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The 2016-17 Budget:

The Governor's State Office Building Proposal



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LAO 

2016-17 BUDGET

EXECUTIVE SUMMARY

Governor Proposes \$1.5 Billion for State Office Buildings in Sacramento. The Governor's budget for 2016-17 proposes one-time funding of \$1.5 billion from the General Fund to be deposited into a new State Office Infrastructure Fund. Under the proposal, monies in this fund would be continuously appropriated for the replacement and renovation of state office buildings in the Sacramento area. The \$1.5 billion primarily is intended to provide pay-as-you-go funding to replace or renovate three buildings—the Natural Resources Building, Food and Agriculture Annex, and State Capitol Annex. Of the total \$1.5 billion proposed, roughly \$10 million is requested in 2016-17 to begin study and design activities for the proposed projects. The remainder of these funds would be spent in future years to complete the projects and potentially fund the initial phases of other renovation and replacement projects the administration has identified as priorities.

Proposal Raises Issues for Legislative Consideration. We find that the Governor's focus on state office buildings makes sense given the age and condition of the facilities prioritized by the Governor. However, we identify several issues that merit legislative consideration:

- **Lack of Key Information.** The proposal provides little detail on the proposed projects, no plan for project sequencing, and no plan for how future projects would be funded.
- **Continuous Appropriation Greatly Reduces Legislative Oversight.** The proposed continuous appropriation of funds would greatly reduce legislative control and oversight compared to the traditional budget process.
- **New Fund Presents Trade-Offs for Funding Approach and Amount.** We find that (1) there are benefits and drawbacks to using a pay-as-you-go approach to funding projects as proposed, (2) there is no need to appropriate more than \$10 million in 2016-17 for the initial phases of the Governor's three priority projects, and (3) setting aside additional monies for infrastructure on an ongoing basis could have merit.

Recommend Modifying Governor's Approach. With regard to the Governor's proposal, we recommend that the Legislature take the following actions:

- Require the administration to submit details on its three priority projects, as well as full plans for sequencing and funding other Sacramento area projects by April 1, 2016.
- Reject the use of a continuous appropriation and require the administration to use the typical budget process for seeking project approvals.
- Limit funding in 2016-17 to the initial phases of those projects that the Legislature approves.
- Consider the state's ongoing strategy for addressing its infrastructure, including potentially creating a dedicated infrastructure fund.

Together, we find that these recommendations would help ensure that the state funds that are provided for infrastructure are directed to legislative priorities and are spent with adequate legislative oversight and accountability.

2016-17 BUDGET

BACKGROUND

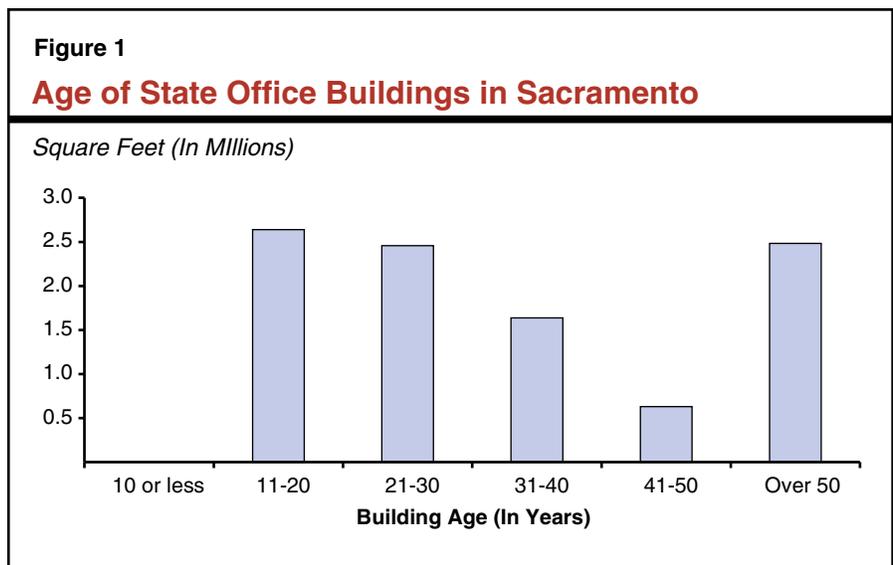
State Office Space Is Concentrated in Sacramento Area. The state, through the Department of General Services (DGS), owns and maintains 58 general purpose office buildings that total over 16 million square feet. These buildings are located across the state, but most of the square footage of the buildings—just under 10 million square feet—is in the Sacramento region. Other major metropolitan areas with a relatively large number of state office buildings are the San Francisco Bay Area and the Los Angeles area. The state also leases about 13 million square feet of general purpose office space, about 8 million of which is in the Sacramento area. (We note that state office space for more specific purposes is generally under the control of the administering department and not DGS, such as the field offices of the Department of Motor Vehicles.)

Many State-Owned Office Buildings in Sacramento Are Aging. The state’s office buildings in Sacramento vary widely in age. However, there is a concentration of older buildings. As shown in Figure 1, almost half of the total square footage of the buildings in Sacramento—representing well over 4 million square feet—is over 30 years old. Additionally, over one-fourth of the square footage—close to 2.5 million square feet—is over 50 years old. While some of these older buildings have been renovated in recent years (such as the Library and Courts Building), others are still largely in their original condition. (See the box on page 7 for a discussion of the role of maintenance

in preserving and extending the useful life of state office buildings.)

Condition Assessment Report Identified Buildings With Highest Needs. As part of the 2014-15 Budget Act, the administration proposed and the Legislature provided a total of \$2.5 million for a long-range planning study of state office space in the Sacramento area (Planning Study). The Planning Study proposed by the administration was to include (1) condition assessments of all state office buildings in the Sacramento area, (2) an update of a 2008 planning study that identified potential office space development opportunities in Sacramento, (3) a plan for sequencing the renovation or replacement of state office buildings in Sacramento, and (4) a funding plan for undertaking these projects. Chapter 451 of 2014 (AB 1656, Dickinson) provided further direction on the components of the Planning Study, such as specifying that the sequencing plan should guide the state over the next 25 years. The legislation also required that the Planning Study be completed by July 1, 2015.

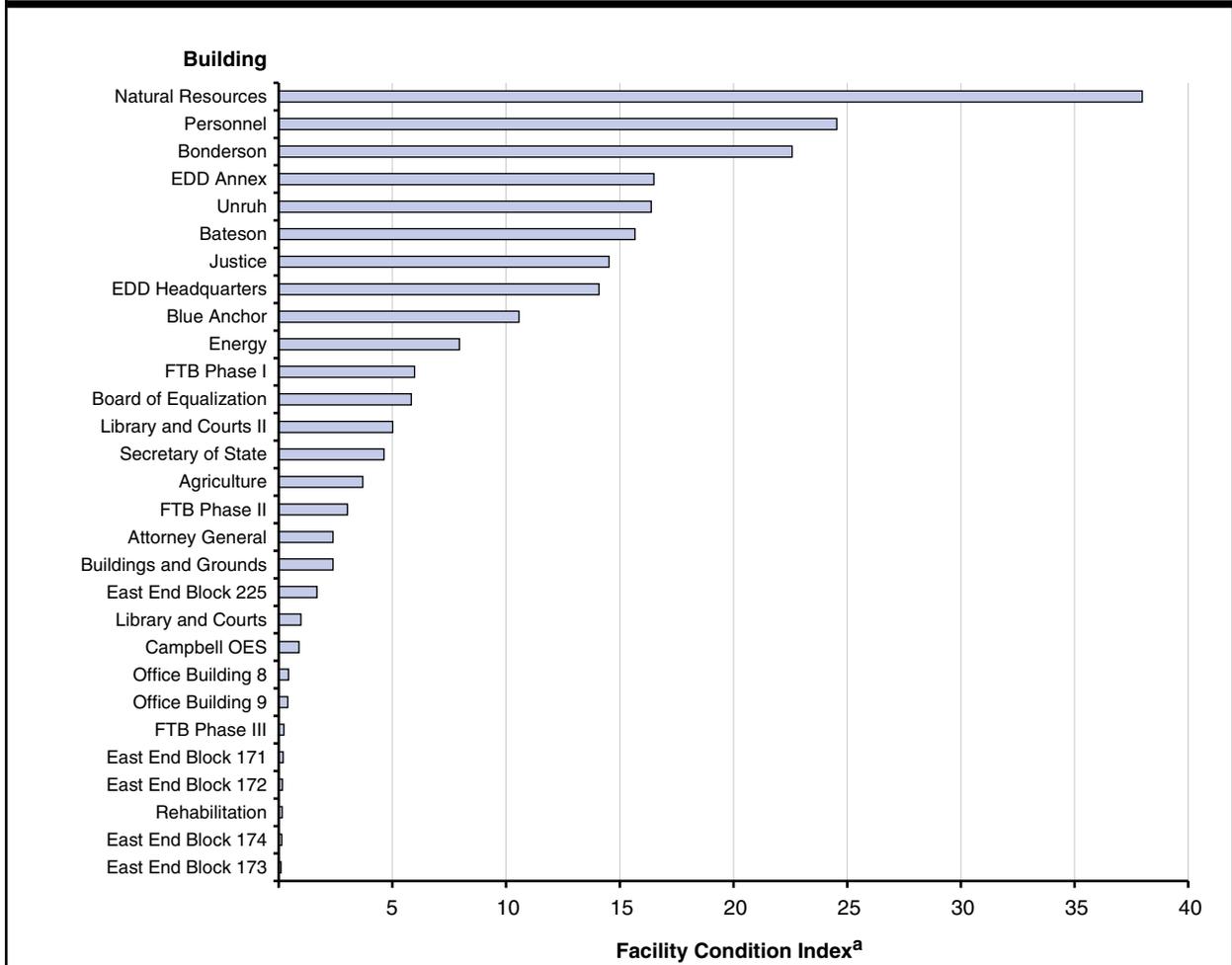
In July 2015, DGS released the portion of the Planning Study that included assessments of the



condition of office space in the Sacramento region (Assessment Report). The report evaluated 29 state-owned office buildings. (The report excluded a few buildings that DGS does not consider to be typical office space, such as the Food and Agriculture Annex and State Capitol Annex.) Overall, the Assessment Report noted that all of the buildings that were evaluated were in a safe, serviceable, and functioning condition. As shown in Figure 2, the report developed a Facility Condition Index (FCI) score for each building, which compared the estimated costs of repairing versus replacing the

building. (A high FCI score means that a building's repair costs are relatively high compared to the cost of replacement.) Based on this analysis, the report ranked the 29 buildings, identifying 9 in poor condition, 4 in fair condition, and 16 in good condition as shown in Figure 3. The report ranked the Natural Resources Building, Personnel Building, and Paul Bonderson Building as those in most critical need of renovation or replacement and recommended prioritizing the needs of these buildings over other buildings.

Figure 2
Condition of Buildings Evaluated in Assessment Report



^a The Facility Condition Index represents a ratio of each building's estimated repair costs to the estimated replacement value.

EDD = Employment Development Department; FTB = Franchise Tax Board; and OES = Office of Emergency Services.

Maintaining State Office Buildings

The condition of buildings is influenced not only by their age, but also by the level at which they are maintained. When buildings are not properly maintained and deferred maintenance develops, it can result in significant repair costs in the future and a shorter useful life of the buildings. In our March 2015 report, *The 2015-16 Budget: Addressing Deferred Maintenance in State Office Buildings*, we outlined some potential reasons the Department of General Services has struggled to maintain state office buildings, such as potential understaffing for maintenance, recent reductions to maintenance funding, inadequate prioritization of workload, and limited contracting authority.

Figure 3

Highest Need Buildings Identified in Sacramento Condition Assessment Report^a

Building	Age (Years)	Condition	Condition Ranking	Condition and Risk Ranking ^b
Natural Resources Building	52	Poor	1	1
Personnel Building	62	Poor	2	2
Paul Bonderson Building	33	Poor	3	3
EDD Annex	33	Poor	4	6
Jesse M. Unruh Building	87	Poor	5	5
Gregory Bateson Building	35	Poor	6	4
Justice Building	34	Poor	7	10
EDD Headquarters	61	Poor	8	9
Blue Anchor Building	84	Poor	9	7
Warren-Alquist State Energy Building	34	Fair	10	11
FTB Phase I	32	Fair	11	13
Board of Equalization Headquarters Building	24	Fair	12	16
Library and Courts II Building	22	Fair	13	14
Secretary of State/Archives Building	21	Good	14	8
Agriculture Building	80	Good	15	17
FTB Phase II	24	Good	16	23
Attorney General Building	21	Good	17	18
Buildings and Grounds Headquarters	23	Good	18	12
East End Complex Block 225	14	Good	19	21
Stanley Mosk Library and Courts Building	88	Good	20	29
Campbell Building—Office of Emergency Services	14	Good	21	15
Office Building 8	47	Good	22	24
Office Building 9	47	Good	23	25
FTB Phase III	11	Good	24	19
East End Complex Block 171	13	Good	25	20
East End Complex Block 172	13	Good	26	22
Rehabilitation Building (OB10)	66	Good	27	28
East End Complex Block 174	13	Good	28	27
East End Complex Block 173	13	Good	29	26

^a Report did not include buildings that were not considered to be suitable or available as typical office space, such as the Food and Agriculture Annex and the State Capitol Building and Annex.

^b The condition and risk ranking incorporated the condition of the building as well as other factors such as whether the building has fire, life, or safety deficiencies and houses a large number of workers.

EDD = Employment Development Department and FTB = Franchise Tax Board.

GOVERNOR’S PROPOSAL

Provides \$1.5 Billion for New State Office Infrastructure Fund. The Governor’s budget proposes to create a new State Office Infrastructure Fund (SOIF) to support the construction and renovation of state office buildings in the Sacramento area. The Governor’s budget further proposes to deposit \$1.5 billion from the General Fund on a one-time basis into the SOIF in 2016-17. The SOIF is intended to enable the administration to fund the renovation or replacement of some office buildings on an up-front (pay-as-you-go) basis, rather than by borrowing through the use of long-term bonds. In recent decades, the state has relied heavily on bonds to fund most of its infrastructure, including almost all general purpose office buildings.

Proposes Continuous Appropriation of SOIF. Under the proposal, monies in the SOIF would be continuously appropriated for the replacement and renovation of various state office buildings in the Sacramento area. This would allow the administration to move forward with projects without having to receive legislative approval through the traditional state budget process. Typically, for capital outlay projects the administration proposes individual projects as part of the Governor’s annual budget. These proposals generally include various details on the proposed projects—such as the project scope, timeline, costs, funding source, delivery method, and justification. Additionally, these proposals are submitted at multiple stages of a project—such as prior to

beginning preliminary designs, detailed designs (typically referred to as “working drawings”), and construction. We note that, in some instances, the Legislature has approved the use of alternative processes for the funding and authorizing of certain projects. For example, the Legislature has funded some prison construction projects through a process that gives the administration more discretion by only requiring that it notify the Legislature of project cost increases and changes, rather than requiring formal legislative approval. (As we discuss in more detail below, these alternative processes limit legislative oversight.)

Identifies Three Priority Projects for SOIF. As shown in Figure 4, the Governor proposes spending \$10.1 million from the SOIF in 2016-17 to initiate the replacement or renovation of three state buildings. Specifically, the proposal includes constructing a new building at the current Food and Agriculture Annex site, building a new Natural Resources Building at a different site, and either replacing or renovating the State Capitol Annex. According to the administration, the \$1.5 billion that would be deposited in the SOIF in 2016-17 is intended to cover the costs associated with constructing these three buildings over the coming years. To the extent that the full \$1.5 billion is not needed for these three buildings,

Figure 4
Governor’s Three Priority Projects
(In Millions)

Building	2016-17 Expenditures	Total Estimated Cost
Food and Agriculture Annex	\$5.7	\$226
Natural Resources Building	2.9	530
State Capitol Annex	1.5	Unknown
Total	\$10.1	Unknown

the administration indicates that it would use the remaining funds for other priority buildings in the Sacramento area. Under the proposed continuous

appropriation, the administration would only need to notify the Legislature at the establishment of projects.

LAO ASSESSMENT

One of the most important functions of government is to provide infrastructure that is necessary to deliver public services, including the office buildings that enable government staff to carry out their responsibilities. Given the significant needs at state office buildings, as documented in the Assessment Report, we find that the Governor’s focus on this infrastructure makes sense. However, based on our review, we identify several issues that merit legislative consideration, as summarized in Figure 5 and discussed in more detail below.

Proposal Lacks Key Information

Little Detail on Three Priority Projects. Based on our preliminary review, the three priority projects that the Governor proposes to initiate in 2016-17 appear to address reasonable needs. The Food and Agriculture Annex has been vacant for several years due to building deficiencies, the State Capitol Annex is aging and outdated, and the Natural Resources Building was ranked as the highest priority building for renovation or replacement in the Assessment Report. However, the administration has not provided key information on each of the proposed projects—such as scope, cost by project phase, and

timeline. Without this information, it is impossible for the Legislature to understand what these projects entail much less to determine their merits relative to other potential projects.

For example, the administration provides almost no information on even a basic scope or cost for the Capitol Annex project. Based on our conversations with the administration, we understand that they are considering various options for the Capitol Annex, which could include renovating the existing annex or building a separate building and demolishing the existing annex. These options would have important implications for the functionality of the building as well as the project’s cost. The proposal also does not provide any information on the anticipated schedule for the project, which makes it difficult to evaluate the timing of when costs will be incurred and when the project will be completed. Furthermore, because DGS did not consider

Figure 5

LAO Assessment of Governor’s Proposal

- ✓ Proposal lacks important information for legislative evaluation.
 - Little detail on three priority projects.
 - No plan for project sequencing.
 - No plan for how future projects would be funded.
- ✓ Continuous appropriation greatly reduces legislative oversight.
 - Weakens Legislature’s fiscal control and oversight.
 - Weak rationale for bypassing traditional budget process.
- ✓ New fund presents trade-offs for funding approach and amount.
 - Benefits and drawbacks to pay-as-you-go.
 - Full \$1.5 billion appropriation not necessary in 2016-17, but setting aside funds could have merit.

the Capital Annex to be typical office space and excluded it from the Assessment Report, the Legislature does not have an evaluation of the needs of this building relative to other buildings in Sacramento.

No Plan for Project Sequencing. The Governor envisions the three priority projects as the first steps in implementing a larger plan to renovate and replace state office buildings in the Sacramento area. We find that the concept of addressing state office buildings as part of a larger plan and strategy—rather than on an ad hoc basis—makes sense. However, the proposal provides very little information on the Governor’s larger plan. Specifically, the administration has not provided at this time a sequencing plan for the renovation or replacement of state office buildings in Sacramento, as required by AB 1656. Instead, the only information provided to the Legislature to date is a

table in the *2016 Five-Year Infrastructure Plan* that lists the first nine buildings that would be sequenced and the estimated amount to be spent over the next five years. However, there is little information provided on which buildings would be renovated versus replaced, what order projects would occur, or where existing staff would be located during renovations. Figure 6 provides a summary of the limited information the administration provided regarding the sequencing of projects.

A detailed sequencing plan would provide the Legislature with information on the order and timing of the renovation and replacement of buildings. This information is important because it would allow the Legislature to determine whether it wants projects to move forward on a different timeline than proposed—either more slowly or quickly—and whether the ordering of projects reflects legislative priorities for renovation and

Figure 6

Administration's Plan for State Office Building Projects

Project	2016-17	2017-18	2018-19	2019-20	2020-21
Food and Agriculture Annex Replacement	Performance Criteria	Design-build Begins			
New Natural Resources Building	Study	Planning and Construction Begins			Lease Begins
State Capitol Annex	Study				
Bonderson Building Replacement			Study	Performance Criteria	Design-build Begins
Printing Plant Demolition		Study and Preliminary Plans	Working Drawings	Construction Begins	
Natural Resources Building Renovation			Preliminary Plans	Working Drawings	Construction Begins
Unruh Building Renovation				Preliminary Plans	Working Drawings
Bateson Building Renovation					Study
Personnel Building Renovation					Study

replacement. It might be the case, for example, that the Legislature would want to prioritize different buildings than the administration does—thus undertaking renovations to those buildings sooner than the administration proposes and perhaps waiting longer to address other buildings.

We also note that major building renovations and replacements frequently require that the buildings be vacant. Thus, it is often necessary to relocate staff either permanently or temporarily during construction. These relocations can result in costs—for example, for leasing temporary space and moving employees—as well as affect department operations. Thus, it often makes sense to strategically sequence building renovations to mitigate the impacts of relocations. This means that these types of projects are often intrinsically interrelated to each other and makes understanding the order in which they are proposed to occur particularly important. For example, according to the administration, the proposed replacement of the Food and Agriculture Annex would provide space to house state staff that are currently in the Bateson building, thus allowing the state to renovate or replace that building. It is difficult to evaluate whether to prioritize replacing the Food and Agriculture building without understanding the various options for addressing the Bateson building as well. For this reason, a comprehensive sequencing plan is critical for the Legislature to evaluate its choices for moving forward with the administration's three priority projects as well as addressing the other state buildings in Sacramento. We note that the administration indicates that it intends to provide a sequencing plan to the Legislature.

No Plan for How Future Projects Would Be Funded. The proposal not only lacks a plan for sequencing projects, but it also fails to include a longer-term plan for how future projects—beyond the three priority projects—would be funded. For example, while some rough estimates of

anticipated project costs through 2020-21 are included in the administration's *2016 Five-Year Infrastructure Plan*, the administration has not provided any information on expenditures past 2020-21. Thus, the proposal does not provide estimates of total project costs for most of the projects identified. Furthermore, the Governor's proposal does not identify sources of funding for these future projects—whether pay-as-you go from the General Fund, lease-revenue bonds, or an alternative approach—so it is unclear when the state would need to provide the funding necessary to complete these projects. Accordingly, the Legislature does not have the full picture of the funding levels and timing that would be required to complete these projects, which would help inform its choices regarding whether to take on the financial commitments necessary to implement the Governor's plan or to pursue an alternative approach to addressing state office building needs.

Finally, the proposal does not include an evaluation of the options available to meet the state's office space needs—such as buying existing nonstate office buildings, constructing new buildings, renovating or replacing existing state buildings, or leasing additional space—and the reason that the proposed approach was selected. These options, which the administration proposed including in the funding plan portion of the Planning Study, could have substantially different implications not only for how much it costs the state to address the needs of state office buildings in Sacramento, but also the timing of those costs. Thus, an understanding of the options that were considered and the rationale for the Governor's approach is necessary for evaluating the Governor's proposal.

As noted above, the Legislature required DGS to develop a funding plan as part of the Planning Study in the *2014-15 Budget Act*. The administration has not indicated when it intends to provide a funding plan.

Continuous Appropriation Greatly Reduces Legislative Oversight

Weakens Legislature’s Fiscal Control and Oversight. Since funds in the SOIF would be continuously appropriated under the Governor’s proposal, the Legislature would lose its ability to control how and when such funds are spent. Instead, the Legislature would delegate those decisions to the executive branch. Furthermore, the Legislature would not only lose control over the initial approval of projects, but it would have no role in approving funding at later stages of a project’s design and construction. This would severely constrain the Legislature’s ability to conduct its traditional oversight role—which typically involves monitoring projects as they progress and ensuring that they remain on track.

For example, the process used for certain prison projects requires that the administration notify the Legislature—through the Joint Legislative Budget Committee—at various stages either 30 days in advance of or concurrently with the State Public Works Board’s consideration of the project. In the event that the Legislature had concerns about the project, it could raise them to the administration, but could not legally compel the executive branch to address them. This represents a significant delegation of the Legislature’s constitutional authority to appropriate funds and weakens its fundamental role as a counterbalance to the executive branch.

We note that, in many respects, the Legislature’s role in overseeing capital projects through the budget process is similar to its role overseeing support budgets. In both cases, regular reviews through the budget process allow the Legislature to ensure that expenditures are directed to its top priorities. Also, if the Legislature has concerns about how a program or project is operating, it has the opportunity to reduce expenditures or direct the administration to

implement changes to address them. Furthermore, if the state is experiencing a budget shortfall, the Legislature can reevaluate whether it can afford to continue to provide the base level of funding for the program or move forward with the capital project as scheduled or whether it would prefer to reduce or delay spending. With a continuous appropriation, the Legislature no longer has the ability to make these annual modifications to expenditures.

Weak Rationale for Bypassing Traditional Budget Process. The administration indicates that it is proposing a continuous appropriation—rather than reliance on the traditional budget process—in order to provide greater flexibility in project schedules. The administration maintains that a continuous appropriation would allow it to proceed more quickly with projects, since project phases would not have to align with the budget process. The administration further states that by reducing project timelines, this approach would allow it to avoid some inflation in construction costs and result in cost savings. The administration has not provided information to quantify the amount of time or cost savings associated with bypassing the budget process. However, we expect that, if the budget process slowed projects or increased costs, these impacts would likely be minimal. Moreover, while the Governor’s proposed projects may be worthwhile, they are *not* highly time-sensitive. The Assessment Report found that all the buildings that were evaluated are safe, serviceable, and functioning. Thus, the state can continue to operate these facilities for the near future, and there is no reason why a modest difference in project timelines would be particularly problematic operationally.

Legislative Considerations for Funding Approach and Level

Benefits and Drawbacks to Pay-As-You-Go. The administration indicates that by setting aside \$1.5 billion in a dedicated fund, the proposal would

allow the state to rely more heavily on the use of pay-as-you-go funding for state office buildings. On the one hand, it can be reasonable to fund infrastructure projects through a pay-as-you-go approach. Pay-as-you-go is typically somewhat cheaper than borrowing since the state does not have to pay interest. We note, however, the difference in costs associated with paying cash rather than borrowing is relatively small right now given the current low interest rate environment. Additionally, paying for projects up-front allows the state to avoid future debt-service costs that could crowd out spending on other areas in future years. Furthermore, pay-as-you-go can be desirable for certain types of projects that may be difficult to fund with bonds.

On the other hand, there are advantages to funding projects by borrowing. Most state facilities are intended to provide benefits over many years, so it makes sense for future as well as current taxpayers to help fund them. Also, by spreading costs out over time, bonds require fewer expenditures in the near term, which provides the Legislature with more budgetary flexibility in the budget year to fund other priorities. Furthermore, given the scale of the state's infrastructure needs, bonds are likely to play a substantial role for years to come—whether for funding the Governor's three proposed priority projects or other infrastructure projects.

Full \$1.5 Billion Appropriation Not Necessary in 2016-17 . . . The administration is requesting

that the Legislature deposit the full amount that they anticipate requiring to study, design, and construct the three priority projects—\$1.5 billion—into the SOIF in 2016-17. However, only a tiny portion of this amount—\$10.1 million—is proposed to be used in 2016-17. This funding would go towards initial studies of the replacement Natural Resources Building (\$1.5 million) and the Capitol Annex (\$2.9 million). It would also go towards performance criteria (conceptual designs) of the replacement for the Food and Agriculture Annex (\$5.7 million). The remaining costs of the projects are anticipated to be incurred in future years. Thus, even if the Legislature is comfortable with the information that they receive from the administration and wishes to proceed with these projects, there is no reason that additional funds would need to be appropriated in 2016-17.

. . . But Setting Aside Funds Could Have Merit. While it is not necessary to set aside additional funds for the administration's three priority projects in 2016-17, there are substantial infrastructure needs across the state. Thus, there could be value in establishing a dedicated fund for the purpose of allocating additional funds—beyond the \$10.1 million—for infrastructure purposes. Given the state's healthy budget outlook for 2016-17, this budget could be an opportunity to consider developing an ongoing approach for providing funds for future infrastructure priorities.

LAO RECOMMENDATIONS

As we noted above, several state office buildings in Sacramento have significant needs. Thus, the administration's focus on infrastructure makes sense. However, based on our assessment, we make several recommendations below related to the specifics of the Governor's proposal for state office

buildings. First, we recommend that the Legislature direct the administration to provide the additional information that is necessary for an adequate evaluation of the proposal. Second, to the extent that the administration provides this information and the Legislature wants to proceed with the construction

of these buildings, we strongly recommend that state office building projects be funded through the typical budget process rather than a continuous appropriation. Third, we recommend that the Legislature determine its preferred approach for funding these projects—pay-as-you-go or borrowing—and how much funding to allocate to address the state’s infrastructure demands both in 2016-17 and ongoing.

Of course, as it makes these decisions, the Legislature will want to consider how it prioritizes spending on state office buildings against other potential priorities for infrastructure funding—such as repairing roads and highways—as well as other priorities for General Fund spending—such as addressing pension liabilities.

Direct Administration to Provide Additional Details Prior to Moving Forward

We recommend that the Legislature withhold action on the three priority projects pending the receipt of the information from the administration outlined below. This information is critical to understanding the individual proposals and longer-term plan. It is important for the Legislature to receive this information no later than April 1, 2016 so that it can evaluate it as part of the budget subcommittee process. Absent this additional information, we would recommend that the Legislature reject the proposal.

Project Specific Details. We recommend that the Legislature direct the administration to provide individual capital outlay budget change proposals (COBCPs), or equivalent, for the three priority projects that they are proposing to undertake starting in 2016-17. Each of these COBCPs should provide the type of information that is typically included in such proposals, including a description of the project scope and its justification. It should also identify the estimated project cost (by project phase), funding source, timeline, and delivery

approach. Furthermore, it should include an evaluation of project alternatives and a description of why the proposed approach was selected over the alternatives. This information should be sufficiently detailed and reliable to enable the Legislature to understand what it would be funding and to evaluate the merits of the projects.

Project Sequencing Plan. We recommend that the Legislature direct the administration to provide the required sequencing plan. Consistent with AB 1656, this plan should outline a course of action for the next 25 years. The plan should also provide options on how to start and sequence the renovation and construction of office buildings and identify the order in which the administration proposes addressing state office buildings, consistent with the scope of the Planning Study that the administration proposed in 2014-15. A well-developed sequencing plan will be important for the Legislature to evaluate the administration’s three priority projects and how they fit into the larger plan proposed by the administration. Furthermore, it will be important to understanding any alternative options that were considered by the administration, but not ultimately selected, which will inform the Legislature’s deliberations regarding which approach to addressing state building needs best align with its priorities.

Project Funding Plan. We also recommend that the Legislature direct the administration to provide a funding plan. The funding plan should include the anticipated costs associated with projects and the anticipated timing of those costs. Additionally, it should include the proposed approach for funding those costs—whether pay-as-you-go from the General Fund, lease-revenue bonds, or an alternative approach. Finally, it should evaluate the various funding options for achieving the sequencing plan—such as buying existing nonstate buildings, building new space, or leasing additional space—and provide recommendations. A clear

description of the various options that are available and the administration's proposed approach would help inform the Legislature about the cost implications of various approaches and enable it to determine whether it would like to proceed with the administration's larger plan to undertake office building renovations and replacements.

Reject Continuous Appropriation of SOIF

We strongly recommend that the Legislature reject any language that would provide the administration with a continuous appropriation of funds for state office building projects. Instead, if the Legislature is comfortable with the information that the administration provides and would like to proceed with the proposed projects in 2016-17, we recommend that it approve them through the typical budget process. The budget process provides the Legislature with the ability to use its constitutionally granted appropriation authority to ensure that state funds are directed to its highest priorities and are spent with adequate legislative oversight and accountability.

Determine Preferred Funding Approach and Levels

Consider Whether Bonds Are Preferred to Pay-As-You-Go for These Projects. If the Legislature is comfortable with the Governor's plan for the three priority projects, it will want to determine what funding approach it prefers. This will inform the timing of the funding that will be needed to undertake these projects in 2016-17 and beyond. We emphasize that there are benefits and drawbacks to both pay-as-you-go and bonds. Thus, there is no one right choice. Instead, the Legislature will want to consider its priorities for spending funds in the near term versus spreading those costs out over the longer time period during which bonds would be repaid—decisions that should be made in the context of its other budget priorities.

Limit Appropriations for Specific Projects to Funding Needed in 2016-17. If the Legislature is comfortable moving forward with any parts of the administration's proposal, we further recommend that the Legislature appropriate no more than \$10.1 million for the proposed priority projects in 2016-17. There is no need to appropriate more than is required in the budget year for these projects. The administration could then request additional funding for these projects as needed in future years. In those future years, the administration should have updated information on the status, scope, and costs of the projects to inform legislative decision-making. Based on that information, the Legislature could appropriate the necessary funding to continue to move forward with the projects, if desired. We note that this approach is consistent with the typical budget process and will ensure that the Legislature maintains adequate control and oversight over these projects.

Consider Potential Strategy for Other Infrastructure Funding Needs. The Legislature may also want to use this proposal as an opportunity to consider its broader approach to addressing the state's infrastructure. There are significant needs related to maintaining and renewing the state's large array of infrastructure—not only state office buildings, but also other types of infrastructure such as prisons, parks, and highways. One potential way to start addressing these needs is to create a dedicated fund in which to set aside additional monies to address infrastructure needs. This dedicated fund could be used for not only state office buildings in Sacramento but also other types of infrastructure throughout the state. In addition, addressing the state's infrastructure needs will require more than a one-time commitment of funds, and instead would benefit from an ongoing strategy. This strategy could provide funding on a regular basis to care for the state's assets.

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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