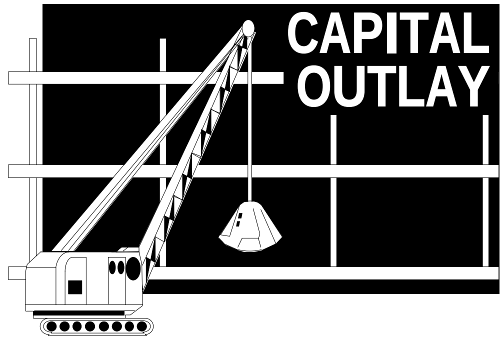


MAJOR ISSUES

%***Comprehensive Statewide Capital Outlay Plan Needed.*** The state is faced with multi-billion dollar capital outlay needs, a relatively high debt burden, and dwindling resources to fund capital outlays. We recommend that the Legislature take a more comprehensive and proactive approach to this issue by developing a multi-year financing strategy based on a statewide needs assessment and an evaluation of its funding priorities. (See page I-13.)

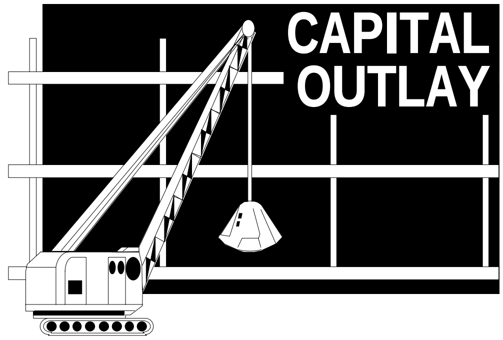
%***Policy Guidance Needed on Acquiring State Office Buildings.*** The administration is proposing $560 million for five new state office buildings. These proposals are not in the budget but will be proposed in separate legislation. We recommend that the Legislature instead consider these proposals during the budget process in the context of the Legislature's statewide capital outlay priorities and other state program expenditures. The Department of General Services should also provide specific information to justify the need and benefit of individual projects. (See page I-20.)

%***Expanded Use of Lease-Payment Bonds Proposed.*** For several departments, the budget proposes to use lease-payment bonds to finance all project costs, including preconstruction costs such as land acquisition and design. The amount of funding proposed for these projects is not needed in the budget year and using such financing for preconstruction activities is costly. We recommend that the Legislature instead use General Fund monies for these activities for specific projects proposed for the Office of

Emergency Services and the Department of Forestry and Fire Protection. (See pages I-24, I-27, and I-39.)

%***State Building Seismic Safety Program.*** The budget proposes $165 million from earthquake safety bonds for structural retrofit of several state buildings. We recommend that the Legislature (1) earmark these bond funds to protect the maximum number of building occupants in the event of an earthquake, (2) use these limited funds to address buildings determined to have the highest seismic safety risk, (3) require better-defined retrofit solutions and cost estimates before approving construction funding and (4) provide only those project funds that can be encumbered in the budget year. (See page I-30.)

%***State Prisons—Emergency Housing Proposal.*** The budget proposes $168 million to add over 20,000 beds to existing prisons as emergency housing for male inmates. We withhold recommendation pending receipt of information on the specific elements of the proposal and the department's updated inmate population projections that will be available in the spring. The need for these beds could also be affected by any policy changes the Legislature may wish to adopt to reduce prison costs. (See page I-45.)



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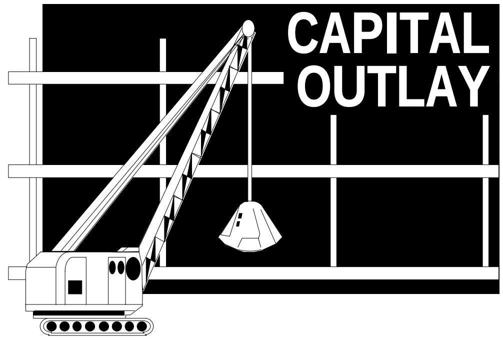


OVERVIEW

Capital outlay expenditures account for a slightly increased share of total state spending 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 $2.5 billion from all state funds in 1995-96. This is about $180 million, or 7.7 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 $2.5 billion in 1995-96 expenditures has three components:

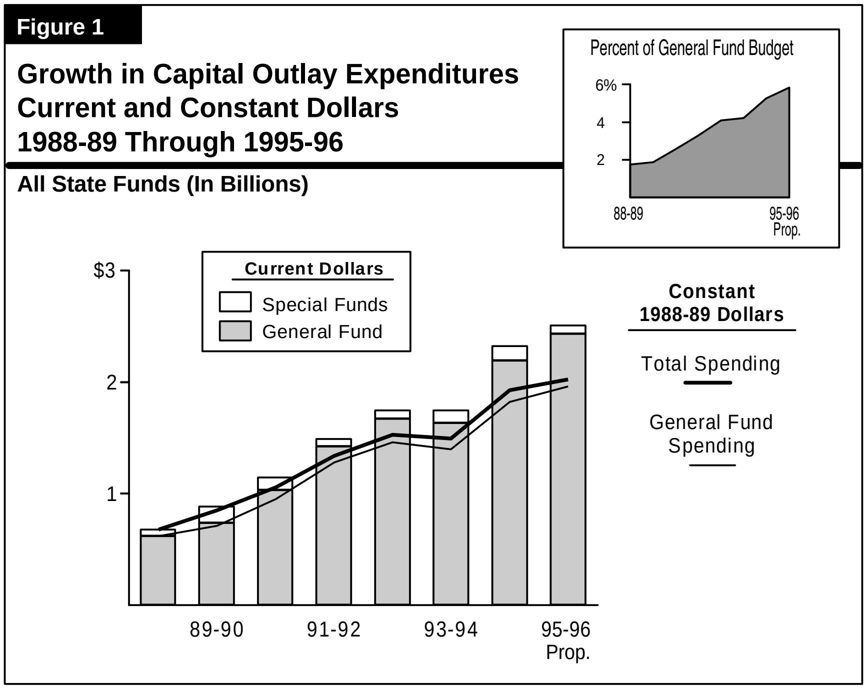
- Debt service payments for general obligation (GO) bonds ($2 billion).
- Payments for debt service on lease-payment bonds ($388 million).
- Direct appropriations from the General Fund and from various special funds ($121 million).

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 1988-89—growing from less than $700 million to $2.5 billion in 1995-96. This increase is directly attributable to the increase in debt service payments on GO bonds and lease-payment bonds. Over this same period, debt service payments have increased from $550 million to $2.4 billion, or 340 percent. Figure 1 shows that General Fund expenditures for capital outlay (most of which is debt service) have increased from less than 2 percent of General Fund spending in 1988 to almost 6 percent in the budget year.

Figure 1

Growth in Capital Outlay Expenditures Current and Constant Dollars 1988-89 Through 1995-96

All State Funds (In Billions)



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

- ***General Obligation Bond Debt Service.*** The Governor's Budget reflects an estimated $112 million (5.9 percent) General Fund cost increase over current-year expenditures of about $1.9 billion for general obligation bond debt service.

- ***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 total $388 million in 1995-96. This is an increase of $75 million, or 23 percent, over the current year. These bonds are primarily used for higher education facilities, prisons, and state office buildings. About 93 percent of the debt service on these bonds comes from the General Fund.

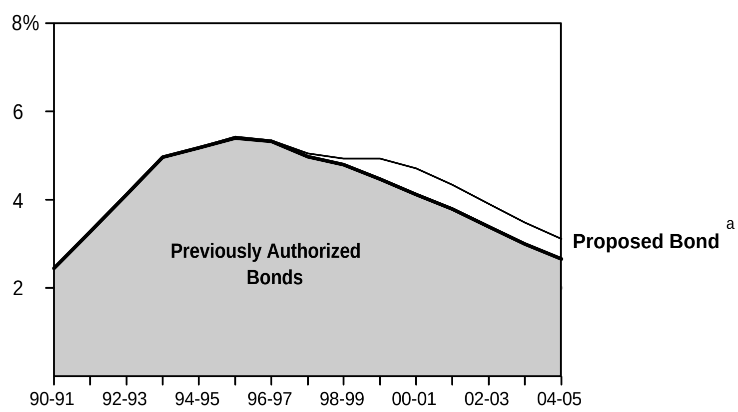
- ***Direct Appropriations.*** Capital costs through proposed direct appropriations total $121 million—the same as for 1994-95. These expenditures include $74 million from the General Fund and $47 million from various special funds, such as the Motor Vehicle Account.

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 5.2 percent for the current year. The ratio has risen sharply in recent years, as it was only 2.5 percent in 1990-91. (A significant reason for this increased debt burden has been the lack of growth in General Fund revenues.) As shown in Figure 2, if all previously authorized bonds are sold (and no others are authorized), the state's debt ratio would reach a peak of about 5.4 percent in 1995-96 and then decline thereafter. (This estimate does not assume enactment of the Governor's tax cut and state-local restructuring proposals.) The figure also shows the impact of the Governor's proposed 1995-96 lease-payment bond authorizations. These additional bonds will not increase the peak of 5.4 percent but will raise the debt ratio in future years by about 0.5 percent.

Figure 2

Projected Debt-Service Ratio 1991-92 Through 2004-05



[a] Includes $3.3 billion in lease-payment bonds proposed in Governor's Budget.

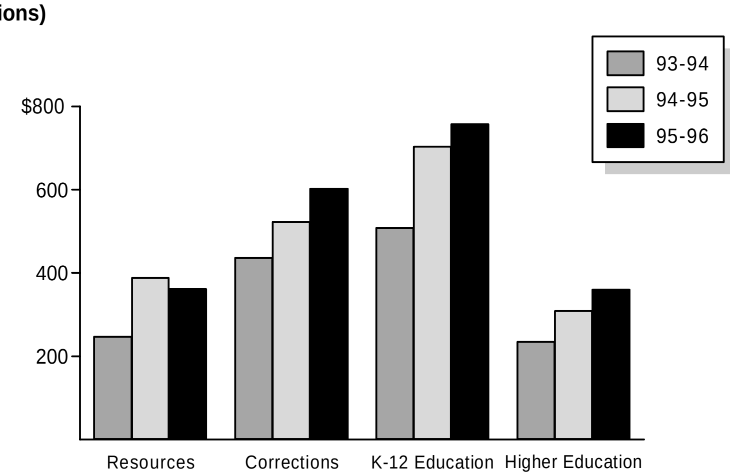
SPENDING BY MAJOR PROGRAMS

About $2.1 billion, or 83 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. The figure reflects the increased costs to make debt payments on bonds issued for these programs. The expenditures do not necessarily reflect actual construction activity because of the lag between construction, bond sales, and debt payments.

Figure 3

Capital Outlay Expenditures By Selected Program Areas 1993-94 Through 1995-96

(In Millions)



As shown in Figure 3, expenditures are increasing most rapidly for K-12 education (50 percent over three years) and higher education (54 percent over three years). No new bonds were authorized for K-12 facilities in 1994 and most of the previously authorized bonds have been allocated to specific K-12 projects and sold. Debt service costs in this area will increase little after 1995-96 unless additional K-12 bonds are authorized by the voters.

Debt service for corrections capital outlay has not increased as much as that for education. However, this is in part because the major capital outlays in this area are for new prisons, which have recently been funded with lease-payment bonds. Because the state does not incur debt service on these bonds until after the prisons are completed, there is a significant lag between the bond sales and when the debt service payments begin. The state will thus incur higher debt service costs in the next few years as previously authorized new prisons are completed. In addition, as discussed in the next section, the Governor is proposing an additional $2.3 billion in lease-payment bonds for youth and adult corrections capital outlay.

SUMMARY OF THE 1995-96 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 1995-96 capital outlay program (proposals to obtain capital assets). The budget includes $877 million for capital outlay programs (excluding transportation systems). This is an increase of $600 million, or 224 percent, over current-year *funded* appropriations. The reason that this increase is so substantial is that $513 million in capital outlay appropriations in the *1994 Budget Act* were from proposed general obligation bonds that were either not approved by or not placed before the voters.

Figure 4 (see next page) compares each department's capital outlay funding request for 1995-96 with the amount approved by the Administration for inclusion in the Governor's Budget. The budget includes almost 80 percent of the $1.1 billion requested. As shown in the figure, the projects in the budget have a future completion cost of $174 million. Almost 50 percent of this future cost is for the University of California.

Figure 5 (see next page) shows the budget proposal for each department by funding type. Over 80 percent of all funding is proposed from bonds—$205 million in general obligation bonds (primarily for state office building seismic projects) and $525 million in lease-payment bonds. The budget also includes $74 million from the General Fund for capital outlay projects. Other capital outlay funding is proposed from various special funds ($54 million) and from federal funds ($18 million).

Figure 4

1995-96 State Capital Outlay Summary[a]

(In Thousands)

Department	1995-96 Departments Requests	1995-96 Governor's Budget	
		Proposed Amount	Future Cost
Emergency Services	$12,389	$27,293	—
Board of Equalization	315	90	—
Franchise Tax Board	327	327	—
General Services	165,050	165,050	—
Transportation[b]	5,025	3,317	—
Highway Patrol	13,872	10,004	—
Motor Vehicles	8,360	8,214	—
Tahoe Conservancy	14,319	3,133	—
Forestry and Fire Protection	19,760	30,718	—
Fish and Game	5,225	2,261	—
Wildlife Conservation Board	15,246	8,674	—
Boating and Waterways	10,762	4,545	$6,569
Coastal Conservancy	7,300	4,400	—
Parks and Recreation	44,596	12,651	—
Water Resources	7,706	7,705	—
Health Services	89,257	—	—
Developmental Services	10,776	—	—
Mental Health	27,105	157	1,330
Employment Development	5,647	5,864	8,127
Corrections	204,735	197,294	10,725
Youth Authority	79,536	3,734	6,428
University of California	168,619	160,875	81,682
California State University	145,146	145,146	29,538
Community Colleges	44,817	44,817	—
Cal Expo	3,275	775	550
Food and Agriculture	1,940	1,362	—
Military	24,571	17,226	13,727
Veterans' Home of California	11,497	11,511	15,348
Unallocated Capital Outlay	—	200	—
Totals	**$1,147,173**	**$877,343**	**$174,024**

[a] Does not include proposed appropriations for highway and transit capital outlay.

[b] For Department of Transportation office buildings.

Figure 5

1995-96 Capital Outlay Program Proposed Expenditures by Fund Type[a]

(In Millions)

Department	Bonds	General	Special	Federal	Total
Emergency Services	$27.3	—	—	—	$27.3
Board of Equalization	—	$0.1	—	—	0.1
Franchise Tax Board	—	0.3	—	—	0.3
General Services	165.1	—	—	—	165.1
Transportation[b]	—	—	$3.3	—	$3.3
Highway Patrol	—	—	10.0	—	10.0
Motor Vehicles	—	—	8.2	—	8.2
Tahoe Conservancy	—	2.7	0.5	—	3.2
Forestry and Fire Protection	25.0	5.7	—	—	30.7
Fish and Game	0.1	—	2.0	$0.1	2.2
Wildlife Conservation Board	—	—	8.7	—	8.7
Boating and Waterways	—	—	4.5	—	4.5
Coastal Conservancy	—	—	4.4	—	4.4
Parks and Recreation	2.0	—	10.0	0.6	12.6
Water Resources	—	7.7	—	—	7.7
Mental Health	—	0.2	—	—	0.2
Employment Development	—	—	2.1	3.8	5.9
Corrections	156.4	40.9	—	—	197.3
Youth Authority	3.7	—	—	—	3.7
University of California	160.9	—	—	—	160.9
California State University	145.1	—	—	—	145.1
Community Colleges	44.8	—	—	—	44.8
Cal Expo	—	—	0.8	—	0.8
Food and Agriculture	—	1.4	—	—	1.4
Military	—	10.0	—	7.2	17.2
Veterans' Home of California	—	4.8	—	6.7	11.5
Unallocated	—	0.2	—	—	0.2
Totals	**$730.4**	**$74.0**	**$54.5**	**$18.4**	**$877.3**

[a] Does not include proposed appropriations for highway and transit capital outlay.

[b] For Department of Transportation office buildings.

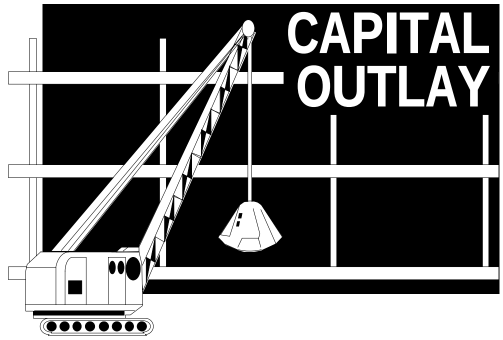
Governor's Bond Proposals

In addition to the bond proposals outlined above, the Governor indicates his support for additional lease-payment bonds of over $2.7 billion. These bonds, which would be authorized through separate legislation, would finance the following:

- $2 billion for six new prisons that would add 13,800 beds to the state's prison system.

- $181.4 million to add 1,950 beds for the California Youth Authority.
- $560 million for five new state office consolidation projects.

School Facilities Program. Almost all general obligation bonds previously approved for K-12 school facilities have been allocated and, without a special election, no additional bonds could be approved by the voters before March 1996. The Governor is therefore proposing a new way to fund school facilities—both as an interim option for districts until new bonds are available and as an alternative to the existing state lease-purchase program if and when new bonds are authorized. Under this program, the state would make loans to districts by selling revenue bonds. The loans would be paid off through deductions to districts' apportionments. In other words, schools would pay for the facilities over time from within their existing resources. Proposition 98 funds would be provided to districts meeting certain hardship criteria (as yet defined) to assist in repaying their loans. It is our understanding that it is not the administration's intent to increase the total Proposition 98 allocation to provide this funding assistance.



CROSSCUTTING ISSUES

ADDRESSING CAPITAL OUTLAY NEEDS

We recommend that the Legislature take a more comprehensive and proactive approach with regard to state infrastructure planning and financing. We recommend that each house designate committees to assess the state's facility and infrastructure needs in the various program areas and to determine the appropriate levels of state funding support and financing methods for a multi-year period in each program area.

In recent years, the state has used bonds to finance the majority of capital outlay improvements for state-owned facilities. For example, bonds have accounted for about 90 percent of the $5.1 billion in capital outlay expenditures over the last five years. (Highway and rail expenditures are not included in this discussion.) In addition, the state has also provided $6.7 billion (almost all from bonds) in funding assistance for local facilities development and renovation (K-12 schools, community colleges, jails, etc.) over five years. Even with these multi-billion investments, however, the state is currently faced with a dilemma with regard to future capital outlays as outlined below.

Background

Huge Needs. The state and local governments still have tens of billions of dollars in unfunded capital outlay needs. Figure 6 shows that the five-year needs for state agencies, community colleges, and K-12 schools total $25.5 billion dollars. In addition to these needs for *capital improvements*, we estimate that these entities also have deferred maintenance backlogs (roof replacements, etc) exceeding $3 billion. Moreover, the needs summarized in Figure 6 do not include some local government capital outlay needs, such as jails, water treatment facilities, and parks, for which that state has recently provided significant funding assistance.

Figure 6

Projected Five-Year Capital Outlay Needs For the State and K-12 Education 1995-96 Through 1999-00

(In Millions)

	Five-Year Total
Executive	$50
State and Consumer Services	1,050
DMV/CHP	221
Resources	719
Health and Welfare	403
Youth and Adult Corrections	5,236
K-12 Education	11,000[a]
Higher Education	6,563
General Government	273
Total	**$25,515**

[a] Estimate only. No statewide five-year plan.

Relatively High State Debt. With the large amounts of bond funding provided in recent years, the state's debt service ratio (payment for long-term debt as a percentage of General Fund revenues) has increased significantly—from 2.5 percent in 1990-91 to about 5.2 percent in the current fiscal year. In this time period, annual debt service costs have increased from $900 million to $2.2 billion. As the balance of previously authorized bonds are sold, we estimate that the debt ratio will peak at about 5.4 percent in 1995-96.

Dwindling Resources for Capital Outlay. Figure 7 shows that only about $477 million in voter-approved general obligation bonds are available for new projects. The Governor's budget proposes to allocate $307 million of these funds in 1995-96, thus leaving only $170 million. Aside from bonds, the state has used limited amounts of direct appropriations from the General Fund or various special funds to finance some capital improvements.

Figure 7

Unallocated General Obligation Bonds[a]

(In Millions)

Program	
Parks/resources	$15
Safe drinking water/clean water/water conservation	92
County correctional facilities	—
State prisons/youth authority	32
K-12	70
Higher Education	46
Libraries	—
Public buildings—seismic upgrading	222
Total	**$477**

[a] As of January 1995.

Increased Reliance on Lease-Payment Bonds. Since 1984, the Legislature has authorized about $6.5 billion in lease-payment bonds. Of this total, $4.1 billion (64 percent) have been authorized in the last five years. These bonds have principally funded new state prisons ($2.5 billion), higher education facilities ($2.1 billion), and state office buildings ($1.4 billion). Lease-payment bonds do not require voter approval. Total debt costs for these bonds, however, is 15 to 20 percent more than for general obligation bonds. Thus, to the extent that the state uses lease-payment bonds in lieu of general obligation bonds, either fewer capital outlay needs can be addressed or the state's debt burden is higher.

Is Additional Debt Feasible?

Figure 8 (see next page) illustrates the amount of additional general obligation bonds that the state could authorize and sell over the next ten years and remain within various debt service levels. The figure shows, for instance, that the state could sell $20 billion in general obligation bonds over the ten-year period and still not exceed the currently projected 5.4 percent peak. Alternatively, the state could sell $33 billion in general obligation bond sales over that period and keep the debt ratio at 7 percent. (Actual debt ratios will, of course, depend on the timing, volume, and actual interest rates on bond sales, and on actual General Fund revenues.) In projecting annual General Fund revenues, these estimates of bond sales do not assume enactment of the Governor's tax cut or state-local restructuring proposals. Enacting these proposals would reduce the range of bond sales listed in the figure by about $6 billion over the ten-year period.

Figure 8

Potential Additional Bond Sales For Various Debt Service Ratios[a]

(In Billions)

	5.4%[b]	6%	7%
1995-96 through 1999-00	$5	$8	$14
2000-01 through 2004-05	15	17	19
10-Year Totals	**$20**	**$25**	**$33**

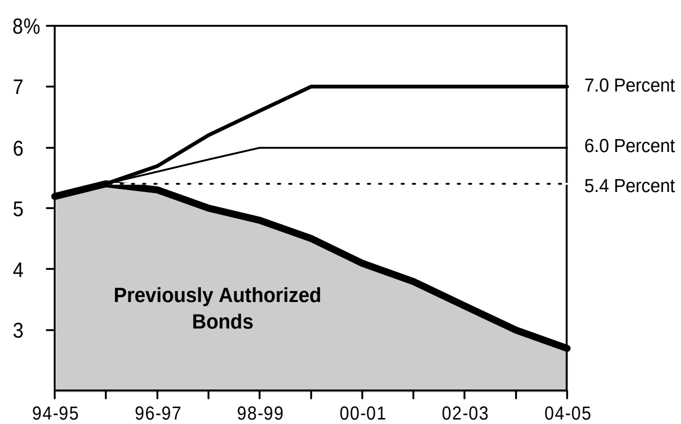
a Assumes sales of general obligation bonds with 25-year maturity at 7 percent interest.

b Estimated peak debt service ratio with sales of previously authorized bonds.

The figure also shows that, for any given level of debt, the state could sell a much greater level of bonds in the second half of the ten-year period. This is because, as debt is retired and debt payments decline for previously authorized bonds, there is more "room" to sell newly authorized bonds. This can be seen in Figure 9, which illustrates the projected debt service ratios for sales of authorized bonds and for the three levels used in Figure 8.

Figure 9

Alternative Debt Ratio Scenarios 1994-95 Through 2004-05



The $20 billion to $33 billion in additional bonds sales over ten years would keep the state at a relatively high debt level compared to other states. Clearly however, this level of funding over a *ten-year* period would fall far short of meeting the $26 billion in *five-year* needs identified in Figure 6. Furthermore, to the extent that more costly lease-payment bonds are used in lieu of general obligation bonds, either fewer needs can be funded or the state will have an even higher debt burden.

It is also important to note that additional bond sales commit the state to long-term funding obligations which represent a direct tradeoff to providing other state services. It is therefore critical that the Legislature, based on a comprehensive capital outlay plan, determine how much of a long-term commitment (share of revenues) to dedicate for a program to improve and expand the state's capital infrastructure.

Comprehensive Legislative Review Needed

We believe that the Legislature must undertake a comprehensive review of the state's capital outlay needs, set priorities, and establish a financing plan to fund these priorities over a multi-year period. With such a plan in hand, the state could prudently authorize and issue more debt and thus address some of its capital outlay needs.

State capital outlay needs, and consideration of assistance to local governments, have not been reviewed and funded in the context of a statewide program. Instead, capital outlay programs have been reviewed separately and funded within the limited parameters of the individual programs—both within the budget process and through separate legislation. This has resulted in some programs receiving funding for improvements that may, in the context of other statewide capital needs, be a lower priority than an improvement in another program that goes unfunded. As a result, the state does not get the "biggest-bang-for-the-buck" with the amounts it spends on capital outlays.

If the state is to address its capital outlay investments in a context of limited fiscal resources, the current piecemeal approach to capital outlay decision-making needs to be addressed. The Legislature could make significant strides toward changing this approach and maximizing the state's expenditures for capital outlay by initiating a comprehensive and proactive legislative process for the review and financing of capital programs. We believe a major factor in a new process would be the designation of committees in each house to consider *statewide capital outlay needs*. The major benefit of designating such committees would be for the Legislature to review *all* capital outlay needs in the context of statewide needs. Important considerations for these committees would include:

- The state's facilities and infrastructure needs in the various program areas.
- The extent to which state revenues should be devoted to meeting these needs, over a multi-year period, versus providing other state services.
- The amount of state resources, if any, that should be devoted to each infrastructure program.
- The level of state capital outlay funding assistance for local governments.
- The preferred financing mechanisms with which to fund each infrastructure program.
- The Legislature's priorities for funding projects within each infrastructure program.

In addition to these committees, we believe that designating budget subcommittees in each house to review *all* proposed capital outlay projects would provide a comparable statewide approach to capital outlay decision-making on a yearly basis. In this way, the subcommittees could review the administration's annual capital outlay proposal and determine whether it matches the Legislature's overall capital outlay priorities.

It is important to stress that these decisions regarding capital programs require a long-term perspective. Unlike service-related programs, which can be readily adjusted to meet changed needs, capital assets, once constructed, will be used for many years. Thus, the planning effort for capital programs must consider long-term needs and uses.

Comprehensive Review of Budget Proposals Is Also Needed

As in past years, the administration's 1995-96 capital outlay proposal takes several forms which, under the current legislative review procedures, do not allow a single, comprehensive assessment. The Budget Bill as introduced proposes (1) $147 million in direct appropriations from various fund sources, (2) $205 million in appropriations from existing general obligation bond funds and (3) $525 million in new authorizations of lease-payment bonds. These proposals, which are spread among 25 state entities and the community colleges, are typically reviewed by the various budget subcommittees in each house. Moreover, in some cases, the budget also proposes expanding the use of lease-payment bonds to include the financing of preconstruction activities, such as land acquisition and design of projects.

In addition to the Budget Bill proposals, the Governor is also proposing another $3.1 billion in lease-payment bond authorizations for the following:

- $2 billion to develop six state prisons.
- $181 million to develop 1,950 new beds for the California Youth Authority.
- $560 million for five state office consolidation projects.

Consideration of these proposals will be presented to the Legislature in an unknown number of legislative measures that are normally considered *outside* the budget process. In addition, the Governor is also proposing an alternative way to fund school facilities—through loans to districts funded with state revenue bonds.

Given the state's current situation with respect to capital outlay and debt service, we believe that the Legislature should initiate a process this year to review the Governor's capital outlay proposals in the manner discussed in this analysis.

CONSOLIDATING STATE OFFICES

In order to reduce the state's reliance on leasing to fulfill its office space needs, the administration has undertaken an ambitious effort to consolidate state agencies in new, state-owned faclities. Several new buildings have recently been authorized, and the administration is proposing five new office projects. Prior to considering any specific proposals, the Legislature should determine its willingness to fund new office buildings in the context of addressing the state's total capital outlay needs. We list specific information that the Department of General Services should provide in order for the Legislature to assess the merits of any office building proposal.

Throughout the 1980s, the state met its new office space needs predominantly by leasing. This resulted in a significant increase in state-leased space and often a scattering of offices—even subdivisions of individual departments—at several locations within a city or region. In the current fiscal year, the state leases about 70 percent of its 21 million square feet of office space at a cost of $270 million. In terms of timing and cost, leasing is generally the fastest way to procure needed space and has a relatively low short-term cost. Over the long term, however, leasing does not provide the benefits of acquiring a permanent asset and in most cases is significantly more costly than ownership.

Plans for Consolidating State Offices. To its credit, the current administration has taken some steps to reverse the situation described above. The administration, through the Department of General Services (DGS), placed a new emphasis on planning for state office needs with a goal of consolidating compatible functions into state-owned or -leased facilities. Needs analyses have been completed for several regions and other plans are in progress. Several legislative measures have been enacted to implement office consolidation projects. Figure 10 summarizes the status of these major office consolidation efforts.

A review of Figure 10 shows that some projects, such as Riverside and Department of Justice, have made significant progress. On the other hand, many other projects have not, for various reasons, proceeded in a timely manner.

Figure 10

Status of State Office Consolidations

City	Legislation/ Date Effective	Status (December 1994)
Los Angeles	Ch 429/93 (AB 896, W. Brown) September 1993	• Evaluating feasibility of renovating a vacant, former department store. • Two other historic buildings determined as not feasible. • Looking at constructing new office space. • No schedule for completion of project.
Oakland	Ch 430/93 (SB 772, Petris and Presley) September 1993	• Negotiating a design-build contract. • EIR in progress. • Delay in obtaining site from City pending resolution of ownership. • Current schedule anticipates completion in December 1997.
Riverside	Ch 430/93 September 1993	• City sold bonds to purchase/renovate existing building. • State to lease-purchase from City over 30 years. • Building scheduled to be occupied in May 1995.
San Bernardino	Ch 430/93 September 1993	• No project at this time.
San Francisco	Ch 429/93 September 1993	• Negotiating a design-build contract. • EIR in progress. • Project completion scheduled for December 1998
Long Beach	Ch 659/93 (AB 3630, Karnette) January 1995	• DGS soliciting proposals. • Selection of building to either purchase or develop expected in spring 1995. • No schedule for completion of project.
Sacramento:		
Department of Justice	Ch 1297/93 (AB 1116, Frazee) January 1994	• Under Construction. • Completion scheduled for May 1995. • The 1994 Budget Act authorized exercise of purchase option.
Cal-EPA	Ch 1036/93 (AB 324, Areias) January 1994	• Developer selected for City-owned site. • Validation of selection process pending in Superior Court.

Policy Guidance Needed on Acquiring State Offices

We recommend that the Legislature first establish its policies and priorities for proceeding with and financing new state office space prior to considering the merits of individual office proposals.

In addition to the above projects, the budget indicates that the administration will support legislation to authorize five more office consolidation projects with a total estimated cost of almost $560 million. They are: (1) San Diego area ($75 million), (2) Franchise Tax Board ($195 million), (3) Department of Consumer Affairs ($130 million), (4) Department of Corrections ($105 million), and (5) Teale Data Center ($48 million).

Prior to assessing the merits of these or any other individual office building proposal, we believe that the Legislature should consider the following broader policy issues.

- ***Statewide Capital Outlay Priorities.*** As discussed in our crosscutting issue on *Addressing Capital Outlay Needs*, the Legislature should designate committees specifically to evaluate all capital outlay needs on a statewide basis and then determine priorities, funding levels by program area (such as education, prisons, office buildings, etc.) and methods of financing.
- ***Statewide Office Building Priorities.*** Once the Legislature has established its statewide capital outlay priorities, the highest priority office projects—the most beneficial in terms of long-term savings and operating efficiencies—should be identified.
- ***Acceptable Debt Burdens.*** Office projects financed with bonds will increase the state's debt burden. It should be recognized, however, that debt payments on new office buildings are offset by savings from avoiding current and future leasing costs.

After consideration of the above policy issues, the Legislature should develop its policies and priorities for proceeding with and financing state office space. These policies and priorities would guide the administration in its submittal of specific proposals to the Legislature. These specific proposals should include the following information:

- Relative priority with respect to other office proposals.
- Justification for the project as opposed to the status quo.
- Size (total square feet) of office space based on a completed needs analysis.
- Total development costs.

- Type of acquisition proposed (state capital outlay, lease-purchase, lease with purchase option, or straight lease).
- Economic analysis comparing the estimated long-term costs of the status quo and each development option.
- Implementation schedule.

Finally, we recommend that the Legislature not authorize new state office buildings in separate legislation each session. Recent proposals for state offices have been carried through numerous legislative measures, each moving through the process on different timelines. This does not give the Legislature a comprehensive picture of all the proposals, including their respective priorities and total cost impacts. Preferably, these proposals would all be included in the annual Budget Bill so that the Legislature can evaluate the financing of these proposals in the context of capital outlay and operating costs.

In summary, investment in new state office buildings should result in savings over the long-run and improve the operations of state departments. Prior to approving any additional authorizations, however, overall priorities and levels of state funding for this activity should be established. The DGS should then provide specific information on each proposal for the Legislature's consideration.

LEASE-PAYMENT BONDS—BUDGET LANGUAGE

In addition to proposing new authorizations of lease-payment bonds totaling over $3 billion, the administration is proposing budget language to allow for an expanded use of lease-payment bonds—for preconstruction costs—and interim borrowing to fund these activities.

The Governor's Budget proposes almost $3.3 billion in funding for capital outlay projects for several departments using lease-payment bonds. Of this amount, $525 million involves appropriations proposed in the Budget Bill and $2.7 billion would be authorized through legislative measures outside the budget process.

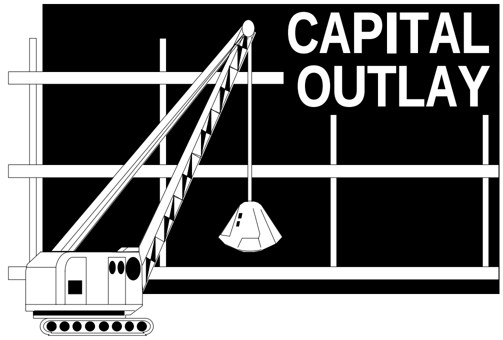
One of the differences between lease-payment bonds and general obligation bonds is how security is established for repayment of bonds. The full faith and credit of the state is pledged to the repayment of principal and interest on voter-approved general obligation bonds. These debt service payments are therefore not subject to legislative action.

Lease-payment bonds, which are authorized by the Legislature and the Governor and do not require voter approval, are issued by the State Public Works Board (PWB). For a project funded with these bonds, the sponsoring department (such as the Department of Corrections) enters into a lease agreement with the PWB. The department, upon occupying the facility, agrees to make lease payments (in effect, the "debt service" on the PWB-issued bonds) that will come out of the annual appropriations for the operation of the department. Lease-payment bonds must be backed by an actual physical asset (usually a building), which the department can lease from the PWB. As a result, these bonds cannot be sold solely to finance the preparation of design documents (as there is no asset serving as collateral).

Expanded Use of Lease-Payment Bonds Proposed. For certain projects included in the 1995-96 budget, the Governor is proposing to use lease-payment bonds not only for the construction phase but also for preconstruction phases such as land acquisition, completion of environmental documents, and preparation of preliminary plans and working drawings. Such authorization is proposed for projects for the Office of Emergency Services, the Department of Forestry and Fire Protection, the Department of Corrections, and the California State University. In most instances, these activities will need to be completed before the sale of the lease-payment bonds, which occurs during the construction period. In order to fund these preconstruction activities, the Budget Bill includes the following provisions under the respective items for the four departments listed above:

- Departments could borrow from the state's Pooled Money Investment Account (PMIA). These loans would then be repaid with proceeds from the bond sale.
- If the lease-payment bonds are not sold, the sponsoring department must commit a sufficient portion of its future support budget appropriations to repay the loans. The language also declares legislative intent that this commitment will be included in future department budgets until the loans are repaid.
- The appropriation authority for project design (preliminary plans and working drawings) is provided for two fiscal years. (Normally, such authority is given for only one fiscal year and a reappropriation is required to extend the authority.)

As discussed in our crosscutting issue *Addressing Capital Outlay Needs,* given the state's relatively high debt burden, additional bonds should be prudently authorized only after the Legislature has undertaken a comprehensive evaluation of statewide capital outlay needs and established priorities and a multi-year financing plan to address those priorities. The expanded use of lease-payment bonds and the budget language outlined above should also be considered in that context.



DEPARTMENTAL ISSUES

OFFICE OF EMERGENCY SERVICES (0690)

The five-year capital outlay plan for the Office of Emergency Services (OES) totals $49 million for two major projects—a new headquarters facility in the Sacramento area and a new regional coordinating center in southern California.

New Headquarters Building

We recommend deletion of $27.3 million in lease-payment bonds for a new headquarters facility because this level of funding is not needed in 1995-96 and the state will incur unnecessary debt costs for financing the project in this manner. We recommend instead, that the Legislature approve $4,091,000 from the General Fund to provide land acquisition and preliminary plans for the project. Delete Item 0690-301-660 for $27,293,000 and add Item 0690-301-001 for $4,091,000.

The budget proposes $27.3 million in funding for a 126,000 gross square foot (gsf) headquarters facility. This would include a 54,500 gsf administrative area, a 41,000 gsf emergency command operations center, and a 32,000 gsf warehouse/shop area.

The proposed amount, which would be financed from lease-payment bonds, would cover the estimated costs for *all* phases of the project: land acquisition ($3,308,000), preliminary plans ($788,000), working drawings ($1,086,000), and construction ($22,111,000). While we raise no concerns about the merits of the project, we do have concerns with the way it would be budgeted.

Lease-payment bonds cannot be sold without a commitment to complete an asset, because the state needs physical collateral to back up these bonds. Consequently, lease-payment bonds cannot be sold solely to finance the preparation of design documents—the bonds must also cover the actual construction of the project. Thus, while the OES will not *need* any funds for construction at least until 1996-97, the use of lease-payment bond financing for design of the facility requires that authorization for construction also be provided in 1995-96. We believe these lease-payment requirements result in two basic problems.

Debt Financing Proposal Costly. The method of financing proposed for this project is costly and unnecessary. For example, in order to purchase the land and to complete the design, the department would have to borrow from the Pooled Money Investment Account. The department would then have to repay this loan plus interest with proceeds from the bond sale that would probably occur sometime during the construction period. Therefore, an additional amount of bonds must be sold to pay back interest on the Pooled Money Investment Account loans, and the state will incur increased debt costs in paying off the bonds. This illustrates one of the reasons why lease-payment bonds are a relatively costly form of financing.

Over the last several years, the state has financed billions of dollars in capital outlays with bonds. If the state is to adequately address its capital outlay needs in the future, considerably more bond funding will probably be necessary. Currently, however, the state has a relatively high debt burden. Consequently, the Legislature needs to make prudent use of any additional bond debt. As we indicate in our cross-cutting issue *Addressing Capital Outlay Needs*, a comprehensive legislative evaluation of statewide capital outlay needs should be undertaken, along with the establishment of priorities and a multi-year financing plan to address those priorities. In our view, the OES proposal, which requires borrowing for preconstruction costs, only underscores the need for such an evaluation. The OES proposal is certainly a way to defer costs through debt financing, but future debt authorizations should be prudently chosen in the context of a statewide plan.

Legislative Oversight Relinquished. Our second concern is that by appropriating all funding for the project as proposed, the Legislature essentially would be relinquishing any future oversight of this project. In order to retain a degree of oversight, the Legislature generally provides only those funds that could be encumbered in the budget year—in this case, land acquisition and preliminary plans. After the department has completed the environmental review document and has better defined the project and associated costs, the Legislature could then consider the amount of funds and method of funding to complete the project. Under the budget proposal, however, the Legislature would only have an opportunity to revisit the project if cost increases required an augmentation exceeding 20 percent of the appropriated amount. (Cost increases of less than this amount can be approved solely by the administration.)

Recommendation. Based on the issues discussed above, we recommend that the Legislature, in lieu of funding this project as proposed in the Governor's Budget, provide $4,091,000 from the General Fund for land acquisition ($3,308,000) and preliminary plans ($788,000). Although this would require an upfront commitment of funds in 1995-96, the state would realize savings by foregoing interest costs associated with borrowing to fund these activities. Once the design of the facility is completed, a more meaningful cost estimate for construction would be available for legislative review. At that time the Legislature could determine which funding alternative is appropriate to complete the project.

DEPARTMENT OF GENERAL SERVICES (1760)

STATE BUILDING SEISMIC SAFETY PROGRAM

Program Should Address Highest Risk Buildings

We recommend approval of $12.1 million (a reduction of $152.9 million) in Item 1760-301-768 for seismic retrofits of state buildings. Our recommendations would: (1) fund only preliminary plans for each seismic retrofit project, (2) fund only projects assigned a risk level of 5 or 6, (3) delete funding to build a new microwave communications center in Los Angeles, (4) delete Budget Bill language Provisions 1 and 2, (5) adopt supplemental report language requiring that specific information be obtained during the preliminary plan phase, and (6) amend Budget Bill language in Provision 3 with respect to additional building risk assessments.

The budget includes $165 million from the Earthquake Safety and Public Building Rehabilitation Fund of 1990 (general obligation bonds) for structural retrofits of several state buildings. This program is administered by the Division of the State Architect (DSA) within the Department of General Services. Specifically, the budget would fund (1) retrofits of 23 buildings, (2) demolition of a state parking garage that has been closed due to structural safety concerns, (3) replacement of an emergency communications center currently located in a building the state will no longer occupy, and (4) risk assessments of additional state buildings by the DSA. The retrofit projects will upgrade building structural systems and will only include other building modifications made necessary by the structural upgrading. Below we provide background information on the earthquake safety program and our recommendations regarding the budget proposal.

Background

In June 1990, voters approved $300 million in general obligation bonds for safety-related renovations of state buildings ($250 million) and matching grants for structural retrofits of local government buildings ($50 million). About $222 million in bond funds for the state buildings remain for allocation by the Legislature.

In 1990-91, the DSA began a multi-step process, as outlined below, to determine priorities for correcting seismic and other safety hazards in state buildings.

- Criteria were established, in consultation with the Seismic Safety Commission, and a survey instrument was distributed to state agencies to obtain information on about 14,000 state buildings. The DSA received responses covering 6,800 buildings, which included all buildings having a significant number of occupants.
- The DSA evaluated the survey responses and, based on the structural characteristics of the buildings as determined from the surveys, a computer-generated ranking was produced. The top-ranked 1,200 buildings were selected for further evaluation.
- The DSA staff reviewed the original design documents of the 1,200 buildings. Based on this review, the 1,200 buildings were ranked according to structural criteria (such as seismic zone, soil, building height, etc.) and the highest ranked 400 buildings were considered for further analysis.
- The 400 buildings were put in a priority ranking by combining the structural criteria and building occupancy. Based on this analysis, the DSA matched the top 100 buildings against potential funding sources for seismic upgrading.
- From the list of 100 buildings, about 50 were chosen for detailed structural evaluations by consultant engineers. These consultants visited the buildings, examined the design drawings, performed a structural analysis, and recommended a retrofit solution for the building. The consultants also determined a “risk level” based on criteria established by the DSA.

The risk levels range from 1 through 7 (the highest risk) and are intended to provide a yardstick to measure how a building would perform in a magnitude 7.0 earthquake. Each of the 50 buildings evaluated by the consultants were determined to have a risk level of 4, 5, or 6. In most cases, the consultant engineers proposed retrofit solutions that would upgrade the buildings to risk level 3 pursuant to the DSA's direction. Figure 11 below outlines the characteristics of risk levels 3 through 6.

Figure 11

State Building Seismic Safety Program
Risk Level Characteristics for a 7.0 Magnitude Earthquake

Level 3	Level 4	Level 5	Level 6
Building Structural System			
Minor damage; repairable	Moderate damage; substantial repair	Substantial damage; repair may not be cost-effective	Extensive damage; collapse likely
Risk to Life			
Minor	Moderate	Substantial	Extensive, but not imminent; extrication protracted and difficult
Other Building Systems			
Disrupted for days to months	Disrupted for months to years	Total disruption; repair may not be cost effective	Total disruption, repair probably not cost effective
Occupancy			
Within weeks, with minor disruptions	Partially to totally vacated during repairs	Totally vacated during repairs	Totally vacated during repairs (if repairable)

Budget Proposal and Analyst's Recommendations

Figure 12 lists the state buildings included in the Governor's Budget along with the amount proposed for each building, the risk level, and our recommendations to the Legislature (which are discussed below). In general, our recommendations seek to: (1) make the maximum use of these bonds to protect the maximum number of building occupants in the event of an earthquake, (2) use the limited bond funds to first address buildings with the highest risk and (3) provide the DSA with those funds that can be encumbered in the budget year, while maintaining an appropriate level of legislative oversight.

Fund Preliminary Plans Only. For each project, the budget requests sufficient funds to complete preliminary plans, working drawings, and construction. We believe it would be more appropriate for the Legislature to fund only the preliminary plans in 1995-96.

Figure 12

Department of General Services 1995-96 Seismic Retrofit Program

(Dollars in Thousands)

Department/Project/Location[a]	Risk Level	Budget Amount	Analyst's Recommendation
Corrections			
Administration Building, California Rehabilitation Center—Norco	6	$17,400	$870
East Block Building, San Quentin	5	1,450	72
Men's Housing 107, California Rehabilitation Center—Norco	4	9,700	—
Dining Room 2 Building 6, Folsom State Prison	6	1,350	68
Inmate Housing 1, Folsom State Prison	6	8,200	410
Inmate Housing 5, Folsom State Prison	6	2,600	130
Developmental Services			
Chamberlain Hospital, Sonoma Developmental Center	4	1,050	—
Receiving and Treatment Building H, Fairview Developmental Center	4	4,000	—
Ordahl and Johnson Buildings, Sonoma Developmental Center	4	1,450	—
Rappaport Building, Agnews Developmental Center	4	1,350	—
Receiving and Treatment B-H, J, K, Camarillo Developmental Center	4	9,500	—
Emparan and Regamey Buildings, Sonoma Developmental Center	4	1,450	—
General Services			
Legislative Office Building, Sacramento[b]	6	30,100	1,505
Junipero Serra State Office Building, Los Angeles[c]	5	12,300	—
Second Street Parking Garage, Los Angeles[d]	5	2,900	2,900
Resources Building, Sacramento	6	35,900	1,795
Employment Development Building, Sacramento	5	—	395
Library and Courts Building, Sacramento	5	—	1,410
Jesse Unruh Building, Sacramento	5	—	900
Mental Health			
CT West, Metropolitan State Hospital—Norwalk	6	4,500	225
CT East, Metropolitan State Hospital—Norwalk	6	4,500	225
Q Unit 3, Napa State Hospital	4	1,350	—
Q Unit 1, Napa State Hospital	4	1,350	—
Receiving and Treatment Building 1, Metropolitan State Hospital	6	2,800	140
Veterans' Home of California (Yountville)			
Hospital Administration, Service, Wards Corridor	5	5,550	278
Hospital Ward A	4	1,150	—
Hospital Ward D	4	1,150	—
California Youth Authority			
Kitchen Dining Rooms, Preston School of Industry—Ione	6	1,250	63
Additional Building Risk Assessments	NA	750	750
Totals		**$165,050**	**$12,136**

[a] All projects are for structural retrofit unless otherwise noted.

[b] It is our understanding that a second structural evaluation has been made for this building. We will review this evaluation prior to budget hearings.

[c] Replacement of Public Safety Emergency Communications Microwave Center.

[d] Hazard Mitigation and Demolition.

Based on the DSA's implementation plan for these projects, it will take more than one year just to complete the preliminary plans and more than two years until the start of construction. Thus working drawing and construction funds are simply not needed in 1995-96. Furthermore, the proposed budget amounts are based on construction cost estimates that were developed from very preliminary information and may not reflect the final structural solution. After the department has better defined the project and associated costs (by completing the preliminary plan phase), the Legislature can then consider providing the funds to complete the project in a subsequent budget.

Many of the proposed projects are going to be quite complex. Not only must an appropriate and cost-effective retrofit solution be determined, but the DSA will have to work with the client departments to assess how building occupants will be accommodated during the construction period. This could be a particular challenge for projects involving large state office buildings and state prison facilities. We believe that the DSA will require an entire year just to resolve these issues.

Delete Proposed Budget Language. The Budget Bill includes two provisions under Item 1760-301-768 that are not necessary if the Legislature only approves funding for preliminary plans. Provision 1 would make the appropriations for preliminary plans, working drawings, and building risk assessments available for two years rather than one and would make the funds for construction and equipment available for three years. Under the previous recommendation, only preliminary plans would be funded, and we believe the department should be able to encumber these funds in 1995-96.

Provision 2 states that the State Public Works Board may authorize augmentations of up to twenty percent of the amount appropriated (this is consistent with current law) and states legislative intent that these augmentations may include "critical relocation costs for impacted departments." This language is not necessary because, based on the DSA schedules, no building occupants would need to relocate in 1995-96. Furthermore, in order to make maximum use of these bonds to improve safety, temporary relocation costs, when necessary, should be budgeted through departments' support budgets instead of earthquake bond funds.

Fund Highest Risks First. The DSA estimates that it would cost $233 million to retrofit the 50 buildings evaluated by the consultants. This amount is about $11 million more than the remaining earthquake bond funds. Clearly, there are insufficient funds to do all projects. The DSA also wishes to have detailed evaluations performed on additional buildings. These evaluations could result in more buildings being designated as risk level 6, hence they could become priority candidates for allocation of the remaining bond funds. We believe it is therefore important that funding be earmarked for those buildings with significant occupancy that present the highest risk to life safety.

The budget reflects the DSA's intent to fund *all risk level 6* buildings identified to date and those risk level 4 and 5 buildings located in seismic zone 4 (covering the corridor near the California coastline). In lieu of the budget proposal, we recommend that the Legislature fund *all risk level 5 and 6 buildings only*. This would (1) address those buildings determined to have an "extensive" or "substantial" risk to life in the event of a large earthquake and (2) postpone consideration of using earthquake bonds for level 4 buildings (moderate risk to life) until sufficient funds have been allocated to retrofit the higher risk buildings. As shown in Figure 12, our recommendation would result in funding three additional state office buildings (risk level 5) and not funding 11 risk level 4 buildings.

Information Needed in Preliminary Plan Phase. Given the complex nature of these projects, we believe that the following should be obtained by the DSA during the preliminary plan phase:

- Verification of the building risk level.
- When schematic drawings (the initial stage of preliminary plans) are complete, the structural engineers should determine the costs of various degrees of retrofit in order to determine the most cost-effective solution. In some cases, a building could be upgraded to an acceptable level for significantly less cost than to the level currently proposed by the DSA. Another variable in evaluating different retrofit schemes would be the impact on building occupants, (i.e. whether operations could continue or whether the building would have to be partially or totally vacated). Thus, it is important to quantify these tradeoffs in order to allocate the proper amount of bond resources to complete each project.
- The retrofit solutions identified in the above analysis should be reviewed by a committee of structural engineers. This committee should be selected by the DSA and the Seismic Safety Commission.
- An assessment of the project's impact on building occupants and functions, and a plan for maintaining these functions during construction either through phased retrofit or relocation.
- An estimate of any costs associated with relocating operations from a building during construction.

- An assessment and cost estimate of any interim measures that may be possible, if necessary, in order to ensure the safety of building occupants until a permanent solution is implemented. For example, installing temporary shoring to brace weak structural components of a building may significantly reduce risk at minimum cost.

This information would help the Legislature ensure that (1) the buildings are indeed proper candidates for seismic retrofit, (2) the retrofit is feasible and cost-effective, and (3) risks to a large number of building occupants is reduced through the maximum use of these limited bond funds. Consequently, we recommend that the Legislature adopt supplemental report language stating its intent that the DSA develop the information outlined above during the preliminary plan phase.

Change Funding Source for New Microwave Center. In June 1993, the DGS completed a plan for consolidating state office functions currently located in and around downtown Los Angeles. This plan included vacating the Junipero Serra State Office Building and moving those functions into new state office sites near the Ronald Reagan State Building. According to the plan, the Junipero Serra building would be demolished to provide land for a new Caltrans district headquarters building. Legislation enacted in 1993 (Chapter 429, AB 896—W. Brown) authorized the DGS to implement the consolidation plan, including the issuance of lease-payment bonds through an existing state-city joint powers authority.

The budget proposes $12.3 million to replace the existing public safety microwave system which is currently located on the Junipero Serra building. This center provides communications for several state departments such as the Highway Patrol, Caltrans, Forestry and Fire Protection, and the Office of Emergency Services. It is necessary to build a new center, rather than move the existing equipment, because the existing center must remain fully operational until a new center is completed. In addition, the DGS proposes to reconfigure the system to make it more flexible and less vulnerable to earthquake damage.

Clearly, to implement the Los Angeles consolidation plan, the microwave system must be replaced. The earthquake safety bonds, however, are neither a desirable nor necessary fund source for this project. Rather than using these limited general obligation bonds, the project should be funded with revenue bonds with the debt paid by users of the system. (Two-thirds of the existing microwave center's use is by three departments—Highway Patrol [40 percent], Caltrans [21 percent], and Water Resources [5 percent].) This is a more appropriate financing option, and it would preserve the earthquake bond funds for improving the seismic safety of state-occupied buildings. We therefore recommend deletion of $12.3 million from earthquake safety bonds for the microwave center project.

As mentioned earlier, the Legislature has already given the department authority to issue lease-revenue bonds to implement the Los Angeles consolidation plan. The department could use this authority to proceed immediately with relocating the microwave system.

Amend Budget Language on Building Risk Assessments. The budget includes $750,000 and associated language for the DSA to contract for detailed engineering evaluations on 50 additional buildings. Based on discussions with staff and members of the Seismic Safety Commission, we believe that an alternative approach is warranted. We recommend that the DSA, with consultation from the Seismic Safety Commission, first undertake a "charrette" to evaluate additional buildings. The charrette would involve two-person teams of structural engineers that would conduct 1-2 hour reviews of building design documents in order to obtain a general assessment of the building. The DSA conducted a charrette for 200 of the top 400 ranked buildings from their initial survey evaluations. The purpose of this second charrette would be to identify those buildings that could potentially be of the highest risk (level 5 or 6) and thus be candidates for more detailed analysis. These charrettes can be conducted for about $120,000.

Based on results of the charrette, the DSA should have more detailed analysis performed only on those buildings that might be a risk level 5 or 6. For these buildings, schematic plans should be completed. These schematic plans should include a proposed retrofit scheme and associated costs to complete the project, an estimate of relocation costs, and an assessment of potential interim measures that could be taken to ensure the safety of building occupants.

We therefore recommend that Provision 3 under Item 1760-301-768 be amended to read as follows:

> From the funds provided for Building Risk Assessments, the Division of the State Architect, in consultation with the Seismic Safety Commission, shall first conduct a charrette on selected buildings as identified by both parties from the highest ranked 400 state buildings as identified by the Division of the State Architect. Up to $120,000 may be used for this purpose.
>
> The balance of these funds shall be used for risk assessments for those buildings with significant occupancy that, based on previous analyses, could be risk levels 5 or 6 as defined by the Division of the State Architect. If, as a result of these assessments, a building is determined to be a risk level 5 or 6, the Division of the State Architect may use these funds to pre-

pare schematic plans, which shall include a proposed retrofit solution and cost estimate, estimated costs if temporary relocation of building occupants is necessary, and an assessment of any interim measures that, if necessary, could be taken to ensure the safety of building occupants until a permanent solution is implemented.

EARTHQUAKE SAFETY BONDS—LOCAL ASSISTANCE

Proposed Reappropriation of Funds

We withhold recommendation on Item 1760-491 to reappropriate funding for local government seismic retrofit projects pending receipt of information from the State Architect justifying the need for any reappropriations.

The Earthquake Safety and Public Buildings Rehabilitation Bond Act of 1990 provided $50 million to assist with seismic safety upgrading of local government buildings. This program is administered by the Division of the State Architect. Projects funded with these bonds must include 25 percent local matching contributions. In the *1994 Budget Act*, the Legislature appropriated $45.5 million in earthquake safety bonds for 114 local government projects. The Budget Bill proposes, through Item 1760-491, to reappropriate any of these funds that are not encumbered by the local entities in the current year.

The Legislature appropriated funds for these projects with the understanding that the monies would be needed in 1994-95. There could be circumstances in which local governments are unable to proceed with their projects in a timely manner. We believe it is incumbent upon these entities and the State Architect to document why projects have not proceeded as originally planned and to justify why funding should be extended for these projects for an additional year. We therefore withhold recommendation on the reappropriation of any local assistance projects pending such justifications.

DEPARTMENT OF FORESTRY AND FIRE PROTECTION (3540)

The California Department of Forestry and Fire Protection (CDF) operates 230 fire stations, 24 lookouts, 13 air attack bases, 9 helicopter attack bases, 41 camps, two fire centers, and a training academy. Nearly 80 percent of these facilities were built before 1960. The CDF's five-year capital outlay plan totals $225 million and emphasizes replacing or renovating many of the department's older facilities.

The current five-year total is almost $60 million greater than the plan prepared by the CDF just three years ago. This increase is due in part to the continued deterioration of the department's facilities and the lack of any substantial capital outlay funding in recent years. For example, since 1990-91, the CDF has received $7.4 million in capital outlay appropriations (an average of $1.5 million per year).

The Governor's Budget proposes $30.7 million in capital outlay funding for the CDF in 1995-96. This amount includes $25 million in proposed new lease-payment bond authorizations for 19 major capital outlay projects and $5.8 million from the General Fund for minor projects.

This would be the first year that lease-payment bonds were authorized for CDF projects. Below we raise issues on several projects related to the use of this financing method. Our recommendations are based on the discussion in our cross-cutting issue *Addressing Capital Outlay Needs,* where we indicate that the state already has a relatively high debt burden and that the Legislature should prudently authorize additional debt after assessing statewide capital outlay needs, establishing priorities, and developing a multi-year funding plan for meeting those priorities. The following recommendations are intended to minimize the use of lease-payment bonds and to maintain legislative oversight for specific projects.

Shift Design Costs to General Fund

We recommend a reduction of $9.3 million in lease-payment bond financing for six projects because this level of funding is not needed in 1995-96 and the state will incur unnecessary debt costs for financing these projects in this manner. We recommend instead that the Legislature

approve $1,081,000 from the General Fund to fund preconstruction costs for these project. (Reduce Item 3540-301-660 by $9,273,000 and increase Item 3540-301-001 by $1,081,000.)

The budget includes $9.3 million for six major capital outlay projects as shown in Figure 13. The proposed amounts would cover all phases of these projects. While we raise no concerns about the merits of these projects, we do have concerns over the way they are proposed to be funded.

Figure 13

Department of Forestry and Fire Protection
1995-96 Major Capital Outlay Projects

(In Thousands)

Project/Location	Governor's Budget[a]	Analyst's Recommendation[b]
Carmel Hill Forest Fire Station relocation, Monterey County	$1,184	$256
CDF Academy classroom complex, Amador County	2,004	170
Columbia Air Attack Base, Tuolumne County	1,921	198
Silverado Forest Fire Station relocation, Napa County	1,898	179
Amador-El Dorado Ranger Unit Headquarters, relocate administration building, El Dorado County	1,419	158
Lake-Napa Ranger Unit Headquarters, replace emergency command center, Napa County	847	120
Total	**$9,273**	**$1,081**

[a] Amount is to complete all phases of the projects (studies, property acquisition, design, construction and equipment).
[b] Amount is to complete all preconstruction costs only (studies, property acquisition and design).

Lease-payment bonds cannot be sold without a commitment to complete an asset because the state must provide physical collateral to back up these bonds. Consequently, lease-payment bonds cannot be sold solely to finance the preparation of design documents—the bonds must also cover the actual construction of the project. Thus, while the CDF will not need any funds for construction of these six projects until, at the earliest 1996-97, the use of lease-payment bond financing for design of these facilities requires the authorization for construction in 1995-96. As discussed in our analysis of the Office of Emergency Services Headquarters Building, we believe these lease-payment bond requirements result in two basic problems.

- First, the use of debt financing for preconstruction expenses is costly because these activities are financed up front with loans from the Pooled Money Investment Account. When the bonds are sold during the construction period, an additional amount of bonds must be sold to repay the loan plus interest. The state therefore incurs increased debt costs in paying off the bonds.
- Second, by appropriating all funding for the projects, the Legislature is essentially relinquishing any future oversight because the administration can approve augmentations of up to 20 percent without seeking an additional appropriation from the Legislature.

Based on the issues discussed above, we recommend that the Legislature delete funding for these projects from lease-payment bonds and instead fund only the preconstruction costs in 1995-96 from the General Fund. Although this would require an upfront commitment of funds in 1995-96, the state would realize savings by foregoing interest costs associated with borrowing to fund these activities. Once the design of these facilities is completed, a more accurate cost estimate for construction would be available for legislative review. At that time the Legislature could determine which funding alternative is appropriate to complete the project.

Small Acquisition Projects

We recommend that $554,000 for four acquisition projects be funded from the General Fund instead of from lease-payment bonds because it is not prudent to fund such small expenditures with debt financing. Furthermore, because the cost of each of these projects is within the minor capital outlay category ($500,000 or less per project for the CDF), we recommend that they be funded out of the amount budgeted for minor capital outlay projects. (Reduce Item 3540-301-660 by $554,000 and amend schedule for Item 3540-301-001.)

The budget includes four proposals to purchase lands that contain existing CDF facilities. Figure 14 (see next page) lists the four properties, which the department has used under long-term lease agreements that are soon to expire.

We believe it would be fiscally imprudent to finance such small projects through the issuance of lease-payment bonds. Because of interest and transaction costs, lease-payment debt should be reserved for items that cannot easily be accommodated on a pay-as-you-go basis. Thus, while we raise no issues with the merits of these proposals, small acquisition projects such as these should be funded on a pay-as-you-go basis. We therefore recommend that $554,000 be deleted from the Item 3540-301-660 and instead be funded from the General Fund—Item 3540-301-001.

Figure 14

Department of Forestry and Fire Protection Acquisitions of Leased Sites

(In Thousands)

Project/Location	Budget Proposal
Basalt Peak Lookout and Radio Vault, Merced County	$90
Shandon Forest Fire Station, San Luis Obispo County	114
Mt. St. Helena Lookout and Radio Vault, Sonoma County	250
Diddy Wells Forest Fire Station, Shasta County	100
Total	**$544**

Furthermore, the cost of each of these projects is within the minor capital outlay category ($500,000 or less per project for the CDF). Because the proposals are for property acquisition, they are scheduled separately and not included within the department's appropriation for minor capital outlay. Minor capital outlay is budgeted on a lump-sum basis and is not based on specific projects. Instead, the department has discretion to undertake projects on a priority basis within the amount set aside for minor capital outlay.

Given that the cost of these acquisitions is within the scope of the minor capital outlay category, we recommend that the Legislature fund the acquisitions from the amount set aside for minor capital outlay. Thus, we recommend the Legislature reduce Item 3540-301-001(1) by $544,000. This would leave $5,196,000 for other minor capital outlay projects.

Other Projects

We recommend a reduction of $4.6 million in lease-payment bond financing for seven projects in order to minimize the use of this financing method. We recommend instead that these projects be funded from the General Fund. (Reduce Item 3540-301-660 by $4,641,000 and increase Item 3540-301-001 by the same amount.)

Figure 15 below lists seven major capital outlay projects proposed to be funded from lease-payment bonds.

Figure 15

Department of Forestry and Fire Protection
1995-96 Major Capital Outlay Projects

(In Thousands)

Project/Location	Budget Bill Amount
Lake-Napa Ranger Unit Headquarters, acquire leased site, Napa County	$650
Castle Rock Forest Fire Station relocation, San Joaquin County	556
Sage Forest Fire Station relocation, Riverside County	652
Cohasset Forest Fire Station relocation, Butte County	597
Lyons Valley Forest Fire Station relocation, San Diego County	708
Sonoma Ranger Unit Headquarters, replace auto shop, Sonoma County	853
Murphy's Forest Fire Station relocation	625
Total	**$4,641**

Unlike the six projects discussed earlier, it appears that the department will be able to encumber all of the proposed funds for these projects in the budget year. In order to minimize the use of lease-payment bonds and the associated debt financing cost for these relatively small projects, we recommend that the Legislature fund these projects from the General Fund.

Data Communication Recabling

We recommend deletion of $500,000 for upgrading computer networks because this activity should be funded through the department's support budget. (Reduce Item 3540-301-660 by $500,000.)

The budget proposes $500,000 for recabling the CDF's existing computer networks. The department has computing resources consisting of 3,500 personal computers, 90 local area networks (LANs), and a wide-area network (WAN) that connects the Sacramento headquarters with each region and ranger unit office. The department indicates that these networks use two different communications methods that do not meet current networking standards and are incompatible due to different types of cabling. The project would upgrade all network cabling to the current standard (known as "Level 5 compatible unshielded twisted pair cabling") and provide compatible cable connection hardware.

This proposal is simply not a capital outlay project and instead should be funded on a priority basis in the CDF's support and operations budget. The now obsolete cabling that the department seeks to replace was originally purchased through its support budget. The replacement cabling should not be financed as a capital improvement, especially not through the issuance of long-term debt.

We therefore recommend deletion of $500,000 in Item 3540-301-660 for this project.

DEPARTMENT OF CORRECTIONS (5240)

The Governor's Budget requests $197.3 million for capital outlay projects at existing state prisons. This amount consists of $40.9 million from the General Fund, $10.4 million from existing general obligation bond funds, and $145.9 million through a proposed authorization of lease-payment bonds. The major portion of this budget proposal is $167.8 million for emergency housing at existing prisons. This proposal is discussed in more detail below. The remainder of the proposal includes $24.4 million for 14 major capital outlay projects that principally address environmental or infrastructure deficiencies, $4.5 million for minor projects (total cost less than $250,000), and $0.3 million for advance planning.

New Prisons. As usual, the most significant part of the California Department of Corrections' (CDC's) capital outlay program—the development of new prisons—is not included in the budget proposal. The Governor has indicated his support for legislation, separate from the Budget Bill, to authorize $2 billion in lease-payment bond funding for development of six new prisons. These prisons would have a design capacity of 13,800 beds.

Emergency Bed Projects

We withhold recommendation on $167.8 million to develop emergency housing pending (1) evaluation of the need for over 20,000 beds and other proposed improvements, and (2) receipt of additional information including the department's spring 1995 inmate population projections. Moreover, the need for all the proposed emergency housing could be affected by policy changes the Legislature may wish to adopt to reduce prison costs.

The state's existing prisons were designed to house 68,000 inmates (one inmate per prison cell). As of January 1995, however, the prisons housed 119,000 inmates, resulting in an average overcrowding level of 175 percent. (Another 5,400 inmates are housed in community correctional centers that are operated by either private organizations, cities, or counties.) This overcrowding level is down from 182 percent in September 1994 due to (1) a small decline in the inmate population, (2) full activation of the new Ironwood State Prison (Riverside County), and (3) partial activation of the new Pleasant Valley State Prison (Coalinga). Additional prisons designed to house 12,000 inmates have been authorized and are either being designed or are under construction. When all authorized prisons have been completed and fully activated (by 1998), the state's prisons will have a total capacity of almost 80,000.

In its most recent biannual projections of inmate population, the CDC estimated that inmate population in the state's prisons would reach 227,000 by June 30, 2000—an increase of 108,000 (90 percent). Based on these projections, unless more prisons are built or other alternatives pursued, overcrowding will reach 284 percent of capacity in June 2000—nearly three inmates for each space designed to house one inmate. In order to accommodate this growth and maintain statewide overcrowding at 175 percent, the state would have to develop 21 new prisons by June 2000 at a cost of about $6.3 billion. (With enactment of the new federal crime bill in 1994, up to $1.2 billion of this amount could be funded with federal matching grants for prison construction.)

In the short-term, the CDC estimates that by January 1996, it will not have any available space to house male inmates. By June 1997, the CDC estimates that another 21,000 male inmates will need to be accommodated. As stated in our recent report "Accommodating Prison Population Growth," it is unlikely that additional prisons beyond those already authorized can be completed before 1999. As one way to address this prison overcrowding problem, the CDC is proposing an emergency bed program that will accommodate the prison population expected in June 1997. The department's proposal would provide 20,294 beds for male inmates as summarized below:

- Construction of permanent dormitory-type housing units at eight prisons. These dorms would have a design capacity for 3,000 inmates but would be immediately double-bunked to accommodate 6,000 inmates.
- Addition of 11,780 beds to gymnasiums, dayrooms, and other space at 23 prisons.
- Conversion of the Northern California Women's Facility (400 beds) into a men's facility.
- Addition of 422 beds at existing conservation camps.
- Addition of 492 beds at existing community correctional centers.
- Contract for new community correctional centers to house 1,200 inmates.

The locations and number of additional inmates to be housed at each institution are listed in Figure 16.

Figure 16

California Department of Corrections Proposed Emergency Beds 1995-96 and 1996-97

	Number Inmates Housed		
Prison, Location	**Dayrooms, Gyms, etc.**	**New Dormitories**	**Total**
Avenal State Prison, Kings County	760	1,200	1,960
Calipatria State Prison, Imperial County	200		200
California Correctional Center, Susanville	0		0
California Correctional Institution, Tehachapi	0		0
Central California Women's Facility, Chowchilla	0		0
Centinela State Prison, Centinela	824		824
California Institute for Men, Chino	945	600	1,545
California Institution for Women, Frontera	0		0
California Men's Colony, San Luis Obispo	0		0
California Medical Facility, Vacaville	0		0
California Training Facility, Soledad	100	600	700
California Rehabilitation Center, Norco	95		95
California State Prison, Corcoran	426		426
California State Prison, Lancaster	290		290
California State Prison, Folsom	297		297
California State Prison, Solano	844	1,000	1,844
California State Prison, San Quentin	330	800	1,130
Chuckwalla Valley State Prison, Riverside County	728		728
Deuel Vocational Institute, Tracy	401		401
Folsom State Prison, Folsom	27		27
Ironwood State Prison, Riverside County	1,004		1,004
Lassen II, Susanville	200		200
Madera II, Chowchilla	0		0
Mule Creek State Prison, Ione	520		520
Northern California Women's Facility, Stockton	545[a]	400	945
North Kern State Prison, Delano	576	400	976
Pelican Bay State Prison, Crescent City	272		272
Pleasant Valley State Prison, Coalinga	1,004		1,004
Richard J. Donavan, San Diego County	874		874
Sierra Conservation Center, Jamestown	0		0
Soledad II, Monterey County	320		320
Wasco State Prison, Kern County	598	1,000	1,598
Corcoran II, Corcoran	0		0
Camps	422		422
Community Correctional Facilities	1,692		1,692
Totals	**14,294**	**6,000**	**20,294**

[a] Includes 400 beds based on converting the women's prison to house male inmates.

There are two funding components to the capital outlay portion of this proposal. Authorization of $145.9 million in lease-payment bonds is proposed for:

- The dormitory buildings ($94.2 million).
- Ancillary facilities such as clinics, classrooms and food service ($33.9 million).
- Infrastructure improvements, including telecommunications and parking ($11.8 million).
- Mitigation for local governments and schools ($6 million).

An additional $21.8 million is proposed from the General Fund for modifications to 19 institutions. These modifications include conversion of the Northern California Women's Facility to a men's institution ($3.7 million), cell door repairs at the California Training Facility ($3.5 million), purchasing equipment for the conservation camps ($2 million), and preparing environmental impact reports ($1 million).

It is clear that the state will have to take action this year to address the pending critical overcrowding situation facing the prison system. We recommend that the Legislature consider the department's emergency bed proposal in the context of the following issues (which we discuss below):

- The amount of capital outlay funding (which would primarily be debt financing) that the state wishes to commit to new prison construction over the next several years.
- The options available to the Legislature to reduce future prison costs.
- The reliability of current inmate population projections given the uncertainty caused by enactment of the "Three Strikes and You're Out" Law.

Statewide Capital Outlay. As discussed in our crosscutting issue *Addressing Capital Outlay Needs*, the Legislature should evaluate statewide capital outlay needs, identify its priorities, and develop a financing plan for those priorities. We assume that a large portion of the state's capital outlay needs will continue to be funded with bonds even though the state currently has a relatively high debt burden. The future level of state funding to increase prison capacity should be considered in the context of how this activity fits into the Legislature's overall capital outlay priorities and its multi-year plan for authorizing and selling additional bonds.

Reducing Prison Costs. There are two general ways that the Legislature could reduce prison costs.

- Within a multi-year funding level that the Legislature might consider appropriate for additional prison construction, the Legislature could consider ways to get more "bang-for-its-buck." For instance, it could direct the CDC to build less costly prison facilities.

- Actions also could be examined to reduce the future demand for prison construction. For instance, in recent years we have presented options to the Legislature for reducing sentences for specified non-violent and short-term offenders. (These options are discussed in more detail in our companion document to this *Analysis, The 1995-96 Budget: Perspectives and Issues,* part VI.) To the extent such actions were taken by the Legislature, the need for new prisons and/or emergency housing would be reduced.

Population Projections. As of mid-January, the actual inmate population was unchanged over the previous six months and was about 3,700 less than that estimated by the CDC's fall 1994 projections. As discussed in our recent Status Check, "The 'Three Strikes and You're Out' Law—A Preliminary Assessment," there are noticeable changes in the patterns of pleadings entered by defendants charged under this recently enacted law. Today's lower-than-expected inmate population is at least in part due to a considerable backlog of "Three Strikes" cases awaiting trial.

If the local criminal justice system takes steps to reduce the backlog, the inmate population might still increase to levels projected by the CDC. Given the considerable time needed to develop *new prisons*, planning for these facilities must focus on inmate population trends over the next several years. The *emergency bed* proposal, however, is intended to address shorter-term needs which are less certain given the recent population trends discussed above. For this reason, we believe the Legislature should decide this issue based on updated information that should be available during budget hearings.

Based on the CDC's spring 1995 five-year population estimate, and on the impacts of any policy changes the Legislature might adopt to reduce prison costs, the Legislature will be better able to determine the extent to which the emergency housing will be needed in the system.

Additional Information Needed. The Legislature also needs the information listed below which the CDC had not provided at the time this analysis was written:

- ***Classification System Changes.*** It is our understanding that the department plans to modify its inmate classification system in order to use the emergency beds. We believe it is incumbent on the CDC to provide the Legislature with an explanation of these modifications and any associated implications on the prison system.

- ***Scope and Cost Detail.*** At the time this *Analysis* was written, the CDC had provided only limited information describing the scope of the project and only summary cost estimates. There was no detail as to why all components of the proposal are necessary. For example, the proposal includes items such as $21 million for administrative/support buildings, $5 million for clinics at seven prisons, and $2.8 million for an infirmary expansion at the Richard J. Donovan State Prison. There is no information on why these and other expenditures are needed or how the cost estimates were established. It is also unclear as to why the state should pay $6 million to local governments to "mitigate" any impacts of adding the emergency beds.

- ***Additional Bed Needs.*** The emergency housing proposal is based on accommodating the projected capacity shortfall as of June 1997. The department's projections show that 20,000 additional inmates will enter the system between June 1997 and June 1998, but only one authorized prison (Corcoran II) with 3,700 beds will open during this time period. The department therefore needs to indicate how it plans to accommodate growth after June 1997.

We withhold recommendation on the emergency housing proposal, pending receipt of the information discussed above.

California Institution for Men—Denitrification Plant

We recommend deletion of $7 million under Item 5240-301-001 for the construction phase of a denitrification plant because the project is behind schedule and the proposed funding can be deferred for one year without detriment to the project.

The budget includes $7 million from the General Fund to construct a denitrification plant at the California Institution for Men in Chino. The purpose of this project is to remove nitrates from the domestic water supply because they exceed federal and state safety standards. This plant will also treat the water supply for two nearby state institutions—the California Institution for Women and the Youth Training School, which is operated by the California Youth Authority.

In the *1994 Budget Act*, the Legislature appropriated $910,000 to prepare preliminary plans ($365,000) and working drawings ($545,000) for this project. The Legislature also adopted language in the *Supplemental Report of the 1994 Budget Act* that included the CDC's schedule for completing the design phases of the project. This language indicates that the preliminary plan phase was to begin in August 1994 and be completed in December 1994. The working drawing phase was to begin in February 1995 and be completed in June 1995.

Project Behind Schedule. According to the most recent status report for this project (dated December 31, 1994), the department was still assessing the conclusions and recommendations of a preliminary engineering study for the project. The actual design of the project has thus not begun and the department does not have a revised project schedule.

Analyst's Recommendation. Given that the project is currently at least five months behind schedule, it is unlikely that the department can complete the design work until sometime in the spring of 1996. We believe that the construction funding could be deferred until 1996-97 without detriment to the project. Consequently, without prejudice to the merits of this project, we recommend that the Legislature delete the $7 million for construction in Item 5240-301-001.

CALIFORNIA STATE UNIVERSITY (6610)

The California State University (CSU) consists of 21 campuses, including the new Monterey Bay campus (scheduled to open in fall 1995), which is located on a portion of the recently closed Fort Ord military base. In July 1995, the California Maritime Academy will become the twenty-second CSU campus. The CSU's five-year capital outlay plan identifies needs for state funding totaling $2.5 billion from 1995-96 through 1999-00. Federal funding totaling $89 million is estimated over this period for renovation of buildings at the Monterey Bay campus. The federal funding is dependent on annual appropriations by the Congress.

Governor's Compact. The Governor is proposing a four-year compact with both the University of California (UC) and the CSU. (The compact is discussed in more detail in the higher education crosscutting issues section of this *Analysis*.) The intent of this compact is to provide a framework for UC and CSU budgeting from 1995-96 through 1998-99. The compact calls for the UC and the CSU to plan for enrollment increases averaging one percent annually. For the CSU, this would translate into systemwide enrollment growing from 250,500 full-time-equivalent students (FTE) in the current year to about 260,700 FTE in 1998-99. This would be slightly less growth over the four-year period than the Department of Finance indicates in its most recent long-range enrollment projections.

Another part of the Governor's compact would be to provide the four-year segments with about $150 million each year in capital outlay funding. This level of funding would provide for only about 30 percent of the needs identified by the CSU for the next four years. At this funding level, it would therefore be critical that the system's highest priority projects be identified. The Governor's proposal indicates that priority will be given to seismic and other life safety projects, infrastructure, and educational technology. As discussed below, this is a sensible strategy.

Accommodating Enrollments. The existing 20 CSU campuses plus the Maritime Academy have sufficient "capacity" space (classrooms and laboratories) to accommodate 261,700 FTE students. For capital outlay purposes, enrollment in activities such as independent learning and off-campus course work does not place a demand on campus capacity space and therefore is not counted in determining the amount of physical space needed on campus to meet the academic program. Currently, about 9,500 FTE (4 percent) of the total 250,500 FTE enrollment is in this type of course work (this amount of "non-capacity" enrollment has been fairly constant for many years). Therefore, enrollment demand on capacity space totals 241,000 compared to a current capacity to accommodate 261,700 FTE. Based on the Governor's proposal to have enrollment grow by one percent per year over the next four years, the enrollment demand on capacity space would total 251,000 FTE in 1998-99. Clearly, the existing campuses have sufficient space to accommodate enrollments beyond the four-year period. Furthermore, with the addition of the Monterey Campus—which is planned to enroll at least 1,800 FTE by 1998-99—the existing campus space will accommodate enrollments beyond the turn of the century.

It is clear that under the proposed enrollments and with the amount of capacity space within the CSU system, the state will not have to provide new capacity space for several years. There remain, however, a myriad of capital improvement needs within the CSU that need to be addressed. For instance, the system needs to renovate older facilities to more appropriately meet academic program needs, upgrade and modernize education technology systems and other infrastructure, and reduce the seismic risk of existing facilities. The CSU 1995-96 capital outlay program in the budget consists of these types of projects.

Budget Proposal. The budget includes $145 million in proposed appropriations for the CSU 1995-96 capital outlay program. Of this total, $90 million is for 20 projects that were funded in the 1994 Budget Act from a proposed general obligation bond measure that was not approved by the voters. The 1995-96 funding includes $132 million in lease-payment bonds and $13 million in previously authorized general obligation bonds. Figure 17 summarizes the capital outlay program by

Figure 17

California State University
1995-96 Capital Outlay Program
Funding Summary by Category

(Dollars in Thousands)

Category	Number of Projects	Budget Bill Amount	Estimated Future Cost	Total
Instructional facility renovation	1	$11,557	—	$11,557
Utilities/infrastructure	21	94,471	$7,322	101,793
Mitigate seismic hazards	5	17,365	—	17,365
Equipment	8	13,526	—	13,526
Minor capital outlay/statewide planning	5	8,227	22,216	30,443
Totals	**40**	**$145,146**	**$29,538**	**$174,684**

project type. As shown in the figure, by far the largest funding category is "utility/infrastructure" projects, which constitute almost two-thirds of the program.

Replacement of Chlorofluorocarbons

We recommend deletion of $535,000 in planning funds for systemwide replacement of chlorofluorocarbons because this activity should be done by the campuses on an as-needed basis and funded through their operating budgets. (Delete $535,000 from Item 6610-301-782. Estimated future savings of $21,646,000.)

Chlorofluorocarbons (CFCs) are man-made chemical compounds that have long been used as the primary source of refrigerants for chilled water systems and air conditioning equipment. Scientific evidence has shown that CFCs released into the atmosphere react and destroy the earth's ozone layer. Concerns about the continued use of CFCs led to the creation of the Montreal Protocol, which was signed by almost 100 nations and called for the phase-out of CFCs. Under the federal Clean Air Act Amendments of 1990, the United States Environmental Protection Agency promulgated regulations to eliminate production of CFCs by January 1, 1996. Once production is stopped, the availability of CFCs will steadily decline and substitute refrigerants will have to be used.

The budget proposed $535,000 for preliminary plans to commence a program to address about 73 chillers in the CSU system that operate with CFC. The estimated future construction cost for this systemwide project is $21.6 million. According to the CSU, the project includes:

- Replacing chillers over 20 years old.
- Recovering CFC from chillers to be replaced and using that CFC for other chillers.
- Replacing chillers between 10 and 20 years old that are determined to be inefficient.
- Retrofiting chillers less than 10 years old to use substitute refrigerants.

The activities described above, such as replacing chillers, are ones that the CSU would normally fund within its operating budget allocation for maintenance and special repairs. We believe that the CSU campuses should accomplish these activities on an as-needed basis through their operating budget. There is no need for a state-funded capital outlay program to comply with the federal requirements. No other department is proposing such a program. At the University of California, each campus is responsible for compliance with the requirements, and these activities are not being funded as capital outlay projects.

The Department of General Services (DGS) is funding CFC replacement in state buildings through its maintenance and special repair budget. This effort involves 24 chiller units with a total cooling capacity of 9,600 tons. The estimated cost of this program, which mostly involves retrofiting existing chillers instead of replacement, is less than $1 million. In contrast, the CSU program involves chillers with a total cooling capacity of 32,000 tons, but will cost over $20 million.

The CSU should reevaluate the scope of its needs and implement the most cost effective solution on a multi-year basis through its operating budget. We therefore recommend deletion of $535,000 in capital outlay funding under Item 6610-301-782 for this program.

Equipment Projects

We withhold recommendation on $12.5 million for three equipment projects pending clarification of the amounts requested.

The budget requests $12,504,000 in Item 6610-301-660 to provide furniture and movable equipment for the following previously funded construction projects:

- Bakersfield, Walter W. Stiern Library—$675,000.
- Fullerton, Library Building Addition—$4,907,000.
- San Diego, Library Addition—$6,922,000.

From information provided by the CSU, it is not clear that the entire amounts requested for these projects are justified. For example, the proposal for San Diego indicates that funding for 100 new self instructional computers is requested but another document justifying the request shows that 500 such stations are requested. For the Bakersfield library, the Legislature funded $3 million for equipment in 1993-94. The CSU indicates that this amount did not reflect an increase in the equipment cost guidelines that were being transitioned into such requests at the time. Thus, another $675,000 for equipment is requested for the library building.

We will review these proposals with the CSU to determine the need for this level of funding and make recommendations as appropriate, to the Legislature.

CALIFORNIA COMMUNITY COLLEGES (6870)

There are 107 community colleges in California within 71 independently organized districts. The system's capital outlay program has been funded mostly by the state and is coordinated by the Chancellor's Office. At the time this analysis was written, the Chancellor's Office had not yet completed a statewide five-year capital outlay plan for 1995-96 through 1999-00. Based on previous plans and on individual five-year plans submitted by each district, however, the Chancellor's Office estimates a five-year funding need totaling $3.3 billion.

Most previously authorized general obligation bonds for higher education have been allocated. For 1995-96, the Chancellor's Office decided, with the concurrence of the administration, to maintain a reserve of the unallocated bond funds as a contingency in case augmentations are needed for prior capital outlay appropriations. Since there are not other general obligation bonds available, lease-payment bonds are proposed as the funding source for the community colleges' 1995-96 capital outlay program.

The Governor's Budget, in accordance with the wishes of the Board of Governors of the community colleges, proposes to use lease-payment bonds only to provide furniture and movable equipment for previously funded construction projects. The Board made this decision due to concerns regarding the costs of debt service payments on lease-payment bonds, which are funded from the community colleges' Proposition 98 allocation and thus represent a trade-off with using these funds for operating expenses. For 1995-96, debt service on community college lease-payment bonds will be $22.1 million. We estimate that when all previously funded lease-payment bond funded projects are completed (by 1997-98), the annual debt service will increase to around $50 million.

The budget includes $44.8 million for 49 equipment projects. Of this total, $16 million is for 32 projects that were funded in the *1994 Budget Act* from a proposed general obligation bond that was not approved by the voters. The remaining $28.8 million is for 17 equipment projects that are proposed for the first time.

Reconsideration of Prior Approvals May be Appropriate

Of the 32 previously funded projects, there are two that the Legislature may wish to reconsider.

Library Books. One of the previously-funded equipment projects that is again proposed for 1995-96 is $424,000 to purchase books for a new library at Antelope Valley College. Last year we recommended that the Legislature not approve this proposal because state budget practice for all of higher education is to use capital outlay funding only for the *initial complement* of library books at *new* campuses. Additional library books at existing campuses are purchased over time through the districts' support budget allocations. The Legislature approved the district's request but also directed the Chancellor's Office to prepare a report on the potential future state costs for funding library books as a part of capital outlay projects. The report was submitted to the Legislature in December 1994 and it estimated that state funding of $10.1 million for library books would be needed for community college library projects at existing campuses over the next five years.

Given the Legislature's action last year on this issue, we do not recommend against this proposal. In light of these costs and the additional future costs for other library books, we note our concerns with this project.

Reimbursement. The budget includes another equipment project that was previously funded with the unsuccessful general obligation bonds: Yosemite CCD, Modesto Junior College, Fire Training Center ($490,000). As discussed during budget hearings last year, this amount is requested to reimburse the district for the costs of providing fire simulation equipment. This equipment was not part of the project previously approved by the Legislature. As we indicated last year, however, the district purchased and installed the equipment without notifying either the Department of Finance or the Legislature and then asked for reimbursement from the state. In view of these circumstances, we recommended that the Legislature not approve the reimbursement. We again note our concern with reimbursing districts for capital outlay obligations that they assume without prior approval.

Proposals Not Submitted for New Projects

We withhold recommendation on $28.8 million in equipment for 17 projects pending receipt of capital outlay budget change proposals from the Chancellor's Office to justify the amounts requested.

The 17 new equipment projects requested for funding are listed below in Figure 18 (see next page). At the time this analysis was written, both the Chancellor's Office and the Department of Finance were in the process of reviewing the proposals submitted by the individual community college districts for these projects. At the time of this *Analysis*, the proposals were not available. We therefore withhold recommendation on these 17 projects pending receipt of these proposals. We will review them to verify that they conform to the costs for new equipment that is eligible for funding as a result of the capital outlay projects previously approved by the Legislature. We will provide comments, as appropriate, to the Legislature prior to budget hearings.

Figure 18

California Community Colleges
1995-96 New Equipment Projects

(In Thousands)

District/College/Project	Budget Bill Amount
Antelope Valley CCD/Antelope Valley College/Applied Arts Building	$2,163
Antelope Valley CCD/Antelope Valley College/Remodel Old Library secondary effects	760
Citrus CCD/Citrus College/Recording Arts addition/reconstruction	2,287
Desert CCD/College of the Desert/Library Building	567
Foothill-DeAnza CCD/DeAnza College/Learning Resource Center remodel expansion	1,117
Glendale CCD/Glendale Community College/Multi-Use Laboratory Building	2,213
Glendale CCD/Glendale Community College/Classroom-Library addition	1,266
Grossmont-Cuyamaca CCD/Cuyamaca College/Outdoor Physical Education Facility	126
Kern CCD/Bakersfield College/Library Building	2,992
Mt. San Antonio CCD/Mt. San Antonio College/Performing Arts Center	1,087
Pasadena Area CCD/Pasadena City College/Community Skills Center	1,810
San Francisco CCD/San Francisco City College/Library Building books	2,432
Sierra Joint CCD/Sierra College/Learning Resources Center	3,717
Sierra Joint CCD/Western Nevada County Center Buildings, Phase I	2,995
Ventura CCD/Moorpart College/Math-Science Building	750
Ventura CCD/Ventura College/Math and Science Complex	1,382
Victor Valley CCD/Victor Valley Community College/New Science Building	1,170
Total	**$28,834**

MILITARY DEPARTMENT (8940)

The Military Department is responsible for the command and management of the California Army and Air National Guard. To support its operations, the department maintains 123 armories and 38 maintenance shops throughout the state. The department's five-year capital outlay plan for 1995-96 through 1999-00 totals $136 million for 13 armory projects plus one project to develop a new state headquarters complex in Sacramento. The Governor's Budget proposes appropriations totaling $17.2 million—$10.0 million General Fund and $7.2 million federal funds. This amount would fund one major project ($8 million), minor projects ($1.1 million) and planning, design, supervision, and construction costs for projects in which construction is fully funded by the federal government ($8.1 million).

Los Angeles Armory

We recommend deletion of $7.9 million from the General Fund for site acquisition and preliminary plans for a new Los Angeles Armory because the project should instead be funded with the Armory Fund. Delete $7,860,000 in Item 8940-301-001.

The budget includes $8 million ($7.9 million General Fund and $147,000 federal funds) to acquire 10 acres of land and prepare preliminary plans for an 86,000 gross square foot armory in the Los Angeles area. The estimated future cost to complete this project is $13.7 million, of which $8.2 million would be funded by the federal government. The department indicates that a new armory is needed to replace three existing facilities—Culver City, Monrovia, and Los Angeles-Bridewell—whose leases expire between August 1997 and January 1999. According to the department, it is unlikely that the property owners will renew these leases because the properties will have higher value under alternative uses.

Armory Fund Intended for This Purpose. In 1983, legislation was enacted to create the Armory Fund. The intent of this legislation was to create a "self sustaining" program in which all proceeds from the disposal of armories would be deposited in the fund and be available for acquisition or construction of new or replacement armories. To date, little revenue has been generated for this fund. Since 1987, only one property has been sold, and as of June 1994 the fund only had a $163,000 balance. Moreover, this balance does not include General Fund loans and interest totaling about $1.1 million that are owed from future Armory Fund revenues.

Through creation of the Armory Fund, the department was given the opportunity to strategically manage its assets in order to generate revenue for a capital program. In lieu of providing considerable General Fund monies in 1995-96 for a new armory project, the Legislature should direct the department to use all diligence to (1) identify unneeded assets, (2) dispose of those assets, and (3) use the revenue for the intended purposes, such as the budget proposal for Los Angeles. We therefore recommend deletion of $7,860,000 in Item 8940-301-001 for this project.

VETERANS' HOME OF CALIFORNIA (8960)

The Department of Veterans Affairs (DVA) operates the Veterans' Home of California in Yountville. The Yountville facility provides five levels of care, ranging from residential to acute health care. The DVA's five-year capital outlay plan includes seven major projects (total cost of $45 million) that would complete the department's master plan. The federal government funds 65 percent of total project costs when the construction appropriation is made.

The Governor's Budget includes $11.5 million ($4.8 million General Fund and $6.7 million federal funds) for the DVA's 1995-96 capital outlay program. This amount includes $10.9 million for five major projects, $0.4 million for minor projects ($250,000 or less per project), and $0.2 million for management of the renovation program. The major projects are listed in Figure 19.

Figure 19

Veterans' Home of California 1995-96 Major Projects

(In Thousands)

		1995-96 Costs			
Project	**Phase**[a]	**General Fund**	**Federal Funds**	**Budget Total**	**Future Cost**
Renovate main kitchen and food service	wce	$3,344	$6,700	$10,044	—
Annex I (ICF)	w	491	—	491	$7,071
Correct code deficiencies in Section L	w	181	—	181	2,207
Renovate laundry facility	p	125	—	125	3,725
Remodel administration building	p	115	—	115	3,323
Total		**$4,256**	**$6,700**	**$10,956**	**$16,326**

[a] Phase symbols indicate: p = preliminary plans; w = working drawings; wce = working drawings, construction and equipment.

Annex I and Section L Renovations

We recommend deletion of $672,000 for design of two projects to renovate patient living areas because the veterans' home will have significant excess licensed capacity without completion of these projects. (Estimated future savings: $3.2 million General Fund, $7.1 million federal funds.)

Of the projects listed in Figure 19, two are for renovation of patient living units. The Annex I project would add 107 licensed intermediate care beds and the Section L renovation would add 33 licensed domiciliary beds. Funding for these projects was also requested in the 1994-95 Governor's Budget, but was not approved by the Legislature because this additional licensed capacity was not needed to serve the home's population. This is still the case. Figure 20 compares the estimated 1995-96 population with the licensed capacity upon completion of all previously funded renovation projects in 1997. The home will not only have adequate capacity at all care levels but will have enough capacity to house another 364 veterans beyond the 1995-96 population.

Figure 20

Veterans' Home of California Licensed Capacity and Population

Care Level	Population (1995-96)	Capacity[a]	Excess Capacity
Residential	81	116	35
Domiciliary	600	762	162
Intermediate	163	284	121
Skilled nursing	269	315	46
Totals	**1,113**	**1,477**	**364**

[a] After completion of all projects funded to date for construction.

In addition to this excess capacity at the Yountville site, there will be 400 additional beds available in January 1996 with completion of the new veterans' home in Barstow. It is unclear when or if the administration will propose funding levels to allow populations of both veterans' homes to reach their licensed capacities. It is also unclear whether there is sufficient demand among California's veterans for the services provided by the homes. Until such time as the demand for additional residential spaces is substantiated, the Legislature should not support capital outlay funding to further increase capacity at the Yountville home. We therefore recommend deletion of $672,000 proposed for the Annex I and Section L projects. (Future savings totals $10.3 million.)

Remodel Main Kitchen and Food Service

We withhold recommendation on $3,344,000 in Item 8960-301-001 and $6,700,000 in Item 8960-301-890 pending a determination that the proposed project is the most cost effective solution to any existing deficiencies in the Home's food service facilities.

The budget proposes $10 million ($3.3 million General Fund and $6.7 million federal funds) to renovate the home's main kitchen and the kitchen in Holderman Hospital. The project involves conversion to a cook/chill food preparation system, including purchase and installation of appropriate equipment and renovation of building spaces and utility systems to accommodate the new system.

This project was first proposed to the Legislature in 1987-88, when the department requested funding for preliminary plans. In our *Analysis of the 1987-88 Budget Bill*, we indicated that the Department of Developmental Services had recently begun implementing cook/chill systems at eight developmental centers serving 7,000 clients statewide. The DDS had proposed a funding level of only $1.8 million for all eight centers and was implementing the conversions without any substantial alterations to the physical plant.

The Legislature approved the DVA's request, but also adopted supplemental report language stating its intent that the plans be developed for "(1) installation of cook-chill equipment only with minimal alterations related directly to installation of the equipment and (2) other food service renovations." This language also required the department to "detail the specific justifications for including any alteration work related to (1) installation of the cook-chill equipment and (2) other food service renovations." The department's 1995-96 budget proposal does not comply with this language.

Subsequent to the 1987-88 appropriation, the department reevaluated its proposal and conducted two additional studies—in 1988 and in 1993—to identify the best food service approach. The 1995-96 budget proposal is based on recommendations in the 1993 study. The study includes a detailed cost estimate of equipment to be purchased and building alterations. There is no separation, however, of cost items related to cook-chill and cost items related to other work, as called for in the 1987-88 supplemental report language.

We believe it is incumbent upon the department to both provide the Legislature with the information it requested when planning funds were appropriated for the kitchen project and to justify the expenditure of $10 million. The Legislature can then determine whether the entire scope of this project is necessary and fits within its original intent. We therefore withhold recommendation on this project, pending receipt of this information.

Renovate Laundry Facility

We recommend deletion of $125,000 for renovation of the laundry facility because, similar to other state institutions, this service can be provided by the Prison Industry Authority or a private vendor. Delete $125,000 from Item 8960-301-001. (Estimated future savings is $1.3 million General Fund and $2.5 million federal funds.)

The budget includes $125,000 to prepare preliminary plans for a renovation of the home's laundry facility. The estimated future cost to complete this project is $3.8 million ($1.3 General Fund and $2.5 million federal funds) including $1.2 million to purchase new equipment for the laundry operation. The DVA indicates that the existing 15-year-old equipment is obsolete and that the facility (built in 1951) is in need of roof and floor repairs and an upgrading of the exhaust system.

Our review indicates that the state could realize savings by eliminating the laundry operation and instead having the Home contract with either the Prison Industries Authority or a private vendor. This would be consistent with how laundry service is provided to state institutions, such as the state hospitals and developmental centers, which have phased-out their laundry operations. Based on the costs of laundry service provided by Prison Industries to nearby institutions—Napa State Hospital and Sonoma Developmental Center—we estimate that the state would save over $1 million over the next ten years by discontinuing laundry service at the home. The savings would be realized by foregoing the cost of the proposed laundry renovation at the home.

Based on these savings, we recommend that the Legislature not approve the amount proposed for laundry service at the home and instead direct the DVA to contract either with the Prison Industries Authority or with a private vendor to provide laundry service. Our review of the home's support budget indicates that the cost for a laundry service contract can be absorbed from within the current base budget. (Delete $125,000 from Item 8960-301-001.)

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 21 compares the allocation of these revenues for 1995-96 under existing law with the allocation proposed in this section.

Figure 21

Distribution of 1995-96 Tidelands Oil Revenues Comparison of Current Law With Section 11.50

(In Thousands)

Allocation	Current Law	Section 11.50
State Lands Commission	$4,830	$4,830
California Water Fund	25,000	—
Central Valley Project	5,000	—
Sea Grants	525	—
Capital Outlay Fund for Public Higher Education (COFPHE)	55,390	—
Housing Trust Fund	—	2,000
Subtotals	($90,745)	($6,830)
General Fund	—	$83,915
Totals	**$90,745**	**$90,745**

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. Accordingly, we withhold recommendation on this item until that time.

Increase in Current-Year General Fund Transfer

In addition to proposing an allocation of projected budget-year revenues, the administration also proposes to amend Section 11.50 of the *1994*

Budget Act in order to increase the transfer of 1994-95 tidelands oil revenues to the General Fund by $36.3 million. This action would bring the total current-year transfer to the General Fund to $73.9 million. This increase is attributable to increased crude oil prices and higher production in the current year.

List of Findings and Recommendations

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Crosscutting Issues

Addressing Capital Outlay Needs

1. **Comprehensive Statewide Plan Needed.** Recommend that the Legislature take a more comprehensive and proactive approach with regard to state infrastructure planning and financing. I-13

Consolidating State Offices

2. **Policy Guidance Needed on Acquiring State Offices.** Recommend that the Legislature first establish its policies and priorities for proceeding with and financing new state office space prior to considering the merits of individual office proposals. I-20

Lease-Payment Bonds—Budget Language

3. **Expanded Use of Lease-Payment Funds Proposed.** In addition to proposing new authorizations of lease-payment bonds totaling over $3 billion, the administration is proposing budget language to allow for an expanded use of lease-payment bonds—for preconstruction costs—and interim borrowing to fund these activities. I-24

Office of Emergency Services

4. **Headquarters Facility.** Recommend deletion of $27.3 million in lease-payment bonds for a new headquarters facility because this level of funding is not needed in 1995-96 and the state will incur unnecessary debt costs for financing the project in this manner. Recommend Legislature approve $4,091,000 from the General Fund to provide land acquisition and preliminary plans for the project. I-28

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Delete Item 0690-301-660 for $27,293,000 and add Item 0690-301-001 for $4,091,000.

Department of General Services

5. **State Building Seismic Safety Program.** Recommend approval of $12.1 million (a reduction of $152.9 million) in Item 1760-301-768 for seismic retrofits of state buildings. Our recommendations are: (1) fund only preliminary plans for each seismic retrofit project, (2) fund only projects assigned a risk level of 5 or 6, (3) delete funding to build a new microwave communications center in Los Angeles, (4) delete budget bill language Provisions 1 and 2, (5) adopt supplemental report language requiring that specific information be obtained during the preliminary plan phase, and (6) amend budget bill language in Provision 3 with respect to additional building risk assessments. I-30

6. **Earthquake Safety Bonds—Local Assistance**. Withhold recommendation on Item 1760-491 to reappropriate funding for local government seismic retrofit projects pending receipt of information from the State Architect justifying the need for any reappropriations. I-38

Department of Forestry and Fire Protection

7. **Shift Design Costs to General Fund.** Recommend a reduction of $9.3 million in lease-payment bond financing for six projects because this level of funding is not needed in 1995-96 and the state would incur unnecessary debt costs for financing these projects in this manner. Recommend instead that the Legislature approve $1,081,000 from the General Fund to fund preconstruction costs for these projects. (Reduce Item 3540-301-660 by $9,273,000 and increase Item 3540-301-001 by $1,081,000.) I-39

8. **Small Acquisition Projects.** Recommend that $554,000 for four acquisition projects be funded from the General Fund instead of from lease-payment bonds because we believe it is not prudent to fund such small expenditures with debt financing. We also recommend a reduction of $554,000 in the amount budgeted for minor capital outlay. (Reduce Item 3540-301-660 by $554,000 and amend schedule for Item 3540-301-001.) I-41

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9. **Other Projects.** Recommend a reduction of $4.6 million in lease-payment bond financing for seven projects in order to minimize the use of this financing method. Recommend instead that these projects be funded from the General Fund. (Reduce Item 3540-301-660 by $4,641,000 in increase Item 3540-301-001 by the same amount.) I-42

10. **Data Communication Recabling.** Recommend deletion of $500,000 for recabling computer networks because this should be funded on a priority basis through the department's support budget. (Reduce Item 3540-301-660 by $500,000.) I-43

Department of Corrections

11. **Emergency Bed Projects.** Withhold recommendation on $167.8 million to develop emergency housing beds pending (1) evaluation of the need for over 20,000 beds and other proposed improvements and (2) receipt of additional information including the department's spring 1995 inmate population projections and consideration of any policy changes the Legislature might wish to adopt to reduce prison costs. I-45

12. **California Institution for Men—Denitrification Plant.** Recommend deletion of $7 million in Item 5240-301-001 for the construction phase of a denitrification plant because the project is behind schedule and the proposed funding can be deferred for one year without detriment to the project. I-50

California State University

13. **Replacement of Chlorofluorocarbons.** Recommend deletion of $535,000 in planning funds for systemwide replacement of chlorofluorocarbons because this activity should be done by the campuses on an as-needed basis and funded through their operating budgets. (Delete $535,000 from Item 6610-301-782. Estimated future savings of $21,646,000.) I-54

14. **Equipment Projects.** Withhold recommendation on $12.5 million for three equipment projects pending clarification of the amounts requested. I-55

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California Community Colleges

15. **Proposals Not Submitted for New Projects.** Withhold recommendation on $28.8 million for 17 projects pending receipt of capital outlay budget change proposals from the Chancellor's Office to justify the amounts requested. I-57

Military Department

16. **Los Angeles Armory.** Recommend deletion of $7.9 million from the General Fund for site acquisition and preliminary plans for a new Los Angeles Armory because projects of this nature should instead be funded with the Armory Fund. Delete $7,860,000 in Item 8940-301-001. I-59

Veteran's Home of California

17. **Annex I and Section L Renovations.** Recommend deletion of $672,000 in Item 8960-301-001 for design of two projects to renovate patient living areas because the veterans' home will have significant excess licensed capacity without completion of these projects. I-62

18. **Remodel Main Kitchen and Food Service.** Withhold recommendation on $3,344,000 in Item 8960-301-001 and $6,700,000 in Item 8960-301-890 pending a determination that the proposed project is the most cost-effective solution to any existing deficiencies in the home's food service facilities. I-63

19. **Renovate Laundry Facility.** Recommend deletion of $125,000 in Item 8960-301-001 for renovation of the laundry facility because, similar to other state institutions, this service can be provided by the Prison Industry Authority or a private vendor. I-64

Control Section 11.50

20. **Distribution of Tidelands Oil Revenue.** Withhold recommendation pending legislative spending plan for these revenues. I-65

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