased the cost of three projects in the budget (all of which were previously approved by the Legislature) by an amount that greatly exceeds construction inflation. These projects are displayed in Figure 1 (see next page) along with the budget request and the project cost previously recognized by the Legislature (adjusted for inflation).

Figure 1

CSU Projects That Exceed Inflation

(In Thousands)

Project/ Item Number	*2006-07 Budget Bill* Amount	Cost Approved by the Legislature (Adjusted for Inflation)	Cost in Excess of Inflation
East Bay Student Service Replacement Building Item 6610-301-6048(2)	$38,938	$36,186	$2,752
Long Beach Peterson Hall 3 Replacement Item 6610-301-6048(4)	82,696	71,226	11,470
Northridge Performing Arts Center Item 6610-302-6048(6)	56,528	47,571	8,957
Totals	**$178,162**	**$154,983**	**$23,179**

We have two concerns with the proposed increases. First, much of the increase is for contingencies. This action increases the amount set aside for construction contingency beyond the normal amount of 5 percent of construction costs. (The contingency covers unforeseen changes during construction of the project and in most cases is sufficient for these purposes.) Providing contingency funds for other purposes should not be necessary. Second, CSU has increased the construction and design costs of two projects since the budget was last reviewed by the Legislature without explanation.

For these reasons, we do not believe the proposed increases have been justified. Therefore, we recommend the Legislature reduce the amounts for the projects in Figure 1 by a total of $23,179,000.

Infrastructure Project at Channel Islands

We recommend the Legislature delete $2.5 million for preliminary plans and working drawings for phases 1a and 1b infrastructure improvements at the Channel Islands campus because (1) the central plant portion of the project has not been justified, (2) the specific infrastructure improvements are not identified, and (3) the infrastructure renewal portion of the proposal can be funded in priority with other renewal projects under the state-funded California State University capital renewal program. (Delete $2,533,000 from Item 6610-301-6041[2].)

The budget includes $2.5 million to prepare preliminary plans and working drawings for a two-phased infrastructure project at the Channel Islands campus. The current estimated cost to complete the project is $44.7 million. The CSU indicates that the project will improve, update, and replace infrastructure systems. According to CSU, these changes would accommodate the demands of the campus at an enrollment of 15,000 full-time equivalent (FTE) students. Based on available information, current-year enrollment at Channel Islands is about 1,500 FTE and is projected to be 2,600 FTE in 2011-12. We have several concerns with this proposal.

Need for New Central Plant Not Justified. As an integral part of the infrastructure project, CSU indicates it will solicit—through a request for proposal process—the funding and construction by a third party of a central plant to provide hot and chilled water throughout the campus. The CSU would then enter into a long-term contract for the purchase of the hot and chilled water. The proposed infrastructure project includes installation of hot and chilled water distribution lines—facilities that would not be needed if a central plant is not constructed.

Based on existing facilities and projected enrollments (less than 3,000 FTE students in 2011-12), it is not clear why the state should fund a new central plant and associated water distribution lines. The CSU indicates that studies have been undertaken that evaluate the benefit of a central plant. The information submitted for the project budget, however, does not substantiate either the need for or the cost-benefit of constructing the central plant and associated hot and chilled water distribution lines throughout the campus. Consequently, at this time, we do not believe the case has been made to proceed with the construction of a central plant and the related distribution lines (either by the state or a third party).

Specific Improvements Not Identified. The CSU indicates that infrastructure systems—such as natural gas, water, sanitary sewer, storm drains, and electrical—will be renovated, updated, and extended. Other than a limited description of the electrical improvements, specific improvements to the infrastructure systems are not defined. The CSU also indicates it has (1) entered into discussions to identify and commit to a new source of electrical power and (2) begun to approach its contractual limit for wastewater treatment. The status of these discussions and the impact on current infrastructure is uncertain. Consequently, based on the information submitted with this request, the Legislature cannot determine what improvements would be (or should be) made with the expenditure of nearly $50 million to complete the proposed project.

Infrastructure Renewal Can Be Funded Through Systemwide Capital Renewal Program. The budget bill includes $50 million in CSU's support budget (Item 6610-001-6048) for renewal of capital assets systemwide. This amount is in addition to the $25 million CSU received for this purpose in the current year. The CSU should, on a systemwide priority basis, use this funding source to renew the campus infrastructure to meet current- and near-term utility demands.

San Marcos: Social and Behavioral Sciences

We recommend the Legislature delete $1.1 million for development of preliminary plans for a 68,000 assignable square foot social and behavioral sciences building because it is not justified by enrollment projections. The future cost to complete construction of the proposed building is $53.9 million.(Delete $1,078,000 from Item 6610-302-6048[3].)

The budget proposes $1.1 million for a 68,000 assignable square foot (asf) Social and Behavioral Sciences building providing classrooms, teaching laboratories, and 125 faculty offices. The CSU estimates future state costs to complete the project will be $53.9 million. The building would provide classrooms and teaching laboratories to accommodate an additional 644 FTE students on campus. We recommend the Legislature delete funding for the project because the campus currently has capacity to address its projected enrollment.

Campus Has Existing Excess Space. The CSU indicates that when the new Academic II building (currently under construction) is available in 2006-07, the San Marcos campus will have a sufficient amount of instructional space to accommodate a 50 percent increase in enrollment. Based on 2005-06 campus capacity and enrollment data, the campus could accommodate projected enrollment in 2011 and still have space to handle a 20 percent increase in FTE students.

Campus Unused in Summer. Furthermore, the San Marcos campus did not enroll any students in summer 2004 (the latest information available). If the San Marcos campus fully utilized its instructional facilities year-round, the campus could annually provide a full year of academic instruction to an additional 1,500 to 2,000 FTE students within existing space. Expanding summer enrollments to this level cannot occur in the short term, but in view of the amount of space available and the demands for capital outlays throughout the state, we believe it is essential for the San Marcos campus (as well as other campuses) to increase summer enrollments at a more rapid pace. For all the reasons noted above, we recommend deletion of this project.

San Luis Obispo: Center for Science

We recommend the Legislature delete $1.9 million for preparation of preliminary plans for an 86,000 assignable square foot science building because (1) it will add a small amount of instructional space at a very high cost, (2) the alternative of renovating the existing science building has not been adequately evaluated, and (3) the proposal includes project elements unrelated to the proposed science center. Estimated future state cost to complete the project is $100.3 million. (Delete $1,866,000 from Item 6610-301-6048 [6].)

The budget proposes $1.9 million (bond funds) for preparation of preliminary plans for an 86,300 asf Center for Science building. This facility would replace the existing 73,000 asf science building (constructed in 1962), which would be demolished. An estimated $100.3 million of state bond funds will be required to complete construction of the project. In addition, the university proposes to provide $17.8 million of nonstate funds to construct a 15,900 asf addition to the proposed building for faculty research. The CSU's project schedule calls for starting preliminary plans in July 2007 (2007-08) and completing the plans in November 2007. Construction would start sometime after July 2008. Based on this schedule, the request for preliminary plans is premature and for this reason alone, we recommend the Legislature not provide funds at this time. Notwithstanding the project schedule, we have other concerns with the proposal, as discussed below.

Small Amount of Additional Instructional Capacity. The net effect of demolishing the existing science building and constructing the proposed Center for Science would be to provide instructional capacity for an additional 66 FTE students and 11 faculty offices (see Figure 2, next page).

R***enovation Is an Alternative.*** Given the large cost of this new building, it is especially important that CSU first thoroughly evaluate renovation of the existing building. The campus indicates it assessed both renovating the existing science building and constructing an addition to it, but concluded that this "….would result in a project with significantly higher costs…." The CSU however, has not provided any information—such as engineering studies, cost estimates or other data—that might support this conclusion. In view of the high cost and the limited addition of instructional space, we believe CSU should first undertake a more thorough evaluation of renovating existing space.

Proposal Includes Elements Not Directly Related to Science Center. The CSU has included expansion of the central plant and extension of heating and chilled water with the request for a new science center. The CSU indicates that this work will support the center and provide capacity to serve other buildings, but it has not provided information on the costs or justification for these aspects of the proposal. Furthermore, it is not clear why expansion of the central plant would be necessary to serve the science center. The current science building is a 73,300 square foot building, which—compared to the proposed 86,300 square foot building—is an increase of only 13,000 square feet. The heating and cooling load for this small amount of additional space can certainly be met in a less costly manner. If CSU believes expansion of the central plant and extension of the water systems is needed for other reasons, it should develop a separate justification and project proposal for legislative consideration.

Figure 2

San Luis Obispo: Center for Science Net Effect of Project on Campus Capacity

Instructional Space (FTE Students)

Type of Space	New Science Center Building	Space Lost in Demolition of Science Building	Net Gain/Loss (-)
Classrooms	1,463	-1,446	17
Teaching Laboratories (Lower Division)	270	-217	53
Teaching Laboratories (Upper Division)	84	-88	-4
Subtotals, Instructional Capacity	1,817	-1,751	66
Faculty Offices	41	-30	11

Monterey Bay: Equipment Infrastructure Improvements

We recommend the Legislature delete $257,000 requested for equipment because the equipment either should not be funded by the state or should be purchased through the support budget. (Delete $257,000 under Item 6610-301-6048[5].)

The Legislature approved $18.5 million in the *2004-05 Budget Act* for design and construction of infrastructure improvements at the Monterey Bay campus. The project included improvements to the electrical and natural gas distribution systems, correction of path-of-travel access deficiencies throughout the campus, and removal of several deteriorating buildings. The project also created some playing fields, after demolition of some buildings. The CSU's project schedule indicates the project will be complete in May 2007, nearly one year ahead of schedule.

Equipment That Should Not Be Purchased With State Funds. The equipment request includes several items that should not be funded by the state. These include items such as grandstands and benches ($97,000), scoreboards ($12,000), and pitching machines ($13,000). These items are not needed for the instructional program and are generally funded using nonstate funds.

Equipment That Should Be Purchased Through the Support Budget and Not With Bonds. The requested equipment includes many items that should not be funded with general obligation bonds. This includes items such as baseball bats and racks, bases and plates, baseballs, softballs, soccer balls, and volleyballs. These are short-term expendable items and should be purchased through the support budget.

Budget Amount Exceeds Request. Finally, the equipment list submitted by CSU totals $242,000 or $15,000 less than the amount in the Governor's budget.

Based on the issues discussed above, we recommend the Legislature delete the $257,000 requested for equipment.

California Community Colleges (6870)

The Governor's budget proposes a total of $586 million from several higher education general obligation bond programs for the California Community Colleges capital outlay program in the budget year. The total amount includes $31 million from 1998 bonds, $19 million from 2002 bonds, $44 million from 2004 bonds, and $492 million from a proposed 2006 general obligation bond program. The proposal would finance various phases of 68 projects throughout the statewide system.

Community College Five-Year Capital Outlay Plan. The community college's five-year, state-funded capital outlay program would require an estimated $8.4 billion to complete the projects in the plan. The plan also includes an additional $1.9 billion in nonstate funds for projects that either would receive state funding or would be funded entirely with nonstate funds. The Governor's budget proposal fully funds the first year of the state-funded portion of the plan.

Budget Amounts Include Excess Cost Factors

We recommend the Legislature reduce the community college capital outlay request by a total of $74 million because project costs have been increased for excess contingency amounts and for an unsubstantiated 30 percent increase in building costs.

The community college state-funded, five-year (2006-07 through 2010-11) capital outlay program originally called for a total of $512 million for 2006-07. This amount was increased by $74 million (14 percent) in the Governor's budget. (The costs in the plan's remaining years in the state-funded program and the entire nonstate funded portion have *not* been increased.) It is our understanding that this increase is related to two factors: (1) an added contingency amount and (2) increased building cost guidelines.

Unnecessary Added Contingency Funding. One factor increasing the community college capital budget includes the addition of an unspecified amount for each project that varies based on when the project is expected to start construction. This action increases the amount set aside for construction contingency beyond the normal contingency amount of 5 percent of construction cost. (The contingency covers unforeseen changes during construction of the project and, in most cases, is sufficient for these purposes.) In addition, the state has procedures that allow departments to augment project appropriations by up to 20 percent when additional funds are justified. To add extra contingency to a project beyond these amounts is both unnecessary and not a prudent budgeting practice.

Increase in Building Cost Guidelines. To their credit, the community colleges use building cost guidelines to develop state supported costs for proposed capital improvements. The cost guidelines are generally based on the experience of building many similar facilities throughout the statewide system. These guidelines are helpful in getting the maximum benefit in the use of state funds and providing a degree of equity among districts receiving state capital outlay funds for similar types of buildings. (Individual districts also have the ability to finance higher building costs with nonstate funds in the event the district desires to include local enhancements to a project.) Based on information received from the community colleges in January 2006, they have increased their building cost guidelines by roughly 30 percent. This recent increase contributed to the $74 million increase in the budget-year request. The community colleges have not substantiated the need for this significant increase. The guidelines have been successfully and appropriately used in prior budgets. Moreover, the guidelines are adjusted each year to reflect cost increases in the construction industry. If the community colleges believe cost adjustments are needed for certain types of projects and/or for specific reasons, they should provide data and details to substantiate any proposed adjustments.

Community Colleges Need to Provide Details on Cost Increases. The $74 million cost increase apparently was made late in the budget preparation process. Consequently, it is unclear how individual project costs were affected. We recommend that the community colleges provide the Legislature the amount added to each project for additional contingency and increased building cost, respectively. We recommend that the Legislature reduce each project by the amounts added for these purposes.

FINDINGS AND RECOMMENDATIONS

Capital Outlay

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Crosscutting Issues

Governor's Strategic Growth Plan (SGP)

G-15 ■ **Key Elements of the SGP.** The Governor's ten-year SGP calls for $223 billion in capital outlay funding for various program areas. Funding would come from a combination of sources, including $68 billion in general obligation bonds, mainly for education (K-12 and higher education) and transportation.

G-17 ■ **Growth Plan Has Positive Aspects.** The SGP takes into consideration the capital outlay requirements of different infrastructure. It also takes a longer-term perspective in funding infrastructure than the state has done in the past, and identifies some areas of infrastructure requirements that have been so far understated.

G-18 ■ **Plan Provides Funding but Capital Outlay Requirements Not Defined.** The $68 billion general obligation (GO) bond proposal is made without a supporting infrastructure plan that identifies specific capital outlay improvements necessary in the various program areas. Recommend that the Legislature not approve the SGP until the administration provides a state infrastructure plan as required by current law.

G-19 ■ **State Infrastructure Funding Should Align With State Responsibilities.** The SGP proposes funding certain local infrastructure. The Legislature should assess how the funding proposed aligns with the state's responsibilities for the provision of the services involved.

G-20 ■ **State Can Reduce Facilities Demand, Reduce Infrastructure Funding Requirements.** There are policy and programmatic changes that the state can adopt to reduce the demand for infrastructure improvements.

G-21 ■ **Plan Relies on Some Questionable Assumptions.** The SGP assumes that substantial amounts of new resources will be available for infrastructure in the next ten years. Whether all of the assumed resources would be forthcoming is questionable. If not, there would be a funding shortfall in the SGP.

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G-22 ■ **Balance Use of GO Bonds With Other Fund Sources.** The SGP relies heavily on GO bonds for future state investment in capital outlay beyond what would be provided from existing resources. The Legislature may want to consider a combination of pay-as-you-go direct appropriations, revenue bonds, and lease-revenue bonds to fund the state's infrastructure.

G-24 ■ **Certain Areas of Infrastructure Improvements Not Included.** The SGP does not address certain areas of the state infrastructure, such as deferred maintenance in state parks.

G-24 ■ **Elements of Bond Fund Allocation Need Justification.** Some purposes for which the SGP proposes to direct GO bond funding lack justification. Absent documentation that justifies the proposed use, we recommend that the Legislature reject the proposals.

Judicial Branch

G-27 ■ **Seismic Retrofit Requirements Holding Back Transfers.** Recommend the Legislature clarify the law regarding the party responsible for the payment of seismic retrofits and the use of escrow accounts.

G-29 ■ **Calculation of County Facilities Payment (CFP).** Recommend the Legislature consider changing the CFP calculation to a per-square-foot maintenance cost for the facilities.

G-30 ■ **Expand New Antioch Courthouse.** Withhold recommendation on the proposed Antioch courthouse project pending a revised proposal for a courthouse that will provide adequate space to handle anticipated workload.

G-31 ■ **Need for Budget Bill Language on Project Transfer.** Recommend the adoption of budget bill language that makes funding for the proposed Antioch courthouse available only upon to the transfer of the Pittsburg trial court facility to the state.

Department of Parks and Recreation

G-33 ■ **Delete Six out of Seven Minor State Vehicular Recreation Projects. Reduce Item 3790-301-0263 by $1,865,000.** Recommend the deletion of funding for six minor capital outlay projects at State Vehicular Recreation Areas because the Off-Highway Vehicle Recreation Commission, as required by statute, has not approved these projects.

Department of Developmental Services

G-35 ■ **Fund Only Preliminary Plans for New Main Kitchen. (Reduce Item 4300-301-0660[1] by $22,557,000. Reduce Item 4300-301-0001 by $41,000.)** Recommend the Legislature fund only preliminary plans for a new main kitchen for Porterville Developmental Center, in order to maintain oversight of the project. This requires a funding shift from lease-revenue bonds to the General Fund. Recommend the Legislature not fund the satellite kitchens' preliminary plans because the department should submit

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a proposal that specifically addresses (1) the deficiencies in the satellite kitchens that the department has noted and (2) the number of satellite kitchens that would be needed in five years as resident nonforensic population continues to decrease.

Department of Mental Health

G-38 ■ **Fund Only New Main Kitchen Preliminary Plans. Reduce Item 4440-301-0660(1) by $20,696,000 and Reduce Item 4440-301-0660(2) by $20,986,000.** Recommend funding the preliminary plan phases of the Napa State Hospital ($1,026,000) and Patton State Hospital ($904,000) new main kitchen projects with General Fund to retain oversight of these projects. Withhold recommendation on satellite kitchen renovations preliminary plans pending review of the federal CRIPA remediation agreement and in order to allow the department to submit a revised proposal.

California Department of Corrections and Rehabilitation (CDCR)

G-42 ■ **Withhold Recommendation on CCC Wastewater Treatment Plant Modification Funds.** The California Correctional Center (CCC) wastewater treatment plant modifications go far beyond the consultant assessment of the facility's needs. Withhold recommendation until CDCR submits information justifying the expanded scope of the project is necessary.

G-42 ■ **Withhold Recommendation on Chuckawalla Wastewater Treatment Plant.** The Regional Water Quality Control Board is expected to decide in March 2006 on a request for a less restrictive wastewater discharge permit for the Chuckawalla Valley State Prison. Withhold recommendation on the wastewater treatment plant project until the board issues its decision.

G-43 ■ **Fund Only Working Drawings for Deuel Vocational Institute Wastewater Facility. Reduce Item 5225-301-0001(7) by $22,979,000.** Recommend deletion of amount because the department will likely not be able to complete the working drawings for the project by January 2007, and construction for the facility will likely not begin in 2006-07.

University of California (UC)

G-46 ■ **UC Construction Costs Are Too High.** Recommend the Legislature fund current and future construction of buildings at UC based on building costs in line with those used by the California State University and other research institutions. For five projects in the budget, this would result in a budget-year savings of $5,967,000 and future savings of $26,258,000 (general obligation [GO] bonds).

G-48 ■ **Alternative Funding Source for UC Research Projects.** Recommend the Legislature finance UC research space using research overhead funds to the maximum extent possible.

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G-49 ■ **Shift Proposed Lease-Revenue Projects to GO Bonds.** Recommend the Legislature fund the seismic safety correction of Giannini Hall on the Berkeley campus from GO bonds rather than the more costly lease-revenue bonds.

California State University (CSU)

G-51 ■ **Unsubstantiated Cost Increases. Reduce Item 6610-301-6048(2) by $2,752,000, Item 6610-301-6048(4) by $11,470,000, and Item 6610-302-6048(6) by $8,957,000.** Recommend the Legislature reduce the cost of three projects for which CSU has requested cost increases that exceed inflation without justification.

G-52 ■ **Infrastructure Project at Channel Islands. Delete $2,533,000 From Item 6610-301-6041(2).** Recommend the Legislature delete $2.5 million for preliminary plans and working drawings for phases 1a and 1b infrastructure improvements at the Channel Islands campus because (1) the central plant portion of the project has not been justified, (2) the specific infrastructure improvements are not identified, and (3) the infrastructure renewal portion of the proposal can be funded in priority with other renewals projects under the state funded CSU capital renewal program.

G-54 ■ **San Marcos: Social and Behavioral Sciences. Delete $1,078,000 From Item 6610-302-6048(3).** Recommend the Legislature delete $1.1 million for development of preliminary plans for a 68,000 assignable square foot social and behavioral sciences building because it is not justified by enrollment projections. The future cost to complete construction of the proposed building is $53.9 million.

G-55 ■ **San Luis Obispo: Center for Science. Delete $1,866,000 From Item 6610-301-6048(6).** Recommend the Legislature delete $1.9 million for preparation of preliminary plans for an 86,000 asf science building because (1) it will add a small amount of instructional space at a very high cost, (2) the alternative of renovating the existing science building has not been adequately evaluated, and (3) the project includes elements unrelated to the proposed science center . Estimated future state cost to complete the project is $100.3 million.

G-56 ■ **Monterey Bay: Equipment for Infrastructure Improvements. Delete $257,000 Under Item 6610-301-6048(5).** Recommend the Legislature delete $257,000 requested for equipment because the equipment either should not be funded by the state or should be purchased through the support budget.

California Community Colleges

G-58 ■ **Budget Amounts Include Excess Cost Factors.** Recommend the Legislature reduce the community college capital outlay request by a total of $74 million because project costs have been increased for excess contingency amounts and for an unsubstantiated 30 percent increase in building costs.