

The 2019-20 Budget:

Deferred Maintenance

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FEBRUARY 8, 2019



Summary

The Governor's budget includes over \$600 million from the General Fund and Proposition 68 for deferred maintenance projects at various state departments. We recommend that the Legislature require (1) departments receiving funding to report at budget hearings on the approach they will use to prioritize projects, as well as specific projects they plan to undertake; (2) the Department of Finance to report, no later than January 1, 2023, on which projects departments ultimately undertook with the funds provided; and (3) departments that continue to experience growth in deferred maintenance backlogs over the next few years to identify the reasons for the increases and the specific steps they plan to take to improve maintenance practices on an ongoing basis.

Background

State Has a Large Deferred Maintenance Backlog.

Facilities require routine maintenance and repair to keep them in acceptable condition and to preserve and extend their useful lives. When such maintenance is delayed or does not occur, we refer to this as deferred maintenance. The administration has identified a total state infrastructure deferred maintenance need of about \$70 billion. Of this amount, about \$50 billion is related to the state's transportation system and the remaining \$20 billion is associated with other types of state facilities. Deferred maintenance can be caused by various factors, including insufficient funding for ongoing maintenance, diverting maintenance funding to other operational purposes (such as by holding maintenance positions vacant), or poor facility management practices.

Recent Budgets Have Provided \$1.3 Billion for Deferred Maintenance Projects. Prior budgets have appropriated significant one-time resources for deferred maintenance projects at various state departments. Specifically, as shown in **Figure 1** (see next page), the

2015-16, 2016-17, and 2018-19 budgets provided a total of almost \$1.3 billion—\$910 million from non-Proposition 98 General Fund and \$18 million from the Motor Vehicle Account for projects at 25 departments, as well as \$333 million in Proposition 98 General Fund that could be used for deferred maintenance projects at the community college system.

These budget acts included language that allocated most of the funding to departments after they provided notifications to the Joint Legislative Budget Committee (JLBC) of the specific projects to be undertaken. The language also allowed departments to change their proposed projects subject to certain requirements for notifying the JLBC.

Governor's Proposal

The Governor's budget proposes \$614 million (\$585 million from the General Fund and \$29 million from Proposition 68, a natural resources related bond approved by voters in 2018) on a one-time basis in 2019-20 to address deferred maintenance backlogs at 24 departments. The budget authorizes departments

to commit funds to projects over three years—through June 30, 2022. **Figure 2** summarizes the administration’s proposal. (The budget also allocates significant funding for maintaining transportation facilities, including \$1.2 billion from Chapter 5, Statutes of 2017 [SB 1, Beall] for the repair and maintenance of the state’s highway system. Additionally, it provides new one-time funding of \$6.5 million in 2019-20 for some specific roof and fire alarm replacement projects at the California Department of Corrections and Rehabilitation [CDCR].)

The budget includes provisional language that, in several ways, is different from prior allocations of deferred maintenance funding. First, the 2019-20 budget includes language that generally limits the funding provided to deferred maintenance projects that address critical infrastructure deficiencies. Second, the language does not require departments to identify the specific projects that they will undertake before being able to utilize the funding, nor does it require reporting to the Legislature should they change which projects they plan to undertake. Third, the provisional language

Figure 1

Deferred Maintenance Funding in 2015-16, 2016-17, and 2018-19 Budgets

(In Millions)

Department/Program	2015-16	2016-17	2018-19	Total
General Fund (Non-Proposition 98)				
Water Resources	—	\$100	\$100	\$200
California State University	\$25	35	35	95
University of California	25	35	35	95
Judicial Branch	—	45	50	95
State Hospitals	7	64	10	81
Parks and Recreation	20	60	—	80
Corrections and Rehabilitation	15	55	9	79
Developmental Services	7	18	10	35
General Services	5	12	10	27
Military Department	2	15	4	21
Fish and Wildlife	—	15	—	15
California Exposition	—	—	15	15
California Fairs	7	4	3	14
Veterans Affairs	2	8	4	14
Forestry and Fire Protection	—	8	2	10
Science Center and African American Museum	—	3	7	10
State Special Schools	—	4	4	8
Emergency Services	3	1	4	8
Food and Agriculture	2	<1	1	3
Hastings College of Law	—	2	1	3
Conservation Corps	—	1	1	1
Employment Development Department	—	—	1	1
San Joaquin River Conservancy	—	<1	—	<1
Subtotals	(\$120)	(\$485)	(\$305)	(\$910)
Motor Vehicle Account				
Highway Patrol	—	\$10	—	\$10
Motor Vehicles	—	8	—	8
Subtotals	(—)	(\$18)	(—)	(\$18)
Proposition 98 General Fund				
Community Colleges	\$148	\$185	\$28	\$333
Total Deferred Maintenance Funding	\$268	\$688	\$333	\$1,261

for certain departments allows for other uses of the funds besides deferred maintenance. For example, the funding for the California State University is also available for the construction of childcare facilities for student parents. Additionally, a portion of the funding provided to the California Department of Parks and Recreation is also available to fund activities that increase tourism and visitor experiences, consistent with the requirements of Proposition 68. Accordingly, the actual amount spent on deferred maintenance could be less than the proposed \$614 million.

LAO Assessment

Continued Focus on Deferred Maintenance Is Positive. The deferred maintenance funding proposed for 2019-20 reflects the continuation of an important commitment by the state to tackle its deferred maintenance backlog. The state has invested many billions of dollars in its infrastructure assets, which play critical roles in the state’s economy. Moreover, when repairs to key building and infrastructure components are put off, facilities can eventually require more expensive investments, such as emergency repairs (when systems break down), capital improvements (such as major rehabilitation), or replacement. Thus, while deferring annual maintenance lowers costs in the short run, it often results in substantial costs in the long run.

Budgeting Approach Provides Departments Discretion to Choose Projects. As described above, the proposed provisional language generally limits the funding to deferred maintenance projects that address critical infrastructure deficiencies. However, the language does not define critical infrastructure deficiencies or require departments to identify projects prior to receiving funding as was the case under the process used in recent years. Accordingly, the proposed approach for 2019-20 provides departments with discretion over how to define deferred maintenance as well as how and when to select specific projects. With the flexibility provided, departments are taking a variety of approaches to identifying potential projects, prioritizing projects, and selecting specific projects for the proposed funding:

- **Identifying Potential Projects.** Generally, departments have developed lists of projects that make up their deferred maintenance

Figure 2

**Administration’s 2019-20
Deferred Maintenance Proposals**

(In Millions)

Department	Amount
California State University	\$247.0 ^a
University of California	138.0
Parks and Recreation	45.6 ^b
Judicial Branch	40.0
State Hospitals	35.0
Corrections and Rehabilitation	25.0 ^c
General Services	16.0
Fish and Wildlife	10.0 ^d
Network of California Fairs	7.0 ^d
Forestry and Fire Protection	6.0
Developmental Services	5.0
Military Department	5.0
Highway Patrol	5.0
Veterans Affairs	5.0
State Special Schools	5.0
Motor Vehicles	3.0
Exposition Park	3.0
Food and Agriculture	3.0
Housing and Community Development	3.0
Employment Development	2.0
Office of Emergency Services	2.0
Conservation Corps	1.0
Hastings College of the Law	1.0
Tahoe Conservancy	1.0
Total	\$613.6

^a Funds can also be spent on on-campus childcare facilities.
^b \$34 million from the General Fund and \$11.6 million from Proposition 68 (\$11.5 million of the Proposition 68 amount can also be spent on projects that increase tourism and visitor experiences).
^c The budget also includes additional funding for specific roof and fire alarm replacements.
^d Funded entirely from Proposition 68.

backlogs. In developing these lists, departments vary in what types of activities they consider maintenance. For example, some departments have included projects as deferred maintenance that are not traditionally considered as such—for example, energy and water efficiency upgrades and code compliance work. In contrast, other departments have not included such activities when identifying potential deferred maintenance projects.

- **Prioritizing Projects.** Some departments have identified a methodology for prioritizing projects. Other departments have not yet

identified the process and criteria they intend to use when deciding how they will allocate funds. It is important for departments to be able to articulate how they prioritized projects because it will help the Legislature determine whether the process used to select projects initially—and change projects, as necessary—is reasonable and likely to result in the completion of projects that are consistent with its priorities. For example, the Legislature may wish to prioritize funding certain types of projects—such as those that address fire, life, and safety issues or reduce future state costs—over other types of projects—such as those that address aesthetic concerns or do not fit the standard definition of deferred maintenance.

- **Selecting Specific Projects.** Some departments have identified specific projects they intend to support with the proposed funding, while other departments have not yet identified projects, and it is unclear when they plan to do so. The absence of an identification of specific projects makes it difficult for the Legislature to evaluate whether, in practice, the methodology the department is using for selecting projects will result in the completion of projects that are of high priority to the Legislature.

Approach Does Not Provide Legislative Oversight of Changes to Projects. The proposed process provides departments with authority to change projects without legislative notification. We find that it is reasonable for departments to have some flexibility to change projects after the approval of the budget. Urgent maintenance needs may emerge after the completion of the budget process, which may necessitate a reevaluation of which projects to pursue. However, without a reporting mechanism, the Legislature lacks access to the information on which projects are ultimately undertaken. This information is important for the Legislature to have to assess what was accomplished with deferred maintenance funds and ensure that departments complete projects that are consistent with its directives.

Underlying Causes of Deferred Maintenance Not Addressed Consistently. Providing one-time funding is only a short-term response to the

underlying problem—the failure to consistently maintain state assets on an ongoing basis. As part of the Governor’s budget, some departments have put forward proposals to address deficiencies in their ongoing maintenance programs. For example, CDCR proposes modifying its methodology for calculating its ongoing maintenance budget to better reflect the costs of maintaining prisons. Additionally, the California Department of Forestry and Fire Protection requests additional maintenance staff and other resources to better support the department’s maintenance program. Both departments indicate that their proposed levels of resources are intended to prevent the accumulation of deferred maintenance, and these types of proposals represent positive steps towards improving ongoing maintenance practices. However, it is unclear whether the requested funding will be the correct level to prevent the accumulation of deferred maintenance. Furthermore, for most other departments, the budget provides these one-time funds for deferred maintenance, but there is no plan or recent proposal to address underlying causes. Without such strategies or proposals, there is no certainty that departments will have the necessary tools or other resources to address the underlying causes of their deferred maintenance backlogs and ensure that the problem does not get worse.

LAO Recommendations

Require Departments to Report on Proposed Projects and Approach. We recommend that the Legislature use its budget hearings this spring to gather more information from individual departments. First, we recommend that the Legislature require departments to report at budget hearings on the approach they are taking to prioritize projects if that information is not included as part of their proposals. This would enable the Legislature to ensure that it is comfortable that the department’s approach would result in the selection of projects that are consistent with legislative priorities.

Second, we recommend that the Legislature require departments to report at budget hearings with lists of the specific projects they plan to undertake if this information was not included as part of their proposals. These lists are important for

the Legislature to have in order to assess whether the specific proposed projects are consistent with its priorities—such as projects that prevent future costs or address fire, life, and safety issues. If the lists include projects that it deems to be of lower priority, we recommend that the Legislature direct the department to reprioritize projects or adjust the funding levels proposed for departments accordingly. If departments fail to provide lists of proposed projects or are unable to justify their proposed projects to the Legislature’s satisfaction, we recommend that the Legislature reject the administration’s proposed funding for those specific departments. We note that it should generally not be difficult for departments to provide lists of proposed projects, since the Department of Finance (DOF) issued a budget letter in July 2018 directing departments to provide prioritized lists of projects, to the extent possible, by September 2018 in preparation for the 2019-20 budget. (DOF also provided departments with similar direction in previous years.)

Require Departments to Report on Projects.

We recommend that the Legislature adopt Supplemental Report Language (SRL) requiring DOF to report, no later than January 1, 2023, on which projects departments undertook with the funds provided. This would provide greater transparency and accountability of the funds by ensuring that the Legislature has information on what projects were ultimately implemented and that the funds were spent consistent with any legislative directive given. Adoption of the following language would be consistent with this recommendation:

Item 8860-001-0001—Department of Finance. No later than January 1, 2023, the Department of Finance shall submit to the fiscal committees of the Legislature and the Legislative Analyst’s Office a report identifying the specific projects undertaken by each department that received deferred maintenance funding in 2019-20. This report shall include a brief description of each project as well as its cost.

Require Departments to Detail Plans for Better Maintaining Facilities. For departments without plans or proposals to address ongoing deferred maintenance, we recommend that the Legislature seek additional information at budget

hearings on each department’s plan for addressing the accumulation of deferred maintenance on an ongoing basis. For example, this could include information on the level of resources that the department currently devotes to maintenance, as well as an estimate of the ongoing level of maintenance funding that would be needed to prevent the future accumulation of deferred maintenance. This would provide the Legislature with additional information on the status of the department’s ongoing efforts to maintain their facilities.

Additionally, we recommend that the Legislature adopt SRL that requires that, no later than January 1, 2023, each department that is receiving deferred maintenance funding in 2019-20 identify how their deferred maintenance backlog has changed since 2019. We further recommend that the SRL require that, to the extent that its backlog has grown in the intervening years, the department shall identify the reasons for the increase and the specific steps it plans to take to improve its maintenance practices on an ongoing basis. This is because, if a department experienced a large increase in its backlog, it might suggest that its routine maintenance activities are insufficient to keep up with its annual needs and that it should improve its maintenance program to prevent the further accumulation of deferred maintenance. In such cases, it will be important for the Legislature to understand this, so it can direct departments to take actions to improve their maintenance programs. Adoption of the following language would be consistent with this recommendation:

Item xxxx-xxx-xxxx. No later than January 1, 2023, [insert department name] shall submit to the fiscal committees of the Legislature and the Legislative Analyst’s Office a report identifying the total size of its deferred maintenance backlog as of the 2018-19 fiscal year and September 2022. To the extent that the total size of the deferred maintenance backlog has increased over that period, the department’s report shall also identify the reasons for the increase in the size of the backlog and the specific steps the department plans to take to improve its maintenance practices on an ongoing basis.

LAO PUBLICATIONS

This report was prepared by Helen Kerstein and reviewed by Brian Brown. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

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