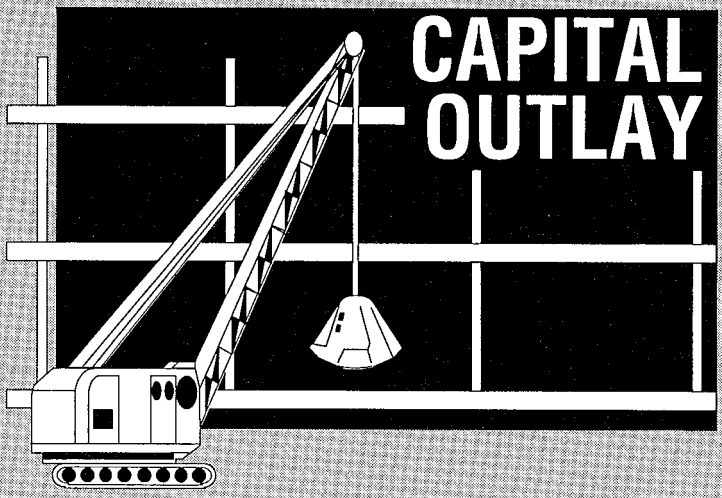
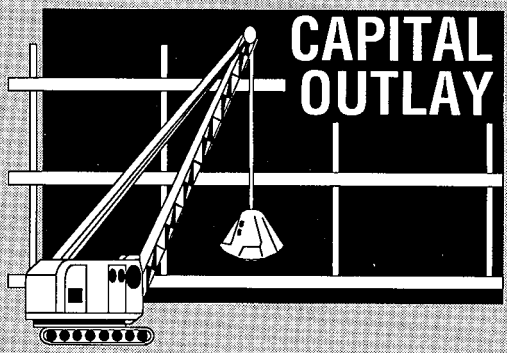

CAPITAL
OUTLAY



MAJOR ISSUES

- ***Bond Funding for Capital Outlay Drives Debt Service Costs.*** Expenditures on debt service will increase by 10 percent in 1993-94 due to increased issuance of bonds in prior years. The states debt ratio is increasing rapidly, rising from 2.6 percent in 1990-91 to a projected 5.4 percent in 1995-96. (See page 5.)

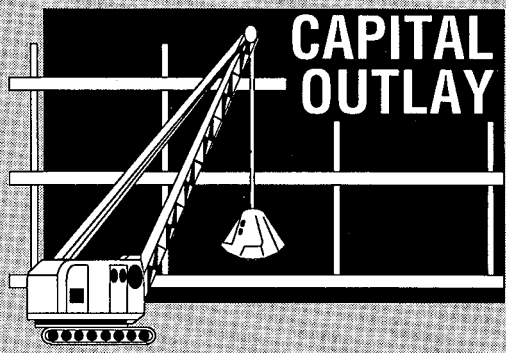
- ***Limit Future Use of Lease-Payment Bonds.*** The Legislature has authorized $5.4 billion in lease-payment bonds since 1983. Total debt service on these bonds cost from 15 to 20 percent more than general obligation bonds. We recommend that the Legislature minimize the future use of lease-payment bonds. (See page 17.)

- ***Diminishing Resources Available to Meet Infrastructure Needs.*** The state has infrastructure needs totaling tens of billions of dollars and diminishing resources to finance them. The Legislature should assess the variety of infrastructure needs, establish priorities, and determine how much of the state's revenues should be spent on investment in infrastructure versus support or enhancement of other state programs. (See page 22.)

- ***State Office Space in Sacramento.*** The Department of General Services has completed the first phase of a much-needed plan to acquire state office space in Sacramento. We recommend that the department reassess some aspects of the plan and that the Legislature take several steps toward the acquisition of additional state-owned office space. (See page 28.)

▌***Deferred Maintenance in State Facilities and K-12 Schools.*** Due to past underfunding of routine maintenance and of special repair projects, and the redirection of monies budgeted for these activities, General Fund agencies with significant state capital assets have amassed an $820 million backlog of deferred maintenance projects. In addition, we estimate that K-12 schools have five-year deferred maintenance needs of about $2.5 billion. (See pages 37 and 60.)

▌***University of California Capital Outlay.*** The university's capital outlay program continues to emphasize the construction of research laboratories and office space, leaving large space deficits in lecture rooms and teaching laboratories. We recommend that the Legislature delete $106 million (12 projects) that would overbuild research laboratories and/or offices. (See page 64.)



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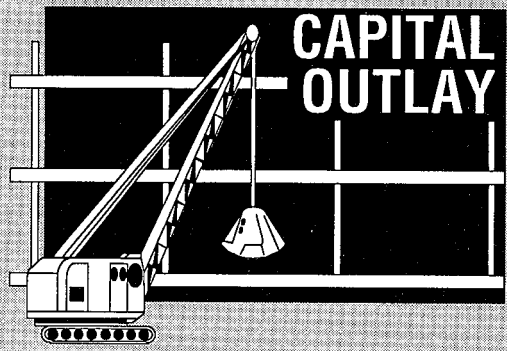


OVERVIEW

Capital outlay expenditures are expected to increase significantly, as a result of increased debt service payments for bonds that have been used to acquire capital assets.

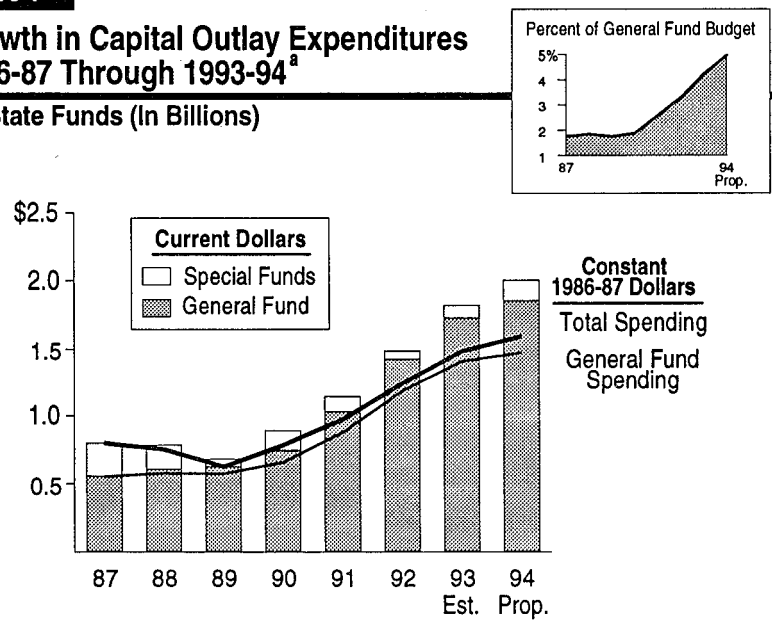
Expenditures for capital outlay are proposed to total $2 billion from all state funds in 1993-94. This is about $184 million, or 10 percent, more than estimated current-year expenditures. Capital outlay *expenditures* reflect the state's *current costs* for capital outlay programs, either through debt service payments or direct appropriations (pay-as-you-go financing) to acquire assets. (The expenditure figure *does not* include the proposed appropriations of bond proceeds, because they do not represent a cost to the state until the bonds are paid off in future years.) The $2 billion in 1993-94 expenditures has three components: (1) debt service payments for general obligation (GO) bonds ($1.6 billion), (2) payments for debt service on lease-payment bonds ($268 million), and (3) direct appropriations from various special funds ($138 million).

As shown in Figure 1 (see next page), expenditures for capital outlay, excluding the state water project and direct expenditures on transportation, have increased significantly since 1986-87—growing from less than $800 million in 1986-87 to $2 billion in 1993-94. This increase is attributable directly to the increase in debt service payments on GO bonds and lease-payment bonds. Over this same period, debt service payments have increased from $539 million to $1.8 billion, or 245 percent.

Figure 1

Growth in Capital Outlay Expenditures 1986-87 Through 1993-94[a]

All State Funds (In Billions)



[a] Excludes transportation programs and the state water project.

The proposed budget-year increases, by component of capital outlay expenditure, are as follows:

- ***General Obligation Bond Debt Service.*** The Governor's Budget reflects an estimated $89 million General Fund cost increase over current-year expenditures for general obligation bond debt service. (As discussed under *Crosscutting Issues* later in this section, this estimate is overstated.) These bonds are used for a wide variety of state and local purposes.

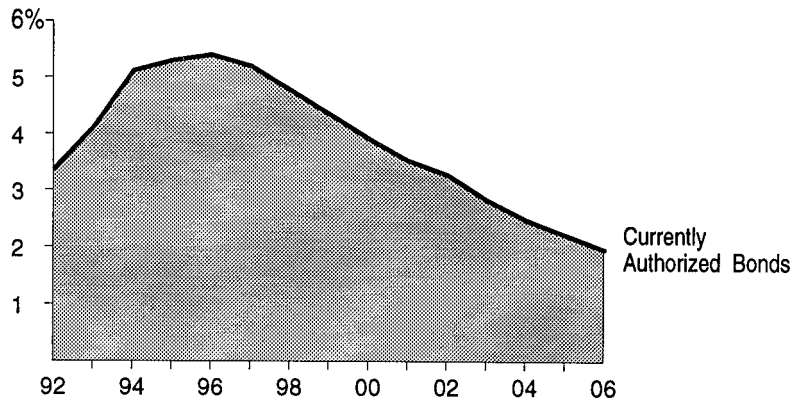
- ***Lease-Payment Bond Debt Service.*** Debt service payments for lease-payment bonds (also called lease-revenue bonds or Public Works Board bonds) are estimated to increase by $49 million, or 22 percent, in the budget year. These bonds are primarily used for higher education facilities, prisons, and state office buildings.

- ***Direct Appropriations.*** Capital costs through proposed direct appropriations would increase by $49 million, or 56 percent, in 1993-94. The proposed $137 million in appropriations includes $51 million from SAFCO (Special Account for Capital Outlay) and $86 million from other special funds, such as the Motor Vehicle Account.

Debt Service Ratio. The amount of debt service as a percentage of state General Fund revenues (that is, the state's debt ratio) is estimated to be 4.1 percent for the current year. The ratio has risen sharply in recent years, as it was only 2.6 percent in 1990-91. As shown in Figure 2, if all currently authorized bonds are sold (but no others are authorized), the state's debt ratio could reach a peak of about 5.4 percent in 1995-96 and then decline to 2 percent in 2006-07.

Figure 2

Projected Debt-Service Ratio [a]
1991-92 Through 2005-06



[a] Assumes 7.0 percent interest rate on general obligation bonds and 7.3 percent interest on lease-payment bonds. Also assumes revenue growth of 6.7 percent in 1994-95, 8.1 percent in 1995-96, 7.2 percent in 1996-97, and 7.5 percent annually thereafter.

SPENDING BY MAJOR PROGRAMS

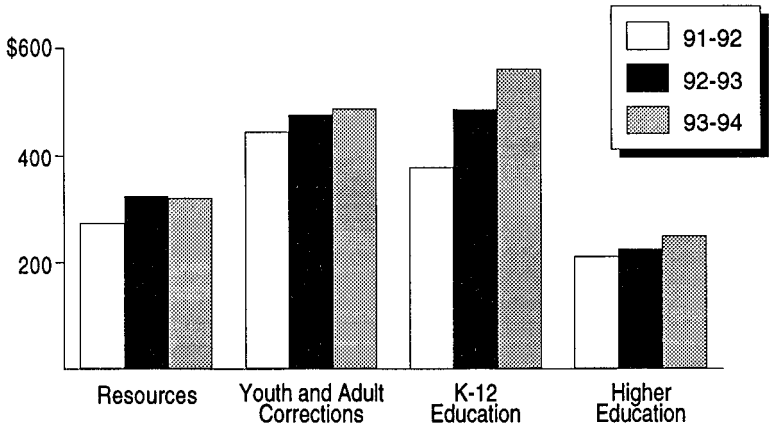
About $1.6 billion, or 81 percent, of capital outlay expenditures fall within four areas—K-12 education, youth and adult corrections, resources, and higher education. Figure 3 shows the expenditures in each of these areas over the past three years. These expenditures reflect increased costs to make debt payments on bonds. The expenditures do not necessarily reflect actual construction activity because of the lag between construction, bond sales, and debt payments.

As shown in Figure 3, expenditures are increasing rapidly for K-12 education, with smaller increases for youth and adult corrections and higher education.

Figure 3

Capital Outlay Expenditures By Selected Program Areas 1991-92 Through 1993-94

(In Millions)



SUMMARY OF THE 1993-94 CAPITAL OUTLAY PROGRAM

We now turn from a discussion of capital outlay expenditures (the current costs of paying for capital assets) to a summary of the 1993-94 capital outlay program (proposals to obtain capital assets). The budget includes $943 million for capital outlay programs (excluding transportation systems). This is an increase of $215 million, or 23 percent, over current-year appropriations. The largest increase is for the community colleges ($159 million), with other significant increases for the California State University ($20 million), and the Departments of Corrections ($16 million), General Services ($13 million), and Mental Health ($16 million).

The following overview provides a means for the Legislature to measure the proposed capital outlay program against the long-term

capital needs identified for various program areas. The Legislature has two sources of information regarding the general magnitude of those needs: (1) the ten-year capital outlay and infrastructure plan prepared by the Department of Finance (DOF) and (2) the five-year capital outlay plans developed by various state departments.

Ten-Year Plan

When this analysis was written, the most recent ten-year plan prepared by the DOF was dated February 1992. In that plan, the DOF identified the need for $60 billion to finance state-funded infrastructure (at state and local levels) over the ten-year period of 1992-93 to 2001-02 (see Figure 4).

We note, however, that the DOF based this estimate of "need" on the allocation of an estimated total "available" funds among the various programs. For the most part, "available" funds was determined by capping the state's future debt service ratio at 5 percent. The DOF "need" is *not* based on an evaluation of identified problems or projects. The $60 billion would be financed from special funds and federal funds for transportation programs ($30.5 billion), general obligation and lease-payment bonds ($27.5 billion), and other fund sources ($1.6 billion).

Figure 4

Department of Finance
Projected Capital Outlay Needs
1992-93 Through 2001-02

(In Billions)

	10-Year Total
Transportation	$32.5[a]
State Office Buildings	1.2
Natural Resources and Environmental Quality	4.5
Jails and Youth and Adult Corrections	6.7
K-12 Education	1.6
Higher Education	10.5
Other[b]	2.6
Total	**$59.6**

[a] Includes $30.5 billion to be funded from state and federal gasoline tax revenues and state truck weight fees for the Department of Transportation.

[b] Includes state-operated hospitals and laboratories and low income housing.

Source: Department of Finance, *1992 Capital Outlay and Infrastructure Report* (February 1992).

In addition, some of the assumptions used in establishing the 1992 financing scheme are no longer valid. For example, the ten-year total includes $1.6 billion in additional (after February 1992) GO bonds for K-12 education, reflecting the administration's support of transferring responsibility for funding schools to the local level. In 1992, however, $2.8 billion in K-12 bonds were approved by the voters. In addition, the DOF assumes the authorization of $1.5 billion in new lease-payment bonds over the entire ten-year period. This assumption appears too low, since $750 million was authorized last year and another $300 million is proposed in the Governor's Budget.

Five-Year Plans

While the DOF's ten-year plan provides a general estimate of future infrastructure needs, the five-year capital outlay plans submitted by state agencies provide a project-specific inventory of needs. Figure 5 provides a summary of these five-year plans, which total $35.5 billion for state agencies and for K-12 education. This amount includes $11.7 billion from special and federal funds for transportation capital outlay. These five-year estimates should be viewed with caution because some of the plans are incomplete and also may include proposals that, upon examination, do not merit funding. Nevertheless, the plans provide a reasonable assessment of the overall magnitude of the agencies' needs.

Figure 5

Projected Five-Year Capital Outlay Needs for the State and K-12 Education 1993-94 Through 1997-98

(In Millions)

	Five-Year Total
Executive	$45
State and Consumer Services	428
Transportation	14,148[a]
Resources	639
Health and Welfare	229
Youth and Adult Corrections	1,089
K-12 Education	12,600[b]
Higher Education	6,052
General Government	253
Total	**$35,483**

[a] Includes $11.7 billion to be funded from state and federal gasoline tax revenues and state truck weight fees for the Department of Transportation.

[b] Reflects 1990 five-year estimate of $15.4 billion, less $2.8 billion from 1992 state school bonds.

Governor's Budget

Figure 6 compares each department's capital outlay funding request for 1993-94 with the Governor's Budget proposal. The budget includes $943 million, or 65 percent, of the $1.4 billion requested. Of the $500 million in project requests not funded, about $350 million are from the California State University (CSU) and the community colleges.

Figure 6

1993-94 State Capital Outlay[a] Program Summary

(In Thousands)

Department	1993-94 Department Requests	1993-94 Governor's Budget Proposed Amount	1993-94 Governor's Budget Future Cost
Emergency Services	$11,256	$3,771	$21,354
General Services	13,699	13,699	367,907
Veterans' Home of California	9,615	7,972	7,963
Transportation[b]	1,933	1,184	—
Highway Patrol	19,005	20,404	—
Motor Vehicles	15,716	15,676	356,533
Tahoe Conservancy	16,752	7,936	—
Conservation Corps	1,510	—	—
Forestry	17,181	7,090	6,746
Fish and Game	6,260	3,687	430
Wildlife Conservation Board	19,680	15,096	—
Boating and Waterways	2,714	1,120	—
Coastal Conservancy	10,150	5,650	—
Parks and Recreation	25,121	21,687	6,621
Water Resources	10,385	7,095	—
Health Services	3,627	3,027	—
Developmental Services	28,977	4,430	1,636
Mental Health	28,390	15,748	40,355
Employment Development	5,426	2,586	2,790
Corrections	63,806	39,161	8,473
Youth Authority	13,254	10,967	69,045
University of California	247,477	231,118	416,839
California State University	338,582	235,756	108,750
Maritime Academy	—	100	—
Community Colleges	510,223	255,135	141,515
Cal Expo	2,436	2,436	—
Food and Agriculture	1,113	543	—
Military	28,368	10,061	—
Unallocated Capital Outlay	—	300	—
Totals	**$1,441,400**	**$943,435**	**$1,556,957**

[a] Does not include proposed appropriations for highway and transit capital outlay.
[b] For Department of Transportation office buildings.

As shown in Figure 6, the projects proposed in the budget have a future completion cost of almost $1.6 billion. Most of these future costs are for projects at university and college campuses and for four major state office buildings under the Departments of General Services and Motor Vehicles.

Figure 7

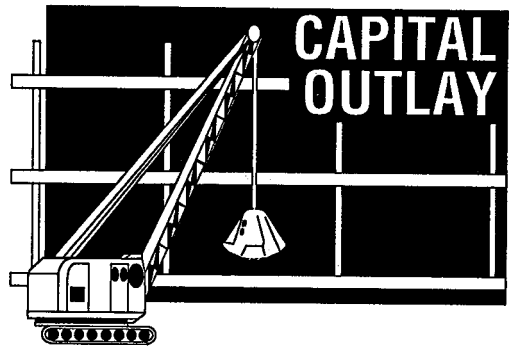
1993-94 Capital Outlay Program Proposed Expenditures by Fund Type[a]

(In Millions)

Department	Bonds	Special	SAFCO	Federal	Total
Emergency Services	—	—	$3.8	—	$3.8
General Services	$11.2	$2.5	—	—	13.7
Veterans' Home of California	—	—	2.7	$5.3	8.0
Transportation[b]	—	1.2	—	—	1.2
Highway Patrol	—	20.4	—	—	20.4
Motor Vehicles	—	15.7	—	—	15.7
Tahoe Conservancy	—	7.9	—	—	7.9
Conservation Corps	—	—	—	—	—
Forestry	—	—	7.1	—	7.1
Fish and Game	—	3.7	—	—	3.7
Wildlife Conservation Board	—	15.1	—	—	15.1
Boating and Waterways	—	1.1	—	—	1.1
Coastal Conservancy	—	5.7	—	—	5.7
Parks and Recreation	12.1	9.0	—	0.6	21.7
Water Resources	—	1.4	5.7	—	7.1
Health Services	—	—	3.0	—	3.0
Developmental Services	—	—	4.4	—	4.4
Mental Health	—	—	15.7	—	15.7
Employment Development	—	0.7	—	1.9	2.6
Corrections	39.2	—	—	—	39.2
Youth Authority	11.0	—	—	—	11.0
University of California	231.1	—	—	—	231.1
California State University	235.8	—	—	—	235.8
Maritime Academy	0.1	—	—	—	0.1
Community Colleges	255.1	—	—	—	255.1
Cal Expo	—	2.4	—	—	2.4
Food and Agriculture	—	—	0.5	—	0.5
Military	—	0.1	7.7	2.3	10.1
Unallocated Capital Outlay	—	—	0.3	—	0.3
Totals	**$795.6**	**$86.9**	**$50.9**	**$10.1**	**$943.5**

[a] Does not include proposed appropriations for highway and transit capital outlay.
[b] For Department of Transportation office buildings.

Figure 7 shows the budget proposal for each department by funding type. The figure shows that 84 percent of all funding is proposed from bonds—$503 million in general obligation bonds and $292 million in lease-payment bonds (for higher education facilities). The proposed $147 million from various special funds and from federal funds is $46 million higher than the amount provided from these sources in 1992-93. The majority ($42 million) of this increase is from the Special Account for Capital Outlay (SAFCO).



CROSSCUTTING ISSUES

COST FOR GENERAL OBLIGATION BOND DEBT SERVICE

The Governor's Budget overstates the General Fund cost for general obligation bond debt service for 1992-93 and 1993-94 by a total of $115 million. We recommend the Legislature recognize the availability of these funds as part of the Legislature's budget solution (General Fund savings of $115 million).

Figure 8 shows General Fund general obligation debt service costs for 1992-93 and 1993-94, comparing the Governor's Budget estimates with the State Treasurer's most recent estimates. Our review of the two sets of numbers indicates that the Treasurer's figures are accurate. Consequently, the Governor's Budget overestimates debt service for 1992-93 by $35 million and by $80 million for 1993-94. While debt service payments are made from a continuous—rather than specific—appropriation, the Legislature's recognition of this overestimation would make $115 million available toward the solution of the state's budget problem.

Legislation Needed to Realize Savings

The budget-year estimates assume, however, that the state will change from an accrual to a cash basis in accounting for interest payments on bonds. (Semiannual interest costs would be accounted for in the fiscal year that the payments are made rather than as a liability as the interest accumulates.) This change is consistent with "generally

accepted accounting principles" (GAAP) and will increase the Legislature's fiscal flexibility in addressing the budget solution. As part of the 1992 budget package, it was assumed that the state changed to this accounting method in 1991-92. This did not occur, however, since it was later discovered that the change requires legislation. If legislation is not enacted to allow this accounting change, 1993-94 debt service for GO bonds will be $184 million higher than reflected in the Governor's Budget.

Figure 8

Debt Service for General Obligation Bonds

(Dollars in Millions)

Year	Governor's Budget	Treasurer's Estimate	Savings
1992-93	$1,501	$1,466	$35
1993-94[a]	1,590	1,510	80
Totals	**$3,091**	**$2,976**	**$115**

[a] Assumes change from accrual to cash basis in accounting for interest costs. Treasurer's estimate for accrual basis is $1.774 billion.

USES AND COSTS OF LEASE-PAYMENT BONDS

The Legislature has authorized $5.4 billion in lease-payment bonds since 1983. Annual debt service costs on these bonds have increased by over $200 million in the last five years. Because total debt service costs for lease payment bonds are significantly higher than with general obligation (GO) bonds, we recommend that the Legislature (1) use lease-payment bonds only for critical projects that cannot be deferred and for which other funding is not available and (2) begin its planning now to provide for all near-term critical projects with 1994 GO bond issues.

Lease-Payment Bonds: A Recent Phenomenon

In 1983-84, the Legislature first authorized the use of so-called "lease-revenue" bonds for state capital outlay projects. Unlike *true* revenue bonds, which are often used to finance revenue-producing projects such as toll bridges or parking structures, the state has used lease-revenue bonds to finance projects, such as prisons, that *do not generate revenue* in order to pay off the bonds. Instead, the annual debt service on these bonds is made from "lease" payments, which generally are appropriations from the General Fund to the state agency using facilities constructed with the bonds. We therefore refer to these bonds as lease-*payment* bonds.

To date, the Legislature has authorized $5.4 billion in lease-payment bonds for (1) specific prisons, higher education facilities, and state building projects, (2) state office buildings developed by state/local joint powers authorities and (3) energy conservation projects in existing state facilities.

Figure 9 shows the authorizations by program area. As shown in the figure, $2.7 billion has been authorized for prisons and $1.6 billion for higher education, with the remainder for other state buildings ($285 million), joint powers authorities ($370 million), and energy conservation projects ($500 million).

Debt Service Costs Have Increased Correspondingly

About $3.2 billion in lease-payment bonds have been issued to date. As more bonds have been issued over time, the annual debt service for bond principal and interest—the "lease" payments—has increased considerably. Figure 10 (see page 19) shows that debt service has grown from $12 million in 1987-88 to about $220 million in the current fiscal

year. As more of the authorized bonds are sold, annual debt service is projected to increase by an additional $100 million by 1995-96. Because a majority of the facilities constructed with lease-payment bonds are used by General Fund-supported agencies (higher education and corrections), these debt service payments are predominantly a General Fund cost.

Figure 9

Authorized Lease-Payment Bonds

(In Millions)

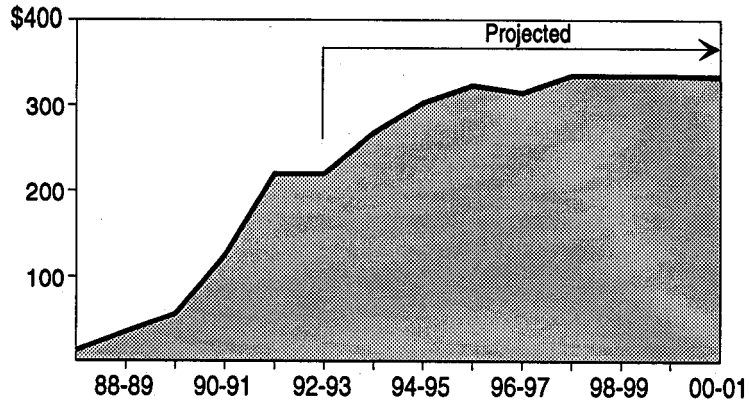
	Amount Authorized
Department of Corrections	$2,673
Higher Education	
University of California	$842
California State University	479
Community Colleges	279
Subtotal	($1,600)
State Buildings	
Franchise Tax Board, Phase 1	$37
Franchise Tax Board, Phase 2	40
State Archives	100
State Library Annex	25
Department of Health Services	55
Department of Food and Agriculture	17
Department of Veterans Affairs	11
Subtotal	($285)
Joint-Powers Authorities	
San Francisco—PUC Building	$61
Los Angeles—Ronald Reagan Building	187
East Bay—Caltrans District 4 Building	126
Subtotal	($374)
Energy Conservation Bonds	$500
Total	**$5,432**[a]

[a] Total does not include the Legislature's authorization of unspecified amounts to (1) purchase an office building in Sacramento and (2) build a second state office building in Los Angeles under the existing joint powers authority.

Figure 10

Lease-Payment Bond Debt Service 1987-88 Through 2000-01

(In Millions)



Lease-Purchase Bonds Versus Obligation Bonds

Figure 11 lists the major differences between GO bonds and lease-payment bonds. Because principal and interest payments on GO bonds are backed by the full faith and credit of the state, they are rated higher by the bond-rating agencies than lease-payment bonds, which are dependent on annual appropriations for debt service payments. For example, even when the state GO bonds were rated AAA by Standard and Poor's, lease-revenue bonds were issued with AA ratings. This rating differential is one reason why lease-revenue bonds sell at higher interest rates than GO bonds and are therefore more costly to the state.

Lease-Payment Bonds Are More Costly

Estimate of Interest Rate Differentials. In order to get a rough approximation of the interest rate differential, we compared the interest costs of all GO and lease-revenue bonds sold between January 1989 and September 1992. (Because these bonds are sold at different times, we used as a benchmark the market interest rate for 30-year United States Treasury bonds on or near the same date of sale as the state bonds.)

Using this benchmark, lease-revenue bonds sold at an average interest rate that was in excess of 0.3 percent above the average GO bond rate. Because each state bond sale is structured slightly differently and various market conditions at the time of sale can affect interest rates, comparisons of bonds sold at different times should be assessed with caution. We believe, however, that this estimated average 0.3 percent interest rate differential between GO and lease-payment bonds is a reasonable one.

Figure 11

Comparison Between General Obligation Bonds and Lease-Payment Bonds

	General Obligation Bonds	Lease-Payment Bonds
Voter approval required?	Yes	No
Pledged security to bondholders	Full faith and credit of the state (entire taxing power)	Annual debt-service appropriations
Interest rate on bonds	Lowest possible	Up to 0.5 percentage points above GO bond rate; average about 0.3 percent
Underwriting process	Competitive bidding required	Competitive bidding not required; sales to date have been negotiated
Need for reserve fund to effectively market bonds?	No	Yes
Need to purchase property and liability insurance?	No	Yes
Amount of bonds required	Based on project costs, plus small amount (less than 1 percent) for issuance costs	Bond volume must be upsized to cover project costs *plus* underwriting fees, debt-service during construction period, issuance costs, insurance and reserve fund
Type of amortization schedule used	Typically level principal repayment	Typically level total payment (principal plus interest)
Pattern of debt-service costs	Typically highest in early years and declining thereafter	Typically fairly level over time

Other Costs. There are other reasons why lease-payment bonds are more costly than GO bonds. The amount of GO bonds sold are based on the cost of the projects being funded with the bonds plus a small

amount of issuance costs (bond counsel, trustee fees). In addition to these costs, however, lease-payment bonds typically require a reserve fund for the project construction period, another reserve fund over the life of the bonds, and underwriting fees. Due in part to the state's lowered credit rating, recent lease-payment sales have also included costs for insurance, which the state has purchased in order to reduce the interest rates. Finally, annual administrative costs associated with lease-payment bonds are higher than for GO bonds, and property and liability insurance must be purchased for the projects funded with the lease-payment bonds.

In 1992, the state had four separate lease-payment bond issues. In order to provide for the reserves and other costs described above, the amount of bonds issued was, on average, about 24 percent more than capital costs of the projects.

Total Costs. The need to issue more lease-payment bonds than GO bonds for the same size capital project(s) plus the higher interest rates demanded in the market means that total debt service on lease-revenue bonds is higher than for lease-revenue bonds. For example, we estimate that *for every $1 billion in capital projects financed with lease-payment bonds instead of GO bonds, the state pays about $250 million to $320 million, or 15 to 20 percent, more in General Fund debt service over the life of the bonds.*

Use of Lease-Payment Bonds Should Be Limited

As discussed in our capital outlay overview, the state's debt services costs have risen significantly in recent years, both in actual dollars and as a percent of General Fund revenues. Additional authorizations of more expensive lease-payment bonds will increase debt service costs beyond what they otherwise would be if the state instead relied on GO bonds.

In order to minimize future debt service costs (and thus "free up" more funding for ongoing state programs), while still providing for the state's infrastructure needs, the Legislature should minimize the future authorizations of lease-payment bonds.

In the short term, we recommend that lease-payment bonds should be used only for *critical projects that cannot be deferred* and for which no other source of funding is available. The Legislature, however, should avoid future situations where lease-payment bonds are the only available funding source. Accordingly, we recommend that the Legislature begin its planning now for what GO bond issues should be placed on the 1994 ballots to meet the state's critical capital outlay needs over the next several years.

STATE INFRASTRUCTURE—WHAT TO BUILD AND HOW TO FINANCE IT

The state has an increasing need for infrastructure improvements and diminishing resources to finance them. The Legislature should assess the variety of infrastructure needs, establish priorities, and determine how much of the state's revenues should be spent on investment in infrastructure versus support or enhancement of other state programs.

The state has several options available for financing infrastructure improvements. These include options such as pay-as-you-go through direct appropriations of state revenues, general obligation bonds, and lease-payment bonds. As discussed in the capital outlay overview, the state has in recent years increasingly relied on the use of bond financing. As a result, the state cost for bond debt service payments is rising rapidly. The predominant use of state-supported bonds has been to finance capital improvements at the state level (predominately for prisons, higher education, and rail transportation) and the local level (such as K-12 education, county jails, water quality and conservation, low-income housing, and local parks and libraries). Moreover, the future capital needs in these areas total tens of billions of dollars (see Figure 4 in the "Overview" of this section). The amount of bond funds currently available to address these needs, however, falls far short.

Figure 12 summarizes the state general obligation bond acts for which there are funds uncommitted to specific projects. As shown in Figure 12, over $7 billion of the nearly $17 billion of authorized general obligation bonds have not been sold. However, this $7 billion is not all available for appropriation. This is because of the lag between constructing approved projects and the sale of bonds for those projects. When commitments for existing projects (including those proposed in the 1993-94 Governor's Budget) are accounted for, only about $3.5 billion of the $7 billion remain available for allocation or appropriation.

Over 80 percent of these uncommitted bond funds are in transportation (rail programs) and K-12 education. Of the $1.8 billion in uncommitted rail bonds, $1.4 billion authorized in Proposition 116 are designated for specific transit corridors. Staff at the state Office of Local Assistance, which administers the K-12 bonds, estimate that the remaining K-12 bonds will be committed to specific projects by September 1993. Aside from K-12 and transportation, *only $600 million remains uncommitted in all the other bond-funded programs.*

Figure 12

Unissued and Uncommitted General Obligation Bonds

(In Millions)

Program	Authorized[a]	Unsold Total[b]	Unsold Uncommitted[c]
Transportation	$2,990	$2,018	$1,776
Parks/resources	1,981	376	19
Safe drinking water/clean water/ water conservation	1,400	450	134
County correctional facilities	995	179	79
State prisons/youth authority	1,767	368	50
K-12	5,200	2,489	1,079
Higher education	1,950	922	93
Libraries	75	39	—
Public buildings—seismic upgrading	300	287	229
Totals	**$16,658**	**$7,128**	**$3,459**

[a] Amount authorized by the voters.
[b] Does not include $185 million from First Time Home Buyers Bond Act of 1982. No bonds have been issued since 1983.
[c] Assumes adoption of proposed spending in Governor's 1993-94 Budget.

Clearly, there are insufficient authorized bonds to finance the multi-billion dollar infrastructure programs identified by those state and local entities that have increasingly relied on state bonds to finance these programs. As a consequence, the Legislature faces important decisions regarding (1) the appropriate level of state bond financing for infrastructure, (2) the use of other state revenues to finance the programs, and (3) which infrastructure programs to finance.

What Level of Bond Financing for Investment in Infrastructure?

As discussed in the capital outlay overview, we estimate that the state's debt ratio will peak at 5.4 percent in 1995-96 as *currently authorized* bonds are sold. This will exceed the 5 percent level that the DOF has indicated the state should not exceed. In her *Bond Sales Management Plan*, released in January 1993, the Treasurer recommends that the state maintain a debt ratio in the range of 3 to 6 percent. In order to stay within this range, the Treasurer recommends that the state only authorize an additional $1.2 billion per year in bonds ($2.4 billion for each election cycle). This compares with an annual average of

$3.5 billion in general obligation and lease-payment bonds authorized in the last five years. We also note that at the time this analysis was written, legislation had been introduced that, if enacted, would authorize an additional $6.2 billion in bond financing. Moreover, an additional $1 billion in rail bonds is already scheduled for the November 1994 ballot.

Clearly, under the DOF scenario, the state would not sell any more bonds until either state revenues increase above projected levels or a portion of the existing bonds are paid off. Under the Treasurer's scenario, the amount of total future bond funding available for infrastructure programs over the next five years would finance about 25 percent of the identified capital outlay need.

Debt Ratio Should Not Be the Sole or Driving Factor

We do not believe there is a "right" ratio of debt-service costs to General Fund revenue. We continue to urge the Legislature not to use an arbitrary debt-service ratio as the sole or driving factor in determining the level of bond financing. Of course, the Legislature must make prudent decisions in this area of long-term financing of capital investments. *The key thing for the Legislature to focus on, however, should be the tradeoff between using state revenues to pay debt service on bonds to develop the state's infrastructure versus using these revenues to support or enhance other state programs.*

Fund Sources Other than Bonds. A factor affecting the level of bond financing is the availability of other revenue sources. These could include the General Fund, special funds, user fees and/or similar revenues that could finance infrastructure improvements on a pay-as-you-go basis. The Legislature should consider these other sources when deciding on how to finance infrastructure programs.

Implicit in the decisions regarding the appropriate funding levels and the source of financing are difficult choices regarding which infrastructure needs to fund and which to forego.

Which Infrastructure Programs to Finance

We believe there are several key factors for the Legislature to consider in making decisions about which infrastructure programs to finance. These factors are summarized in Figure 13 and discussed below.

Figure 13

Key Considerations in Determining Which Infrastructure Programs to Finance

- ☑ Is the program clearly a state responsibility?
- ☑ If the infrastructure program is primarily a local responsibility, to what extent should the state assist with funding?
- ☑ Are there ways to reduce the infrastructure needs?
- ☑ Is the infrastructure program urgently required for health and/or safety purposes?
- ☑ Will funding be available to operate and maintain the capital investments?

Is the Program Clearly a State Responsibility?

Maintaining and improving the assets of programs for which the state is responsible is the first and foremost priority. The degree to which these needs have been addressed has varied greatly among state departments—largely depending on the fund sources available to each agency. For example, the higher education segments and the state prison system have received billions of dollars in bond funding for their capital programs. Likewise, many special-funded agencies—such as the Department of Motor Vehicles, the California Highway Patrol, and the Employment Development Department—have been able to devote a reasonable level of funding to their programs through "pay-as-you-go" appropriations. General Fund departments, such as Forestry, Mental Health, and Developmental Services, have been much less successful in sustaining ongoing programs to address their capital needs. These departments, which administer substantial, older assets, have developed a considerable backlog of infrastructure needs. The Legislature should develop a long-term strategy to also address these departments' capital

programs, either by providing bond funding or devoting a portion of ongoing funds.

If the Infrastructure Program Is Primarily a Local Responsibility, to What Extent Should the State Assist with Funding?

In making this determination, the Legislature needs to know what the ability is of the local entity to fund their own programs and what steps the state could take to make it easier for the local entity to assume more responsibility, or even total responsibility, for the program. The Legislature has in part addressed this issue for K-12 schools and the community colleges by placing a constitutional amendment on the June 1994 ballot that would allow a simple majority vote (rather than two-thirds majority) for local K-14 bond measures.

Are There Ways to Reduce the Infrastructure Needs?

The state could adopt policy changes to reduce the need for spending on infrastructure. Examples of these changes would be steps to reduce the current and future "caseload" to be served in various programs. In the education area, these could include more year-round use of K-12 schools and college campuses and more shared use of facilities, such as libraries. In the criminal justice area, it could include a wide variety of policy choices to reduce inmate population. In contemplating any such policy choices, the Legislature would have to weigh the implications of the programmatic changes with the benefits of reducing future infrastructure needs.

Is the Infrastructure Program Urgently Required for Health and/or Safety Purposes?

Another factor to consider is whether the program would address those health and/or safety hazards that are considered the most critical by the Legislature. For example, are there life-threatening situations within the state's 24-hour institutions, or are there identified areas of immediate personal danger involving state facilities or structures (such as bridges) in the event of an earthquake?

Will Funding Be Available to Operate and Maintain the Capital Investments?

Capital projects to rehabilitate older facilities tend to reduce operating and maintenance costs. On the other hand, funding new capital projects requires additional ongoing operating costs that must be funded through the state's General Fund or special funds, or—in the case of a local project—through local funds. For example, San Diego County recently constructed a 1,000-bed jail and was unable to open it because of the lack of funds for operating expenses. Moreover, the state has postponed the opening of several prisons because of operating budget constraints. Consequently, it is essential that the Legislature have information on the capacity of the state's or local government's budget to operate facilities once constructed or rehabilitated.

Setting Priorities

Within the limited resources available for infrastructure needs, the Legislature should take steps to ensure that *its* priorities are being addressed, *both within individual capital programs and across all programs.* In establishing statewide priorities, we suggest that the Legislature consider the following priority-setting concepts for funding specific projects.

- Projects that meet critical fire/life safety needs.
- Projects that are *required* in order to comply with federal or state mandates.
- Projects to alleviate a critical risk of utility system failure.
- Projects that are needed to maintain the Legislature's desired level of service and "caseload" population for a program.

PLANNING FOR NEW STATE OFFICE SPACE IN SACRAMENTO

The Department of General Services (DGS) has completed the initial phase of a much-needed strategic plan for developing additional state offices in Sacramento. We discuss and assess the major findings and conclusions of the plan and recommend some modifications. We also recommend that the Legislature take specific steps to address the acquisition of state-occupied office space in Sacramento.

Background

In 1977, the Legislature adopted the Capitol Area Plan (CAP), which established a framework for development of state-owned land in a 72-square-block area adjoining the Capitol. The CAP and its supporting environmental documents set various land use policies for developing additional state offices and parking garages and for providing new and rehabilitated housing, open space, public amenities, and community development.

Under the state office space element of the CAP, the goal is to accommodate about 90 percent of state office space in the greater Sacramento area in state-owned buildings. This goal was to be accomplished by 1987. Since 1977, however, the percentage of state-owned office space in Sacramento has *declined* from 64 percent to 46 percent. Conversely, the amount of state-leased space has tripled—from 2.1 million to 6.3 million square feet—and annual leasing costs have increased tenfold from $10 million to $100 million. These lease costs are payments to occupy buildings in which the state is gaining no equity.

Clearly, during the 15-year period since 1977, there has not been a comprehensive plan to attain the office space goal and to obtain state office space in the most economical manner. In the absence of a comprehensive plan, several new state building projects costing hundreds of millions of dollars were advanced in a piecemeal fashion. These projects—the Secretary of State/State Archives building, the State Library Annex, the Franchise Tax Board Phase II, and long-term lease-purchase authorizations for the Board of Equalization, the Department of Justice, and the California Environmental Protection Agency—went forward without any assessment of their priority with regard to other office space needs.

Recognizing a lack of planning and implementation of the CAP, the Legislature adopted Res. Ch 131/91 (SCR 39, Presley). This resolution requested the DGS to prepare a plan to consolidate, to the extent feasible, state employees and functions within the Capitol Area and adjacent areas, consistent with the CAP. In December 1992, the DGS released the first phase of a *Strategic Facilities Plan for Sacramento.* The plan addresses the potential for developing state offices in various sub-regions of the greater Sacramento area, including downtown, the Highway 50 corridor, West Sacramento, and Richards Boulevard, among others.

According to the DGS, this plan is intended to be a guideline for acquiring state office space and to provide direction for preparing the department's five-year capital outlay plan and its integrated capital outlay and leasing plan. (At the time this analysis was written, the department had not yet incorporated the plan's recommendations into its five-year capital outlay plan. The integrated capital outlay and leasing plan also was not completed.)

Major Findings and Conclusions of the Strategic Plan

The first phase of the strategic facilities plan covers 18 large state departments that currently occupy 72 percent of state-leased office space in the Sacramento area. The remaining 28 percent of leased space is occupied by 70 smaller state departments whose office needs will be assessed in the second phase of the plan to be completed this July. The DGS's major findings and recommendations are described below.

Office Space Needs

The 18 departments currently occupy about 9.6 million gross square feet of leased and owned space in Sacramento. The DGS has used a 20-year horizon for assessing the departments' future office space needs. The Department of Finance reviewed the current staffing level for each of the 18 departments—taking into account the impact of recent budget reductions—and approved the employee growth factors used in the plan. For these 18 departments, the Administration expects a 54 percent increase in Sacramento-area employees over the 20-year period. This translates into an average annual growth rate of 2.3 percent. The DGS estimates about 3.4 million additional gross square feet of office space would be needed to accommodate the growth for these departments. Several million square feet in addition to the 3.4 million square feet would have to be constructed in order to consolidate these departments into state-owned space.

Priority Setting for Consolidation

As called for in Chapter 131, the plan establishes a priority list for consolidating the 18 departments. The priorities are based on an equal weighting of three factors: (1) the amount of consolidatable leased space that the department currently occupies, (2) the department's total monthly rent for consolidatable leased space, and (3) the total number of different locations housing consolidatable space (state-owned and leased). The priority list is shown in Figure 14.

Figure 14

Department of General Services
Strategic Facilities Plan for Sacramento
Phase 1 Consolidation Priority

Rank	Agency
1	California Environmental Protection Agency
2	Department of Health Services
3	Employment Development Department
4	Department of Education
5	Department of Transportation
6	Department of General Services
7	Department of Consumer Affairs
8	Franchise Tax Board
9	Board of Equalization
10	Department of Social Services
11	Department of Corrections
12	Teale Data Center
13	Department of Justice (Attorney General)
14	State Controller
15	Health and Welfare Data Center
16	California Student Aid Commission
17	Department of Water Resources
18	Department of Motor Vehicles

Department Location

The plan includes recommendations on whether each department needs to be located in downtown Sacramento—defined as the Central Business District or the Capitol Area—or whether it can be located elsewhere in the metropolitan Sacramento area. The plan calls for 6 of the 18 departments to locate downtown—the Departments of Education, Justice, General Services, Water Resources, the State Controller's Office, and the Board of Equalization. The DGS stipulates, however, that while

the other departments do not require a downtown location, some of their operations, such as "administrative" and "legislative" staff, could be housed downtown.

Financing Evaluation

The plan assesses the cost of financing a range of development alternatives—by size and building location—and compares the costs of state ownership to long-term leasing. Based on the department's assumptions, the state ownership option costs more than leasing over the first 11 to 24 years, depending on the development alternative, but results in long-term savings to the state. The department's analysis also shows that the state will realize the greatest savings by developing high-rise buildings on land the state already owns in the Capitol Area.

CAP Revision

The DGS indicates that the CAP allows for the development of only about 1 million more gross square feet of state-owned office space in the Capitol Area. In light of the need for additional state office space and the potential for long-term cost savings through development on state-owned land, the plan recommends modifying the CAP to allow increased office development. Any modification would require legislation.

Analysis of the Plan

The DGS's strategic plan represents a long-needed step toward development of state offices in Sacramento. When combined with the pending phase II portion of the plan (covering the smaller departments), the Legislature should have reasonable estimates of additional office space needs. Our comments on the major aspects of the plan are provided below.

Office Space Needs

Clearly, projections of 20-year growth in state employees are subject to uncertainty. We believe, however, that the projections used in the plan, coupled with the proposed use of new buildings, provides a reasonable planning estimate of long-term office space needs. For example, a cursory review of past growth for 11 of the 18 large departments in phase I showed an average annual increase in

authorized positions of 2.2 percent between 1980 and 1990. This is close to the 2.3 percent projected annual growth used in the plan.

In light of pending budget actions that could reduce state employment, the growth projections may be somewhat high, particularly for General Fund-supported departments. The plan, however, entails constructing buildings large enough to accommodate the projected 20-year growth of large departments. Initially, the "extra" building space would be used to house other state departments until the larger department grows into the space over time. In view of the amount of space currently leased, the "extra" space should be fully used even in the event the larger departments experience slower-than-projected growth or if some functions are reduced or eliminated. Thus, in the near term, using the projected annual growth rate of state employees for facilities planning purposes should not create a problem. We would caution however that, as the plan is implemented, this assumption should be periodically reevaluated and adjusted to account for changed conditions.

Priority Setting for Consolidation

The DGS defines "consolidated office space" as those functions of a department that the department is "desirous" of having in one location. It is these consolidatable space totals, and the associated leasing costs, that largely determine the priorities among departments for future office development.

While consolidation is generally beneficial, combining departmental functions may, in some cases, be neither necessary nor cost beneficial. There are certainly varying degrees of interdependence between the particular functions of various departments. The plan does address these considerations for some departments. For example, for the DGS, the plan identifies which department functions should be grouped together—an "executive/direct support" group and a "real estate and design services" group—and which other functions could operate separately. Unfortunately, the plan is lacking similar assessments for most of the other departments. A more thorough assessment of the *need* to consolidate departmental functions may change the priorities established in the plan.

Department Location

The DGS estimates that the greatest savings to the state is to develop state buildings on state-owned property downtown. Since there is limited state-owned property, efficient development of the property is

critical and those state functions with the highest need to be downtown should be housed in these buildings. The DGS, however, has not specified any criteria for determining what *functions* must be located downtown. The major factor cited by DGS for determining which departments should be located in the downtown area is that "agencies having constitutional officers have a strong need to be downtown." Consequently, four of the six agencies designated as requiring a downtown location have constitutional officers.

While it may be reasonable to locate constitutional officers and some of their staff in downtown Sacramento, this does not mean the *entire agency* needs to be downtown. The DGS recognizes this for the State Controller's Office by indicating that its processing operations do not require a downtown location. In contrast, the DGS also indicates that the tax form processing operation of the Board of Equalization (BOE) would be most ideally located in 100,000 to 150,000 square feet on a single building level. A single story structure of this size would best be accommodated outside downtown Sacramento—similar to the Franchise Tax Board facilities east of Sacramento. Nevertheless, the DGS recommends locating this entire department downtown. We realize that the BOE is preparing to consolidate (under a long-term lease) in a new downtown office building. Over the long term, however, it would be more cost-effective to move at least some BOE functions to an outlying location. Finally, there is no clear basis for the DGS determination that the two agencies that are not headed by a constitutional officer—Departments of Water Resources and General Services—need to be located downtown.

In order to assure the best use of state office space downtown, the DGS should determine which state *functions* need to be centralized in order to maximize efficiencies within a department and between related departments and to facilitate service to the public.

Recommendations

Financing and CAP Revision

We agree with the conclusion that developing state-owned offices will provide cost savings over the long-term. Clearly, this will require construction of several million square feet of office space at a cost of several hundred million dollars. The Legislature should begin assessing the various financing alternatives and develop a plan to obtain the needed space. We also agree that the CAP should be reassessed to determine how much additional office space should be developed on this state-owned land.

Legislature Should Act on the Strategic Plan

We recommend that the Legislature take various steps regarding the acquisition of state-occupied office space in Sacramento.

We further recommend that the DGS improve the Strategic Plan to more appropriately (1) reflect the needs for consolidation, (2) assess those state functions that are necessary to locate downtown, and (3) set priorities for development of state buildings.

Finally, we recommend that the DGS reevaluate the CAP and report to the Legislature by December 1, 1993 on proposed revisions to the plan.

The Strategic Plan developed by the DGS is an important step toward accommodating state functions in appropriate and more economical state-owned space. In an overall sense, the plan identifies for the Legislature the general magnitude of the current space problem and the cost/benefit of owning rather than continuing to lease office space. Below, we outline the steps that we recommend the Legislature follow to begin acquiring more state-owned office space.

Financing Plan. Decisions concerning the financing of state-occupied office space entail considerable commitments of state dollars. The trend since 1977 of leasing, rather than owning, space has committed the state to higher facilities costs. Continuation of this trend is at the expense of other statewide programs and is not in the long-term interest of the state. If, however, new state-owned office buildings are financed with long-term debt—such as general obligation bonds—the annual debt service cost must also be balanced against the needs of other statewide programs (including multibillion dollar needs in other capital outlay areas). On the other hand, the state could provide all or a portion of the development cost on a pay-as-you-go basis. This would require a higher initial commitment of state funds, but the annual savings related to state-owned space would be realized sooner. In any case, it is important to keep in mind that providing office space for employees is unavoidable and it is in the best interest of the state to provide this space in the most cost-effective manner possible. Making the "up front" investment in state-owned facilities will produce long-term savings, and thus will eventually free-up funding for other state programs.

For the coming budget year, we recommend that the Legislature take the following steps to address the state's office space needs:

- Make a commitment to reverse the trend of leasing, rather than owning, state office space.

- Determine to what extent the state should propose general obligation bonds for state office space in the 1994 elections and future elections.
- Identify other financing mechanisms (such as pay-as-you-go, lease-payment bonds, lease-purchase agreements, etc.) and the extent of their use to acquire state office space.
- Modify the CAP and increase the amount of state-owned space that can be built on state property.
- Place a moratorium on authorizations to either acquire state-owned office space or enter into long-term lease agreements in the Sacramento area until the DGS Strategic Plan is improved (see below), and the Legislature adopts it.

Improvements to Strategic Plan. The DGS should undertake a critical assessment of the need to consolidate departmental functions and where departmental functions should be located to maximize efficiency and facilitate service to the public. We recommend, therefore, that the DGS modify the Strategic Plan to assure that implementation of the plan will produce these results. As the DGS modifies the plan and completes phase 2, it should establish:

- The 20-year office space needs of *all* departments in Sacramento.
- The departments, *or functions within departments,* which need to be located downtown in order for state government to work effectively and to serve the public.
- The amount of state office space which will be needed downtown in order to accommodate this projected need.
- The degree to which this need can be met within the Capitol Area and how the CAP might be changed accordingly. (As opposed to development priorities based solely on consolidation needs, the DGS should consider assessing priorities for development on state-owned property within the Capitol Area and incorporate this assessment into its five-year capital outlay plan.)
- Which departments that are to be located outside downtown Sacramento should be in proximity to each other in order to foster operating efficiencies and enhanced service to the public.
- The total amount of space and the estimated cost to develop the facilities that the state needs in order to fulfill its office space requirements in Sacramento

Capitol Area Plan. An improved strategic plan will give the Legislature a reasonable estimate of long-term state office needs in Sacramento. As mentioned above, the land-use policies of the CAP are outdated and should be reevaluated and, at a minimum, revised to reflect the current need for state offices in the downtown area. Consequently, we recommend that the department undertake a reevaluation of the CAP and report to the Legislature by December 1, 1993 on its proposed revisions to the plan.

DEFERRED MAINTENANCE IN STATE FACILITIES

The state has developed a considerable backlog of deferred maintenance needs. If not addressed, this will eventually cause higher operating and capital outlay costs in the future. Departments should sustain, at a minimum, their current maintenance budgets and propose multi-year strategies to address their maintenance shortfalls and deferred maintenance backlogs.

In order to keep the state's facilities functional for public use, the state needs to fund both ongoing, routine maintenance and "special repairs." The term "special repair" refers to maintenance projects that are required periodically and are above the base level of expenditures needed for routine maintenance. Examples of special repairs include replacing roofs, painting exteriors, replacing mechanical/electrical equipment, and repaving roads.

When ongoing maintenance is not sustained at a level needed to keep facilities from deteriorating, the cycle for when special repair projects are needed is shortened. For example, a roof that is not periodically inspected and patched may require replacement after only 10 years instead of 15 years. Shortening the lifespan of building components increases total maintenance costs over the life of a building. When ongoing maintenance is not sustained at a reasonable level and special repair projects are not accomplished as needed, the result is a backlog of deferred maintenance. If repairs to key building and infrastructure components are constantly deferred, facilities can eventually require more expensive emergency repairs (when systems break down) or capital improvements, such as major rehabilitation or even replacement. Ideally, there should be *no* deferred maintenance, but this is not the case for many state facilities.

State Currently Has a Large Deferred Maintenance Backlog

Given the multi-billion dollar needs of the state to provide *new* facilities for a growing population, it is in the state's interest to preserve the investments already made in existing facilities. Unfortunately, the state has not adequately maintained many of its facilities, and hence, faces a considerable backlog of repair projects. Figure 15 shows annual special repair/deferred maintenance expenditures, and the current backlogs, for those General Fund departments which control significant state assets. Total expenditures by these departments decreased by about $10 million between 1990-91 and 1992-93. For 1993-94, the

departments generally propose to sustain current-year expenditure levels except the community colleges, where the budget proposes increased spending of $13 million (state plus district matching shares), and the California Youth Authority, where the budget proposes an increase of $3 million from general obligation bond funds. Spending by the University of California (UC) and the California State University (CSU) is undetermined because of the proposed unallocated reductions in the Governor's Budget.

Figure 15

Special Repair/Deferred Maintenance Expenditures and Identified Needs for Selected Departments

(In Millions)

Department	Expenditures				Current Backlog
	Actual 1990-91	Actual 1991-92	Estimated 1992-93	Proposed 1993-94	
General Services	$5.0	$2.8	$2.6	$2.6	$13
Parks and Recreation	1.3	0.6	2.6	2.9	31
Developmental Services	3.9	3.9	3.9	3.9	18
Mental Health[a]	2.4	1.8	1.9	1.9	11
Corrections	10.0	10.0	10.0	10.0	20
Youth Authority	0.6	1.4	1.4	4.4	27
University of California	16.2	11.3	10.2	NA[b]	320
California State University	6.7	5.2	3.9	NA[b]	180
Community Colleges[c]	16.0	16.0	16.0	27.8	200
Totals	**$62.1**	**$53.0**	**$52.5**	—	**$820**

[a] Expenditures do not include $2.4 million in 1991-92 and $3.2 million proposed in 1993-94 to reroof Atascadero State Hospital.

[b] Amounts undetermined in light of proposed unallocated reductions in Governor's Budget.

[c] Expenditures include district matching funds.

At the current-year spending rate of $52 million, it would take 16 years just to address the $820 million *current* backlog of projects identified by the departments. Moreover, because adequate funds are not spent for annual routine maintenance, additional repair needs will accumulate over this time period. Thus, after 16 years and the expenditure of over $820 million, there would still be a significant deferred maintenance problem. While all of the identified projects do not necessarily *require* immediate attention, as discussed above, deferral of many projects could eventually result in more costly methods to extend the useful life of facilities.

Variations Among Departments. As shown in Figure 15, spending on special repairs/deferred maintenance varies greatly among departments. The Department of Corrections (CDC) has sustained a high level of spending on repairs relative to its backlog. This is probably due in part to the fact that the department has been using general obligation bond funds for repair projects—a practice that occurs nowhere else in state government. (See our discussion of the CDC's use of bond funds in the Judiciary and Criminal Justice Section of the *Analysis.*) At the other extreme are the higher education segments, particularly the UC and the CSU, which have each reduced repair expenditures by about 40 percent in the last two years and have a combined repair need of $500 million. The CSU system, with 29 million square feet of state-maintained space, is spending the same amount on repairs in 1992-93 as the Department of Developmental Services, which has just over 8 million square feet of space.

Growth in Some Backlogs. While some departments have relatively small repair backlogs, these backlogs are nevertheless growing. For example, the Department of General Services (DGS) funds special repairs within rental charges to tenant agencies in state office space. Until recently, this has allowed the department to avoid creating any deferred maintenance problem. In 1991-92, the DGS increased monthly rent in all of its buildings by 32 cents per square foot (up from $1.07) in order to finance debt service payments for a new state office building in Los Angeles. To minimize the impact of this rent increase, however, the department's special repair spending was reduced by almost one-half in 1991-92, as shown in Figure 15. The DGS has maintained its rental rate at $1.39 per square foot in the current and budget years, hence special repair expenditures are being kept at the reduced level. The result is that a backlog of repair needs has evolved where none previously existed.

Causes of the Backlogs. Generally, there are two reasons for the deferred maintenance backlogs. First, is the underfunding of both ongoing maintenance and special repairs, which over time causes facilities to deteriorate quicker. Second, is the redirection of funds budgeted for maintenance and special repairs to other activities. In times of fiscal stress, maintenance is often viewed as a more discretionary activity, and therefore more deferrable, than the need to provide for more immediate program and service needs.

The state needs to adequately maintain its existing facilities, however, in order for programs to operate efficiently and to minimize costs for repair and capital outlay. Given the several hundred million dollar backlog of identified repair needs, the facilities administered by many state departments are deteriorating more rapidly than necessary. This

will reduce the useful life of some state facilities and thus increase future capital outlay needs. In the long run, this will reduce unduly the total amount of funds available for other statewide programs.

Redirection of Maintenance Funding Should Be Stopped

We recommend that the Legislature adopt budget control language to prevent the redirection of funding appropriated for maintenance.

As noted above, the deferred maintenance backlog stems in part from insufficient funding dedicated to ongoing maintenance. We recognize that, due to the state's budget problems, it probably is not possible to increase spending for maintenance in the short term. Even given the difficult fiscal situation, however, the state should not allow further redirection of funds designated for maintenance to other purposes. We therefore recommend the Legislature adopt Budget Bill language, under a new control section, stipulating that the amount of funds appropriated by the Legislature for maintenance purposes within the budget of any department shall not be used for any other purpose. In this case, the definition of maintenance funding should be that amount provided to maintain facilities and infrastructure, as opposed to the portion for janitorial services and groundskeeping. While the latter is important, it is not as essential in order to preserve the investment in state assets. The following language is consistent with this recommendation:

> Control Section 6.10. The amount of funds included in an appropriation within this act for expenditure by any department to maintain state facilities and infrastructure shall not be used for any other purpose.

Need to Eliminate Deferred Maintenance and Properly Maintain Facilities

We recommend the Legislature adopt supplemental report language requiring certain departments to prepare multi-year plans to properly address their maintenance and to eliminate the deferred maintenance backlogs.

Eliminating the Maintenance Problems. Stopping the redirection of maintenance funds is only a short-term response to the problem. The state needs to take action to ensure that, over time, appropriate ongoing maintenance is sustained and the deferred maintenance backlog is eliminated. As a first step toward this goal, we recommend that the Legislature adopt the following supplemental report language requiring the departments in Figure 15 to propose multi-year plans for addressing their maintenance *and* deferred maintenance problems:

The department shall develop a multi-year plan to address its maintenance underfunding and special repair/deferred maintenance backlog. The plan shall include, at a minimum, (1) the department's facilities maintenance expenditures and the amount of maintained square feet for each of the prior three years, (2) the department's estimated current funding shortfall for ongoing annual maintenance when compared to established maintenance standards, and (3) a multi-year funding proposal to address the estimated maintenance shortfall and deferred maintenance backlog. The backlog should be addressed over a five- to ten-year period as appropriate. The report shall be submitted to the Chairs of the fiscal committees and to the Chair of the Joint Legislative Budget Committee by December 1, 1993.

Options for Funding Deferred Maintenance. Once the multi-year plans are available for review, the Legislature will need to assess options to fund these needs. There are several potential funding source(s) the state could designate for deferred maintenance. One possibility would be to use a portion of the tidelands oil revenue. The Governor's Budget proposes about $7 million in tidelands monies for a few large repair projects within the Departments of Developmental Services and Mental Health. Another option for some departments would be to reserve a specific portion of special funds or fees for this purpose (such as a portion of state park user fees). Finally, the DGS could be directed to increase its rental charges to tenant agencies—or produce more operating efficiencies within existing rental charges—in order to fully fund the special repair needs.

HIGHER EDUCATION CAPITAL OUTLAY

The three segments of higher education continue to propose ambitious capital outlay programs in the face of budget cutbacks and uncertainty over future enrollments. If the Governor's proposed capital outlay program is enacted, it will cost $1.5 billion to complete all projects currently in the works. There will be, however, only $27 million in general obligation bonds to apply toward that cost. Consequently, the Legislature faces difficult decisions regarding the appropriate level of future capital outlay funding to provide for higher education and which projects to fund within that level.

The *demand* to accommodate students in California's higher education system continues to increase. Recent fiscal problems, however, have reduced the state's accommodation of all Master Plan-eligible students. As discussed in the Higher Education Section of our *Analysis*, enrollments at the University of California (UC) and the California State University (CSU) have declined by 2,400 FTE and 21,500 FTE, respectively, since 1990-91. The Governor's Budget proposes further funding cuts for these segments in 1993-94. The California Community Colleges' (CCC) enrollment has continued to increase, but fee increases enacted in 1992 and policy changes proposed in the Governor's Budget could have a significant impact on future community college enrollment. It is unclear how the recent and proposed budget cuts and enrollment reductions will effect the need for, and type of, higher education facilities.

Since 1987, the Legislature has appropriated about $2.7 billion for higher education capital outlay. Each of the segments have developed ambitious capital outlay plans to continue upgrading existing facilities and to develop new facilities for enrollment growth. These plans are, in part, predicated on the need to accommodate considerable enrollment increases that were projected over the next 10 to 15 years. In light of the cutbacks and budget uncertainty discussed above, a reevaluation of these plans may be needed.

In the following overview of capital outlay programs for higher education, we discuss: (1) the segments' five-year capital outlay plans, (2) the Governor's Budget proposal, (3) the substantial, unfunded cost to complete proposed and previously approved projects, and (4) options for funding these and future projects.

Five-Year Capital Outlay Plans

An average annual appropriation of $1.2 billion would be needed over the next five years to fully fund higher education capital outlay plans.

As summarized in Figure 16, the segments' five-year plans propose expenditures totaling $6 billion between 1993-94 and 1997-98. Because most capital outlay projects are funded in phases over two to four years, these plans are similar to the segments' previous five-year plans, but are updated to reflect 1992 budget actions, revised priorities, and the addition of new projects. The $6 billion total is about $800 million more than the five-year plans that we summarized one year ago in our *Analysis of the 1992-93 Budget Bill*. The increase is predominantly within the community colleges' plan ($550 million).

To fully fund these proposed plans, the Legislature would have to commit an average of $1.2 billion per year—about two-and-one-half times as large as average capital outlay appropriations for higher education over the past five years.

Figure 16

Higher Education Capital Outlay
Five-Year Capital Outlay Plans
1993-94 Through 1997-98

(In Millions)[a]

Segment	1993-94	1994-95	1995-96	1996-97	1997-98	Totals
University of California	$248	$241	$224	$260	$253	$1,226
California State University	339	588	508	555	281	2,271
Community Colleges	510	895	576	343	233	2,557
Totals	**$1,097**	**$1,724**	**$1,308**	**$1,158**	**$767**	**$6,054**

[a] All amounts adjusted to ENR 5153, the construction cost index in use for the budget.

Budget Proposals

The budget amount for higher education capital outlay funds about two-thirds of the $1.1 billion identified in the five-year plans for 1993-94.

As summarized in Figure 17, the budget proposes $722 million in capital outlay spending for the three segments. This amount includes $430 million from general obligation bonds approved by the voters in June 1992 and $292 million in General Fund lease-payment bonds. The budget proposal is an increase of $173 million over current-year appro-

priations. Most of the increase ($159 million) is for the community colleges.

The budget funds about two-thirds of the total amount identified by the segments for 1993-94 in their five-year plans (see Figure 16). However, the amounts proposed in the budget for the individual segments vary significantly from the amounts in the respective five-year plans. Whereas over 90 percent of the UC plan is funded, only 70 percent of the CSU plan, and 50 percent of the Community Colleges plan is funded. The lower ratio of funding for the CSU is due, in part, because the CSU withdrew its request for several new building projects and is reevaluating them along with the five-year plan, in light of enrollment reductions. In the case of the CCC, several previously funded projects are behind schedule and, thus, construction funding for these projects is not included in the Governor's Budget.

Figure 17

Higher Education Capital Outlay
1993-94 Capital Outlay Programs

(In Thousands)

	Budget Bill Amounts		
	General Obligation Bonds	Lease-Payment Bonds	Total
University of California	$136,391	$94,727	$231,118
California State University	145,725	90,031	235,756
California Maritime Academy	100	—	100
California Community Colleges	147,528	107,607	255,135
Totals	**$429,744**	**$292,365**	**$722,109**

There Are Virtually No Funds Available to Complete Projects

It will cost about $1.5 billion to complete all projects either proposed in the Governor's Budget or partially funded in previous Budget Acts. According to the Department of Finance (DOF), if the Governor's Budget is enacted, there will be only $27 million in general obligation bonds available to fund the future costs of these projects already in the works.

Figure 18 shows that it will cost an estimated $1.5 billion to complete those capital projects that are either (1) proposed in the Governor's Budget or (2) have been partially funded (generally for design documents) in previous budgets. *It is important to note that the $1.5 billion cost does not include any funding that would be needed for new*

projects proposed after 1993-94. In contrast to this significant future obligation, there will be very little authorized funding available after 1993-94. According to the DOF, there will be only $95 million in general obligation bonds that are uncommitted to specific projects (assuming adoption of the Governor's spending proposal for 1993-94). Moreover, the DOF indicates that $68 million of these funds are currently earmarked for bond issuance costs, interest on Pooled Money Investment Account loans, or for potential increased construction costs on previously funded projects. Thus, only $27 million in general obligation bonds will be available to apply toward the $1.5 billion in costs. In our analysis of the segments' capital outlay programs, we recommend reductions totaling $132 million for 1993-94, which would also reduce future costs by another $227 million.

Figure 18

Higher Education Capital Outlay Costs to Complete Projects[a]

(In thousands)

Segment	Costs to Complete Projects		
	Governor's Budget	Previously Funded	Total
University of California	$411,490	$16,697	$428,187
California State University	111,348	607,854	719,202
California Community Colleges	136,255	189,595	325,850
Totals	**$659,093**	**$814,146**	**$1,473,239**

[a] These are the costs that will have to be appropriated in the future to complete projects already started or proposed in the budget. Segment estimates, adjusted to ENR 5153, the cost index in use for the budget.

Options for Addressing the Funding Gap

The Legislature needs to determine to what extent the funding gap should be filled and what type of financing should be used.

Clearly, the segments will need substantial additional funds in order to complete their current projects and fund new projects scheduled beyond the budget year. In deciding how much capital funding the state should provide for higher education, the Legislature also needs to consider the competing needs of other state capital programs and the tradeoffs of debt service on bonds versus using state tax revenues to support ongoing statewide services.

To address this higher education capital outlay funding gap, the options for the Legislature include (1) proposing sufficient general

obligation bonds to the voters in the June and/or November 1994 elections, (2) using non-voter-approved General Fund lease-payment bonds, (3) a combination of these two options, and (4) scaling back the segments' programs. We discuss these options below.

General Obligation Bonds. Since 1986, the voters have authorized $2.4 billion in general obligation bonds for higher education facilities, including $900 million in June 1992. As a financing mechanism, general obligation bonds have several fiscal advantages over lease-payment bonds (see our crosscutting write-up on this issue elsewhere in this section).

Lease-Payment Bonds. Since 1983, the Legislature has authorized $1.6 billion in lease-payment bonds for the three segments—UC ($842 million), CSU ($479 million), CCC ($279 million). To date, all but $413 million of these bonds have been issued. The annual debt service on these bonds—the "lease" payments—are made through General Fund appropriations to each segment. As more of the bonds have been sold, these debt service requirements have increased considerably.

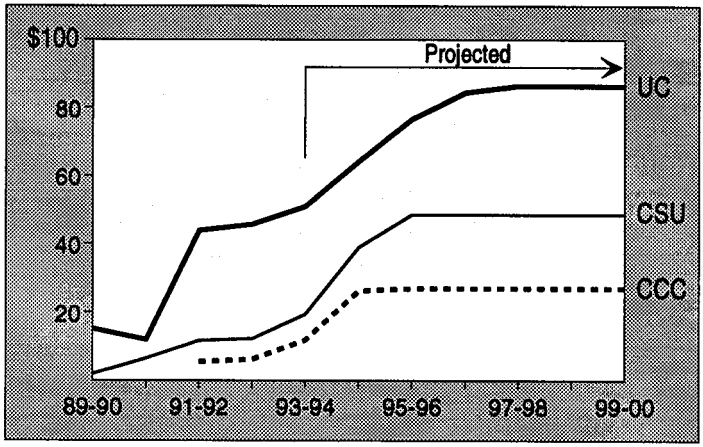
Figure 19 shows the recent and projected growth in annual lease payments for each segment after all of the authorized bonds are sold. We estimate that the annual lease payments for the three segments will increase by $47 million between 1993-94 and 1994-95 and by an another $30 million two years later. At a time when the segments are experiencing decreases in state funding, the need to devote more funding for these debt service requirements puts more strain on the segments' operating budgets. Moreover, the estimates in Figure 19 *do not* include the additional debt service costs for the $292 million in lease-payment bond funding proposed for the segments' capital programs in 1993-94.

In our crosscutting issue on lease-payment bonds, we describe the major differences between this financing mechanism and general obligation bonds. We point out that, because lease-payment bonds command higher interest rates and require upsizing for reserves and insurance, total debt service costs on lease-payment bonds are higher than with general obligation bonds. We estimate that for every $1 billion in capital projects financed with lease-payment bonds instead of general obligation bonds, debt service is $250 million to $320 million more over the life of the bonds. In the case of higher education facilities, this is an additional General Fund cost to the segments' operating budgets. We therefore recommend that, in general, the Legislature should use lease-payment bonds only for critical projects that cannot be deferred and for which no other funding is available.

Figure 19

Higher Education Capital Outlay
Lease-Payment Bond Debt Service[a]
1989-90 Through 1999-00

(In Millions)



[a] Based on sale of all previously authorized bonds.

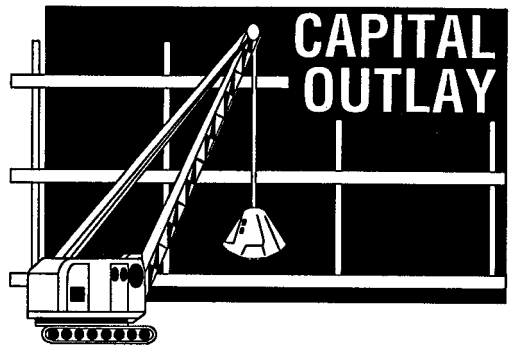
Combination of General Obligation and Lease-Payment Bonds. This is the funding method that has been used for several years. While general obligation bonds are the less costly alternative they—unlike lease-payment bonds—are subject to the uncertainties of voter approval. On the other hand, as more lease-payment bonds are used in lieu of general obligation bonds, the state's debt—and annual General Fund cost—will be higher. For example, compared to general obligation bonds, the $1.6 billion lease-payment bonds already approved for higher education will cost an additional $400 million to $510 million over the life of the bonds.

Scaling Back the Capital Programs. As discussed in our capital outlay overview, tens of billions of dollars will be required to fund the capital programs of state agencies plus the state-supported infrastructure programs of local government entities. In recent years, the state's debt service ratio has risen rapidly because most of the funding for these programs has come from bonds. Given the high level of capital needs and the competing demand to use state tax revenues to support ongoing state programs, the Legislature faces difficult decisions regarding which capital programs to fund and how much funding to

provide for each program. *Inherent in these decisions are also judgments regarding which capital needs to forego.*

Conclusion

With regard to higher education, the Legislature faces (1) uncertainty over future enrollment levels and (2) a huge backlog of previously funded projects to complete. In light of this situation, the Legislature may wish to consider scaling back the segments' capital outlay programs. The Legislature needs to decide what level of higher education capital outlay it wishes to fund and which projects to fund within that level. In our separate analyses of each segment's capital program, we discuss, based on available information, how the proposed capital program meets the segments' capital needs. In addition we make several recommendations to reduce requested amounts.



DEPARTMENTAL ISSUES

DEPARTMENT OF GENERAL SERVICES (1760)

The Governor's Budget requests $11.2 million to prepare preliminary plans and environmental documents for two projects involving three state office buildings in the Bay Area. One, in San Francisco, involves renovating the state building at 350 McAllister Street (200,000 gross square foot [gsf]) and replacing the adjoining state building at 455 Golden Gate Avenue with an 822,000 gsf building. The other project would replace and relocate the Oakland state building with a 660,000 gsf building. These proposals would provide a total of 1.7 million gsf at an estimated future cost of $370 million.

Bay Area Facilities Plan

The two budget proposals stem from a *San Francisco/Oakland State Facilities Plan* that was completed by the Department of General Services (DGS) in 1992. In the plan, the DGS assessed the potential to consolidate state agencies operating in San Francisco, San Mateo County, and western Alameda County in state-owned office space. The DGS indicates that these agencies currently require 2.3 million gsf of general office space and estimates a need for an additional 300,000 gsf in ten years.

The primary focus of the plan was the four major state buildings in downtown Oakland and San Francisco. Three of these buildings—350 McAllister Street and 525 Golden Gate Avenue in San Francisco, and 1111 Jackson Street in Oakland—have been vacated since the Loma

Prieta Earthquake in October 1989. The DGS is currently in discussions with the City of San Francisco regarding the city's possible purchase of the 525 Golden Gate site.

Prior to deciding the merits of the specific budget proposals, the Legislature needs to assess two major issues: (1) the future location of certain agencies planned to be in San Francisco and (2) the lack of a specific funding source(s) to complete the proposed projects. We make recommendations on these two issues below.

Agency Location

We recommend that the Legislature not approve the building projects in San Francisco and Oakland prior to determining if certain departments should be relocated from San Francisco to either Oakland or Sacramento.

The major tenants proposed to be housed in the San Francisco buildings are the State Supreme Court (projected to need 350,000 gsf in ten years), and the Departments of Justice (175,000 gsf), Industrial Relations (190,000 gsf), and Insurance (120,000 gsf).

The DGS indicates in the facilities plan that these entities should remain in San Francisco based on their "guiding principle" that the state should maintain a strong presence in that city. It is not clear, however, that continuing to locate all these departments in San Francisco is the most efficient or cost-effective location for the state.

According to the DGS, about 50 percent of the state's Bay Area employees live in the East Bay and 25 percent live in San Francisco. Conversely, only 34 percent of state jobs are in the East Bay, while 60 percent are in San Francisco. An increased concentration of state jobs in the East Bay would improve the state employee jobs/housing balance in the Bay Area. Moreover, it may be even more advantageous and cost-effective to relocate the departments listed above to Sacramento where the other two branches of government and most other state departments are headquartered. We note that legislation (SB 141, Alquist) was recently introduced that would relocate the Public Utilities Commission from San Francisco to Sacramento. If this bill is enacted, the 290,000 gsf building occupied by the commission would be available for other state departments. This would also reduce the amount of new space the state would need to construct in San Francisco.

We believe it is essential that prior to committing funding for projects that will cost several hundred million dollars, the Legislature should determine the best *permanent* location for these departments in order for the state government to function most efficiently and

effectively. Specifically, the State Supreme Court and the Departments of Justice, Industrial Relations, and Insurance should inform the Legislature on the cost-effectiveness and program efficiencies of remaining in San Francisco compared to the cost-effectiveness and program efficiencies of relocating to Sacramento or Oakland.

Unknown Financing Source to Complete San Francisco/Oakland Buildings

We recommend that the Department of Finance report at budget hearings on the Administration's plan for financing the San Francisco and Oakland buildings.

As mentioned earlier, the estimated costs to complete the design and to construct these projects is $370 million. The budget proposes to fund the preliminary plans from the Earthquake Safety and Public Buildings Rehabilitation Bond Fund of 1990. There are insufficient bond funds to finance the remaining costs of these projects. The Administration, however, has not identified what fund sources will be used to finance both projects. As discussed in our crosscutting issue on financing state infrastructure, given the state's increasing costs to pay debt service on bonds and the state's multibillion dollar capital outlay needs, the Legislature should determine which capital projects to fund and how to finance those projects. For projects proposed by the Administration, such as these buildings, the Administration should provide a plan to finance the complete projects. This will allow the Legislature to determine if the Administration's plan is the most cost-effective and if it is consistent with the Legislature's priorities for expenditure of state revenues. We therefore recommend that the Legislature not act on these requests prior to receiving a Department of Finance report on the Administration's plan to finance completion of the projects.

If the Legislature decides to modify the current proposals upon consideration of the two issues we raise above, some modification to the requested amounts may be necessary. The following recommendations are based on the current status of each proposal.

San Francisco Project

We recommend the Legislature provide separate appropriations for EIR/schematic drawings and for preliminary plans and add Budget Bill language making release of the preliminary plan funds contingent on EIR approval.

The budget includes $6,974,000 for preliminary plans (including funds to prepare an EIR) for the two San Francisco buildings. Under the DGS plan, the 350 McAllister Street building, built in 1907, would undergo complete interior renovation and seismic upgrading with "base isolation"—a technique that, according to the DGS, results in more earthquake resistance and better preserves the integrity of older, historical buildings. The completed project will have 200,000 gsf of office space at a cost of $70 million. The current state building at 455 Golden Gate Avenue, which has 384,000 gsf, would be demolished and replaced with a new 822,000 gsf building costing $166 million. Thus, state agencies would be consolidated into about 1 million gsf of state-owned space in San Francisco.

In view of the magnitude of the project and the sensitive nature of the civic center location, the department should complete schematic drawings *and* receive approval of the EIR *prior* to preceding with the more detailed preliminary plans. This would avoid the risk of spending planning monies on documents that would have to be modified in the event the EIR process required changes in the plans.

We therefore recommend that the budget item for this project include separate appropriations for the EIR/schematic drawings and for preliminary plans. We further recommend Budget Bill language specifying that funding for preliminary plans is not to be encumbered until the EIR has been approved.

Oakland Project

We recommend deletion of $2.2 million for preliminary plans, and approval of the remaining $2 million for an EIR and schematic drawings. We also recommend that the DGS report to the Legislature at budget hearings on the status of (1) the state's claim to FEMA for the earthquake-damaged Oakland building and (2) the department's efforts to determine a location for the proposed Oakland building.

The budget includes $4,208,000 for preliminary plans (including funds to prepare an EIR) to replace and relocate the Oakland state office building. The State Architect has determined that it is not feasible to repair the earthquake-damaged Oakland state building. The state has requested $29.5 million from the Federal Emergency Management Agency (FEMA), which is based on 75 percent of the replacement cost of a similar-size building. The FEMA is currently reviewing this request.

The DGS intends to dispose of the current building site and construct a new building on an *as-yet undetermined site in downtown Oakland.* The DGS indicates that it should have a site determined within the next two

months. The proposed 660,000 gsf building and 600-space parking garage would consolidate 20 departments currently operating in the East Bay plus 10 other departments to be relocated from San Francisco. The estimated project cost is $143 million, which does not include land acquisition costs.

Because there is currently no building site, the project schedule for Oakland is subject to more uncertainty than that for San Francisco. The department should report to the Legislature during budget hearings on its efforts to select a building site. At that time, the department should also advise the Legislature on the status of its funding request to FEMA. Again, we believe that the DGS should have an approved EIR for this project prior to commencing preliminary plans. Based on the proposed project schedule of completing the EIR in April 1994, we recommend that the Legislature provide $2 million for an EIR and schematic drawings in 1993-94. We therefore recommend deletion of $2.2 million for completion of preliminary plans. Funds for this purpose could be provided by the Legislature in 1994-95 when the final site has been established and the appropriate EIR has been completed.

DEPARTMENT OF MOTOR VEHICLES (2740)

The Department of Motor Vehicles' (DMV) five-year capital outlay plan proposes $235 million in expenditures between 1993-94 and 1997-98. The DMV's budget proposal for 1993-94 totals $15.7 million and includes $9.2 million to purchase four leased facilities, $1.8 million to remodel three field offices, $703,000 for minor capital outlay projects, and $4 million for a new joint headquarters complex, which is discussed in more detail below.

Joint Headquarters Complex

We withhold recommendation on $4 million for the joint headquarters complex pending discussions with the department regarding the scope and financing of the project.

The budget includes $4 million from the Motor Vehicle Account (MVA) to prepare preliminary plans for a new headquarters complex for the DMV and the California Highway Patrol (CHP). The project involves (1) renovating 852,000 gross square feet (gsf) in the DMV's two headquarters buildings, (2) demolishing the CHP's two headquarters buildings (116,000 gsf), (3) constructing an additional 793,000 gsf of office space, and (4) constructing parking garages for 2,700 cars. The

estimated cost to complete the project is $356 million. The project would be constructed in three phases, with completion in 2000-2001.

The DMV/CHP proposes that the remaining project cost be funded from the MVA and financed by one of two methods: (1) pay-as-you-go, which would require cash outlays of $7 million in 1994-95 and then outlays averaging $116 million for the three phases of the project; and (2) financing with long-term debt, such as lease-payment bonds, which would cost about $39 million per year for 18 years.

In the transportation section of this *Analysis*, we indicate that MVA revenues are projected to grow only slightly in 1993-94 and that MVA revenues continue to be used for nontransportation purposes, thus exerting additional demands on the account. These additional demands could require further fee increases or program reductions in the future. Given the current condition of the MVA and the potential added cost of financing this large project, we withhold recommendation on the budget proposal pending discussions with the department on the impacts of the project on the MVA.

In addition to the MVA impact, we are concerned with the project scope. For example, the project includes complete renovation (costing $100 million) of the two DMV buildings. In fact, the estimated cost (on a per-square-foot basis) to renovate the DMV East building is greater than the cost of the new buildings. This high cost is due, in part, to the plan to remove all asbestos throughout the building, but it also reflects a plan to integrate this facility both functionally and aesthetically with proposed building additions. We will therefore also discuss with the department the potential for less costly alternatives to the proposed project.

DEPARTMENT OF CORRECTIONS (5240)

The Governor's Budget requests $39 million for capital outlay projects at existing state prisons. As has been the case in past years, the budget contains no proposals for new prisons, even though the Department of Corrections (CDC) indicates that more prisons are needed to accommodate the projected inmate population.

Status of the New Prison Construction Program

Since 1980, the Legislature has authorized $4.3 billion to design and construct almost 53,000 new beds within the state prison system. Completion of all funded facilities will bring system capacity to 80,000 prison and conservation camp beds, in addition to 5,600 currently funded community-based beds. Even with this massive building program, the state has been unable to keep pace with the inmate population, which has more than quadrupled since 1980 and now stands at about 109,000 (including over 5,000 inmates in community correctional centers). This population is currently overcrowded to 173 percent of design bed capacity.

At the time this analysis was written, the CDC had not released its annual five-year new facilities master plan. The plan is expected to be available prior to budget hearings. When the plan is released, we will review it and provide comments as appropriate. Below, we discuss the CDC's most recent inmate population projections and their potential effect on future capital outlay costs.

Population Projections Indicate Huge Capital Outlay Needs

Based on the department's overcrowding policy and its most recent inmate population projections, an additional 26,000 to 32,000 beds would be needed by 1998, at a cost of $2.4 billion to $2.9 billion. Annual operating costs for these additional beds will be $500 million to $700 million.

The Governor's Budget is based on the CDC's fall 1992 inmate population projection. This projection shows an inmate population of 141,000 by mid-1998. This is a substantial increase over the current inmate population, but it represents less than one-half the annual growth rate of 11 percent experienced over the past six years. Recently, however, the CDC developed a new methodology for projecting inmate population. This methodology dampens the effects of short-term population fluctuations on long-term population projections. This

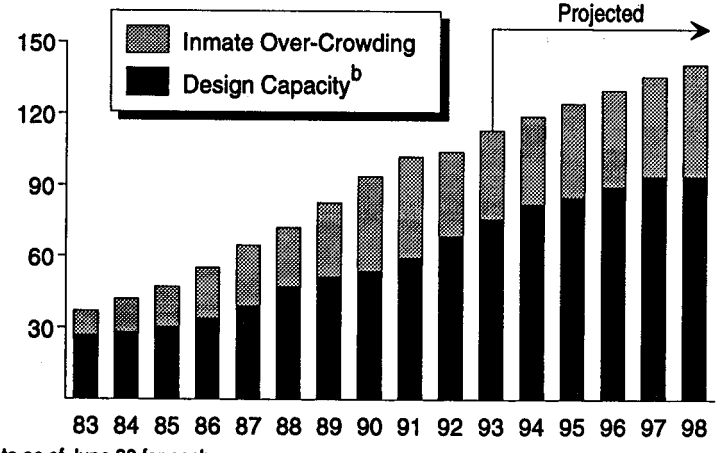
should be more reliable for long-range facilities planning purposes. Under this methodology, the CDC estimates the inmate population will be 148,000 by mid-1998. This is 7,000 inmates higher than the fall 1992 projections, but it still represents an annual growth rate below the past six years. Based on our review, we believe the new methodology should be used for planning and budgeting purposes.

Figure 20 shows the growth of the inmate population, the design capacity of the prison system, and the overcrowding within the system since June 30, 1983, and projected to June 30, 1998 (based on the fall 1992 projections). The projected design capacity is based on implementation of the CDC's 1992 five-year construction program, including an additional 2,000 community-based beds and minus the downtown Los Angeles prison that was deleted by legislation enacted in 1992. Based on the data, even if all projects in the department's 1992 plan were funded and occupied, the overcrowding level would be 150 percent by mid-1998. (This contrasts to the department's policy that a "manageable" level of prison overcrowding over the long-term is 130 percent for cells and 120 percent for dormitories and special housing units.) We estimate, based on CDC's average construction costs for new prison beds, that additional capital outlay costs of $2.4 billion (for 26,000 new beds) would be needed to accommodate the projected

Figure 20

Prison Population Exceeds Design Capacity 1983 Through 1998[a]

(Inmates in Thousands)



[a] Data as of June 30 for each year.
[b] Includes community-based beds and assumes enactment of CDC's 1992 five-year construction program.

inmate population in mid-1998 at these "manageable" levels. (Using the higher projections under the CDC's new methodology, a total of 32,000 new beds would be required at an estimated cost of $2.9 billion.) This is the case even though the Legislature authorized $600 million in lease-payment bonds for three new prisons in 1992.

In addition to the initial capital costs, annual operating costs for these additional beds will be $500 million to $700 million.

Clearly, absent any changes in state policy to reduce population growth, the massive prison construction program will have to continue for the foreseeable future in order to house the growing prison population. In our analysis of the department's support budget, we discuss potential policy changes to reduce growth, which would save future capital costs and ongoing operating expenses.

Existing Facilities Capital Outlay Program

The department's current five-year capital outlay plan to address facility/infrastructure needs at existing prisons totals $354 million. This amount includes $332 million for 143 major capital outlay projects and $22 million for minor projects (projects costing $250,000 or less) and advance planning. The two largest project categories are improvements to aging infrastructure and replacement of modular dormitory units that are approaching the end of their useful life. Not included in the five-year plan are the costs to install lethal electrified fences at existing prisons.

Budget Proposal. For 1993-94, the department's capital outlay plan request totaled $64 million. The Governor's Budget funds $39 million of this request, all from the 1986 Prison Construction Bond Act. The budget amount provides $11.9 million for lethal fences at nine prisons, $13.3 million for infrastructure/environmental improvement projects, $9.2 million to replace modular housing units (500 beds) at San Quentin, and $4.5 million for minor projects. The estimated future cost to complete the projects in the budget is $8.5 million. We also note that three of the proposed infrastructure/environmental projects could not be started because they were funded in the 1992 Budget Act from a proposed 1992 general obligation bond for prisons that was not placed on the ballot.

Lethal Electrified Fences

We recommend approval of the budget request for design and installation of lethal electrified fences. We further recommend (1) that the nine fence projects requested in the budget be scheduled individually in the Budget Bill and (2) Budget Bill language allowing the encumbrance of construction funding for the fences only after the electrified fence at Calipatria State Prison has been activated and the guard towers at the prison have been deactivated.

Background. Last year, the Governor's Budget proposed $9.8 million for preliminary plans, working drawings, and construction to install lethal electrified fences on the perimeter of all existing non-minimum security institutions. The department justified this proposal on the basis of a $48 million future annual savings from deactivating 228 gun towers and the elimination of 1,015 personnel-years of staffing.

In lieu of the Administration's proposal, the 1992 Budget Act provided (1) $439,000 for preliminary plans and working drawings for 17 existing sites; (2) $541,000 for preliminary plans, working drawings, *and construction* at one prison only—Richard J. Donovan Correctional Facility; and (3) authorization to install lethal fencing at *new* prisons from funds already appropriated for those projects. Language in the Budget Act also made encumbrance of any construction funds contingent on enactment of legislation authorizing the use of lethal electrified fencing. This authorization was provided in Ch 1284/92 (SB 1341, Royce), which also restricted the installation of lethal fences to two prisons during 1992-93. Under this authority, the CDC is in the process of installing a lethal fence at the new Calipatria State Prison. This lethal fence is scheduled to be operational in November. The CDC intends to use the Calipatria fence as a prototype on which to base design, construction, testing, and activation procedures for lethal fences at the other prisons. In conjunction with activation of the fence at Calipatria in November, the department has included a partial-year reduction of 48 guard-tower positions ($1.3 million savings) for deactivating the towers as part of its support budget request.

Lethal Fences Are Behind Schedule and More Costly. In a December 30, 1992 letter, the Director of Finance notified the Chairs of the fiscal committees and the Chair of the Joint Legislative Budget Committee of his approval of a proposed scope change and augmentation to the 1992 Budget Act appropriation. According to the CDC, site conditions at 9 of the 17 prison sites are significantly different than originally expected. These conditions require the CDC to obtain additional information before preliminary planning can begin. The CDC is therefore using the budget appropriation ($439,000) plus an $87,000

(20 percent) augmentation to (1) obtain additional information for the nine sites and (2) complete preliminary plans for the other eight prison sites. Thus, working drawings will not be started in the current year. Additional funds for this purpose will instead be needed in 1993-94.

In addition, the department now estimates that the total cost to install the lethal fence at the Richard J. Donovan facility will be $1,445,000, or $904,000 more than was provided in 1992-93. Construction of this fence, therefore, cannot commence without a supplemental appropriation.

The Governor's Budget proposes $11,692,000, consisting of the additional $904,000 for Richard J. Donovan and $10,788,000 for working drawings ($772,000) and construction ($10,016,000) for eight sites. The $10.8 million cost for these eight sites is $3.9 million more than CDC's 1992 estimate to complete all 17 sites. The CDC estimates that annual staff savings, upon installation of lethal fences at the Donovan prison and the other eight sites, will be $20.2 million (440 personnel-years). No additional funding is requested in the budget for the remaining nine sites for which predesign work will be completed. The CDC indicates that it will request further funding for these sites after the first lethal fence is operational at Calipatria State Prison.

We recommend approval of the budget request for the nine lethal fence projects. Despite the increased costs to install these fences, the projects are still cost-beneficial. Since each fence project is in itself a major capital outlay project, however, we recommend that each be listed separately in the budget schedule under Item 5240-301-746, which has been the normal state practice for capital outlay.

We further recommend that the Legislature adopt Budget Bill language specifying that the construction funding for each lethal fence project shall not be encumbered until the prototype fence at Calipatria is operational and the prison's guard towers have been deactivated. This is consistent with the CDC's schedule for these projects and will ensure that the state is realizing the staff savings at Calipatria prior to proceeding with construction of the other fences.

Medical Care Plan

Strategic Health Care Plan Due in June

In response to the Legislature's 1992 request, a strategic health care plan for inmates in the state prison system should be available by June 1993.

In the *Supplemental Report of the 1992 Budget Act*, the Legislature expressed its intent that the department develop a comprehensive strategic plan for the delivery of health services within the correctional system. Among other items, the plan was to assess (1) the number of inmate hospital beds needed over the next five years and (2) the impact of Correctional Treatment Center regulations on existing CDC health care facilities. The department is to report to the Legislature by March 1, 1993 on the status of developing the plan and completing its final report, which is due by June 1, 1993.

In our analysis of the department's support budget, we discuss the department's proposed creation of a health care services division within its administration. We will review the status report on medical care prior to budget hearings regarding facilities issues and comment as appropriate.

SCHOOL FACILITIES— DEFERRED MAINTENANCE (6350)

Under the School Facilities Deferred Maintenance Program, the state provides funding assistance to repair or replace existing school building components, such as roofs, utility systems, and mechanical/electrical equipment. The State Allocation Board (SAB) apportions funds on a dollar-for-dollar matching basis to districts.

The Governor's Budget, as proposed, would provide $98.2 million in state funding for deferred maintenance in K-12 schools. This is an increase of $29.3 million, or 43 percent, over current-year funding.

Schools Have Huge Deferred Maintenance Costs

About 1,000 school districts and county offices of education have participated in the deferred maintenance program. In order to receive state deferred maintenance funding, districts must submit five-year plans for approval by the SAB. Districts are not required to submit a new five-year plan each year, but may continue to undertake projects listed in a prior five-year plan. In 1992, the SAB approved the five-year plans of 718 districts. The deferred maintenance cost in these plans totals about *$2 billion*. Based on this total, plus costs associated with previously approved plans from other districts, we estimate a five-year total for all 1,000 program participants of $2.5 billion, or $500 million per year.

Total funding for deferred maintenance, including district matching shares, however, declined from $146 million in 1990-91 to $131 million in 1992-93. Consequently, recent statewide spending under this program meets about one-third of the identified annual need. This level of spending certainly helps sustain existing district facilities. Continued underfunding, however, will result in facilities deteriorating at a pace faster than should occur and higher long-term costs. As discussed in our cross-cutting issue on deferred maintenance in state agency facilities (earlier in this section), deferring needed building repairs reduces the useful life of buildings and can eventually require more expensive capital outlays for rehabilitation or even replacement.

Budget Proposes Big Increase in Deferred Maintenance Assistance

The Governor's Budget proposal, if fully matched by districts, would increase spending for deferred maintenance when compared to recent years. This higher level of spending, however, continues to fall far short of the need identified by the districts.

In recent years, state deferred maintenance funding has consisted of (1) General Fund appropriations and (2) a statutory appropriation of "excess repayments" from the *prior fiscal year*. Excess repayments are the amount by which school districts' principal and interest payments on State School Building Aid loans exceed the state's debt service costs. In the current year, $68.9 million in state funds are available for the program. This amount consists of $22.4 million from the General Fund (allocated by the Department of Education from the "mega-item") and $46.5 million from 1991-92 excess repayments.

The budget proposal would provide $98.2 million in state funds for deferred maintenance. This includes $53.6 million in excess repayments from the current year, $13.6 million from funds reappropriated from the Proposition 98 Reversion Account, and $31 million of General Fund monies originally appropriated in the 1991 Budget Act for child development. These funds are available due to receipt of additional federal funds. (We discuss the merits of using the reappropriated funds for deferred maintenance, as opposed to other education needs, in the Education section of this *Analysis*.) If districts match all these state funds, total funding for 1993-94 would be $187 million—$56 million above current-year levels.

Given the more than $2 billion in five-year needs identified by school districts statewide, we believe the Governor's proposed funding would be readily utilized.

UNIVERSITY OF CALIFORNIA (6440)

The budget proposes $231 million in appropriations for the state's share of the University of California's (UC) 1993-94 capital outlay program. This total includes $136 million from general obligation bonds and $95 million in General Fund lease-payment bonds.

Five-Year Capital Outlay Plan

Recent and proposed reductions in the UC operations budget raises a high degree of uncertainty regarding the level of future enrollment and the need for related new facilities.

The UC's five-year capital outlay plan—summarized in Figure 21—proposes expenditures totaling $1.2 billion between 1993-94 and 1997-98. As shown in the figure, the UC proposes a fairly constant level of spending over the five-year period. Staff at the UC indicate that the plan is not developed to show all capital needs, but is based on an assumed level of annual state funding—in this case about $250 million.

Figure 21

University of California
Five-Year Capital Outlay Plan
1993-94 Through 1997-98

(In Millions)

	1993-94	1994-95	1995-96	1996-97	1997-98	Total
Planned expenditures	$247.5	$240.3	$223.9	$259.7	$252.5	$1,223.9

Enrollment Uncertainty. As noted in our higher education overview (please see the Higher Education Section of the *Analysis*), the UC's actual enrollment in the current year exceeds its "budgeted" enrollment by 12,497 FTE as a result of budget reductions incurred in 1992-93. To address the budget reductions, the UC has proposed an enrollment plan that, over time, would bring actual and budgeted enrollments into line. Under this plan, UC enrollment in 1996-97 would be 12,000 FTE less than previously projected for that year. At the time this *Analysis* was written, the UC had not determined how the planned enrollment decrease would be distributed among the campuses and between undergraduate and graduate students.

The UC enrollment plan is based on a request for a 5.5 percent *increase* in state funding support for UC operations (other than capital outlay) in 1993-94. Instead, the Governor has proposed a 7.2 percent *decrease* for the UC. The proposed reduction, coupled with reductions in recent years, raises a high degree of uncertainty regarding future enrollment levels and the appropriate capital outlay program needed to accommodate those enrollments. As discussed below, however, the UC's 1993-94 capital program reflects a business-as-usual approach.

The 1993-94 Capital Outlay Budget Proposal

The $231 million budget proposal would provide about 93 percent of the $248 million requested by the UC. The budget funds all but one of the 72 proposals UC requested. Figure 22 summarizes the budget proposal by project type. (Most UC building projects include a mix of research/office space and teaching space. We have categorized projects as primarily one or the other based on the relative amounts of square feet proposed for these purposes.) As shown in Figure 22, the major cost of the UC capital program is in providing research facilities (for faculty and graduate students) and offices (for faculty, graduate students, and department administrators). As shown in the figure, these facilities represent almost 50 percent ($318 million) of the $642 million total cost of the 1993-94 proposal.

Figure 22

University of California
1993-94 Capital Outlay Program

(Dollars in Thousands)

Category	Number of Projects	Budget Bill Amount	Estimated Future Cost[a]	Total
Research/office facilities	15	$126,556	$191,242	$317,798
Instructional facilities	9	20,446	66,796	87,242
Library facilities	3	15,815	40,444	56,259
Mitigate hazards	13	8,594	52,780	61,374
Equipment	15	29,327	3,074	32,401
Utilities/infrastructure	9	6,258	26,077	32,335
Other	6	12,122	31,077	43,199
Minor capital outlay/statewide planning	2	12,000	—	12,000
Totals	**72**	**$231,118**	**$411,490**	**$642,608**

[a] University estimate.

UC Proposal Does Not Match Space Needs

The UC Continues Not to Provide Essential Facilities Space Information

Unlike the CSU and the community colleges, the UC does not provide facilities space information that would assist the Legislature in determining the need for requested capital outlays.

The UC Still Does Not Provide Basic Space Information. For several years, we have raised concerns to the Legislature on the lack of information provided by the UC regarding the need to build new space or remodel existing space. Specifically, the UC has not indicated what the current space deficiencies are on each campus—as compared to state space and utilization standards—and how proposed projects address those deficiencies in order to accommodate current and projected enrollments and faculty levels. This information is provided for lecture rooms, but not for teaching laboratories, research laboratories, or offices. *In contrast to the UC, the California State University (CSU) and the California Community Colleges (CCC) have routinely provided this information to the Legislature for many years.*

The availability of these data for each campus is important for two major reasons. First, the state's space standards serve the important function of assisting the Legislature and the segments with assessing the relative needs among campuses for additional facilities. Second, recognizing that the state cannot fund *all* of higher education's capital requests, applying the standards provides a means to allocate available resources toward meeting the most pressing space deficiencies among competing needs.

Last fall, for the first time, the UC provided a summary of its most recent space inventory (from 1990-91) for lecture rooms, teaching laboratories, research laboratories, and offices at each campus. In addition, the UC provided the breakdown by space category for each of the building projects in the budget. What is still lacking from the UC is data that show the *net effects* of each proposed project on the various types of space (teaching laboratories, research laboratories, offices, etc.) on the affected campus. The Legislature needs this information to assess, for example, whether or not campuses are building too much or too little teaching or research laboratories.

UC Proposal Leaves Large Deficits in Teaching Space

The UC's capital outlay proposal continues to emphasize research laboratories and faculty/staff offices, while it does not address adequately large deficits in lecture rooms and teaching laboratories.

Figure 23 compares the campus space deficiencies or surpluses, based on UC's 1990-91 space inventory, with the space proposed to be developed in the UC's 1993-94 capital projects. In general, the figure does not account for the effects on the campus's space inventory when the use of existing buildings is changed after current occupants relocate to the new buildings. The figure also does not account for additional

Figure 23

University of California
Comparison of Existing Space Deficit or Surplus
With 1993-94 Capital Outlay Program

(Based on 1990-91 Enrollment and Space Inventory; All Figures in Assignable Square Feet)

Campus	Lecture (asf)	Teaching Labs (asf)	Research (asf)	Offices (asf)
Berkeley				
Current surplus (deficit)	(10,389)	(21,672)	(405,890)	112,857
Proposed 1993-94 program	10,040	37,436	74,232	42,922
Davis				
Current surplus (deficit)	(27,705)	(141,052)	(201,663)	(33,370)
Proposed 1993-94 program	8,392	35,521	121,083	114,594
Irvine				
Current surplus (deficit)	(14,194)	(154,266)	2,814	16,375
Proposed 1993-94 program	34,764	55,450	98,114	116,856
Los Angeles				
Current surplus (deficit)	25,903	1,261	(287,254)	81,222
Proposed 1993-94 program	2,100	20,260	39,080	4,800
Riverside				
Current surplus (deficit)	(12,986)	(34,542)	6,910	9,677
Proposed 1993-94 program	15,421	38,826	63,830	83,974
San Diego				
Current surplus (deficit)	4,417	(125,237)	(74,062)	61,550
Proposed 1993-94 program	24,747	36,173	127,974	85,560
Santa Barbara				
Current surplus (deficit)	(19,803)	(55,245)	(93,415)	10,078
Proposed 1993-94 program	5,018	83,334	110,549	73,318
Santa Cruz				
Current surplus (deficit)	(15,659)	(73,734)	(40,257)	(20,298)
Proposed 1993-94 program	17,330	34,694	105,677	56,469

space that would be justified under the state space standards beyond 1990-91 due to enrollment growth. (In general, however, there has actually been a slight enrollment *decline* since 1990-91.) These effects are not reflected in Figure 23 because the UC does not provide this information. The following analysis and conclusions are therefore based on the best information available, but not on information comparable to that provided by the CSU and the CCC.

Proposal Provides Excess Office and Research Space. Figure 23 shows that while most campuses have deficiencies in several space categories, there is great variation in the degree to which these deficiencies are addressed through new capital projects. This is best exemplified with offices. Only two of the eight campuses—Davis and Santa Cruz—had office space deficiencies in 1990-91. Nevertheless, the budget proposes to add new office space at *all* of the campuses. Irvine and Riverside were slightly above the standard for office space in 1990-91, but the UC's 1993-94 capital program includes projects that add 117,000 assignable square feet (asf) and 84,000 asf of office space, respectively, at these two campuses. Similar "overbuilding" of office space is planned at the other campuses.

In terms of research laboratories, all campuses except Riverside and Irvine were deficient in research space in 1990-91. The figure shows that Irvine will nevertheless add another 98,000 asf of research facilities and three other campuses are adding a total of 136,000 asf of research space greater than their 1990-91 deficiencies—San Diego (54,000 asf), Santa Barbara (17,000 asf), and Santa Cruz (65,000 asf).

The emphasis on research and office space can be further exemplified by examining one campus—Davis. As of 1990-91, this campus had deficiencies in all space categories. The projects for Davis in the UC 1993-94 program involve 280,000 asf. About 84 percent of this total (236,000 asf) is for research laboratories/offices, while the remaining 16 percent (44,000 asf) is for additional lecture rooms and teaching laboratories. Completion of these projects will reduce the campus's 1990-91 research space deficit by over one-half, will result in office space exceeding the state standards, and will continue significant deficiencies in lecture rooms and teaching laboratories. The UC five-year capital outlay plan indicates that the Davis campus will be requesting planning funds for an instructional building, but not until 1996-97. Based on this schedule, the building would not be completed until 1999.

Proposal Continues Deficiencies in Lecture and Teaching Laboratory Space. In contrast to offices and research laboratories, the situation is quite different for lecture rooms and teaching laboratories. As shown

in Figure 23, almost all campuses have deficiencies in these categories. While some additional space is proposed at each campus, in general, the 1993-94 capital projects will leave significant space deficiencies, especially in the teaching laboratory category.

Priorities of the Overall UC Budget Proposal. As discussed above, the UC's budget proposal puts a greater priority on accommodating research and office space than it does on lecture and teaching laboratory needs of students. In total, the UC's 1993-94 program (including those buildings for which equipment funds are requested) involve about 2.6 million asf of space. Of this amount, over 1.3 million (50 percent) is for research laboratories or offices. The remaining space is for lecture rooms (122,000 asf), teaching laboratories (342,000 asf), libraries (506,000 asf), and other space—such as exhibit areas, tutorial rooms, and video production areas—(300,000 asf). Within the four categories included in Figure 23, the UC program involves three times as much space for research laboratories and offices as it does for lecture rooms and teaching laboratories.

Projects that Overbuild Campus Space Categories

We recommend the Legislature delete $105.9 million for 12 projects at six campuses because they predominantly add research laboratories and/or offices that would result in a significant overbuilding of these categories of space and leave significant deficiencies in lecture and teaching laboratories.

As discussed above, the UC's 1993-94 capital outlay program significantly overbuilds research/office space on most campuses and leaves large deficits in lecture rooms and teaching laboratories. In effect, adoption of this proposed program would exacerbate rather than facilitate the UC's ability to accommodate undergraduate enrollments. Consequently, we recommend the Legislature not approve projects that contribute to this problem.

Figure 24 summarizes 12 projects at six campuses that, if constructed, would overbuild campus space, mainly in the categories of research laboratories and offices. As shown in the figure, some of these projects would provide some lecture/teaching laboratory space, but the predominate portion of each project is for research/offices. Consequently, we recommend that the Legislature delete these projects. This recommendation, if adopted, would result in a total budget reduction of $105.9 million, consisting of $18.1 million from general obligation bonds (Item 6440-301-705) and $87.8 million from lease-payment bonds (Item 6440-301-660). Future savings related to these projects totals $159.3 million.

Figure 24

University of California
1993-94 Capital Outlay Program
Projects Recommended for Deletion

(Dollars in Thousands)

Campus/Project	Lecture (asf)	Teaching Laboratories (asf)	Research (asf)	Offices (asf)	Budget Bill Amount	Future Cost
Berkeley						
Dwinelle Hall Expansion	—	—	6,300	22,000	$480	$9,440
Irvine						
Social Sciences Unit 2	12,089	3,043	28,619	45,542	29,266	2,921
Humanities/Fine Arts	5,900	28,100	10,590	38,550	1,374	32,357
Riverside						
Humanities and Social Sciences	8,946	4,081	1,497	45,999	17,605	1,124
Fine Arts Building Unit 1	4,475	7,950	12,798	17,510	1,213	35,787
San Diego						
Social Sciences Building	—	—	14,715	26,814	13,130	1,082
Bonner Hall Improvements	-1,103	4,059	-2,956	8,800	693	8,599
Classroom Building	25,000	—	—	5,021	11,419	330
Santa Barbara						
Humanities and Social Sciences	11,635	13,204	6,160	53,785	27,814	2,038
Humanities/Social Sciences Renovations	-13,549	21,099	3,253	-10,803	355	11,301
Environmental Sciences	1,200	4,788	22,635	11,380	783	19,174
Santa Cruz						
Physical Sciences Building	—	2,950	41,500	13,550	1,734	35,155
Cost Totals					**$105,866**	**$159,308**

Other Building and Utility System Improvement Proposals

San Francisco Campus—Emergency Shower and Eyewash Improvements, Phases 1 and 2

We withhold recommendation on $961,000 for phase 1 and $221,000 for phase 2, pending receipt of a report on the extent to which these improvements may be needed.

The budget includes funding for two projects to install emergency showers and eyewash fountains at several campus locations. One project—phase 1—is for $961,000 to complete design and construction. The phase 2 project is for $221,000 to complete the design. Construction costs for phase 2 are estimated at $2.2 million. In addition, the UC's

five-year capital outlay plan shows a future phase 3 project estimated to cost $1.5 million.

In our *Analysis of the 1992-93 Budget Bill,* we indicated that the university had not demonstrated why these modifications were required to be undertaken in existing buildings. In addition, we maintained that if UC believed that providing additional shower/eyewash units were necessary, it should also assess the statewide costs of meeting this safety standard at similar facilities on other campuses. At the time this analysis was written, the UC indicated that it was preparing a report on the statewide needs for these safety modifications. The report should be completed prior to budget hearings. We therefore withhold recommendation on two eyewash projects, pending receipt and review of the UC's report.

San Francisco Campus—Compartmentalization Fire and Life Safety Improvements, Phase 1

We recommend deletion of $320,000, because the UC has not demonstrated that the proposed building modifications are required by any existing building code requirements.

The budget includes $320,000 for preliminary plans and working drawings for a project to provide fire separation exits between the floors of seven contiguous high-rise buildings on the San Francisco campus. The project also provides fire-rated enclosures at elevator shaft openings. The estimated completion cost is $3.7 million.

The intent of this project is to prevent the spreading of fire or hazardous chemical releases throughout the buildings. These buildings were built to building safety standards in place at the time of construction. Moreover, when any of the buildings have undergone major renovation, the portions of the buildings being renovated were brought into conformance with the safety standards at that time. In its proposal, the UC does not refer to any current building standards *requiring* that the proposed improvements be made to these existing buildings. We therefore recommend deletion of the budget request for this project.

Davis—Electrical System Modification, Phase 2

We recommend deletion of $2,507,000, because the project can be funded with energy revenue bonds which would free-up general obligation bonds for other higher education facilities needs. (Deletion also results in estimated future savings of $3.8 million.)

The budget includes $2.5 million for design and for partial construction funding to upgrade the Davis electrical system to accommodate a change in the voltage provided to the campus by PG&E. The budget proposal includes construction funding to install two new transformers and to replace switchgear and other associated equipment. The UC estimates that an additional $3.8 million will be needed in 1994-95 to complete the project, which involves installing new 12-kV main feeder cable, distribution loops, and stepdown transformers. The UC indicates that without these modifications, PG&E would have to modify its power service to the campus such that the campus would be placed in a new rate schedule. The campus estimates that this new schedule would increase its annual electrical service charges by $950,000.

Similar projects at the UC San Diego and Irvine campuses were financed with energy revenue bonds through the Department of General Services. We therefore recommend that the proposed funding for the Davis project be deleted and that the entire $6.3 million project cost instead be funded with energy revenue bonds. The bonds would then be paid off with the "savings" in electrical cost due to the campus remaining at a lower rate level. Our recommendation would release $6.3 million of general obligation bond funding for other higher education capital outlay needs.

Davis—South Campus Infrastructure

We recommend deletion of $185,000, because the UC has not justified the need for this project at this time.

The budget includes $185,000 for preliminary plans to provide basic utilities in an area of the campus where the university plans future expansion. The future cost to complete this project is $4 million.

Some additional utility work will be needed in this area to serve the new Environmental Design Building, for which the Legislature has already funded preliminary plans. Typically, utilities to a new building can be extended from feeder lines that service other nearby buildings. The budget proposal, however, extends some utilities, such as electrical and communications service, across the campus *past* many large buildings in order to reach the new building. The proposal also calls for installation of chilled water lines and steam lines that do not even connect to the new building. The campus indicates that some of these utilities are being added to serve projects to be developed in the "foreseeable future," but has not identified these projects.

The UC needs to provide a proposal that better explains the need for any additional infrastructure beyond the minimum needed at this time to serve the Environmental Design Building. For this reason, we recommend deletion of the budget proposal.

Building Construction Cost Study

In an attempt to determine why UC buildings cost so much more than CSU buildings, the two systems are undertaking a study comparing the various cost factors involved.

In addition to previously raising concerns about UC's failure to apply state space standards to its planning, we have also noted that the per-square-foot cost of UC buildings is considerably higher than for CSU buildings of similar function. This concern was discussed during budget hearings last year, and UC/CSU agreed to undertake a study of these costs. At the time this analysis was written, the UC and the CSU were completing a study to identify and explain the cost differences between state-funded general academic, office, lecture room, and laboratory buildings at the UC and the CSU. When this study is available, we will review it and provide comments and recommendations, as appropriate, to the Legislature.

CALIFORNIA STATE UNIVERSITY (6610)

The Budget Bill includes $236 million in proposed appropriations for the California State University (CSU) 1993-94 capital outlay program. The total includes $146 million from general obligation bonds and $90 million in General Fund lease-payment bonds.

Five-Year Capital Outlay Plan

The CSU has prudently chosen to reevaluate its capital outlay needs in light of its recent enrollment reductions and proposed 1993-94 operating budget reductions.

The CSU's five-year capital program, released in September 1992, proposed expenditures totaling $2.3 billion between 1993-94 and 1997-98. The five-year plan is summarized in Figure 25.

As we discuss in the overview of higher education portion of our *Analysis*, we estimate that CSU enrollment in 1992-93 will be 21,500 FTE less than in 1990-91—a reduction equivalent to enrollment at the Northridge campus. Moreover, the Governor has proposed a reduction of 4.5 percent in state funding for CSU operations in 1993-94. Given these enrollment and budget reductions, the CSU is reevaluating its five-year capital needs. This reevaluation includes a critical examination of whether to request further funding for projects that have been funded previously for design documents. As discussed below, the CSU has already elected to defer several projects that were originally included in their budget request for 1993-94.

Figure 25

California State University
Five-Year Capital Outlay Plan
1993-94 Through 1997-98

(In Millions)

	1993-94	1994-95	1995-96	1996-97	1997-98	Total
Planned expenditures	$338.6	$588.4	$507.8	$555.1	$280.7	$2,270.6

Budget Proposal

The budget reflects an emphasis on infrastructure projects, deferral of construction funding for several partially funded projects, and includes no initial funding to add enrollment-related projects to the system.

Figure 26 summarizes the CSU's 1993-94 capital outlay program by project type. As shown in the figure, the largest funding category is "utilities/infrastructure" projects, which is about one-half of the $347 million total cost (budget-year plus future cost) of the program. The next two largest categories include construction funding for three library projects and five instructional facilities. The budget does not include initial funding (design phase) for any new enrollment-related projects. The budget also does not include construction funding for nine partially funded projects that were part of the CSU's original budget request but have been deferred as part of the CSU's reevaluation of its capital program.

Figure 26

California State University
1993-94 Capital Outlay Program
Funding Summary by Category

(Dollars in Thousands)

Category	Number of Projects	Budget Bill Amount	Estimated Future Cost	Total
Instructional facilities	5	$34,969	$3,429	$38,398
Utilities/infrastructure	26	84,630	94,046	178,676
Library	3	55,873	12,620	68,493
Physical education/athletic facilities	1	12,122	941	13,063
Administration/other noninstructional	1	3,993	312	4,305
Mitigate hazards	1	7,500	—	7,500
Equipment	10	19,919	—	19,919
Minor capital outlay/statewide planning	5	16,750	—	16,750
Totals	**52**	**$235,756**	**$111,348**	**$347,104**

In addition, the CSU did not plan to seek construction funding until 1994-95 for another 29 projects that were also partially funded in the 1992 Budget Act. In our overview of higher education capital outlay, we indicate that if the Governor's capital outlay budget proposal for CSU were to be adopted, an additional $720 million would be needed in future budgets *just to complete all CSU projects included in the budget and*

those partially funded. Given the CSU's recent enrollment reductions, the potential for further budget reductions, and the huge backlog of partially funded capital projects, we believe that the CSU acted prudently in deciding to reassess its capital program.

Minor Capital Outlay Projects

We withhold recommendation on $14 million proposed for minor capital outlay projects pending evidence that the CSU can encumber this level of funding in the budget year.

Minor capital outlay is defined as those projects that cost $250,000 or less. Each year, the state typically provides the CSU with a lump-sum appropriation for minor projects. The Chancellor's Office then allocates these funds for specific projects proposed by the campuses.

The budget proposes $14 million for CSU minor projects in 1993-94. For the current year, the CSU received $13.5 million for minor projects, which was several million dollars more than they had received in prior budgets. We withhold recommendation on the $14 million pending evidence that the CSU is able to encumber this level of funding in the budget year. By the time of budget hearings, the CSU should be able to demonstrate the extent of their ability to encumber its current-year minor capital outlay allocation and the plans for 1993-94.

Seismic Safety Action Plan

We withhold recommendation on $7.5 million pending clarification of the program scope and information on the potential cost of seismic upgrades.

In the 1991 Budget Act, the Legislature provided the CSU with $500,000 for a survey to evaluate and establish priorities for seismic upgrading of existing buildings. The 1992 Budget Act included $5 million for the CSU to prepare preliminary plans to address high priority projects. The CSU has completed this survey and established a priority list of 100 projects—including state buildings and non-state-funded buildings such as dormitories and student unions. As of December 1992, however, the CSU had not yet begun the preliminary plans for any projects.

The Governor's Budget includes an additional $7.5 million from general obligation bonds to prepare preliminary plans for seismic upgrading of unspecified buildings. It is not clear that the CSU needs the additional preliminary plan funding at this time. We believe that, prior to approving additional funding for this program, the Legislature

should receive information on specifically what state buildings and improvements are needed, along with the potential cost to address the most critical seismic hazards in CSU buildings. We withhold recommendation on the $7.5 million pending information from the CSU on the scope of this program and the potential future costs of implementation.

Fullerton—Electrical/Communication Infrastructure Upgrade, Phases 1 & 2

We recommend approval of $11,162,000—a reduction of $7,857,000—because the CSU has not yet justified the inclusion of an extensive upgrade to the campus telephone and data systems.

The 1992 Budget Act provided $577,000 for preliminary plans and working drawings to upgrade the Fullerton campus electrical distribution system. The budget also included $200,000 to complete preliminary plans to upgrade the campus telecommunication system. The Legislature adopted supplemental report language specifying its intent that future funding for working drawing and construction funding for this telecommunications upgrade would be subject to review of a CSU status report on each campuses' existing communications/data/video distribution systems.

At the time this analysis was written, the CSU had not completed the status report requested by the Legislature. Nevertheless, the Governor's Budget includes $19,019,000 to complete both the electrical and telecommunications phases of the project. We recommend deletion of $7,857,000 for the telecommunications portion of the proposal, because the CSU has not yet demonstrated the need for this work nor why it should be funded with higher education bond funds.

Other Infrastructure Projects

We withhold recommendation on three projects pending discussions with CSU officials on the need to upgrade campus utility infrastructure as proposed at this time.

The budget includes the following proposals for preliminary plans and working drawings to upgrade utility systems at three campuses:

- Northridge—Central Plant and Utilities Infrastructure 1 & 2 ($2,225,000).
- San Francisco—Central Plant and Utility Infrastructure Renewal ($967,000).

- San Luis Obispo—Upgrade Utilities/Heat and Water Distribution ($1,185,000).

The estimated future costs to complete these projects are $33.8 million, $18.4 million, and $17.2 million, respectively (for total project costs of about $74 million). Many of the improvements requested would, in some cases, provide more efficient utility service and reduce maintenance and operating expenditures. The proposed work, however, involves extensive upgrading of existing systems and adding utility capacity for future building expansions. Based on the information submitted by the CSU, it does not appear that either the condition of current utility systems or the need for additional utility capacity warrant the expenditure of $74 million. Given the huge backlog of higher education projects and limited funds, we withhold recommendation on the three projects pending discussions with CSU officials on the extent to which these improvements are needed at this time.

Utility Replacement/Upgrade Projects

We recommend deletion of $1,160,000 for 14 utility replacement projects because such projects should be funded within the CSU's operating budget rather than with bond funds.

The budget includes $1.2 million for 14 projects—summarized in Figure 27—that replace aging utility systems (such as air conditioning, sewer, or electrical). The estimated cost to complete these projects is $13 million. These represent a type of project that the CSU has not previously requested for funding in its capital outlay program. In the past, such projects have been appropriately funded as special repair/deferred maintenance projects within the CSU's operating budget. As discussed in our crosscutting issue on state deferred maintenance, the CSU has reduced its deferred maintenance expenditures by 40 percent in the last two years and is spending only $3.9 million on this activity in 1992-93. In addition, the CSU estimates that it has a $180 million backlog of deferred maintenance needs.

We understand the CSU's desire to channel more state dollars toward addressing this backlog. However, it is imprudent for the state to begin using debt financing for work that is a normal cost of operating facilities and programs. We therefore recommend that funding for these 14 projects be deleted. If the CSU deems any of these projects to be critical, they should be funded within the operating budget. In our deferred maintenance crosscutting issue, we recommend that the CSU, among several other state departments, prepare multi-year strategies to address their routine maintenance and deferred maintenance shortfalls.

Figure 27

California State University
1993-94 Capital Outlay Program
Utility Replacement Projects

(In Thousands)

Campus	Project	Budget Bill Amount	Future Cost
Chico	Upgrade air conditioning—computer center	$19	$588
Fresno	Renovate/upgrade high voltage distribution system	52	1,495
Fullerton	Renovate/upgrade chiller—central plant	753	—
Hayward	Renovate/upgrade library chiller—motor control	17	620
Humboldt	Renovate/upgrade ventilation—Creative Arts	23	1,022
Los Angeles	Renovate/upgrade sewerline/water distribution system	87	1,696
Pomona	Renovate/upgrade HVAC systems—Library & Arts Building	16	597
Sacramento	Upgrade central utility system	23	974
San Bernardino	Renovate/upgrade chiller—central plant	23	863
San Diego	Renovate/upgrade HVAC systems—Music/Adams Humanities	46	1,849
San Francisco	Renovate/upgrade HVAC—Creative Arts	38	1,038
San Jose	Renovate/upgrade electrical infrastructure—campuswide	15	702
Sonoma	Renovate/upgrade central plant utility	28	1,123
Stanislaus	Renovate/upgrade central plant—chiller and cooling tower	20	503
Totals		**$1,160**	**$13,070**

San Marcos—Infrastructure 2

We recommend approval of only $2,681,000—a reduction of $9,212,000—for infrastructure at San Marcos, because the proposed scope of this project is not needed at this time.

The budget includes $11.9 million for the second phase of infrastructure at the recently opened San Marcos campus. The project, which received funding in 1992-93 to complete design documents, includes utilities, streets and sidewalks, landscaping, a transit center, and a grand stairway leading up to the eventual center of the campus. A portion of the utilities will be needed to service the college's second phase of academic buildings, which are scheduled to be completed in

1996. We recommend approval of this portion of the proposal ($2,681,000).

The balance of the proposal, however, is not necessary until future expansion of the campus warrants it. Based on significant systemwide enrollment reductions and proposed budget reductions in 1993-94, this remaining portion may not be warranted for several years. We therefore recommend a reduction of $9,212,000 for these portions of this project.

CALIFORNIA MARITIME ACADEMY (6860)

The California Maritime Academy is one of six institutions in the United States for students who seek to become licensed officers in the U.S. Merchant Marine. Enrollment in 1993-94 is expected to total 475 students.

Master Plan Study

We recommend deletion of $100,000 for a master facilities study because the Administration has provided no basis for this request.

The budget includes $100,000, from general obligation bonds, to undertake a facilities master plan for the academy. At the time this analysis was written, we had received no information from either the academy or the Department of Finance on the need for the study or the basis of the budget request. We therefore recommend deletion of the $100,000 under Item 6860-301-705(1).

CALIFORNIA COMMUNITY COLLEGES (6870)

The budget proposes $255 million for the California Community Colleges' (CCC) 1993-94 capital outlay program. This amount includes $147 million from general obligation bonds and $108 million in General Fund lease-payment bonds.

Five-Year Capital Outlay Plan

The community colleges' increased emphasis on facilities master plans has identified greater systemwide capital outlay needs.

The CCC produced its second statewide five-year capital outlay plan in December 1992. This 900-page document proposes over $2.5 billion

in expenditures between 1993-94 and 1997-98 (see Figure 28). This total is $500 million greater than the five-year total shown last year in the CCC's initial statewide five-year plan. The increase, in part, reflects the emphasis that a growing number of districts are placing on long-range capital planning.

Figure 28

California Community Colleges
Five-Year Capital Outlay Plan
1993-94 Through 1997-98

(In Millions)

	1993-94	1994-95	1995-96	1996-97	1997-98	Total
Planned expenditures	$510.2	$894.6	$576.4	$343.2	$232.5	$2,556.9

Enrollment Uncertainty. Community college enrollment has risen steadily over the last several years. As part of the 1992 budget package, the Legislature enacted fee increases that took effect in January which could reduce community college enrollment to an unknown extent. The Governor has proposed policy changes for 1993-94 that could further reduce community college enrollments. On the other hand, budget and enrollment reductions at the University of California (UC) and the California State University (CSU) could increase the demand for community college enrollment. These countervailing forces make enrollment projections at the community colleges subject to great uncertainty both in the short-term and the long-term.

Lack of Enrollment Projections

The Department of Finance (DOF) is no longer producing enrollment projections for the community colleges.

The Demographic Research Unit of the DOF has annually produced ten-year enrollment projections for each community college district. These projections are used in part to determine the need for additional facilities at existing campuses and for establishing new campuses and off-campus centers. Due to budget reductions, however, the DOF is no longer producing these reports. We believe that it is essential for the state to have this information and urge the DOF to restore this activity at the earliest possible opportunity.

Budget Proposal

The CCC's 1993-94 capital outlay program emphasizes the construction of instructional and library facilities.

The CCC's capital outlay budget proposal is summarized by project type in Figure 29. The budget includes funding for 97 of the 279 projects, and $255 million of the $510 million, requested by the Chancellor's Office. As shown in the figure, most of the budget proposal is to add instructional facilities ($113 million) and libraries ($58 million) and to upgrade existing instructional facilities ($29 million). The funding for these three categories is mainly for the construction phase of projects that received funding for design in the current year. Although future community college enrollments are subject to uncertainty, as discussed above, we believe that these projects are nevertheless needed in order for the campuses to "catch up" with significant space deficiencies in their instructional and library programs. Most of the projects for which the initial (design phase) funding is proposed are to address health and safety or infrastructure deficiencies at various campuses.

Figure 29

California Community Colleges
1993-94 Capital Outlay Program

(Dollars in Thousands)

Category	Number of Projects	Budget Bill Amount	Estimated Future Cost	Total
Mitigate code deficiencies	21	$23,083	$4,097	$27,180
Equipment	7	14,429	—	14,429
Utilities/infrastructure	8	12,577	41,732	54,309
Add instructional facilities	25	112,683	30,090	142,773
Upgrade instructional facilities	19	28,971	9,214	38,185
Libraries/learning resource centers	9	58,036	9,800	67,836
Support facilities	2	1,229	7,199	8,428
Physical education facilities	1	912	13,918	14,830
One new off-campus center	3	1,547	20,036	21,583
Other	2	1,668	169	1,837
Totals	**97**	**$255,135**	**$136,255**	**$391,390**

Eliminate Field Act Requirements

We recommend enactment of legislation to exempt the community colleges from the requirements of the Field Act.

In our *Analysis of the 1992-93 Budget Bill*, we recommended exempting the community colleges from the requirements of the Field Act. Under the Field Act, K-14 buildings are designed to special building standards developed by the Office of the State Architect (OSA). Designs for K-14 buildings are checked by the OSA, which also oversees the inspection of these buildings during construction. (The K-14 districts contract with OSA-approved inspectors for daily oversight of project construction, but OSA inspectors also make periodic visits to the construction site.) In contrast, UC and CSU buildings, and other state buildings, are designed to Uniform Building Code (UBC) standards with no involvement by OSA.

It is our understanding that there is only a marginal difference in structural safety between buildings designed under the Field Act and those, like UC and CSU buildings, designed under the UBC. Placing the same UBC requirements on community college projects, rather than Field Act requirements, would remove the OSA involvement and would help expedite construction of needed capital outlay projects. This would also eliminate the administrative costs for the OSA.

We therefore recommend the Legislature adopt legislation to exempt community colleges from Field Act requirements.

Chabot–Las Positas CCD—Site Development/Infrastructure

We recommend deletion of $1,559,000 for site development at Las Positas College, because the district has not justified the scope of this project.

The budget includes $1.6 million to prepare preliminary plans and working drawings for additional site development and infrastructure at Las Positas College. The estimated future construction cost for this project is $19 million. According to the proposal, this development will be needed to support the college's master plan enrollment of 15,000 students by 2005. (The college's current enrollment is about 6,000 students.)

We believe that the proposal is not justified at this time. The state typically funds new campus site development in stages as new buildings are added to undeveloped sites. Much of the proposed work is in a portion of the campus that is currently undeveloped but will eventually include the college's physical education facilities. The district requested planning funds for these facilities in 1993-94, but the projects were not included in the Governor's Budget. Therefore, funding to design site development or infrastructure associated with the addition of these facilities is not needed in 1993-94.

Aside from not needing site development for the physical education facilities, the district's proposal, in general, also does not provide any specific information as to why certain other improvements are needed. Most disturbing is the fact that the district's cost estimate includes $7.4 million for "intersection and interchange improvements at Interstate 580." There is no mention in the proposal's narrative as to why these improvements are needed, why the state should fund these improvements through higher education bonds, or what other entities are sharing in the cost of these improvements.

The proposal also includes infrastructure for the developed area of the campus. The main support infrastructure for a campus—such as water, sewer, and electrical—is typically sized to accommodate the needs of several or all campus buildings. There is no indication in the district's proposal that existing infrastructure is inadequate for these needs.

For the reasons discussed above, we recommend deletion of the budget amount for this project. (Delete $1,559,000 under Item 6870-301-705 [15].)

Fremont–Newark CCD—Site Safety Improvements

We recommend deletion of $828,000 for roadway and infrastructure improvements, because the district has not justified the scope of this project.

The budget proposes $828,000 for preliminary plans and working drawings to design a new road system and additional infrastructure for Ohlone Community College. The estimated future construction costs are $8.8 million. The road system would provide access to future campus buildings and to open space adjoining the campus that is susceptible to brush fires. We recommend that the project not be funded.

Based on the district's submittal, all existing campus buildings are accessible with the current road system, and no additional buildings are proposed in the Governor's Budget for this campus. Moreover, the proposal includes not only the construction of new roadways, but the replacement of much of the existing road network. The district, however, has provided no basis for reconstructing the existing road system.

Therefore, we recommend that the Legislature delete the $838,000 budget proposal under Item 6870-301-705(30). A revised proposal to address specifically identified critical problems with the campus utility systems and to construct a fire break to that portion of the campus adjoining the open space may merit legislative consideration.

Merced CCD—Infrastructure Corrections

We withhold recommendation on $553,000 for preliminary plans and working drawings pending clarification of the need for all aspects of the proposed project.

The budget includes $553,000 under Item 6870-301-705(41) to develop construction documents for utility/road systems improvements at Merced College. The project includes both off-campus and on-campus traffic circulation improvements and utility system upgrading, including sewer, water, storm drain, electrical, communication, and fire alarm systems. The estimated future construction cost is $6.5 million.

In contrast to the two proposals discussed above, this district has presented detailed discussions of the current problems and has proposed specific solutions to those problems. The district also specifies what it believes are the state's funding responsibilities for the off-campus road improvements versus the City of Merced's responsibilities.

We agree that some of these improvements, particularly for the utilities, are needed. Part of the improvements, however, are to accommodate new facilities for which the district requested funding in the Governor's Budget. The new facilities are not included in the budget, because they are a low priority on a statewide basis. We believe that some of the utility work should be reduced to provide only for the needs of existing facilities at this time. In addition, we question whether a new circulation roadway through the campus is necessary. We therefore withhold recommendation on this project pending discussions with district officials on the need for the entire project as proposed.

Other Infrastructure Projects

We withhold recommendation on four other infrastructure projects pending clarification of the need for all infrastructure requested and the potential for district cost sharing on the projects.

The budget includes funding for four other projects, which upgrade existing infrastructure and provide additional infrastructure for campus growth. These projects are:

- Antelope Valley College ($391,000).
- College of the Canyons ($288,000).
- Victor Valley College ($3,932,000).
- San Joaquin Delta College ($3,814,000).

Preliminary plans and working drawing funds are requested for the first three projects and construction funding is requested for the third and fourth projects. Each of the projects includes the construction of a central cooling plant and installation of chilled water lines from the cooling plant to individual buildings.

For the project at San Joaquin Delta College, the district requests state funding for installation of the chilled water lines and other utility lines and proposes to fund the central cooling plant with nonstate monies. We withhold recommendation on this project pending clarification from San Joaquin Delta College on the parameters of the proposed state/district cost split. The other three projects request full state funding for the central chiller plants in addition to the installation of other infrastructure systems to provide for additional campus growth.

As with the other infrastructure projects discussed above, it may not be prudent to fund infrastructure for *future* growth at this time. We withhold recommendation on these three projects pending clarification on the need for the additional infrastructure and the potential to use nonstate funding for portions of the projects.

Grossmont-Cuyamaca CCD—Campus Entrance

We recommend deletion of $1,212,000 for a new access road at Cuyamaca College because the road is not needed.

For the third consecutive year, the budget includes funding for a new access road at Cuyamaca College. The Legislature deleted funding for this project in 1991-92 and 1992-93. The district indicates that the new road is needed because of a planned project to widen the state highway (that serves as the college's frontage road) and install a permanent median strip that will affect campus access. According to the California Department of Transportation, design and construction for the road widening, which is to be funded with San Diego County transportation funds, will occur in three to four years.

In our *Analysis of the 1992-93 Budget Bill*, we pointed out that any adverse impacts to the campus from widening the state highway would have to be mitigated by the county. The state highway project will address this issue by providing dual left-hand turn lanes for entrance to the campus. In addition, the Department of Transportation indicates that signals at the entrance will be provided *when traffic level warrants their installation*. Thus, construction of a new campus access road with state higher education bonds is not required.

We therefore recommend deletion of the proposed funding under Item 6870-301-705 (32) for this road.

Allan Hancock CCD—New Lompoc Valley Center

We recommend approval of design funds for off-site improvements and initial facilities for the new off-campus center. We withhold recommendation on funding for on-site development pending clarification of the project scope.

The budget includes $1,547,000 for three projects to initiate development of a new community college off-campus center in Lompoc (Allan Hancock CCD). The three projects are for preliminary plans and working drawings and include:

- Off-site improvements ($387,000) for vehicular access to the center and to provide utility service.
- On-site development ($434,000), including excavation and grading, access roads, and the distribution of utilities to facilities.
- Initial center facilities ($726,000) of 42,000 assignable square feet (asf) in three buildings.

The future costs of these projects are $1.6 million, $5.2 million, and $13.3 million, respectively. The site for the center has been donated by the City of Lompoc through a grant from the United States Army. The request for a new center is consistent with the CCC's long-range growth plan. In addition, the need for this center has been reviewed and approved by the California Postsecondary Education Commission in accordance with legislative intent.

We believe that the scope and cost of the projects for off-site improvements and initial facilities are reasonable and we recommend approval. The proposed project for on-site development, however, appears to include utility and roadwork that is beyond that which is needed to provide for the initial facilities and enrollment. We therefore withhold recommendation pending clarification of the needed work under the on-site development project.

Pasadena CCD—Physical Education Facilities

We recommend deletion of $912,000 to design a replacement physical education facility because this $16 million project is not needed to address problems with the college's existing facilities.

The budget proposes $912,000 for preliminary plans and working drawings for a new 66,000 asf physical education building and an athletic field at Pasadena City College. The estimated future cost of this project is $14.7 million. The district indicates that the new building is needed to replace the older of the campus's two gymnasia which the district claims is inadequate for instructional use. In addition, the district proposes to demolish an adjoining stadium building (20,000 asf) that has classrooms and men's showers and lockers underneath the bleachers. The district indicates that both buildings have inadequate heating and ventilation systems and electric service and plumbing problems. In 1992, the district engaged a consultant to review the fire safety and disabled access capabilities of both the gymnasium and stadium buildings. The consultant's concluded that both building do not meet current building codes, with the more serious deficiencies regarding disabled access. According to the consultant, addressing these deficiencies would be "difficult and very costly."

This is the fourth consecutive year that the Chancellor's Office has submitted this project to the administration for funding. The project has not previously been included in the Governor's Budget because, being a physical education facility, it was not high enough in the Chancellor's Office statewide priority list to fit within the amount allocated to the community colleges by the Governor. For 1993-94, the Chancellor's Office placed the project in a higher priority (health and safety) category and hence it is included in the Governor's Budget.

We do not believe that the district faces a problem that merits the expenditure of $16 million of state funds. Based on our review, the campus's total existing building space available for physical education at this campus (65,000 asf) compares favorably with similar-sized community colleges. For example, DeAnza College, Orange Coast College, and San Francisco City College each have larger enrollments in physical education classes than Pasadena, but each has less building space for physical education. Regarding disabled access, the district should, at a minimum, identify the modifications and associated costs that would be necessary to make the buildings programmatically accessible. (*Existing buildings do not have to meet all current building codes for disabled access*, but buildings must be accessible so that all programs are available to the disabled.) Given the huge future cost to complete all previously funded higher education facilities, we do not believe that the state should proceed with funding an additional $16 million physical education building. We therefore recommend deletion of the $912,000 proposed under Item 6870-301-705(51) in 1993-94 for this project.

CONTROL SECTION 11.50— DISTRIBUTION OF TIDELANDS OIL REVENUES

We withhold recommendation on the proposed distribution of tidelands oil revenues, pending legislative proposals in the Budget Bill.

This section would modify existing law governing the allocation of tidelands oil revenues for the budget year. Figure 30 compares the allocation of these revenues under existing law with the allocation proposed in this section.

Figure 30

Distribution of 1993-94 Tidelands Oil Revenues Comparison of Current Law with Section 11.50

(In Thousands)

Allocation	Current Law	Section 11.50
State Lands Commission	$9,107	$9,107
California Water Fund	25,000	—
Central Valley Project	5,000	—
Sea Grants	525	—
Capital Outlay Fund for Public Higher Education (COFPHE)	48,568	—
Housing Trust Fund	—	2,600
Special Account for Capital Outlay (SAFCO)	—	41,493
Subtotals	($88,200)	($53,200)
General Fund	—	$35,000
Totals	**$88,200**	**$88,200**

Until the Legislature has determined how it intends to spend these revenues, it would be premature to allocate them through Control Section 11.50.

Once the spending decisions have been made, revenues should be allocated in a conforming manner.

LIST OF FINDINGS AND RECOMMENDATIONS

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10. **Funding Gap Needs to be Addressed.** It will cost about $1.5 billion to complete all projects either proposed in the Governor's Budget or funded in previous Budget Acts. According to the Department of Finance, if the Governor's Budget is enacted, there will be only $27 million in general obligation bonds available for future appropriations. The Legislature needs to determine to what extent this gap should be filled and what type of financing should be used. 44

Department of General Services

San Francisco and Oakland Office Buildings

11. **Agency Relocation.** Recommend that the Legislature not approve the building projects in San Francisco and Oakland prior to determining if certain departments should be relocated from San Francisco to either Oakland or Sacramento. 50

12. **Unknown Financing Source to Complete Buildings.** Recommend that the Department of Finance report at budget hearings on the Administration's plan for financing the San Francisco and Oakland buildings. 51

13. **EIR Approval Needed Before Proceeding with San Francisco Project.** Recommend the Legislature provide appropriations for EIR/schematic drawings and for preliminary plans and add Budget Bill language making release of preliminary plan funding contingent on EIR approval. 51

14. **Oakland Building Project. Reduce Item 1760-301-768 by $2.2 million.** Recommend deletion of $2.2 million for preliminary plans, and approval of the remaining $2 million for an EIR and schematic drawings. Further recommend that the DGS report to the Legislature at budget hearings on the status of (a) the claim to FEMA for the earthquake-damaged Oakland building and (b) efforts to determine a location for the proposed Oakland building. 52

California Maritime Academy

Analysis Page

California Community Colleges (CCC)

Control Section 11.50